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Annual Report 2018



25
Celebrating the Past
Shaping the Future

Annual
Report
2018

Performance Highlights

2018 saw the introduction of new strategic interventions premised on Afreximbank's strategy 'Impact 2021: Africa Transformed'

These new achievements demonstrate both the African Export-Import Bank's holistic approach and how its capacity has matured to enable it to deliver on the full ambit of its original mandate.

Performance Highlights

Key Macroeconomic Indicators

Africa's rate of real GDP growth stood at 3.4 percent in 2018.
Africa's total merchandise trade rose by 7.04 percent in 2018.
Intra-African merchandise trade increased by 19.5 percent in 2018, up from 8.83 percent in 2017.

Loan Approvals during 2018 (US\$m)

Line of Credit	6,350
Syndications	2,542
Direct Financing	2,436

25%

Year-on-year increase in net interest income to US\$403.83 million in 2018

25%

Year-on-year increase in net income to US\$275.9 million in 2018

12.6%

Year-on-year increase in total assets to US\$13.14 billion at the end of 2018

11.78%

Return on average equity in 2018



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25

Celebrating the Past
Shaping the Future



The African Export-Import Bank was founded 25 years ago as an international multilateral organisation to finance, promote, and expand intra- and extra-African trade. The Bank has had a major impact on the development of economies, sectors, trade finance, trade diversification, and infrastructure across the African continent as it has progressively attained its status of becoming the trade finance bank for Africa.

1987

African Development Bank management, under the leadership of Dr. Babacar N'diaye, is mandated to evaluate the case for a trade finance bank in Africa

1993

- Afreximbank legally created in Abuja
- Mr. Christopher C. Edordu appointed Pioneer President
- Egypt selected as headquarters
- Harare, Zimbabwe, chosen as first branch location

1996

The first branch office opens in Harare, Zimbabwe, to cover Afreximbank activities in Southern Africa

1999

29th January, Gabon becomes the 30th member country to join Afreximbank

1994

Afreximbank commences operations in September 1994; its first transaction is a pre-export finance facility to Ghana Cocoa Board

1992

The feasibility study is completed, concluding that a trade finance bank for the continent is an urgent necessity

2003

Abuja branch office commences operations to cover Afreximbank activities in Anglophone West Africa

2007

Afreximbank headquarters building is completed, located in the Heliopolis district in Cairo, Egypt

2016

4th May, Togo becomes the 40th member country to join Afreximbank

2009

- Afreximbank successfully completes first bond issuance
- Also receives first ratings outcome

2017

- Afreximbank launches depositary receipts via landmark listing on stock exchange of Mauritius
- Credit-enhanced callable capital implemented

2005

Jean Louis Ekra assumes office as the second President of Afreximbank

2015

- Prof. Benedict Okey Oramah assumes office as the third President of Afreximbank
- Abidjan branch office opens

2010

Afreximbank headquarters in Cairo is fully operational and staff are relocated to the site

2018

6th June, Equatorial Guinea becomes the 50th participating state to join Afreximbank

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.

AWARDS 2018

Awarding Entity	Award	Winning Transaction/ Winner
1. Africainvestor Capital Market Index Series Awards 2018	Best African listing	Awarded to Afreximbank to recognise its achievements in improving Africa's capital market investment climate
2. AADFI 7th Peer Review	Best-performing development finance institution 2017	Awarded to Afreximbank for its excellence in the areas of governance and financial and operational performance
3. EMEA Finance	Best supranational borrower	Awarded to Afreximbank for its achievements in raising competitively priced and well-diversified funding
4. EMEA Finance	Best supranational bond	Afreximbank's US\$500 million notes due 2023







The Chairman

General Meeting of Shareholders
African Export-Import Bank
Cairo, Egypt

Dear Mr. Chairman,

In accordance with Article 35 of the 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 2018 to 31 December 2018, 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 development impact of some of the Bank's operations and activities during the period.

Mr. Chairman, please accept the assurances of my highest consideration.

Prof. Benedict Oramah

President and Chairman
of the Board of Directors

Board of Directors

Prof. Benedict Okey Oramah
President and Chairman

Dr. George Elombi
Executive Secretary

Members of the Board of Directors

Class A

Dr. Mohammed Mahmoud Issa-Dutse

Dr. Louis Kirangwa Kasekende

Mr. Stefan Luis Francois Nalletamby

Mr. Gamal Mohamed Abdel-Aziz Negm

Class B

Mr. Kee Chong Li Kwong Wing

Dr. John Panonetsa Mangudya

Mr. Jean-Marie Benoit Mani

Mr. Victor Jerome Nembelessini-Silue

Class C

Mr. Anil Dua

Ms. Xu Yan

Independent Directors

Mr. Andrew Gamble

Mr. Ronald Sibongiseni Ntuli

External Auditors

Pricewaterhouse Coopers

KPMG

Management Team

Prof. Benedict Okey Oramah

President and Chairman
of the Board of Directors

Mr. Denys Denya

Executive Vice-President
(Finance, Administration, and Banking Services)

Dr. George Elombi

Executive Vice-President
(Governance, Legal, and Corporate Services)

Mr. Amr Kamel

Executive Vice-President
(Business Development and Corporate Banking)

Ms. Kanayo Awani

Managing Director
(Intra-African Trade Initiative)

Dr. Philip O. Kamau

CEO, Fund for Export Development in Africa

Mr. Samuel Loum

Director (Credit Assessment)

Dr. Hippolyte Fofack

Chief Economist and Director
(Research and International Cooperation)

Dr. Robert Ochola

Director (Strategy and Innovation)

Mr. Kofi Adomakoh

Director
(Project and Export Development Finance)

Dr. Robert Tomusange

Director (Administration)

Mr. Elias Kagumya

Chief Risk Officer

Mr. Stephen Tio Kauma

Director (Human Resources)

Ms. Gwen Mwaba

Director (Trade Finance)

Mr. Irfan Afzal

Director (Syndications and Agency)

Mr. Rene Awambeng

Global Head (Client Relations)

Ms. Samallie Kiyangi

Director (Legal Services)

Mr. Ibrahim Sagna

Director (Advisory and Capital Markets)

Mr. Kwabena Ayirebi

Director (Operations)

Mr. Obi Emekekwe

Director (Communications)

Mr. Chandi Mwenebungu

Director (Treasury)

Ms. Maureen Mba

Director (Compliance)

Mr. Abel Osuji

Director (Internal Audit)

Mr. Olaleye Babatunde

Director (Information Technology)



Chapter One

Executive Summary

1

Executive Summary

This Annual Report reviews the operating environment under which the African Export-Import Bank (“Afreximbank” or the “Bank”) conducted its operations in 2018, the year that also marked the Bank’s Silver Jubilee.

The Bank’s operations and activities were carried out in line with the approved 2018 Budget and Work Programme, and the Annual Report was prepared in line with the Bank’s reporting requirements and corporate best practices.

The Annual Report is organised as follows: Chapter 2 provides an update on major global and African economic and trade developments in 2018 that affected or influenced the operations of the Bank; Chapter 3 reviews lending operations and major activities undertaken throughout the year; Chapter 4 describes the developmental impact of the Bank’s interventions on its member states; Chapter 5 provides management discussions and analysis of the financial year; Chapter 6 presents the audited financial statements; and Chapter 7 provides investor information.



1.1 THE OPERATING ENVIRONMENT

The global and Africa's geopolitical environment remained challenging, leading to a downward revision of growth estimates in both developed and developing economies in 2018.

Global GDP expanded by 3.7 percent in 2018, marginally lower than the 3.8 percent recorded in 2017. The synchronised deceleration of global GDP growth reflected the economic challenges triggered by escalating trade wars, the contraction of financial cycles, and tightening of financial conditions, particularly in developing economies.

However, the synchronised nature of global growth deceleration masks important variations. In this regard, the deceleration was sharper in the group of developed economies, where average GDP expanded by 2 percent in 2018, down from 2.4 percent in 2017. Developing economies were more resilient in the face of decelerating global growth as GDP growth in this group expanded by 4.6 percent in 2018, slightly down from 4.7 percent in 2017.

In Africa, the growth rate of GDP slowed marginally from 3.5 percent in 2017 to 3.4 percent in 2018. Despite the downturn, the African economy remained fairly strong, reflecting increasing investment, particularly intra-African investment, and public and private consumption spurred by softening inflation and expanding urban populations.

The growth rate of global merchandise trade slowed to 3.9 percent in 2018 from 4.7 percent in 2017, mainly on the back of slowing global demand and lingering trade tensions. Improvement in prices of global commodities, including those of export interest to Africa, contributed to the growth of the continent's merchandise trade. Africa's trade expanded by 7.04 percent to reach US\$997.94 billion in 2018. Intra-African trade posted strong growth of 19.5 percent during the year—intra-African exports grew from US\$69.27 billion in 2017 to US\$85.56 billion in 2018 and intra-African imports increased from US\$61.77 billion in 2017 to US\$71.03 billion in 2018. As a result, the share of intra-African trade relative to total African trade remained stable at about 15.7 percent in 2018.

On 21 March 2018, the African continent achieved a major milestone with the signature of the African Continental Free Trade Area Agreement by 44 countries during the African Union Summit held in Kigali, Rwanda. The agreement paves the way for stronger regional integration across the continent, mainly through opening the markets for goods and services within Africa.

US\$

12.4_{bn}

credit approvals
in 2018

1.2 THE BANK'S OPERATIONS AND ACTIVITIES

The difficult global and African operating environments meant a withdrawal of international financiers from African trade and project finance and hence growth in demand for financing requests from the Bank. In this regard, the Bank's financing operations grew strongly, with loan approvals rising by 56.5 percent year-on-year to US\$12.41 billion in 2018 from US\$7.93 billion in 2017. Similarly, loans outstanding rose by 31 percent from US\$8.48 billion in 2017 to US\$11.11 billion in 2018. Guarantees and contingent liabilities outstanding at the end of 2018 reached US\$858.01 million, bringing total loans and guarantees outstanding to US\$11.97 billion at year end.

The main lending programmes used by the Bank during the year were the Line of Credit, Syndications, and Direct Financing Programmes, with approvals amounting to US\$6.35 billion, US\$2.54 billion, and US\$2.43 billion, respectively. Through these three programmes—which accounted for about 90 percent of total approvals—the Bank channelled funds to various economic sectors in Africa with significant impact on intra- and extra-African trade.

At the sectoral level, the financial, energy and telecommunications sectors remained the largest beneficiaries of the Bank's credit approvals during the year, in the amounts of US\$7.31 billion, US\$2.74 billion, and US\$1.02 billion, respectively. During the year, the Bank also provided strong support to the agriculture, services, transportation, and manufacturing sectors. Total approvals to these sectors exceeded US\$1.3 billion in 2018. Through its trade finance intermediaries, the Bank channelled funds to small and medium-sized enterprises (SMEs) and other sectors, thus optimizing its interventions across the continent.

During the year, the Bank continued to play a major role in leveraging international financing into Africa through its Syndications Programme. The Bank was the mandated lead/co-lead of 19 syndicated transactions totalling US\$9.56 billion, of which the Bank's share amounted to US\$2.76 billion, reflecting a ratio of US\$3.5 leveraged into Africa for each US\$1 committed by the Bank. The Bank ranked second among mandated lead arrangers and bookrunners of syndicated loans in Africa in 2018, according to the Bloomberg League Table.

In support of the Bank's loan book growth, the Bank's Treasury Department mobilised US\$4.2 billion in 2018 through various sources, including among others, the Central Bank Deposit Programme (US\$1.7 billion), development finance institutions/export credit agencies (US\$920 million), and bilateral lines (US\$355 million).

At the extraordinary African Union Summit held in Nouakchott, Mauritania, on 1 July 2018, African leaders recognised the Bank's contribution towards the development of Africa through the promotion and diversification of trade, and its bid to become an accredited member of the African Union was favourably considered. With this accreditation, the Bank became the third organisation in Africa to be accredited, after the African Development Bank and the United Nations Economic Commission for Africa.

Executive Summary

In line with the African Union's Agenda 2063 and the Bank's efforts to promote intra-African trade, the Bank organised the first-ever Intra-African Trade Fair (IATF) in December 2018, in Cairo, Egypt. The event, organised in collaboration with the African Union and hosted by the government of Egypt, was a major success, with 45 countries having pavilions and attracting 1,080 exhibitors. More than 100 business deals were concluded during the event in a total amount exceeding US\$32 billion.

1.3 DEVELOPMENT IMPACT

2018 marks the second full year of the implementation of the Bank's fifth Strategic Plan, IMPACT 2021—Africa Transformed. In keeping with its renewed commitment to transforming African trade, the Bank ended the year with US\$12.41 billion (a 56.5 percent increase over 2017) in credit approvals in favour of entities across Africa. The Bank continues to make good progress in delivering on each of its four strategic pillars—Intra-African Trade, Industrialisation and Export Development, Trade Finance Leadership, and Financial Soundness and Performance.

The promotion of intra-African trade remains a key priority for the Bank. The projects financed in 2018 under the Intra-African Trade strategic pillar are expected to connect many rural farmers and SMEs to formal markets. The first-ever IATF organised by the Bank in the course of the year was successful in improving knowledge about trade and investment potential and creating networks for African entrepreneurs. The development of a Pan-African Payment and Settlement Platform to facilitate the conduct of cross-border businesses in national currencies is under way. In addition, the process of developing the Afreximbank Trade Portal to support access to trade information and a Regulatory Platform to harmonise all national and regional trade and investment-related regulations has kicked off.

In advancing its work under the Industrialisation and Export Development strategic pillar, the Bank continued to deepen its support through financing and technical services for the development of industrial infrastructure and creation of value-added exports. The expansion of a wood processing park in Gabon was successfully financed; it is expected to generate

exports of 350,000 cubic metres of processed logs, equivalent to €163.4 million in foreign revenues per year for the government of Gabon. This adds to efforts by the Gabonese government to diversify the economy away from overdependence on oil. The Bank has also made tremendous progress towards the development of industrial parks in Côte d'Ivoire, Nigeria, and Togo. A power generation project in Egypt, once completed, will install an additional 61 gigawatts of energy capacity. And about 650 SMEs are expected to benefit from the Bank's re-guarantee facility, leading to the creation of 5,850 jobs.

With respect to the Trade Finance Leadership strategic pillar, the Bank is expanding its trade services offering in response to the reduced appetite of international banks to finance trade and investments in Africa. By the end of 2018, the Bank had onboarded about 300 African banks (against the target of 500 by 2021) and extended letters of credit confirmation lines to several member countries including the Republic of Congo, Kenya, Mali, Mauritania, and Tunisia.

Achieving greater development success under the Bank's current strategic priorities requires evidence-based knowledge and strategic guidance from rigorous monitoring and evaluation of Bank-financed initiatives. Accordingly, in 2018 the Bank adopted the Trade Development Impact Assessment framework to better monitor and enhance the impact of its interventions on development. It represents a significant commitment to improving the way the Bank measures its outcomes and performance as well as deepening its understanding of development impacts.



The promotion of intra-African trade remains a key priority for the Bank.”





Chapter Two

The Operating Environment





The Operating Environment

2.1 THE GLOBAL ECONOMIC ENVIRONMENT

2.1.1 Output Development

The synchronised and broad-based global growth witnessed in 2017 moderated during the first part of 2018, leading to downward revisions of growth estimates in both developed and developing economies. Global GDP expanded by 3.7 percent in 2018, slightly down from 3.8 percent in 2017 (Table 2.1 and Figure 2.1). The synchronised deceleration of global growth reflected the stronger headwinds triggered by escalating trade wars, the contraction phase of financial cycles, and global volatility associated with tightening global financial conditions.

However, the synchronised nature of global growth deceleration masks important variations across countries and regions. The deceleration was sharper in the group of developed economies, where average GDP expanded by 2.0 percent in 2018, down from 2.4 percent in 2017.

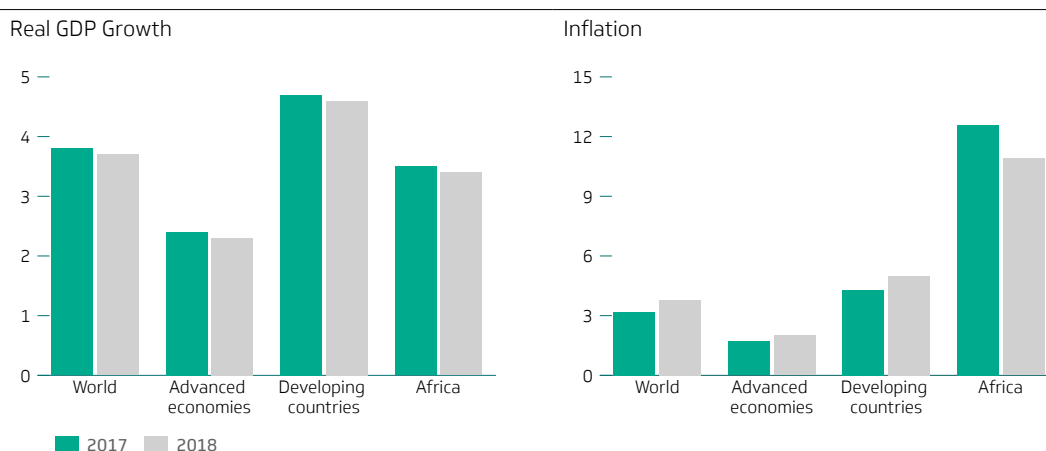
The disappointing performance across the euro area and the United Kingdom was a drag on growth. Growth within the euro area fell by 0.4 percentage points to 2.0 percent in 2018, largely on account of difficulties in Italy—the third-largest economy within the euro area—where fiscal and sovereign risks, as well as challenges in the banking and financial sector, dampened growth and investment. Italy recorded a GDP growth rate of 1.2 percent in 2018, down from 1.5 percent in 2017. Slower growth in Germany, the largest economy in the euro area, was also a major drag on regional performance, with GDP growth expanding by 1.9 percent in 2018, down from 2.5 percent in 2017, on account of softening private consumption and weaker industrial production following the introduction of revised auto emission standards.

The uncertainty surrounding the ongoing Brexit negotiations weighed on growth in the United Kingdom, where GDP growth decelerated to 1.4 percent in 2018 from 1.8 percent in 2017. The US economy, however, maintained robust growth, notably in the second quarter, as private sector activity was buoyed by fiscal stimulus. Accordingly, the United States posted an estimated 2.9 percent expansion in output in 2018, compared with 2.2 percent in 2017.

Developing economies were more resilient in the face of decelerating global growth. For the group as a whole, GDP growth expanded by 4.6 percent in 2018, slightly down from 4.7 percent in 2017. Asia remained the fastest-growing region globally, achieving an average growth rate of 6.5 percent in 2018, the same as in 2017. The sustained growth performance achieved by the region is largely attributed to India (the fifth-fastest-growing economy in the world in 2018) and China, where GDP growth expanded by 7.3 percent and 6.6 percent, respectively, in 2018. With the growth acceleration achieved by India, it emerged as the fifth fastest-growing economy in the world.

Higher oil prices lifted growth among fuel-exporting economies, especially in Africa and the Middle East. In the Gulf Cooperation Council countries, which have become Africa's key trading partners, GDP growth averaged 1.9 percent in 2018, up from 1.7 percent in 2017. Growth recovery in Latin America continued, though at a more subdued pace than anticipated as tighter financial conditions and drought weighed on growth in Argentina, and nationwide unrest disrupted economic activity and limited production and growth in Brazil.

Figure 2.1 Global Output and Inflation, 2017-18 (%)



Sources: Economist Intelligence Unit, Country Reports; International Monetary Fund, World Economic Outlook; World Bank, Global Economic Prospects.

The Operating Environment

Table 2.1 Developments in Global Output, 2016-18

	Exchange Rate ¹ (end of period)			Real GDP Growth ² (annual percent change)			Inflation Rate ² (annual percent change)			Interest Rate (three month, end of period percentage) ³		
	2016	2017	2018*	2016	2017	2018*	2016	2017	2018*	2016	2017	2018*
WORLD	–	–	–	3.30	3.80	3.70	2.80	3.20	3.80	–	–	–
ADVANCED ECONOMIES	–	–	–	1.70	2.40	2.30	0.80	1.70	2.00	–	–	–
United States	1.00	1.00	1.00	1.60	2.20	2.90	1.30	2.10	2.40	0.64	1.15	2.81
United Kingdom	1.23	1.35	1.28	1.80	1.70	1.40	0.70	2.70	2.50	0.49	–	0.91
France	1.05	1.20	1.15	1.10	2.30	1.60	0.30	1.20	1.90	(0.26)	(0.33)	(0.31)
Japan	116.80	112.90	109.70	1.00	1.70	1.10	(0.10)	0.50	1.20	0.07	0.06	(0.07)
Italy	1.05	1.20	1.15	0.90	1.50	1.20	(0.10)	1.30	1.30	(0.26)	(0.33)	(0.31)
Canada	1.34	1.26	1.36	1.40	3.00	2.10	1.40	1.60	2.60	0.82	1.06	1.75
Germany	1.05	1.20	1.15	2.20	2.50	1.90	0.40	1.70	1.80	(0.26)	(0.33)	(0.31)
Memo Item												
Euro Area	1.05	1.20	1.15	1.90	2.40	2.00	0.20	1.50	1.70	(0.26)	(0.33)	(0.31)
DEVELOPING COUNTRIES				4.40	4.70	4.60	4.20	4.30	5.00	0.20	1.50	1.70
Africa				2.90	3.50	3.40	10.10	12.60	10.90	–	–	–
Developing Asia				6.50	6.50	6.50	2.80	2.40	3.00	–	–	–
Latin America and the Caribbean				(0.60)	1.30	1.20	5.60	6.00	6.10	–	–	–
Developing Europe				3.30	6.00	3.80	3.20	6.20	8.30	–	–	–
Commonwealth of Independent States				0.40	2.10	2.30	8.30	5.50	4.50	–	–	–

Sources: International Monetary Fund (IMF), Exchange Rate Archives; IMF, World Economic Outlook database; Organisation for Economic Co-operation and Development, Main Economic Indicators database.

* Estimates

2.1.2 Price Developments

Global consumer price inflation increased to 3.8 percent in 2018, up from 3.2 percent in 2017, anchored on longer-term inflation expectations (Table 2.1 and Figure 2.1). The global inflation picture masks heterogeneity of core inflation across regional groupings and countries at different stages of the business cycle. Inflation in advanced economies increased at an estimated 2.0 percent in 2018, up from 1.7 percent in 2017. In the United States, headline consumer price inflation increased by 2.4 percent in 2018, up from 2.1 percent in 2017, driven by increases in final consumption partly fuelled by fiscal stimulus.

In the United Kingdom, core inflation declined to an estimated 2.1 percent in 2018, down from 2.4 percent in 2017. Headline inflation in the euro area reached an estimated 1.7 percent in 2018, with core inflation increasing at 1.2 percent, up from 1.1 percent in 2017, perhaps pointing to rapid dissipation of the pass-through effects of the depreciation of the British pound. In Japan, headline inflation increased to 1.2 percent in 2018, up from 0.5 percent in 2017, driven mainly by rising global energy prices. However, the rate of inflation remained below the Bank of Japan's target and is supporting the continued implementation of easing monetary policy under its quantitative easing programme. Inflation in developing economies increased to an estimated 5.0 percent in 2018, up from 4.3 percent in 2017.

2.1.3 Financial Markets

Although global financial conditions remained largely accommodative on the path of normalisation of monetary policy, which saw four interest rate hikes in the United States during 2018, sustaining financial market performance proved more challenging—especially after the year-end rout in equity and credit markets. After a boost to asset prices during the early part of 2018, largely fuelled by US tax stimulus and improving investor sentiment, decelerating global growth—which also became less synchronised in 2018—weighed on financial markets in the latter part of the year. Reversals in capital flows from developing economies in a context of rising US interest rates and increasingly attractive US assets weakened local currencies in some emerging and developing markets. In addition, concerns arising from uncertainty regarding the United Kingdom's exit from the European Union persisted, while ongoing geopolitical tensions in some parts of the world intensified, heightening uncertainty and global volatility, which took its toll on equity prices. Overall, financial markets struggled, with most major stock indices ending the year down.

Despite the four rate hikes by the US Federal Reserve in 2018, which set the federal funds target rate at 2.25–2.5 percent, central banks' policy remained largely accommodative during the review period. The European Central Bank maintained its main refinancing rate at 0 percent, although it did taper its monthly bond purchases during the year and ended them at the end of 2018. The Bank of Japan remained on an expansionary path in the face of anaemic growth and increasing price stickiness, with the

value of government securities on its balance sheet increasing by 6 percent in 2018. China also remained in stimulus mode, lowering short-term interest rates and cutting bank reserve requirements four times in 2018 on the back of growing concerns about growth prospects. Likewise, after raising its policy rate by 25 basis points to 0.75 percent in August 2018—the second rate-hike in 10 years—the Bank of England joined the global retreat from interest rate increases on account of growth deceleration and uncertainty associated with the exit from the European Union.

Stock market momentum, initially triggered by robust global growth and corporate earnings-enhancing tax cuts in the United States, faded in the latter part of 2018 as escalating trade tensions, growing concerns over rising interest rates, and persistent geopolitical tensions increased market volatility, with the overall global bond and equity universe shrinking by a cumulative US\$5trillion in 2018—the biggest contraction of capital markets since the 2008–09 global financial crisis.

Rising bond yields and uncertainty over growth and corporate profits triggered a sharp drop in global stock markets, with most major stock indices ending the year down. The FTSE All-World stock market index lost 5 percent, more than US\$3.6 trillion of market capitalisation—the biggest dollar loss since 2011 in nominal terms. In the United States, the S&P 500 ended the year 6.2 percent down, while the Dow Jones Industrial Average ended 5.6 percent down.

After a stellar 2017, which saw the Nikkei 225 index reaching levels last seen in 1992, the Japanese stock market was among the worst performers of the developed countries, with the index falling 14.6 percent in 2018. London's benchmark FTSE 100 index tumbled by 12.5 percent during 2018—its biggest annual decline since 2008. European stocks also came under pressure, with the Euro Stoxx 50 index and Germany's Dax index declining by 14.4 percent and 19.1 percent, respectively.

In developing economies, the performance of capital markets was also affected by growth concerns, rate hikes in the United States, trade tensions, and weak commodity prices. Developing market economies connected to global capital markets were particularly affected. The MSCI's Emerging Market Index, which tracks 24 emerging market countries, ended the year 14.57 percent lower. China's Shanghai composite index lost more than 28 percent of its value in 2018, as trade tensions with the United States took hold. The worst stock market performer in US dollar-denominated terms in 2018 was Venezuela, which saw its IBVC index collapse more than 94 percent. Argentina's stock market index closed more than 50 percent lower in 2018, while Turkey's stock market index fell by more than 43 percent. In Africa, South Africa's JSE All Share index ended the year 13 percent down, while Egypt's EGX 30 index and Nigeria's NSE All Share index ended the year 15.7 percent and 21 percent down, respectively.



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2.1.3 Financial Markets (continued)

Political events also remained a central theme in global currency markets as major financial centres reacted to rising protectionism in the United States, uncertainty over Brexit, and ongoing geopolitical tensions. With strong growth and US interest rates on a rising trend, the US dollar strengthened against most major currencies in 2018. The dollar index, which represents a basket of currencies dominated by the euro, increased 4.2 percent in 2018. With weaker growth and Brexit uncertainty persisting, the pound sterling ended the year 7.23 percent down against the US dollar. The euro lost ground as well, ending the year 5.5 percent lower against the US dollar, while the Chinese yuan and the South African rand lost 5.9 percent and 16.1 percent, respectively, against the US dollar.

Among major currencies, the Japanese yen ended 2018 as the biggest winner against the dollar—up 3.76 percent—as investors sought safety amid global uncertainties. While US interest rates remained on a rising trajectory and the dollar strengthened against most major currencies, the positive correlation with the US dollar is likely to be affected by a number of other factors, most notably the fiscal incidence of the US tax bill, the trade balance, interest on external debt, as well as recent developments in the US yield curve and credit spreads.

2.1.4 Financing Conditions

Despite four interest rate hikes by the Federal Reserve in 2018, financing conditions remained largely accommodative as policymakers continued efforts to stoke growth and steer inflation towards prescribed targets. In the United States, sustained rate hikes in a context of strengthening growth and full employment contributed to persistent upward pressure on yields, with the significant 3.0 percent yield level for 10-year bonds breached in September before retreating to end the year at 2.7 percent, up from 2.41 percent at the end of 2017. In the UK bond market, yields on the 10-year gilt also ended the year marginally higher at 1.27 percent, up from 1.19 percent in 2017, on the back of the Bank of England's hike in interest rates.

In other parts of Europe, the slowdown in economic growth and increasing uncertainty led to mixed results for bond yields. In Germany, 10-year bond yields fell from 0.43 percent to 0.24 percent, even as the European Central Bank announced the end of monetary stimulus. In France, bond yields remained relatively flat, while Italy saw yields on its 10-year bonds rise from 2.01 percent to 2.74 percent, largely as a result of the outcome of the country's elections and the promise to boost spending and cut taxes.

In China, financing conditions remained broadly stable, with an easing in monetary policy. Tighter liquidity resulting from

earlier regulatory efforts to contain and reduce threats to the financial system led to pockets of stress in corporate bond markets, which prompted Chinese authorities to ease monetary policy to confront growth deceleration and reduce the risks of a hard landing. The central bank injected liquidity via cuts to the required reserve ratio and short-term interest rates.

Notwithstanding the changing environment of global retreat from interest rate increases, financing conditions in Africa remained tight in a context of liquidity challenges, occasioned by the lingering effects of the end of the commodity super-cycle, the withdrawal of a large number of international financial institutions from African markets in response to an increasingly stringent regulatory environment and the implementation of sanctions, and the reversal of capital flows on the back of rate hikes by the US Federal Reserve. Challenges with letters of credit confirmation created by the large-scale withdrawal of major banks, among others, meant that access to funds by African entities remained difficult in 2018 or was at a higher premium relative to overall global financing conditions.

2.1.5 Developments in Trade and the Trading Environment

According to the most recent estimates from the World Trade Organization, growth in the volume of global merchandise trade remained relatively strong but slowed to 3.9 percent in 2018 compared with 4.7 percent in 2017. Trade in current US dollar terms is forecast to have exceeded US\$36 trillion in 2018, largely supported by relatively strong global output and the partial recovery in oil and other commodity prices during the first half of 2018 and strengthening merchandise imports in a number of leading economies, most notably China and the United States, despite the challenging global environment dominated by a trade war.

In North America, the volume of merchandise imports grew by 4.3 percent compared with growth of 4 percent in 2017, while merchandise exports grew by 5 percent in 2018 compared with 4.2 percent in 2017. The growth in merchandise trade is largely attributable to still-strong economic growth and strong trade flows in China, despite the trade war. The value of China's merchandise imports increased to US\$2.13 trillion in 2018, up from US\$1.84 trillion in 2017, while merchandise exports reached US\$2.48 trillion, up from US\$2.3 trillion in 2017.

Asia remained the fastest-growing region globally in 2018 despite growth moderating slightly over the review period. Asia's merchandise exports increased by 5.5 percent in 2018, down from 6.7 percent in 2017, while imports grew by 5.7 percent, down from 9.8 percent in 2017.

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In South and Central America, trade growth contracted in 2018 on the back of macroeconomic challenges in Argentina and Brazil. The region's merchandise imports slowed, recording growth of 3.6 percent in 2018 compared with 4 percent in 2017, while merchandise exports grew by 2.8 percent in 2018 compared with 3.3 percent in 2017. The rebound in Europe's trade moderated in 2018 on the back of sluggish growth. European merchandise exports grew by 2.9 percent in 2018 compared with 3.5 percent in 2017, while merchandise imports were slightly stronger, growing by 3.1 percent in 2018 compared with 2.5 percent in 2017.

The upturn in the global economy—while less synchronised—meant that both developed and developing economies contributed to the growth in global trade in 2018. As a group, merchandise exports of developing economies rose by 4.6 percent in 2018 compared with 5.3 percent in 2017, with merchandise imports growing by 4.8 percent in 2018 compared with 8.1 percent in 2017. Merchandise exports of developed economies remained relatively flat, growing at 3.5 percent in 2018 compared with 3.4 percent in 2017, while merchandise imports grew by 3.2 percent in 2018 compared with 3.0 percent in 2017.

According to the World Trade Organization, the slowdown in the growth of global trade was the result of a trade war, which impacted global trade through reduced investment spending and disruption of supply chains. Further downside risks exist, especially as any further escalations of the trade war could disrupt global value chains and postpone investment decisions. Geopolitical tensions, which threaten resource supplies, could also potentially disrupt production networks in certain regions, while structural factors remain, such as the rebalancing of the Chinese economy, and could weigh on import demand due to the high import content of investment. The World Trade Organization notes that overall risks to the forecast for global trade are considerable and heavily tilted to the downside.

3.7%

Global GDP expanded
by 3.7 percent in 2018



Box 2.1 China–US Trade War: Potential Implications for Africa

Over the past few decades, the rise of the South as a major player in the global trade and economic environment has led to widening trade deficits and macroeconomic imbalances in advanced economies. These imbalances have been particularly pronounced in the United States which, in 2018, registered its largest trade deficit over the past two decades, with a cumulative value exceeding US\$7.3 trillion. Canada, China, and Mexico combined accounted for the lion's share (58.9 percent) of that deficit, with China alone accounting for 45 percent.

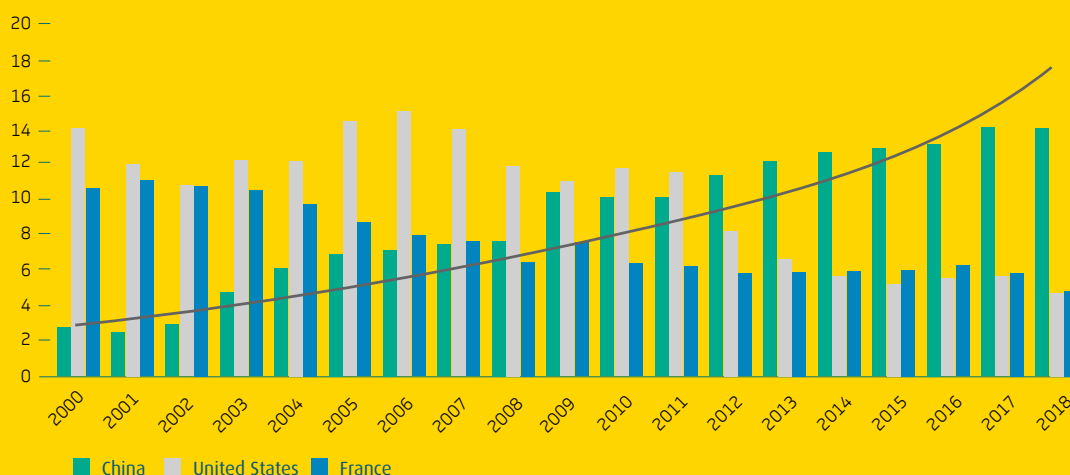
In 2018, in an attempt to improve US external balances, the Trump administration—in line with its “America First” policies—invoked a trade war by imposing unilateral trade tariffs aimed at countries that have accumulated large trade surpluses vis-à-vis the United States, most notably China. More specifically, in January, the United States imposed an import tariff on solar panels (most of which are manufactured in China), followed by a 25 percent import tariff on US\$34 billion worth of Chinese goods and tariffs on an additional US\$16 billion worth of Chinese imports in August. In September, a further tariff on US\$200 billion of Chinese goods went into effect. These tariffs were met with retaliation: China imposed tariffs on several imports from the United States, including a 25 percent tariff on US\$3 billion worth of 128 US imports in April, a 25 percent tariff on US\$33 billion of US imports in July, and a 5–10 percent tariff on US\$53 billion worth of US products in September 2018.

The escalating trade war between China and the United States has been singled out as having been the main downside risk to global growth in 2018 and is generally viewed as having been largely responsible for the synchronized global growth deceleration in the second half of 2018. Strong growth forecasts, supported by broad-based economic expansion earlier in the year, were followed by downward revisions, with global output expanding by 3.7 percent, down from 3.9 percent in earlier forecasts. African economies, as well, experienced a phase of growth deceleration in 2018 as a consequence of the slowdown in Europe and China (Africa's two main trading partners), which together account for over 40 percent of total African trade.

Africa's exposure to China's growth deceleration is seen as the most important downside risk to growth within the region. China has become Africa's single largest trading partner, accounting for over 14 percent of total African trade in 2018, up from 2.8 percent in 2000 (Figure B.2.1.1). China has also become a major source of foreign direct investment, financing the development and modernization of economic and physical infrastructure needed for sustainable growth and structural transformation of African economies. Between 2000 and 2017, China's foreign direct investment in Africa rose from US\$70 million to US\$40 billion, making China the fourth-largest investor in Africa and the largest in terms of foreign direct investment flows.

Given the deepening trade and investment ties between China and Africa, a sustained growth deceleration in China, triggered by a prolonged trade war, could undermine Africa's growth prospects, especially through trade and investment channels. The robust and long-term economic growth rates achieved by African countries during the commodity super-cycle were largely supported by China's substantial imports of African primary commodities and natural resources. At the peak of the cycle, China alone accounted for over 11 percent of imports of African commodities. Africa's rising exposure to China is such that a 1 percentage point decline in China's domestic investment growth is associated with an average 0.6 percentage point decline in Africa's export growth—and negative spillover effects are even larger for resource-rich countries.

Figure B.2.1.1 Share of Africa's Total Trade (%)



Source: International Monetary Fund, Direction of Trade Statistics.

The trade war between China and the United States brings with it significant short-term economic and social costs and could derail the current growth momentum and, if sustained, could tilt risks in the medium and long term to the downside. At the same time, China is going through a cycle of economic rebalancing, which involves moving up the global value chain and outsourcing labour-intensive manufacturing industries. To that end, China is making concerted efforts to increase its imports of semi-processed and other value-added goods from Africa, and many Chinese corporations could relocate to Africa to take advantage of cheaper labour and preferential access to the US market under the Africa Growth and Opportunity Act. The relocation of these corporations to Africa would enable them to take advantage of economies of scale associated with the African Continental Free Trade Area, which could accelerate the transfer of technology, the process of structural transformation of African economies and boost the continent's manufacturing output and trade.



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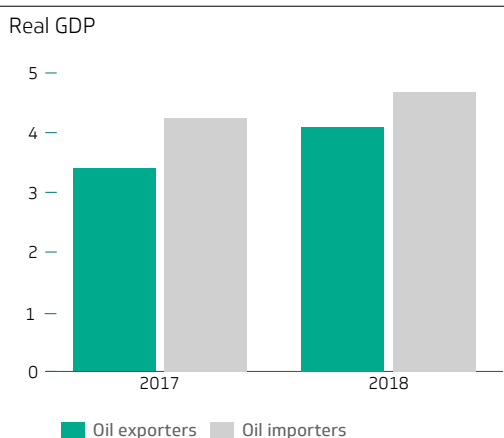
2.2 THE AFRICAN ECONOMIC ENVIRONMENT

2.2.1 Output Development

Notwithstanding the decelerating global growth in a challenging global economic environment of zero-sum-game trade policies, African economies expanded by 3.4 percent in 2018, compared with 3.5 percent in 2017. Though still below its potential, Africa emerged as the second-fastest-growing region in the world, highlighting the continued resilience of its economies to negative shocks and global volatility. The strengthening economic performance is a reflection of increasing investment and public and private consumption spurred by softening inflation and expanding urban populations, and an increasingly favourable domestic environment of strengthening economic recovery, both in large and hard-hit natural resource-dependent economies. Additionally, the commitment to macroeconomic stability, which has become the anchor of economic growth within the region, is increasingly mainstreamed in policymaking, with a growing number of countries undertaking difficult economic reforms to improve the business environment, raise fiscal buffers, and boost private investment.

Furthermore, the resilience of African economies on a rather volatile global growth trajectory is also a reflection of increasing diversification of trading partners in a changing global economic and trade landscape, where South-South trade has become a key driver of global trade and growth. The deepening trade ties between China and Africa enabled the latter to sustain robust economic growth in the aftermath of the 2008–09 global financial crisis, when numerous European countries, which for decades had been Africa's main trading partners, were going through a protracted cycle of deflation—the consequence of lingering fiscal and sovereign debt crises.

Figure 2.2 Average GDP Growth of African Net Oil Exporters and Importers, 2017–18 (%)



Source: International Monetary Fund, World Economic Outlook database.

2.2.1.1 Regional Variations

Economic growth varied widely across countries and across the continent's five subregions.

East Africa remained the fastest-growing subregion in the continent, with estimated growth of 5.6 percent in 2018, up from 5.29 percent in 2017. Growth in the subregion is broad-based with many countries, including Djibouti, Ethiopia, Kenya, Rwanda, Tanzania, and Uganda, growing at 5 percent or more. Across the subregion, infrastructure investment and construction remain the key drivers of growth. At the same time, continued expansion of services, including information and communications technology, has been key to the economic fortunes of several countries in the subregion, while expanding manufacturing output in Kenya, Tanzania, and Rwanda has been another growth enhancer, boosting trade and accelerating the process of export diversification. However, in several countries, notably Burundi and Comoros, growth remained weak due to political uncertainty, while in South Sudan, ongoing socio-political conflicts undermined growth prospects.

West Africa was the second-fastest-growing subregion within the continent. The recovery in Nigeria, the largest economy in the subregion and one of the largest across the entire continent, lifted overall economic expansion, with the subregion achieving a GDP growth rate of 5.27 percent in 2018, compared with 5.26 percent in 2017. The recovery also reflected the broad-based nature of economic expansion across the subregion, where growth has been driven by both resource- and non-resource-intensive economies. The subregion has some of the fastest-growing economies in the world, including Côte d'Ivoire, Ghana, and Senegal, all of which achieved an average economic growth rate above 7 percent in 2018. These countries were among the strongest drivers of economic growth within the subregion and across the continent.

North Africa was the third-fastest-growing subregion within the continent in 2018. It achieved a growth rate of 5.2 percent, consistent with the performance in 2017. Egypt's economy, the largest in the subregion and one of the most diversified across the whole continent, provided a major boost, with output expanding by 5.5 percent. Other major contributors to output expansion in the subregion included Libya, where the recovery in oil production sustained economic expansion, with the country posting a growth rate of 31.16 percent in 2018. Though much lower, economic growth in other countries, most notably Morocco and Tunisia, positively contributed to overall growth in the subregion. In Morocco, agricultural production and extractive industries drove GDP growth to 3.04 percent in 2018, while Tunisia achieved a growth rate of 3.03 percent, up from 1.96 percent in 2017.

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Table 2.2 Africa: Real GDP Growth, 2016-18 (annual percent change)

Country	2016	2017	2018*
Algeria	3.30	1.60	0.76
Angola	-2.58	-0.15	1.56
Benin	3.96	5.84	6.00
Botswana	4.32	2.36	4.82
Burkina Faso	5.93	6.30	6.54
Burundi	-0.60	0.50	0.15
Cameroon	4.65	3.55	4.11
Cape Verde	4.71	4.01	4.57
Central African Republic	4.53	4.75	5.03
Chad	-6.26	-2.95	2.42
Comoros	2.19	2.71	3.40
Congo, Dem. Rep. of	2.40	3.70	2.99
Congo, Rep. of	-2.81	-3.10	2.81
Côte d'Ivoire	7.97	7.70	7.34
Djibouti	8.72	4.09	7.00
Egypt	4.30	4.10	4.46
Equatorial Guinea	-8.53	-4.92	-7.81
Eritrea	3.67	3.26	3.65
Ethiopia	7.56	10.25	8.45
Gabon	2.08	0.50	2.66
Gambia	2.22	3.00	3.54
Ghana	3.47	8.14	8.86
Guinea	10.45	10.60	5.78
Guinea-Bissau	6.26	5.92	5.00
Kenya	5.85	4.87	5.47
Lesotho	3.18	-2.29	3.10
Liberia	-1.64	2.57	3.96
Libya	-2.98	26.67	31.16
Madagascar	4.18	4.17	5.32
Malawi	2.27	4.50	5.00
Mali	5.79	5.30	5.00
Mauritania	2.00	3.50	3.03
Mauritius	3.90	3.90	3.99
Morocco	1.22	4.09	3.04
Mozambique	3.76	3.74	5.28
Namibia	0.64	-0.95	2.52
Niger	4.93	4.89	4.74
Nigeria	-1.62	1.00	1.90
Rwanda	5.93	6.16	6.82
São Tomé & Príncipe	4.10	3.87	5.50
Senegal	6.23	7.15	7.04
Seychelles	4.48	5.28	3.36
Sierra Leone	6.06	4.21	6.10
Somalia	3.20	2.42	3.53
South Africa	0.57	1.32	1.05
South Sudan	-13.83	-6.26	-3.41
Sudan	4.70	4.28	3.63
Eswatini	3.22	1.87	-0.91
Tanzania	6.95	7.10	6.70
Togo	5.00	4.40	5.30
Tunisia	1.00	1.96	3.03
Uganda	4.78	3.86	5.24
Zambia	3.76	3.40	4.49
Zimbabwe	0.76	4.70	0.85

Source: International Monetary Fund, World Economic Outlook database.

* Estimates

Table 2.3 Africa: Inflation, 2016-18 (annual percent change)

Country	2016	2017	2018*
Algeria	6.40	5.59	6.50
Angola	32.37	31.69	20.50
Benin	-0.85	0.08	2.30
Botswana	2.81	3.31	3.80
Burkina Faso	-0.24	0.37	2.00
Burundi	5.56	16.05	1.20
Cameroon	0.87	0.64	1.00
Cape Verde	-1.41	0.78	1.00
Central African Republic	4.62	4.10	4.00
Chad	-1.12	-0.90	2.10
Comoros	1.80	1.00	2.00
Congo, Dem. Rep. of	2.89	—	23.00
Congo, Rep. of	3.19	0.45	1.20
Côte d'Ivoire	0.72	0.69	1.70
Djibouti	2.74	0.57	1.00
Egypt	13.81	23.54	13.60
Equatorial Guinea	1.41	0.74	0.9
Eritrea	9.00	9.00	9.00
Ethiopia	7.26	9.85	12.6
Gabon	2.11	2.70	2.80
Gambia	7.23	8.03	6.20
Ghana	17.45	12.37	9.50
Guinea	8.17	8.92	8.20
Guinea-Bissau	1.58	1.36	2.00
Kenya	6.30	8.01	5.00
Lesotho	6.61	5.31	6.30
Liberia	8.83	12.42	21.30
Libya	27.11	32.80	28.10
Madagascar	6.65	8.28	7.80
Malawi	21.71	11.54	9.20
Mali	-1.80	1.76	2.50
Mauritania	1.47	2.25	3.80
Mauritius	0.98	3.67	5.10
Morocco	1.64	0.75	2.40
Mozambique	19.20	15.30	6.00
Namibia	6.73	6.14	3.50
Niger	0.18	2.38	3.90
Nigeria	15.68	16.52	12.40
Rwanda	7.17	8.28	3.30
São Tomé & Príncipe	5.43	5.69	6.80
Senegal	0.84	1.32	0.40
Seychelles	-1.02	2.86	4.40
Sierra Leone	10.88	18.22	15.60
Somalia	3.20	2.42	—
South Africa	6.59	5.18	4.80
South Sudan	379.85	187.85	106.40
Sudan	17.80	32.40	61.80
Eswatini	7.85	6.22	5.00
Tanzania	5.17	5.32	3.80
Togo	0.87	-0.79	0.40
Tunisia	3.71	5.33	8.10
Uganda	5.50	5.60	3.80
Zambia	17.87	6.58	8.50
Zimbabwe	-1.57	0.91	3.90

Source: International Monetary Fund, World Economic Outlook database.

* Estimates

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2.2.1.1 Regional Variations (continued)

Southern Africa emerged as the fourth-fastest-growing subregion within the continent. Though still largely below potential, GDP growth accelerated to 2.78 percent in 2018, up from 2 percent in 2017. The weak growth performance achieved by the subregion is largely due to the weak growth in South Africa—the largest economy in the subregion and most sophisticated economy across the continent. After slipping into a recession in the second half of 2018, the South African economy achieved an overall GDP growth rate of 1.05 percent in 2018, down from 1.32 percent in 2017. While challenges faced by other countries in the subregion—most notably Zimbabwe, where GDP growth decelerated to 0.85 percent in 2018 from 4.7 percent in 2017, and Eswatini, where growth contracted by 0.91 percent in 2018—dented growth prospects in the subregion, the strong growth performance in Mauritius and Botswana set the subregion on an accelerated growth trajectory during 2018.

Central Africa remained the lagging subregion within the continent, posting an economic growth rate of just 2.04 percent in 2018, albeit up from 0.71 percent in 2017. Nevertheless, a recovery—largely due to improving commodity terms of trade in a subregion where the majority of countries are net oil-exporters—set the subregion on an accelerated growth trajectory. The slow recovery in oil prices in 2018 provided a boost to a number of countries, including Angola, Chad, Republic of Congo, Equatorial Guinea, and Gabon, where oil exports account for more than 80 percent of foreign exchange earnings. However, in addition to vulnerabilities to adverse commodity terms-of-trade shocks, a few countries within the subregion, most notably Chad and Cameroon, have been mired in conflict and insecurity, which could derail the process of economic recovery.

2.2.1.2 Price Developments

Across Africa, average inflation declined from 12.6 percent in 2017 to 10.9 percent in 2018 (Table 2.3 and Figure 2.4). However, the decelerating rate of inflation across the continent masks important variations across countries. Double-digit inflation rates were evident in several countries, both large and small, and especially in conflict-affected countries. In particular, among the large economies, Angola recorded an inflation rate of 20.5 percent in 2018, while Sudan recorded 61.8 percent. Rates approaching hyper-inflation were seen in conflict-affected countries, such as South Sudan, where inflation reached 106.4 percent in 2018.

Inflationary pressures decelerated in North Africa, where average rates of inflation decreased to 31.4 percent in 2018 from 41.1 percent in 2017. These developments reflect the improving inflationary outlook in a number of large economies, most notably Egypt, where the rate of inflation fell to 13.6 percent in 2018, down from 23.54 percent in 2017. The inflationary outlook will also depend on developments in Sudan, where inflationary pressures have been on the rise, prompting public protests.

Inflationary pressures eased in Southern Africa, falling from 9.2 percent in 2017 to 7.1 percent in 2018. Price levels within the subregion were influenced by a general price reduction in Angola (from 31.6 percent to 20.5 percent) and Mozambique (15.3 percent to 6 percent). The average rate of inflation in West Africa increased to 5.8 percent in 2018, marginally up from about 5.4 percent in 2017, driven mainly by inflationary pressures from Ghana (9.5 percent) and Nigeria (12.4 percent).

The average rate of inflation in East Africa fell to an estimated 4.8 percent in 2018, compared with 6.2 percent in 2017, driven by easing inflationary pressures in Kenya—the subregion's largest economy—where inflation declined from 8 percent in 2017 to 5 percent in 2018. The average rate of inflation in Central Africa increased to an estimated 5.26 percent in 2018, up from 3.68 percent in 2017.

Figure 2.3 Africa: Output by Region, 2017-18 (%)

Output by Region

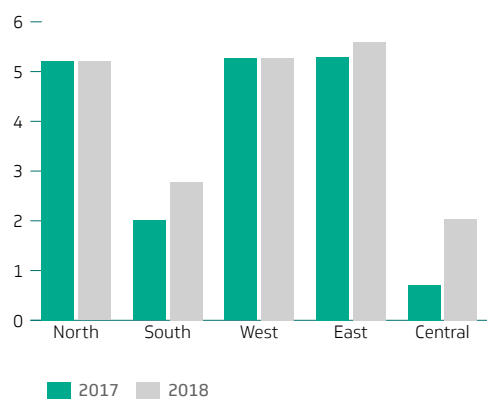
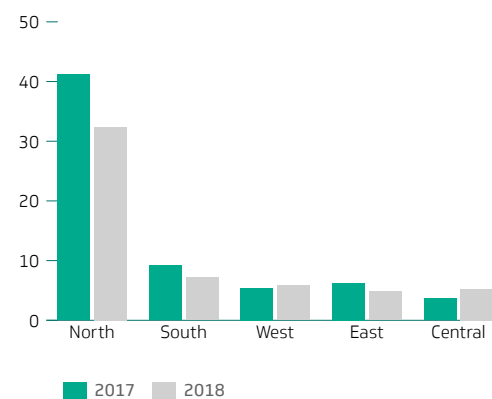


Figure 2.4 Africa: Inflation by Region, 2017-18 (%)

Inflation by Region



Sources: Economist Intelligence Unit; International Monetary Fund, World Economic Outlook.

Sources: Economist Intelligence Unit; International Monetary Fund, World Economic Outlook.



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2.2.2 External Reserves and Exchange Rates

Continued improvement in commodity prices—oil prices in particular—and ensuing improvement in export earnings sustained the growth of reserve holdings of African countries during 2018. Accordingly, Africa's total reserve holdings, which grew by 6.28 percent to US\$421.53 billion in 2017, accelerated by 10.82 percent to US\$467.15 billion in 2018 (Table 2.4). In a region where oil accounts for more than 45 percent of export receipts, the sustained recovery in oil prices has been the major driving force behind the gradual, but steady, improvement in the reserve position of a number of major oil-exporting African countries, with positive ripple effects on the region's overall reserve holdings. Specifically, the recovery in oil prices and increased production raised the level of foreign exchange reserves by about 647.39 percent in Equatorial Guinea, 233 percent in Chad, 37.47 percent in Gabon, 19.47 percent in Algeria, 11.21 percent in Nigeria, and 10.96 percent in Libya during the review period.

An increasingly stable socio-political environment in a number of countries also helped strengthen the reserve position, particularly in heavily tourist-dependent economies, where a drastic reduction in the level of security-induced shocks led to a rebound of the tourism industry. In Egypt, the stock of foreign reserves increased from US\$35.89 billion (4.96 months of import cover) in 2017 to US\$41.01 billion (6.44 months of import cover) in 2018. A similar trend was recorded in Kenya, where the stock of foreign reserves increased by 16.1 percent to US\$8.53 billion (5.75 months of import cover) in 2018 from US\$7.35 billion (5.3 months of import cover) in 2017. As such, in a context of sustained growth in external reserves, average import coverage rose to 10.51 months in 2018 from 8.88 months in 2017 and remained well above the International Monetary Fund's recommended external reserves threshold of three months of imports.

The improvement in export revenues, driven by the recovery in commodity prices and the increase in tourism receipts and migrant remittances, sustained the performance of many African national currencies in 2018. Accordingly, the currencies of many countries appreciated against the US dollar (Table 2.5). The best-performing African currencies were generally those pertaining to members of monetary unions—for example, the CFA franc, the common currency of 15 countries (mainly former French

colonies in Central and West Africa), which is pegged to the euro, appreciated by about 4.74 percent against the US dollar in 2018.

Other well-performing currencies in 2018 included those of Rwanda, Mozambique, Kenya, and the Democratic Republic of the Congo. Against the US dollar, the Rwandan franc appreciated by 18.09 percent, the Mozambican metical appreciated by 5.47 percent, the Kenyan shilling appreciated by 2.04 percent, and the franc of the Democratic Republic of the Congo appreciated by 1.22 percent.

Among the worst-performing African currencies was the Sudanese pound, which depreciated by 371.24 percent against the US dollar in 2018 on account of declining foreign currency reserves and heightened political tensions. The Angolan kwanza depreciated by 48.44 percent as the country continued to deal with the lingering effects associated with the end of the commodity super-cycle, which led to the sharp deterioration of external accounts and widening fiscal and current account deficits. The Liberian dollar depreciated by 27.95 percent due to pressure on the domestic currency deriving from limited inflows of foreign exchange reserves.

US\$

467.15_{bn}

Africa's total foreign reserve holdings increased by 10.82 percent to US\$467.15 billion in 2018.

Table 2.4 Reserve Position of African Countries, 2016-18 (in US\$ billions unless otherwise indicated)

Country	Total Reserves (excluding gold)			Growth Rate (%) ¹			Months of Import Cover by Reserves		
	2016	2017	2018	2016	2017	2018	2016	2017	2018
Algeria	114.39	97.60	116.60	-20.94	-14.68	19.47	29.38	26.18	31.13
Angola*	23.74	17.21	16.50	-0.20	-27.51	-4.13	25.60	17.21	17.30
Benin	0.27	0.70	1.01	-59.70	158.89	44.49	1.23	3.07	4.21
Botswana*	7.19	7.49	7.18	-4.78	4.19	-4.14	14.00	16.73	17.08
Burkina Faso	0.05	0.00	1.58	-92.29	-98.23	175455.56	0.18	0.00	2.04
Burundi	0.09	0.10	0.72	-32.82	10.26	594.31	1.80	1.72	46.12
Cameroun*	2.23	3.20	3.43	-36.41	43.64	7.29	39.74	7.38	10.13
Cape Verde*	0.57	0.63	0.75	16.89	9.26	19.85	1.40	9.46	9.78
Central Africa Republic*	0.21	0.24	0.34	1.43	12.21	42.26	6.37	7.39	41.44
Chad*	0.01	0.01	0.03	-97.84	12.50	233.33	0.15	0.19	0.20
Comoros*	0.16	0.18	0.19	-20.63	12.50	6.38	10.66	10.84	10.92
Congo Dem. Rep. of	0.71	0.49	1.16	-41.95	-31.09	137.70	1.65	0.42	0.92
Congo Republic*	0.82	0.49	0.42	-63.06	-40.12	-14.46	2.86	1.29	1.35
Côte d'Ivoire	4.94	5.18	6.13	1351.47	4.98	18.32	7.07	7.01	8.61
Djibouti*	0.41	0.50	0.44	13.17	23.36	-12.46	3.17	3.85	4.20
Egypt*	23.20	35.89	41.01	75.39	54.66	14.28	4.91	7.24	6.37
Equatorial Guinea**	0.06	0.05	0.33	-94.85	-26.17	617.39	0.59	0.59	3.42
Eritrea*	0.21	0.23	0.23	4.10	9.65	0.74	5.89	6.01	6.75
Ethiopia*	3.03	3.01	3.70	-18.74	-0.59	22.80	1.82	1.86	2.44
Gabon*	0.80	0.98	1.35	-57.01	22.14	37.47	4.00	4.99	4.61
Gambia*	0.09	0.11	0.18	-12.36	25.52	63.64	2.73	2.77	3.10
Ghana*	6.16	7.56	6.90	4.62	22.61	-8.67	6.49	7.10	4.84
Guinea	0.37	0.39	0.72	49.09	4.63	84.62	2.00	1.79	2.90
Guinea-Bissau	0.35	0.36	0.54	93.89	2.01	51.69	16.45	15.26	16.31
Kenya*	7.60	7.35	8.53	0.66	-3.29	16.05	6.38	5.29	5.75
Lesotho*	0.93	0.66	0.84	2.80	-28.99	27.85	9.20	4.32	9.16
Liberia*	0.53	0.44	0.40	1.73	-17.01	-8.88	0.60	8.18	7.85
Libya*	66.05	74.71	82.90	-10.34	13.11	10.96	121.14	156.03	130.94
Madagascar	1.18	1.60	1.65	42.53	35.25	3.12	4.75	5.21	6.41
Malawi*	0.63	0.78	0.76	-9.42	24.80	-2.56	3.61	3.81	6.21
Mali	0.40	0.63	0.73	259.09	58.99	16.24	1.23	1.73	2.02
Mauritania*	0.84	0.78	0.76	54.68	-6.14	-3.06	4.61	2.67	4.31
Mauritius	4.97	5.98	5.40	25.43	20.48	-9.76	12.81	13.67	14.61
Morocco	25.11	27.12	24.46	12.84	8.00	-9.79	7.23	7.30	5.86
Mozambique	2.08	3.36	3.13	-13.69	61.59	-6.87	4.55	6.80	6.98
Namibia*	1.83	2.43	2.19	8.50	32.52	-9.88	3.27	4.34	3.42
Niger	1.19	1.25	1.52	50.13	5.31	21.70	7.63	8.03	8.56
Nigeria	25.84	38.77	43.11	-15.57	50.00	11.21	9.78	12.92	12.50
Rwanda*	1.10	1.01	1.02	7.17	-8.68	1.19	7.38	6.79	8.76
São Tomé & Príncipe*	0.06	0.06	0.06	-91.34	-0.95	-4.15	5.41	5.11	5.41
Senegal	1.55	1.91	2.94	936.00	22.78	54.09	3.40	3.79	5.33
Seychelles	0.01	0.53	0.53	-97.59	3953.85	0.57	0.09	4.69	12.00
Sierra Leone*	0.50	0.48	0.49	-19.80	-3.87	2.51	6.20	5.33	6.20
Somalia	-	-	-	-	-	-	-	-	-
South Africa*	47.23	50.72	56.23	13.48	7.39	10.86	7.13	6.91	6.64
South Sudan	0.07	0.51	-	-70.37	640.91	-100.00	3.55	-	0.00
Sudan*	0.20	0.20	0.12	17.06	-0.50	-39.39	0.42	0.26	0.31
Eswatini	0.56	0.54	0.51	2.60	-4.66	-5.20	1.92	1.67	1.50
Tanzania*	4.33	5.30	5.53	7.88	22.52	4.34	6.56	11.12	13.01
Togo	0.05	0.08	0.82	-93.51	72.92	887.95	0.34	0.61	2.04
Tunisia	5.94	5.59	5.19	-18.96	-5.89	-7.16	3.76	3.22	4.05
Uganda*	3.03	3.65	3.43	4.26	20.30	-6.03	7.54	7.73	7.84
Zambia	2.35	2.08	1.59	-20.78	-11.59	-23.56	3.74	2.87	2.06
Zimbabwe*	0.41	0.44	0.27	-3.16	7.93	-38.50	1.11	1.12	1.31
Total	396.63	421.53	466.55	-9.29	6.28	10.68	8.41	8.88	10.51
Average									

Sources: Economist Intelligence Unit, Country Reports; International Monetary Fund, International Financial Statistics database.

¹ Growth rates are Afreximbank Staff calculations. * Estimates for 2018 based on latest available data — Not available.

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Table 2.5 Africa: Exchange Rate Developments, 2016-18 (per US\$ unless otherwise indicated)

Country	Percentage Change between				
	⁽¹⁾ 2016	⁽²⁾ 2017	⁽³⁾ 2018	(2) & (1)	(3) & (2)
Algeria - dinar	110.17	114.72	116.60	4.13	1.64
Angola - kwanza	165.08	170.30	252.80	3.16	48.44
Benin - franc	623.38	580.00	554.20	-6.96	-4.45
Botswana - pula	10.68	10.35	10.20	-3.07	-1.45
Burkina Faso - franc	623.38	580.00	554.20	-6.96	-4.45
Burundi - franc	1,675.05	1,767.00	1,783.00	5.49	0.91
Cameroon - franc	623.38	547.00	554.20	-12.25	1.32
Cape Verde - escudos	104.88	97.80	93.20	-6.75	-4.70
Central African Republic - franc	623.38	547.00	554.20	-12.25	1.32
Chad - franc	623.38	547.00	554.20	-12.25	1.32
Comoros - franc	467.54	436.60	415.60	-6.62	-4.81
Congo, Dem. Rep. of - Congo franc	1,076.00	1,646.00	1,626.00	52.97	-1.22
Congo, Rep. of - franc	623.38	547.00	554.20	-12.25	1.32
Côte d'Ivoire - franc	623.38	580.00	554.50	-6.96	-4.40
Djibouti - franc	177.60	177.72	177.70	0.07	-0.01
Egypt - pound	18.13	17.77	17.82	-2.00	0.28
Equatorial Guinea - franc	623.38	547.00	554.20	-12.25	1.32
Eritrea - nakfa	15.28	15.38	15.38	0.65	0.00
Ethiopia - birr	22.70	23.95	27.55	5.51	15.03
Gabon - franc	623.38	547.00	554.20	-12.25	1.32
Gambia - dalasi	42.15	46.61	48.23	10.58	3.48
Ghana - cedi	4.28	4.35	4.58	1.74	5.29
Guinea - Guinean franc	9,368.00	9,088.00	9,010.00	-2.99	-0.86
Guinea-Bissau - franc	623.38	580.00	554.20	-6.96	-4.45
Kenya - shilling	102.22	103.41	101.30	1.16	-2.04
Lesotho - loti	13.74	12.38	13.24	-9.88	6.95
Liberia - Liberia dollar	91.00	112.70	144.20	23.85	27.95
Libya - dinar	1.44	1.39	1.36	-3.32	-2.16
Madagascar - Ariary	3,340.00	3,116.00	3,304.00	-6.71	6.03
Malawi - kwacha	715.76	738.90	732.30	3.23	-0.89
Mali - franc	623.38	580.00	554.20	-6.96	-4.45
Mauritania - ouguiyas	35.20	35.80	35.70	1.70	-0.28
Mauritius - rupee	35.85	33.48	33.89	-6.61	1.22
Morocco - dirham	10.11	9.30	9.39	-8.06	0.97
Mozambique - metical	71.23	63.60	60.12	-10.71	-5.47
Namibia - namibia dollar	13.74	12.38	13.24	-9.88	6.95
Niger - franc	623.38	580.00	554.20	-6.96	-4.45
Nigeria - naira	304.20	305.50	305.60	0.43	0.03
Rwanda - franc	811.65	831.53	681.09	2.45	-18.09
São Tomé & Príncipe - dobra	22.10	21.70	20.70	-1.81	-4.61
Senegal - franc	623.38	547.00	554.20	-12.25	1.32
Seychelles - rupee	13.36	13.65	13.89	2.19	1.76
Sierra Leone - leone	5,465.00	7,384.00	7,924.00	35.11	7.31
Somalia - shilling	24,005.00	23,605.00	n/a	-1.67	n/a
South Africa - rand	13.74	12.38	13.24	-9.88	6.95
South Sudan - pound	6.48	6.85	n/a	5.72	n/a
Sudan - pound	6.48	6.85	32.28	5.72	371.24
Swaziland - lilangeni	13.74	12.38	13.24	-9.88	6.95
Tanzania - shilling	2,174.00	2,229.00	2,264.00	2.53	1.57
Togo - franc	623.38	580.00	554.20	-6.96	-4.45
Tunisia - dinar	2.30	2.48	2.65	7.81	6.85
Uganda - shilling	3,602.00	3,640.00	3,722.00	1.05	2.25
Zambia - kwacha	9.96	9.53	10.46	-4.30	9.76
Zimbabwe - US dollar*	1.00	1.00	1.00	0.00	0.00

Sources: Bloomberg; XE website (www.xe.com).

* US dollar used as official currency since 2009.

2.2.3 Commodity Price Developments

Commodity markets were generally weaker in 2018, with prices, as measured by the Bloomberg Commodity (BCOM) index, ending the year more than 13 percent lower than at the close of 2017 (Figure 2.5). Still, commodities enjoyed bouts of strength, particularly during the first half of the year, due principally to the rally in oil markets as geopolitical tensions raised concerns over possible supply disruptions, causing the BCOM Index to peak at 91.5 in May 2018, 5 percent above its level at the start of the year. Outside these price-supportive events, the backdrop for commodity markets in 2018 was generally sluggish as high inventories, combined with weaker demand—within the context of rising trade tensions and higher interest rates—led to a severe decline in the BCOM index, which closed the year at its lowest point since January 2016.

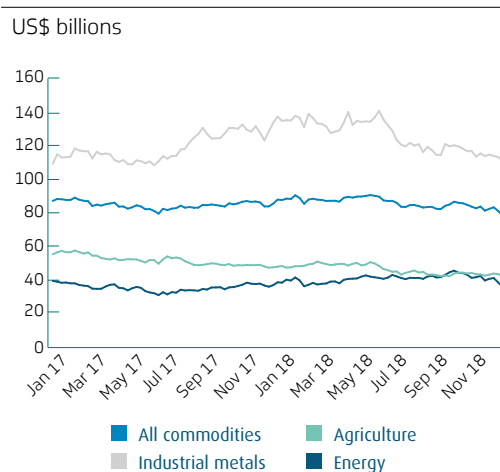
In energy markets, unprecedented cooperation among oil-producing countries—the Organization of Petroleum Exporting Countries (OPEC) and its allies—to reduce supplies in the market, coupled with supply disruptions and falling US inventories, was supportive of prices in the early part of the year. However, expanded output from Libya, the suspension of strike action by Nigerian oil workers, and continuing output from US shale producers created downward pressures on prices. As such, oil prices plummeted in the fourth quarter of the year, with Brent oil ending the year 24 percent lower compared with prices at the end of December 2017.

The decline in oil prices was also attributable to expectations of weaker global demand, with both OPEC and the International Energy Agency lowering their 2019 forecasts for oil demand on account of the trade war between the United States and China as well as tighter monetary policy and the synchronised growth deceleration in some advanced and developing market economies. In addition, the US decision to grant waivers to eight countries to continue importing oil from Iran helped ease supply constraints, as did forecasts for higher non-OPEC supply, particularly from US shale. In Africa, higher output, as a result of an increase in the number of oil and gas rigs, further compounded concerns of oversupply in the global market.

Agricultural commodity prices rallied in the first half of the year but slumped in the second. Hence, the BCOM agriculture subindex closed the year more than 12 percent lower in December 2018 compared with December 2017. Gains in the first half of the year were led by cocoa, which rose sharply on expectations of a shortfall in supply. But, while strong arrivals in West Africa undermined cocoa prices throughout the year, they remained supported by increasing global grinding capacity. Meanwhile, cotton prices trended lower in the second half of the year as the US-China trade war increased the risk of higher-than-expected cotton inventories in the United States (the world's top exporter), despite the prospect of increased mill demand in Asia. Likewise, surpluses in the coffee market caused prices to drop by about 24 percent during 2018.

In line with the dynamics in energy and agricultural markets, metal prices followed a similar trend in 2018, with prices falling sharply in the second half of the year after a mild rally in the earlier part. Signs of improving growth in China, Europe, and the United States at the start of the year fuelled momentum in the industrial metals sector, with prices for nickel and zinc posting strong gains. However, this sentiment was short lived as weaker global output data, particularly from China, and burgeoning stockpiles weighed on prices. The BCOM industrial index closed the year about 22 percent lower compared with its level in December 2017. Meanwhile, in the precious metals market, gold prices bounced high in the second half of the year as investor demand strengthened in the context of global political uncertainty and the prospect of a pause in Federal Reserve tightening. However, gold prices still closed the year about 3 percent lower than at the end of 2017.

Figure 2.5 Commodity Index Performance



Source: Bloomberg.

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Table 2.6 Commodity Prices, 2016-18

					Annual Growth Rate	
Agriculture	Units	2016	2017	2018	2016/17	2017/18
Barley	(\$/mt)	103.92	97.64	125.89	-6.04	28.93
Cocoa Bean	(\$/mt)	2,890.76	2,127.90	2,293.77	-26.39	7.79
Coffee (Arabica)	(\$/mt)	3,611.08	3,106.31	2,925.97	-13.98	-5.81
Copra	(\$/mt)	982.02	1,065.31	n/a	8.48	n/a
Cotton	(\$/mt)	1,636.12	1,842.99	2,014.58	12.64	9.31
Maize	(\$/mt)	159.16	154.53	164.41	-2.91	6.40
Palm Oil	(\$/mt)	700.19	714.67	638.66	2.07	-10.64
Rubber TSR20	(\$/mt)	1,381.13	1,666.85	1,367.83	20.69	-17.94
Soyabean	(\$/mt)	405.45	393.38	394.42	-2.98	0.27
Sugar	(\$/mt)	398.06	353.13	275.61	-11.29	-21.95
Tea	(\$/mt)	2,640.80	3,103.57	2,847.47	17.52	-8.25
Wheat	(\$/mt)	176.30	178.18	203.89	1.07	14.43
Average		1,257.08	1,233.70	1,204.77	-1.86	-2.35
Crude Oil						
Crude Oil	(\$/bbl)	44.05	54.39	71.07	-13.21	23.49
Average		44.05	54.39	71.07	-13.21	23.49
Precious Metals						
Gold	(\$/troy oz)	1,248.99	1,257.56	1,269.23	7.61	0.93
Platinum	(\$/troy oz)	987.09	948.45	879.55	-6.28	-7.27
Silver	(\$/troy oz)	17.15	17.07	15.71	9.08	-7.92
Metals and Minerals						
Aluminium	(\$/mt)	1,604.18	1,967.65	2,108.48	-3.63	7.16
Copper	(\$/mt)	4,867.90	6,169.94	6,529.80	-11.66	5.83
Lead	(\$/mt)	1,866.65	2,314.67	2,240.44	4.41	-3.21
Tin	(\$/mt)	17,933.76	20,061.17	20,145.21	11.62	0.42
Zinc	(\$/mt)	2,089.98	2,890.87	2,922.38	8.19	1.09
Average		5,672.49	6,680.86	6,789.26	1.79	2.26

Sources: *The Financial Times*; World Bank, Commodity Prices database.

Table 2.7 Real Commodity Prices, (2005=100)

	Units	2016 (1)	2017 (2)	2018 (3)	2017 (4) = (2) – (1)	2018 (5) = (3) – (2)
Barley	(\$/mt)	109.29	102.69	132.40	-6.60	29.71
Cocoa Bean	(\$/mt)	190.51	140.23	151.17	-50.27	10.93
Coffee (Arabica)	(\$/mt)	362.13	311.51	293.43	-50.62	-18.08
Copra	(\$/mt)	237.32	257.45	0.00	20.13	-257.45
Cotton	(\$/mt)	135.09	152.17	166.34	17.08	14.17
Maize	(\$/mt)	163.09	158.35	168.47	-4.74	10.13
Palm Oil	(\$/mt)	166.48	169.92	151.85	3.44	-18.07
Rubber TSR20	(\$/mt)	144.43	174.31	143.04	29.88	-31.27
Soyabean	(\$/mt)	263.50	128.14	128.48	-135.36	0.34
Sugar	(\$/mt)	182.77	162.13	126.54	-20.63	-35.59
Tea	(\$/mt)	160.34	188.44	172.89	28.10	-15.55
Wheat	(\$/mt)	115.72	116.96	133.83	1.23	16.87
Average	Index				-14.03	-24.49
Crude Oil						
*Crude Oil	(\$/bbl)	80.93	99.93	130.57	19.01	30.64
Precious Metals						
Gold	(\$/troy oz)	280.77	282.70	285.32	1.93	2.62
Platinum	(\$/troy oz)	110.10	105.79	98.11	-4.31	-7.69
Silver	(\$/troy oz)	234.57	233.46	214.96	-1.10	-18.50
Metals and Minerals						
Aluminium	(\$/mt)	84.51	103.65	111.07	19.15	7.42
Copper	(\$/mt)	132.32	167.71	177.49	35.39	9.78
Lead	(\$/mt)	191.18	237.07	229.47	45.89	-7.60
Tin	(\$/mt)	243.01	271.84	272.98	28.83	1.14
Zinc	(\$/mt)	151.30	209.28	211.57	57.98	2.28
Average	Index	160.46	197.91		37.45	2.60

Sources: *The Financial Times*; World Bank, Commodity Prices database.



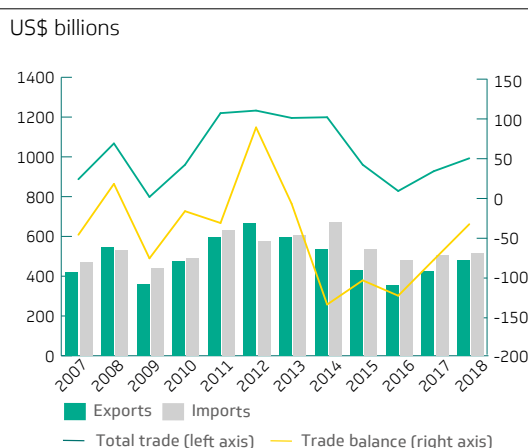
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2.2.4 Developments in African Trade

2.2.4.1 African Trade Performance

In line with the steady expansion of the global economy, Africa's merchandise trade grew by 7.04 percent to US\$997.94 billion in 2018, albeit down from 12.09 percent in 2017 (Figure 2.6 and Table 2.8). Continued improvement in the prices of global commodities, including those of export interest to Africa, have been the main drivers of growth in total merchandise trade enjoyed by the region.

Figure 2.6 Trends in Africa's Merchandise Trade, 2016–18



Sources: Economist Intelligence Unit, Country Reports; International Monetary Fund, Direction of Trade Statistics database.

Given that oil accounts for the bulk (over 45 percent) of the region's total exports, the recovery of crude oil prices sustained the expansion in Africa's trade during the review period. Accordingly, oil exporters saw their share of African exports increase by 1.2 percent to US\$146.17 billion in 2018 from US\$144.56 billion in 2017. The expansion of African trade during the review period was also supported by a recovery in prices of a number of non-energy commodities. Net oil-importing countries' exports increased by 18.9 percent to US\$336.49 billion in 2018 from US\$283.04 billion in 2017. The stronger performance achieved by these countries enabled the region to achieve an average growth rate of 13 percent in 2018. However, this still compares unfavourably against the 20.7 percent achieved in 2017.

The recovery in commodity prices was largely supported by strengthening economic growth in the United States and still-robust growth in the group of developing Asia, led by India, which achieved growth acceleration and, in the process, drove global demand for commodities. While China remains Africa's single

largest trading partner, India's imports of commodities from Africa expanded by 16.5 percent in 2018, albeit having slowed down from 24.3 percent in 2017.

However, African exports are still driven by commodities, especially oil. Cooperation among OPEC members, alongside renewed US sanctions against Iran and socio-political tensions in Venezuela, helped sustain the price of oil at about US\$70 per barrel. These developments, as well as firm prices of many commodities monitored by the Bank, including barley, cocoa bean, cotton, maize, wheat, aluminium, copper, lead, and zinc, contributed to the growth of Africa's exports during the review period.

Africa's total merchandise imports also recovered slightly, rebounding by 2.01 percent to US\$516.09 billion in 2018 from US\$505.9 billion in 2017. The much lower growth rate of imports reduced the region's trade deficit, which narrowed to US\$34.24 billion in 2018 from US\$79.52 billion in 2017 (Figure 2.6 and Table 2.8). Increasing energy intensity and consumption in a growing number of countries played a key role in the dynamics of African trade. Oil exporters saw their imports rise by 8.1 percent, on average, to US\$115.6 billion in 2018 from US\$106.92 billion in 2017, led by strong import growth from Gabon (48 percent), Libya (32.2 percent), Equatorial Guinea (24 percent), and Nigeria (14.9 percent).

Imports on the part of the group of net oil-importing countries increased by 0.4 percent to US\$400.52 billion in 2018 from US\$398.98 billion in 2017. Specifically, Egypt, Ghana, Guinea, Morocco, Namibia, and the Democratic Republic of the Congo saw the value of their imports rise by 29.92 percent, 33.98 percent, 14.18 percent, 12.43 percent, 14.27 percent, and 9.11 percent, respectively, in 2018.

2.2.4.2 Intra-African Trade

The value of intra-African trade posted strong growth in 2018, rising by 19.5 percent to US\$156 billion, partly due to an increase in the prices of commodity exports traded within the region, but also on account of consistent and resilient demand for manufactured goods from leading industrialised economies, such as South Africa and Egypt. In the midst of an overall increase in intra-African trade, important variations persist.

In Southern Africa, South Africa maintained its position as the largest intra-African trade economy, with a total intra-African trade value of US\$36.1 billion, up from US\$31.9 billion in 2017 and accounting for 23 percent of total intra-African trade, marginally down from 24 percent in 2017. Africa remained the second-largest regional market for South Africa and destination for its exports behind Asia. South African exports to Asia grew by 2.0 percent during the year against 5.0 percent for total exports to Africa. And, although imports of African origin to South Africa do

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not compare in size with South African imports from Europe and Asia, South Africa substantially increased—by 39 percent—its imports from the region in 2018. The profile of South African trade with the rest of Africa is increasingly diverse. The country is exporting fuel and fuel products, precious stones, vehicles, and machinery to its largest bilateral regional trade partners, most notably Botswana and Namibia, and plastic products to other trade partners, most notably Nigeria.

In Central Africa, the Democratic Republic of the Congo also boosted its trade with the rest of the continent to US\$14.4 billion, up from US\$9.6 billion in 2017, becoming the second-largest intra-African trade economy on the continent. South Africa was the largest African destination for exports from the Democratic Republic of the Congo, which mainly comprise copper and base metals. South Africa is also the top supplier of machinery and mechanical appliances to the Democratic Republic of the Congo and an important supplier of pharmaceutical products. Regarding the latter, while the market for pharmaceutical products is still dominated by imports supplied from Europe and Asia, efforts by the Bank to promote intra-African trade in the provision of world-class health services and access to pharmaceutical products should boost cross-border trade in both medical services and products in the medium to long term.

In West Africa, Nigeria grew its trade with the continent to US\$11.5 billion, up from US\$7 billion in 2017, making it the third-largest intra-African trade country in 2018, accounting for 7.3 percent of total intra-African trade, up from 5.4 percent in 2017. South Africa, Togo, and Côte d'Ivoire, traditionally the top three destinations of Nigerian exports to the rest of the continent, rely on Nigeria for fuel imports. Although the aggregate value of Nigeria's imports from Africa is lower compared with its exports, there is a thriving informal cross-border trade in light manufactured products and agricultural commodities within the Economic Community of West African States and with neighbouring countries in Central Africa, especially along their lengthy border with Cameroon.

In North Africa, Egypt's trade with the rest of Africa ballooned by almost 190 percent during 2018, reaching an estimated US\$7.6 billion, and occupying fourth place among the largest intra-African trade countries, up from sixteenth place in 2017. That notwithstanding, Egyptian authorities are looking to further boost trade with the rest of the continent to match the capabilities of one of the largest and most industrialised economies on the continent. One growing bilateral trade relationship is between Egypt and Kenya, with Egyptian exports to Kenya increasing by 18 percent during 2018. Egypt has also indicated its commitment to help build capacity among other African countries as they seek to upgrade and promote the development of higher-productivity sectors, including manufacturing and high-end services. Egyptian trade is also likely to benefit from the lifting of a ban on agricultural exports to Sudan. Prior to the ban, agricultural exports accounted for about

20 percent of the value of Egypt's exports to Sudan, which is one of Egypt's largest trading partners in Africa.

Other significant contributors to intra-African trade include Botswana, Côte d'Ivoire, Namibia, Zambia, and Zimbabwe, which jointly account for about 13 percent of total intra-African trade in 2018, down from 14.3 percent in 2017. In contrast, Burkina Faso, Angola, and Ethiopia recorded declines in their trade with the rest of the region, with the sharpest decline in Burkina Faso, which saw its share of African trade drop from 2.4 percent in 2017 to 0.8 percent in 2018.

One of the key developments in 2018 was the signing of the agreement formally establishing the African Continental Free Trade Area (AfCFTA) in March. The AfCFTA brings together 55 African countries with a combined population of more than 1.2 billion people and a combined gross domestic product of more than US\$2.5 trillion. It is one of the world's largest free trade areas and a single continental market for goods and services, with free movement of business, persons, and capital. The AfCFTA is an important step towards rationalizing Africa's regional trade arrangements to deepen economic integration and draw on economies of scale to accelerate the process of structural transformation of African economies.

The AfCFTA offers tremendous opportunities for the development of regional value chains and intra-African trade; the latter is expected to more than double within the first decade of its implementation. By the end of 2018, 49 out of the 55 African Union member states had signed the consolidated text of the agreement and nine states had ratified it. A minimum of 22 states need to ratify the agreement for it to come into force.

The Bank supported the official signing ceremony of the agreement, sponsoring several strategic events organised by the African Union during the historic gathering of African Heads of State on 21 March 2018 in Kigali, Rwanda. The Bank is also supporting the implementation of the agreement. In particular, it jointly organised the first-ever Intra-African Trade Fair (IAFT) in December 2018 in Cairo, Egypt, which brought together African buyers and sellers, provided information on markets and trade and investment opportunities, and facilitated the signing of trade deals. The IATF, which will become a biennial event, will contribute towards the Bank's objective of increasing intra-African trade from US\$156 billion in 2018 to US\$250 billion during the implementation of its fifth Strategic Plan and, in so doing, ensure that the share of intra-African trade relative to Africa's total trade reaches 22 percent by 2021.



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Table 2.8 Africa: Merchandise Trade, 2016-18 (US\$ billions)

Country	Merchandise Exports			Growth Rate (%)		Share of Merchandise Exports (%)			Merchandise Imports			Growth Rate (%)	
	2016	2017	2018	2017	2018	2016	2017	2018	2016	2017	2018	2017	2018
Algeria	29.31	34.37	41.09	17.28	19.54	8.30	8.06	8.53	46.72	44.73	44.95	-4.26	0.49
Angola	23.87	30.52	36.55	27.86	19.77	6.76	7.16	7.59	11.05	12.00	11.45	8.60	-4.65
Benin	0.44	0.57	2.69	28.86	372.97	0.12	0.13	0.56	2.63	2.73	1.13	3.87	-58.48
Botswana	7.33	5.91	5.61	-19.38	-5.18	2.08	1.39	1.16	6.16	5.37	5.04	-12.84	-6.11
Burkina Faso	6.87	17.20	2.75	150.26	-84.03	1.95	4.03	0.57	3.23	3.95	2.76	22.50	-30.29
Burundi	0.13	0.15	0.80	16.77	426.98	0.04	0.04	0.17	0.63	0.73	0.19	15.97	-74.17
Cameroon	2.16	3.27	5.68	51.29	73.98	0.61	0.77	1.18	4.91	5.20	4.06	5.85	-21.84
Cape Verde	0.22	0.08	0.89	-63.62	994.40	0.06	0.02	0.19	0.67	0.79	0.11	18.07	-86.06
Central African Republic	0.12	0.07	0.53	-40.52	636.29	0.03	0.02	0.11	0.40	0.39	0.10	-3.40	-74.62
Chad	1.57	1.22	0.82	-22.17	-33.37	0.44	0.29	0.17	0.64	0.57	1.80	-10.24	214.47
Comoros	0.02	0.02	0.26	12.06	1,300.71	0.00	0.00	0.05	0.19	0.20	0.02	3.26	-88.53
Congo, Dem. Rep.	6.06	8.92	15.20	47.18	70.31	1.72	2.09	3.15	14.39	13.91	15.17	-3.36	9.11
Congo, Rep.	5.62	7.40	3.73	31.72	-49.68	1.59	1.74	0.77	8.25	4.55	3.73	-44.80	-18.20
Côte d'Ivoire	10.06	11.79	7.83	17.22	-33.58	2.85	2.77	1.63	8.33	8.87	7.84	6.39	-11.59
Djibouti	0.31	0.35	1.62	11.33	365.02	0.09	0.08	0.34	1.45	1.57	0.38	8.21	-75.63
Egypt, Arab Rep.	20.02	23.30	27.58	16.36	18.41	5.67	5.46	5.72	56.71	59.47	77.26	4.87	29.92
Equatorial Guinea	4.74	5.06	1.16	6.57	-77.15	1.34	1.19	0.24	1.27	0.93	1.16	-26.10	24.00
Eritrea	0.29	0.26	0.36	-9.01	38.40	0.08	0.06	0.08	0.45	0.46	0.41	2.33	-10.29
Ethiopia	4.02	4.33	4.11	7.55	-5.01	1.14	1.02	0.85	20.22	19.49	18.17	-3.64	-6.77
Gabon	3.53	4.04	3.51	14.62	-13.19	1.00	0.95	0.73	2.40	2.36	3.51	-1.50	48.89
Gambia, The	0.10	0.09	0.50	-8.61	474.33	0.03	0.02	0.10	0.38	0.48	0.07	23.83	-84.44
Ghana	10.62	14.36	12.97	35.29	-9.71	3.01	3.37	2.69	11.39	12.78	17.12	12.16	33.98
Guinea	2.83	4.47	6.11	57.95	36.69	0.80	1.05	1.27	2.24	2.61	2.98	16.52	14.18
Guinea-Bissau	0.37	0.30	0.24	-18.06	-20.31	0.10	0.07	0.05	0.24	0.28	0.24	15.39	-14.78
Kenya	5.69	5.75	7.86	0.89	36.88	1.61	1.35	1.63	14.10	16.68	17.81	18.30	6.78
Lesotho	0.87	1.03	1.99	18.08	93.73	0.25	0.24	0.41	1.59	1.82	1.10	14.73	-39.65
Liberia	1.29	1.65	1.16	28.08	-29.71	0.36	0.39	0.24	0.61	0.64	0.61	5.36	-5.01
Libya	6.11	12.93	7.58	111.64	-41.40	1.73	3.03	1.57	6.50	5.75	7.60	-11.63	32.21
Madagascar	2.30	2.91	3.36	26.58	15.58	0.65	0.68	0.70	2.99	3.69	3.09	23.24	-16.19
Malawi	1.05	1.15	2.52	10.01	119.40	0.30	0.27	0.52	2.13	2.46	1.11	15.45	-55.00
Mali	2.85	1.91	4.36	-32.94	128.66	0.81	0.45	0.91	3.85	4.35	4.34	12.75	-0.22
Mauritania	1.63	1.99	3.98	22.67	99.63	0.46	0.47	0.83	2.18	3.52	2.11	61.94	-40.00
Mauritius	2.19	2.09	5.97	-4.93	186.29	0.62	0.49	1.24	4.65	5.25	5.01	12.82	-4.59
Morocco	22.83	24.59	26.53	7.71	7.91	6.46	5.77	5.51	41.69	44.57	50.11	6.91	12.43
Mozambique	3.42	4.81	7.09	40.69	47.59	0.97	1.13	1.47	5.51	5.93	5.38	7.69	-9.26
Namibia	5.12	5.18	8.42	1.16	62.52	1.45	1.22	1.75	6.73	6.72	7.68	-0.12	14.27
Niger	0.93	0.94	1.79	1.70	89.88	0.26	0.22	0.37	1.86	1.87	0.55	0.11	-70.58
Nigeria	40.39	49.02	51.75	21.35	5.57	11.43	11.50	10.74	31.83	36.02	41.37	13.16	14.87
Rwanda	0.42	0.66	2.75	57.67	315.76	0.12	0.15	0.57	1.80	1.78	1.03	-0.72	-42.31
São Tomé & Príncipe	0.00	0.01	0.68	510.09	6057.66	0.00	0.00	0.14	0.14	0.15	0.01	4.92	-91.71
Senegal	2.68	2.48	6.43	-7.48	159.38	0.76	0.58	1.33	5.48	6.03	2.73	10.12	-54.82
Seychelles	0.49	0.60	1.67	22.32	180.95	0.14	0.14	0.35	1.65	1.35	0.53	-18.18	-60.69
Sierra Leone	0.51	0.12	1.05	-75.95	765.96	0.14	0.03	0.22	0.96	1.08	0.09	11.93	-91.20
Somalia	0.65	0.45	2.96	-30.28	556.88	0.18	0.11	0.61	2.39	2.85	0.54	19.13	-80.88
South Africa	74.91	89.35	95.26	19.27	6.62	21.21	20.96	19.77	79.49	88.03	101.55	10.74	15.36
South Sudan	1.38	1.26	0.69	-8.50	-45.31	0.39	0.30	0.14	0.40	0.70	1.76	75.12	150.27
Sudan	2.60	4.10	7.54	57.78	83.96	0.74	0.96	1.57	5.66	9.16	4.65	61.82	-49.23
Eswatini	2.23	2.46	2.43	10.31		0.63	0.58	0.50	3.64	3.86		6.04	
Tanzania	4.77	3.85	3.92	-19.22	1.71	1.35	0.90	0.81	7.92	5.72	3.93	-27.80	-31.27
Togo	0.85	0.87	2.43	2.05	179.91	0.24	0.20	0.50	1.86	1.64	1.65	-11.99	0.86
Tunisia	12.89	13.52	15.40	4.90	13.84	3.65	3.17	3.20	18.98	20.80	15.39	9.58	-26.01
Uganda	2.30	2.91	6.86	26.72	135.71	0.65	0.68	1.42	4.83	5.67	2.97	17.30	-47.51
Zambia	6.51	8.25	9.71	26.71	17.73	1.84	1.93	2.01	7.56	8.69	9.25	15.07	6.37
Zimbabwe	2.83	1.50	5.11	-46.91	240.04	0.80	0.35	1.06	4.49	4.72	2.47	5.12	-47.57
Total	353.28	426.38	481.85	20.69	13.01	100.00	100.00	100.00	478.43	505.90	516.09	-10.94	2.01

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

Share of Merchandise Imports (%)			Total Merchandise Trade			Growth Rate (%)		Share of Total Merchandise Trade (%)			Trade Balance Value (Exports – Imports)		
2016	2017	2018	2016	2017	2018	2017	2018	2016	2017	2018	2016	2017	2018
9.77	8.84	8.71	76.03	79.11	86.04	4.04	8.77	9.14	8.49	8.62	-17.41	-10.36	-3.86
2.31	2.37	2.22	34.92	42.52	48.00	21.76	12.88	4.20	4.56	4.81	12.81	18.51	25.10
0.55	0.54	0.22	3.07	3.30	3.83	7.46	15.89	0.37	0.35	0.38	-2.19	-2.16	1.56
1.29	1.06	0.98	13.50	11.28	10.65	-16.39	-5.62	1.62	1.21	1.07	1.17	0.54	0.56
0.67	0.78	0.53	10.10	21.15	5.50	109.44	-73.99	1.21	2.27	0.55	3.65	13.25	-0.01
0.13	0.14	0.04	0.75	0.88	0.98	16.11	12.26	0.09	0.09	0.10	-0.50	-0.57	0.61
1.03	1.03	0.79	7.07	8.46	9.74	19.73	15.13	0.85	0.91	0.98	-2.75	-1.93	1.62
0.14	0.16	0.02	0.90	0.88	1.00	-2.37	14.64	0.11	0.09	0.10	-0.45	-0.71	0.78
0.08	0.08	0.02	0.52	0.46	0.63	-12.05	37.30	0.06	0.05	0.06	-0.28	-0.32	0.44
0.13	0.11	0.35	2.21	1.80	2.62	-18.73	45.71	0.27	0.19	0.26	0.93	0.65	-0.99
0.04	0.04	0.00	0.21	0.22	0.28	3.96	29.18	0.02	0.02	0.03	-0.18	-0.18	0.23
3.01	2.75	2.94	20.45	22.83	30.37	11.62	33.03	2.46	2.45	3.04	-8.33	-4.98	0.02
1.72	0.90	0.72	13.87	11.96	7.45	-13.79	-37.69	1.67	1.28	0.75	-2.63	2.85	0.00
1.74	1.75	1.52	18.39	20.66	15.67	12.31	-24.14	2.21	2.22	1.57	1.73	2.93	-0.01
0.30	0.31	0.07	1.76	1.91	2.00	8.76	4.59	0.21	0.21	0.20	-1.13	-1.22	1.24
11.85	11.75	14.97	76.73	82.76	104.85	7.87	26.68	9.23	8.88	10.51	-36.68	-36.17	-49.68
0.26	0.18	0.22	6.01	5.99	2.31	-0.31	-61.36	0.72	0.64	0.23	3.48	4.12	0.00
0.09	0.09	0.08	0.73	0.72	0.77	-2.12	7.49	0.09	0.08	0.08	-0.16	-0.19	-0.05
4.23	3.85	3.52	24.25	23.82	22.28	-1.78	-6.45	2.92	2.55	2.23	-16.20	-15.16	-14.06
0.50	0.47	0.68	5.92	6.40	7.02	8.10	9.69	0.71	0.69	0.70	1.13	1.68	0.00
0.08	0.09	0.01	0.48	0.56	0.58	17.35	2.55	0.06	0.06	0.06	-0.29	-0.39	0.43
2.38	2.53	3.32	22.01	27.14	30.09	23.32	10.86	2.65	2.91	3.01	-0.78	1.59	-4.15
0.47	0.52	0.58	5.07	7.08	9.09	39.64	28.39	0.61	0.76	0.91	0.59	1.86	3.13
0.05	0.06	0.05	0.61	0.58	0.48	-4.71	-17.64	0.07	0.06	0.05	0.12	0.02	0.00
2.95	3.30	3.45	19.80	22.43	25.68	13.29	14.49	2.38	2.41	2.57	-8.41	-10.94	-9.95
0.33	0.36	0.21	2.46	2.85	3.09	15.92	8.47	0.30	0.31	0.31	-0.72	-0.79	0.89
0.13	0.13	0.12	1.90	2.29	1.77	20.77	-22.78	0.23	0.25	0.18	0.68	1.01	0.55
1.36	1.14	1.47	12.61	18.68	15.17	48.08	-18.75	1.52	2.00	1.52	-0.39	7.18	-0.02
0.63	0.73	0.60	5.29	6.60	6.45	24.69	-2.18	0.64	0.71	0.65	-0.69	-0.78	0.27
0.45	0.49	0.21	3.18	3.61	3.63	13.66	0.57	0.38	0.39	0.36	-1.08	-1.31	1.42
0.81	0.86	0.84	6.70	6.25	8.70	-6.66	39.11	0.81	0.67	0.87	-1.01	-2.44	0.03
0.45	0.70	0.41	3.80	5.52	6.10	45.14	10.48	0.46	0.59	0.61	-0.55	-1.53	1.87
0.97	1.04	0.97	6.85	7.34	10.98	7.14	49.66	0.82	0.79	1.10	-2.46	-3.17	0.96
8.71	8.81	9.71	64.51	69.15	76.64	7.19	10.82	7.76	7.42	7.68	-18.86	-19.98	-23.58
1.15	1.17	1.04	8.92	10.73	12.47	20.33	16.18	1.07	1.15	1.25	-2.09	-1.12	1.71
1.41	1.33	1.49	11.85	11.90	16.10	0.43	35.28	1.43	1.28	1.61	-1.61	-1.54	0.74
0.39	0.37	0.11	2.79	2.81	2.34	0.64	-16.73	0.34	0.30	0.23	-0.94	-0.92	1.24
6.65	7.12	8.02	72.22	85.04	93.12	17.74	9.51	8.68	9.12	9.33	8.57	13.00	10.38
0.38	0.35	0.20	2.21	2.44	3.77	10.33	54.54	0.27	0.26	0.38	-1.38	-1.12	1.72
0.03	0.03	0.00	0.14	0.16	0.70	11.39	339.79	0.02	0.02	0.07	-0.14	-0.14	0.67
1.15	1.19	0.53	8.16	8.51	9.16	4.34	7.54	0.98	0.91	0.92	-2.80	-3.56	3.70
0.34	0.27	0.10	2.13	1.94	2.20	-8.94	13.34	0.26	0.21	0.22	-1.16	-0.75	1.14
0.20	0.21	0.02	1.47	1.20	1.15	-18.33	-4.30	0.18	0.13	0.11	-0.46	-0.96	0.96
0.50	0.56	0.11	3.04	3.30	3.50	8.62	6.19	0.37	0.35	0.35	-1.75	-2.40	2.41
16.61	17.40	19.68	154.40	177.38	196.81	14.88	10.95	18.56	19.03	19.72	-4.58	1.32	-6.29
0.08	0.14	0.34	1.78	1.96	2.44	10.36	24.68	0.21	0.21	0.24	0.98	0.56	-1.07
1.18	1.81	0.90	8.26	13.26	12.20	60.55	-8.05	0.99	1.42	1.22	-3.06	-5.06	2.89
0.76	0.76	0.00	5.87	6.32	2.43	7.67	-61.55	0.71	0.68	0.24	-1.41	-1.40	2.43
1.66	1.13	0.76	12.69	9.57	7.85	-24.57	-18.00	1.53	1.03	0.79	-3.15	-1.87	-0.01
0.39	0.32	0.32	2.71	2.50	4.08	-7.58	62.90	0.33	0.27	0.41	-1.01	-0.77	0.78
3.97	4.11	2.98	31.88	34.32	30.79	7.69	-10.31	3.83	3.68	3.09	-6.09	-7.28	0.01
1.01	1.12	0.58	7.13	8.58	9.83	20.34	14.67	0.86	0.92	0.99	-2.53	-2.76	3.89
1.58	1.72	1.79	14.06	16.94	18.96	20.45	11.90	1.69	1.82	1.90	-1.05	-0.45	0.46
0.94	0.93	0.48	7.32	6.22	7.59	-15.01	21.94	0.88	0.67	0.76	-1.66	-3.21	2.64
100.00	100.00	100.00	831.71	932.29	997.94	12.09	7.04	100.00	100.00	100.00	-125.15	-79.52	-34.24

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Table 2.9 Intra-African Trade, 2016-18 (in US\$ billions unless otherwise indicated)

Country	Intra-African Exports			Growth Rate (%)		Country Share of Total Intra-African Exports (%)			Intra-African Imports			Growth Rate (%)	
	2016*	2017*	2018	2017	2018	2016*	2017*	2018**	2016*	2017*	2018	2017	2018
Algeria	1.20	0.98	1.77	-18.73	81.61	1.84	1.41	2.07	0.94	1.01	0.67	7.04	-34.05
Angola	1.29	1.32	0.63	2.53	-52.28	1.97	1.91	0.74	0.98	1.00	0.83	2.73	-16.92
Benin	0.10	0.13	0.21	25.11	63.33	0.16	0.18	0.24	0.45	0.45	0.43	-0.02	-6.33
Botswana	1.94	0.85	1.11	-56.21	30.27	2.98	1.23	1.30	4.77	3.92	4.49	-17.78	14.63
Burkina Faso	0.87	2.21	0.32	153.36	-85.69	1.34	3.19	0.37	0.73	0.91	0.99	23.71	9.17
Burundi	0.06	0.04	0.09	-29.32	112.17	0.09	0.06	0.10	0.19	0.19	0.18	1.48	-5.96
Cameroon	0.36	0.39	0.43	6.85	10.44	0.56	0.56	0.50	0.83	0.90	0.86	9.19	-4.42
Cape Verde	0.00	0.00	0.00	-34.35	-13.96	0.00	0.00	0.00	0.02	0.03	0.04	53.07	36.20
Central African Rep.	0.02	0.02	0.04	-14.33	90.74	0.03	0.03	0.04	0.05	0.07	0.09	44.26	15.56
Chad	0.00	0.01	0.01	96.18	14.02	0.01	0.01	0.01	0.16	0.14	0.19	-14.02	35.25
Comoros	0.00	0.00	0.00	-4.95	21.17	0.00	0.00	0.00	0.03	0.03	0.04	10.52	15.22
Congo, Dem. Rep. of	2.53	3.72	6.33	47.18	70.06	3.88	5.37	7.40	6.10	5.90	8.41	-3.36	42.64
Congo, Rep. of	1.48	1.90	3.18	28.16	67.02	2.28	2.75	3.71	2.55	1.67	1.48	-34.38	-11.44
Côte d'Ivoire	2.82	3.27	4.42	15.80	35.23	4.33	4.72	5.17	1.80	2.05	1.87	14.00	-8.81
Djibouti	0.20	0.22	0.25	10.51	12.63	0.30	0.31	0.29	0.12	0.14	0.13	12.45	-7.09
Egypt	1.20	1.39	6.16	16.10	341.64	1.84	2.01	7.20	1.21	1.26	1.52	4.03	20.13
Equatorial Guinea	0.45	0.37	0.27	-17.99	-26.98	0.68	0.53	0.31	0.12	0.14	0.17	10.92	26.17
Eritrea	0.00	0.00	0.00	-8.36	36.34	0.00	0.00	0.00	0.04	0.06	0.03	58.35	-38.49
Ethiopia	1.37	1.46	1.49	6.52	2.28	2.10	2.11	1.74	0.38	0.58	0.31	51.57	-46.14
Gabon	0.16	0.20	0.24	27.49	19.91	0.24	0.29	0.28	0.24	0.22	0.22	-8.49	0.65
Gambia, The	0.08	0.06	0.05	-18.21	-26.63	0.12	0.09	0.05	0.09	0.08	0.08	-11.85	-2.76
Ghana	1.73	2.02	2.52	16.88	24.25	2.66	2.92	2.94	0.86	1.09	1.14	25.62	4.78
Guinea	0.50	0.87	1.08	71.59	24.38	0.77	1.25	1.26	0.22	0.28	0.38	22.72	36.04
Guinea-Bissau	0.03	0.03	0.03	26.81	-17.02	0.04	0.05	0.03	0.04	0.03	0.02	-21.49	-31.86
Kenya	1.95	1.82	2.15	-6.57	18.10	2.98	2.62	2.51	1.09	1.60	2.18	47.09	36.81
Lesotho	0.38	0.35	0.48	-7.37	36.68	0.58	0.51	0.56	1.22	1.25	1.59	2.31	26.74
Liberia	0.03	0.04	0.03	28.08	-39.73	0.05	0.06	0.03	0.09	0.10	0.20	5.36	104.37
Libya	0.08	0.10	0.12	26.84	27.05	0.12	0.14	0.14	0.26	0.21	0.27	-17.54	25.38
Madagascar	0.18	0.21	0.20	15.50	-5.51	0.28	0.30	0.23	0.29	0.34	0.32	18.82	-5.76
Malawi	0.37	0.39	0.40	6.53	2.89	0.56	0.57	0.47	0.79	0.88	0.92	11.93	4.33
Mali	1.77	1.14	0.50	-35.34	-56.08	2.71	1.65	0.59	1.61	1.84	1.65	14.29	-10.16
Mauritania	0.17	0.14	0.16	-18.93	15.02	0.26	0.20	0.18	0.19	0.19	0.16	-0.14	-18.99
Mauritius	0.43	0.45	0.45	3.97	1.78	0.66	0.64	0.53	0.60	0.71	0.70	19.12	-1.31
Morocco	1.92	2.16	1.71	12.59	-21.06	2.94	3.12	1.99	1.19	1.08	1.36	-9.58	26.36
Mozambique	0.89	1.04	1.10	17.67	5.38	1.36	1.51	1.29	1.75	1.86	2.38	6.41	27.53
Namibia	2.02	2.22	2.38	9.99	7.16	3.10	3.20	2.78	4.68	4.52	4.99	-3.56	10.36
Niger	0.19	0.18	0.10	-3.87	-43.59	0.29	0.26	0.12	0.32	0.35	0.37	8.03	5.75
Nigeria	4.89	5.59	10.11	14.27	80.79	7.50	8.07	11.81	1.46	1.43	1.54	-2.01	7.57
Rwanda	0.16	0.20	0.54	21.09	174.80	0.25	0.28	0.63	0.56	0.56	0.73	1.51	29.54
São Tomé & Príncipe	0.00	0.00	0.00	154.60	7.26	0.00	0.00	0.00	0.03	0.04	0.03	38.14	-12.05
Senegal	1.22	1.08	0.99	-11.53	-8.08	1.87	1.55	1.16	0.91	1.01	1.00	11.46	-0.75
Seychelles	0.02	0.03	0.04	27.66	41.93	0.04	0.04	0.05	0.15	0.13	0.12	-9.64	-6.42
Sierra Leone	0.17	0.04	0.04	-76.99	8.40	0.27	0.06	0.05	0.12	0.08	0.07	-32.89	-10.71
Somalia	0.04	0.04	0.04	-6.78	25.83	0.06	0.05	0.05	0.56	0.64	0.71	12.82	10.81
South Africa	21.30	23.35	24.50	9.64	4.93	32.66	33.71	28.64	8.09	8.57	11.93	5.87	39.18
South Sudan	0.00	0.00	0.00	n/a	n/a	n/a	n/a	n/a	0.25	0.53	0.51	n/a	n/a
Sudan	0.10	0.21	0.17	111.83	-14.94	0.15	0.30	0.20	0.23	0.33	0.32	39.52	-1.66
Swaziland - Eswatini	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Tanzania	1.65	1.43	1.50	-13.17	4.75	2.52	2.06	1.75	0.95	0.57	0.98	-40.48	73.15
Togo	0.61	0.60	1.23	-2.02	105.15	0.94	0.86	1.43	0.25	0.27	0.25	9.21	-7.54
Tunisia	1.16	1.02	1.10	-12.21	7.96	1.79	1.48	1.29	0.95	0.96	0.88	1.62	-8.35
Uganda	1.04	1.19	1.30	14.14	8.95	1.60	1.72	1.52	0.79	0.91	1.33	14.63	46.93
Zambia	1.43	1.59	1.95	11.00	22.79	2.19	2.29	2.28	4.39	5.12	5.21	16.51	1.85
Zimbabwe	2.64	1.21	1.66	-54.19	37.18	4.06	1.75	1.94	3.45	3.53	3.75	2.31	6.27
Total	65.21	69.27	85.56	6.23	23.51	100.00	100.00	100.00	60.17	61.77	71.03	2.65	14.99

Sources: Economist Intelligence Unit, Country Risk Service; International Monetary Fund (IMF), Direction of Trade Statistics database; IMF Direction of Trade Statistics Yearbook; and Afreximbank staff estimates.* Revised ** Estimates Exports do not necessarily equal imports as they are quoted on FOB and imports on CIF basis. n/a not available.

Country Share of Total Intra-African Imports (%)			Total Intra-African Trade			Growth Rate (%)		Country Share of Total Intra-African Trade (%)			Trade Balance Value (Exports – Imports)		
2016*	2017*	2018**	2016*	2017*	2018**	2017	2018	2016*	2017*	2018**	2016*	2017*	2018**
1.57	1.63	0.94	2.14	1.99	2.44	-7.41	22.85	1.71	1.51	1.56	0.26	-0.03	1.11
1.62	1.63	1.17	2.26	2.32	1.46	2.62	-37.00	1.81	1.77	0.94	0.31	0.32	-0.20
0.76	0.74	0.60	0.56	0.58	0.63	4.58	8.91	0.44	0.44	0.40	-0.35	-0.33	-0.22
7.92	6.35	6.33	6.71	4.77	5.60	-28.91	17.42	5.35	3.64	3.58	-2.82	-3.07	-3.39
1.22	1.47	1.40	1.61	3.12	1.31	94.17	-58.10	1.28	2.38	0.84	0.14	1.30	-0.67
0.31	0.31	0.25	0.25	0.23	0.27	-5.80	15.00	0.20	0.18	0.17	-0.13	-0.15	-0.09
1.37	1.46	1.21	1.19	1.29	1.29	8.48	0.05	0.95	0.98	0.82	-0.46	-0.51	-0.43
0.03	0.05	0.06	0.02	0.03	0.04	50.80	35.63	0.02	0.02	0.03	-0.02	-0.03	-0.04
0.09	0.12	0.12	0.07	0.09	0.12	26.77	30.73	0.06	0.07	0.08	-0.03	-0.06	-0.05
0.27	0.23	0.26	0.17	0.15	0.20	-11.68	34.25	0.13	0.11	0.13	-0.16	-0.13	-0.18
0.05	0.05	0.05	0.03	0.04	0.04	9.72	15.49	0.03	0.03	0.03	-0.03	-0.03	-0.04
10.14	9.55	11.85	8.63	9.62	14.74	11.44	53.25	6.88	7.34	9.41	-3.58	-2.18	-2.09
4.23	2.71	2.08	4.03	3.57	4.66	-11.36	30.32	3.22	2.73	2.97	-1.06	0.23	1.70
2.99	3.32	2.64	4.62	5.32	6.29	15.10	18.24	3.69	4.06	4.02	1.02	1.22	2.55
0.21	0.23	0.18	0.32	0.36	0.37	11.26	4.94	0.26	0.27	0.24	0.07	0.08	0.12
2.02	2.05	2.14	2.42	2.66	7.68	10.03	188.85	1.93	2.03	4.90	-0.01	0.13	4.64
0.21	0.22	0.24	0.57	0.50	0.44	-11.70	-12.45	0.45	0.38	0.28	0.32	0.23	0.09
0.06	0.09	0.05	0.04	0.06	0.04	53.57	-35.29	0.03	0.05	0.02	-0.03	-0.05	-0.03
0.64	0.94	0.44	1.75	2.04	1.80	16.38	-11.52	1.40	1.56	1.15	0.99	0.88	1.18
0.39	0.35	0.31	0.40	0.42	0.46	5.85	9.90	0.32	0.32	0.29	-0.08	-0.02	0.02
0.15	0.13	0.11	0.17	0.14	0.12	-14.80	-13.39	0.13	0.11	0.08	-0.01	-0.02	-0.03
1.44	1.76	1.60	2.60	3.11	3.65	19.79	17.46	2.07	2.37	2.33	0.87	0.94	1.38
0.37	0.45	0.53	0.73	1.14	1.45	56.53	27.20	0.58	0.87	0.93	0.28	0.59	0.70
0.07	0.05	0.03	0.07	0.07	0.05	-2.69	-24.33	0.06	0.05	0.03	-0.02	0.00	0.01
1.80	2.59	3.08	3.03	3.41	4.33	12.65	26.85	2.42	2.61	2.77	0.86	0.22	-0.04
2.03	2.03	2.23	1.60	1.60	2.07	0.01	28.93	1.28	1.22	1.32	-0.84	-0.90	-1.10
0.16	0.16	0.28	0.13	0.14	0.23	11.46	59.93	0.10	0.11	0.15	-0.06	-0.05	-0.17
0.43	0.35	0.38	0.34	0.31	0.39	-7.44	25.90	0.27	0.24	0.25	-0.18	-0.12	-0.15
0.47	0.55	0.45	0.47	0.55	0.52	17.53	-5.66	0.37	0.42	0.33	-0.10	-0.13	-0.12
1.31	1.43	1.30	1.16	1.27	1.32	10.21	3.89	0.92	0.97	0.85	-0.42	-0.49	-0.52
2.68	2.98	2.33	3.38	2.99	2.16	-11.67	-27.74	2.70	2.28	1.38	0.16	-0.70	-1.15
0.32	0.31	0.22	0.36	0.33	0.31	-8.86	-4.96	0.29	0.25	0.20	-0.03	-0.06	0.00
0.99	1.15	0.99	1.03	1.16	1.16	12.78	-0.11	0.82	0.88	0.74	-0.17	-0.26	-0.25
1.98	1.74	1.92	3.11	3.24	3.07	4.10	-5.30	2.48	2.47	1.96	0.73	1.08	0.35
2.91	3.02	3.35	2.64	2.91	3.48	10.20	19.57	2.11	2.22	2.22	-0.86	-0.82	-1.28
7.78	7.31	7.02	6.70	6.74	7.36	0.52	9.30	5.35	5.14	4.70	-2.67	-2.30	-2.61
0.54	0.57	0.52	0.51	0.53	0.47	3.69	-10.96	0.41	0.40	0.30	-0.14	-0.17	-0.27
2.43	2.32	2.17	6.36	7.02	11.65	10.52	65.84	5.07	5.36	7.44	3.43	4.16	8.56
0.92	0.91	1.03	0.72	0.76	1.27	5.93	67.00	0.57	0.58	0.81	-0.39	-0.37	-0.19
0.04	0.06	0.04	0.03	0.04	0.03	38.97	-11.80	0.02	0.03	0.02	-0.03	-0.03	-0.03
1.51	1.63	1.41	2.12	2.09	1.99	-1.73	-4.53	1.69	1.59	1.27	0.31	0.07	-0.01
0.24	0.21	0.17	0.17	0.16	0.17	-4.35	2.73	0.14	0.12	0.11	-0.12	-0.10	-0.08
0.20	0.13	0.10	0.30	0.12	0.12	-58.78	-4.44	0.24	0.09	0.07	0.05	-0.04	-0.03
0.94	1.03	0.99	0.60	0.67	0.75	11.58	11.60	0.48	0.51	0.48	-0.53	-0.60	-0.66
13.45	13.87	16.79	29.39	31.92	36.43	8.60	14.12	23.44	24.36	23.26	13.21	14.78	12.58
n/a	n/a	n/a	0.25	0.54	0.51	n/a	n/a	0.20	0.41	0.32	-0.25	-0.53	-0.51
0.39	0.53	0.45	0.33	0.53	0.50	60.74	-6.79	0.26	0.41	0.32	-0.14	-0.12	-0.15
n/a	n/a	n/a	0.00	0.00	0.00	n/a	n/a	0.00	0.00	0.00	0.00	0.00	0.00
1.58	0.92	1.38	2.60	1.99	2.48	-23.17	24.15	2.07	1.52	1.58	0.70	0.86	0.52
0.41	0.44	0.35	0.86	0.87	1.48	1.21	70.15	0.68	0.66	0.94	0.36	0.33	0.98
1.58	1.56	1.24	2.11	1.99	1.99	-6.00	0.04	1.68	1.51	1.27	0.22	0.06	0.22
1.31	1.47	1.88	1.83	2.10	2.63	14.35	25.38	1.46	1.60	1.68	0.25	0.28	-0.04
7.30	8.29	7.34	5.82	6.71	7.16	15.16	6.80	4.64	5.12	4.57	-2.97	-3.53	-3.27
5.74	5.72	5.28	6.10	4.74	5.42	-22.20	14.16	4.86	3.62	3.46	-0.81	-2.32	-2.09
100.00	100.00	100.00	125.38	131.04	156.58	4.51	19.49	100.00	100.00	100.00	5.03	7.50	14.53

Box 2.2 The Intra-African Trade Fair: Catalyst for Achieving the Goals of the African Continental Free Trade Agreement

On March 21, 2018, representatives of African governments, at the Extraordinary African Union Summit in Kigali, Rwanda, signed the African Continental Free Trade Agreement (AfCFTA), signalling the creation of an African single market and the Continental Customs Union. The AfCFTA is expected to double the share of intra-African trade relative to Africa's total trade from 11 percent in 2011 to 22 percent in 2022 by enhancing competitiveness at the industry and enterprise level by exploiting opportunities for scale production, continental market access, and improved allocation of resources and by dismantling a number of structural bottlenecks and barriers to cross-border trade and investment flows.

In addition to weak infrastructure, underdeveloped financial systems, and other factors, the lack of trade information is a major constraint to boosting regional trade. Most African countries have very limited knowledge about trade potential with neighbouring countries, and entrepreneurs have little information regarding the nature, size, and dynamics of African markets. To underscore this point, a recent study on regional value chains for leather and leather products, jointly commissioned by the Afreximbank, the United Nations Conference on Trade and Development, and the Commonwealth Secretariat, reveals that:

- Africa imports leather, further prepared after tanning, from India at a price that is double that at which Ethiopia exports the same input globally;
- Mauritius and Nigeria import leather products from Italy and Belgium at a much higher cost than that at which South Africa and Botswana export similar products globally;
- Kenya imports raw hides from New Zealand while Burundi exports the same product globally at a much lower price; and
- West African countries, on average, import meat products worth more than US\$3 billion per year from Argentina and Australia even though Mali, Chad, and Sudan could supply all the meat products required by the region.

The Afreximbank estimates that addressing the constraints posed by the lack of trade information could boost intra-African trade from 15 percent to 38 percent. Driven by its mandate and the AfCFTA, the Afreximbank, in line with its Intra-African Trade Strategy, launched the Intra-African Trade Fair (IATF) in December 2018 in partnership with the African Union and the Egyptian government with the aim of facilitating networking, information exchange, and cross-border trade. The purpose of the IATF, foreseen as a biennial event, is to create a pan-African trade platform for interaction among African entrepreneurs, improving knowledge about the African market and trade opportunities, and promoting the emergence of a large network of African entities and regional supply chains. More specifically, the IATF aims to:

- Bring together continental and global players to showcase and exhibit their goods and services and explore business and investment opportunities in Africa;
- Serve as a marketplace where buyers and sellers of goods and services in the context of intra-African trade can meet and explore business opportunities;
- Provide a platform for business to business/business to government exchanges, match-making, and development of business and investment opportunities;
- Facilitate the sharing of trade, investment, and market information among investors, small and medium-sized enterprises, the informal sector, and Africans in the diaspora, and identify solutions to address the challenges affecting intra-African trade;
- Create a platform for risk- and information-sharing among African financial institutions in support of intra-African trade;

- Promote discussions on topical issues affecting intra-African trade and provide practical and effective solutions; and
- Deploy multi-country and multi-company pavilions that will serve as one-stop shop for intra-African trade and investment opportunities in Africa.

Highlighting the importance of the IATF, Professor Benedict Oramah, President of the Afreximbank has noted that: *“The Intra-African Trade Fair is ushering in a new era for Africa; saying never again to the divisions imposed on us by history. The biennial Trade Fairs begin the process of reverse engineering the colonial legacy of divide and rule and actualizing the efforts to integrate on the ground and not just on paper as has been the case in the past. Linking buyers and sellers is critical for the successful execution of the AfCFTA, for what is the use of having an Agreement when African market players are not making trade and business deals amongst themselves.”*

The IATF was very successful, attracting more than 1,000 exhibitors from 45 countries and 26 multilateral institutions. The fair, themed “Intra-African Trade as an Engine for Development”, brought together more than 2,500 conference delegates and thought leaders who made concrete proposals for promoting intra-African trade around the harmonization of standards, integration of regional value chains and payment systems, among others. Exhibitions and networking opportunities among business and government representatives gave rise to 100 deals worth US\$32.6 billion. In addition, a virtual trade fair platform, hosting over 400 booths, launched in advance of the IATF, enabled online participation of buyers and sellers from across the continent and allows for continued exchanges between buyers and sellers. Overall, more than 7,000 interactions/enquiries were made on the platform during the fair. The second IATF, scheduled to be held in Kigali, Rwanda, is expected to be more extensive and to further catalyse trade and investment flows into Africa.



Chapter Three

Operations and Activities

3



Operations and Activities

3.1 OPERATIONS

In 2018, the Bank's operations and activities were carried out in line with the planned Budget and Work Programme derived from the Bank's fifth Strategic Plan covering 2017–21 and in the context of the major trade and economic developments discussed in Chapter 2.

3.1.1 Review of Lending Operations

During the year, the Bank intensified its lending operations in support of the growing number of member states and customers through a wide range of current and new innovative programmes and products.

African economies continued to recover and gather momentum in 2018 and, as a result, the Bank continued to wind down its Countercyclical Trade Liquidity Facility, which largely drove the Bank's lending operations in 2017. The facility is an emergency intervention facility, which was approved by the Board of Directors in December 2015 in response to the commodity price and terrorism-induced shocks experienced by many of the Bank's member states.

The gradual economic recovery meant that the demand for the Bank's facilities remained high. In this regard, the Bank's facility approvals increased by 56.52 percent from US\$7.93 billion in 2017 to US\$12.41 billion in 2018. In the same vein, total loans outstanding stood at US\$11.11 billion at the end of the year, up 31 percent from US\$8.48 billion at the end of 2017 (Figures 3.1 and 3.2). Guarantees and other contingent liabilities outstanding amounted to US\$858.01 million, an increase of 23.16 percent from US\$696.61 million in 2017. Accordingly, total loans and contingent liabilities at the end of 2018 amounted to US\$11.97 billion compared with US\$9.17 billion at the end of 2017.



The Bank's facility approvals increased by 56.52 percent to US\$12.41 billion in 2018."

3.1.1.1 Line of Credit Programme

Through the Line of Credit Programme (LOCP), the Bank provides funded and unfunded credit lines 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 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. 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.

During the year, the Bank's total approvals under the LOCP increased by 57.54 percent to US\$6.35 billion, up from US\$4.03 billion in 2017. As such, the programme accounted for more than 51 percent of total approvals in 2018. Outstanding loans under the programme reached US\$5.25 billion in 2018, up from US\$3.66 billion in 2017, representing an increase of 43.38 percent and accounting for 47.26 percent of total loans at end of the review period (Table 3.1 and Figure 3.3).

3.1.1.2 Syndications Programme

In addition to the LOCP, the Bank delivered substantial resources through its Syndications Programme, which 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 this programme amounted to US\$2.54 billion in 2018, up by 13.36 percent, making it the second-largest programme (at a share of 20.48 percent of the total approvals) after the LOCP. As a result of its activities in the syndications market, the Bank ranked second among mandated lead arrangers of syndicated loans in Africa in 2018, according to the Bloomberg League Table. This very strong performance of the Syndications Programme continued to cement the Bank's growing role as a proven leader in syndicated loans. This was further buttressed by the fact that, in 2018, the Bank led/co-led 19 syndicated transactions with a total value (including participation of other banks) of US\$9.56 billion, translating into US\$1.73 billion of outstanding loans under the programme (Table 3.1 and Figure 3.3).

Operations and Activities

3.1.1.3 Direct Financing Programme

Under the Direct Financing Programme, 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 Bank's support to African corporates under this programme strengthened during the year, with total approvals reaching US\$2.43 billion in 2018, up 84.54 percent compared with 2017, making it the third-largest programme by approvals. Total outstanding loans under the programme stood at US\$2.57 billion in 2018, 256.05 percent higher than in 2017. The programme accounted for 23.14 percent of the Bank's loan portfolio at the end of 2018 (Table 3.1 and Figure 3.3).

3.1.1.4 Export Development Programme

In line with the Industrialisation and Export Development strategic pillar, the 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 to foster the implementation of regional projects, including tradable infrastructure services.

The Bank approved facilities amounting to US\$471.15 million under the programme in 2018, representing a 340.33 percent increase from 2017. This increase reflects the Bank's drive towards industrialisation and export development in a bid to contribute to higher value-addition and export development in its member states. Transactions approved under the programme pertain to projects in various sectors, including special economic zones, oil and gas, and power. Outstanding loans under the programme stood at US\$311.57 million in 2018, up from US\$73.48 million in 2017. The programme accounted for 2.8 percent of the Bank's total loan portfolio during the year (Table 3.1 and Figure 3.3).

3.1.1.5 Receivables Purchase/Discounting Programme

The Receivables Purchase/Discounting Programme comprises a family of facilities involving the 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. Facilities operated under this programme are: (1) forfaiting, (2) invoice/receivables discounting, (3) factoring and receivables management, and (4) joint bill discounting/financing and refinancing.

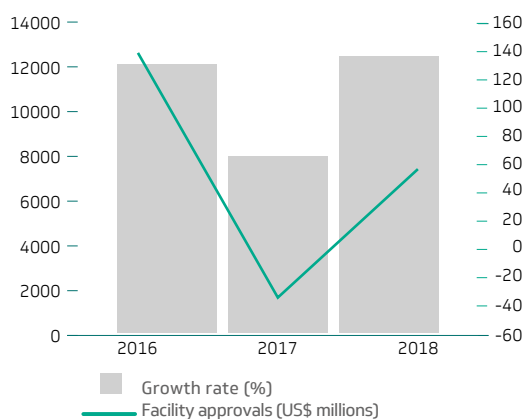
During the year, the Bank approved five transactions totalling US\$297.02 million under the programme, up from US\$29.35 million in 2017. This increase was mainly driven by two large transactions in the energy and transportation sectors in the West Africa region and reflected greater support by the Bank to African exporters and importers. Outstanding loans under the programme rose from US\$98.24 million in 2017 to US\$162.22 million in 2018, accounting for 1.46 percent of the loan portfolio (Table 3.1 and Figure 3.3).

3.1.1.6 Project Financing Programme

In addition to prioritising the use of Trade Finance Facilities, the Bank, through its Project Financing Programme also commits significant resources towards providing limited recourse financing in support of export projects, including mining, manufacturing and related projects, and infrastructure projects that facilitate exports or that generate traded infrastructure services, such as power, ports, telecommunications, among others. 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 investments in the export sector.

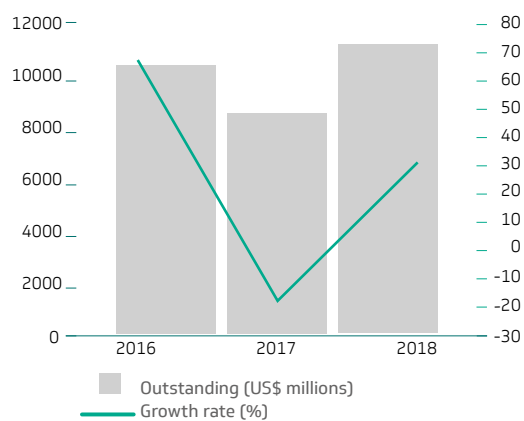
Under the programme, the Bank approved facilities amounting to US\$288.64 million in 2018 compared with US\$25 million in 2017. The share of the programme in terms of approvals increased from 0.32 percent in 2017 to 2.33 percent in 2018. Loans outstanding under the programme amounted to US\$246.67 million in 2018, up from US\$196.93 million in 2017. Activities under the programme accounted for about 2.22 percent of the total loan portfolio in 2018 compared with 2.32 percent in 2017 (Table 3.1 and Figure 3.3).

Figure 3.1 Afreximbank: Facility Approvals, 2016-18



Source: Afreximbank.

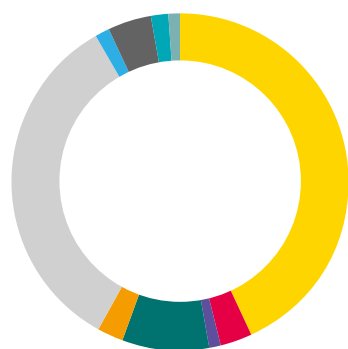
Figure 3.2 Afreximbank: Credit Outstanding as at December 31, 2016-18



Source: Afreximbank.

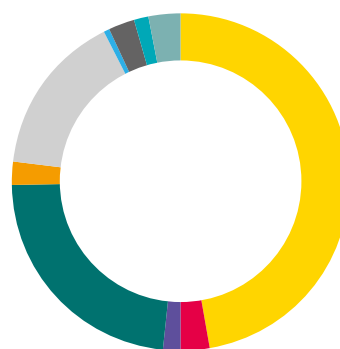
Figure 3.3 Afreximbank: Distribution of Outstanding Loans by Type of Programme, 2017-18

2017



43.18%	Line of Credit
2.94%	Note Purchase
1.16%	Receivables Purchase/Discounting
8.52%	Direct Financing
2.32%	Project-Related Financing
33.75%	Syndications
1.30%	Special Risk
4.33%	Future-Flow Pre-Financing
1.64%	Asset-Backed Lending
0.87%	Export Development

2018



47.25%	Line of Credit
3.02%	Note Purchase
1.46%	Receivables Purchase/Discounting
23.14%	Direct Financing
2.22%	Project-Related Financing
15.56%	Syndications
0.56%	Special Risk
2.50%	Future-Flow Pre-Financing
1.48%	Asset-Backed Lending
2.80%	Export Development

Source: Afreximbank.

Operations and Activities

Table 3.1 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Product/Programme, 2016-18

Type of Product/Programme	Approvals (US\$ millions)			Growth Rate (%)	
	2016	2017	2018	2016/17	2017/18
Line of Credit	8,008.00	4,030.65	6,350.01	-49.67	57.54
Note Purchase	0.00	75.00	26.22	-	-65.04
Receivables Purchase/Discounting	0.00	29.35	297.02	-	911.99
Direct Financing	1,934.50	1,320.41	2,436.65	-31.74	84.54
Project and Export Development Financing	70.00	25.00	288.64	-64.29	1054.56
Syndications ^{a)}	1,968.73	2,243.00	2,542.64	13.93	13.36
Special Country Risk ^{b)}	0.00	0.00	0.00	-	-
Future-Flow Pre-Financing	49.99	0.00	0.00	-100.00	-
Asset-Backed Lending	0.00	100.00	0.00	-	-100.00
Export Development Programme	0.00	107.00	471.15	-	340.33
Memorandum					
Country Programme	366.00	883.38	1191.34	141.36	34.86
Countercyclical Trade Liquidity Facility	-	-	-	-	-
Total	12,031.22	7,930.41	12,412.33	-34.08	56.52
Cumulative Totals^{d)}	48,698.18	56,628.59	69,040.92	16.28	21.92

Source: Afreximbank.

^{a)} Includes cofinancing and participations. Some syndicated transactions were reflected under the Project Finance and Export Development Programmes.

^{b)} Contingent liabilities ^{c)} Since Afreximbank began operations in September 1994. Note: Gaps represent infinity.

3.1.1.7 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.

The Bank approved US\$26.22 million under the Note Purchase Programme in 2018, down from US\$75 million in 2017. In terms of outstanding loans, at US\$336.15 million in 2018 (up from US\$249.26 million in 2017), the programme accounted for 3.02 percent of the total (Table 3.1 and Figure 3.3).

3.1.1.8 Special Risks Programme

The Special Risks Programme 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. No transactions were approved under the programme in 2018; outstanding loans remained unchanged at US\$61.88 million, accounting for less than 1 percent of the total portfolio (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 credit card or cheque receivables, tourism receivables, migrant remittances, royalties arising from bilateral air services agreements, overflight fees, and fishing royalties. In cases where other forms of collateral are not easily available, future flows debt offerings provide flexibility in financing difficult transactions.

There were no approvals under the programme in 2018; outstanding loans stood at US\$278.28 million in 2018, 24.19 percent lower than at the end of 2017, accounting for 2.5 percent of the Bank's loan portfolio in 2018 (Table 3.1 and Figure 3.3).

Share of Approvals by Type of Programme (%)			Outstandings (US\$ millions, end of period)			Growth Rate (%)		Share of Outstandings by Type of Programme (%)		
2016	2017	2018	2016	2017	2018	2016/17	2017/18	2016	2017	2018
66.56	50.83	51.16	5808.74	3662.12	5250.69	-36.95	43.38	56.31	43.18	47.25
0.00	0.95	0.21	159.80	249.26	336.15	55.98	34.86	1.55	2.94	3.02
0.00	0.37	2.39	127.13	98.24	162.22	-22.72	65.13	1.23	1.16	1.46
16.08	16.65	19.63	569.52	722.33	2571.86	26.83	256.05	5.52	8.52	23.14
0.58	0.32	2.33	122.05	196.93	246.67	61.35	25.26	1.18	2.32	2.22
16.36	28.28	20.48	3073.30	2862.26	1729.69	-6.87	-39.57	29.79	33.75	15.56
0.00	0.00	0.00	109.99	109.99	61.88	0.00	-43.74	1.07	1.30	0.56
0.42	0.00	0.00	303.73	367.09	278.28	20.86	-24.19	2.94	4.33	2.50
0.00	1.26	0.00	41.36	138.84	164.14	235.69	18.22	0.40	1.64	1.48
0.00	1.35	3.80	0.00	73.48	311.57	-	324.02	0.00	0.87	2.80
3.04	11.14	9.60	1070.14	1176.63	1381.55	9.95	17.42	10.37	13.87	12.43
0.00	0.00	0.00	5000.00	1600.00	0.00	-68.00	-100.00	48.47	18.87	0.00
100.00	100.00	100.00	10,315.62	8,480.54	11,113.15	-17.79	31.04	100.00	100.00	100.00

3.1.1.10 Asset-Backed Lending Programme

The Asset-Backed Lending Programme helps meet the growing demand by African entrepreneurs 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. No credit was approved under the programme in 2018; outstanding loans stood at US\$164.14 million (1.48 percent of the Bank's total portfolio) at the end of the reporting period (Table 3.1 and Figure 3.3).

3.1.1.11 Country Programme

The Bank developed the Country Programme to assist its member countries in peculiar circumstances not amenable to solutions offered by any other of the Bank's menu of products. The programme was designed to assist African countries undergoing economic difficulties or to support the economic development strategy of a country.

In 2018, the Bank approved US\$1,191.34 million in facilities for the three countries benefitting from the programme—Côte d'Ivoire, Sudan, and Zimbabwe. Key sectors supported through the programme in 2018, included, among others, agro processing, manufacturing, trade-enabling infrastructure, and financial services. Outstanding loans increased by 17.42 percent, reaching US\$1.38 billion in 2018 compared with US\$1.17 billion in 2017 (Table 3.1 and Figure 3.3).

57.54%

Increase in approvals under the Line of Credit Programme

Operations and Activities

Table 3.2 Afreximbank: Distribution of Loan Approvals and Outstandings by Sector, 2016–18

Sector Financed	Approvals (US\$ millions)			Growth Rate (%)	
	2016	2017	2018	2016/17	2017/18
Agriculture	249.75	368.22	170.77	47.44	-53.62
Energy	1,052.00	677.95	2,743.02	-35.56	304.61
Services	179.99	294.47	353.99	63.60	20.21
Metals and Minerals	170.00	60.86	0.00	-64.20	-100.00
Transportation	33.52	113.00	445.13	237.11	293.92
Manufacturing	140.18	1,210.26	363.07	763.36	-70.00
Telecommunications	119.50	105.00	1,024.10	-12.13	875.33
Financial Institutions	10,086.28	5,100.65	7,312.25	-49.43	43.36
Total	12,031.22	7,930.41	12,412.33	-34.08	56.52
Cumulative Totals^{a)}	48,698.18	56,628.59	69,040.92	16.28	21.92

Source: Afreximbank.

^{a)} Since Afreximbank began operations in September 1994.

Note: Gaps represent infinity.

3.1.2 Analysis of Transactions

3.1.2.1 Sectors Financed

The Bank's facility approvals to the financial services sector amounted to US\$7.31 billion, up from US\$5.1 billion in 2017. Financial institutions remained the main beneficiary sector of the Bank's lending operations during the year, consistent with the Bank's operating model, which continues to rely on trade finance intermediaries as key channels for product delivery. In line with the Bank's operating model, financial institutions accounted for the largest share (US\$5.49 billion, or 49.44 percent) of loans outstanding at the end of the year. Contingent obligations outstanding in favour of the financial services sector (largely letters of credit) amounted to US\$421.55 million.

Approvals in support of the energy sector increased sharply, by 304.61 percent, from US\$677 million in 2017 to US\$2,743 million in 2018 (accounting for 22.10 percent of total approvals). This reflects significant improvements in Africa's oil and gas and power sectors and greater commitment by the Bank to support this sector, in line with the Intra-African Trade and Industrialisation and Export Development pillars of its fifth Strategic Plan. Loans outstanding to the energy sector increased by 57.17 percent from US\$1.72 billion at the end of 2017 to US\$2.70 billion at the end of 2018.

Approvals to the telecommunications sector also rose significantly during the year, up from US\$105 million in 2017 to US\$1,024.10 million in 2018. Outstanding loans to the telecommunications sector rose by 137.65 percent to US\$778.31 million at the end of 2018.

Approvals for the transportation sector increased by 293.92 percent to US\$445.13 million. Outstanding loans under the sector rose by 11.94 percent to US\$310.69 million, accounting for 2.8 percent of the total portfolio.

The Bank's approvals in support of the manufacturing sector amounted to US\$363.07 million in 2018. Outstanding loans rose from US\$272.73 million at the end of 2017 to US\$707.27 million at the end of 2018, accounting for 6.36 percent of the total. The widening pace of disbursements reflected the Bank's focus on easing access to finance for export manufacturing.

In 2018, approvals to the services and agriculture sectors stood at US\$353.99 million and US\$170.77 million, respectively. Outstanding loans to the services sector amounted to US\$172.05 million at the end of 2018, while outstanding loans to the agriculture sector stood at US\$454.35 million (Table 3.2 and Figure 3.4).

Share of Approvals by Sector (%)			Outstandings (US\$ millions, end of period)			Growth Rate (%)		Share of Outstandings by Sector (%)		
2016	2017	2018	2016	2017	2018	2016/17	2017/18	2016	2017	2018
2.08	4.64	1.38	412.33	633.89	454.35	53.73	-28.32	4.00	7.47	4.09
8.74	8.55	22.10	1,633.98	1,720.48	2,704.28	5.29	57.18	15.84	20.29	24.33
1.50	3.71	2.85	287.97	358.03	172.05	24.33	-51.95	2.79	4.22	1.55
1.41	0.77	0.00	175.85	23.66	491.97	-86.55	1979.51	1.70	0.28	4.43
0.28	1.42	3.59	318.69	277.56	310.69	-12.91	11.94	3.09	3.27	2.80
1.17	15.26	2.93	146.58	272.73	707.27	86.06	159.33	1.42	3.22	6.36
0.99	1.32	8.25	275.04	327.50	778.31	19.07	137.65	2.67	3.86	7.00
83.83	64.32	58.91	7,065.18	4,866.68	5,494.23	-31.12	12.89	68.49	57.39	49.44
100.00	100.00	100.00	10,315.62	8,480.54	11,113.15	-17.79	31.04	100.00	100.00	100.00

3.1.2.2 Beneficiary Institutions

Credit approvals to financial institutions increased by 37.48 percent from US\$5.10 billion in 2017 to US\$7.01 billion in 2018, reflecting the Bank's continued support to the sector through leveraging on trade finance intermediaries. Approvals to financial institutions accounted for 56.49 percent of the total.

In terms of approvals, the share of facilities approved for governments, parastatals, and corporates increased significantly. Most notably, approvals for governments and parastatals rose by 678.15 percent to US\$1.16 billion in 2018, accounting for 9.40 percent of total approvals. This increase reflects increased financing made available by the Bank to support intra-African trade in infrastructure equipment and engineering services. In addition, the Bank approved US\$4.23 billion to corporates in 2018, 57.96 percent higher than in 2017. Corporates accounted for 34.10 percent of total approvals in 2018, slightly higher than in 2017. Outstanding loans also rose significantly, by 61.16 percent, from US\$2.80 billion in 2017 to US\$4.51 billion in 2018, accounting for more than 40 percent of the total (Table 3.3).

3.1.2.3 Direction-of-Trade Financing

Mixed directional (both extra- and intra-) African trade accounted for the largest share of approvals and outstanding loans at US\$10.09 billion (81.34 percent of the total approvals) and US\$7.98 billion (71.82 percent of the total portfolio) in 2018, respectively. The promotion of intra-African trade continued to spearhead the Bank's fifth Strategic Plan and, in support of this strategic pillar, the Bank approved US\$1.83 billion for intra-African trade transactions in 2018, albeit 25.63 percent less than in 2017, mainly reflecting a large one-off transaction approved in 2017 and partly disbursed in 2018. Notwithstanding the decrease in approvals, total outstanding loans for intra-African trade amounted to US\$2.76 billion in 2018 (about 300 percent higher than in 2017) and accounted for about 25 percent of the Bank's portfolio. The share of intra-African trade approvals will continue to increase over the medium term as the Bank's strategy of promoting intra-regional trade across the continent continues to gain momentum—a testament to the Bank's growing relevance as a key financier of intra-African trade transactions (Table 3.4).

Operations and Activities

Table 3.3 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Beneficiary Institution, 2016-18

Type of Beneficiary Institution	Approval (US\$ millions)			Growth Rate (%)	
	2016	2017	2018	2016/17	2017/18
Corporate/Government Agency/Parastatal	1,358.21	2,679.76	4,232.85	97.30	57.96
Financial Institutions	10,236.28	5,100.65	7,012.25	-50.17	37.48
Government	436.73	150.00	1,167.23	-65.65	678.15
Total	12,031.22	7,930.41	12,412.33	-34.08	56.52
Cumulative Totals^{a)}	48,698.18	56,628.59	69,040.92	16.28	21.92

Source: Afreximbank.

^{a)} Since Afreximbank began operations in September 1994.

3.1.2.4 Transaction Size and Other Transaction Features

In 2018, the Bank approved 135 transactions compared with 82 and 57 in 2017 and 2016, respectively. This increase reflects the Bank's continued support to African economies in a context of tightening financing conditions globally, with international commercial banks scaling down their exposure to African counterparts. The average size of approved transaction decreased slightly from US\$96.7 million in 2017 to US\$91.9 million in 2018 (Figure 3.5).

During the year, the average maturity of approved transactions increased slightly to 35.34 months compared with 33.6 and 35.6 months in 2017 and 2016, respectively, and the standard deviation of approved deals increased slightly to 27.91 months in 2018 from about 24.4 months in 2017 (Figure 3.6).

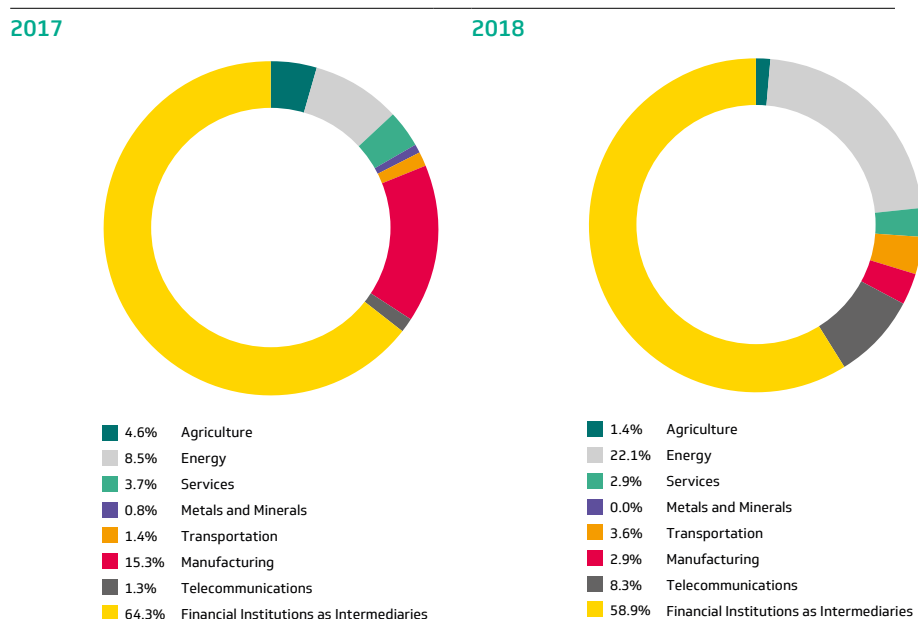
3.1.2.5 Leveraging Financing into Africa

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 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 2018, the Bank was the mandated lead/co-arranger for 19 syndicated transactions totalling US\$9.56 billion (including the participation of other co-lenders) compared with US\$3.11 billion in 2017. The Bank's share in these syndicated transactions amounted to US\$2.76 billion, reflecting a leverage ratio of 3.5 (US\$3.5 leveraged into the continent for each US\$1 committed by the Bank), up from 3.0 in 2017. In view of its increased syndications activities, the Bank ranked second among mandated lead arrangers and bookrunners of syndicated loans in Africa in 2018, according to the Bloomberg League Table.

Share of Approvals by Type of Beneficiary Institution (%)			Outstandings (US\$ millions, end of period)			Growth Rate (%)		Share of Outstandings by Type of Beneficiary Institution (%)		
2016	2017	2018	2016	2017	2018	2016/17	2017/18	2016	2017	2018
11.29	33.79	34.10	2,725.14	2,802.31	4,516.32	2.83	61.16	26.42	33.04	40.64
85.08	64.32	56.49	7,412.73	5,053.17	5,810.12	-31.83	14.98	71.86	59.59	52.28
3.63	1.89	9.40	177.75	625.07	786.71	251.66	25.86	1.72	7.37	7.08
100.00	100.00	100.00	10,315.62	8,480.54	11,113.15	-17.79	31.04	100.00	100.00	100.00

Figure 3.4 Afreximbank: Distribution of Loan Approvals by Sector, 2017-18



Source: Afreximbank.

Operations and Activities

Table 3.4 Afreximbank: Distribution of Loan Approvals and Outstandings by Trade Direction, 2016-18

Trade Direction	Approvals (US\$ millions)			Growth Rate (%)	
	2016	2017	2018	2016/17	2017/18
Intra-African ^{a)}	283.35	2,468.83	1,836.14	771.30	-25.63
Extra-African ^{b)}	316.77	148.76	479.97	-53.04	222.65
Mixed-Directional ^{c)}	11,431.10	5,312.82	10,096.22	-53.52	90.04
Total	12,031.22	7,930.41	12,412.33	-34.08	56.52
Cumulative Totals^{d)}	48,698.18	56,628.59	69,040.92	16.28	21.92

Source: Afreximbank.

^{a)} Related to transactions that are expected to have impact exclusively on intra-African trade.

^{b)} Related to transactions that are expected to have impact exclusively on extra-African trade.

^{c)} Related to transactions that are expected to have impact on both intra- and extra-African trade (mixed-directional trade).

^{d)} Since Afreximbank began operations in September 1994.

3.1.3 Other Major Operational Highlights

3.1.3.1 Trade Facilitation Programme

To drive the Bank's Trade Finance Leadership strategic pillar, the Bank introduced the Afreximbank Trade Facilitation (AFTRAF) Programme in 2018, with the objective of enhancing the confidence of counterparties in the settlement of international trade transactions for critical imports into Africa to support intra-African trade and facilitate the purchase of equipment for production of export goods. The programme is a response to cuts in credit and letter of credit confirmation lines available to African financial institutions as a direct consequence of rising compliance costs stemming from more stringent regulatory scrutiny of international banking activities. The AFTRAF will also allow the Bank to boost its intervention capability by expanding correspondent banking relationships and strengthening its trade services operations. The Bank's aim is to ensure that all its member countries have access to correspondent banking services.

3.1.3.2 Project Preparation Facility

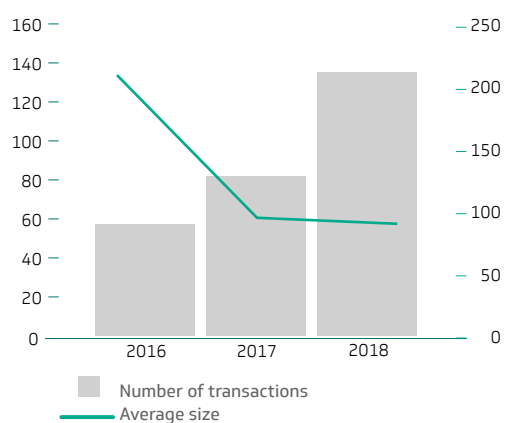
During a ceremony held on 8 November 2018 in Johannesburg, South Africa, the Bank launched a Project Preparation Facility on the sidelines of the Africa Investment Forum. The purpose of the facility is to provide technical and financial support for the preparation and development of projects from conceptual to bankability stage (the point at which such projects can attract interest from equity investors and debt financiers). The facility will support transactions that seek to implement projects that support export growth and diversification, facilitate the assimilation of African commodities into global value chains, or increase the volume and flow of tradeable goods and services along Africa's trade corridors, among others. The facility is now available for use by interested parties with qualifying projects.

3.1.3.3 Pan-African Payment and Settlement Platform

In 2018, progress was made towards the implementation of the Bank's Pan-African Payment and Settlement Platform, and the design of the systems to operate the platform was finalised. In association with the West African Monetary Institute, the Bank organised workshops in six countries in the West Africa subregion to introduce the platform and gather feedback from participants, which included representatives of central banks, commercial banks, insurance companies, and other financial services companies.

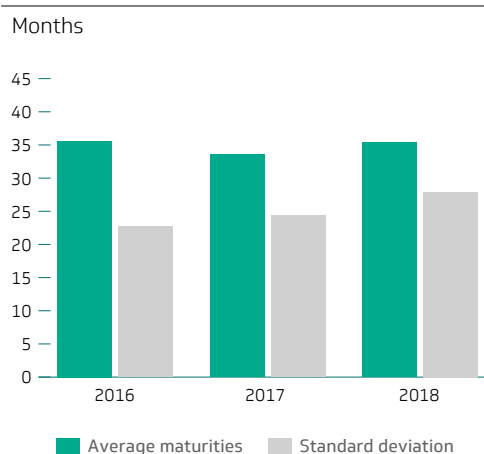
Share of Approvals by Trade Direction (%)			Outstandings (US\$ millions, end of period)			Growth Rate (%)		Share of Outstandings by Trade Direction (%)		
2016	2017	2018	2016	2017	2018	2016/17	2017/18	2016	2017	2018
2.36	31.13	14.79	799.89	692.18	2,766.65	-13.47	299.70	7.75	8.16	24.90
2.63	1.88	3.87	284.73	329.39	365.48	15.69	10.96	2.76	3.88	3.29
95.01	66.99	81.34	9,231.00	7,458.97	7,981.02	-19.20	7.00	89.49	87.95	71.82
100.00	100.00	100.00	10,315.62	8,480.54	11,113.15	-17.79	31.04	100.00	100.00	100.00

Figure 3.5 Afreximbank: Number and Average Size of Approved Transactions, 2016-18



Source: Afreximbank.

Figure 3.6 Afreximbank: Average Maturity and Standard Deviation of Approved Transactions, 2016-18



Source: Afreximbank.

Operations and Activities

3.2 ACTIVITIES

3.2.1 Treasury Activities, Risk Management, and Compliance

3.2.1.1 Treasury Activities

In line with the Bank's funding and investment strategies for 2018, as well as its fifth Strategic Plan, the main treasury activities conducted during the year included funding the Bank's requirements as approved by the Board in December 2017, hedging the Bank's non-US dollar exposures, investing any surplus and/or strategic liquid resources, and enhancing the Treasury Department's operating systems.

In 2018, the Bank mobilised about US\$4.2 billion from diverse sources, in line with the funding plan approved by the Board. This amount excludes facilities that were concluded during the year, but not utilised. The Bank raised US\$1.7 billion under the Central Bank Deposit Programme, which targets surplus foreign exchange reserves of African central banks; about US\$355 million from bilateral lines; and US\$125 million from non-central bank African institutions as deposits. The proportion of treasury liabilities raised in Africa by the Treasury Department's Africa Resources Mobilisation Unit grew to 40.5 percent in 2018 from 37.5 percent in 2017. US\$924 million was raised from development finance institutions, export credit agencies, and money market lines. In addition to these various fundraising activities, the Bank concluded three notable transactions in 2018—a club deal focusing on Korea, a club deal focusing on the Middle East, and a private placement and an international public bond issue under the Bank's Euro Medium-Term Note (EMTN) Programme.

The US\$160 million Korea-focused club deal, which was the first for the Bank in the Korean market, was meant to buttress the Bank's efforts to diversify its sources of funding by geography, instrument, and investor base. Despite being a debut facility for the Bank in this market, the facility was oversubscribed, with four Korean banks participating.

In a bid to further enhance the diversification of its liabilities, the Bank closed an equally successful club deal focused on the Middle East. This was the second time a facility of this nature was arranged for the Bank in the Middle East, following one concluded in 2014. Banks in the Middle East affirmed their confidence in the Bank, as they extended the maturity of the facility from two to three years. A total of six banks participated in the club deal, which raised US\$290 million.

In 2018, the Bank also tapped the international debt capital markets by issuing a five-year US\$500 million note through its EMTN Programme. The EMTN Programme was updated between April and May, culminating in a very successful road show that covered the Far East (Hong Kong Special Administrative Region

and Singapore); mainland Europe (Amsterdam, Frankfurt, and Zurich); and the United Kingdom (London). The feedback from investors during the road show was very positive across all markets. In October 2018, under favourable global financial markets conditions, the five-year US\$500 million transaction was launched. The issue was allocated to European, UK, Middle Eastern, and Asian investors, across both global and developing markets portfolios, demonstrating the Bank's global credit profile. The competitive pricing in a difficult market is testimony to the continued investor confidence in the Bank's credit strength and the Bank's strong investor relations.

The main maturities that the Bank repaid during the first half of 2018 included US\$60 million in development finance institution/export credit agency maturities, a US\$136 million bilateral loan, a US\$500 million bond, and a US\$500 million Central Bank Deposit Programme deposit. During the second half of the year, the Bank repaid US\$231 million in bilateral facilities, about US\$335 million in development finance institution/export credit agency facilities, and a US\$450 million matured syndicated loan.

During the review period, the Bank's Treasury Department 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 entered into by the Bank in 2018 yielded a competitive cost, well below the funding cost in the Bank's functional currency.

As part of its liquidity management process, the Bank also placed funds in liquid short-term investment instruments with investment-grade-rated counterparties approved by the Board of Directors. As at the end of 2018, a total of US\$1.31 billion was placed with a number of approved counterparties, and approximately US\$684 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 2018, the Bank intensified its marketing efforts meant to help raise resources from Africa under its Africa Resources Mobilisation Initiative. The Central Bank Deposit Programme was marketed to new central banks in its member countries. Also, non-central bank African institutions were targeted for deposits. This translated into a total of US\$1.8 billion raised from Africa in 2018. Furthermore, significant progress was made under the Local Currency Funding Programme project, aimed at raising local currency to fund customers in the same local currency. In addition, the Bank concluded most of the documentation of a Medium-Term Note Programme in one of the selected pilot markets, which should lead to the listing of notes and eventual debut issue in 2019, subject to the availability a significant asset pipeline.



Operations and Activities

3.2.1.2 Risk Management

The acceptance of risk is an integral part of the Bank's business, and management of that risk is crucial to the Bank's continuing profitability and fulfilment of its mandate and strategic goals. Risk governance, policies, processes, and systems are essential components of an effective risk management framework. During 2018, the Bank continued to implement key initiatives aimed at strengthening and enhancing the Bank's risk management framework, including (1) the comprehensive review and enhancement of the Risk Management Policies and Procedures; (2) ensuring compliance with the Bank's approved Risk Appetite Statement; (3) implementation of operational risk management tools, including Risk Control Self Assessments and Key Risk Indicators; (4) strengthening risk management capacity through recruitment of additional staff; (5) continued automation of risk management processes; and (6) management and recovery of non-performing facilities.

During the review period, the Bank operated within its risk appetite across the various enterprise-wide risk types and continued to assess its risk management capabilities to ensure that they are fit-for-purpose and in line with its operating environment and strategic objectives.

3.2.1.3 Compliance Processes

In 2018, the Bank's Executive Management approved a review and update of the compliance framework, given the increase in new products and services being offered by the Bank. The processes included (1) engaging the services of an external consultant to perform an in-depth review of the current framework against best practice to recommend areas of enhancement, (2) establishing an internal ad-hoc committee to review the outcome of the consultant report, and (3) upgrading the function into a fully-fledged department. The outcome of the review process showed that, while the Bank's current compliance framework is robust, it also requires continuous review and resourcing, given the Bank's ongoing business expansion, diversification, and growth.

Under the Anti-Money Laundering Framework, the department undertook the following activities in 2018: (1) Training: All Bank staff participated in the annual compliance training event, which was facilitated by experts from the Federal Reserve Bank of New York. The Bank also conducted an anti-money laundering and anti-bribery and anti-corruption training for a number of resident service providers based in the regional branch offices; (2) Financial crime risk assessments: The Bank's relationships were assessed for financial crimes. All risk areas were identified, and measures were put in place to ensure that the risks were adequately mitigated in line with the Bank's Enterprise Risk Management Framework; and (3) Review and updating of policies and procedures: The Governance and Compliance Department updated the Bank-wide Corporate Governance Charter to reflect the changes and amendments that were made to the Bank's Board committees.

Other key initiatives during 2018 include (1) MANSA (the centralised African Customer Due Diligence Repository Platform): This was officially launched on 12 July 2018 on the sidelines of the Bank's Annual Meetings held in Abuja, Nigeria. The Bank planned awareness-raising exercises to ensure that more contributors and subscribers were onboarded to the platform; (2) Automating compliance processes: 2018 saw the Bank upgrading its assessment process by implementing the SAS compliance Anti-Money Laundering and Customer Due Diligence Solution as well as the Swift Lite Sanctions screening, which were integrated into the Bank's onboarding and payment systems; (3) Customer Due Diligence and Corporate Governance Forum: The Bank held the forum in Casablanca, Morocco, on the sidelines of the annual Structured Trade Finance Workshop.

3.2.2 Shareholders' Matters

Shareholders held their 25th Annual General Meeting on 14 July 2018 in Abuja, Nigeria. At the meeting, they approved the Annual Report and Financial Statements, together with the Declaration and Distribution of Dividends for the year ended 31 December 2017, as recommended by the Board of Directors. They also approved the appointment of Price Waterhouse Coopers, Zimbabwe, as auditors for the Bank for the 2018 financial year, replacing Deloitte and Touche, Ghana, whose prescribed term had come to an end; and re-appointed KPMG, Egypt, as joint external auditors for 2018. In addition, shareholders were updated on the status of implementation of the ongoing equity mobilisation exercise, as well as the various initiatives for optimising the Bank's capital, including loan asset distribution activities (on funded and unfunded basis), credit enhancement of the callable capital, and a Capital Protection Facility under development.

The Annual General Meeting activities also included a programme of seminars under the theme "Powering Africa through Regional Integration", a meeting of the Bank's Advisory Group on Trade Finance and Export Development under the theme "From Trade Finance to Trade Development Finance", and a trade exhibition and investment forum under the theme "Investment within ECOWAS". His Excellency Muhammadu Buhari, president of Nigeria, and His Excellency Cyril Ramaphosa, president of South Africa, delivered keynote addresses at the event. President Buhari commended the Bank's dynamism and tenacious leadership that proved that Africans could come together to build something meaningful. President Ramaphosa stressed the fact that the African Continental Free Trade Area (AfCFTA) will provide the integrated and diversified markets that will unlock its full productive capacity.

Various side events were also held during the Annual General Meeting week, including the launches of the Bank's 25th Anniversary Book, the Africa-India Trade report, and the African Customer Due Diligence Repository Platform (MANSA); the unveiling of the plaque of the Bank's certification centre; the

Ecobank-Africa Forum; a roundtable organised by the Nigerian Export-Import Bank; and a seminar organised by the Initiative for Global Development on the theme "Setting the Scene: Unlocking Agriculture's Economic Potential in ECOWAS Countries". Various signing ceremonies of facilities, co-financing framework agreements, and memoranda of understanding also took place during the week.

Another highlight of the Annual General Meeting week was the celebration of the Bank's Silver Jubilee under the theme "Celebrating the Past, Shaping the Future". 13 July 2018 was fully dedicated to this important milestone, with several presentations made in line with the theme, as well as a special gala dinner at which the Bank's highest award, the Gold Founders' Award, was presented to the second president of the Bank, Mr. Jean-Louis Ekra. The dinner witnessed many cultural displays, including the performance of a carnival troupe from Cape Verde. A ground breaking for the construction of the anglophone West Africa regional branch office, on land donated by the government of Nigeria, was also held on the sidelines of the Annual General Meeting.

In line with the Bank's equity mobilisation efforts in 2018, six new shareholders joined the Bank—Burundi, Eritrea, Morocco, and South Sudan in Class A; and Energeia of Angola and Public Investment Corporation of South Africa in Class B. As a result, the number of the Bank's shareholders increased to 150 in 2018, up from 145 in 2017. During the course of the year, one Class B shareholder, Alex Bank of Egypt, disposed of its total shareholding of 1,000 Class B Shares to five other Egyptian Class B shareholders—the National Bank of Egypt, Banque du Caire, Bank Misr, the Export Development Bank of Egypt, and the Arab Investment Bank. The six new shareholders acquired 3,201 shares, bringing the total number of shares subscribed at the end of 2018 to 116,210 with a nominal value of US\$1.16 billion, up from 107,687 shares with a nominal value of US\$1.08 billion at the end of 2017.



Six new shareholders joined the Bank in 2018, including Burundi, Eritrea, Morocco, and South Sudan in Class A."

Box 3.1 FEDA—A New Instrument for Accelerating Africa's Export Growth and Diversification

Since its establishment in 1993, the Afreximbank (the Bank), in its role as a multilateral finance institution, has provided funded and unfunded resources to African financial institutions and corporate entities. Its lending activities—whether direct, or through trade finance intermediaries (regional and local African banks)—have helped foster cross-border trade and promote the development of various economic sectors across Africa. The Bank has also been instrumental in mobilising trade and project finance into the continent by catalysing foreign direct investment in critical sectors.

To expand its offerings to include vital equity investments, the Bank, in 2018, created the Fund for Export Development in Africa (FEDA). In line with the Bank's mandate to promote intra- and extra-African trade, the aim of FEDA is to bridge Africa's equity funding gap, estimated at about US\$110 billion. FEDA will create an ecosystem for investment entities and other financial institutions with an interest in investing in Africa, and will complement two of the Bank's key strategic pillars—that is, Intra-African Trade and Industrialization and Export Development. The ability to provide equity financing to key companies in the value chain of critical industries and sectors will boost the Bank's volume of business as well as its success in delivering on its development priorities.

FEDA's long-term objective is to provide equity capital and related financial, non-financial, and support services to operators in Africa's tradables and support sectors, with emphasis on activities that will promote and facilitate intra-African trade and value-added exports and promote economic development. As such, FEDA will deviate from the prevalent private equity model, which traditionally focuses on risk and reward. With its aim to foster foreign direct investment inflows into the continent, FEDA will leverage on the role the Bank has played in mobilising trade finance into Africa.

FEDA is being set up as a wholly-owned subsidiary of the Bank that will implement the Bank's Equity Investment Programme. With an initial budget of US\$100 million, its investments will span across all market segments albeit with a focus on African small and medium-sized enterprises, given their substantial funding shortages. FEDA will also invest in mature companies and start-up businesses where there is a gap in the marketplace and where investments have a high level of additionality. In line with the Bank's strategic plan, FEDA will focus on the sectors with the highest developmental impact on the Bank's member states, including agribusiness, consumer goods and retail, entertainment, financial institutions, healthcare, manufacturing, technology, tourism, tradable services, transportation and logistics, and travel.



Operations and Activities

3.2.3 Meetings and Cooperation

During 2018, consistent with its strategic objectives, the Bank organised and participated in several meetings, seminars, conferences, and workshops, as highlighted below.

3.2.3.1 Events Organised by the Bank

Intra-African Trade Fair

On the sidelines of the African Union summit held in March 2018, in Kigali, Rwanda, Afreximbank, the African Union, and the government of Egypt signed the hosting agreement of the first-ever Intra-African Trade Fair (IATF). The agreement was signed by Professor Benedict Oramah, president of the Bank; His Excellency Albert Muchanga, African Union Commissioner for Trade; and Ms. Sherine El Shorbagy, Chief Executive Officer of the Export Development Authority of Egypt.

In May 2018, the Bank hosted a conference to announce the arrangements made for the 11–17 December 2018 inaugural IATF in Cairo, Egypt. Similar conferences were held in Côte d'Ivoire, Kenya, Nigeria, South Africa, and Uganda.

The inaugural IATF, which was organised in collaboration with the African Union and hosted by the government of Egypt, attracted 1,080 exhibitors, with 45 countries having pavilions. More than 580 companies were accommodated in the country pavilions and 375 were accommodated in separate private sector stands. In addition, 36 exhibitors participated as part of the creative industries segment.

Egypt and Nigeria held special “Country Day” events to showcase business and investment opportunities in their countries. During the IATF, more than 100 deals valued at US\$32.6 billion were concluded, the majority of which were in the industrialisation/export manufacturing, power, and financial services sectors.

The IATF conference, which ran alongside the trade fair, featured 42 sessions with 152 high-level speakers. The Bank also launched a Virtual Trade Fair Platform during the event. The platform attracted 700 total registrations and was accessed more than 7,000 times for retrieving product information and market resources. At the end of the fair, it was announced that Kigali, Rwanda, would host the next IATF in 2020.

Founders' Day

On 12 May 2018, the Bank hosted its Founders' Day event to commemorate the 8 May 1993 signing of the Bank's Establishment Agreement. The event, which will be held annually, marked the Bank's 25th anniversary and attracted more than 400 guests comprising Bank staff, government representatives, members of the diplomatic corps, business leaders, and other stakeholders from Egypt, the rest of Africa, and beyond. The

event paid tribute to the founders of the Bank, including its former presidents, and recognised the visionary leadership that was instrumental to the creation and development of the Bank.

Structured Trade Finance Seminar

The Bank's 18th annual Structured Trade Finance Seminar was held in Casablanca, Morocco, 7–9 November 2018. The objective of the seminar was to equip African financiers of various backgrounds with the knowledge required to structure bankable trade and trade-related project finance transactions. Strengthening the capacity of the Bank's partners and clients is crucial for reducing the widening trade finance gap across the continent and to support Africa's growing international trade.

The event ended with a one-day specialised workshop on agency and syndicated loans. The workshop was in line with the Bank's strategy to actively promote syndicated lending in Africa as a result of the growing need to leverage capital into the continent. It was stressed that the Bank is working with local, regional, and international banks, and development finance institutions in providing syndicated loan solutions to the continent's borrowers.

Pan-African Private Sector Trade and Investment Committee

On 19 October 2018, in Addis Ababa, the Bank and the African Union co-hosted an event that re-launched the Pan-African Private Sector Trade and Investment Committee (PAFTRAC). The purpose of the committee is to serve as an advocacy platform to support the implementation of the AfCFTA and to enhance the role of the African private sector in formulating trade and investment policy, including trade negotiations. The committee's Secretariat is hosted by the Bank.

PAFTRAC will be driven by a group of leaders comprising chief executives of leading African businesses and financial institutions and representatives of regional African business councils and chambers of commerce, and will include representatives of African policy and research institutions. PAFTRAC is set to enhance the continent's integration into the global economy and contribute to the transformation of African economies in line with the African Union's Agenda 2063.

MANSA

Following the Bank's establishment of the MANSA platform to serve African financial institutions, corporates, and small and medium-sized enterprises, the Bank organised a technical workshop in Cairo, Egypt, on 27 September 2018. The objective of the workshop was to provide African central bank officers with the required skills to enhance their role as supervisory organs for financial institutions and good governance administrators. The platform, which provides authenticated information about

entities in Africa, is the first digital customer due diligence platform to address the Know-Your-Customer challenges confronting African businesses.

Babacar Ndiaye Lecture Series

On the sidelines of the 2018 Annual Meetings of the World Bank Group and International Monetary Fund held in Bali, Indonesia, the Bank organised the second edition of the Babacar Ndiaye Lecture on 13th of October 2018. The theme of the 2018 lecture was “Global Power Disequilibrium, Trade Wars and Implications for Africa”, with former Nigerian President Olusegun Obasanjo and the leading development economist Professor Jeffrey Sachs as keynote speakers. The Babacar Ndiaye Lecture series seeks to honour Dr. Ndiaye, who, as president of the African Development Bank from 1985 to 1995, played a critical role in the creation of the Afreximbank, in addition to his major contributions to Africa’s economic development. Key participants attending the session included leaders of African and global banks, development finance institutions, and the business community, as well as political leaders, policymakers, and academicians.

Afreximbank Trade Facilitation Programme

Delegations from 24 Egyptian banks attended, on 27 August in Cairo, a session organised by the Bank to present the AFTRAF (as mentioned above, a new Bank programme to improve access to trade finance). The programme was launched mainly in response to increasingly stringent compliance and regulatory requirements imposed by international banks on African banks for letter of credit confirmation lines, and is structured to enhance the confidence of counterparties in the settlement of international trade transactions for intra- and extra-African trade and to improve correspondent banking relationships.

3.2.3.2 Events Organized by Other Parties

African Continental Free Trade Area

A Bank delegation led by the president attended the AfCFTA Summit organised by the African Union and held in Kigali, Rwanda during 17–21 March 2018. The summit was a major milestone in Africa’s integration, as 44 African countries signed up to a historic trade agreement, paving the way for an open market for goods and services in Africa.

During the summit, the Bank’s delegation participated in the main session as well as the side events and bilateral meetings. Speaking during a special luncheon for heads of states and delegates attending the signing of the agreement to launch the AfCFTA, the president announced that the Bank will disburse about US\$25 billion dollars in support of intra-African trade during the five years ending in 2021 under the Intra-African

Trade pillar of the Bank’s fifth Strategic Plan. The president added that the Bank’s Intra-African Trade pillar drew inspiration from the African Union’s Action Plan for Boosting Intra-African Trade and the Action Plan for Accelerated Industrial Development in Africa.

In addition, following a submission of a bid by the Bank during the event, the 31st Ordinary Session of the Assembly of Heads of States and Government held in Nouakchott, Mauritania, favourably considered the bid for the Bank to become an accredited member of the African Union. The accreditation came into effect in January 2019. In considering the Bank’s application, African leaders recognised the Bank’s contribution towards the development of Africa through the promotion and diversification of trade. Only two other institutions—the African Development Bank and the United Nations Economic Commission for Africa—have been accredited to the African Union.

Annual Meetings of the African Development Bank

In May 2018, a delegation led by the president of the Bank attended the 53rd Annual Meetings of the African Development Bank Group held in Busan, South Korea. The theme of the meetings was “Accelerating Africa’s Industrialisation”. It convened regional and global leaders from businesses, governments, and civil society to explore solutions and new ideas to develop, finance, and accelerate Africa’s economic transformation. In addition to attending key sessions/forums and holding several meetings with representatives of partner development finance institutions, regional and global financial institutions, and current and potential clients, the Bank hosted a breakfast session on the sidelines of the event. The objective of the session was to promote the Bank’s December 2018 IATF.

World Bank and International Monetary Fund Meetings

A Bank delegation led by president took part in the World Bank and International Monetary Fund Spring Meetings held in Washington, DC, in April 2018, as well as the Annual Meetings held in Bali, Indonesia, in October 2018. In addition to attending relevant sessions of the events, the Bank’s delegation held meetings with senior government and public sector officers from a number of African countries, including Cameroon, Cape Verde, the Democratic Republic of the Congo, Equatorial Guinea, Morocco, Nigeria, Zambia, and Zimbabwe, as well as representatives of partner development finance institutions and commercial banks, African and global corporate entities, and current and potential clients.

Operations and Activities

3.2.4 The Board of Directors

The Board of Directors and its committees held 23 meetings throughout the year and complied with all of their statutory meeting requirements.

The Board considered the Annual Report and Financial Statements; the Declaration and Distribution of Dividends for the year ended 31 December 2017; and the reappointment of external auditors, along with their fees, recommending them for shareholders' consideration. The Board also reviewed progress in the implementation of various strategic initiatives, including the establishment of centres of excellence for healthcare in Africa, the development of industrial parks and export processing zones, the development of quality inspection, and certification centres for the promotion of non-traditional exports. In addition, the Board reviewed progress on the arrangement of a Capital Protection Facility, the Trade Services Facility, and loan asset securitisation, among others. Furthermore, the Board provided close oversight on the planning and execution of the first-ever IATF, which was held in Cairo, Egypt, in December 2018. In addition, the Board provided guidance on the implementation of the Fund for Africa's Export Development (now renamed Fund for Export Development in Africa), the Food Emergency Contingent Trade Finance Facility, and the Project Preparation Facility, and reviewed the dividend policy to take into account the launch of the Class D shares, which are fully paid.

Furthermore, the Board also discussed and/or noted various reports of the Internal Audit Unit and BDO (the international audit firm to which some of the Bank's internal audit functions were outsourced), progress made on the 2018 external audit programme, and the internal and external audit scopes of work for 2019. The Board also received event-triggered country and sector reports and provided direction on actions to be taken to manage the impact of economic and socio-political developments on the Bank's business operations and other activities. Particular attention was given to the financing of transactions and other reports covering the status of the Bank's operations, compliance, investments, borrowings, and advisory services.

Branch office reports were considered so as to ascertain the operational and administrative performance of the branches and, in all instances, these were deemed satisfactory. The negotiations for the establishment of the East Africa regional branch office in Kampala, Uganda, were noted, in particular the positive steps taken by the Ugandan authorities to pass the African Export-Import Bank (Implementation) Act, which will pave the way for the opening of the branch in the near term.

The Remuneration Committee reviewed the revised Staff Handbook, which was approved by the Board, as well as various other matters intended to enhance the remuneration and reward of staff, including implementation of the new pension scheme approved in 2017.

With regard to the Board composition, Ms. Xu Yan, Class C director, was re-elected for another three-year term at the 25th Annual General Meeting. Two new alternate directors were also appointed in 2018—Dr. Ashraf Bahie El Din for Class A, replacing Mr. Gamal Negm; and Mr. Tarek El Kholy for Class B, replacing Mr. Gustakov Nikita.

3.2.5 Membership Mobilisation

The number of African participating states increased to 50 at the end of 2018 from 49 at the end of 2017 as a result of the signing of the Bank Agreement by the government of Equatorial Guinea. The Bank also intensified efforts to encourage African member countries that were yet to finalise the ratification of the Bank Agreement to do so. As a result, ratification instruments were received from Burundi, the Central African Republic, Eritrea, Liberia, and Madagascar, bringing the number of countries providing ratification instruments to 38 as at the end of 2018, up from 33 in 2017.

3.2.6 Branch Offices

In 2018, the activities of the Bank's regional branch offices in Abidjan, Abuja, and Harare were in line with set operational targets.

3.2.6.1 Harare Branch Office

In 2018, the volume of business generated by the Harare Branch Office increased by 60 percent year-on-year to US\$7.24 billion from US\$4.54 billion in 2017. Of this volume, transactions approved by the Executive Committee of the Board of Directors amounted to US\$4.09 billion compared with US\$2.93 billion in 2017, representing an increase of about 40 percent. The volume of transactions at different stages of development stood at US\$4.73 billion, representing an increase of 269 percent from US\$1.28 billion in 2017. The volume of operational facilities as at the end of 2018 amounted to US\$1.42 billion, representing an increase of 40 percent compared with US\$1.01 billion as at the end of 2017. These trends in business activities of the Harare Branch Office translated into US\$136.59 million in annual revenue in 2018 compared with US\$88.60 million in 2017, a notable increase of 54.1 percent. In addition, the branch continued to effectively monitor transactions in its area of coverage during the review period.



Operations and Activities

3.2.6.2 Abuja Branch Office

The Abuja Branch Office maintained the upward trajectory in business enlargement, with disbursements of US\$1.75 billion—a 70 percent increase relative to the US\$1.03 billion recorded in 2017. Furthermore, transactions amounting to US\$641 million were already approved and awaiting conclusion of documentation and disbursement. The volume of proposals in the pipeline increased by 55 percent to US\$3.84 billion in 2018 from US\$2.47 billion in 2017. Loans outstanding grew by 25 percent from US\$4.16 billion in 2018 to US\$3.31 billion in 2017. As a result, income generated by the branch in 2018 increased by 30 percent to US\$333.2 million from US\$256.24 million in 2017.

3.2.6.3 Abidjan Branch Office

The Abidjan Branch Office maintained solid growth in business activities, with disbursements of US\$701.3 million, up 54 percent from the US\$457 million recorded in 2017. Furthermore, transactions amounting to US\$698.1 million were already approved and awaiting conclusion of documentation and disbursement. The volume of proposals in the pipeline grew by 53 percent to US\$2.9 billion from US\$1.9 billion in 2017. Loans outstanding reached US\$1.73 billion, up 41 percent from the US\$1.23 billion balance in 2017. As a reflection of this performance, income generated by the branch in 2018 increased by 30 percent to US\$121 million from US\$93.7 million in 2017.

3.2.7 Trade Information

In 2018, the Bank provided its various stakeholders—both 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 Bank's trade database and expand the Bank's capacity to deliver trade information services.

3.2.8 Human Resources and Administration

3.2.8.1 Human Resources

Resourcing – The Bank's human resources capacity grew by 6.3 percent from 189 staff members at the end of 2017 to 201 staff members at the end of 2018. To ensure the availability of capacity to meet the Bank's current and future needs, additional staff were recruited in the areas of capital markets, client relations, banking operations, credit assessment, equity mobilisation and investor relations, loan remediation, operational risk, trade facilitation, protocol, and strategy and innovation. A key appointment was that of the head of the Equity Mobilisation and Investor Relations Unit, which further strengthened this critical unit.

Building Afreximbank through Development – In 2018, the Bank continued to invest considerable resources in building the capacities of its staff members through various training programmes. This included training programmes in the areas of structured trade finance, leadership, export credit agencies, syndications, internal capital and liquidity adequacy assessment, and performance management and performance measurement using the Balanced Scorecard Framework.

In addition, some Bank staff members were seconded to the Export-Import Bank of China, Export-Import Bank of Korea, and Export-Import Bank of India to share learning experiences in the areas of industrialisation and export development.

In 2018, the Bank also started implementing a Talent Review Framework aimed at building a robust and diverse portfolio of leaders and experts across the institution to support its continuous business growth. This framework will help the Bank identify, build, and leverage on its key current talent while also addressing any talent gaps, organisational vulnerabilities, or risks.

Building Afreximbank through Performance – In 2018, additional effort was invested in revising and embedding the Balanced Scorecard Framework methodology for performance measurement and monitoring at all levels. A strengthened validation process was implemented to ensure proper alignment of all scorecards to the overall Bank strategy. In addition, nine staff members successfully completed a certification process in the area of performance measurement to better support this initiative.

Reward and Wellness – To ensure that the Bank's remuneration is commensurate with the market, and for purposes of external pay equity and staff attraction, retention, and motivation, the Bank, in 2018, solicited PwC (UK) to conduct a comprehensive reward and benefits survey. This survey is conducted every three years.



The number of African participating states reached 50 at the end of 2018, after the signing of the Bank Agreement by the Government of Equatorial Guinea.”

Based on an approval by the Board of Directors in 2017, a new retirement scheme, which operates on a defined contribution basis, was implemented during the first half of 2018. The key consideration for the new scheme was to include post-retirement medical insurance. The new scheme also provides members with the option to make additional voluntary contributions over and above mandatory individual contributions. These developments position the Bank's reward system as comparable to that of the market and will enable the Bank to more easily attract and retain staff with the required skills and experience needed to deliver on the Bank's objectives.

3.2.8.2 Administration

Premises and Office Management – During the year, the Bank developed and fully implemented comprehensive security, operation, and maintenance plans for all operating locations for 2018. It also assured the staff and other stakeholders a safe, secure, and conducive work environment. The Bank enlisted a range of professional contractors and service providers who were relied upon to carry out a range of planned and unplanned preventive and regular operation and maintenance works and activities.

Afreximbank Africa Trade Centre – The Bank is determined to transform its current and future buildings into business complexes and trade hubs that will act as integrated one-stop shops for trade services. The regional trade hubs are envisaged to be iconic business complexes that will provide a suite of integrated trade services and trade finance, enhance the Bank's brand equity, and play a vital role in bridging the intra-African trade information gap on the continent. In 2018, the Bank appointed a consortium of consulting firms to conduct a joint feasibility study for the transformation of the Harare and Abuja Branch Offices into Africa Trade Centres, and to develop corresponding business plans and conceptual architectural designs.

3.2.8.3 Business Continuity and Crisis Management

In view of the Bank's evolving operating environment, the Bank continued to enhance and exercise its business continuity, crisis management, and other contingency plans. The business continuity policies and procedures were enhanced and integrated into a Business Continuity Management compendium. Several awareness sessions were held for staff at headquarters and the branches in a bid to embed a business continuity management culture. The Incident and Crisis Management Teams regularly monitored the operating environment across headquarters and branches to identify and address any potential contingencies. In addition, the Bank carried out tests of the local recovery sites in Cairo and Abidjan and the remote recovery sites in Abuja and Harare, as well as its emergency notification and communication system and its crisis simulation system. The test results indicate inherent organisational resilience.

3.2.9 Information and Communication Technology

The Bank made significant progress in its ongoing programme of initiatives on digital business transformation, process improvements, and operation automation. Key achievements in 2018 included successful implementation of MANSA and infrastructure readiness for the new Core Banking System (Finacle) to be deployed in 2019. The treasury system was also successfully upgraded, and the SWIFT financial payment system was enhanced with sanction screening capabilities to strengthen compliance processes. In addition, an upgrade of the network and telecommunication systems was initiated to improve technology resilience and facilitate unified collaboration. Information security monitoring processes were also strengthened with the successful implementation of a 24/7 Security Operation Centre. Finally, the annual disaster recovery rehearsal was successfully conducted with full achievement of the recovery objectives.

3.2.10 Banking Relationships

During 2018, 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.



The Bank's human resources capacity grew by 6.3 percent, reaching 201 staff members at the end of 2018."





Box 3.2 The Impact of New Technologies on Trade and Implications for Africa

Technological innovation has played an important role in propelling global trade. The adoption of electricity in the latter part of the 19th century, for instance, enabled mass production of goods for export and boosted cross-border wireless communications, and the invention of shipping containers in the middle of the 20th century set the tone for globalisation by enabling cost-effective mass movement of goods. More recently, advances in globalisation have resulted in bigger and faster vessels, fully automated ports, and a vast number of computer systems tracking cargoes around the world. In addition, the development and widespread adoption of the internet has enabled the rise of global value chains by making it possible to coordinate various manufacturing stages and logistics infrastructure from a distance.

Nevertheless, global trade faces a myriad of administrative challenges: slow and manual processes; heavy documentation requirements; and shortcomings in product classification, shipment tracking, and compliance management. Analysts have estimated the costs associated with trade documentation processing and administration at up to one-fifth of actual physical transportation costs. Furthermore, documentation can be delayed, lost, or misplaced, leading to further complications.¹

Emerging technologies have the potential to address some of these problems and make global trade processes less complex and more efficient. Among these technologies are blockchain, the *Internet of Things*, artificial intelligence, and machine learning.

Blockchain

Blockchain is defined as “a shared, immutable ledger that facilitates the process of recording transactions and tracking assets² in a business network”. Virtually anything of value can be tracked and traded on a blockchain network, reducing risk and cutting costs for all parties involved. Blockchain technologies have already had a substantial impact on global trade. For example, Barclays Bank reportedly undertook the first blockchain-based trade-finance deal in September 2016, cutting a process that would normally take seven to 10 days to less than four hours.³ More recently, IBM and Maersk have begun to collaborate on a blockchain-based cross-border supply chain programme to manage and track the paper trail of tens of millions of shipping containers across the world.⁴ The initiative involves a network of shippers, freight forwarders, ocean carriers, ports, and customs authorities in a bid to save billions of dollars in costs from manual interventions. According to the partners, the digitised process is designed to help reduce fraud and errors, reduce the time products spend in transit and in the shipping process, improve inventory management, and ultimately reduce waste and cost. IBM has also worked with a joint-venture of 12 major European banks to develop a blockchain trading platform that uses smart contracts⁵ and distributes ledger technology to enable companies to trade seamlessly, simply, and trustfully. This has helped reduce friction and ease the trading process for participating companies.

Another area of global trade in which blockchain is being applied is the processing of trade finance letters of credit. A letter of credit is a manual paper-based process that creates inefficiencies and, as a result, can lead to operational risks. The ability to turn a letter of credit into a smart contract could potentially mitigate manual handling risks. For example, a letter of credit could be issued digitally via an application or email and signed

¹ According to Bloomberg [<https://www.bloomberg.com/news/articles/2018-04-18/drowning-in-a-sea-of-paper-world-s-biggest-ships-seek-a-way-out>] in 2014, the shipping company Maersk followed a refrigerated container filled with roses and avocados from Kenya to the Netherlands to document the maze of physical processes and paperwork that impact every shipment. They found that around 30 actors and more than 100 people were involved throughout the journey, with the number of interactions exceeding 200. The shipment took about 34 days to go from the farm to the retailers, including a ten-day hold for documents to be processed.

² An asset can be tangible (a house, car, cash, land) or intangible (intellectual property, patents, copyrights, branding).

³ See <https://www.reuters.com/article/us-banks-barclays-blockchain/barclays-says-conducts-first-blockchain-based-trade-finance-deal-idUSKCN11D23B>.

⁴ See <https://www.finextra.com/newsarticle/30228/ibm-and-maersk-advance-blockchain-project-for-global-trade>

⁵ Smart contracts are defined as lines of code that are stored on a blockchain and automatically executed when predetermined terms and conditions are met. The benefits of smart contracts are most apparent in business collaborations, in which they are typically used to enforce some type of agreement so that all participants can be certain of the outcome without an intermediary's involvement.

by the beneficiary of credit. This signature would then be logged on a shared ledger that includes all risk and payment terms, as appropriate. If and when these terms are met and signed by all relevant parties, a payment would be completed at an agreed rate without manual intervention. All parties would maintain a shared audit record, rather than individual records that may fail to reconcile or suffer from errors. Other applications of blockchain include the design of a solution that reduces the issuance time of letters of credit from an average of 20–30 days to only a few hours, and the development of the world's first trade finance platform based on blockchain, which gives participants the ability to track the status of invoices across banks while preserving client confidentiality.

Internet of Things⁶

More and more objects and devices contain built-in sensors and Wi-Fi capabilities and, according to some estimates, by 2020, there will be over 26 billion connected devices. The *Internet of Things* (IoT) allows these objects to be sensed or controlled remotely across network infrastructures, creating opportunities for more direct integration of the physical world into computer-based systems (with less human intervention), resulting in improved efficiency, accuracy, economic benefits.

The growing use of sensors allows more data to drive more automated workflows across industries. With respect to trade, IoT can help identify the location of goods at any point in time and certify the delivery of goods, which can potentially result in de-risking or changing the risk score of trade transactions. For example, by tracking Global Positioning System (GPS) data, a financial institution can trigger a payment based on the verification of a bill of lading reaching the buyer. In addition, when combined with other sensors, fraud can be reduced by using IoT to verify that a package has been opened only when it has reached the buyer.

One application of IoT currently in use is on the part of (a logistics and maritime transportation company), which tracks containers through its remote container management system. Each vessel is connected to shore via GPS and satellite communications, and using IoT, the speed, fuel efficiency and even weather conditions encountered by the fleet can be monitored. This data can also be used to track the speed of vessels, ensuring that they run at their optimum speed at all times.

Artificial Intelligence and Machine Learning

Artificial intelligence and machine learning use large amounts of data and powerful algorithms to develop increasingly robust predictions about the future.⁷ Artificial intelligence enables a digital computer or computer-controlled robot to perform tasks commonly associated with intelligent beings and to learn from experience, making it very helpful in handling some of the more complex tasks associated with international trade, such as classifying goods, optimising trade shipping routes, predicting customer demands, and managing vessel and truck traffic at ports. Using artificial intelligence, 3CE (a global trade management software company), for example, has developed a system that automates the processes of the Harmonized System commodity classification and the Harmonized System⁸ code verification. In a World Customs Organization classification competition, 3CE achieved an accuracy score of 93 percent compared with government and private sector experts who, respectively, averaged 77 percent and 68 percent.⁹

⁶ According to Microsoft, The Internet of Things refers to "a giant network of objects that connect to each other and exchange and analyse data. They can be everyday items such as cell phones, washing machines, vehicles, or wearable devices. Or, they can be components of larger machines and systems, such as airplane engines or oil rigs". [<https://www.microsoft.com/en-au/internet-of-things/internet-of-everything-iot>]

⁷ According to the Brookings Institution. [<https://www.brookings.edu/research/the-impact-of-artificial-intelligence-on-international-trade/>]

⁸ The Harmonized System is an international nomenclature for the classification of products that allows participating countries to classify traded goods on a common basis for customs purposes.

⁹ See <https://www.forbes.com/sites/stevebanker/2017/10/07/global-trade-is-powered-by-artificial-intelligence/#51205b273d34>

Artificial intelligence can also help reduce the risk of fraud associated with international trade: by detecting fraudulent transaction data, it can provide relevant parties with predictive information to enable relevant parties and authorities to take timely action to prevent fraud. Artificial intelligence, with its natural language processing technology, can also help address some of the communication and language barriers that exist in international trade, especially when it involves understanding various tariffs and government restrictions.¹⁰

Implications for Africa

The emerging technologies that are bringing about major transformations in international trade practices are also helping boost intra-African trade by improving transparency and reducing inefficiencies and costs associated with trade among African countries. Lori Systems, a Kenya-based logistics coordination platform, for example, is using emerging technologies to power African logistics by providing supply chain management solutions to cargo owners, thereby ensuring flexibility, reliability, and cost savings. The company connects cargo owners to transporters in Africa, tracks cargo throughout the journey, and provides frequent updates to cargo owners. By leveraging its technology and operations capabilities, the company's systems can optimise routes and re-allocate transport if any issues arise during the transport process.

Emerging technologies can offer benefits in other ways as well. IoT, for example, can be used to provide data to allow small and medium-sized farmers to manage their farms digitally and, in turn, allow financial institutions to remotely provide them with access to finance based on known risk data, and help them develop products for export. IoT can also reduce fraud risk in the small and medium-sized enterprise and corporate sectors by monitoring goods in transit and ensuring that goods are delivered to the correct warehouses. Artificial intelligence can also be leveraged to perform "Know Your Customer/Anti-Money Laundering" on transactions by using machine learning to reduce the cost of manual processes, making the provision of financing to African corporates more cost effective and enabling them to more easily produce a higher volume of goods and services for export.

All in all, all parties engaged in African trade, including government authorities (such as customs agencies) stand to gain immensely from the potentially more simplified, secure, and cost-effective import and export transactions that emerging technologies can provide. For Africa to maximise the benefits of these technologies, however, a number of important elements—solid communications infrastructure, widespread internet connectivity, strong workforce skills, and adequate data collection and privacy regulations—need to be put in place across the continent; they are currently fully present in only a handful of African countries.

¹⁰ eBay, which facilitates trade in over 200 countries, reports that, in 2014, it introduced 'eBay Machine Translation', an in-house intelligence/machine learning system that translates between languages when users search or view listings on its website. This new system was 7 percent more accurate than the previous translation service they were using and led to a 17.5 percent increase in exports.

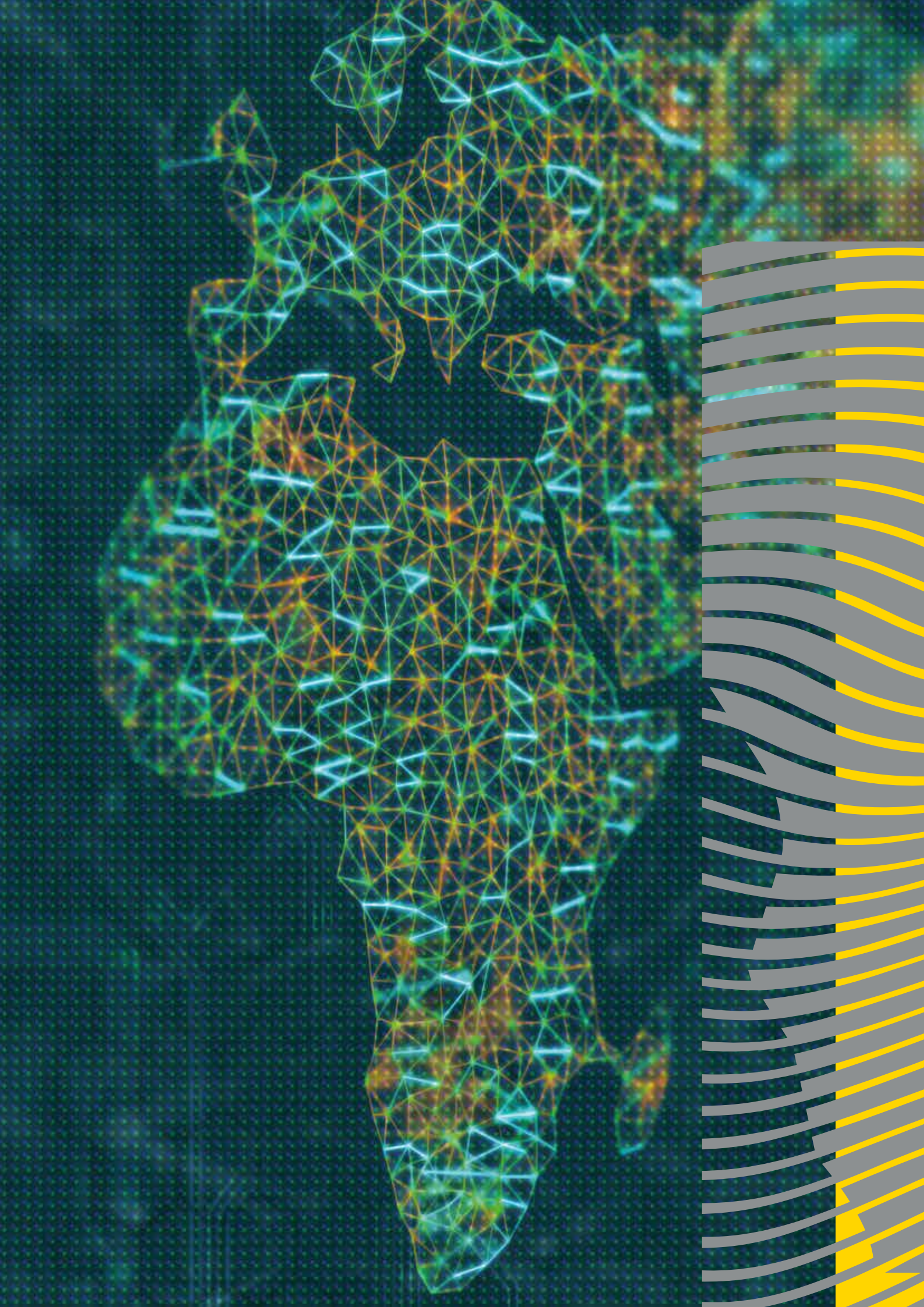


Chapter Four

Trade Development Impact of the Bank's Operations and Activities



4



Trade Development Impact of the Bank's Operations and Activities

The Bank was established with the principal objective of advancing African trade and economic development and has implemented a range of innovative programmes aimed at achieving this objective over the past 25 years.

In the last two years, the Bank embraced a bold transformation agenda under its fifth Strategic Plan, which covers 2017–21—a promise to transform Africa by accelerating intra-African trade, promoting value addition and industrialisation, and ensuring improved access to trade finance. The ultimate objective is to contribute towards increasing Africa's share of global trade by increasing intra-African trade and Africa's manufactured exports. In keeping with its renewed commitment to Africa's transformation, the Bank ended 2018 with US\$12.41 billion (a 56.5 percent increase from 2017) in credit approvals in favour of entities across Africa and continued to make good progress in delivering on each of its key strategic pillars.

Projects financed during the year under the Intra-African Trade strategic pillar are expected to connect many rural farmers and small and medium-sized enterprises (SMEs) to formal markets. In the area of trade facilitation, the first-ever Intra-African Trade Fair (IATF) organised by the Bank during the course of the year was successful in disseminating information about trade and investment potential across the region and fostering a network of African entrepreneurs. In addition, the development of a Pan-African Payment and Settlement Platform to facilitate the conduct of cross-border businesses in national currencies is under way, as is the development of the Bank's Trade Portal to support access to trade information and a regulatory platform to harmonise all national and regional trade and investment-related regulations.

In advancing its Industrialisation and Export Development strategic pillar, the Bank remains committed to the development of a strong industrial base for the promotion of export manufacturing in Africa through export diversification, supportive infrastructure, and the unlocking of SMEs' potential. For example, with financial support from the Bank, the newly expanded wood processing park in Gabon is expected to generate exports of 350,000 cubic metres of processed logs, equivalent to €163.4 million per year in foreign exchange revenues for the government of Gabon. The Bank also continued to make tremendous progress towards the development of industrial parks in Côte d'Ivoire, Nigeria, and Togo. A power generation project in Egypt, once completed, will provide an additional 61 gigawatts of energy capacity. And about 650 SMEs are expected to benefit from the Bank's re-guarantee facility, leading to the creation of 5,850 jobs.

With respect to the Trade Finance Leadership strategic pillar, the Bank is expanding its trade services in response to the reduced appetite of international banks to finance trade and investments in Africa. By the end of 2018, the Bank had onboarded about 300 African banks (against a target of 500 by 2021) and extended letters of credit confirmation lines to a good number of banks.

Achieving greater development success under the Bank's current strategic priorities calls for evidence-based knowledge and strategic guidance from rigorous monitoring and evaluation of Bank-financed initiatives. Accordingly, in 2018, the Bank adopted the Trade Development Impact Assessment framework to better monitor and enhance the impact of its interventions on development. It represents a significant commitment to improving the way the Bank measures its outcomes and performance as well as deepening its understanding of development impacts. The Bank will also take advantage of the recent accreditation to the African Union and the strong relationship with the African Union Commission to accelerate the pace of adoption and implementation of its flagship initiatives at national levels.

4.1 INTRA-AFRICAN TRADE

Trade among African countries has the greatest potential for ensuring sustainable economic development and structural transformation across the continent. However, Africa's intra-regional trade is among the lowest in the world, held down by inadequate trade information, a high level of informal trade, weak market integration, multiple national currencies, complex customs and administrative procedures and regulations, and inefficient and costly transit systems.

The African Continental Free Trade Agreement (AfCFTA), signed in March 2018, presents a unique opportunity for deepening economic integration, drawing on economies of scale, and developing regional value chains to accelerate structural transformation of African economies. The agreement signifies a significant shift in expectations for intra-African trade, and the Bank is working diligently to support the realisation of the agreement's goals through a range of strategic initiatives geared at promoting intra-African trade.

Trade Development Impact of the Bank's Operations and Activities

4.1.1 Deepening Access to Trade Information

The paucity of trade and market information across the continent has been identified as one of the main reasons for low levels of intra-African trade. Trade information systems in Africa have traditionally been outward-oriented—mainly towards Europe, the Americas, the Middle East, and Asia. Adequate, easily accessible, and timely information is necessary for taking full advantage of opportunities for expanded intra-African trade and bridging the trade and market information gap is therefore an important component of the Bank's intra-African trade strategy.

To that end, in 2018, the Bank successfully hosted the first-ever IATF in Cairo, Egypt, which provided a platform for sharing trade, investment, and market information, and enabling buyers, sellers, and investors to meet, discuss, and conclude business deals. It was the largest gathering of buyers and sellers on the continent, attracting 1,080 exhibitors (mostly African), and culminating in more than US\$32 billion in trade deals across a range of countries, including Burkina Faso, Côte d'Ivoire, Nigeria, Tanzania, and Zimbabwe.

4.1.2 Integrating Informal Intra-African Trade into the Formal Sector

One deficiency of the industrial sector in most African countries is that it is composed mainly of SMEs, mostly in the informal sector, with little experience and relatively weak industrial performance owing to limited productivity, technology and equipment, and human resources. Integrating informal trade into formal frameworks will enable SMEs to overcome these shortcomings.

To that end, the Bank's Intra-African Trade strategic pillar seeks to promote export trading companies in Africa. The Bank has been supporting an export trading company with a vertically integrated agriculture supply chain as a quick way of reducing barriers and formalising informal intra-African trade. Since 2016, the Bank has provided US\$65 million in support of this group, which has a footprint across 45 countries in Africa, to enable it to invest in warehouses and processing plants to help formalise intra-African trade.

In 2018, the Bank also signed a three-year US\$300 million revolving global credit facility agreement with this group. The facility will, among other things, finance the sourcing, processing, and transportation of soft commodities of African origin, as well as the procurement of key agricultural inputs, such as fertiliser and seeds, to be made available across the continent.

4.1.3 Promoting Regional Integration, Trade and Investment

The Bank continued its efforts to promote intra-African investment, given that growing investment leads to enhanced trade and the development of regional value chains. To that end, through its Global Facility for African Multinational Corporations (Intra-African Trade Champions), the Bank worked to identify leading producers and exporters in intra-African trade to enhance upward linkages for smaller feeder firms and support their operations through financing, enabling market access, and other forms of technical assistance. Companies such as the El Sewedy Group of Egypt, Dangote Group in Nigeria, Loukhil Group in Tunisia, Arab Contractors in Egypt, Export Trading Company Group in Mauritius and South African telecoms giant MTN, have been increasingly investing across borders and contributing to growth in intra-regional trade.

The Bank committed more than US\$800 million in intra-African trade finance in 2018 and provided advisory services to help promote intra-African trade. The Bank also facilitated more than US\$500 million worth of contracts awarded to African entities in support of intra-African trade. The Bank's financing will enable African suppliers to provide services to countries across the region at competitive prices. The Bank's support is also expected to create more than 24,000 jobs and transfer skills to more than 2,000 Africans, particularly among the youth.





Trade Development Impact of the Bank's Operations and Activities

4.1.4 Reducing the Foreign Currency Content of Intra-African Trade

International trade must be supported by an appropriate payment infrastructure. Africa's challenge, when it comes to payments and settlements, stems from its multiple local currencies, meaning that cross-border payments typically involve a third currency, such as the US dollar or euro. This leads to a high cost of intra-African payments, which can take lengthy periods to process.

A continental single currency payments system would promote and support intra-regional trade flows by increasing speed and convenience, reducing costs, lowering payment risks, and enhancing competition – thereby facilitating the effective and efficient flow of goods and services across the continent. It would also help integrate African countries' financial systems and capital markets across the region and with global financial markets.

As part of its efforts to promote intra-African trade, the Bank made substantial progress towards the introduction of a Pan-African Payment and Settlement Platform in 2018. The platform will facilitate the clearing and settlement of intra-African trade transactions in African currencies and significantly reduce the dependence on US dollars and other hard currencies in the settlement of regional trade.

4.1.5 Leveraging for Intra-African Trade Facilitation

Improving the procedures and limiting the controls that govern the movement of goods across national borders in Africa will help boost trade across the continent and foster the benefits envisaged under the AfCFTA. To that end, the Bank, in 2018, was the lead lender for the construction of three fully integrated truck stops at the border of Zambia with the Democratic Republic of the Congo (at Kasumbalesa), Tanzania (at Nakonde) and Zimbabwe (at Chirundu). Currently, trucks account for 80 percent of the average annual traffic count in Zambia, and the project is expected to reduce transit times by half, translating into savings (for importers) of US\$184 million, US\$226.6 million, and US\$128 million in Chirundu, Kasumbalesa, and Nakonde, respectively.

The Bank also approved a US\$15 million term loan to finance the design, construction, and commissioning of a civil aviation and immigration security system for the Juba International Airport in South Sudan. The project will generate much-needed public revenues and is in line with the objectives of the Single African Air Transport Market—an African Union project that seeks to integrate the African aviation industry and create a single market for air transport in Africa.

Africa has the potential to develop a more integrated textiles and clothing industry. West African countries, such as Burkina Faso and Mali, are significant producers and exporters of raw cotton but, unlike some of their coastal neighbours, they suffer from a lack of logistics and industrial infrastructure. In recognition of this, the Bank, in 2018, approved a €65 million Term Loan Financing Facility to facilitate the construction of a 48-kilometre road linking Benin to Togo and Burkina Faso. Another €60 million was approved to facilitate the upgrade of the road corridor between Benin and Nigeria, which is a key market for Benin. Importantly, these road projects are located inside the area of production of cashew nuts and cotton, which are two of these countries' main exports. The project will help reduce the cost of transportation of these commodities to neighbouring countries. The Bank also acted as mandated lead arranger for a €274 million Syndicated Term Loan Financing Facility in favour of a public liability company in Burkina Faso to fund the construction of a 224-kilometre intra-African trade highway between Côte d'Ivoire, Burkina Faso, Mali, and Guinea.

Furthermore, it is widely recognised that Africa needs a clear, predictable, and integrated regulatory framework to ease the cost of regulatory compliance and help attract investment and support intra-African trade. To that end, the Bank is developing a Trade Regulatory Platform to consolidate and harmonise national and regional trade and investment-related regulations.



As part of its efforts to promote intra-African trade, the Bank made substantial progress towards the introduction of a Pan-African Payment and Settlement Platform in 2018.”

Trade Development Impact of the Bank's Operations and Activities

4.2 INDUSTRIALISATION AND EXPORT DEVELOPMENT

Industrialisation and trade-induced structural transformation hold the key to Africa's development. The inadequacy of industrial and trade-enabling infrastructure has been a major factor in the lack of diversification and competitiveness of Africa's economy and its relatively low level of intra-regional trade. The Africa Union's Agenda 2063 puts value addition and industrialisation at the centre of its vision for a prosperous continent, setting a target for Africa to generate 10 percent of global manufacturing by 2050.

The Bank's approach to industrialisation in Africa underscores the need to catalyse a strong industrial base for the production of export manufacturing through export diversification, supportive infrastructure, service exports, unlocking of SMEs' potential, and access to targeted equity funding.

4.2.1 Promoting Export Diversification through Financing the Processing of Commodities

The African Union's Continental Commodities Strategy envisions commodity-led industrialisation—that is, developing Africa's commodities as a driver for achieving the structural, social, and economic transformation of the continent. The Bank, for its part, has been actively supporting the processing of African commodities for exports. For example, its Africa Cocoa Initiative, launched in 2012, has transformed Côte d'Ivoire into a global leader of primary cocoa processing and has created more than 250 jobs in Ghana. It has also enabled a leading cocoa processing company in Nigeria to expand its capacity, contributed to the creation of about 130 direct jobs and 250 indirect jobs, and generated additional foreign exchange earnings of US\$40 million through exports. In 2018, the Bank continued its support to this initiative, committing more than US\$41 million.

In the tea sector, the Bank provided a US\$10 million Term Loan Facility in favour of the largest tea processor in Rwanda for the expansion and modernisation of the company's tea processing plant. Tea processing constitutes Rwanda's third-largest foreign exchange, and through the financing of this value-added project, the country is expected to further expand its tea exports to the Common Market for East and Southern Africa and the East African Community, thereby promoting intra-African trade.



The Bank's approach to industrialisation in Africa underscores the need to catalyse a strong industrial base for the production of export manufacturing.”

4.2.2 Enabling Access to Trade-Related Infrastructure

The inadequacy of industrial and trade-enabling infrastructure has been a major hindrance to the diversification and competitiveness of Africa's economy and is, in part, responsible for the continent's relatively low level of intra-regional trade. As such, the development of industrial parks and export processing zones is an important element of the Bank's strategic plan.

In 2018, the Bank provided a US\$55.3 million bond-backed medium-term loan to develop a bulk terminal in San Pedro, Côte d'Ivoire, and an extension of a railway line from the Gabon Special Economic Zone (GSEZ) Nkok to the new Owendo international port and the GSEZ mineral port in Gabon. The absence of a railway between GSEZ Nkok and the ports has meant that goods (1.2 million cubic metres of processed timber products per year) have not been able to be transported directly between GSEZ Nkok and the ports for export and has resulted in an increased cost of production for GSEZ tenants of approximately US\$10–US\$12 per cubic metre. The loan is expected to improve connectivity to the two ports, which will increase GSEZ's attractiveness to prospective tenants, help boost tenancy, reduce GSEZ tenants' costs, and increase exports by an estimated 350,000 cubic metres of processed logs (equivalent to US\$163.4 million in export proceeds) per year. The GSEZ plans to replicate this model in other African countries, with the support of the Bank.

In Côte d'Ivoire, the feasibility study for the Abidjan PK-24 industrial park, identified as the most suitable site to develop and operate a multi-sector industrial park under the public-private partnership model, was finalised in 2018. The implementation of the project, which is estimated to cost US\$290 million, is under way. The Bank also signed a framework agreement with the governments of Nigeria and Togo for the development of industrial parks and special economic zones in both countries. In Egypt, the Bank is pursuing its collaboration with the General Authority of the Suez Canal Economic Zone (SCZone) for investment promotion to attract international companies to expand their activities in the SCZone. Other countries that the Bank has engaged with in developing industrial parks include Chad, Burkina Faso, Kenya, Malawi and Rwanda.

With respect to Africa's oil and gas sector, the Bank's support aims to increase local value-added in oil and gas production and exports, stimulate inclusive industrialisation, and enable African entities to move up the global value chains.

The oil and gas sector constitutes the backbone of the economies of the African oil-producing countries, accounting for more than one-third of total merchandise export revenues of the continent. However, it remains an enclave with limited linkages to other sectors of the economies of African oil-producing countries.

In support of this sector, the Bank provided US\$650 million to a pan-African multinational company in 2018 to build the world's largest oil refinery (in Nigeria). The transaction is expected to result in output of 600,000 barrels of oil per day and 2.5 million metric tons of polypropylene per year, with opportunities for large-scale direct and indirect employment. In a similar vein,

the Bank committed US\$200 million to an Egyptian petroleum company to enable it to invest in an oil refinery company to ramp up production by 45,000 barrels per day.

In the energy and telecommunication sector, competitiveness in the production of industrial goods depends on the availability of affordable electricity and a robust infrastructure. To that end, in 2018, the Bank provided US\$100 million as part of a US\$750 million Syndicated Term Loan Facility to an Egyptian electricity company. The facility will enable Egypt to increase its power generation capacity by 61 gigawatts to help meet the needs of both the industrial and residential sectors and supports the country's aim to become a regional electricity provider for neighbouring African countries. In addition, the Bank provided US\$73.4 million to a pan-African multinational company for the generation of electricity across Africa.

With regard to telecommunications infrastructure, the Bank approved a US\$200 million Short-Term Dual Tranche Facility to finance the acquisition of a submarine cable, which will enhance the volume of internet data flowing into Egypt, with a link to Sudan and Djibouti.

In addition, the Bank facilitated the signing of a memorandum of understanding between Telecom Egypt and the Econet Group, which will enable Econet's Liquid Telecom to complete a terrestrial fibre optic network stretching from Cape Town to Cairo. As per the memorandum of understanding, Liquid Telecom will link its network from Sudan to Telecom Egypt's network via a new cross-border interconnection, bringing together a 60,000-kilometre network that runs from Cape Town through all of the Southern, Central, and East African countries, and has now reached the border between Sudan and Egypt. The Cape to Cairo network—often referred to as the “One Africa” broadband network—sets a new standard for Africa and will create new trade opportunities across the region.

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

To support its Industrialisation and Export Development strategic pillar and facilitate greater contribution by SMEs to regional and global supply chains, the Bank has identified factoring as a solution to bridge the funding gap facing SMEs and facilitate greater SME contribution to industrial development. Factoring can drive down transaction costs and allow African SMEs to trade more competitively through the use of open accounts and other modes of payment (outside of letters of credit). In 2018, the Bank provided US\$22 million to factoring companies in Africa. In addition, in collaboration with the Organization for the Harmonization of Business Law in Africa (OHADA), the Bank is working to institute and harmonise factoring laws in 17 OHADA member states, using the Bank's model law as a guide. The Bank's model law was one of the source documents used by the Egyptian authorities to facilitate

the drafting of the new Egyptian law on factoring and leasing. Furthermore, the Bank is creating awareness and building capacity through training for the use 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 Programme across Africa. In 2018, the Bank also purchased 100 FCI E-Learning Foundation Course slots, which enabled African professionals to access courses on domestic and international factoring. Three factoring workshops in Senegal, Nigeria, and Egypt were organised, aimed at developing the skills of African factors, creating awareness, and promoting the development of factoring businesses across the continent. Through the efforts of the Bank and FCI, 10 companies from Botswana, Cameroon, Republic of Congo, Egypt, Mauritius, Morocco, Nigeria, South Africa, and Zimbabwe joined the FCI in 2018. Through these efforts, the Bank aims to establish factoring as an alternative means of trade financing in no less than 30 countries in Africa over the next five years.

Another example of the Bank's interventions in support of SMEs operating in export supply chains is the Bank's provision of a Global Guarantee Line of US\$30 million in favour of the African Guarantee Fund for African SMEs in 2018. Under this facility, the Bank is the re-guarantee provider for the African Guarantee Fund on a risk-sharing basis. The Bank's re-guarantee facility will support an additional 650 SMEs and is projected to create 5,850 jobs.

Trade Development Impact of the Bank's Operations and Activities

4.2.4 Promoting Export Product Diversification through Support for Service Exports

The Bank sees industrialisation in the broader context of structural transformation and economic diversification—consistent with the view that services can allow Africa to leapfrog to a superior and sustainable development path. Evidence also points to services as generating better jobs and higher value added in manufacturing value chains.

The Bank, through its Construction/Tourism-Linked Relay Facility, supports the development of world-class hotels—and the tourism industry more broadly, 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. In 2018, the Bank provided a €30.9 million facility in support of the development of a 200-room, five-star hotel in the city centre of Bamako, Mali. The service sector, centred on tourism, remains the engine of growth and employment in Mali. In a ranking of 184 countries, Mali is placed 83rd in terms of the relative importance of travel and tourism's total contribution to GDP and 34th in terms of the long-term growth potential of the sector. The Bank's facility is expected to help create more than 80 jobs and US\$200 million in revenues for the government.

4.2.5 The Fund for Export Development in Africa

Africa's drive towards diversifying its exports away from commodities cannot be realised without a fund that is able to provide the long-term equity financing that such projects require. The Fund for Export Development in Africa, a development-oriented subsidiary of the bank, was launched in 2018 with an initial US\$100 million commitment from the Bank. It expands the bank's offerings to include equity investments and will facilitate foreign direct investment into Africa's export sector. The target fund size over the medium term is US\$1 billion.

4.3 TRADE FINANCE LEADERSHIP

International trade calls for appropriate trade financing, but stringent compliance and regulatory requirements imposed by regulators in major financial markets have resulted in international banks reducing or withdrawing trade lines to African banks. In response, as mentioned in Chapter 3, in 2018, the Bank introduced the Trade Facilitation Programme, which comprises a Letter of Credit Confirmation Programme and a Letter of Credit Confirmation Guarantee Programme. The programme aims to enhance the confidence of counterparties in the settlement of international trade transactions for intra- and extra-African trade and to improve correspondent banking relationships. In 2018, the Bank onboarded about 300 African banks (against the target of 500 by 2021), and extended letter of credit confirmation lines to a good number. With this, the Bank will be able to partner with more African financial institutions by confirming letters of credit issued by them.

In 2018, the Bank also granted 65 trade finance lines amounting to US\$1 billion to 12 African countries (predominantly landlocked countries) to meet their trade financing needs for the importation of trade-related equipment and strategic commodities. These lines helped support SMEs' light manufacturing and agro processing-related activities.

In 2018, the Bank approved an US\$500 million Syndicated Amortizing Term Loan in favour of a key development finance institution in Nigeria. The facility will have a direct and indirect development impact on the development finance institution's sub-borrowers and the Nigerian economy at large. It will enable the Nigerian development finance institution to finance trade and trade-related transactions in key sectors, such as manufacturing, information and communications technology, agriculture, and energy, which are critical for diversifying the economy and reducing its heavy dependence on oil exports.

Furthermore, the Bank is committed to "raising the bar" for other banks to strengthen their positions to support trade in Africa. The African Customer Due Diligence Repository Platform (MANSA), which will provide the single trusted source of primary data required to conduct due diligence checks on counterparties in Africa, was launched in 2018. The platform will facilitate trade with and within Africa by de-risking compliance and strengthening relationships between international banks and global trading entities with their African counterparties.

US\$

1 bn

In 2018, the Bank onboarded about 300 African banks and granted 65 trade finance lines amounting to US\$1 billion.



Trade Development Impact of the Bank's Operations and Activities

Box 4.1 Supporting Small and Medium-Sized Enterprises— The Engine of Africa's Export Growth

Across Africa, 80 percent of firms are small and medium-sized enterprises (SMEs), accounting for about 60 percent of employment. These enterprises have a fundamental role to play in transforming African economies and accelerating the pace of industrialisation, especially in light of the lack of competitiveness of Africa's manufacturing sector and the extent to which the scope for domestic value addition is left untapped. Indeed, for Africa to be able to diversify its exports and compete effectively in an increasingly globalised environment, its SMEs must continue to flourish, in part by adopting efficient production techniques.

Given that African SMEs operate mostly in the informal sector, with relatively little experience and limited access to technology, equipment, and skilled human resources, a key challenge for Africa is to facilitate the growth of more competitive and attractive SMEs. To that end, greater access to finance, certification, trade-enabling infrastructure, and information sharing represent important unfulfilled business opportunities for African SMEs.

Access to Finance

Access to finance is particularly critical, with Africa's SMEs facing a credit gap of US\$135 billion per year. Capital-constrained SMEs are expected to seek external finance but, due to reduced appetite on the part of international banks to grant additional trade credit lines to African banks, African SMEs have limited success in raising finance. Factoring—which involves underwriters mainly placing the risk on a firm's receivables as opposed to the firm itself—could enable African SMEs to gain access to finance, as it can make funds quickly available. In addition, the large presence of factoring companies makes prices competitive, and factoring can help make financial planning and cash flow management easier and smoother, thus boosting efficiency and cost-effectiveness. However, despite its potential benefits, factoring has not yet fully taken off in Africa, with the region accounting for less than 1 percent of global factoring volumes in 2017. Nevertheless, the region has demonstrated strong growth in recent years, with factoring volumes having grown from US\$14.9 billion in 2009 to approximately US\$22.3 billion in 2017, although most of those volumes were concentrated in Egypt, Kenya, Mauritius, Morocco, South Africa, and Tunisia. The Bank is playing a leading role in facilitating the growth of factoring in Africa through various interventions, including support for the creation of a facilitative legal and regulatory environment for factoring; provision of finance and guarantees to factoring companies; provision of technical assistance; and the formation of strategic partnerships to promote the development of factoring.

Certification

Meeting standards and acquiring certifications are essential to access foreign markets and become part of the global value chain. Certified firms are typically more productive and supply better-quality products and enjoy such benefits as access to new markets, new investors, and greater buyer satisfaction. The quality, accessibility, and costs of the processes and institutions defining standards and regulations and carrying out conformity assessments will, to a large extent, determine how easy it is for African SMEs and their products or services to become certified. To address this, the Bank is developing Quality Assurance Centres (Testing, Inspection, and Certification Centres) across Africa to support small businesses and non-traditional exports.

Trade-Enabling Infrastructure

Many African SMEs also face challenges and constraints caused by inefficient infrastructure. High-quality infrastructure is an important driver of SME performance and growth as it is crucial for the development of efficient logistics services that can extend the local and global reach of SMEs. Trade-enabling infrastructure—including roads, ports, telecommunication cables, and electricity and water supplies—is a central factor in decisions to invest in certain locations and therefore an important element of one of the Bank's main strategic pillars, that is, Industrialisation and Export Development.

Information Sharing

Adequate, easily accessible, and timely information is necessary for taking full advantage of opportunities in Africa. The Bank convened the first-ever Intra-African Trade Fair in 2018 and will continue to do so every two years to connect buyers and sellers across the continent to share trade, investment, and market information with investors, SMEs, the informal sector, and the African diaspora. The Bank is also developing a Trade Information Portal aimed at bridging the trade and market information gap in Africa, and its African Customer Due Diligence Repository Platform, launched in 2018, will provide the single trusted source of primary data required to conduct due diligence checks on counterparties in Africa and facilitate trade with and within the region.

Conclusion

These efforts, supported by Africa's vast human and natural resource endowments—along with sustained investment in Africa's SMEs, which will help them connect to the global value chain and find new buyers and suppliers—will serve to unlock the continent's potential to become a major player in the global economy.

Chapter Five

Management's Discussion and Analysis of the Financial Year Ended 31 December 2018

5



Management's Discussion and Analysis of the Financial Year Ended 31 December 2018

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. This chapter presents the Bank's audited financial statements for the year ended 31 December 2018, paying particular attention to the factors that influenced the observed results.

5.2 STATEMENT OF COMPREHENSIVE INCOME

The Bank earned total Comprehensive Income amounting to US\$285.4 million, a solid growth of 24 percent compared to prior year performance of US\$229.8 million. The achieved results were mainly due to higher Net Income in 2018 amounting to US\$275.9 million (2017: US\$220.5 million), a growth of 25 percent compared to prior year performance. In addition, a revaluation gain of US\$9.5 million (2017: US\$9.3 million) on the Headquarters building in Cairo as a result of the recovery in the property market boosted Other Comprehensive Income. The significant growth in the Net Income was largely driven by a substantial increase in all revenue lines, which increased total revenues by 24 percent. It is to be noted that the first-time adoption of IFRS 9: Financial Instruments, effective 1 January 2018, constrained the results achieved. The observed performance underscored high levels of operational efficiency, which was complemented by effective risk management practices.

Net Income for the year grew by 25 percent, principally as a result of the solid growth in Net Interest Income which increased from US\$338.33 million in 2017 to US\$403.83 million in 2018, a growth of 19 percent. The significant increase in Net Interest Income was achieved on the back of a 31 percent growth in gross loan portfolio over the period under review. Net fee and Commission income grew by 176 percent from US\$30.36 million in 2017 to US\$83.69 million in 2018, contributing to the Net Income growth.

During the period under review, the Bank achieved an annual return on average shareholders' equity (ROAE) of 11.78 percent (2017: 11.76 percent) driven by the increase in Net Income. Additionally, the increase in Net Income resulted in the Bank realising a return on average assets (ROAA) of 2.18 percent compared to 1.87 percent achieved in the previous year. In tandem with the substantial increase in Net Income, the basic earnings per equivalent of fully paid shares improved from US\$5,580 in 2017 to US\$5,620 in 2018.

As a result of the significant growth in Net Income, coupled with the successful equity mobilization initiatives pursued by the Bank, the Capital Adequacy Ratio remained at a sound level of 25 percent (2017: 26 percent), which was well in line with the Bank's long-term Capital Management Strategic and Policy targets.

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

5.2.1 Net Interest Income and Margin

Net Interest Income amounting to US\$403.83 million (2017: US\$338.33 million) was mainly driven by a significant increase in interest and similar income. Interest and similar income rose by 17 percent from US\$606.07 million in 2017 to US\$709.48 million in 2018 as a result of a combination of higher interest rates, triggered by the rise in the Libor rate and a 31 percent growth in gross loan portfolio. In this regard, the gross loan portfolio grew from US\$8.72 billion in 2017 to US\$11.4 billion in 2018. Interest expenses increased by 14 percent to reach US\$305.65 million (2017: US\$267.75 million) during the period under review on the back of growth in interest-bearing liabilities by 14 percent and the increase in Libor rates experienced during the year.

Net interest margin, at 3.46 percent (2017: 2.64 percent) showed a significant improvement in relation to the previous period mainly due to relatively higher margins earned in 2018 compared to relatively lower margins on the cash-backed Countercyclical Trade Liquidity Facilities (COTRALF) that were outstanding in 2017. The efficiency of the treasury activities in managing cost of funds, culminated in an improved cost of mobilizing deposits. Such activities included, inter-alia, diversification of the funding mix, which saw lower priced Africa-sourced liabilities making a significant contribution to the total funding pool. This outcome confirmed the wisdom of the creation of the Africa Resource Mobilization Unit in the Treasury Department.

5.2.2 Non-Interest Income

Net Fee and Commission Income increased by US\$53.33 million to US\$83.69 million (2017: US\$30.36 million) in the current year mainly due to a 139 percent increase in fee and commission income, which grew by US\$54.47 million to US\$93.72 million (2017: US\$39.25 million). This increase was largely due to an increase in advisory fees, which grew by 272 percent to US\$79.20 million (2017: US\$21.31 million). The growth in advisory fee income was in line with the strategic focus of the Bank to increase earnings from advisory and capital market activities, given the rising demand for these services in many African economies pursuing economic and trade diversification.

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 32 percent in 2018 to US\$489.84 million (2017: US\$372.13 million). The increase is explained mainly by higher Net Interest Income arising from growth in loan assets and significant growth in fee income.

Management's Discussion and Analysis of the Financial Year Ended 31 December 2018

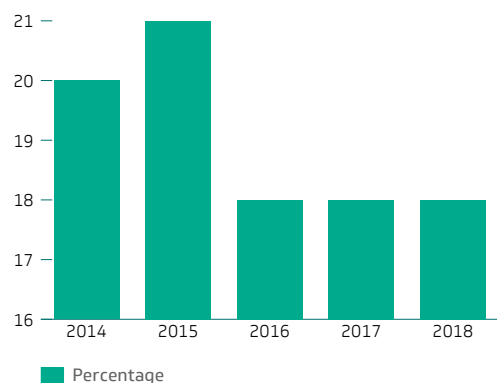
5.2.4 Operating Expenses

Operating expenses increased by 32 percent in 2018 compared to 2017, to reach US\$87.59 million (2017: US\$66.54 million), reflecting the significant growth in professional staff recruitment, which in turn increased staff costs by 21 percent. In addition, general and administrative expenses increased by 47 percent 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 percent, in line with prior year's performance and which favourably compares with the industry average. The outcome reflected effective cost controls and higher operating efficiencies implemented by the Bank during the year.

Figure 5.1 Afreximbank: Cost-to-Income Ratio Trend, 2014-18



Source: Afreximbank.

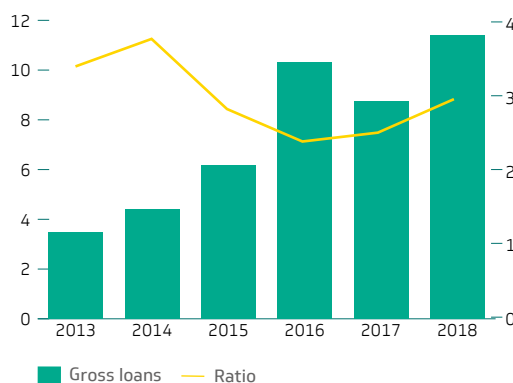
5.2.6 Allowance For Impairment on Loans and Advances

The allowance for impairment on Loans and Advances increased by 82.4 percent to close the period at US\$118.9 million (2017: US\$65.2 million). The increase of US\$55.4 million arose mainly from the impact of the adoption of IFRS 9 effective 1 January 2018. The IFRS 9 results in the loss provisioning for financial assets on a forward-looking basis as opposed to provisioning on the occurrence of default. Additionally, further provisions arose from the impact of provisioning of financial assets that were previously not included in the scope of IAS 39, such as off-balance sheet exposures and commitments to lend.

The Bank's asset quality was within acceptable levels as reflected in the non-performing loans (NPL) ratio of 2.95 percent (2017: 2.5 percent and restated (IFRS 9 impact) 2017: 4.08 percent). 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 percent minimum threshold at 132 percent (2017: 141 percent). Expected Credit Loss (ECL) coverage ratio was 3.11

percent (2017: 3.4 percent). The impact of adopting IFRS 9 resulted in a transitional adjustment amounting to US\$129.9 million, reducing the previously reported prior year retained earnings from US\$524.41 million to US\$394.51 million on 1 January 2018.

Figure 5.2 Afreximbank: Non-Performing Loan Ratio versus Gross Loans (US\$ billions, 2013-18)



Source: Afreximbank.

5.2.7 Dividend

On account of higher Net Income achieved during the year and considering the need to meet expectations of shareholders, the Board of Directors recommends a dividend payout amounting to US\$68.97 million (2017: US\$57.53 million) to shareholders, reflecting a 25 percent (2017: 26 percent) payout ratio*. The proposal maintains the tradition of higher dividend 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 dividend, 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 ongoing business growth, capital adequacy, inflation, as well as the need to balance internal and external financing of the Bank's growth.

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 2018 is presented hereunder.

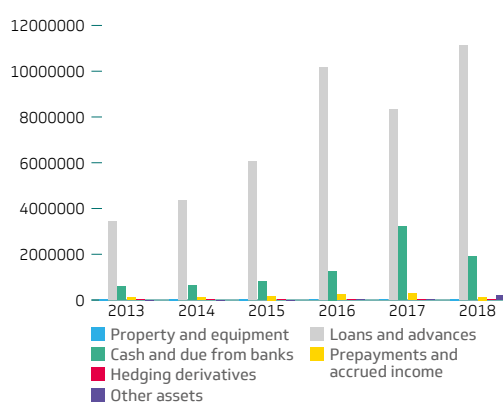
5.3.1 Assets

The Bank's total assets grew by 13 percent from US\$11.91 billion as at 31 December 2017 to US\$13.42 billion as at 31 December 2018, explained mainly by the solid growth in net loans and advances, which grew by 30.3 percent. The Bank's liquid assets decreased by 40 percent to end the year at US\$1.92 billion (2017:

* Class D shares are fully paid and back the depository receipts issued in the stock exchange of Mauritius. Classes A, B, and C shares are partially paid, that is, 40 percent at subscription with 60 percent remaining as callable capital.

US\$3.21 billion) and accounted for 14 percent (2017:27 percent) of total assets as the cash was deployed to fund the growth in loans and advances. Gross loans and advances at US\$11.4 billion (2017: US\$8.7 billion) contributed significantly to the total assets position of the Bank at 83 percent (2017: 70 percent). Loans and advances increased in 2018 compared to prior year in line with expectation.

Figure 5.3 Afreximbank: Assets Trend Analysis (US\$ thousands, 2013-18)



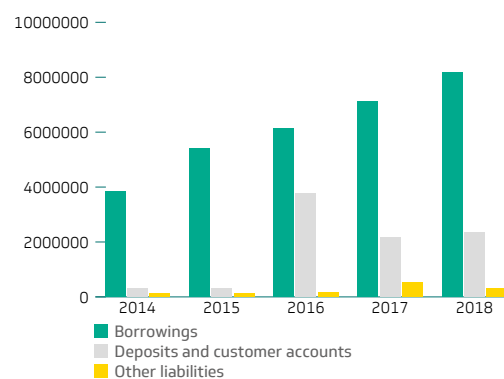
Source: Afreximbank.

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 2018 shows that corporates' share of the portfolio including state owned enterprises was 44 percent (2017: 40 percent), financial institutions' share was 50 percent (2017: 57 percent) of the portfolio and governments' share was 6 percent (2017: 3 percent) 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 19 months (2017:17 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 32 (2017: 31) countries.

5.3.2 Liabilities

Total liabilities of the Bank grew by 11 percent to close the year at US\$10.86 billion (2017: US\$9.79 billion) as at 31 December 2018. The main reason for the increase in total liabilities was the borrowing balance, which increased by 15 percent to US\$8.18 billion (2018: US\$7.11 billion) to fund the growth in the loan book. Total borrowings (due to banks and debt securities) accounted for about 75 percent (2017: 73 percent) of total liabilities while customer deposits and balances accounted for about 22 percent (2017: 22 percent) 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.

Figure 5.4 Afreximbank: Liabilities Trend Analysis (US\$ thousands, 2014-18)



Source: Afreximbank.

Major components of debt liabilities were syndicated loans and debt securities. In terms of geographical distribution, the outstanding borrowings were spread across mainland Europe, the United Kingdom, 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 are held with Afreximbank until the client's debts are 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 23 percent from prior year position of US\$2.12 billion to about US\$2.6 billion, primarily driven by capital injections from the equity mobilization plan that the Bank embarked on to fund expected business growth in line with the strategic plan. It is imperative to note that the shareholders' funds rose considerably despite the transitional adjustment amounting to US\$129.9 million against opening retained earnings balance as a result of the adoption of the IFRS 9 accounting standard on 1 January 2018. As part of the equity raise plan, the Bank raised an amount of about US\$338 million from issuance of shares mainly in classes A, B, C and fully paid class D. In addition, the Bank generated internal capital emanating from higher profitability, which contributed to the increase in the Bank's net worth. The Bank's callable capital as at 31 December 2018 amounted to US\$873 million (2017: US\$655 million). The Bank maintains the callable capital as an additional buffer in case of need. The callable capital has been credit enhanced as part of the Bank's capital management initiatives.

Management's Discussion and Analysis of the Financial Year Ended 31 December 2018

CONCLUSIONS

The financial results of the Bank show that the Bank achieved better performance for the year compared to prior year as reflected in higher profitability, strong earnings growth, and solid growth in business volume. It also maintained a strong capital adequacy, liquidity position and asset quality, despite the prevailing difficult operating environment globally and in some parts of Africa. The achieved results were also generally better than strategic plan targets. The results of operations while strong were somewhat constrained by the impact of the first-time adoption of IFRS 9, effective January 1, 2018. Notwithstanding, the Management and the Board of Directors were satisfied with the performance of the Bank, enabling a proposal from the Board for an increase of 20 percent in the amount of dividends declared.





Chapter Six

Financial Statements for the Year Ended 31 December 2018



6

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Financial Statements for the Year Ended 31 December 2018

Report of the Audit Committee to the Board of Directors and General Meeting of the African Export-Import Bank

In compliance with the provisions of Article 30(1) and (3) of the charter of the African Export-Import Bank and pursuant to the terms of Resolution No. Afrexim/BD/9/95/02 concerning the establishment, membership, functions and powers of the Audit Committee of the African Export-Import Bank (as amended), the Audit Committee considered the audited Financial Statements for the year ended 31 December, 2018, at its meeting held on 22 March 2019.

In our opinion, the scope and planning of the audit for the year ended 31 December 2018 were adequate.

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

Attributable earnings amounted to US\$275.9 million (2017: US\$220.5 million), a 25 percent growth compared to the prior year. The Bank maintained low cost to income ratio of 18 percent (2017: 18 percent). The Return on Average Assets (ROAA) and Return on Average Equity (ROAE) were satisfactory and in line with internal targets at 2.18 percent (2017: 1.87 percent) and 11.78 percent (2017: 11.76 percent) respectively. These all indicate operating efficiencies at quite satisfactory levels.

Asset quality remained relatively high with NPL ratio of 2.95 percent (2017: 2.5 percent) while loan loss coverage ratio stood at 132 percent (2017: 141 percent), well above the minimum target of 100 percent. The Bank's Shareholders' funds at US\$2.56 billion grew by 21 percent 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 Committee accepted the Report of the Auditors to the effect that the Financial Statements were prepared in accordance with the ethical practice and international financial reporting standards and gave a true and fair view of the state of affairs of the Bank's financial condition as at 31 December 2018.

The Committee accepted the provision made in the Financial Statements for the remuneration of the Auditors and recommends that the Board accepts same.

Furthermore, the Audit Committee recommends to the Shareholders the reappointment of KPMG Hazem Hassan of Egypt and PricewaterhouseCoopers Zimbabwe as the Bank's External Auditors for the Financial Year 2019.



Jean-Marie Benoit Mani
Chairman, Audit Committee

Members of the Committee

Mr. Jean-Marie Benoit Mani, Dr. Mahmoud Isa Dutse, Ms. Xu Yan, Mr. Ronald. S. Ntuli

Financial Statements for the Year Ended 31 December 2018

Independent Auditors' Report to the Shareholders of African Export-Import Bank

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of African Export-Import Bank (the "Bank") that comprise the statement of financial position as at 31 December 2018, and the statement of profit or loss and other comprehensive income, statement of changes in equity, and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of African Export-Import Bank as at 31 December 2018, 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 the IESBA code. 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 judgment, 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 in forming our opinion thereon, and we do not provide a separate opinion on these matters.



KEY AUDIT MATTER

How our Audit Addressed the Key Audit Matter

Expected credit losses on financial assets

Refer to Note 2.2.1 - Changes in accounting policies - IFRS 9 and IFRS 15, Note 2.2.2. - Financial instruments - Accounting policies applicable after 1 January 2018, Note 3 - Financial instruments and risk management, Note 6 - Critical accounting estimates and judgments in applying accounting policies, Note 17 - Loans and advances to customers, Note 20 - Financial investments at amortised cost, Note 16 - Cash and Cash equivalents, Note 18 - Prepayments and accrued income, and note 19 - Other assets.

The Bank adopted IFRS 9 - Financial Instruments (IFRS 9) for the first time in the 2018 reporting period (Previously, IAS 39 - Financial Instruments: Recognition and Measurement was applied). As a result, the accounting policies applicable to financial instruments have been amended accordingly.

Upon transition to IFRS 9, a US\$130 million adjustment was made to decrease retained earnings, representing 6 percent of the total equity of the Bank as at 31 December 2018, which is a material portion of the statement of financial position.

IFRS 9 requires the recognition of expected credit losses (ECL) on all financial assets and off balance sheet exposures within the scope of its impairment model.

The ECL on loans and advances and investments at amortized cost are measured using a three-stage model, which is outlined in Note 2.2.2.

The impairment of financial assets was considered to be a matter of most significance in the current year audit due to the following:

- The first time adoption of IFRS 9 by the Bank.
- Judgment applied by management in determining the ECL, particularly in relation to:
 - classifying exposures into the relevant impairment stage (as informed by significant increase in credit risk (SICR), number of days in arrears and default status);
 - determining credit risk grade;
 - determining the probability of default (PD), loss given default (LGD), and exposure at default (EAD); and
 - application of overlays.
- Extensive disclosure requirements resulting from the adoption of IFRS 9 and the related incremental disclosures of IFRS 7.

The Bank's financial assets, both on and off balance sheet, subject to credit risk were US\$14,814 million, as at 31 December 2018, which represents a material portion of the statement of financial position. Furthermore, the total impairment recognised by the Bank on these financial assets amounted to US\$296 million, for the year ended 31 December 2018.

Our audit of the expected credit losses on financial assets included the following procedures:

We assessed the appropriateness of accounting policies and evaluated the impairment methodologies applied by the Bank against the requirements of IFRS 9.

We utilized our experts to assess whether the models used by the Bank complied with IFRS 9.

We assessed the design and implementation, and tested the operating effectiveness of controls over the following areas:

- the modelling process, including governance over monitoring of the models and approval of key assumptions;
- the classification of financial assets and off balance sheet exposures into the various stages of impairment ; and
- the integrity of data inputs into the ECL model.

For a sample of borrowers, we assessed the classification into an impairment stage with reference to the Bank's criteria for determination of SICR and identification of impaired or default exposures.

For a sample of exposures, we assessed the reasonableness of the credit risk grade applied by management by discussing the credit rating report with management, obtaining an understanding of the assumptions used and comparing these assumptions with the financial information and other publicly available information relating to the borrower.

We agreed the inputs used in the model including the exposures at default, the type of product and the effective interest rate to the information in the credit portfolio.

We assessed the judgment applied by management in determining the PD, LGD and EAD against credit ratings, historical performance of exposures, contractual terms and other appropriate data.

Where management overlays were used, we assessed these against our understanding of relevant external factors such as the economic environment affecting the Bank's customers.

We tested the mathematical accuracy of the expected credit losses for a sample of loans.

We assessed the adequacy of disclosures in the financial statements against the requirements of IFRS 9.

Financial Statements for the Year Ended 31 December 2018



Other Information

Management is responsible for the other information. The other information comprises 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 auditor's 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 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 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 for such internal control as 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.

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 scepticism 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 override 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 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 identified 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 2018



Report on Other Legal Requirements

In accordance with 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. The Bank's financial statements agree to the accounting records.

The engagement partners on the audit resulting in this independent auditors' report are Tinashe Rwodzi (ICAZ/253568 and PAAB/100) and Abdel Hadi M. Ibrahim (GRAA/18795).



AFRICAN EXPORT-IMPORT BANK

Statement of Financial Position for the Year Ended 31 December 2018

	Note	2018 US\$ 000	2017 US\$ 000
ASSETS			
Cash and cash equivalents	16	1,918,434	3,214,573
Derivative assets held for risk management	5	3,684	3,574
Loans and advances to customers	17	11,134,424	8,545,716
Prepayments and accrued income	18	134,358	82,329
Financial investments at amortised cost	20	168,328	30,268
Other assets	19	13,988	2,931
Property and equipment	23	39,806	32,838
Intangible assets	24	6,348	1,248
Total assets		13,419,370	11,913,477
LIABILITIES			
Derivative liabilities held for risk management	5	24,840	21,467
Due to banks	21	5,147,944	4,231,374
Deposits and customer accounts	25	2,365,385	2,149,356
Debt securities in issue	22	3,027,717	2,881,622
Other liabilities	26	293,737	505,624
Total liabilities		10,859,623	9,789,443
CAPITAL FUNDS			
Share capital	27	506,300	470,816
Share premium	28	764,790	562,350
Warrants	32	191,531	91,723
Reserves	29	594,541	474,733
Retained earnings	30	502,585	524,412
Total capital funds		2,559,747	2,124,034
Total liabilities and capital funds		13,419,370	11,913,477

The financial statements were approved by the Board of Directors on 23 March 2019 and signed on its behalf as follows:

Prof. 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 2018

AFRICAN EXPORT-IMPORT BANK

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2018

	Note	2018 US\$ 000	2017 US\$ 000
Interest and similar income using the effective interest method	8	709,478	606,074
Interest and similar expense using the effective interest method	9	(305,654)	(267,749)
Net interest and similar income		403,824	338,325
Fee and commission income	10	93,717	39,245
Fee and commission expense	11	(10,029)	(8,883)
Net fee and commission income		83,688	30,362
Other operating income	12	2,321	3,439
Operating income		489,833	372,126
Personnel expenses	13	(46,984)	(38,758)
General and administrative expenses	14	(36,292)	(24,672)
Depreciation and amortisation expense	24, 25	(4,315)	(3,113)
Operating expense		(87,591)	(66,543)
Exchange adjustments		(2,337)	(1,641)
Fair value loss from financial instruments at FVTPL		(5,126)	(4,718)
Cashflow hedges	30	–	(13,476)
Operating profit before impairment and provisions		394,779	285,748
Credit losses on financial instruments	17.1.b	(118,877)	(65,254)
PROFIT FOR THE YEAR		275,902	220,494
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Gains on revaluation of land and buildings	24	9,491	9,279
Total items that will not be reclassified to profit or loss in subsequent periods		9,491	9,279
Total other comprehensive income		9,491	9,279
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		285,393	229,773
Earnings per share			
Basic earnings per share (expressed in US\$ 000 per share)	15	5.62	5.58
Diluted earnings per share (expressed in US\$ 000 per share)	15	2.44	2.25

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 2018

	Share Capital (Note 27) US\$ 000	Share Premium (Note 28) US\$ 000	Warrants (Note 32) US\$ 000	General reserve (Note 29) US\$ 000	Asset revaluation reserve (Note 29) US\$ 000	Cashflow hedge reserve (Note 29) US\$ 000	Project preparation facility Fund reserve (Note 29) US\$ 000	Retained earnings (Note 30) US\$ 000	Total US\$ 000
Balance at 31 December 2017	470,816	562,350	91,723	447,762	19,471	–	7,500	524,412	2,124,034
Impact of Adopting IFRS 9 at 1 January 2018 (note 36)	–	–	–	–	–	–	–	(129,878)	(129,878)
Restated Balance at 1 January 2018	470,816	562,350	91,723	447,762	19,471	–	7,500	394,534	1,994,156
Total comprehensive income									
Profit of the year	–	–	–	–	–	–	–	275,902	275,902
Other comprehensive income									
Recycling of fair value adjustment to profit and loss	–	–	–	–	–	–	–	–	–
Asset revaluation reserve	–	–	–	–	9,491	–	–	–	9,491
Transactions with equity owners of the Bank									
Project preparation facility Fund reserve	–	–	–	–	–	–	7,500	(7,500)	–
Transfer to general reserve	–	–	–	103,466	–	–	–	(103,466)	–
Depreciation transfer: buildings	–	–	–	–	(649)	–	–	649	–
Warrants retirement	–	–	(91,723)	–	–	–	–	–	(91,723)
Issued and Paid in capital during 2018	35,484	202,440	191,531	–	–	–	–	–	429,455
Dividends for year 2017	–	–	–	–	–	–	–	(57,534)	(57,534)
Balance at 31 December 2018	506,300	764,790	191,531	551,228	28,313	–	15,000	502,585	2,559,747
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									
Effective portion of changes in fair value of cash flow hedge	–	–	–	–	–	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 during the year	92,328	207,040	191,582	–	–	–	–	–	490,950
Dividends for year 2016	–	–	–	–	–	–	–	(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

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

Financial Statements for the Year Ended 31 December 2018

AFRICAN EXPORT-IMPORT BANK

Statement of Cash Flows for the Year Ended 31 December 2018

	Note	2018 US\$ 000	2017 US\$ 000
CASHFLOW FROM OPERATING ACTIVITIES			
Profit for the year		275,902	220,494
Adjustment for non-cash items:			
Depreciation of property and equipment	24	3,818	2,641
Amortization of intangible assets	25	500	472
Net interest income		(403,824)	(338,325)
Impairment on loans and advances	18.1(b)	117,257	63,397
Impairment loss on investment securities	18.2(b)	1,130	598
Impairment on accrued income	18.2(b)	123	1,259
Leave pay expense		367	206
Fair value loss on derivative instruments		5,126	18,194
		399	(31,064)
Changes in :			
Money market placements - Maturity more than 3 months		2,244,638	(2,094,442)
Prepayments and accrued income		(52,152)	(54,624)
Hedging Derivative Instruments		(1,863)	(52)
Other assets		(11,057)	(460)
Other liabilities		(217,342)	346,892
Deposits and customer accounts		216,029	(1,629,137)
Loans and advances to customers		(2,680,869)	1,754,862
		(502,217)	(1,708,025)
Interest received		537,860	559,979
Interest paid		(279,635)	(224,835)
Net cash outflows used in operating activities		(243,992)	(1,372,881)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases and additions to property and equipment	24,25	(7,112)	(2,640)
Purchase of treasury bills		(139,190)	-
Net cash outflows used in investing activities		(146,302)	(2,640)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash from capital subscriptions and share premium		209,462	283,790
Proceeds from issue of warrants	33	191,531	191,582
Retirement of warrants	33	(91,723)	(198,575)
Dividends paid		(33,143)	(21,195)
Proceeds from borrowed funds and debt securities		3,305,466	9,339,015
Repayment of borrowed funds and debt securities		(2,242,800)	(8,368,045)
Net cash inflows from financing activities		1,338,793	1,226,572
Net increase (decrease) in cash and cash equivalents		948,499	(148,949)
Cash and cash equivalents at 1 January		969,935	1,118,884
CASH AND CASH EQUIVALENTS AT 31 DECEMBER			
Represented in:			
Cash and Cash Equivalent as presented in the statement of financial position	16	1,918,434	3,214,573
Money market placements - Maturity more than 3 months		-	(2,244,638)
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		1,918,434	969,935

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 2018

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 (Côte 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 2018 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 dollars. 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.

2.2 INITIAL APPLICATION OF NEW AMENDMENTS TO THE EXISTING STANDARDS EFFECTIVE FOR 1 JANUARY 2018

2.2.1 Change in Accounting Policies - IFRS 9 and IFRS 15

The Bank has adopted IFRS 9 from the effective mandatory application date of 1 January 2018, which resulted in changes in accounting policies and adjustments to previously recognised amounts in the financial statements.

Due to the transition method chosen by the Bank in applying IFRS 9, the comparative information throughout these financial statements was not restated to reflect its requirements. Therefore, any adjustment to account for changes between IAS 39 and IFRS 9 at the transition date was recognised in the opening retained earnings and other reserves.

Accordingly, the information presented for the comparative period does not reflect IFRS 9 and is not entirely comparable to the information presented for 31 December 2018 under IFRS 9.

The adoption of IFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognised by the Bank. Accordingly, the impact on the comparative information is limited to new disclosure requirements.

IFRS 9 "Financial Instruments"

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The requirements of IFRS 9 represent a significant change from IAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

As a result of the adoption of IFRS 9, the Bank has adopted consequential amendments to IAS 1 Presentation of Financial Statements, which require separate presentation in the statement of profit or loss and OCI of interest revenue calculated using the effective interest method. Previously, the Bank disclosed this amount in the notes to the financial statements.

Also, the Bank used consistent line items description across current and prior period. In particular, the Bank renamed 'Financial investment - held to maturity, used in 2017 to 'Financial investment at amortised cost' on its statement of financial position as at 1 January 2018 to reflect the measurement category for IFRS 9.

Financial Statements for the Year Ended 31 December 2018

Furthermore, the Bank has adopted consequential amendments to IFRS 7 Financial Instruments: Disclosures that are applied to disclosures in 2018, but have not been applied to the comparative information.

Classification and Measurement of financial assets

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is assessed for classification. See the Transition to IFRS on note 36 for an explanation of how the Bank classifies financial assets under IFRS 9.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities with minor changes with no significant impact on the financial liabilities of the Bank.

Expected Credit Loss Model – Impairment of financial instruments

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' model. The new impairment model also applies to certain loan commitments and financial guarantee contracts but not to equity investments.

Under IFRS 9, credit losses are recognised earlier than under IAS 39. See the Transition to IFRS on note 36 for an explanation of how the Bank applies the impairment requirements of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

The Bank initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8 without any practical expedients. The timing or amount of the Bank's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements.

2.2.2 Financial Instruments - Accounting Policies Applicable after 1 January 2018

Initial recognition and measurement

Financial assets and financial liabilities are recognised 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, investment securities, other assets, amounts due to banks, derivative financial instruments, debt securities in issue, deposit and customer accounts and other liabilities. The Bank

borrow 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.

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 customer's account.

A financial asset or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

Subsequent measurement

A financial asset is classified as subsequently measured at: amortized cost, fair value through other comprehensive income (FVOCI) or FVTPL on the basis of both the Bank's business model for managing the financial asset and the contractual cash flows characteristics of the financial asset.

A debt instrument is measured at amortized cost if it meets both of the following conditions:

- the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt instrument is measured at FVOCI only if it meets both of the following conditions:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

All other financial assets are classified as measured at FVTPL.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in other comprehensive income (OCI). This election is made on an investment-by-investment basis. Amount presented in OCI shall not be subsequently transferred to profit or loss on disposal or derecognition but the Bank may transfer the cumulative gain or loss to retained earnings or within equity.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The Bank also designates financial liabilities at fair value through profit or loss when

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis.
- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Business Model Assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - for example, whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realized.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition.

'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (for example, liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the

contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (for example, non-recourse asset arrangements); and
- features that modify consideration of the time value of money - for example, periodical reset of interest rates.

Reclassifications

Financial assets

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Financial liabilities

Financial liabilities are not reclassified.

Modifications of financial assets and financial liabilities

Financial assets

If the terms of a financial asset are modified, the Bank evaluates whether the cash flows of the modified asset are substantially different. If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value. Any costs or fees incurred as part of the modification are recognised as part of the gain or loss on derecognition.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recalculates the gross carrying amount of the financial asset using the original EIR and recognizes any difference arising between this recalculated amount and the existing gross carrying amount as a modification gain or loss in profit or loss. Any costs or fees incurred as part of the modification adjust the carrying amount of the modified financial asset, and are amortised over the remaining term of the modified financial asset.

Financial liabilities

The Bank derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the financial liability extinguished and the new financial liability with modified terms is recognized in profit or loss.

When the cash flows of the modified financial liability are not substantially different, then the modification does not result in derecognition of the financial asset and any difference is

Financial Statements for the Year Ended 31 December 2018

recognised in profit or loss (similar to the principle for accounting for modification of financial assets that do not result in derecognition).

Offset of financial assets

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a currently enforceable legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. The financial assets and liabilities are presented on a gross basis.

Income and expenses are presented on a net basis only when permitted by accounting standards, or for gains and losses arising from a Bank of similar transactions such as in the Bank's trading activity.

Derecognition

Financial assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability in the statement of financial position.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income is recognized in profit and loss.

From 1 January 2018 any cumulative gain/loss recognised in OCI in respect of equity investment securities designated as at FVOCI is not recognised in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial assets transferred to external parties that do not qualify for de-recognition are reclassified in the statement of financial position to assets pledged as collateral, if the transferee has received the right to sell or re-pledge them in the event of default from agreed terms. Initial recognition of assets pledged as collateral is at fair value, whilst subsequently measured at amortized cost or fair value as appropriate.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

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 that meet specified criteria. However, the Bank has discontinued its hedge accounting from 1 January 2017.

Derivative financial instruments

The Bank enters into interest rate swaps, cross-currency 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.

Impairment

The Bank recognizes loss allowances for expected credit losses (ECL) on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments;
- other assets and trade receivables;
- financial guarantee contracts issued; and
- loan commitments issued.

No impairment loss is recognized on equity investments.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than other receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for other assets and receivables are always measured at an amount equal to lifetime ECL.

The Bank considers a debt security to have low credit risk when their credit risk rating is equivalent to the globally understood definition of 'investment grade' or it is a sovereign debt issued in the local currency.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

Lifetime ECL are credit losses that result from all possible default event over the expected life of a financial instrument.

Measurement of ECL

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (that is, the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover from the holder, the debtor or any other party.

IFRS 9 introduces a three-stage model for impairment based on changes in credit risk since initial recognition. The three-stage model is described below;

Stage 1 - Financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. The financial instruments in stage 1 have their ECL measured at expected credit losses on a 12 months basis.

Stage 2 - Financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. The financial instruments in stage 2 have their ECL measured based on expected credit losses on a lifetime basis.

Stage 3 - Financial assets that have objective evidence of impairment at the reporting date and those purchased or originated credit impaired. Financial instruments in this stage are considered non-performing. The financial instruments in stage 3 have their ECL measured based on expected credit losses on a lifetime basis.

Default

Under IFRS 9, the Bank will consider a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held); or
- the borrower is more than 90 days past due on any material credit obligation to the Bank.
- Overdrafts are considered past due once the customer has breached an advised limit or been advised of a limit that is smaller than the current amount outstanding.

In assessing whether a borrower is in default, the Bank will consider indicators that are:

- qualitative: for example, breach of covenants that are deemed as default events;
- quantitative: for example, 90 days overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on internal and external objective evidence of impairment. Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Significant increase in credit risk

The Bank has established a framework that considers qualitative, quantitative, and 'backstop' (30 days past due presumption) indicators to determine whether the credit risk on a particular financial instrument has increased significantly since initial recognition. The framework aligns with the Bank's internal credit risk management process.

The criteria for determining whether credit risk has increased significantly will vary by portfolio and will include backstop based on delinquency.

In determining whether the credit risk (that is, risk of default) on a financial instrument has increased significantly since initial recognition, the Bank will consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information and analysis based on the Bank's historical experience, expert credit assessment and forward-looking information. The Bank will primarily assess whether a significant increase in credit risk has occurred for an exposure in line with its staging criteria by comparing:

- the risk of default on the exposure as at the reporting date; with
- the risk of default on the exposure as at the date of initial recognition

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From a quantitative point of view, the Bank uses changes in internal ratings of financial assets to assess significant increase/decrease in credit risk. Evidence of SICR depends on rating at initial recognition and the extent of movement (number of notches downgrade/upgrade) as at reporting date.

The Bank apply different notch movement across each rating grade as evidence of SICR. Generally, obligors with higher credit rating would require more notches downgrade to evidence SICR, when compared with obligors with lower credit rating.

Similarly, the Bank shall monitor changes in external ratings of financial instruments to assess SICR. Evidence of SICR depends on rating at initial recognition and the extent of movement (number of notches downgrade) as at reporting date.

The Bank also uses the backstop indicator otherwise known as “30 days past due presumption” to assess significant increase in credit risk. Evidence of SICR shall depend on the number of days for which contractual payments are past due.

From a qualitative perspective, the Bank shall use a wide range of qualitative criteria for staging purposes both individually and collectively, leveraging on IFRS 9 recommendations and a range of other factors. In this case, the Bank shall consider, significant changes in internal price indicators of credit risk, significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instruments with the same expected life, actual or expected significant change in the operating results of the borrower, expectation of forbearance or restructuring due to financial difficulties etc.

Individual or collective assessment of significant increase in credit risk

The objective of the impairment requirements in IFRS 9 is to recognise lifetime expected credit losses for all financial instruments for which there has been a significant increase in credit risk since initial recognition – whether assessed on an individual or collective basis. For some instruments, a significant increase in credit risk may be evident on an individual instrument basis before the financial instrument becomes past due. In these cases, an assessment of whether there has been a significant increase in credit risk is carried out on an individual basis.

For some other instruments, a significant increase in credit risk may not be evident on an individual instrument basis before the financial instrument becomes past due. For example, this could be the case when there is little or no updated information that is routinely obtained and monitored on an individual instrument until a customer breaches the contractual terms – for example, for many retail loans. In these cases, an assessment of whether there has been a significant increase in credit risk on an individual basis would not faithfully represent changes in credit risk since initial recognition, and so if more forward-looking information is available on a collective basis, an entity makes the assessment on a collective basis.

To assess significant increases in credit risk on a collective basis, the Bank group financial instruments on the basis of

shared credit risk characteristics, which may include any of the following examples:

- instrument type;
- credit risk ratings;
- collateral type;
- date of origination;
- remaining term to maturity;
- industry;
- geographical location of the borrower; and
- the value of collateral relative to the financial asset if it has an impact on the PD – for example, loan-to-value
- ratios for non-recourse loans in some jurisdictions.

The Bank may change the grouping of financial instruments for collective assessment over time as new information becomes available.

Restructured financial assets

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 renegotiated loan recognized as a new loan at fair value.

Under IFRS 9, when the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset’s credit risk has increased significantly reflects comparison of:

- the risk of default at the reporting date based on the modified terms; with
- the risk of default based on data on initial recognition and the original contractual terms.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is derecognized and replaced with a new one due to financial difficulties of the borrower, then the modified asset is considered to be a new financial asset. Accordingly, the date of modification is treated as the date of initial recognition for the purpose of impairment calculation. The determination of whether the asset’s credit risk has increased significantly reflects comparison of:

- the risk of default at the reporting date based on the modified terms; with
- the risk of default based on data on initial recognition (that is, the modification date) and the modified terms.

However, in some unusual circumstances following a modification that results in derecognition of the original financial asset, there may be evidence that the modified financial asset is credit-impaired at initial recognition, and thus, the financial asset should be recognized as an originated credit-impaired financial asset. This might occur, for example, in a situation in which there was a substantial modification of a distressed asset that resulted in the derecognition of the original financial asset. In such a case, the Bank treats the new

assets resulting from the modification as credit-impaired on the modification date (initial recognition).

Credit-impaired financial assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost and debt financial assets carried at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment. In addition, a retail loan that is overdue for 90 days or more is considered impaired. In making an assessment of whether an investment in a sub-national/corporate debt instrument is credit-impaired, the Bank considers the following factors:

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The current financial situation of the sub-national/corporate issuer.
- The mechanisms in place to provide the necessary support (from the central government), as well as the intention, reflected in public statements of government/corporate issuer and availability to use those mechanisms.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount

of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and

- debt instruments measured at FVOCI: no loss allowance is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off and this is taken as a derecognition event. However, financial assets that are written off are still subject to enforcement activities in order to comply with the Bank's procedures for recovery of amounts due.

Financial liabilities

The Bank classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortised cost or FVTPL (or as derivatives designated as hedging instruments in an effective hedge). 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 those subsequently measured at amortised, net of directly attributable transaction costs.

Financial guarantees and loan commitments

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument. 'Loan commitments' are firm commitments to provide credit under pre-specified terms and conditions. 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 issued or commitments to provide a loan at a below-market interest rate are initially measured at fair value and the initial fair value is amortised over the life of the guarantee or the commitment. Subsequently, they are measured as at the higher of this amortised amount and the amount of loss allowance.

For loan commitments, the Bank recognises loss allowance in line with the ECL impairment requirements. Liabilities arising from financial guarantees and loan commitments are included within provisions.

Amortised cost and gross carrying amount

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

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Change in cash flows

When an entity revises its estimates of payments or receipts (excluding modifications that do not result in derecognition and changes in estimates of expected credit losses), it shall adjust the gross carrying amount of the financial asset or amortised cost of a financial liability to reflect actual and revised estimated contractual cash flows. The entity recalculates the gross carrying amount of the financial asset or amortised cost of the financial liability as the present value of the estimated future contractual cash flows that are discounted at the financial instrument's original EIR (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets) or, when applicable, the revised EIR. The adjustment is recognised in profit or loss as income or expense.

Calculation of interest income and expense

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortised cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Presentation

Interest income and expense presented in the statement of profit or loss and OCI include:

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis
- interest on debt instruments measured at FVOCI calculated on an effective interest basis

2.2.3 Financial Instruments - Accounting Policies Applicable before 1 January 2018 - Comparative Period

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.

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 customer's account.

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.

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.

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 amounts due to banks, debt securities in issue and customer deposits that are initially measured at fair value, net of directly attributable transaction costs. Subsequently, they are measured at amortised cost.

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 that 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 percent to 125 percent 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.

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. 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

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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 that, 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.

De-recognition of financial assets

A financial asset (or, where applicable, a part of a financial asset) is primarily derecognized (that is, 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.

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.

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.

Financial guarantees

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.

Other accounting policies

2.3 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.

2.4 Cash and Cash Equivalent

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

2.5 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.

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

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.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - that is, the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out. If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

The fair value of a financial liability with a demand feature (for example, a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

2.6 Debt Securities in Issue

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

2.7 Fees and Commission Income

Unless included in the effective interest rate calculation, fees and commissions are generally recognized when the Bank satisfies the performance obligation in the contract by transferring the promised service to a customer. Fees or component of fees that are performance linked (for example, investment banking advisory services including among other things evaluating financing options, debt restructuring, etc.) are recognized when the performance criteria are fulfilled in accordance with the applicable terms of engagement.

2.8 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. This also include recoveries from previously written-off facilities.

2.9 Operating Expenses

Operating expenses are recorded on accrual basis.

2.10 Dividends on Ordinary Shares

Dividends 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.

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2.11 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 (that is, 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).

2.12 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 buildings 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's original cost.

2.13 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
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2.14 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 recognised in profit or loss over the life of a depreciable asset as a reduced depreciation expense.

2.15 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.

2.16 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 restructuring. If benefits are not expected to be wholly settled within 12 months of the reporting date, then they are discounted.

iv. Short term employee benefits

Short term employee benefits are expensed as the related service is provided. A liability 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.

2.17 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.

2.18 Operating Leases

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

i) Bank as lessee

Leases that 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 a 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.

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 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

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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.

2.19 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.

2.20 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 initial application of the below IFRS is not known :

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 (for example, personal computers) and short-term leases (that is, 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 (that is, the lease liability) and an asset representing the right to use the underlying asset during the lease term (that is, 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.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (for example, 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 2019, 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 (that is, 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.

Other standards

The following amended standards are not expected to have a significant impact on the Bank’s financial statements.

- Annual Improvements to IFRS Standards 2015–2017 Cycle – various standards
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)
- IFRIC 23 Uncertainty over Income Tax Treatments
- Amendments to References to Conceptual Framework in IFRS Standards

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 RMPP primarily covers the following:

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

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

3.2 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 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.

3.3.1 Credit Risk Exposure

The following table contains an analysis of the credit quality of financial assets measured at amortised cost. For financial assets, the amounts in the table represent gross carrying amounts. For loan commitments and financial guarantee contracts, the amounts in the table represent the amounts committed or guaranteed, respectively. The gross amount of the financial assets below represents the Bank's maximum exposure to credit risk on these assets.

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Credit Risk Exposure

Maximum exposure to credit risk (including credit quality analysis)

In US\$ 000	12-month ECL	2018 Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	2017
Loans and advances to customers at amortised cost					
Grades 1-3: Low risk	1,256,151	-	-	1,256,151	-
Grades 4-6: Satisfactory risk	2,471,460	-	-	2,471,460	39,059
Grades 7-8: Moderate list	3,828,321	-	-	3,828,321	5,234,639
Grades 9-10: Watchlist	1,013,738	-	-	1,013,738	1,519,316
Grade 11: Sub-standard	-	1,684,583	257,629	1,942,212	1,301,810
Grades 12-13: Doubtful and Bad	-	90,893	671,848	762,741	631,491
Grade 14: Loss	-	-	436	436	-
Gross amount	8,569,670	1,775,476	929,913	11,275,059	8,726,315
Loss allowance	(47,849)	(60,049)	(162,520)	(270,418)	-294,351
Carrying amount	8,521,821	1,715,427	767,393	11,004,641	8,431,964
Prepayments and Accrued income					
Ungraded	-	-	49,549	49,549	7,320
Gross amount	-	-	49,549	49,549	7,320
Loss allowance	-	-	(9,722)	(9,722)	(1,319)
Carrying amount	-	-	39,827	39,827	6,001
Loan Commitment					
Grades 1-3: Low risk	-	-	-	-	-
Grades 4-6: Satisfactory risk	40,617	-	-	40,617	5,096
Grades 7-8: Moderate list	335,623	-	-	335,623	263,229
Grades 9-10: Watchlist	1,545	-	-	1,545	-
Grade 11: Sub-standard	167,389	-	-	167,389	-
Grades 12-13: Doubtful and Bad	-	-	-	-	52,916
Grade 14: Loss	-	-	-	-	-
Gross amount	545,174	-	-	545,174	321,241
Loss allowance	(7,171)	-	-	(7,171)	(3,940)
Carrying amount	538,003	-	-	538,003	317,301
Financial guarantee contracts					
Grades 1-3: Low risk	-	-	-	-	-
Grades 4-6: Satisfactory risk	50,000	-	-	50,000	236,014
Grades 7-8: Moderate list	199,182	-	-	199,182	65,525
Grades 9-10: Watchlist	-	-	-	-	75,142
Grade 11: Sub-standard	187,284	-	-	187,284	-
Grades 12-13: Doubtful and Bad	-	-	-	-	-
Grade 14: Loss	-	-	-	-	-
Gross amount	436,466	-	-	436,466	376,681
Loss allowance	(1,645)	-	-	(1,645)	(701)
Carrying amount	434,821	-	-	434,821	375,980

Credit Risk Exposure

Maximum exposure to credit risk (including credit quality analysis), continued

In US\$ 000	12-month ECL	2018 Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	2017
Letters of credit					
Grades 1-3: Low risk	-	-	-	-	-
Grades 4-6: Satisfactory risk	155,652	-	-	155,652	226,847
Grades 7-8: Moderate list	260,238	-	-	260,238	9,000
Grades 9-10: Watchlist	-	-	-	-	-
Grade 11: Sub-standard	5,669	-	-	5,669	82,181
Grades 12-13: Doubtful and Bad	-	-	-	-	1,912
Gross amount	421,559	-	-	421,559	319,940
Loss allowance	(343)	-	-	(343)	(85)
Carrying amount	421,216	-	-	421,216	319,855

The following table sets out the credit quality of debt investment securities measured at amortised. The analysis has been based on external Rating Agency ratings. All Investments securities, money market placements deposits with other banks are under stage 1 given that there is no significant deterioration in the credit risk.

	Note	2018	2017
Investment securities - Treasury bills			
Rated AAA	20	-	-
Rated AA- to AA+	20	-	-
Rated A- to A+	20	-	-
Rated BBB+ and below	20	-	-
Unrated	20	170,268	30,268
Gross amount		170,268	30,268
Loss allowance		(1,940)	(810)
Carrying amount		168,328	29,458

	Note	2018	2017
Money market placements			
Rated AAA	16.1	150,107	180,605
Rated AA- to AA+	16.1	50,000	100,267
Rated A- to A+	16.1	602,659	1,341,863
Rated BBB+ and below	16.1	502,860	730,440
Gross amount		1,305,626	2,353,175
Loss allowance		(36)	(99)
Carrying amount		1,305,590	2,353,076

	12 Month ECL	Lifetime ECL not credit Impaired	Lifetime ECL Credit Impaired	Total	2017
Deposit with other banks					
Rated AAA			16.1	-	-
Rated AA- to AA+			16.1	469,577	453,844
Rated A- to A+			16.1	32,010	280,968
Rated BBB+ and below			16.1	170	36,988
Unrated				111,000	89,507
Gross amount				612,757	861,307
Loss allowance				(14)	(3)
Carrying amount				612,743	861,304

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The following table sets out the credit analysis for loans and advances to customers measured at FVTPL.

	2018	2017
In millions of US dollars		
Loans and advances to customers		
Grades 7-8: Moderate risk	129,783	-
Total carrying amount	129,783	-

The following table shows an analysis of counterparty credit exposures arising from derivative transactions. Derivative transactions of the Bank are generally fully collateralised by cash.

In US\$ 000	Notional Amount	Fair Value	Bilateral Collateralized Notional Amount	Fair Value
2018				
Derivative assets	888,500	3,684	888,500	3,684
Derivative liabilities	700,000	(24,840)	700,000	(24,840)
2017				
Derivative assets	575,000	3,574	575,000	3,574
Derivative liabilities	1,100,000	(21,467)	1,100,000	(21,467)

Deposits with other banks

The Bank held cash and bank balances of US\$613 million at December 2018 (2017: US\$862 million). A significant portion of cash and bank balances are held with central banks and financial institution counterparties that are rated BB+ to AA+, based on external rating agencies ratings. In some cases, the Bank can maintain cash and bank balances with sovereigns with no rating.

Collateral held and other credit enhancement

The Bank holds collateral and other credit enhancements against certain of its credit exposures. The following table sets out the principal types of collateral held against different types of financial assets

Type of Credit Exposure

	Percentage of exposure that is subject to collateral requirements		Principal type of collateral held
In US\$ 000	2018	2017	
Derivative transactions	100	100	Cash
Loans and advances to customers	100+	100+	Equity instruments Cash Machinery Inventory Treasury bills Insurance Legal mortgage Guarantee
Debt investment securities	-	-	None
Money market placements	-	-	None
Deposit with other banks	-	-	None

Loans and advance to customers

The general creditworthiness of a corporate customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Bank generally requests that corporate borrowers provide it. The Bank may take collateral in the form of a cash and non-cash collateral like, treasury bills, legal mortgage, inventories and other lines and financial guarantees etc.

In the course of lending, the bank focuses on the high quality customers and therefore does not routinely update the valuation of collateral held against all loans to these customers. Valuation of collateral is updated when the loan is put on a watch list and

the loan is monitored more closely. For credit-impaired loans, the Bank obtains appraisals of collateral because it provides input into determining the management credit risk actions.

At 31 December 2018, the net carrying amount of credit-impaired loans and advances to customers amounted to US\$174 million (2017: US\$61 million) and the value of identifiable collateral held against those loans and advances amounted to US\$215 million (2017: US\$187 million). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that it is held against. The table below summarises the total values of the collateral by collateral types;

Collateral types	2018 US\$	2017 US\$
Guarantees	6,282,519	4,797,687
Equity instruments	836,963	457,964
Machinery	2,996,907	3,290,232
Cash	2,866,667	2,031,598
Treasury bills	1,427,265	713,731
Insurance	1,399,613	1,104,084
Legal Mortgage	227,329	319,692
Inventories	153,337	–
Total	16,190,600	12,714,988

During the period, there was no change in the Bank's collateral policies.

Assets obtained by taking possession of collateral

The Bank's policy is to pursue timely realisation of the collateral in an orderly manner. The Bank does not generally use the non-cash collateral for its own operations. During the period there were no assets obtained by taking possession of collateral.

3.3.2 Amount Arising from Expected Credit Loss (ECL)

Inputs, assumptions and techniques used for estimating impairment

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information

that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information.

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime probability of default (PD) as at the reporting date; with
- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

Credit risk grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. In some cases, the Bank allocate exposures to credit risk grade using rating grade by external rating agencies. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring typically involves use of the following data:

1. Information obtained during periodic review of customer files - for example, audited financial statements, management accounts, budgets and projections, Payment record- this includes overdue status as well as a range of variables about payment ratios. Others relevant factors are gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
2. Data from credit reference agencies, rating agencies, press articles, changes in external credit ratings
3. Quoted bond and credit default swap (CDS) prices for the borrower where available
4. Existing and forecast changes in business, financial and economic conditions

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The table below shows the Bank's rating grades mapped to external rating agencies and their risk definitions:

Generating the term structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used.

Rating Grades	S&P Equivalent	IFRS 9 Reclassification Grade	Description
1	AAA		
2	AA+ & AA		Low risk
3	AA- & AA+		
4	A		
5	A-	IF1	Satisfactory risk
6	BBB+ to BBB-		
7	BB+		Moderate risk
8	BB & BB-		
9	B+ & B	IF2	Moderate risk
10	B- & CCC+		
11	CCC & CCC-	IF3	Watchlist
12			
13	D to CC	IF5	Substandard...default
14			

The Bank employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

This analysis includes the identification and calibration of relationships between changes in default rates and changes in key macroeconomic factors as well as in-depth analysis of the impact of certain other factors (for example, forbearance experience) on the risk of default. For most exposures, key macroeconomic indicators include: GDP growth, benchmark interest rates and unemployment. For exposures to specific industries and/or regions, the analysis may extend to relevant commodity and/or real estate prices.

The Bank's Economic Research team (RICO) in discussion with the Credit Risk Management, Finance, Treasury, and Business development teams shall at the end of every reporting period identify macroeconomic variables that may impact the Bank's risk assets portfolio. Based on advice from the RICO team and consideration of a variety of external actual and forecast information, the Bank produces base case, best case and worst case forecasts of the selected macroeconomic indicators, based on trends in the indicators and macroeconomic commentaries. The Bank then uses these forecasts to adjust its ECL estimates.

In determining the ECL for other assets, the Bank applies the simplified model to estimate ECLs, adopting a provision matrix to determine the lifetime ECLs. The provision matrix estimates ECLs on the basis of historical default rates, adjusted for current and future economic conditions (expected changes in default rates) without undue cost and effort.

Determining whether credit risk has increased significantly

The criteria for determining whether credit risk has increased

significantly vary by portfolio and include quantitative changes in PDs and qualitative factors, including a backstop based on delinquency.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's quantitative modelling, the remaining lifetime PD is determined to have increased by more than a predetermined percentage/range.

Using its expert credit judgement and, where possible, relevant historical experience, the Bank may determine that an exposure has undergone a significant increase in credit risk based on particular qualitative indicators that it considers are indicative of such and whose effect may not otherwise be fully reflected in its quantitative analysis on a timely basis.

As a backstop, the Bank considers that a significant increase in credit risk occurs no later than when an asset is more than 30 days past due. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

The Bank monitors the effectiveness of the criteria used to identify significant increases in credit risk by regular reviews to confirm that:

- the criteria are capable of identifying significant increases in credit risk before an exposure is in default;
- the criteria do not align with the point in time when an asset becomes 30 days past due; and
- there is no unwarranted volatility in loss allowance from transfers between 12-month PD (stage 1) and lifetime PD (stage 2).

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 derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

The Bank renegotiates loans to customers in financial difficulties (referred to as 'forbearance activities') to maximise collection opportunities and minimise the risk of default. Under the Bank's forbearance policy, loan forbearance is granted on a selective basis if the debtor is currently in default on its debt or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Both retail and corporate loans are subject to the forbearance policy. The Bank Audit Committee regularly reviews reports on forbearance activities.

For financial assets modified as part of the Bank's forbearance policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar forbearance action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioural indicators.

Generally, forbearance is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired/in default. A customer needs to demonstrate consistently good payment, in addition to other qualitative behaviours over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to 12-month ECL or Lifetime ECL not credit-impaired.

Definition of default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realising security (if any is held); or
- the borrower is past due more than 90 days on any material credit obligation to the Bank.
- Overdrafts are considered as being past due once the customer has breached an advised limit or been advised of a limit smaller

than the current amount outstanding.

- In assessing whether a borrower is in default, the Bank considers indicators that are:
 - qualitative – for example, breaches of covenant;
 - quantitative – for example, overdue status and non-payment on another obligation of the same issuer to the Bank; and
 - based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances. The Bank's definition of default largely aligns with that applied by the Bank for regulatory capital purposes.

Incorporation of forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. Based on advice from the Bank RICO and consideration of a variety of external actual and forecast information, the Bank formulates a forecast of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Bank operates, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case – represents a most-likely outcome and is aligned with information used by the Bank for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Where there are no significant correlations between the macroeconomic variable and default, the Bank supplements this analysis with expert judgement. In cases where the Bank uses expert judgment due to limitations, it shall keep exploring other options to arrive at a statistical basis for incorporating FLI into its ECL computation.

Furthermore, the Bank periodically carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macroeconomic variables and credit risk and credit losses. The economic scenarios used as at 31 December 2018 and 2017 are as follows;

	2018	2017
Crude price	Base 8% Range between 7 and 10%	Base 6% Range between 5 and 8%
Interest rates	Base 1% Range between 0.5 and 2%	Base 2% Range between 1 and 3%
GDP growth	Base 1.5% Range between 0 and 2.5%	Base 2% Range between 0.5 and 3%

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Predicted relationships between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analysing historical data over the past 5 years.

Measurement of ECL

The key inputs into the measurement of ECL are the term structure of the following variables:

- probability of default (PD);
- loss given default (LGD);
- exposure at default (EAD).

These parameters are generally derived from internally developed statistical models, external data and other historical data. They are adjusted to reflect forward-looking information as described above.

Probability of Default is a measure of the likelihood that an obligor will default on a contractual obligation. PD estimates are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors.

Generally, the Bank uses two approaches in estimating PDs: Internally generated PDs (where internal data is available) and External PDs (where internal data is unavailable).

For the purposes of PD estimation for internally rated financial assets, credit ratings were adopted as the basis for homogeneous segmentation. This means that PDs will be derived for each loan based on the credit rating attached to the loan. As a result, every loan with similar credit rating would have the same PD. In External PDs, market data are used to derive the PDs for counterparties.

If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD.

Loss Given Default is the measure of the proportion of the outstanding balance that the Bank stands to lose in the event of a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, currency adjustment factors, and recovery costs of any collateral that is integral to the financial asset. Due to insufficient historical recovery data, the Bank has applied standard recovery rates for different collateral types including sovereign and corporate investments. This is calculated by applying standard haircuts on the collateral value and calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

Exposure at default is an estimate of the outstanding balance on a credit facility at the time of default. The outstanding balance includes the gross amortised cost, accrued principal and interest, and overdue principal and interest. Multi-period EADs are a collection of EAD values referring to different time periods over the lifetime of a financial asset.

The Bank estimates the multi-period EAD for on-balance sheet exposures, based on the contractual repayment cash flows and expectation of future prepayment.

For off-balance sheet exposures, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract. In this case, the Bank will estimate the credit exposure equivalent (CEE) of all off-balance sheet exposures including lines of credit, letters of credit (LC), loan commitment, guarantees and standby letters of credit (SBLC). This is done using the credit conversion factor (CCF). CCF is the rate at which off-balance sheet commitments crystallise and become on-balance sheet exposures.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

However, for overdrafts and revolving facilities that include both a loan and an undrawn commitment component, the Bank measures ECL over a period longer than the maximum contractual period if the Bank's contractual ability to demand repayment and cancel the undrawn commitment does not limit the Bank's exposure to credit losses to the contractual notice period. These facilities do not have a fixed term or repayment structure and are managed on a collective basis. The Bank can cancel them with immediate effect but this contractual right is not enforced in the normal day-to-day management, but only when the Bank becomes aware of an increase in credit risk at the facility level. This longer period is estimated taking into account the credit risk management actions that the Bank expects to take and that serve to mitigate ECL. These include a reduction in limits, cancellation of the facility and/or turning the outstanding balance into a loan with fixed repayment terms.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are banked on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- Past due information;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. Below is information on how the Bank has segmented its portfolio for the purpose of computing ECL.

Financial Instrument	Exposure at Default	Loss Given Default	Probability of Default
Loans and advances	Estimated individually based on the amortization pattern of the loan	Segmented based on collateral type	Segmented based on internal credit rating
Off-balance sheet items	Segment based on type of off-balance sheet item		
Placements, Debt/Investment securities, and Trade receivables with significant financing components	Estimated individually based on the amortization pattern of the security	Estimated collectively based on external data (for example, Moody's historical recovery rates)	Segmented based on external credit ratings
Trade receivables without significant financing components	Segmented by days past due buckets	Loss rate segmented based on days past due buckets	

For portfolios in respect of which the Bank has limited historical data such as investment securities – debt, Money market placement & deposit with other banks. Selected external rating agencies are used to supplement the internally available data. External benchmark is unavailable

3.3.3 Allowance for Impairment

Loan allowance

The following tables show reconciliations from the opening to the closing balance of the loss allowance by class of financial instrument. Explanation of the terms: 12-month ECL, lifetime ECL and credit-impaired are included in Note 18. Comparative amounts for 2017 represent allowance account for credit losses and reflect measurement basis under IAS 39.

		2018	2017				
	12-month ECL	Lifetime ECL not credit-impaired	Lifetime ECL credit-impaired	Total	Specific	Collective	Total
In US\$ 000							
Loans and advances to customers at amortised cost							
Restated balance at 1 January	50,727	48,521	205,372	304,620	144,372	23,046	167,418
Transfer to 12-month ECL	7,038	(7,038)	-	-	-	-	-
Transfer to lifetime ECL not credit-impaired	(4,620)	37,882	(33,262)	-	-	-	-
Transfer to lifetime ECL credit-impaired	-	(11,482)	11,482	-	-	-	-
Net remeasurement of loss allowance including changes in EAD	(21,769)	(16,518)	120,189	81,902	58,086	5,311	63,397
New financial assets originated or purchased	25,829	15,382	-	41,211	-	-	-
Financial assets that have been derecognised	(9,356)	(6,699)	(2,096)	(18,151)	-	-	-
Write-offs	-	-	(139,164)	(139,164)	(51,972)	-	(51,972)
Changes in models/risk parameters	-	-	-	-	-	-	-
Foreign exchange and other movements	-	-	-	-	1,757	-	1,757
Balance at 31 December	47,849	60,048	162,521	270,418	152,243	28,357	180,600

The changes in the reported loss allowance as disclosed in the table above was mainly impacted by the gross loans amounts written off during 2018 (see note 17.2 a)

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		2018		2017			
	12-month ECL	Lifetime ECL not credit- impaired	Lifetime ECL credit- impaired	Total	Specific	Collective	Total
Money market placements							
Balance at 1 January	99	–	–	99	–	–	–
Net remeasurement of loss allowance	(63)	–	–	(63)	–	–	–
Changes in models/risk parameters	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–
Balance at 31 December	36	–	–	36	–	–	–
Deposit with other banks							
Balance at 1 January	3	–	–	3	–	–	–
Net remeasurement of loss allowance	11	–	–	11	–	–	–
Changes in models/risk parameters	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–
Balance at 31 December	14	–	–	14	–	–	–
Investment securities at amortised cost							
Balance at 1 January	810	–	–	810	–	–	–
Net remeasurement of loss allowance	1,130	–	–	1,130	–	–	–
Changes in models/risk parameters	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–
Balance at 31 December	1,940	–	–	1,940	–	–	–
Financial guarantee contracts							
Balance at 1 January	701	–	–	701	–	–	–
Net remeasurement of loss allowance	944	–	–	944	–	–	–
Changes in models/risk parameters	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–
Balance at 31 December	1,645	–	–	1,645	–	–	–
Loan commitments							
Balance at 1 January	3,940	–	–	3,940	–	–	–
Net remeasurement of loss allowance	3,231	–	–	3,231	–	–	–
Changes in models/risk parameters	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–
Balance at 31 December	7,171	–	–	7,171	–	–	–
Letters of credit							
Balance at 1 January	85	–	–	85	–	–	–
Net remeasurement of loss allowance	258	–	–	258	–	–	–
Changes in models/risk parameters	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–
Balance at 31 December	343	–	–	343	–	–	–
Prepayments and Accrued income							
Balance at 1 January	–	–	1,319	1,319	–	–	2,848
New financial assets originated or purchased	–	–	8,403	8,403	–	–	(1,749)
Changes in models/risk parameters	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–
Balance at 31 December	–	–	9,722	9,722	–	–	1,099

3.3.3 Allowance for Impairment (continued)

Credit-impaired financial assets

The following table sets out a reconciliation of changes in the net carrying amount of credit-impaired loans and advances to customers

US\$000	2018	2017
Credit-impaired loans and advances to customers at 1 January	150,750	100,837
Change in allowance for impairment	(96,991)	(78,116)
Classified as credit-impaired during the year	288,782	35,818
Transferred to not credit-impaired during the year	(93,808)	-
Net repayments	(74,307)	-
Recoveries of amounts previously written off	-	-
Disposals	-	-
Other movements	-	2,118
Credit-impaired loans and advances to customers at 31 December	174,426	60,657

Impaired financial assets - Comparative information under IAS 39

US\$000	Loan advances to customers	Money market placements	Deposit with other banks	Investment securities - held to maturity
	2017	2017	2017	2017
Neither past due nor impaired	8,218,407	2,353,175	861,307	30,268
Past due but not impaired	295,007	-	-	-
Impaired	212,902	-	-	-
Gross	8,726,316	2,353,175	861,307	30,268
Allowance for impairment	(180,600)	-	-	-
Net carrying amount	8,545,716	2,353,175	861,307	30,268
	2018	2018	2018	2018
Neither past due nor impaired	1,256,151	1,305,626	612,757	170,268
Grades 1-3: Low risk	2,471,460			
Grades 4-6: Satisfactory risk	3,828,321			
Grades 7-8: Moderate list	1,223,660			
Grades 9-10: Watchlist	389,153			
Grade 11: Sub-standard	-			
Grades 12-13: Doubtful and Bad				
Grade 14: Loss				
	9,168,745	1,305,626	612,757	170,268
Past due but not impaired				
30-60 days	-			
61-90 days	231,418			
91-180 days	579,652			
181 days+	958,297			
	1,769,367			
Individually impaired				
Grade 11: Sub-standard	53,773			
Grades 12-13: Doubtful and Bad	282,737			
Grade 14: Loss	436			
	336,946			
Allowance for impairment				
Individual	162,520	-	-	-
Collective	107,898	36	14	1,940
Total allowance for impairment	270,418	36	14	1,940
Concentrations of credit risk	11,275,058.23			

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3.3.4 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 2018 and 31 December 2017 of the Bank's counterparties.

	%	2018 US\$ 000	%	2018 US\$ 000
West Africa	48.7	5,548,560	49.5	4,329,704
North Africa	25.2	2,879,597	22.6	1,969,195
Regional	-	-	-	-
East Africa	9.5	1,089,106	8.9	774,360
Central Africa	5.0	575,225	7.5	650,335
Southern Africa	11.6	1,312,353	11.5	1,002,722
Total (Note 17)	100	11,404,841	100	8,726,316

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 2018 and 31 December 2017 of the Bank's counterparties.

	%	2018 US\$000	%	2018 US\$000
Agriculture	2.0	225,151	2.5	222,032
Agro-Processing	3.5	402,755	1.9	165,306
Financial Services	49.8	5,674,340	56.9	4,968,172
Government	5.5	629,692	3.0	260,549
Hospitality (Hotels, Resorts, etc.)	1.5	172,323	3.3	287,928
Manufacturing	2.8	317,595	4.0	352,363
Metals and Minerals	1.0	115,660	0.3	27,803
Oil and Gas	18.6	2,122,734	12.8	1,114,942
Other	0.3	42,967	0.5	40,104
Power	5.6	634,007	6.9	603,190
Telecommunication	7.0	795,330	3.8	328,014
Transportation	2.4	272,287	4.1	355,911
Total (Note 18)	100	11,404,841	100	8,726,315

3.4 Market Risk

3.4.1 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 2018	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	2018 Total US\$ 000
Financial assets							
Cash and due from banks	612,757	-	-	-	101	-	612,859
Deposits with other banks	1,305,626		-	-	-	-	1,305,626
Loans and advances to customers at amortised cost	7,934,160	1,942,411	-	-	-	1,528,270	11,404,841
Loans and advances to customers (FVTPL)	129,783	-	-	-		-	129,783
Other assets	-	-	-	-	13,988	-	13,988
Financial investments - held to maturity	-	-	-	-	-	168,328	168,328
Total financial assets	9,982,326	1,942,411	-	-	14,089	1,696,598	13,635,427
Financial liabilities							
Due to banks	181,167	336,000	559,525	2,808,056	-	1,263,197	5,147,945
Debt securities in issue	-	-	575,000	886,500	-	1,566,217	3,027,717
Deposits and customer accounts	320,904	-	-	-	-	2,044,481	2,365,385
Other liabilities	-	-	-	-	113,805	-	113,805
Total financial liabilities	502,071	336,000	1,134,525	3,694,556	113,805	4,873,895	10,654,851
Total interest gap	9,480,255	1,606,411	(1,134,525)	(3,694,556)	-	-	-
Cumulative gap	9,480,255	11,086,666	9,952,141	6,257,585			

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	-	861,396
Deposits with other banks	2,152,584	200,592	-	-	-	-	2,353,176
Loans and advances to customers	5,059,420	673,502	941,637	-	2,051,755	-	8,726,315
Accrued income	-	-	-	-	239,329	-	239,329
Other assets	-	-	-	-	2,931	-	2,931
Financial investments - held to maturity	-	-	-	-	-	30,268	30,268
Total financial assets	8,073,311	874,094	941,637	-	2,294,105	30,268	12,213,415
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	7,614,481	374,094	475,637	(2,977,601)	-	-	-
Cumulative gap	7,614,481	7,988,575	8,464,212	5,486,611			

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Interest rate risk sensitivity analysis

At 31 December 2018, if interest rates at that date had been 90 basis points higher with all other variables held constant, profit and reserves for the year would have been US\$ 37,197,000 (2017: US\$ 28,970,000) lower, arising mainly as a result of the higher decrease in interest income on loans than the decrease in interest expense on borrowing. If interest rates had been 90 basis points (2017: 90 basis points) lower, with all other variables held constant, profit would have been US\$ 37,197,000 (2017: US\$ 28,970,000) 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 2018 than in 2017 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 2018 and comparatives. It includes the Bank's financial instruments at carrying amounts.

	Carrying amount 2018 US\$ 000	Impact on profit or loss and equity 2018 US\$ 000	Impact on profit or loss and equity 2018 US\$ 000	Carrying amount 2017 US\$ 000	Impact on profit or loss and equity 2017 US\$ 000	Impact on profit or loss and equity 2016 US\$ 000
Changes in interest rates		+90bp of US\$1R	(-)90bp of US\$1R		+90bp of US\$1R	(-)90bp of US\$1R
Financial assets						
Cash due from banks	612,859	5,516	(5,516)	861,396	7,753	(7,753)
Deposits with other banks	1,305,626	11,751	(11,751)	2,353,176	21,179	(21,179)
Gross loans and advances to customers	11,404,841	102,644	(102,644)	8,726,315	78,537	(78,537)
Impact from financial assets	13,323,326	119,911	(119,911)	11,940,887	107,469	(107,469)
Financial liabilities						
Due to banks	3,884,747	(34,963)	34,963	2,340,914	(21,068)	21,068
Debt securities in issue	1,461,500	(13,154)	13,154	1,675,000	(15,075)	15,075
Deposits and customer accounts	320,904	(2,888)	2,888	386,517	(3,479)	3,479
Impact from financial liabilities	5,667,151	(51,005)	51,005	4,402,431	(39,622)	39,622
Total increase/(decrease) on profit or loss and equity	7,656,175	68,906	(68,906)	7,538,456	67,847	(67,847)

3.4.2 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.

The table below summarises the Bank's exposure to foreign currency exchange rate risk as at 31 December 2018. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency:

As at 31 December 2018	Euro US\$ 000	NGN US\$ 000	Other Currencies US\$ 000	Total US\$ 000
Assets				
Cash and due from banks	44,711	451	5,514	50,676
Loans and advances to customers	1,276,631	-	-	1,276,631
Derivative for risk management	-	-	56,167	56,167
Total financial assets	1,321,342	451	61,681	1,383,474
Liabilities				
Due to banks	1,094,590	-	56,167	1,150,757
Deposits and customer accounts	5,568	-	-	5,568
Other liabilities	224,660	-	-	224,660
Derivative for risk management	1,713	-	-	1,713
Total financial liabilities	1,326,531	-	56,167	1,382,698
Net exposure on statement of financial position	(5,189)	452	5,514	776
Credit commitments and financial guarantees	87,781	-	-	87,781

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
Hedging derivatives	-	-	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 and financial guarantees	1,842,535	-	-	1,842,535

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Foreign exchange risk sensitivity analysis

At 31 December 2018, 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\$7,280,000 (2017: US\$17,569,000) lower, arising mainly as a result of more financial liabilities 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\$7,280,000 (2017: US\$ 17,569,000) 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 percent increase and decrease in the value of the US dollar against the euro, as the Bank is mainly exposed to euro. 10 percent 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 2018. It includes the Bank's euro financial instruments at carrying amounts.

	Carrying amount 2018 US\$ 000	Impact on profit or loss and equity 2018 US\$ 000	Impact on profit or loss and equity 2018 US\$ 000	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
Changes in value of US dollar against euro		10% increase	10% decrease		10% increase	10% decrease
Financial assets						
Cash due from banks	44,711	4,471	(4,471)	227,444	22,744	(22,744)
Gross loans and advances to customers	1,276,631	127,663	(127,663)	911,619	91,162	(91,162)
Hedging derivatives	-	-	-			
Impact from financial assets	1,321,342	132,134	(132,134)	1,139,063	113,906	(113,906)
Financial liabilities						
Due to banks	1,094,590	(109,459)	109,459	1,202,441	(120,244)	120,244
Deposits and customer accounts	5,568	(557)	557	109,997	(11,000)	11,000
Other liabilities	224,660	(22,466)	22,466	2,306	(231)	231
Impact from financial liabilities	1,324,818	(132,482)	132,482	1,314,744	(131,475)	131,475
Total increase/(decrease) on profit or loss and equity	(3,476)	(348)	348	(175,681)	(17,569)	17,569

3.5 Liquidity Risk

Liquidity risk concerns the ability of the Bank to fulfil 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 14 percent (2016: 27 percent).

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 2018 and the amounts disclosed in the table are the contractual undiscounted cash flows:

As at 31 December 2018	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	2018 Total US\$ 000
Financial assets by type						
Non-derivative assets						
Cash and due from banks	612,858	-	-	-	-	612,858
Deposits with other banks	1,114,770	190,857	-	-	-	1,305,626
Loans and advances to customers (HTM)	3,085,274	739,476	3,537,763	3,546,332	366,788	11,275,634
Loans and advances to customers (FV)	16,151	16,151	64,603	32,302	-	129,207
Derivative assets						
Derivative assets held for risk management	577	1,588	1,520	-	-	3,685
Total assets	4,829,630	948,072	3,603,887	3,578,634	366,788	13,327,010
Financial liabilities						
Non-derivative liabilities						
Due to banks	180,920	614,540	1,259,902	2,581,117	514,855	5,151,333
Debt securities in issue	-	-	700,224	1,589,142	751,755	3,041,121
Deposits and customer accounts	1,191,062	400,014	500,047	-	-	2,091,123
Derivative liabilities						
Derivative liabilities held for risk management	-	-	-	24,840	-	24,840
Total liabilities	1,371,982	1,014,554	2,460,173	4,195,099	1,266,610	10,308,417
Net liquidity gap	3,457,648	(66,482)	1,143,713	(616,464)	(899,822)	3,018,593
Cumulative liquidity gap	3,457,648	3,391,166	4,534,879	3,918,415	3,018,593	

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3.5 Liquidity Risk (continued)

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						
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	1,334,864	1,329,861	4,142,711	1,865,827	53,052	8,726,315
Derivative assets						
Derivative assets held for risk management	-	-	-	2,766	-	2,766
Total assets	4,277,893	1,329,861	4,343,303	1,868,593	53,052	11,872,702
Financial liabilities						
Non-derivative liabilities						
Due to banks	125,966	421,314	1,208,211	2,593,474	68,937	4,417,903
Debt securities in issue	-	-	508,648	1,824,962	946,917	3,280,526
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	2,219,092	4,441,328	1,015,854	9,505,615
Net liquidity gap	3,270,692	507,720	2,124,212	(2,572,735)	(962,802)	2,367,086
Cumulative liquidity gap	3,270,692	3,778,412	5,902,624	3,329,889	2,367,087	

Cash flows may be significantly different from those indicated in the above table

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 2018	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	Total US\$ 000
Letters of credit	97,225	72,653	251,680	-	-	421,558
Financial guarantees	74,145	3,584	257,570	63,882	37,284	436,465
Total	171,370	76,237	509,250	63,882	37,284	858,023

As at 31 December 2017						
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

3.6 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 Bank's capital is divided into two tiers:

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

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

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

	2018 US\$ 000	2017 US\$ 000
Capital adequacy		
Share capital	506,300	470,816
Share premium	764,790	562,350
Warrants	191,532	91,723
Reserves	551,228	455,262
Retained earnings	502,585	524,412
Total Tier 1 capital	2,516,435	2,104,563
Asset revaluation reserve	12,741	9,395
Collective impairment allowance	128,768	28,356
Total Tier 2 capital	141,509	37,751
Total capital base	2,657,944	2,142,314
Risk weighted assets		
On-statement of financial position	9,023,048	7,261,266
Off-statement of financial position		
Credit risk	784,148	427,131
Operational risk	729,572	568,056
Market risk	774	763
Total risk weighted assets	10,537,542	8,257,216
Basel capital adequacy ratio (Total capital base/Total risk weighted assets)	25%	26%

The increase of the capital in 2018 is primarily due to increase in profits and share capital subscriptions. The increase of risk weighted assets arises mainly from the growth in the bank's business.

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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	
	2018 US\$ 000	2017 US\$ 000	2018 US\$ 000	2017 US\$ 000
Financial assets				
Cash and cash equivalents	1,918,434	3,214,573	1,918,434	3,214,573
Loans and advances to customers - amortised cost	11,134,424	8,545,716	11,420,557	8,981,351
Financial investments at amortised cost	168,328	30,268	168,328	30,268
Other assets	13,988	2,931	13,988	2,931
Financial liabilities				
Due to banks	5,147,944	4,231,374	5,498,410	4,441,546
Deposits and customer accounts	2,365,385	2,149,356	2,365,385	2,149,356
Debt securities in issue	3,036,500	2,891,500	3,016,768	2,944,415
Other liabilities	293,737	505,624	293,737	505,624

- Loans and advances to customers and financial investments at amortised cost

Loans and advances are net of charges for impairment. The estimated fair value of loans and advances and financial investments 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.

- Other assets and other liabilities

The carrying amounts of these balances approximate their fair values.

(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.

There were no transfers during the year

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

Level 2	2018 US\$ 000	2017 US\$ 000
Assets		
Interest rate swap	1,520	3,274
Foreign exchange forward contracts	577	-
Cross Currency Swap	1,587	300
	3,684	3,574
Liabilities		
Interest rate swap	(24,840)	(21,467)
	(24,840)	(21,467)
	(21,156)	(17,893)
Loans and advances to customers at FVTPL	129,783	-

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

Level 3	2018 US\$ 000	2017 US\$ 000
Revalued property and equipment		
Land and building	36,275	29,069

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

Level 2	2018 US\$ 000	2017 US\$ 000
Financial assets		
Loans and advances	11,420,557	8,981,351
Financial liabilities		
Due to banks	5,498,410	4,441,546
Debt securities in issue (gross)	3,016,768	2,944,415
	8,515,178	7,385,961

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

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(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	
	2018 US\$ 000	2017 US\$ 000
Valuation as at 1 January	29,069	21,193
Addition in the year	217	5
Total gain/(loss) recorded in other comprehensive income	9,491	9,279
Accumulated depreciation eliminated on revaluation	(2,502)	(1,408)
Valuation as at 31 December	36,275	29,069

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 percent. The positive and negative effects are approximately the same.

	31 Dec 2018		31 Dec 2017	
	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	36,275	3,627	29,069	2,907

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.

	2018 US\$ 000	2017 US\$ 000
Derivative assets		
Interest rate swap	1,520	3,274
Foreign exchange forward contracts	577	-
Cross currency swap	1,587	300
	3,684	3,574
Derivative liabilities		
Interest rate swap	(24,840)	(21,467)
	(24,840)	(21,467)

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:

Interest rate derivative contracts	2018 US\$ 000	2017 US\$ 000
Interest rate swap	1,275,000	1,675,000

The Bank entered into interest rate swap to hedge US\$1,275 million (2017: US\$1,675 million) received from the debt securities issued in July 2014, November 2014, and October 2016 with fixed 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\$23,319,000 (2017: US\$18,193,000) arose on the hedging instruments during the year.

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

Assets	2018 US\$ 000	2017 US\$ 000
Up to one year	3,684	-
One to five years	-	3,274
	3,684	3,274
Liabilities		
Up to one year	-	(219)
One to five years	(24,840)	(21,248)
	(24,840)	(21,467)

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 2016. 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.

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(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 foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast 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 Contingent Liabilities

	2018 US\$ 000	2017 US\$ 000
Contingent liabilities	421,559	319,939
One to five years	436,466	376,680
	858,025	696,619

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

7.2 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.

	2018 US\$ 000	2017 US\$ 000
Less than one year	73,547	22,075
More than one year	471,627	299,167
	545,174	321,242

7.3 Lease Arrangements

7.3.1 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:

	2018 US\$ 000	2017 US\$ 000
Less than one year	619	554
After one year but not later than five years	253	767
	872	1,321

Included in administrative expenses is minimum lease payments, recognised as an operating lease expense amounting to US\$492,000 (2018: US\$381,000).

7.3.2 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 a 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:

	2018 US\$ 000	2017 US\$ 000
Less than one year	234	335
After one year but not later than five years	131	152
	365	487

Included in other operating income recognized as an operating lease income amounting to US\$633 (2018: US\$1,100).

8 INTEREST AND SIMILAR INCOME

	2018 US\$ 000	2017 US\$ 000
Loans and advances	675,600	577,516
Interest on derivative contracts	(10,651)	4,359
Interest on money market investments	40,488	22,686
Interest on investments amortised cost (held to maturity in 2017)	4,042	1,513
	709,478	606,074

The interest income reported above is calculated using the effective interest method.

Interest income accrued on impaired financial assets is US\$15,288,000 (2017: US\$2,541,929). Total interest income from loans and advances measured at FV amounted to US\$3,530,000 and interest income from loans and advances measured at amortized cost amounted to US\$672,070,000.

9 INTEREST AND SIMILAR EXPENSE

	2018 US\$ 000	2017 US\$ 000
Due to banks	151,274	110,638
Debt securities in issue	122,542	109,318
Shareholder and customer deposits	31,838	47,793
	305,654	267,749

The interest expenses reported above are calculated using the effective interest method.

10 FEES AND COMMISSION INCOME

	2018 US\$ 000	2017 US\$ 000
Advisory fees	79,201	21,307
Commission on L/Cs	7,762	8,511
Guarantee fees	5,965	9,368
Structuring fees	789	58
	93,717	39,245

The fees and commission income exclude those included in determining the effective interest rate for financial assets measured at amortised cost.

11 FEES AND COMMISSION EXPENSE

	2018 US\$ 000	2017 US\$ 000
Bond issue fees	827	1,147
Legal and agency fees	642	700
Other fees paid	8,560	7,036
	10,029	8,883

12 OTHER OPERATING INCOME

	2018 US\$ 000	2017 US\$ 000
Rental income	633	1,100
Other income	1,688	2,339
	2,321	3,439

13 PERSONNEL EXPENSES

Personnel expenses are made up as follows:

	2018 US\$ 000	2017 US\$ 000
Wages and salaries	30,300	25,087
Staff provident fund costs (note 2.10)	1,180	2,301
Other employee benefits	15,504	11,370
	46,984	38,758

14 GENERAL AND ADMINISTRATIVE EXPENSE

	2018 US\$ 000	2017 US\$ 000
Operational missions and statutory meetings	15,036	10,314
Professional service fees	10,946	6,031
Communications	3,694	2,849
Operational lease	492	382
Other general and administrative expenses	6,124	5,096
Total	36,292	24,672

Professional services fees include US\$210,000 (2017: US\$90,000) 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 has been calculated on the basis of assuming that all the net income for the year is distributed.

	2018 US\$ 000	2017 US\$ 000
Net income attributable to equity holders of the bank	275,902	220,494
Weighted average number of ordinary shares in issue (basic) (note 15.1)	49,092	39,488
Weighted average number of ordinary shares in issue (Diluted) (note 15.2)	113,066	98,164
Basic earnings per share (expressed in US\$ 000 per share)	5.62	5.58
Diluted earnings per share (expressed in US\$ 000 per share)	2.44	2.25

15.1 Weighted Average Number of Ordinary Shares in Issue (basic)

	2018 US\$ 000	2017 US\$ 000
Issued ordinary shares at 1 January	47,082	35,669
Issued during the year	2,010	3,819
Weighted average number of ordinary shares at 31 December	49,092	39,488

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15.2 Weighted Average Number of Ordinary Shares in Issue (diluted)

	2018 US\$ 000	2017 US\$ 000
Weighted average number of ordinary shares in issue (basic)	49,092	39,488
Effect of warrants issuance	440	1,244
Effect of partly paid shares	63,534	57,432
Weighted average number of ordinary shares at 31 December	113,066	98,164

16 CASH AND CASH EQUIVALENTS

	2018 US\$ 000	2017 US\$ 000
Cash in hand	101	90
Deposits with other banks	612,757	861,307
Money market placements	1,305,626	2,353,176
Gross	1,918,484	3,214,573
Less: allowance for impairment		
12 months ECL	(50)	-
Net cash and cash equivalents	1,918,434	3,214,573

These instruments are allocated in stage 1 for ECL purposes.

16.1 Net Money Market Placements

	2018 US\$ 000	2017 US\$ 000
Current	1,305,576	2,353,176
Non-current	-	-
	1,305,576	2,353,176

17 LOANS AND ADVANCES TO CUSTOMERS

	Stage 1 US\$ 000	Stage 2 US\$ 000	Stage 3 US\$ 000	2018 Total US\$ 000	2017 Total US\$ 000
Loans and advances to customers at amortised cost	8,569,670	1,775,476	929,913	11,275,059	8,726,316
Gross amount					(180,600)
Less: Allowance for impairment (note 18.1)					
12 months ECL	(47,849)			(47,849)	
Lifetime ECL not credit impaired		(60,049)		(60,049)	
Lifetime ECL credit impaired			(162,520)	(162,520)	
Net loans and advances to customers	8,521,821	1,715,427	767,393	11,004,641	8,545,716

Loans and advances to customers at FVTPL.

These loans and advances relate to syndicated loans in which the Bank acted as lead arranger.

17 LOANS AND ADVANCES TO CUSTOMERS (CONT.)

	2018 US\$ 000	2017 US\$ 000
	129,783	-
	129,783	-
Total loans and advances to customers	11,134,424	8,545,716
Net loans and advances to customers		
Current	7,208,168	7,187,880
Non-current	3,926,256	1,357,836
	11,134,424	8,545,716

17.1 Allowance for Impairment on Loans and Advances to Customers

(a) Statement of Financial Position

	2018 US\$ 000	2017 US\$ 000
Loans and advances	270,418	180,600
Money market placements	36	-
Deposit with other banks	14	-
Investment securities at amortised cost	1,940	-
Financial guarantee contracts	1,645	-
Letters of credit	343	-
Loan commitments	7,171	-
Prepayments and accrued income	9,722	1,099
Other Assets	4,322	4,322
	295,611	186,021

(b) Statement of Comprehensive Income

	2018 US\$ 000	2017 US\$ 000
Loans and advances	104,963	63,397
Money market placements	(63)	-
Deposit with other banks	11	-
Investment securities at amortised cost	1,130	-
Financial guarantee contracts	944	-
Letters of credit	258	-
Loan commitments	3,231	-
Prepayments and accrued income	8,403	1,857
	118,877	65,254

17.2 Impairment on Other Assets and Accrued Income

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

(a) Statement of Financial Position

	2018 US\$ 000	2017 US\$ 000
Balance as at 1 January	180,600	167,418
Remeasurement	124,020	-
Restated balance at 1 January	304,620	167,418
Impairment charge for the year (note 18.1b)	104,962	63,397
Revaluation effect of provisions of loans in euro	-	1,757
Loans written off during the year as uncollectible	(139,164)	(51,972)
Balance as at 31 December (note 17)	270,417	180,600

(b) Statement of Comprehensive Income

Impairment charge for the year on loans and advances	104,962	63,397
	104,962	63,397

18 PREPAYMENTS AND ACCRUED INCOME

	2018 US\$ 000	2017 US\$ 000
Accrued income	49,549	24,654
Other prepayments	94,531	58,774
Less: Impairment on accrued income	(9,722)	(1,099)
	134,358	82,329

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

18.1 Impairment on Prepayments and Accrued Income

(a) Statement of Financial Position

	2018 US\$ 000	2017 US\$ 000
Balance as at 1 January	1,099	2,848
Remeasurement	220	-
Restated balance at 1 January	1,319	2,848
Impairment charge for the year (note 18.1b)	8,403	1,259
Revaluation effect of provisions of loans in EURO	-	-
Written off during the year as uncollectible	-	(3,008)
Balance as at 31 December (note 17)	9,722	1,099

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18.1 Impairment on Prepayments and Accrued Income (cont.)

(b) Statement of Comprehensive Income

	2018 US\$ 000	2017 US\$ 000
Impairment charge for the year	8,403	1,259
	8,403	63,397

19 OTHER ASSETS

	2018 US\$ 000	2017 US\$ 000
Other receivables	3,883	4,589
Sundry debtors	14,427	2,664
Less: Impairment on other assets	(4,322)	(4,322)
	13,988	2,931

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). They are all current in nature.

19.1 Impairment on Other Assets

ECL on other assets are estimated on a lifetime basis.

(a) Statement of Financial Position

	2018 US\$ 000	2017 US\$ 000
Balance as at 1 January	4,322	5,575
Remeasurement		
Restated balance at 1 January	4,322	5,575
Impairment charge for the year	-	598
Written off during the year as uncollectible	-	(1,851)
Balance as at 31 December (note 19)	4,322	4,322

(b) Statement of Comprehensive Income

	2018 US\$ 000	2017 US\$ 000
Impairment charge for the year	-	598
	-	598

20 FINANCIAL INVESTMENTS AT AMORTIZED COST (HELD TO MATURITY IN 2017)

	2018 US\$ 000	2017 US\$ 000
Beginning balance at 1 January	30,268	30,268
Additions during the year	140,000	-
Gross	170,268	30,268
Less: allowance for impairment		
12months ECL	(1,940)	-
Net financial assets at amortised cost	168,328	30,268

These instruments are treasury bills issued by the Central Bank of Zimbabwe and they have been allocated in stage 1 for ECL purposes.

	2018 US\$ 000	2017 US\$ 000
Net financial investments at amortised cost		
Current	138,060	-
Non current	30,268	30,268
	168,328	30,268

21 DUE TO BANKS

	2018 US\$ 000	2017 US\$ 000
Money market placements	614,260	452,030
Loans from financial institutions	4,533,684	3,779,344
	5,147,944	4,231,374
	2018 US\$ 000	2017 US\$ 000
Current	2,055,023	1,733,393
Non current	3,092,921	2,497,981
	5,147,944	4,231,374

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

22 DEBT SECURITIES IN ISSUE

The Bank issued, under the Euro Medium Term Note Programme (EMTN), US\$ 3,036.50 million bonds (2017: US\$2,850 million) with different maturities and coupon rates. Further, the Bank issued under an EMTN Programme, US\$186.5 million (2017: US\$41.5 million) private placement with floating rate. Fitch Ratings and Moody's assigned these bonds an investment grade rating of BBB-, and Baa2 respectively.

Debt securities at amortised cost:	Coupon %	2018 US\$ 000	2017 US\$ 000	Date of issuance	Date of maturity
Fixed rate debt securities due 2018	3.88	-	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	Oct 2016	May 2021
Fixed rate debt securities due 2023	4.00	500,000	-	Oct 2018	Oct 2023
Fixed rate debt securities due 2024	4.13	750,000	750,000	Jun 2017	Jun 2024
Floating rate private placement note due 2021		41,500	41,500	Dec 2014	Mar 2016
Floating rate private placement note due 2022		145,000	-	Jul 2017	Jul 2021
Less: Discount on bond payable		(9,873)	(11,429)	Jul 2018	Aug 2022
Add: Premium on bond payable		1,090	1,551		
Net loans and advances to customers		3,027,717	2,881,622		
Current				700,000	1,200,000
Non-current				2,327,717	1,681,622
				3,027,717	2,881,622

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 2018 and 2017. The debt securities in issue are unsecured.

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23 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 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 for 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 2016	5,908	23,161	436	2,455	3	875	32,838

23 PROPERTY AND EQUIPMENT (CONT.)

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 2018							
COST							
Cost/valuation as at 1 January 2018	5,908	23,161	809	10,218	1,034	875	42,005
Additions	-	217	84	847		364	1,512
Capitalisation of assets under construction	-	-	-		-	(217)	(217)
Disposals	-	-			-	-	-
Revaluation	7,506	1,985	-	-	-	-	9,491
Transfer*		(2,502)	-	-	-	-	(2,502)
Cost/valuation as at 31 December 2018	13,414	22,860	893	11,065	1,034	1,022	50,289
ACCUMULATED DEPRECIATION							
Accumulated depreciation as at 1 January 2018	-	-	(373)	(7,763)	(1,031)	-	(9,167)
Charge for the year	-	(2,502)	(128)	(1,184)	(3)	-	(3,818)
Disposals	-	-	-	-	-	-	-
Transfer*	-	2,502	-	-	-	-	2,502
Total accumulated depreciation as at 31 December 2018	-	-	(501)	(8,947)	(1,034)	-	(10,483)
Net carrying amount as at 31 December 2018	13,414	22,860	392	2,118	-	1,022	39,806

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

During 2017 the bank received land from the government of Zimbabwe in order to establish a regional office to facilitate the business of the Bank in Southern Africa region as is being accounted for as a government grant.

The fair value of the building and the land, which reflects market conditions at the reporting date was US\$22,860,000 (2017:US\$23,161,000) and US\$13,415,000 (2017: US\$5,908,000) respectively. The fair value was determined using an independent valuer on 31 December 2018. The valuer used was Arab Group for Technical Consultant, which has experience in similar projects. The net carrying amount of the Headquarters land and building would have been US\$34,000 (2017:US\$34,000) and US\$8,247,000 (2017:US\$8,796,000) respectively if both classes had not been revalued.

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24 INTANGIBLE ASSETS

	2018 US\$ 000	2017 US\$ 000
Cost 1 January	3,935	3,029
Additions	456	906
Software in progress	5,144	
Cost 31 December	9,535	3,935
Accumulated amortization		
As at 1 January	(2,687)	(2,215)
Amortization charges for the year	(500)	(472)
As at 31 December	(3,187)	(2,687)
Net value as 31 December	6,348	1,248

25 DEPOSITS AND CUSTOMER ACCOUNTS

	2018 US\$ 000	2017 US\$ 000
Shareholders' deposits for shares	9,307	9,151
Deposit accounts	195,932	57,134
Customer accounts	2,160,146	2,083,071
	2,365,385	2,149,356
Current	2,365,385	1,649,356
Non-Current		500,000
	2,365,385	2,149,356

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.

26 OTHER LIABILITIES AND PROVISIONS

	2018 US\$ 000	2017 US\$ 000
Financial guarantee contracts issued	1,645	-
Loan commitments issued	7,171	-
Letters of credit	343	-
Other liabilities recognised (note 26.1)	284,578	505,624
	293,737	505,624

Financial guarantee contracts issued

The amount in respect of financial guarantee contracts issued represents:

- At 31 December 2018 - the sum of: ECL provision of US\$0.34 million (see impairment note 3.3.3) and the amounts recognised at origination of financial guarantee contract less cumulative amortisation of US\$435 million (2017: US\$376 million).

Loan commitments issued

The amount in respect of loan commitments issued represents:

- At 31 December 2018 - the sum of: ECL provision of US\$3.9 million (see impairment note 3.3.3) and the amounts recognised at origination of loan commitments less cumulative amortisation of US\$538 million (US\$317 million).

26.1 Other Liabilities

	2018 US\$ 000	2017 US\$ 000
Prepaid and unearned income	118,560	84,926
Dividends payable	10,713	14,784
Deposits from tenants	441	423
Accrued expenses	103,092	70,929
Sundry creditors	42,501	327,411
Legal fees deposits	9,271	7,151
	284,578	505,624

	2018 US\$ 000	2017 US\$ 000
Current	29,640	21,231
Non current	254,938	484,393
	284,578	505,624

27 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 instalments 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 that 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 that may only be issued to African public and private commercial banks, financial institutions and African public and private investors; and

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

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

	2018 US\$ 000	2017 US\$ 000
Authorised capital	5,000,000	5,000,000
500,000 ordinary shares of US\$10,000 each		
Paid in capital -class A	270,264	248,868
Paid in capital -class B	120,700	109,092
Paid in capital -class C	46,236	46,076
Paid in capital -class D	69,100	66,780
	506,300	470,816

As at 31 December 2018 the authorised capital comprised 500,000 ordinary shares (2017: 500,000 ordinary shares). The number of shares issued but not fully paid for class A, B & C shareholders as at 31 December 2018 was 109,300 (2017: 101,009). The number of fully paid shares for class D shareholders as at 31 December 2018 was 6,910 (2016: 6,678). 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 pro-rata according to number of shares subscribed.

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

	2018 No of shares	2018 US\$ 000	2017 No of shares	2017 US\$ 000
At 1 January	107,687	470,816	94,622	378,488
Paid up from dividends during the year	1,595	6,380	908	3,632
Paid up in cash during the year	6,928	29,104	12,157	88,696
At 31 December	116,210	506,300	107,687	470,816

28 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:

	2018 No of shares	2018 US\$ 000	2017 No of shares	2017 US\$ 000
At 1 January	107,687	562,350	94,622	355,310
Paid up from dividends during the year	1,595	22,082	908	11,946
Paid up in cash during the year	6,928	189,852	12,157	200,669
Transaction cost of raising equity	-	(9,494)	-	(5,575)
At 31 December	116,210	764,790	107,687	562,350

During the Annual General Meeting held on 23 July 2016, the shareholders approved the equity raise of up to US\$1 billion across all classes of the Bank, being Class A, Class B, Class C and Class D and using market and other instruments such as warrants and option. Accordingly, 8,523 additional shares (2017: 13,065 additional shares) were issued during the year to bring in total capital of US\$237,922,000 (2017: US\$299,368,000).

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29 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 2017	366,282	11,600	(13,476)	0	364,406
Revaluation of land	-	(734)	-		(734)
Revaluation of building	-	10,013	-		10,013
Depreciation transfer: buildings	-	(1,408)	-		(1,408)
Transfer to cashflow hedge reserve			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
Balance as at 1 January 2018	447,762	19,471	-	7,500.00	474,733
Revaluation of land	-	7,506	-		7,506
Revaluation of building	-	1,985	-		1,985
Depreciation transfer: buildings	-	(649)	-		(649)
Recycling of fair value adjustment to profit and loss			-		-
Transfer from retained earnings (note 31)	103,466	-	-	7,500	110,966
Balance as at 31 December 2018	551,286	28,313	-	15,000	594,540

- 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 percent 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 non-financial 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 2018 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 US\$15 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.

30 RETAINED EARNINGS

	2018 US\$ 000	2017 US\$ 000
Balance as at 1 January	524,412	429,448
Impact of Adopting IFRS 9 at 1 January 2018	(4,726)	-
Restated Balance at 1 January 2018	519,686	429,448
Profit for the year	275,902	220,494
Transfer to general reserve	(103,466)	(81,480)
Transfer to project preparation facility	(7,500)	(7,500)
Depreciation transfer: buildings	649	1,408
Dividends for prior year	(57,534)	(37,958)
Balance as at 31 December	627,737	524,412

31 DIVIDENDS

After reporting date, the directors proposed dividends appropriations amounting to US\$68,970,000 (2017: US\$57,534,000). The 2018 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:

	2018 US\$ 000	2017 US\$ 000
Proposed dividends per share		
Dividends appropriations	68,970	57,534
Number of shares at 31 December	116,210	107,687
Dividends per share	0.59	0.53
Dividends per share declared and paid		
Dividends appropriations	57,534	37,958
Number of shares at 31 December of the previous year	107,687	94,622
Dividends per share	0.53	0.40

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 percent at subscription with 60 percent remaining as callable capital.

32 WARRANTS

	2018 No of warrants	2018 US\$ 000	2017 No of warrants	2017 US\$ 000
At 1 January	2,515	91,723	2,424	98,716
Retirement during the year	(2,515)	(91,723)	(4,778)	(198,575)
Issued during the year	5,284	191,531	4,869	191,582
At 31 December	5,284	191,532	2,515	91,723

During the Annual General Meeting held on 23 July 2016, the shareholders approved the equity raise of up to US\$1 billion across all share classes of the Bank, and using market and other instruments such as warrants and option. The Bank issued 5,284 share warrants to two investors for an aggregate principal amount of US\$214,978,061 and credited the same to capital of the Bank net of issuance costs amounting to US\$23,446,709. The average tenor of the warrants issued during the year is five years.

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33 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 that are either controlled by the shareholder governments or over which they have significant influence.

The details of related party transactions are as follows:

Interest income from staff loans amounted to US\$26,451 (2017: US\$24,268). There were no loan loss provisions on staff loans in both current and prior year.

No loans to related parties were written off in 2018 and 2017.

34 KEY MANAGEMENT PERSONNEL COMPENSATION

3.4.1 Salaries and Benefits to Management Personnel

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

	2018 US\$ 000	2017 US\$ 000
Salaries and short-term benefits	13,185	8,522
Other long-term benefits	3,417	2,287
Post-employment benefits	1,290	554
Termination benefits	261	200
Balance as at 31 December	18,153	11,563

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 2018 was as follows:

	2018 US\$ 000	2017 US\$ 000
Balance as at 1 January	507	225
Loan disbursements during the year	766	612
Loan repayments during the year	(717)	(330)
Balance as at 31 December	556	507

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 2018 US\$ 000	Treasury 2018 US\$ 000	Total 2018 US\$ 000	Lending 2017 US\$ 000	Treasury 2017 US\$ 000	Total 2017 US\$ 000
Statement of profit or loss and other comprehensive income						
Interest income	629,636	34,031	663,668	576,985	29,089	606,074
Net fees and commission	139,681	(10,029)	129,652	39,418	(9,056)	30,362
Other operating income	2,321	(153)	2,168	3,439	-	3,439
Total segment revenue	771,638	23,849	795,488	619,842	20,033	639,875
Less: interest expense	-	(305,653)	(305,653)	(137)	(267,612)	(267,749)
Foreign exchange adjustments and fair value adjustment	(6,074)	535	(5,537)	(18,169)	(1,666)	(19,835)
Less: personnel and other admin. expenses	(94,540)	2,635	(91,905)	(61,262)	(2,169)	(63,431)
Less: depreciation and amortisation	4,175	141	4,315	(3,039)	(75)	(3,114)
Segment income before impairment	675,200	(278,493)	396,708	537,235	(251,489)	285,746
Less: loan impairment charges	(85,645)	-	(85,645)	(63,397)	-	(63,397)
Less: provisions	(490)	-	(490)	(1,857)	-	(1,857)
Net income for the year	589,064	(278,493)	310,574	471,980	(251,489)	220,492
Financial Position						
Segment assets	11,482,319	2,092,438	13,574,757	8,662,712	3,248,125	11,910,837
Capital expenditures	-	-	-	2,350	290	2,640
Total assets at year end	11,482,319	2,092,438	13,574,757	8,665,062	3,248,415	11,913,477
Segment liabilities	2,659,120	8,200,501	10,859,623	2,654,980	7,134,463	9,789,443
Capital funds	-	-	2,559,747	-	-	2,124,034
Total liabilities and capital funds	11,482,319	2,092,438	13,419,370	8,665,062	3,248,415	11,913,477

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

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

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36 TRANSITION TO IFRS - FINANCIAL ASSETS AND FINANCIAL LIABILITIES

A. Classification of financial assets and financial liabilities

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

US\$ 000	Note	FVTPL	Amortised cost			Total carrying amount
31 December 2018						
Cash and bank balances	16		1,918,434			1,918,434
Derivative assets held for risk management	5	3,684	-			3,684
Loans and advances to customers:						-
Measured at amortised cost	17		11,004,641			11,004,641
Measured at fair value	17	129,783				129,783
Investment securities at amortised cost	20		168,328			168,328
Prepayments and Accrued income	18		134,358			134,358
Total financial assets		133,467	13,225,761	-	-	13,359,228
Derivative liabilities held for risk management	5	24,840				24,840
Due to banks	21		5,147,944			5,147,944
Deposits and customer accounts	25		2,365,385			2,365,385
Debt securities in issue	22		3,027,717			3,027,717
Other liabilities	26		293,737			293,737
Total financial liabilities		24,840	10,834,783	-	-	10,859,623
31 December 2017						
Cash and bank balances	16	-	-	3,214,573	-	3,214,573
Derivative assets held for risk management	5	3,574	-	-	-	3,574
Loans and advances to customers	17	-	-	8,545,716	-	8,545,716
Investment securities:	20		30,268			30,268
Prepayments and Accrued income	18				82,329	82,329
Total financial assets		3,574	30,268	11,760,289	82,329	11,876,460
Derivative liabilities held for risk management	5	21,467	-	-	-	21,467
Due to banks	21	-	-	-	4,231,374	4,231,374
Deposits and customer accounts	25				2,149,356	2,149,356
Debt securities in issue	22	-	-	-	2,881,622	2,881,622
Other liabilities	26	-		-	505,624	505,624
Total financial liabilities		21,467	-	-	9,767,977	9,789,444

B. Classification of financial assets and financial liabilities on the date of initial application of IFRS 9

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Bank's financial assets and financial liabilities as at 1 January 2018.

			Classification	Original	New
US\$ 000	Note	IAS 39	IFRS 9	Carrying amount IAS 39	Carrying amount IFRS 9
Financial assets					
Cash and bank balances	16	Loans and receivables	Amortised cost	3,214,573	3,214,471
Derivative assets held for risk management	5	FVTPL	FVTPL	3,574	3,574
Loans and advances to customers					
Measured at amortised cost	17	Loans and receivables	Amortised cost	8,545,716	8,421,696
Measured at fair value	17	Loans and receivables	FVTPL	-	-
Investment securities at amortised cost	20	Held to maturity	Amortised cost	30,268	29,458
Prepayment Accrued income	18	Loans and receivables	Amortised cost	82,329	82,109
Total financial assets				11,876,460	11,751,308
Financial liabilities					
Derivative liabilities held for risk management	5	FVTPL	FVTPL	21,467	21,467
Due to banks	21	Amortised cost	Amortised cost	4,231,374	4,231,374
Deposits and customer accounts	25	Amortised cost	Amortised cost	2,149,356	2,149,356
Debt securities in issue	22	Amortised cost	Amortised cost	2,881,622	2,881,622
Other liabilities	26	Amortised cost	Amortised cost	505,624	500,898
Total financial liabilities				9,789,444	9,784,717

Financial Statements for the Year Ended 31 December 2018

The following table reconciles the carrying amounts under IAS 39 to the carrying amounts under IFRS 9 on transition to IFRS 9 on 1 January 2018.

	IAS 39 carrying amount Dec 17 US\$ 000	Remeasurement	IFRS 9 carrying amount Jan 18 US\$ 000
Financial assets			
Amortised cost			
Cash and cash equivalents:	3,214,573	(102)	3,214,471
Loans and advances to customers:	8,545,716	(124,020)	8,421,696
Investment securities at amortised cost:	30,268	(810)	29,458
Prepayment and Accrued income	82,329	(220)	82,109
Total amortised cost	11,872,886	(125,152)	11,747,734
FVTPL			
Derivative assets held for risk management	3,574	-	3,574
Total FVTPL	3,574		3,574
Total liabilities	11,876,460	(125,152)	11,751,308

	IAS 39 carrying amount Dec 17 US\$ 000	Remeasurement	IFRS 9 carrying amount Jan 18 US\$ 000
Financial liabilities			
Amortised cost			
Due to banks	4,231,374	-	4,231,374
Deposits and customer accounts	2,149,356		2,149,356
Debt securities in issue	2,881,622		2,881,622
Other liabilities	505,624	(4,726)	500,898
Total amortised cost	9,767,977	(4,726)	9,763,250
FVTPL			
Derivative liabilities held for risk management	21,467	-	21,467
Total FVTPL	21,467	-	21,467
Total liabilities	9,789,444	(4,726)	9,784,717

The following table analyses the impact of transition to IFRS 9 on reserves and retained earnings. The impact relates to the retained earnings. There is no impact on other components of equity.

	At 1 January 2018
Retained earnings	
Closing balance under IAS 39 (31 December 2017)	524,412
Remeasurement of financial assets	-
Recognition of expected credit losses	
Cash and bank balances	(102)
Loans and advances to customers	(124,020)
Investment securities at amortised cost	(810)
Prepayments and Accrued income	(220)
loan commitments and financial guarantee contracts	(4,726)
Opening balance under IFRS 9 (1 January 2018)	394,534

C. Reconciliation of Impairment at the date of initial application of IFRS 9

The following table reconciles:

- the closing impairment allowance for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017; to
- the opening ECL allowance determined in accordance with IFRS 9 as at 1 January 2018.

	IAS 39 / IAS 37 Dec 17 US\$ 000	Re- measurement	IFRS 9 Jan 18 US\$ 000
Cash and bank balances			
Deposit with other banks	-	3	3
Money market placements	-	99	99
Loans and advances to customers	180,600	124,020	304,620
Investment securities at amortised cost	-	810	810
Prepayments and Accrued income	1,099	220	1,319
	181,699	125,152	306,851
Financial guarantee contracts issued		701	701
Loan commitment contracts issued		3,940	3,940
Letters of credit		85	85
	181,699	4,726	4,726
Total		129,878	311,576

37 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.

38 COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year presentation.

39 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).

40 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.

41 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 23 March 2019.



Chapter Seven

Investor Information



7

Investor Information

The African Export-Import Bank (“Afreximbank” or the “Bank”) is a supranational financial institution based in Cairo, Egypt and with branches in Abuja (Nigeria), Abidjan (Côte d’Ivoire) and Harare (Zimbabwe). Plans are underway to open a branch in East Africa. The Bank has four classes of shares: A, B, C and D, further details of which are provided below.

1 SHARE CAPITAL (AUTHORIZED AND FULLY PAID)

The Bank’s Authorized Share Capital as at 31 December 2018 amounted to US\$5,000,000,000 consisting of 500,000 ordinary shares of US\$10,000 each. Of this amount, 116,210 shares have been issued, 109,300 of which are partly paid and 6,910 fully paid. Classes A, B, and C are partly paid, with 40 percent paid in and 60 percent remaining as callable capital. Class D is fully paid.

2 CALLABLE CAPITAL AS AT 31 DECEMBER 2018

As at 31 December 2018, the Bank had callable capital amounting to US\$873 million distributed as follows:

Shareholding class	Callable capital (US\$)
A	526,653,369.33
B	241,706,765.82
C	104,716,480.25
D	-
Total	873,076,615.40

3 SHAREHOLDERS

As at 31 December 2018, Afreximbank shares were held by a total of 151 shareholders and distributed by class as follows:

	Number of Shares Held	% of Total Shareholding	Number of Shareholders	% of Total Shareholders
Class A	67,566	58.1	49	32.4
Class B	30,175	26.0	87	57.6
Class C	11,559	9.9	14	9.3
Class D	6,910	6.0	1	0.7
Total	116,210	100%	151	100%

The sole Class D investor currently is SBM Securities, the Depositary of shares that were issued to support the issuance of Depositary Receipts ("DRs") that were listed on the Stock Exchange of Mauritius on October 4, 2017. The DRs were issued at a ratio of 1 Class D Share to 10,000 DRs. The number of DRs outstanding as at 31 December 2018 was accordingly 69,100,000. A summary of the DRs trading data is shown below:

4 DEPOSITORY RECEIPTS ("DRs") DATA AS AT 31 DECEMBER 2018

SEM ticker	AEIB
DR price (US\$)	3.4
DR outstanding	69,100,000
Market float (US\$ millions)	234.94
12 Month high DR price (US\$)	4.4
12 Month low DR price (US\$)	3.4

5 SHAREHOLDER CLASSES AND SHAREHOLDING DISTRIBUTION

Class A	Class B	Class C	Class D
<ul style="list-style-type: none"> – (i) African States or their Designated Institutions; (ii) the African Development Bank; (iii) African continental, regional and sub-regional financial institutions and economic organizations; and (iv) any entity or person who was a Class "B" Shareholder that is one hundred per cent (100 percent) owned by an African State – 49 shareholders – 58.1 percent of total issued shares 	<ul style="list-style-type: none"> – African National Financial Institutions that is, African state-owned, privately-owned or mixed-enterprise banking or financial services establishments or enterprises incorporated or otherwise established under the laws of an African State, or owned or controlled directly or indirectly by one or more African States, African continental, regional or sub-regional financial institutions or economic organizations and African Private Investors – 87 shareholders – 26 percent of total issued shares 	<ul style="list-style-type: none"> – (i) International financial institutions and economic organizations; and (ii) Non-regional financial institutions and Non-African Private Investors – 14 shareholders – 9.9 percent of total issued shares institutions 	<ul style="list-style-type: none"> – Open to any person – 1 shareholder – 6.0 percent of total issued shares

Investor Information

6 ANALYSIS OF SHAREHOLDING RANGE

Shareholding Range	Number of Shares Held	% of Total Shareholding	Number of Shareholders	% of Total Shareholders
10 -100	2,216	1.91	65	43
101-200	3145	2.71	24	16
201-300	4442	3.82	18	12
301-1000	10000	8.61	19	13
1001-5000	44273	38.10	18	12
5001 and above	52134	44.86	7	5
Total	116,210	100%	151	100%

7 TOP 20 SHAREHOLDERS AS AT 31 DECEMBER 2018

	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	National Bank of Egypt	EGYPT	B
5	Reserve Bank of Zimbabwe	ZIMBABWE	A
6	Federal Republic of Nigeria	NIGERIA	A
7	China Eximbank	CHINA	C
8	Government of Côte d' Ivoire	CÔTE D'IVOIRE	A
9	African Development Bank	REGIONAL	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	SOUTH AFRICA	B
17	Republique Du Cameroun	CAMEROON	A
18	Government Employees Pension Fund	SOUTH AFRICA	B
19	JSC Russia Export Centre	RUSSIA	C
20	Nigerian Export-Import Bank	NIGERIA	B

8 TEN-YEAR HISTORY OF SHARE CAPITAL

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Authorized Capital (500,000 ordinary shares of US\$10,000 each from 2012)	750,000	750,000	750,000	750,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000	5,000,000
Paid-Up Share Capital - Class A (US\$ 000)	104,881	105,442	105,495	108,087	109,349	110,081	119,168	180,224	240,416	248,868	270,264
Paid-Up Share Capital - Class B (US\$ 000)	43,029	43,676	43,685	43,885	43,948	44,340	45,204	88,072	98,976	109,092	120,700
Paid-Up Share Capital - Class C (US\$ 000)	17,172	17,182	17,192	17,200	17,200	21,200	21,200	38,856	39,096	46,076	46,236
Paid-Up Share Capital - Class D (US\$ 000)	–	–	–	–	–	–	–	–	–	66,780	69,100
Total Paid-up Share Capital (US\$ 000)	165,082	166,300	166,372	169,172	170,497	175,621	185,572	307,152	378,488	470,816	506,300

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

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Share Premium (US\$ 000)	16,605	18,022	18,093	22,793	25,355	38,632	56,847	203,861	355,310	562,350	781,866
Reserves (US\$ 000)	97,641	114,448	131,649	154,783	222,863	257,538	298,578	354,233	364,406	474,733	593,365
Retained Earnings (US\$ 000)	104,611	122,417	140,619	165,352	193,556	234,819	300,744	355,147	429,448	524,412	503,761
Total Shareholders' Funds (US\$ 000)	383,939	421,167	456,679	512,100	612,271	706,610	919,069	1,266,709	1,626,368	2,124,034	2,559,747

10 TEN-YEAR DIVIDEND PAYMENT HISTORY

Year Ended	Date Declared	Total Amount (US\$)	Dividend Payout Ratio (%)
31-Dec-18		68,970,000	25
31-Dec-17	14-Jul-18	57,534,000	26
31-Dec-16	1-Jul-17	37,958,000	23
31-Dec-15	23-Jul-16	28,823,000	23
31-Dec-14	13-Jun-15	24,147,000	23
31-Dec-13	7-Jun-14	20,500,000	23
31-Dec-12	22-Jun-13	14,800,000	23
31-Dec-11	14-Jul-12	11,600,000	20
31-Dec-10	25-Jun-11	10,000,000	23
31-Dec-09	24-Jul-10	9,000,000	21
31-Dec-08	4-Jul-09	8,000,000	21

Investor Information

11 CREDIT RATING SUMMARY

As at 31 December 2018	Fitch	Global Credit Rating	Moody's
Short-term rating	F3	A2	P-2
Long-term rating	BBB-	BBB+	Baa1
Previous rating	Unchanged	Unchanged	Unchanged
Outlook	Negative	Stable	Stable

12 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 by the Bank. More details on the information disclosed in this chapter of the annual report may be obtained from the investor relations section of the website.

Contact us:

For all enquiries on shareholding, financial and business update, please contact the Bank's investor relations desk as follows:

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