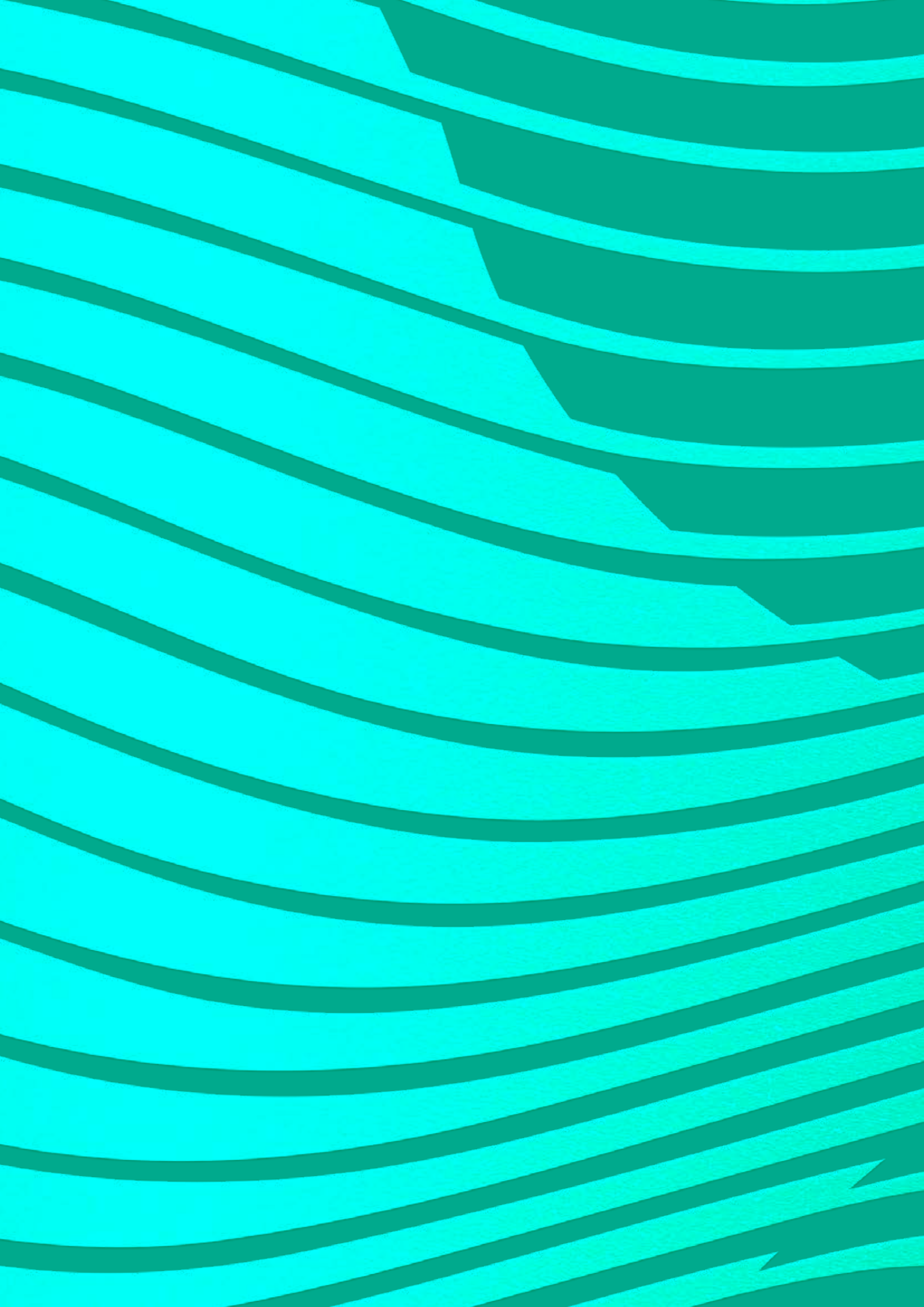




Transforming Africa's Trade

African Export-Import Bank
Banque Africaine d'Import-Export

Annual
Report
2019





Performance Highlights

Bank of the Year 2019

“

For demonstrating a high performance across various metrics and which has considerably changed the banking landscape by reaching out to new customers, offering new services and helping to drive growth through a stronger financial sector.

African Banker Awards 2019

”



8%

Year-on-year increase in total assets to US\$14.44 billion at the end of 2019

14%

Year-on-year increase in net income to US\$315 million in 2019

US\$1.16 billion

Total revenue in 2019 exceeded the US\$1 billion income mark

11.8%

Return on average equity in 2019

Key Macroeconomic Indicators

World output expanded by 2.9 percent in 2019 compared with 3.6 percent in 2018.

The rate of real GDP growth for Africa stood at 3.5 percent in 2019 compared with 2.3 percent in 2018.

Loan Approvals during 2019 Selected programmes

(US\$m)

Line of Credit	7,182
Direct Financing	3,497



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Vision

Transforming Africa's Trade



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 2019

Awarding Entity	Award
1. <i>African Banker</i>	African Bank of the Year
2. <i>International Investor</i>	Trade and Finance Bank of the year in Africa African Impact Investing Partner of the Year
3. <i>International Business Magazine</i>	Best Trade Finance Bank in Africa
4. <i>EMEA Finance</i>	Best supranational borrower
5. <i>EMEA Finance</i>	Best supranational bond Afreximbank's US\$750 million issuance
6. <i>Global Banking & Finance Review</i>	Best Project Finance Bank in Africa
7. <i>Africa Investor</i>	Africa Investor Bank Arranger of the Year
8. <i>Bloomberg League Tables</i>	Afreximbank ranked first among bookrunners of Africa borrower loans and second among lead arrangers of Africa borrower loans



Transmittal Letter

20 March 2020

Dear Chair,

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 2019 to 31 December 2019, 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.

Please accept the assurances of my highest consideration.

Professor Benedict Oramah

President and Chairman
of the Board of Directors

The Chairman

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



Board of Directors

Professor Benedict Okey Oramah
President and Chairman

Dr George Elombi
Executive Secretary

Members of the Board of Directors

Class A

Dr Mohammed Mahmoud Isa-Dutse

Dr Denny Kalyalya

Mr Stefan Luis-François Nalletamby

Mr Gamal Mohamed Abdel-Aziz Negm

Class B

Mr Kee Chong Li Kwong Wing

Dr John Panonetsa Mangudya

Mr Jean-Marie Benoît Mani

Mr Victor Jérôme Nembelessini-Silué

Class C

Mr Daniel Hanna

Ms Xu Yan

Independent Directors

Mr Anil Dua

Mr Ronald Sibongiseni Ntuli

External Auditors

Pricewaterhouse Coopers

KPMG

Management Team

Professor 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)

Mr Nyevero Hlupo

Chief Financial Officer

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)

Mr Idrissa Diop

Director (Compliance)

Mr Abel Osuji

Director (Internal Audit)

Mr Olaleye Babatunde

Director (Information Technology)

Chapter One

Executive Summary



01



Chapter One

Executive Summary

2019 saw the Afreximbank make real progress in its delivery on each of its four strategic pillars: Intra-African Trade, Industrialisation and Export Development, Trade Finance Leadership, and Financial Soundness and Performance. The Bank's notable launches included the Pan-African Payment and Settlement System and the US\$1 billion African Continental Free Trade Area Adjustment Facility.

The Bank maintained strong support for Africa's economies despite the prevailing global trade tensions, while strengthening its credit portfolio and improving operating efficiency. The Line of Credit and Direct Financing Programmes accounted for over 80 percent of total approvals, and total disbursements reached an annual record of US\$8.9 billion. As mandated and co-mandated lead arranger, the Bank syndicated 21 transactions totalling US\$12.71 billion.

US\$

12.4bn

Loans outstanding in 2019

11.4%

Increase over
2018



Executive Summary

This *Annual Report* and Financial Statements reviews the operating environment under which the African Export-Import Bank (the 'Afreximbank' or the 'Bank') conducted its operations in 2019.

The third full year of implementation of the Bank's fifth Strategic Plan, IMPACT 2021 – Africa Transformed, covering 2017–21, saw the Bank enhance its operations and activities in support of member states and customers in line with the planned 2019 Budget and Work Programme. The operations and activities of the Bank were also executed taking into consideration global economic and trade developments.

The report is organised as follows: Chapter 2 provides an update on major global and African economic and trade developments in 2019 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

Despite the various measures taken by monetary authorities to boost economic growth in an increasingly challenging global economic environment, the trade war between the United States and China took a toll on global growth and economic development in 2019. Growth decelerated across the board, both in developed economies and in the overwhelming majority of developing market economies. Over 90 percent of developed economies and 60 percent of developing economies went through varying degrees of growth decelerations during 2019.

Global financial conditions remained largely accommodative after the shift towards a change in monetary policy stance adopted by the US Federal Reserve and other major central banks to mitigate the threats to growth from the protracted trade war between the United States and China. The US Federal Reserve cut its policy rate three times during 2019. The reversal of monetary policy helped propel financial market activity and drove equity prices to record highs.

The most recent estimates from the World Trade Organization suggest that growth in the volume of global merchandise trade moderated to 1.2 percent in 2019

compared with 3.0 percent in 2018. Trade in current US dollar terms is estimated to have contracted to US\$38.39 trillion in 2019 from US\$38.86 trillion in 2018. The moderation in global trade growth is largely on account of escalating trade tensions during the first half of 2019 and softer demand on the back of a slowing global economy.

African economies showed more resilience in 2019, emerging as one of the few regions where output expanded, though moderately. The continent's aggregate output expanded by 3.46 percent in 2019, up by 0.26 percentage points from 2018 and above the world average of 3 percent. Africa is still the second-fastest-growing region of the world after Asia Pacific. Growth resilience was supported by, among other things, successful implementation of difficult macroeconomic reforms, improved macroeconomic management, strengthened recovery in larger economies, and robust economic growth in non-resource-intensive economies, as well as improved investor confidence.

The continent's merchandise trade, which grew by 14 percent to US\$1,059.3 billion in 2018 from US\$929.18 billion in 2017, was significantly affected, declining by 2.82 percent to US\$1,029.44 in 2019. The deceleration in the growth of Africa's merchandise trade arose from various factors, such as protracted trade disputes, which fuelled policy uncertainties and weighed on investments, and the continued slowdown of the Chinese economy, which dampened global demand for commodities and put pressure on the continent's merchandise exports.

1.2 OPERATIONS AND ACTIVITIES

In line with its mandate and main strategic pillars to promote intra-African trade, industrialisation and export development, as well as trade finance leadership, the Bank maintained its strong support to African economies throughout the year by deploying a wide range of existing and new programmes and products. In this context, the Bank continued to focus on strengthening its credit portfolio and improving operating efficiency. In 2019, business fundamentals remained solid and, as a result, the Bank's facility approvals remained high—at US\$12.39 billion, marginally lower than US\$12.41 billion in 2018 and 56.52 percent higher than in 2017 (US\$7.93 billion). In the same vein, total loans outstanding stood at US\$12.38 billion at the end of the year, up by 11.43 percent from US\$11.11 billion at the end of 2018. The outstanding balance under guarantees and other contingent liabilities amounted to US\$1,424.85 million in 2019, up from US\$858.00 million in 2018. Accordingly, the total value of loans and contingent liabilities amounted to US\$13.80 billion at the end of 2019 compared with US\$11.96 billion at the end of 2018 (an increase of 15.38 percent, year on year).

The Line of Credit and Direct Financing Programmes remained the main channels through which the Bank supported its member states and customers. In 2019, the Bank approved US\$7.18 billion under the Line of Credit Programme and US\$3.49 billion under the Direct Financing Programme. Together, the two programmes accounted for over 80 percent of the Bank's total approvals.

At the sectoral level, approvals for the financial institutions sector increased by 5.69 percent in 2019, reaching US\$7.72 billion, up from US\$7.31 billion in 2018, making it the largest sector supported by the Bank. This was consistent with the Bank's operating model, whereby the Bank's trade finance intermediaries continue to be main channels of product and services delivery to customers.

The energy sector (including oil, gas, and power) was the second-largest sector in terms of approvals, at US\$3.38 billion in 2019, 23.34 percent higher than in 2018 at US\$2.74 billion. The sector accounted for 27.28 percent of total approvals in 2019, up from 22.10 percent in 2018. The Bank continued to support the energy sector by deploying some of its main lending programmes, including Direct Financing, Syndications, and Project Financing.

In 2019, the Bank was the mandated lead arranger or co-mandated lead arranger for 21 syndicated transactions totalling US\$12.71 billion compared with US\$9.56 billion in 2018. The share of the Bank in these syndicated transactions amounted to US\$3.59 billion, reflecting a leverage ratio of 3.5. Reflecting this performance, the Bank was ranked first among bookrunners of Africa borrower loans and second among mandated lead arrangers of Africa borrower loans in the Bloomberg 2019 League Table.

At the 12th African Union Extraordinary Summit of Heads of States held in Niamey, Niger, on 7 July 2019, the African Union launched the operational phase of the African Continental Free Trade Area (AfCFTA). The launch of the AfCFTA followed the coming into force of the Free Trade Agreement on 30 May 2019, after the deposit of the required minimum of 22 ratifications by member states of the African Union. At the summit, Afreximbank President Oramah announced the intention of the Bank to institute a US\$1 billion AfCFTA Adjustment Facility to enable countries to adjust in an orderly manner to sudden significant tariff revenue losses as a result of the implementation of the agreement. One of the objectives of the facility is to accelerate the ratification of the AfCFTA by African governments. At the event, the African Union formally launched the Pan-African Payment and Settlement System.

In 2019, the Bank concluded the formalities for the opening of the East and Central African regional

11.4%

Total loans outstanding increased by 11.4 percent to over US\$12 billion in 2019.

21

In 2019, the Bank was the mandated lead arranger or co-mandated lead arranger for 21 syndicated transactions.

2019

saw the launch of the operational phase of the African Continental Free Trade Area (AfCFTA).

Executive Summary

branch offices in Kampala, Uganda, and Yaoundé, Cameroon, respectively. The establishment of these branch offices will set the stage for deepening the Bank's operations in the two regions and support the financial services sector through improved access to affordable and competitive financing for local banks.

The number of African participating states of the Bank increased to 51 at the end of 2019 from 50 at the end of 2018, with the accession to the Bank Agreement by Eswatini. The Bank also intensified efforts towards encouraging African member states that were yet to finalise the ratification of the Bank Agreement to do so. As a result, ratification instruments were received from Comoros, thus bringing the number of countries that had provided their ratification instruments to 39 by the end of 2019, up from 38 in 2018.

1.3 DEVELOPMENT IMPACT

2019 was a year of change and progress. Africa made a historic achievement with the launch of the operational phase of the AfCFTA. The year also marked the halfway point of the Bank's fifth Strategic Plan, which saw a major expansion of operations to a record level of US\$8.9 billion in terms of disbursements. The Bank continued 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.

In 2019, the Bank financed about 1.8 percent of total intra-African trade—which was well beyond the set target of 1.6 percent—and was expected to directly contribute to more than US\$1.8 billion (1.3 percent) to the value of total intra-African trade. The projects financed in 2019 under the Intra-African Trade strategic pillar were expected to connect 33,000 rural farmers

and small and medium-sized enterprises in Benin, Cameroon, Côte d'Ivoire, Kenya, Mozambique, and Nigeria to formal markets. In the area of trade facilitation, the Liwonde Dry Port project in Southern Africa is expected to reduce the time to export by 14 days as well as costs to export by US\$971 a day. The construction and commissioning of a civil aviation and immigration security system for the South Sudan Juba International Airport in East Africa will enhance the flow of goods, services, investments, and people.

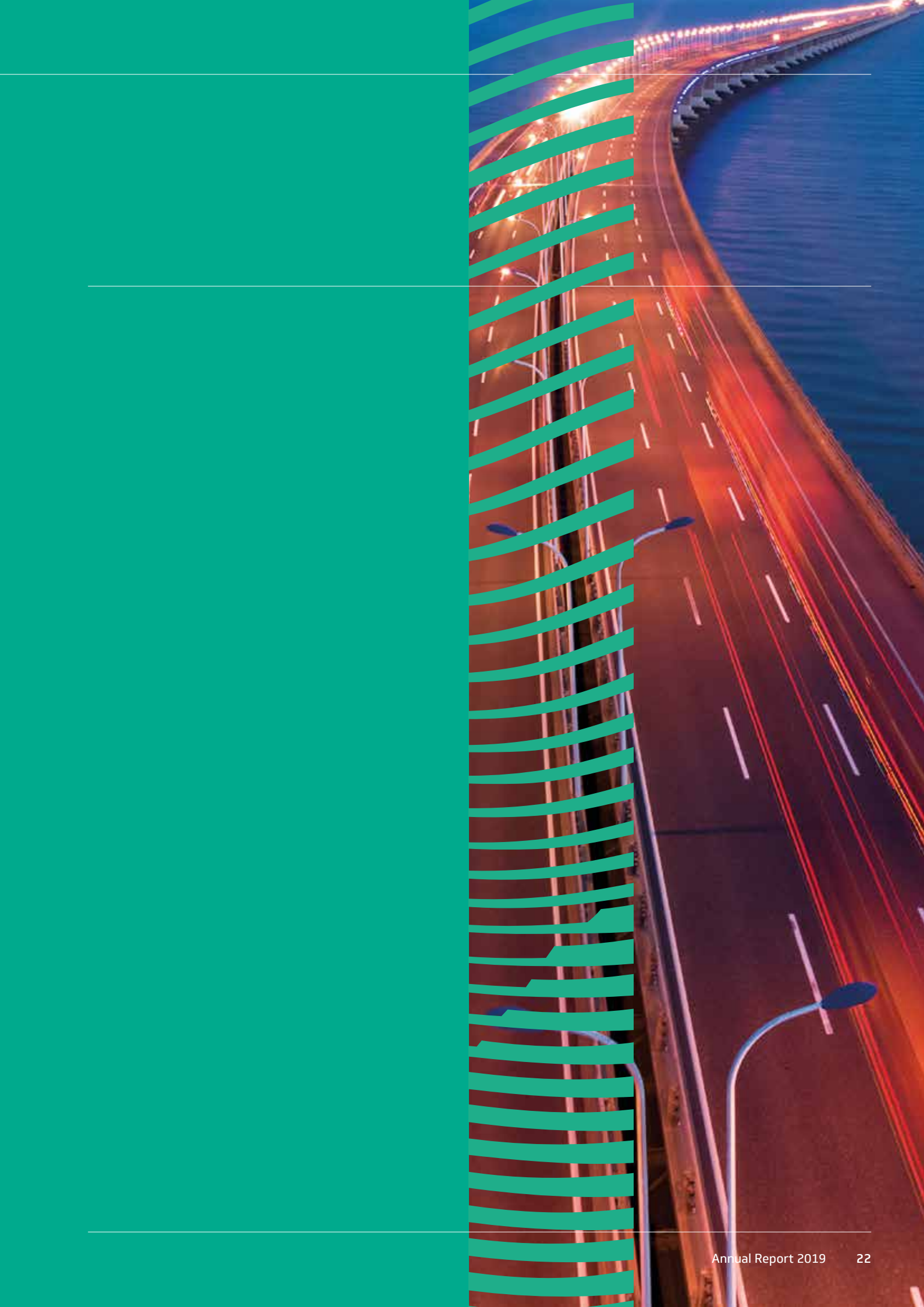
The Bank is working on various initiatives to support the successful implementation of the AfCFTA, including the arrangement of a US\$3.5 billion AfCFTA Adjustment Facility as well as operating the first continent-wide instant payment digital system (the Pan-African Payment and Settlement System).

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. In 2019, the Bank financed about 1.3 percent of Africa's total manufactured exports, which was beyond the set target of 1 percent. This was estimated to have directly contributed to a US\$474 million (0.9 percent) increase in the value of Africa's total manufactured exports. The expansion of the rail handling capacity in the Gabon Special Economic Zone Mineral Ports is expected to clear congestion at Port Owendo (Gabon's largest port) and boost trade in Central Africa. Through its Centre of Excellence for Medical Services Initiative, the Bank invested in the development of a first-rate medical centre for the people of Liberia in West Africa to drive excellence and promote intra-African medical tourism. Also, the financing of a solar power generation

project in South Sudan is expected to provide an additional 29 gigawatts of clean energy, benefiting more than 58,000 households and enhancing export competitiveness in East Africa. About US\$3.1 billion increase in exports, 10,000 direct and 40,000 indirect jobs, and US\$1.1 billion in government revenue are expected from the Bank's support to the construction of the largest liquefied natural gas (seventh train) in West Africa.

With respect to the Trade Finance Leadership strategic pillar, the Bank contributed to the narrowing of the trade finance gap in Africa by almost 10 percent in 2019. By the end of the year, the Bank had granted 129 trade finance lines, amounting to US\$5 billion, to 24 African countries. Under its newly introduced Country Export Programme, the Bank assisted a central bank in North Africa to establish an export credit agency (export credit risk guarantee company), which is expected to unlock about US\$60 billion annually in export credit to exporters.

The Bank achieved significant progress in implementing the new Trade Development Impact Assessment Framework. The first edition of the *Annual Trade Development Effectiveness Report*, aimed at providing an update of the contribution made by the Bank to Africa's trade and development in 2019, is issued along with the Bank's 2020 *Annual Report*.

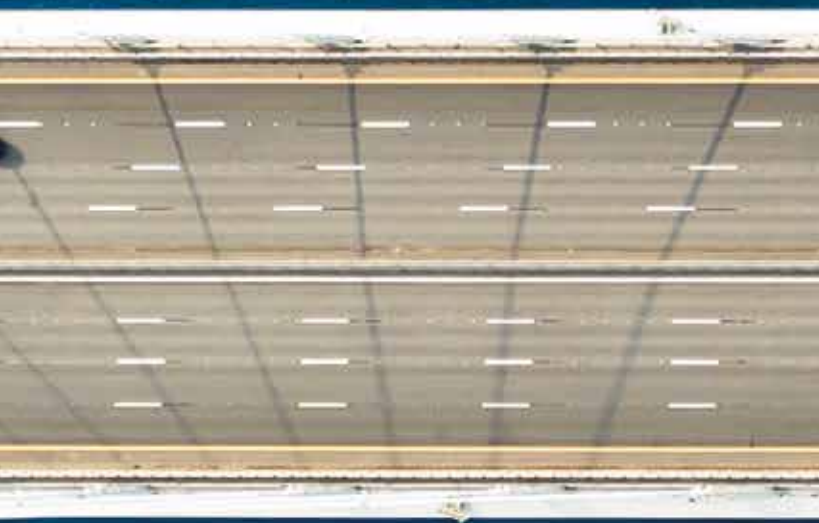


An aerial photograph of a multi-lane highway bridge spanning a body of water. The bridge has a white metal truss support structure. The road surface is dark asphalt with white dashed lane markings. A few cars are visible on the bridge. The water is a deep blue color.

Chapter Two

The Operating Environment

02





Chapter Two

The Operating Environment

Africa was the second fastest-growing region, one of the few regions enjoying output growth, and hosted six of the world's 10 fastest-growing economies in 2019. There was significant variation across the continent, with East Africa growing by 5 percent, but Southern Africa slowing to 0.7 percent, and Zimbabwe contracting by 7.1 percent. Average inflation fell to 9.2 percent as energy prices stabilised and food prices dropped. Africa's foreign reserves declined by 1.4 percent and most African currencies depreciated against the US dollar. Both extra- and intra-African trade declined, by 2.82 percent and 5.23 percent, respectively, but the African Continental Free Trade Area looks set to be a game changer for the continent.

US\$

38.8tn

Global merchandise
trade in 2019

1.2%

Global merchandise
trade decreased by
1.2 percent in 2019



The Operating Environment

World's GDP growth slowed to 3 percent ... in the face of a challenging economic environment, with the US–China trade war and the rise of protectionism disrupting global supply chains.

2.1 THE OPERATING ENVIRONMENT

2.1.1 Output Developments

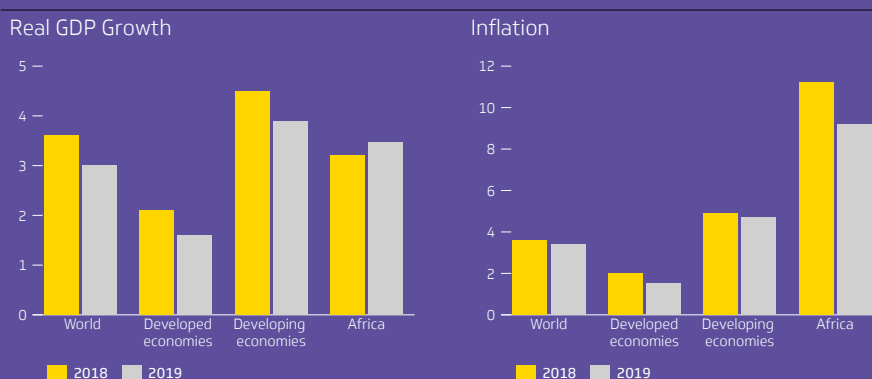
Despite the various measures taken by monetary authorities to boost economic growth in an increasingly challenging beggar-thy-neighbour global economic environment, the trade war between the United States and China took a toll on global growth and economic development in 2019. Growth decelerated across the board, both in developed economies and in the overwhelming majority of emerging and developing market economies. Over 90 percent of developed economies and 60 percent of developing economies experienced varying degrees of growth deceleration during 2019.

The broad-based decelerations led the International Monetary Fund (IMF) to revise its global growth forecast downward several times during the year under review to account for the challenging trade and economic environment. In addition to contracting global demand and heightening policy-induced uncertainty, social unrest in several countries, weather-related disasters—including hurricanes in the Caribbean, drought and bushfires in Australia, and floods and drought in East and Southern Africa—weighed on global growth. Final estimates from the IMF's *World Economic Outlook* indicate that world output expanded by 2.9 percent in 2019, down from 3.6 percent in 2018—the

lowest rate of global expansion since the global financial crisis in 2008/9 (Table 2.1 and Figure 2.1).

However, aggregate output expansion masks important variations across countries and regions. Stage of economic development is still an important differentiating factor in estimating the contribution to global growth. Despite the synchronised growth deceleration in both developed and developing market economies, the latter are still the leading drivers of global growth. While output in developed economies expanded by 1.7 percent in 2019 (down from 2.2 percent in 2018), it expanded by 3.7 percent in emerging markets and developing

Figure 2.1 Global Output and Inflation, 2018-19 (percent)



Source: International Monetary Fund, October 2019 *World Economic Outlook*.

Table 2.1 Developments in Global Output, 2017–19

	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		
	2017	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019
WORLD	–	–	–	3.80	3.60	3.00	3.2	3.6	3.4	–	–	–
DEVELOPED ECONOMIES	–	–	–	2.30	2.10	1.60	1.7	2.0	1.5	–	–	–
United States	1.00	1.00	1.00	2.40	2.90	2.40	2.1	2.4	1.8	1.15	2.81	1.91
United Kingdom	1.35	1.34	1.28	1.80	1.40	1.20	3.0	2.3	1.6	–	0.91	0.79
France	1.20	1.18	1.12	2.30	1.70	1.20	1.3	2.0	1.0	(0.33)	(0.31)	(0.38)
Japan	112.90	110.46	109.03	1.90	0.80	0.90	0.6	0.8	1.6	0.66	(0.07)	(0.05)
Italy	1.20	1.18	1.12	1.70	0.90	0.00	1.0	1.2	0.7	(0.33)	(0.31)	(0.38)
Canada	1.26	1.30	1.33	3.00	1.90	1.50	1.8	2.1	2.2	1.06	1.65	1.66
Germany	1.20	1.18	1.12	2.50	1.50	0.50	1.5	1.8	1.8	(0.33)	(0.31)	(0.38)
Memo Item												
Euro Area	1.20	1.18	1.12	2.80	2.20	1.50	1.50	1.80	1.20	(0.33)	(0.31)	(0.38)
DEVELOPING ECONOMIES				4.80	4.50	3.90	4.50	4.90	4.70	1.50		
Africa				3.60	3.20	3.40	13.10	11.20	9.20	–	–	–
Developing Asia				6.60	6.40	5.90	2.70	2.30	2.80	–	–	–
Latin America and the Caribbean				1.20	1.00	0.20	5.90	7.10	7.30	–	–	–
Developing Europe				3.90	3.10	1.80	5.10	7.40	6.00	–	–	–
Commonwealth of Independent States												

Sources: Bloomberg; and International Monetary Fund, World Economic Outlook database.

economies (down from 4.5 percent in 2018). The sharp deceleration is largely the consequence of a synchronised slowdown in China and India, which accounted for 49 percent and 35.7 percent of aggregate growth and trade in the developing world, respectively.

The sharp growth deceleration in developed economies reflects the poor performance in the euro area and the United States. After achieving one of the strongest rates of economic expansion under a combination of fiscal stimulus and accommodative monetary policy, the US economic growth rate decelerated to 2.3 percent in 2019, down from 2.9 percent in 2018. Even though a strong US labour market drove domestic consumption, its growth-enhancing effects were not strong enough to contain the negative spillover effects of contracting global demand associated with rising tariffs and inherent increases in trade

costs. But policy-induced uncertainty also affected US growth via other channels, including investment and contraction in the manufacturing sector, especially as a protracted trade war weighed on investors' confidence, and the burden of increased tariffs weakened the benefits of concentration of global supply chains.

Within the euro area, where growth was already anaemic, the deceleration was even more pronounced and broadened. Aggregate output fell to 1.2 percent in 2019, a 0.7 percentage point decline from 2018 when it expanded by 1.9 percent, reflecting the generalised context of weakening consumer and business sentiment and sharp decline in industrial production, which fell by 4.1 percent in 2019—the weakest performance since the sovereign debt crisis of 2012.

The growth deceleration was consistent across all four large economies of the

euro area (Germany, France, Italy, and Spain). In Germany, the largest economy in the euro area, which has been the region's leading driver of growth, output expanded by just 0.5 percent, down from 1.5 percent in 2018. The sharp deceleration of the German economy is the result of a combination of several factors, including the vulnerability of its export-led growth model in a challenging environment (where protracted trade tensions are softening global demand) and disruption to the auto sector following the introduction of new fuel emissions standards.

The synchronised slowdown in the remaining three large economies of the euro area was due to a host of factors, both external—most notably contraction in global trade, which fell by 1.2 percent in 2019—and idiosyncratic factors. In France, the protracted grassroots protests and nationwide strikes disrupted retail sales

The Operating Environment

and weighed on consumption spending. In Italy, where the economy barely grew, with output expanding by just about 0.2 percent in 2019, fiscal policy uncertainty and elevated sovereign spreads softened investment. In Spain, the inability of the government to implement difficult reforms—most notably fiscal consolidation to reduce structural fiscal deficits and improve the country's debt profile—and stagnant productivity of labour exacerbated the challenges associated with protectionism and softening global demand.

Outside of the euro area, in the United Kingdom—which has been engaged in very difficult and protracted Brexit negotiations with the European Union—the economy showed some signs of resilience, growing at a rate of 1.3 percent, as in 2018, despite the challenging economic environment, especially during the second half of 2019. The services sector, which accounts for almost 80 percent of economic output, worsened in the last quarter of the year and, for the first time in a decade, indicators for factories' output and domestic workers were negative for two consecutive quarters, perhaps reflecting heightening uncertainty associated with the looming conclusions of Brexit negotiations and effective divorce between the United Kingdom and the European Union. A shrinking UK surplus in trade in services widened the deficit, which could expand even further in 2020 after the end of the passporting arrangements in the post-Brexit era.

Despite the challenges facing Japan (the second-largest economy in the industrialised world), growth, which has been powered by an export-led growth model, is confronted with a rapidly aging population and shrinking labour force; output expanded by 1 percent in 2019, up from 0.3 percent in 2018.

Across the developing world, the deceleration of growth reflects the challenges faced by countries that rely heavily on trade. But the synchronised slowdown in China and India, which are the first- and second-largest economies

in the developing world, is probably the most important driver of overall deceleration in the group, in addition to idiosyncratic factors, such as difficulties faced by the banking sector and structural rebalancing in China as well as stress in the non-bank financial sector and decline in credit growth in India. The Indian economy registered one of the sharpest decelerations, falling by 2 full percentage points to 4.8 percent in 2019, from 6.8 percent the year before. China's GDP growth decelerated to 6.1 percent in 2019, down from 6.6 percent in 2018.

Growth in developing Europe, which declined to an estimated 1.8 percent in 2019 from 3.1 percent in 2018, largely reflects a slowdown in Russia and stagnation in Turkey. In Latin America, growth slowed to an estimated 0.1 percent in 2019, from 1.1 percent in 2018, reflecting continued weak performance in Brazil on the back of mining supply disruptions, and Mexico as a result of weak investment and sluggish private consumption, reflecting policy uncertainty, weakening confidence, and higher borrowing costs. Argentina's economy, the third-largest in Latin America, contracted during 2019 against the backdrop of persistent macroeconomic management challenges, most notably illustrated by high inflation and persistent fiscal and sovereign debt crises.

Growth in the Middle East and Central Asia region is estimated at 0.9 percent and 0.4 percent, respectively, in 2019, reflecting sluggish growth in Iran on the back of tighter US sanctions. Non-oil growth strengthened in 2019 mainly driven by higher government spending and increased business confidence, with oil GDP in Saudi Arabia declining against the backdrop of the extension of the Organization of Petroleum Exporting Countries (OPEC)+ agreement and a generally weak global oil market. Civil war in some countries, including Syria and Yemen, as well as political instability in Lebanon, weighed on the region's economic activity.

2.1.2 Price Developments

Despite heightening inflationary pressures in a few countries, most notably Argentina, Iran, Venezuela, and Zimbabwe, global price inflation eased from 3.6 percent in 2018 to 3.4 percent in 2019, largely driven by softening energy prices and weakening global demand (Table 2.1 and Figure 2.1). The September 14 attack on key oil-refining facilities in Saudi Arabia threatened supply disruptions and caused crude oil prices to spike by more than 10 percent in the immediate aftermath. However, global prices subsequently retreated and have remained consistent with trend growth. Coal and natural gas prices also declined as a result of weak global demand.

In a generalised global context of decreasing prices, core inflation slid further below target across developed economies and below historical averages in many developing economies. Wage growth in the United States and the United Kingdom inched higher from modest levels as unemployment rates dropped further, while income has been steadily trending upwards since 2014. However, these developments appear not to have passed through to core consumer price inflation, suggesting some modest compression of firms' profit margins, thereby contributing to the decline in inflation.

Consistent with the softening of energy prices and growth deceleration, consumer price inflation in developed economies averaged 1.5 percent in 2019, down from 2 percent in 2018. Low core inflation readings and subdued impulses from commodity prices to headline inflation led to declines in market pricing of expected inflation, especially in the United States and the euro area. Inflation in the United States and the euro area declined to 1.8 percent and 1.2 percent in 2019, from 2.4 percent and 1.8 percent, respectively, in 2018. Inflation in developing economies declined to 4.7 percent in 2019, from 4.9 percent in 2018. Africa recorded an



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inflation rate of 9.2 percent in 2019, down from 11.2 percent in 2018. Though consistent with declining global trade, the average inflation rate across Africa is still largely above the world average.

2.1.3 Financial Markets

Global financial conditions remained largely accommodative after the shift towards a regime change on monetary policy adopted by the US Federal Reserve and other major central banks to mitigate the threats to growth from the protracted trade war between the United States and China. The US Federal Reserve cut its policy rate three times during 2019. The reversal of monetary policy helped propel financial market activity and drove equity prices to record highs.

After the 2018 rout, the strong recovery in asset prices was largely driven by the turnaround in interest rates and easing monetary policy, especially by the US Federal Reserve, the European Central Bank, and other major economies. Having led markets to expect interest rate hikes in 2019, the US Federal Reserve reversed its policy stance in the first half of the year and then proceeded to cut rates three times between July and October. Overall, financial markets recovered strongly in 2019, with almost all major stock indices ending the year up.

The three interest rate cuts by the US Federal Reserve in 2019 set the Federal Funds target rate at 1.5–1.75 percent. The European Central Bank maintained its main refinancing rate at 0 percent but cut its main deposit rate to –0.50 percent and restarted its monthly bond purchases in September. The Bank of Japan remained on an expansionary path in the face of anaemic growth and increasing price stickiness but did indicate it would taper its bond purchase programme in 2020. China also remained in stimulus mode, cutting bank reserve requirements three times in 2019 on the back of growing concerns about growth prospects.

Falling bond yields amid growth concerns and softer investor demand for haven assets in a context of a slight improvement in global trade relations during the latter part of the year, coupled with monetary policy reversals, triggered a strong recovery in global stock markets, with most major stock indices ending the year up. In the United States, the S&P 500 ended the year 30 percent up—the best calendar-year performance since 2013—while the NASDAQ ended the year 35.2 percent up. While lagging the United States, other equity markets also posted strong recoveries. The FTSE 100 stock market index gained 12 percent, boosted by the outcome of the UK election, while the Euro Stoxx 50 index returned 24.8 percent. Within European equity markets, Germany, France, and Italy stood out, with each gaining more than 20 percent for the year. Japanese stocks also advanced, with the Nikkei 225 index gaining 18.2 percent.

In developing economies, the performance of capital markets was also supported by easing trade tensions and interest rate reversal in the United States. The MSCI's Emerging Market index, which tracks 24 emerging market economies, ended the year 15.4 percent up, with China's Shanghai composite index up 22.3 percent. The worst stock market performer in US dollar-denominated terms in 2019 was Chile, which saw its IGPA index fall more than 20 percent. Poland's stock market index fell more than 11.6 percent, while Malaysia's stock market ended the year 5.4 percent down.

In Africa, South Africa's JSE All Share index ended the year 11.4 percent up, while Morocco's MASI Free Float All Shares index and Egypt's EGX 30 index returned 8.9 percent and 5.7 percent, respectively. In Kenya, the Nairobi Securities Exchange LTD 20 index ended the year 5.5 percent down, while in West Africa the Bourse Régionale des Valeurs Mobilières ended the year 7.3 percent lower. In Nigeria, the NGSE All Share index ended the year 13.6

percent down, with the market negatively impacted by the general elections and ongoing security challenges, even in the face of increasing stability in the foreign exchange market.

Geo-economic and geopolitical considerations continued to be major factors in the dynamics of currency markets, especially as key financial centres and investors integrate uncertainty related with the trade war, Brexit, and geopolitical tensions in their growth models. Despite the monetary policy reversal in the United States, demand for the US dollar strengthened in a highly volatile global economic environment. The dollar index, which represents a basket of currencies dominated by the euro, increased 0.32 percent in 2019. The euro lost ground, ending the year 2.2 percent lower against the US dollar, while the Chinese yuan lost 1.4 percent.

Among major currencies, the pound sterling ended 2019 as the biggest winner against the dollar—up 4.1 percent—staging a powerful rally after UK voters gave Prime Minister Boris Johnson and the Conservative Party a commanding majority in Parliament, which made it likely to secure support for a Brexit withdrawal plan. The Japanese yen gained 0.75 against the US dollar. In the African currency market, the South African rand and Egyptian pound gained 4.45 percent and 10.1 percent against the US dollar, respectively, while the Nigerian naira remained flat against the US dollar.

2.1.4 Financing Conditions

Financing conditions remained largely accommodative as policymakers sustained efforts to stoke growth and steer inflation towards prescribed targets. In the United States, rate cuts amid growth concerns and benign inflation contributed to persistent downward pressure on yields, with the yield curve for 10-year bonds inverting, falling as low as 1.5 percent in August, before recovering to end the year at 1.9 percent. In the UK bond market, yields on the 10-year gilt also came under pressure ending the year at 0.74 percent, down from 1.28 percent in 2018.

In other parts of Europe, the slowdown in economic growth and increasing uncertainty led to downward pressure on bond yields. In Germany, 10-year bond yields turned negative, falling from 0.21 percent to -0.29 percent as the European Central Bank announced the restart of its bond-buying programme. In France, 10-year bond yields also turned negative before returning to positive territory at 0.05 percent, while Italy saw yields on its 10-year bonds fall from 2.9 percent to 1.4 percent.

In China, financing conditions remained broadly stable with an easing 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 three cuts to the required reserve ratio.

Notwithstanding the changing environment of expansionary monetary policies, financing conditions in Africa remained relatively tight in a context of liquidity challenges, occasioned by the lingering effects of the end of the commodity super-cycle, the withdrawal of

large international financial institutions from African markets in response to an increasingly stringent regulatory environment, and implementation of sanctions. Challenges with letter of credit confirmation created by large-scale withdrawal of major banks, among others, meant that access to funds by African entities remained difficult or has been at a higher premium. The tight financial conditions in Africa, which contrasts the global environment, also reflects the highly inflated risk perception, which has set unreasonably high expected returns on investment in Africa. For instance, in 2019, the average coupon rate for a 10-year African sovereign bond was about 10 percent compared with 1.35 percent for Italy, where fiscal and sovereign debt crises have been constant threats.

2.1.5 Developments in Trade and Trading Environment

Over the years, developments in trade have been highly correlated with growth performance. The rise of global value chains further strengthened the correlation between trade and growth, with contraction in global demand leading to a global growth slowdown. However, the policy-induced shocks in the form of the trade war between the United States and China and, more generally, the rise of protectionism, introduced additional uncertainty and disruption to global supply chains. Accordingly, the most recent estimates from the World Trade Organization suggest that growth in the volume of global merchandise trade moderated to 1.2 percent in 2019 compared with 3.0 percent in 2018. Trade in current US dollar terms is forecast to have contracted to US\$38.39 trillion in 2019 from US\$38.86 trillion in 2018. The moderation in global trade growth is largely on account of escalating trade tensions during the first half of 2019 and softer demand on the back of a slowing global economy.

Europe

The slowdown in economic growth and increasing uncertainty led to downward pressure on bond yields.

China

Financing conditions remained broadly stable with an easing monetary policy.

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In developed economies, the volume of merchandise exports is estimated to have slowed, growing by 0.4 percent in 2019 compared with 2.1 percent in 2018, while merchandise imports grew by 1.6 percent compared with 2.5 percent in 2018. In North America, the volume of merchandise exports grew by 1.5 percent in 2019 compared with 4.3 percent in 2018, while merchandise imports grew by 2.9 percent compared with 5.0 percent in 2018. European merchandise exports grew by 0.6 percent in 2019 compared with 1.6 percent in 2018, while merchandise imports grew by 0.4 percent compared with 1.1 percent in 2018.

Unlike previous episodes, the contraction in global demand was also felt in the developing world, which has been the major driver of global trade growth over the past decades. As a group, the volume of merchandise exports of developing economies rose by 2.1 percent in 2019 compared with 3.5 percent in 2018, and merchandise imports grew by 1.1 percent compared with 4.1 percent in 2018. Asia's merchandise exports increased by 1.8 percent in 2019, down from 3.8 percent in 2018, while imports grew by 1.3 percent down from 5.0 percent in 2018. Chinese exports grew by 0.5 percent in 2019 compared with 10 percent in 2018, while imports contracted by 2.8 in 2019 after growing by 16 percent in 2018.

In South and Central America, trade growth remained flat on the back of a deep economic recession in Argentina, persistent macroeconomic challenges and weak recovery in Brazil, and social unrest in Chile. Accordingly, the region's merchandise imports suffered a 0.7 percent contraction in 2019 compared with a growth of 5.2 percent in 2018, while merchandise exports recovered slightly, growing by 1.3 percent in 2019 compared with 0.6 percent in 2018.

Despite a moderation in global trade tensions during the latter part of the year, risks remain, though moderating. Most tariffs remain in effect, and the US–China Phase 2 trade negotiations could be even more challenging, especially given their implications for the overall structure of the Chinese economy on the path of modernisation and for global leadership in the area of technology and innovation. While global trade is forecast to recover in 2020, the World Trade Organization notes that, overall, risks to the forecast are considerable and remain heavily tilted to the downside.

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The contraction in global demand was also felt in the developing world, which has been the major driver of global trade growth over the past decades.

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2.2 THE AFRICAN ECONOMIC ENVIRONMENT

2.2.1 Output Developments

Despite the challenging global economic developments—softening global demand, heightened policy uncertainty, exacerbated by outright trade and currency wars, and geopolitical tensions—African economies showed more resilience in 2019, emerging as one of the few regions where output expanded, albeit moderately. The continent's aggregate output expanded by 3.46 percent in 2019, up by 0.26 percentage points from 2018 and above the world average of 3 percent. Africa is still the second-fastest-growing region of the world after Asia Pacific. Growth resilience was supported by successful implementation of difficult macroeconomic reforms, improved macroeconomic management, strengthened recovery in larger economies, and robust economic growth in non-resource-intensive economies, as well as improved investor confidence. Furthermore, increasing infrastructure investment, driven largely by the need to meet the demand of rapid urbanisation and cross-border trade, as well as rising productivity were a boost to economic growth.

But the resilience also reflects the robust growth rate in a growing number of smaller economies across the region—six African countries including South Sudan (7.9 percent), Rwanda (7.8 percent), Côte d'Ivoire (7.5 percent), Ghana (7.5 percent), Ethiopia (7.4 percent), and Mauritania (6.6 percent) were among the world's 10 fastest-growing economies in 2019. Despite the resilience, GDP growth is below potential—the region achieved an average growth rate of about 5 percent over the decade preceding the end of the commodity super-cycle in 2014. The below-potential performance and growth trend is due to modest expansion

in leading natural resource-dependent economies, most notably Nigeria, Angola, Algeria. But the moderate expansion is also due to lacklustre performance in South Africa where power shortages and macroeconomic management challenges remain a major constraint to growth. Together, these economies (Algeria, Angola, Nigeria, and South Africa), among the largest in Africa, grew at an average rate of about 1.3 percent in 2019 compared with an average of 5.6 percent for the rest of the continent's economies (Table 2.2).

2.2.1.1 Regional Variations

The continent's growth in 2019 was characterised by variations across sub-regions and countries. East Africa remained the fastest-growing region. The sub-region achieved an estimated growth rate of 5 percent in 2019, with a significant contribution coming from the fastest-growing economies, Rwanda, Ethiopia, Tanzania, and South Sudan. After contracting by 1 percent in 2018, growth in South Sudan rebounded in 2019 and expanded to 7.9 percent—among the fastest-growing globally—mainly as a result of increased oil production following the signing of the peace agreement in September 2018 and efforts to establish a government of national unity. Rwanda and Uganda also posted strong growth at 7.8 percent and 6.16 percent respectively. However, with the winding down of the fiscal stimulus from previous years, growth in Kenya slowed to 5.6 percent in 2019, from 6.3 percent in 2018 (Table 2.2).

North Africa registered the second-fastest growth rate, with average growth estimated at 4.1 percent for 2019, up from 3.8 percent in 2018. The region's performance is largely attributed to the growth momentum in Egypt, where output expanded by 5.5 percent in 2019, up from 5.3 percent in 2018, driven

by the implementation of economic reforms, increased gas extraction from the Zohr field, improved net exports, and increased investment. Favourable tourism activity supported growth and economic expansion in net oil-importing countries, including Morocco and Tunisia. Other countries with growth accelerations include Algeria (from 1.4 percent in 2018 to 2.6 percent in 2019) and Mauritania (from 3.6 percent to 6.6 percent).

In Western Africa, growth picked up to 3.7 percent in 2019 from 3.4 percent in 2018, driven mainly by Ghana, which saw output expand by 7.5 percent in 2019, up from 6.3 percent in 2018, on account of growth in the mining and petroleum sectors in addition to strong agricultural performance; and Côte d'Ivoire, where output expanded by 7.5 percent in 2019, up from 7.4 percent in 2018, spurred by sustained public investments. Nigeria, the largest economy in the sub-region, which has been a drag to sub-regional economic expansion, continued its gradual but steady recovery to register an estimated growth rate of 2.3 percent in 2019, up from 1.9 percent in 2018.

In Central Africa, the most natural resource-dependent sub-region on the continent, the growth outlook improved as well. Growth is estimated to have increased from 2.7 percent in 2018 to 3.2 percent in 2019, driven by the fact that several countries experienced growth accelerations between 2018 and 2019 and the ongoing process of diversification of sources of growth and trade to reduce the excessive dependency on oil. Even the Democratic Republic of Congo, which was an exception to that accelerating trend enjoyed by the sub-region, achieved a growth rate of 4.3 percent in 2019, down from 5.8 percent in 2018, despite the challenging political environment and highly contested democratic transition.

In Southern Africa, growth slowed to 0.7 percent in 2019 from 1.2 percent in 2018, dragged down largely by cyclones Idai and Kenneth and the devastation of infrastructure and agriculture in Malawi, Mozambique, and Zambia, in addition to weak growth performance in Zimbabwe, which contracted by an estimated 7.1 percent in 2019 from a 3.5 percent expansion in 2018. Slow growth in South Africa and contraction in Angola and Namibia also contributed to the poor performance of the sub-region's economy in 2019.

2.2.1.2 Price Developments

Inflation remains on a long-term decline across the region. A sustained improvement in macroeconomic management over the past four years has resulted in the gradual easing of price pressures. The average inflation rate for the continent declined to an estimated 9.2 percent in 2019 from 11.2 percent in 2018 (Table 2.1 and Figure 2.1). Stabilising energy prices in addition to declining food prices driven by higher agricultural

production also contributed to lower inflationary pressures.

The inflation outlook was also shaped by the dynamics in oil-exporting countries where inflation decreased by 4.3 percentage points to 11.3 percent in 2019. However, large fluctuations in exchange rates in some countries, including Angola, Sudan, Zambia, and especially Zimbabwe, stoked inflation. Recovery in oil prices was also a contributing factor that heightened inflationary pressures in oil-importing countries to 6.4 percent in 2019, up from 4.3 percent in 2018.

In countries that experienced downward inflationary pressures, including Botswana, Egypt, Namibia, Nigeria, interest rates were reduced to encourage investment and spur growth. In contrast, Zimbabwe raised interest rates to contain runaway inflation of over 300 percent. Likewise, Sudan raised interest rates to rein in inflation, which was above 60 percent (Table 2.3).

3.46%

The continent's aggregate output expanded by 3.46 percent in 2019.

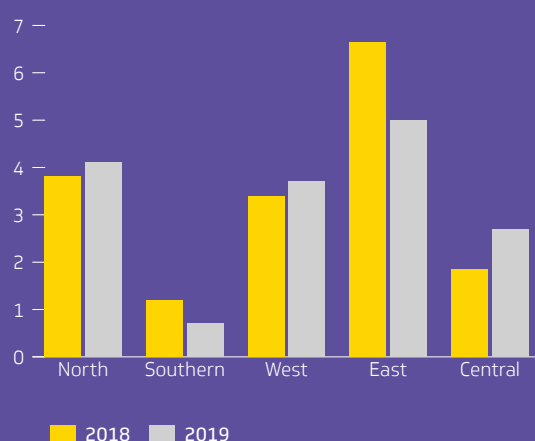
2019

East Africa was the continent's fastest growing region in 2019.

Inflation

in Africa remains on a long-term decline trajectory.

Figure 2.2 Africa: Output by Region, 2018–19 (percent)



Source: International Monetary Fund, October 2019 *World Economic Outlook*.

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Table 2.2 Africa: Real GDP Growth, 2017–19 (annual percent change)

Country	2017	2018	2019
Algeria	1.30	1.40	2.55
Angola	-0.15	-1.20	-0.27
Benin	5.67	6.70	6.55
Botswana	2.91	4.45	3.48
Burkina Faso	6.32	6.82	5.97
Burundi	0.00	0.15	0.42
Cameroon	3.55	4.06	4.00
Cape Verde	3.70	5.08	4.97
Central African Republic	4.53	3.82	4.46
Chad	-2.38	2.44	2.28
Comoros	2.95	2.96	1.25
Congo, Dem. Rep. of	3.73	5.82	4.29
Congo, Rep. of	-1.77	1.59	3.97
Côte d'Ivoire	7.70	7.43	7.49
Djibouti	5.08	5.50	6.00
Egypt	4.08	5.31	5.52
Equatorial Guinea	-4.71	-5.73	-4.64
Eritrea	-9.62	12.19	3.10
Eswatini	2.03	2.35	1.30
Ethiopia	10.15	7.71	7.44
Gabon	0.50	0.85	2.94
Gambia	4.82	6.55	6.53
Ghana	8.14	6.26	7.46
Guinea	10.05	5.77	5.89
Guinea-Bissau	5.93	3.80	4.60
Kenya	4.86	6.32	5.60
Lesotho	0.52	2.77	2.76
Liberia	2.47	1.24	0.44
Libya	64.01	17.88	-19.06
Madagascar	4.29	5.20	5.22
Malawi	4.00	3.17	4.50
Mali	5.42	4.65	5.04
Mauritania	3.07	3.57	6.63
Mauritius	3.81	3.76	3.68
Morocco	4.20	2.96	2.66
Mozambique	3.74	3.27	1.80
Namibia	-0.87	-0.08	-0.18
Niger	4.90	6.48	6.28
Nigeria	0.81	1.92	2.29
Rwanda	6.12	8.61	7.80
São Tomé & Príncipe	3.87	2.66	2.70
Senegal	7.13	6.65	6.05
Seychelles	4.33	4.09	3.46
Sierra Leone	3.77	3.46	5.00
Somalia	1.39	2.80	2.90
South Africa	1.42	0.79	0.66
South Sudan	-5.49	-1.12	7.93
Sudan	1.66	-2.23	-2.62
Tanzania	6.77	6.95	5.20
Togo	4.42	4.90	5.10
Tunisia	1.83	2.48	1.51
Uganda	5.01	6.11	6.16
Zambia	3.52	3.67	2.02
Zimbabwe	4.70	3.50	-7.08

Source: International Monetary Fund, World Economic Outlook database, October 2019.

Table 2.3 Africa: Inflation, 2017–19 (annual percent change)

Country	2017	2018	2019
Algeria	4.93	2.70	3.90
Angola	23.67	18.60	17.00
Benin	2.96	-0.13	0.55
Botswana	3.18	3.54	2.75
Burkina Faso	2.07	0.34	2.00
Burundi	10.55	5.32	8.97
Cameroon	0.79	1.98	2.27
Cape Verde	0.27	1.00	1.01
Central African Republic	7.17	4.61	3.00
Chad	3.11	4.38	9.12
Comoros	1.42	0.93	4.78
Congo, Dem. Rep. of	54.71	7.23	5.50
Congo, Rep. of	1.79	0.90	1.86
Côte d'Ivoire	1.06	1.05	1.00
Djibouti	-0.84	1.97	2.00
Egypt	29.76	14.38	9.38
Equatorial Guinea	-0.23	2.59	1.60
Eritrea	-18.16	-29.28	-0.11
Eswatini	4.71	5.25	2.31
Ethiopia	16.50	10.58	14.50
Gabon	1.06	6.25	3.00
Gambia	6.95	6.41	7.04
Ghana	11.82	9.43	9.33
Guinea	9.55	9.94	8.60
Guinea-Bissau	-1.26	5.85	1.46
Kenya	4.50	5.71	6.21
Lesotho	4.84	5.24	6.00
Liberia	13.89	28.53	20.55
Libya	31.39	-4.50	12.00
Madagascar	9.01	6.06	6.39
Malawi	7.06	9.89	8.58
Mali	1.08	0.95	1.00
Mauritania	1.24	3.15	2.80
Mauritius	4.27	1.76	2.02
Morocco	1.86	0.15	0.65
Mozambique	5.65	3.52	8.50
Namibia	5.17	5.15	4.80
Niger	1.76	1.62	0.37
Nigeria	15.37	11.44	11.68
Rwanda	0.67	1.14	5.00
São Tomé & Príncipe	7.69	9.05	7.76
Senegal	-0.66	1.33	1.98
Seychelles	3.48	3.38	2.30
Sierra Leone	15.33	17.46	14.01
Somalia	6.09	3.22	4.00
South Africa	4.72	4.92	4.70
South Sudan	117.67	40.06	35.92
Sudan	25.15	72.94	56.88
Tanzania	3.97	3.25	4.14
Togo	-0.68	1.99	1.74
Tunisia	6.15	7.49	5.91
Uganda	3.30	2.23	3.50
Zambia	6.09	7.90	12.00
Zimbabwe	3.43	42.07	182.92
Total	486.99	392.92	557.11
Average	9.19	7.41	10.51

Source: International Monetary Fund, World Economic Outlook database, October 2019.

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Fuelled in part by expansionary fiscal policy and supply-side constraints, inflation remained a constraint in the quest for macroeconomic stability and growth in Western Africa. In 2019, inflation rose marginally at an estimated 9.8 percent, from 9.5 percent in 2018. However, inflation dynamics were not uniform across a region where countries are subject to different monetary arrangements. Inflation was low in members of the West African Economic and Monetary Union (WAEMU)—at about 1.2 percent—but reached about 12 percent in non-WAEMU countries. Expansionary fiscal policies, as a result of increased infrastructure spending, contributed to inflation in the sub-region. In Nigeria, inflation increased to 11.7 percent in 2019, from 11.4 percent in 2018, while inflation remained high in Liberia (20.6 percent), Sierra Leone (14 percent), Ghana (9.3 percent), and Guinea (8.6 percent).

Inflation in East Africa eased at an estimated 10.9 percent in 2019, from 12.8 percent in 2018 (excluding Sudan's exceptionally high rate of 57 percent). Several factors, including rapid currency depreciation, high dependence on imported consumer and capital goods, increased monetisation of the fiscal deficit, and security concerns exacerbated inflationary pressures in Sudan. High levels of inflation in South Sudan (35.9 percent), Ethiopia (14.5 percent) and Burundi (9 percent) also contributed to raising the region's average inflation in 2019.

Ongoing macroeconomic management challenges characterised by supply constraints, currency depreciation, and a general acute shortage of basic necessities in Zimbabwe generated high inflationary pressure, pushing the inflation rate even higher to 300 percent in 2019, up from 10.6 percent in 2018. In this regard, excluding Zimbabwe, Southern Africa's average inflation rate increased marginally but remained in single digits at an estimated 7.2 percent in 2019, from 6.5 percent posted in 2018. The relative increase in inflationary pressures was driven by a few other countries, including Angola (17 percent) and Mozambique (8.5 percent). Excluding these three exceptions, most of the countries in the region are within the region's convergence target.

In North Africa, high inflation rates in Libya (12 percent) and Egypt (9.4 percent) drove the region's average price level, pushing the consumer price index across the sub-region up to 5.8 percent in 2019, up from 3.9 percent in 2018. This was on the back of decelerating inflationary pressures in Algeria and Morocco where steady declines in fiscal and current account deficits in addition to exchange rate stabilisation lowered the average inflation rate to 2 percent and 0.65 percent in 2019, down from 1.9 percent and 4.3 percent, respectively.

Six Central African Economic and Monetary Community countries share a single currency, the CFA franc, managed by the Bank of Central African States. Like in the WAEMU, the peg of the CFA franc used

by Central African countries to the euro has been a driver of price stability. The reduction of inflationary pressures within the region also reflects the performance in the Democratic Republic of the Congo, where inflation eased to 5.5 percent in 2019, down from 29.3 percent in 2018. Overall, the sub-region posted an average inflation rate of 3.8 percent in 2019, down from 4 percent in 2018.

2.2.2 External Reserves and Exchange Rates

Continued volatility in commodity prices and the consequent reduction in export earnings exerted pressure on African countries' stock of foreign reserves for the second consecutive year in 2019. Africa's foreign exchange reserves, which suffered a 1.40 percent year-on-year decline from US\$423.77 billion in 2017 to US\$417.86 billion in 2018, experienced another yearly decline, falling by 1.32 percent to US\$412.33 billion in 2019 (Table 2.4). In a region where oil exporters account for over 37.4 percent of total exports, the decline in the oil price had significant knock-on effects on Africa's overall reserve position. In the leading oil-exporting countries, the level of foreign reserves fell by 17.98 percent in Algeria, 12.39 percent in Angola, 26.67 percent in Chad, and 9.39 percent in Nigeria in 2019.

Apart from declining oil prices, the reversal in capital flows triggered by local currency depreciation also weighed on the continent's reserve position. At the same time, protracted socio-political difficulties in parts of Africa, including Algeria, the Central African Republic, and Sudan, alongside militant activity in Burkina Faso, Kenya and Mali increased uncertainty and risk perceptions, prompting international investors to scale-down their investments. Further, the anxiety created by security concerns hindered tourist arrivals and foreign direct investment inflows into these countries. The combined effects of these, along with widening trade deficits, adversely affected the overall level of foreign exchange reserves across the continent in 2019. Accordingly, average import coverage fell to 7.47 months in 2019, from 7.84 months in 2018, but remained well above the IMF threshold of three months of imports cover.

The decline in export revenues resulting from weak commodity prices and slow growth in tourist receipts, capital flows reversals and widening deficits, especially

in a context of increasing infrastructure financing, undermined the performance of many national currencies across the continent in 2019. Accordingly, the majority of African currencies depreciated against the US dollar (Table 2.5). The currencies of Angola, Ethiopia, Ghana, Liberia, Sierra Leone, and Zambia were among the worst-performing currencies in 2019. The Angolan kwanza depreciated by more than 115 percent against the US dollar, as the Angolan central bank sought to eliminate the gap between the official exchange rate and the parallel market rate following the end of the kwanza's peg to the US dollar in 2018. The Liberian dollar depreciated by 65.96 percent largely on account of capital flight, a widening current account deficit and a limited inflow of remittances. The Zambian kwacha depreciated by 35.36 percent due to a severe drought, a widening budget deficit which triggered soaring debt. The Ethiopian birr, the Ghanaian cedi and the Sierra Leonean leone depreciated by more than 22 percent in 2019.

Among the few best-performing African currencies were the Egyptian pound, the Mozambican metical and São Tomé and Príncipe dobra. The Egyptian pound appreciated by 4.45 percent in 2019 due to the implementation of economic reforms under the IMF's support programme which raised confidence, and strong growth in remittances and tourism receipts as well as foreign direct investment inflows. The Mozambican metical appreciated by 1.6 percent on account of prudent monetary policies to contain inflationary pressures, an improvement in the current account deficit and measures to ensure discipline and transparency in the exchange rate system.

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Table 2.4 Africa: Reserve Position, 2017–19

Country	Total Reserves (excluding gold)			Growth Rate (percent) [†]			Months of Import Cover by Reserves		
	2017	2018	2019	2017	2018	2019	2017	2018	2019
Algeria	97.89	80.49	66.02	-14.42	-17.78	-17.98	23.43	19.46	19.07
Angola	17.45	15.41	13.50	-26.50	-11.69	-12.39	13.52	13.36	12.64
Benin	0.58	0.55	0.58	114.81	-5.17	5.45	2.27	2.01	2.41
Botswana	7.49	6.65	6.83	4.19	-11.21	2.71	16.73	12.72	6.38
Burkina Faso	0.16	0.15	0.15	214.34	-6.25	0.00	0.52	0.42	0.44
Burundi	0.09	0.09	0.06	-4.31	0.00	-33.33	1.38	1.36	0.83
Cameroon	3.23	3.49	3.69	45.12	8.05	5.73	7.46	7.21	8.37
Cape Verde	0.61	0.60	0.69	6.51	-1.64	15.00	9.22	8.84	8.65
Central Africa Republic	0.36	0.36	0.35	69.01	0.00	-2.78	10.31	9.08	7.88
Chad	0.01	0.15	0.11	12.50	1566.67	-26.67	0.18	2.05	1.22
Comoros	0.21	0.19	0.19	32.28	-9.52	0.00	12.95	10.27	12.46
Congo Dem. Rep. of	0.70	0.66	0.86	-1.15	-5.71	30.30	0.83	0.53	0.81
Congo Republic	0.49	0.50	0.64	-40.12	1.83	28.00	1.29	1.44	2.05
Côte d'Ivoire	6.18	6.64	6.84	25.23	7.44	3.01	7.70	7.24	7.21
Djibouti	0.55	0.44	0.48	35.00	-20.00	9.09	3.78	3.05	2.75
Egypt	35.89	41.32	45.53	54.66	15.14	10.19	7.24	7.32	8.39
Equatorial Guinea	0.05	0.05	0.15	-26.17	8.70	200.00	0.60	0.53	1.60
Eritrea	0.21	0.22	0.23	0.86	4.76	4.55	5.16	5.57	6.48
Eswatini	0.56	0.44	0.34	-0.23	-21.67	-22.22	4.17	3.09	2.52
Ethiopia	3.04	3.98	3.92	0.30	30.92	-1.51	1.83	2.50	2.60
Gabon	0.98	1.33	1.36	22.14	35.44	2.26	4.99	6.68	6.52
Gambia	0.17	0.19	0.24	93.99	11.76	26.32	3.72	4.52	6.29
Ghana	6.91	6.18	6.93	12.14	-10.56	12.06	6.49	6.21	7.72
Guinea, The	0.39	1.16	1.08	4.63	197.44	-6.55	1.79	4.99	5.01
Guinea, Bissau	0.45	0.47	0.55	29.51	3.98	17.66	18.70	20.47	25.29
Kenya	7.35	8.20	9.51	-3.29	11.52	16.07	5.29	5.64	8.00
Lesotho	0.66	0.73	0.62	-28.99	10.81	-14.70	4.32	4.67	4.04
Liberia	0.60	0.65	0.53	13.42	8.33	-18.77	7.67	6.74	2.72
Libya	74.71	80.68	81.09	13.11	7.99	0.51	150.49	118.59	97.73
Madagascar	1.60	1.74	1.69	35.25	8.69	-3.11	5.22	5.34	5.51
Malawi	0.79	0.78	0.78	26.88	-1.39	-0.38	3.73	3.84	3.62
Mali	0.64	0.91	0.81	62.28	41.97	-10.55	1.77	2.36	2.09
Mauritania	0.86	0.92	0.75	2.72	7.11	-18.93	2.92	2.78	2.17
Mauritius	5.98	5.99	5.75	20.48	0.03	-4.03	13.67	12.65	12.32
Morocco	26.19	24.44	25.05	4.32	-6.70	2.52	7.05	5.78	5.91
Mozambique	3.36	3.10	3.52	61.59	-7.65	13.24	7.06	5.48	4.95
Namibia	2.43	2.15	2.10	32.52	-11.52	-2.28	4.34	2.82	2.68
Niger	1.30	1.08	1.51	9.53	-17.09	39.93	8.32	6.79	7.17
Nigeria	39.35	42.59	38.59	52.26	8.23	-9.39	13.30	11.98	10.30
Rwanda	1.18	1.24	1.16	6.72	5.09	-6.38	7.93	5.06	4.24
São Tomé and Príncipe	0.06	0.04	0.05	-0.95	-36.10	25.00	5.11	3.24	4.43
Senegal	1.95	2.41	2.60	25.16	23.70	8.02	3.87	4.07	4.40
Seychelles	0.55	0.55	0.55	4130.77	0.00	0.00	4.89	5.81	4.86
Sierra Leone	0.55	0.50	0.55	10.61	-9.09	10.00	6.13	5.54	6.11
Somalia	-	-	-	-	-	-	-	-	-
South Africa	50.72	51.65	55.51	7.39	1.83	7.48	6.91	6.28	6.97
South Sudan	-	-	-	-	-	-	-	-	-
Sudan	0.20	0.11	0.39	-0.50	-44.44	254.55	0.26	0.17	0.46
Tanzania	5.90	5.05	5.34	36.38	-14.49	5.81	7.08	7.11	5.88
Togo	0.58	0.56	0.59	1108.33	-3.45	5.36	4.26	3.73	4.97
Tunisia	5.59	5.19	7.26	-5.89	-7.12	39.87	3.25	2.75	3.92
Uganda	3.65	3.22	3.24	20.30	-11.75	0.50	7.73	5.67	4.66
Zambia	2.08	1.60	1.42	-11.59	-23.27	-10.78	2.87	1.96	2.51
Zimbabwe	0.29	0.09	0.06	-28.70	-68.97	-33.33	0.76	0.22	0.17
Total	423.77	417.86	412.33	6.84	-1.40	-1.32	8.89	7.85	7.47
Average									

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

† Growth rates are Afreximbank staff calculations. *Revised. **Estimates for 2018 are based on latest available data. - Not available.

Table 2.5 Africa: Exchange Rate Developments, 2017–19 (per US\$ unless otherwise indicated)

Country	Percentage Change between				
	2017 (1)	2018 (2)	2019 (3)	(2) & (1)	(3) & (2)
Algeria - dinar	114.72	116.60	119.40	4.13	4.08
Angola - kwanza	170.30	252.80	366.40	3.16	115.15
Benin - franc	580.00	554.20	591.99	-6.96	2.07
Botswana - pula	10.35	10.20	10.76	-3.07	3.96
Burkina Faso - franc	580.00	554.20	591.99	-6.96	2.07
Burundi - franc	1,767.00	1,783.00	1,844.84	5.49	4.41
Cameroon - franc	547.00	554.20	591.99	-12.25	8.22
Cape Verde - escudos	97.80	93.20	98.98	-6.75	1.21
Central African Republic - franc	547.00	554.20	591.99	-12.25	8.22
Chad - franc	547.00	554.20	591.99	-12.25	8.22
Comoros - franc	436.60	415.60	439.68	-6.62	0.71
Congo, Dem. Rep. of - Congo franc	1,646.00	1,626.00	1,645.15	52.97	-0.05
Congo, Rep. of - franc	547.00	554.20	591.99	-12.25	8.22
Côte d'Ivoire - franc	580.00	554.20	591.99	-6.96	2.07
Djibouti - franc	177.72	177.70	177.99	0.07	0.15
Egypt - pound	17.77	17.82	16.98	-2.00	-4.45
Equatorial Guinea - franc	547.00	554.20	591.99	-12.25	8.22
Eritrea - nakfa	15.54	15.38	15.38	1.70	-1.03
Eswatini - lilangeni	12.38	13.24	14.45	-9.88	16.72
Ethiopia - birr	23.95	27.55	29.23	5.51	22.03
Gabon - franc	547.00	554.20	591.99	-12.25	8.22
Gambia - dalasi	46.61	48.23	50.36	10.58	8.05
Ghana - cedi	4.35	4.58	5.35	1.74	22.99
Guinea - Guinea franc	9,088.00	9,010.00	9,251.90	-2.99	1.80
Guinea-Bissau - franc	580.00	554.20	591.99	-6.96	2.07
Kenya - shilling	103.41	101.30	102.14	1.16	-1.23
Lesotho - loti	12.38	13.24	14.45	-9.88	16.72
Liberia - Liberia dollar	112.70	144.20	187.04	23.85	65.96
Libya - dinar	1.39	1.36	1.40	-3.32	0.72
Madagascar - ariary	3,116.00	3,304.00	3,644.02	-6.71	16.95
Malawi - kwacha	738.90	732.30	735.72	3.23	-0.43
Mali - franc	580.00	554.20	591.99	-6.96	2.07
Mauritania - ouguiyas	35.80	35.70	37.10	1.70	3.63
Mauritius - rupee	33.48	33.89	35.67	-6.61	6.55
Morocco - dirham	9.30	9.39	9.62	-8.06	3.44
Mozambique - meticals	63.60	60.12	62.58	-10.71	-1.60
Namibia - namibia dollar	12.38	13.24	14.45	-9.88	16.72
Niger - franc	580.00	554.20	591.99	-6.96	2.07
Nigeria - naira	305.50	305.60	360.75	0.43	18.09
Rwanda - franc	837.82	869.54	911.94	3.22	8.85
São Tomé and Príncipe - dobra	21.90	20.70	21.56	-0.90	-1.55
Senegal - franc	547.00	554.20	591.99	-12.25	8.22
Seychelles - rupee	13.65	13.89	13.62	2.19	-0.22
Sierra Leone - leone	7,384.00	7,924.00	9,080.20	35.11	22.97
Somalia - shilling	578.46	577.84	579.47		
South Africa - rand	12.38	13.24	14.45	-9.88	16.72
South Sudan - pound	6.85	n/a	n/a	5.72	
Sudan - pound	6.85	32.28	n/a	5.72	
Tanzania - shilling	2,229.00	2,264.00	2,304.97	2.53	3.41
Togo - franc	580.00	554.20	591.99	-6.96	2.07
Tunisia - dinar	2.48	2.65	2.93	7.81	18.15
Uganda - shilling	3,640.00	3,722.00	3,704.72	1.05	1.78
Zambia - kwacha	9.53	10.46	12.90	-4.30	35.36
Zimbabwe - US dollar*	1.00	1.00	1.00	0.00	0.00

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

*The US dollar has been used as the official currency since 2009.

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2.2.3 Commodity Price Developments

After rising sharply at the start of 2019 as they recovered from the lacklustre performance that characterised markets at the tail end of 2018, commodity prices stabilised and some even decreased towards the end of the year. According to the Bloomberg Commodity index, they averaged 79.4 in 2019 compared with 86.2 in 2018, as the market performance of commodities was restrained by high inventories combined with weaker demand—within the context of rising trade tensions.

In energy markets, following the generalised decline in prices during the fourth quarter of 2018, oil prices got off to their best start of the year since 2001 on hopes that the Organization of Petroleum Exporting Countries and a group of producers would cut enough output to shrink a global glut. This was after the cartel of oil exporters and its allies made very sharp reductions to their production forecasts. Moreover, oil supply was threatened by US sanctions against Iran and Venezuela as well as pressure on markets from Saudi Arabia, which was reported to be willing to do whatever was necessary to keep oil prices elevated. Industry data showing below-target output in Nigeria on account of tensions in the Niger Delta region also helped buoy oil prices. This bullish market sentiment in the early part of the year persisted in spite of a stronger-than-expected rise in US oil production.

However, oil markets weakened in the third quarter of 2019 amid ongoing concern that a fragile economic outlook would weigh on fuel demand. Market attention remained sharply focused on China, the world's second-biggest oil consumer, where evidence pointed to weak economic growth, prompting speculators and investors to increase

their short positions even after supply was adversely affected by a missile strike on Saudi Arabia's energy infrastructure. Nevertheless, given that trade tensions between the United States and China had constrained oil markets, signs of a new trade deal between the United States and China lifted prices at the end of the 2019, with Brent oil closing out the year at US\$76 a barrel, up 25 percent compared with its level at the start of the year.

Agricultural commodity prices were relatively more stable. They ended the year almost at the same level recorded in the early days of 2019, although the year was marked by two deep troughs in May and September 2019. Prices for the agriculture complex were undermined by sluggish coffee prices for most of the year, with inventories rising to their highest since 2014, on good supplies from Brazil, Uganda, and Vietnam. The supply response to low prices helped tighten supplies towards the end of the year, boosting the price recovery from one of the lowest values in more than a decade and providing relief to many farmers who had been producing at a loss.

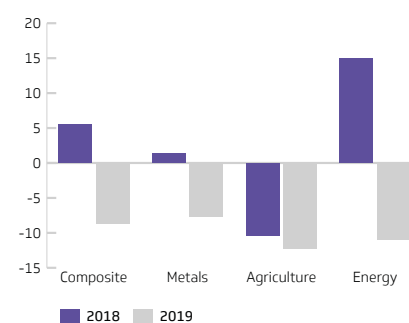
Cotton prices followed a similar trajectory, falling sharply in the first half of the year as demand was pressured by escalating global trade tensions, exacerbated by ample supplies in the United States. Prices nonetheless reversed their decline during the fourth quarter of 2019 on stronger-than-expected demand and as traders became more confident that end-user volumes would increase as trade tensions abated between the United States and China.

Meanwhile, the cocoa market was marked by the decision by Côte d'Ivoire and Ghana to impose a fixed 'living income differential' of US\$400 a ton on all cocoa contracts sold by either country for the 2020/21 season. This latest attempt to boost the incomes of cocoa farmers is part

of an ongoing effort to improve the global distribution of income along the cocoa value chain. It replaces an earlier proposal for a floor price for cocoa contracts.

Metal prices were softer in 2019 compared with the previous year as industrial metal prices, like those for copper, came under renewed pressure at the start of the year on concerns of a slowdown in the Chinese economy and struggled to gain momentum throughout the year as trade talks between the United States and China continued to stall. In contrast, iron ore prices gained sharply partly on account of force majeure at top producer Vale's dam, which disrupted supply in the market as other miners had little scope to raise production in the short term. In precious metals, gold benefited from haven demand as the dollar softened due to weak US economic data in the early part of the year. Even though gold prices eventually plummeted at the end of the first quarter of 2019 as the dollar recovered and US equity markets gathered pace, haven demand returned to boost demand for bullion aided by loose monetary policies and weak growth (Table 2.6 and Figure 2.3).

Figure 2.3 Bloomberg Commodity Index (averages, percent year on year)



Sources: Bloomberg; and Afreximbank.

Table 2.6 Commodity Prices, 2017–19

					Annual Growth Rate	
Agriculture	Units	2017	2018	2019	2017/18	2018/19
Barley	(\$/mt)	97.64	125.89	128.07	-6.04	1.74
Cocoa Bean	(\$/mt)	2,127.90	2,293.77	2,340.82	-26.39	2.05
Coffee (Arabica)	(\$/mt)	3,106.31	2,925.97	2,879.77	-13.98	-1.58
Copra	(\$/mt)	1,065.31	n/a	n/a	n/a	n/a
Cotton	(\$/mt)	1,842.99	2,014.58	1,716.94	12.64	-14.77
Maize	(\$/mt)	154.53	164.41	170.07	-2.91	3.44
Palm Oil	(\$/mt)	714.67	638.66	601.61	2.07	-5.80
Rubber TSR20	(\$/mt)	1,666.85	1,367.83	1,410.44	20.69	3.11
Soyabean	(\$/mt)	393.38	394.42	368.35	-2.98	-6.61
Sugar	(\$/mt)	353.13	275.61	280.02	-11.29	1.60
Tea	(\$/mt)	3,103.57	2,847.47	2,567.46	17.52	-9.83
Wheat	(\$/mt)	178.18	203.89	201.69	1.07	-1.08
Average		1,233.70	1,204.77	1,151.39	-1.86	-4.43
Crude Oil						
Crude Oil	(\$/bbl)	54.39	71.07	64.03	-13.21	-9.91
Precious Metals						
Gold	(\$/troy oz)	1,257.56	1,269.23	1,392.50	7.61	9.71
Platinum	(\$/troy oz)	948.45	879.55	863.99	-6.28	-1.77
Silver	(\$/troy oz)	17.07	15.71	16.22	9.08	3.22
Metals and Minerals						
Aluminium	(\$/mt)	1,967.65	2,108.48	1,794.49	-3.63	-14.89
Copper	(\$/mt)	6,169.94	6,529.80	6,010.15	-11.66	-7.96
Lead	(\$/mt)	2,314.67	2,240.44	1,996.51	4.41	-10.89
Tin	(\$/mt)	20,061.17	20,145.21	18,661.16	11.62	-7.37
Zinc	(\$/mt)	2,890.87	2,922.38	2,550.41	8.19	-12.73
Average		6,680.86	6,789.26	6,202.54	1.79	-8.64

Sources: *The Financial Times*; and World Bank, Commodities Price Data.

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Table 2.7 Africa: Merchandise Trade, 2017–19

Country	Merchandise Exports (US\$ billions)			Growth Rate (percent)		Share of Merchandise Exports (percent)			Merchandise Imports (US\$ billions)			Growth Rate (percent)	
	2017	2018	2019	2018	2019	2017	2018	2019	2017	2018	2019	2018	2019
Algeria	34.60	42.30	35.83	22.25	(15.30)	8.28	8.33	7.61	47.20	50.16	41.77	6.27	(16.73)
Angola	33.57	40.53	31.84	20.73	(21.43)	8.03	8.20	6.37	15.49	13.84	12.81	(10.65)	(7.43)
Benin	0.75	0.95	1.15	27.19	20.12	0.18	0.19	0.23	3.06	3.28	2.88	7.12	(12.08)
Botswana	5.91	6.37	5.35	7.83	(16.02)	1.41	1.29	1.07	5.37	6.28	12.85	16.81	104.79
Burkina Faso	2.79	3.20	3.15	14.85	(1.73)	0.67	0.65	0.63	3.72	4.24	4.11	13.90	(3.02)
Burundi	0.15	0.17	0.16	13.30	(5.61)	0.04	0.03	0.03	0.78	0.79	0.86	1.30	8.82
Cameroon	3.27	3.92	4.42	20.10	12.76	0.78	0.79	0.89	5.20	5.81	5.29	11.73	(8.83)
Cape Verde	0.06	0.08	0.08	28.12	(3.89)	0.01	0.02	0.02	0.79	0.81	0.96	2.65	17.49
Central African Republic	0.20	0.38	0.37	90.72	(3.94)	0.05	0.08	0.07	0.42	0.48	0.53	13.64	11.97
Chad	1.22	1.65	1.33	34.92	(19.62)	0.29	0.33	0.27	0.59	0.88	1.09	49.38	23.89
Comoros	0.02	0.02	0.02	20.39	(23.64)	0.00	0.00	0.00	0.19	0.22	0.18	14.08	(17.55)
Congo, Dem. Rep.	9.22	15.97	17.07	73.18	6.94	2.21	3.23	3.42	10.09	14.97	12.70	48.34	(15.19)
Congo, Rep.	7.41	10.40	9.44	40.35	(9.29)	1.77	2.11	1.89	4.55	4.18	3.74	(8.20)	(10.44)
Côte d'Ivoire	12.61	11.80	11.45	(6.42)	(3.02)	3.02	2.39	2.29	9.63	11.00	11.39	14.22	3.53
Djibouti	0.21	0.22	0.27	4.15	20.14	0.05	0.04	0.05	1.75	1.73	2.09	(1.01)	21.10
Egypt, Arab Rep.	23.30	29.05	28.23	24.69	(2.82)	5.58	5.88	5.65	59.47	67.75	65.12	13.93	(3.89)
Equatorial Guinea	5.05	6.15	4.75	21.85	(22.76)	1.21	1.25	0.95	0.91	1.14	1.13	24.94	(1.18)
Eritrea	0.26	0.55	0.67	110.22	21.61	0.06	0.11	0.13	0.49	0.47	0.43	(2.97)	(10.04)
Eswatini	2.08	2.13	2.44	2.44	14.48	0.50	0.43	0.49	1.62	1.71	1.63	5.63	(4.66)
Ethiopia	4.16	3.89	4.27	(6.52)	9.82	0.99	0.79	0.85	19.97	19.10	18.08	(4.38)	(5.33)
Gabon	4.13	5.51	5.94	33.37	7.95	0.99	1.11	1.19	2.36	2.39	2.50	1.31	4.63
Gambia, The	0.02	0.01	0.15	(41.87)	982.27	0.01	0.00	0.03	0.55	0.50	0.46	(8.11)	(9.19)
Ghana	14.36	17.10	15.92	19.09	(6.95)	3.44	3.46	3.19	12.78	11.94	10.76	(6.53)	(9.88)
Guinea	4.18	5.34	5.74	27.59	7.62	1.00	1.08	1.15	2.62	2.79	2.59	6.32	(6.92)
Guinea-Bissau	0.36	0.16	0.41	(56.52)	160.99	0.09	0.03	0.08	0.29	0.28	0.26	(5.04)	(4.73)
Kenya	5.75	6.05	4.99	5.32	(17.49)	1.38	1.22	1.00	16.68	17.43	14.27	4.46	(18.08)
Lesotho	1.03	1.20	1.07	16.41	(10.54)	0.25	0.24	0.21	1.83	1.87	1.84	2.56	(1.52)
Liberia	1.37	0.48	0.41	(65.15)	(14.05)	0.33	0.10	0.08	0.94	1.16	2.33	23.23	101.49
Libya	13.13	21.77	20.39	65.89	(6.37)	3.14	4.41	4.08	5.96	8.16	9.96	37.03	21.96
Madagascar	2.77	2.97	2.16	7.15	(27.47)	0.66	0.60	0.43	3.68	3.90	3.67	6.25	(6.08)
Malawi	0.89	0.96	1.00	7.74	4.73	0.21	0.19	0.20	2.55	2.44	2.58	(4.22)	5.87
Mali	1.91	1.99	2.89	4.36	45.29	0.46	0.40	0.58	4.35	4.62	4.67	6.38	1.12
Mauritania	2.00	1.69	1.95	(15.26)	15.35	0.48	0.34	0.39	3.52	3.96	4.12	12.50	3.90
Mauritius	2.09	2.00	1.91	(4.02)	(4.37)	0.50	0.41	0.38	5.25	5.68	5.60	8.18	(1.50)
Morocco	24.59	27.64	28.20	12.44	2.03	5.88	5.59	5.65	44.57	50.73	50.90	13.84	0.33
Mozambique	4.71	5.22	5.11	10.77	(1.97)	1.13	1.06	1.02	5.71	6.80	8.52	19.02	25.44
Namibia	5.18	7.54	6.47	45.60	(14.22)	1.24	1.53	1.30	6.72	9.15	9.41	36.20	2.77
Niger	0.95	0.57	0.70	(39.90)	23.63	0.23	0.12	0.14	1.87	1.90	2.52	1.64	32.53
Nigeria	49.42	66.73	67.01	35.02	0.42	11.83	13.50	13.42	35.49	42.65	44.95	20.16	5.41
Rwanda	0.66	0.85	0.73	28.17	(14.11)	0.16	0.17	0.15	1.78	2.93	3.28	64.60	11.92
São Tomé & Príncipe	0.01	0.01	0.01	19.67	(36.36)	0.00	0.00	0.00	0.15	0.15	0.14	0.88	(8.77)
Senegal	2.48	3.04	3.47	22.72	13.91	0.59	0.62	0.69	6.04	7.09	7.09	17.42	0.00
Seychelles	0.60	0.77	0.57	28.69	(26.18)	0.14	0.16	0.11	1.35	1.14	1.36	(15.72)	19.51
Sierra Leone	0.12	0.08	0.11	(31.09)	30.96	0.03	0.02	0.02	1.08	1.08	1.08	0.57	(0.31)
Somalia	0.49	0.56	0.72	15.28	28.22	0.12	0.11	0.14	2.76	2.83	3.45	2.40	21.92
South Africa	89.42	94.33	91.02	5.49	(3.51)	21.40	19.09	18.22	88.10	98.70	95.63	12.03	(3.11)
South Sudan	1.26	1.59	1.75	26.36	9.79	0.30	0.32	0.35	0.69	0.64	0.69	(6.88)	7.65
Sudan	4.10	3.48	3.97	(15.02)	14.07	0.98	0.71	0.80	9.16	7.85	10.20	(14.33)	29.97
Tanzania	3.85	3.67	3.06	(4.81)	(16.64)	0.92	0.74	0.61	10.00	8.52	10.89	(14.85)	27.84
Togo	0.87	0.95	1.42	9.88	49.22	0.21	0.19	0.28	1.64	1.80	1.43	10.27	(20.94)
Tunisia	14.20	15.53	16.11	9.37	3.67	3.40	3.14	3.22	20.65	22.63	22.23	9.54	(1.76)
Uganda	2.91	2.95	3.20	1.36	8.49	0.70	0.60	0.64	5.67	6.82	8.33	20.41	22.11
Zambia	8.25	9.30	6.74	12.83	(27.59)	1.97	1.88	1.35	8.69	9.76	6.80	12.29	(30.40)
Zimbabwe	2.96	3.44	3.49	16.54	1.44	0.71	0.70	0.70	4.58	4.90	4.20	7.04	(14.30)
Total	417.84	495.25	471.06	18.53	(4.88)	100.00	100.00	100.00	511.34	564.04	558.37	10.31	(1.01)

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.

Share of Merchandise Imports (percent)			Total Merchandise Trade (US\$ billions)			Growth Rate (percent)		Share of Total Merchandise Trade (percent)			Trade Balance (Exports – Imports) (US\$ billions)		
2017	2018	2019	2017	2018	2019	2018	2019	2017	2018	2019	2017	2018	2019
9.23	8.89	7.48	81.80	92.46	77.60	13.03	(16.07)	8.80	8.73	7.54	(12.60)	(7.86)	(5.94)
3.01	2.46	2.30	49.06	54.37	44.65	10.82	(17.87)	5.28	5.13	4.34	18.08	26.69	19.03
0.60	0.58	0.52	3.81	4.23	4.03	11.07	(4.82)	0.41	0.40	0.39	(2.31)	(2.32)	(1.74)
1.04	1.11	2.30	11.28	12.65	18.21	12.11	43.91	1.21	1.19	1.77	0.54	0.10	(7.50)
0.72	0.75	0.74	6.51	7.44	7.26	14.31	(2.46)	0.70	0.70	0.71	(0.93)	(1.04)	(0.96)
0.15	0.14	0.15	0.93	0.96	1.02	3.22	6.28	0.10	0.09	0.10	(0.63)	(0.62)	(0.70)
1.01	1.03	0.95	8.46	9.73	9.72	14.96	(0.13)	0.91	0.92	0.94	(1.93)	(1.88)	(0.87)
0.15	0.14	0.17	0.85	0.89	1.03	4.47	15.61	0.09	0.08	0.10	(0.73)	(0.74)	(0.88)
0.08	0.08	0.10	0.62	0.86	0.90	38.52	4.90	0.07	0.08	0.09	(0.22)	(0.10)	(0.17)
0.11	0.16	0.19	1.81	2.53	2.41	39.60	(4.53)	0.19	0.24	0.23	0.64	0.77	0.24
0.04	0.04	0.03	0.21	0.24	0.20	14.61	(18.09)	0.02	0.02	0.02	(0.18)	(0.20)	(0.17)
1.96	2.66	2.28	19.31	30.94	29.77	60.20	(3.77)	2.08	2.92	2.89	(0.87)	0.99	4.38
0.89	0.74	0.67	11.97	14.58	13.18	21.87	(9.62)	1.29	1.38	1.28	2.86	6.22	5.69
1.87	1.95	2.04	22.25	22.81	22.84	2.52	0.14	2.39	2.15	2.22	2.98	0.80	0.06
0.34	0.31	0.38	1.96	1.95	2.36	(0.45)	21.00	0.21	0.18	0.23	(1.53)	(1.51)	(1.83)
11.56	12.02	11.67	82.76	96.80	93.35	16.96	(3.57)	8.91	9.14	9.07	(36.17)	(38.71)	(36.89)
0.18	0.20	0.20	5.96	7.30	5.88	22.33	(19.39)	0.64	0.69	0.57	4.14	5.01	3.63
0.09	0.08	0.08	0.75	1.03	1.10	36.64	7.00	0.08	0.10	0.11	(0.23)	0.08	0.25
0.32	0.30	0.29	3.70	3.84	4.07	3.84	5.94	0.40	0.36	0.40	0.46	0.42	0.80
3.88	3.39	3.24	24.13	22.98	22.35	(4.75)	(2.77)	2.60	2.17	2.17	(15.82)	(15.21)	(13.81)
0.46	0.42	0.45	6.49	7.90	8.45	21.71	6.95	0.70	0.75	0.82	1.77	3.12	3.44
0.11	0.09	0.08	0.57	0.52	0.61	(9.49)	16.88	0.06	0.05	0.06	(0.53)	(0.49)	(0.31)
2.48	2.12	1.93	27.14	29.05	26.68	7.03	(8.15)	2.92	2.74	2.59	1.59	5.16	5.16
0.51	0.49	0.46	6.80	8.12	8.34	19.39	2.63	0.73	0.77	0.81	1.56	2.55	3.15
0.06	0.05	0.05	0.65	0.43	0.67	(33.61)	55.50	0.07	0.04	0.07	0.07	(0.12)	0.15
3.24	3.09	2.56	22.43	23.48	19.27	4.68	(17.93)	2.41	2.22	1.87	(10.94)	(11.37)	(9.28)
0.35	0.33	0.33	2.86	3.07	2.92	7.56	(5.04)	0.31	0.29	0.28	(0.79)	(0.67)	(0.77)
0.18	0.21	0.42	2.31	1.63	2.74	(29.18)	67.77	0.25	0.15	0.27	0.43	(0.68)	(1.92)
1.16	1.45	1.78	19.08	29.94	30.34	56.88	1.36	2.05	2.83	2.95	7.17	13.61	10.43
0.71	0.69	0.66	6.45	6.88	5.82	6.64	(15.32)	0.69	0.65	0.57	(0.90)	(0.93)	(1.51)
0.50	0.43	0.46	3.44	3.40	3.59	(1.12)	5.55	0.37	0.32	0.35	(1.66)	(1.48)	(1.58)
0.85	0.82	0.84	6.25	6.61	7.57	5.76	14.42	0.67	0.62	0.74	(2.44)	(2.63)	(1.78)
0.68	0.70	0.74	5.52	5.66	6.07	2.46	7.33	0.59	0.53	0.59	(1.53)	(2.27)	(2.16)
1.02	1.01	1.00	7.34	7.68	7.51	4.71	(2.24)	0.79	0.73	0.73	(3.17)	(3.68)	(3.68)
8.67	9.00	9.12	69.15	78.38	79.11	13.34	0.93	7.44	7.40	7.68	(19.98)	(23.09)	(22.70)
1.11	1.21	1.53	10.42	12.01	13.64	15.29	13.54	1.12	1.13	1.32	(1.00)	(1.58)	(3.41)
1.31	1.62	1.69	11.90	16.70	15.88	40.29	(4.91)	1.28	1.58	1.54	(1.54)	(1.61)	(2.94)
0.36	0.34	0.45	2.82	2.47	3.23	(12.31)	30.48	0.30	0.23	0.31	(0.93)	(1.33)	(1.82)
6.90	7.57	8.05	84.92	109.38	111.96	28.80	2.36	9.14	10.33	10.88	13.93	24.08	22.05
0.35	0.52	0.59	2.44	3.78	4.01	54.75	6.09	0.26	0.36	0.39	(1.12)	(2.09)	(2.56)
0.03	0.03	0.02	0.16	0.16	0.14	2.20	(11.04)	0.02	0.02	0.01	(0.14)	(0.14)	(0.13)
1.17	1.26	1.27	8.52	10.13	10.55	18.96	4.18	0.92	0.96	1.03	(3.56)	(4.05)	(3.62)
0.26	0.20	0.24	1.94	1.90	1.92	(2.11)	1.11	0.21	0.18	0.19	(0.75)	(0.37)	(0.79)
0.21	0.19	0.19	1.20	1.17	1.19	(2.64)	1.93	0.13	0.11	0.12	(0.96)	(1.00)	(0.97)
0.54	0.50	0.62	3.25	3.39	4.17	4.34	22.97	0.35	0.32	0.40	(2.27)	(2.26)	(2.72)
17.13	17.51	17.13	177.52	193.02	186.65	8.73	(3.30)	19.10	18.22	18.13	1.32	(4.37)	(4.61)
0.13	0.11	0.12	1.95	2.23	2.44	14.59	9.18	0.21	0.21	0.24	0.57	0.95	1.05
1.78	1.39	1.83	13.26	11.33	14.18	(14.54)	25.08	1.43	1.07	1.38	(5.06)	(4.37)	(6.23)
1.94	1.51	1.95	13.85	12.18	13.95	(12.06)	14.45	1.49	1.15	1.35	(6.15)	(4.85)	(7.83)
0.32	0.32	0.26	2.50	2.76	2.85	10.13	3.31	0.27	0.26	0.28	(0.77)	(0.85)	(0.00)
4.02	4.02	3.98	34.86	38.16	38.33	9.47	0.45	3.75	3.60	3.72	(6.45)	(7.09)	(6.12)
1.10	1.21	1.49	8.58	9.77	11.53	13.94	18.00	0.92	0.92	1.12	(2.76)	(3.87)	(5.13)
1.69	1.73	1.22	16.94	19.07	13.53	12.56	(29.03)	1.82	1.80	1.31	(0.45)	(0.46)	(0.06)
0.89	0.87	0.75	7.53	8.34	7.69	10.77	(7.81)	0.81	0.79	0.75	(1.62)	(1.46)	(0.71)
100.00	100.00	100.00	929.18	1,059.30	1,029.44	14.00	(2.82)	100.00	100.00	100.00	(93.51)	(68.79)	(87.31)

The Operating Environment

2.2.4 Developments in African Trade

2.2.4.1 African Trade Performance

Major African exporting countries felt the impact of a challenging global environment characterised by escalating trade tensions, contracting global demand, and weakening global growth. The continent's merchandise trade, which grew by 14 percent to US\$1,059.3 billion in 2018, from US\$929.18 billion in 2017, was significantly affected, declining by 2.82 percent to US\$1,029.44 in 2019 (Figure 2.6 and Table 2.7). The deceleration in the growth of Africa's merchandise trade arose largely from various factors, including protracted trade disputes, which fuelled policy uncertainties and weighed on investments, alongside the continued slowdown of the Chinese economy, which dampened global demand for commodities and put pressure on the continent's merchandise exports (Figure 2.4).

In a region where oil accounts for over 37 percent of total exports, continued volatility in crude oil prices which

contracted by almost 10 percent to about US\$64.03 a barrel in 2019 from about US\$71.07 in 2018, adversely impacted trade performance in 2019 (Table 2.6). Much of the impact was felt by leading oil exporters, notably Algeria, Angola, Chad, the Republic of Congo, Equatorial Guinea, and Libya. For instance, Angola (Africa's second-largest oil exporter) suffered a 17.87 percent decline in its total merchandise trade, from US\$54.37 billion in 2018 to US\$44.65 billion in 2019 (Table 2.7). The decline in revenues from oil exports, which account for about 90 percent of total exports, contributed to a 21.43 percent drop in Angola's merchandise exports in 2019.

Similarly, Algeria saw its merchandise trade decline by 16.07 percent in 2019, after an expansion of 13.03 percent in 2018, driven by a 15.3 percent contraction in merchandise exports in 2019. A similar trend was also recorded in Equatorial Guinea, where total merchandise trade declined by 19.39 percent due to a 22.76 percent decline in merchandise exports in 2019. Despite the sharp drop in export revenues in these countries, the group of net oil exporters saw their exports decline by just about 9.49 percent in 2019, in part because Nigeria (Africa's largest oil exporter) recorded a modest increase of 0.42 percent in its exports.

Subdued global demand for other major commodities of export interest to Africa, especially in the agricultural and metal/mineral sectors, including coffee, cotton, palm oil, tea, aluminium, platinum, copper, and lead, arising largely from escalated trade tensions and other challenges in some advanced and developing economies in 2019, depressed Africa's total merchandise exports. Compared with 2018, Africa's merchandise exports contracted by 4.88 percent, from US\$495.25 billion to US\$471.06 billion in 2019.

With a few exceptions, the largest economies contributed the most to a sharp decline in African exports. Specifically, four of Africa's five largest trading economies, namely Algeria, Angola, Egypt, and South Africa, which account for 39.68 percent of the continent's total exports, accounted for over 80 percent of the decrease in Africa's aggregate exports. The exports of these countries declined by 15.3 percent, 21.43 percent, 2.82 percent, and 3.51 percent respectively in 2019 (Table 2.8).

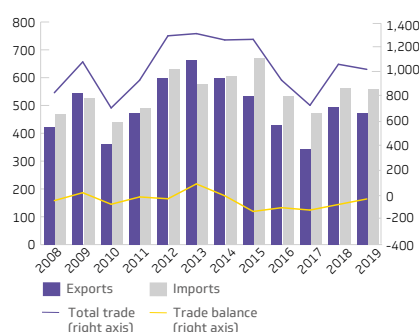
On the import side, Africa suffered a slight decline in 2019 after recording strong growth in 2018. As shown in Table 2.7, the continent's merchandise imports grew by 10.31 percent to US\$564.04 billion in 2018, then reversed in 2019 declining by 1.01 percent to US\$558.37 billion. The smaller contraction in imports recorded by the region undermined its trade deficit, which widened to US\$87.31 billion in 2019 from US\$68.79 billion in 2018.

The slight decrease in Africa's merchandise imports in 2019 reflects several factors, including challenges in accessing trade finance; liquidity constraints; and exchange risks, which have been exacerbated by the sharp depreciation of local currencies (Table 2.5).

2.2.4.2 Intra-African Trade

The value of total intra-African trade fell from US\$156 billion in 2018 to an estimated US\$147.8 billion in 2019, a decline of 5.23 percent compared with a decline of 2.82 percent for extra-African trade. The much larger decrease of intra-African trade reduced the overall contribution of intra-regional trade to overall African trade, from about 15 percent in 2018 to 14.4 percent in 2019. The decline in total intra-African trade is due in part to a fall in the average price of commodities, particularly oil, which is heavily traded between the largest

Figure 2.4 Africa: Merchandise Trade, 2008–19 (US\$ billions)



Sources: International Monetary Fund, Direction of Trade Statistics database; and Afreximbank.

economies and champions of intra-African trade on the continent—Nigeria and South Africa—with Brent oil prices averaging US\$64.03 a barrel in 2019 compared with US\$71.07 a barrel in 2018 (Table 2.6).

However, the decline was tempered by still-thriving trade for manufactured goods and equipment in the Southern African Development Community region. What is increasingly apparent in the profile of intra-African trade is the enabling role of regional champions in promoting cross-border trade across the continent.

In Southern Africa, South Africa maintained its position as the largest intra-African trade economy, with a total intra-African trade value of US\$34.2 billion, slightly down from US\$36.4 billion in 2018. Despite the marginal decline, South Africa accounted for 23.1 percent of total intra-African trade in 2019 compared with 23.8 percent in 2018. Africa is the source of about 10.7 percent of South Africa's total imports and 26 percent of its total exports with the largest import item being crude oil. Due to the decline in oil prices, South Africa's oil imports from the rest of the continent fell by 16 percent to US\$5.6 billion in 2019, contributing to a net decline in its total intra-African trade.

South Africa imports nearly 40 percent of its crude oil from the continent, of which Nigeria accounts for 63 percent. Nigeria is also the largest global supplier of crude oil to South Africa, ahead of Saudi Arabia. Although South African imports from Africa are dominated by energy, accounting for about 55 percent of all imports from the continent, its exports to Africa are diverse and include fuel and fuel products, precious stones, vehicles, and machinery. South Africa's largest bilateral regional trade partner is Botswana,

followed by Mozambique, Namibia, Zambia and Zimbabwe.

In Central Africa, the Democratic Republic of the Congo consolidated its position as a major contributor to intra-African trade, recording an increase of 10.4 percent in total trade with the continent to US\$11.35 billion, up from US\$10.3 billion in 2018. With its expanding share in a context of the generalised decrease in intra-regional trade, the Democratic Republic of the Congo emerged as the second-largest intra-African trade economy on the continent. South Africa remains its major bilateral trade partner in Africa, accounting for the bulk of the Democratic Republic of the Congo's imports from Africa.

These import items from South Africa mainly include machinery and mechanical appliances and pharmaceutical products. Elsewhere, the government of the Democratic Republic of the Congo is looking to build stronger ties across the continent by expanding trade with neighbouring countries. In that regard, the Democratic Republic of the Congo has pledged to work together on joint projects with countries, including Uganda on trade-facilitating infrastructure in support of regional integration for Africa, and take advantage of opportunities offered by the African Continental Free Trade Area Agreement (AfCFTA).

In North Africa, Egypt's trade with the rest of the continent remained firm at US\$7.4 billion up from US\$7.1 billion in 2018. Egypt has moved up in the distribution of leading intra-African trade nations to the fourth place among the largest intra-African trade countries. Over 14 percent (US\$4 billion) of Egypt's total exports are to Africa, while 5.2 percent (US\$3.4 billion)

of its total imports are from Africa. Efforts by Egyptian authorities to further boost trade with the rest of the continent were enhanced by its chairmanship of the African Union in 2019, which saw further steps to foster greater integration and expanded trade and commerce in Africa, especially to markets of non-COMESA countries.

In practice, this has meant concerted efforts to organise trade missions and investment forums to and from Egypt as well as buyer missions to Egypt. Egypt's largest export partners on the continent have traditionally been Algeria, Libya, and Morocco but exports to Kenya, Nigeria, and Sudan have been on the rise. Meanwhile, Kenya, Sudan, and Zambia are also finding a growing market in Egypt, aided by the improving logistical infrastructure and growth prospects associated with tariff elimination under the AfCFTA.

In West Africa, although the value of Nigeria's trade with the continent declined by 4.7 percent to US\$10.4 billion, down from a revised US\$10.9 billion in 2018, Nigeria's share of intra-African trade remained constant at about 7.03 percent.

In the process, Nigeria maintained its position as the third-largest intra-African trade country. About 13 percent of Nigeria's exports are to African countries, with South Africa, Togo, and Côte d'Ivoire, counting as the top three destinations of Nigerian exports to the rest of the continent. Although crude oil still dominates Nigeria's export to the rest of the continent, accounting for a significant proportion of its intra-African exports, the composition of its cross-border trade is changing.

The Operating Environment

Although only 3 percent of total imports into Nigeria emanate from the continent, there has historically been a thriving informal cross-border trade in light manufactured products and agricultural commodities within the Economic Community of West African States (ECOWAS) region and with neighbouring countries in central Africa. However, Nigeria's decision to close its land borders to curb smuggling and increase production and self-sufficiency in commodities such as rice is likely to have impacted the volume of informal trade in 2019. The ECOWAS leaders have formed a committee to study and produce a report on the impact of the closure.

Other significant contributors to intra-African trade include Côte d'Ivoire, Namibia, Zambia, and Zimbabwe, which jointly accounted for about 16 percent of total intra-African trade in 2019, albeit down from 17.2 percent in 2018. Mozambique and Uganda recorded big gains in their trade volume with the rest of the continent in 2019, with growth of 19.5 and 27.5 percent respectively. In contrast, Zambia, Ghana, Kenya, and Angola recorded declines in their trade with the rest of the region. Zambia recorded the largest decline; its share of African trade dropped from 4.5 percent in 2018 to 3.3 percent in 2019.

One of the key developments in intra-African trade in 2019 was the progress made in the establishment of the AfCFTA. The AfCFTA entered into force on 30 May 2019 after reaching the minimum of 22 ratifications by member states. The operational phase of the AfCFTA was

subsequently launched during the 12th Extraordinary Session of the Assembly of the African Union in Niamey, Niger, on 7 July 2019. Trading under the AfCFTA Agreement will begin on 1 July 2020.

The Bank is working closely with the African Union Commission to support the implementation of the AfCFTA through a number of strategic initiatives, including the Intra-African Trade Fair; the development of a Pan-African Payment and Settlement System, which will facilitate the clearing and settlement of intra-African trade transactions in African currencies; and establishment of a Pan-African Private Sector Trade and Investment Committee as an advocacy platform to enhance African private sector participation in trade negotiations and investment policy formulation. The Bank is also working with the African Union Commission on the AfCFTA Adjustment Facility to enable countries to adjust in an orderly manner to sudden significant tariff revenue losses as a result of the implementation of the agreement.



The Operating Environment

Table 2.8 Intra-African Trade, 2017–19

Country	Intra-African Exports (US\$ billions)					Growth Rate (percent)			Country Share of Total Intra- African Exports (percent)			Intra-African Imports (US\$ billions)			Growth Rate (percent)	
	2017	2018	2019	2018	2019	2017	2018	2019	2017	2018	2019	2017	2018	2019	2018	2019
Algeria	1.38	1.80	1.59	30.61	(12.08)	1.93	2.20	1.93	1.12	1.08	1.21	(2.95)	12.02			
Angola	1.71	1.45	1.79	(15.17)	23.33	2.38	1.76	2.17	1.58	1.70	0.97	7.71	(43.21)			
Benin	0.16	0.15	0.18	(5.31)	21.14	0.22	0.18	0.22	0.45	0.69	0.61	53.42	(11.58)			
Botswana	0.85	0.87	1.39	2.81	58.84	1.19	1.07	1.69	3.92	4.70	1.08	19.96	(76.97)			
Burkina Faso	0.37	0.42	0.55	14.94	30.35	0.51	0.51	0.67	0.96	1.12	0.95	16.19	(15.06)			
Burundi	0.04	0.04	0.04	(4.00)	(6.25)	0.06	0.05	0.05	0.21	0.19	0.25	(9.01)	32.34			
Cameroon	0.39	0.40	0.46	2.12	16.22	0.54	0.48	0.56	0.90	0.97	0.93	7.10	(3.41)			
Cape Verde	0.00	0.00	0.00	(80.23)	443.59	0.00	0.00	0.00	0.03	0.03	0.02	3.63	(23.55)			
Central African Republic	0.03	0.06	0.05	89.12	(22.21)	0.04	0.07	0.06	0.08	0.08	0.08	6.41	(4.67)			
Chad	0.01	0.01	0.09	8.79	1,070.97	0.01	0.01	0.11	0.15	0.19	0.20	27.50	2.40			
Comoros	0.00	0.00	0.00	20.29	(41.06)	0.00	0.00	0.00	0.03	0.03	0.01	(1.34)	(64.05)			
Congo, Dem. Rep.	2.53	5.02	6.97	98.44	38.96	3.53	6.12	8.47	3.60	5.26	4.37	46.15	(16.81)			
Congo, Rep.	1.90	2.67	2.52	40.21	(5.40)	2.66	3.25	3.07	1.67	1.60	1.43	(4.06)	(10.85)			
Côte d'Ivoire	2.86	2.84	2.77	(0.49)	(2.64)	3.99	3.47	3.37	1.91	2.46	2.56	28.83	4.10			
Djibouti	0.09	0.10	0.14	9.87	34.60	0.13	0.13	0.17	0.17	0.16	0.15	(1.86)	(7.54)			
Egypt, Arab Rep.	3.35	3.80	4.02	13.49	5.72	4.68	4.63	4.88	2.65	3.29	3.38	23.86	2.66			
Equatorial Guinea	0.32	0.23	0.21	(26.84)	(10.57)	0.45	0.29	0.26	0.10	0.11	0.12	8.48	12.82			
Eritrea	0.00	0.00	0.00	35.56	(30.40)	0.00	0.00	0.00	0.07	0.05	0.03	(30.29)	(27.41)			
Eswatini	1.96	2.03	2.30	3.08	13.48	2.74	2.47	2.79	1.28	1.36	1.30	6.58	(4.26)			
Ethiopia	1.37	1.35	1.43	(1.16)	5.58	1.91	1.65	1.74	0.59	0.32	0.25	(45.56)	(23.34)			
Gabon	0.28	0.34	0.41	21.60	18.91	0.39	0.42	0.50	0.23	0.24	0.26	2.60	8.38			
Gambia, The	0.01	0.01	0.13	(43.14)	2,425.54	0.01	0.01	0.15	0.27	0.21	0.19	(21.59)	(9.96)			
Ghana	2.02	2.55	2.29	25.99	(10.17)	2.83	3.11	2.78	1.09	1.15	0.93	6.28	(19.74)			
Guinea	0.82	1.05	1.06	29.01	0.93	1.14	1.28	1.29	0.28	0.34	0.32	20.20	(4.74)			
Guinea-Bissau	0.03	0.01	0.03	(63.99)	128.30	0.05	0.01	0.03	0.04	0.04	0.04	(13.41)	8.87			
Kenya	1.82	1.81	1.54	(0.64)	(14.69)	2.54	2.20	1.87	1.60	1.74	1.34	9.20	(23.34)			
Lesotho	0.35	0.49	0.43	38.24	(11.19)	0.49	0.60	0.53	1.25	1.58	1.51	26.19	(4.69)			
Liberia	0.04	0.02	0.01	(45.90)	(56.35)	0.05	0.02	0.01	0.14	0.17	0.23	20.96	31.28			
Libya	0.09	0.14	0.07	52.88	(53.02)	0.13	0.17	0.08	0.23	0.28	0.40	22.30	45.60			
Madagascar	0.21	0.36	0.21	71.11	(42.33)	0.29	0.44	0.25	0.34	0.38	0.34	10.78	(9.66)			
Malawi	0.25	0.33	0.38	35.46	14.80	0.34	0.41	0.47	0.73	0.74	0.79	0.81	6.56			
Mali	1.14	0.67	0.69	(41.56)	3.54	1.60	0.81	0.84	1.84	1.92	2.03	4.46	5.45			
Mauritania	0.14	0.45	0.61	220.69	34.15	0.20	0.55	0.74	0.19	0.19	0.24	(0.13)	26.48			
Mauritius	0.45	0.47	0.46	4.50	(0.50)	0.62	0.57	0.56	0.71	0.74	0.66	3.52	(10.33)			
Morocco	2.16	1.83	1.36	(15.33)	(25.69)	3.02	2.23	1.65	1.08	1.41	1.10	31.19	(22.22)			
Mozambique	1.04	1.09	1.24	4.38	13.58	1.46	1.33	1.50	1.86	2.03	2.49	8.65	22.78			
Namibia	2.22	2.34	1.62	5.37	(30.86)	3.10	2.85	1.97	4.52	5.55	5.86	22.96	5.49			
Niger	0.18	0.11	0.15	(40.96)	39.46	0.25	0.13	0.18	0.36	0.40	0.55	12.10	36.07			
Nigeria	5.56	9.11	8.80	63.93	(3.44)	7.76	11.11	10.69	1.43	1.80	1.60	25.74	(11.07)			
Rwanda	0.20	0.37	0.19	88.02	(48.47)	0.27	0.45	0.23	0.56	0.71	0.71	25.68	(0.57)			
São Tomé & Príncipe	0.00	0.00	0.00	18.76	(42.99)	0.00	0.00	0.00	0.04	0.04	0.03	6.53	(9.98)			
Senegal	1.08	1.09	1.12	1.20	2.47	1.50	1.33	1.36	1.01	1.28	1.11	27.08	(13.67)			
Seychelles	0.03	0.03	0.05	6.75	65.29	0.04	0.04	0.07	0.13	0.13	0.12	(4.81)	(7.59)			
Sierra Leone	0.04	0.04	0.07	5.75	59.70	0.06	0.05	0.08	0.08	0.09	0.09	11.25	(7.02)			
Somalia	0.07	0.10	0.17	34.89	67.22	0.10	0.12	0.20	0.55	0.49	0.49	(10.47)	0.94			
South Africa	23.37	24.78	24.03	6.03	(3.00)	32.63	30.21	29.21	8.57	11.59	10.13	35.21	(12.66)			
South Sudan	0.00	0.00	0.00	55.67	(20.31)	0.00	0.00	0.00	0.52	0.42	0.45	(19.25)	6.35			
Sudan	0.21	0.13	0.03	(35.83)	(79.16)	0.29	0.16	0.03	0.33	0.31	0.43	(4.82)	38.98			
Tanzania	1.43	1.48	1.44	3.51	(2.79)	1.99	1.80	1.75	0.63	0.95	0.89	50.19	(5.82)			
Togo	0.60	0.71	1.06	18.48	49.22	0.83	0.86	1.28	0.27	0.18	0.14	(32.26)	(20.94)			
Tunisia	1.02	1.07	1.15	4.81	7.11	1.43	1.31	1.40	0.96	1.14	1.17	18.33	3.07			
Uganda	1.19	1.23	0.86	3.80	(30.35)	1.66	1.51	1.05	0.91	1.31	2.39	44.59	81.89			
Zambia	1.59	1.95	1.60	22.96	(17.69)	2.21	2.38	1.95	5.12	5.28	3.36	3.16	(36.46)			
Zimbabwe	2.66	2.61	2.55	(1.98)	(2.06)	3.71	3.18	3.10	3.51	3.74	3.28	6.52	(12.26)			
Total	71.62	82.02	82.29	14.53	0.32	100.00	100.00	100.00	62.85	73.98	65.56	17.70	(11.38)			

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.

Country Share of Total Intra-African Imports (percent)			Total Intra-African Trade (US\$ billions)			Growth Rate (percent)		Country Share of Total Intra-African Trade (percent)			Trade Balance Value (Exports – Imports) (US\$ billions)		
2017	2018	2019	2017	2018	2019	2018	2019	2017	2018	2019	2017	2018	2019
1.77	1.46	1.85	2.50	2.89	2.80	15.62	(3.04)	1.86	1.85	1.89	0.27	(1.08)	0.37
2.52	2.30	1.48	3.29	3.15	2.75	(4.16)	(12.65)	2.45	2.02	1.86	0.12	(1.70)	0.82
0.71	0.93	0.93	0.61	0.84	0.79	38.04	(5.70)	0.45	0.54	0.53	(0.29)	(0.69)	(0.42)
6.24	6.36	1.65	4.77	5.58	2.47	16.90	(55.67)	3.55	3.57	1.67	(3.07)	(4.70)	0.31
1.53	1.51	1.45	1.33	1.54	1.50	15.85	(2.65)	0.99	0.99	1.01	(0.60)	(1.12)	(0.40)
0.33	0.25	0.38	0.25	0.23	0.29	(8.12)	25.16	0.19	0.15	0.19	(0.16)	(0.19)	(0.21)
1.43	1.31	1.42	1.29	1.36	1.39	5.60	2.29	0.96	0.87	0.94	(0.51)	(0.97)	(0.47)
0.05	0.04	0.04	0.03	0.03	0.03	0.16	(19.74)	0.02	0.02	0.02	(0.03)	(0.03)	(0.02)
0.12	0.11	0.12	0.11	0.14	0.12	30.17	(11.99)	0.08	0.09	0.08	(0.05)	(0.08)	(0.03)
0.24	0.26	0.30	0.16	0.20	0.29	26.68	42.63	0.12	0.13	0.19	(0.15)	(0.19)	(0.11)
0.05	0.04	0.02	0.03	0.03	0.01	(0.62)	(63.12)	0.03	0.02	0.01	(0.03)	(0.03)	(0.01)
5.73	7.11	6.67	6.13	10.28	11.35	67.73	10.42	4.56	6.59	7.68	(1.07)	(5.26)	2.60
2.66	2.17	2.18	3.57	4.27	3.95	19.51	(7.45)	2.66	2.74	2.67	0.23	(1.60)	1.09
3.04	3.33	3.91	4.77	5.31	5.33	11.26	0.49	3.55	3.40	3.61	0.95	(2.46)	0.20
0.26	0.22	0.23	0.26	0.27	0.29	2.42	8.94	0.19	0.17	0.20	(0.07)	(0.16)	(0.01)
4.22	4.44	5.15	6.00	7.09	7.39	18.07	4.30	4.46	4.54	5.00	0.69	(3.29)	0.64
0.16	0.15	0.19	0.42	0.34	0.33	(18.44)	(3.17)	0.31	0.22	0.22	0.22	(0.11)	0.09
0.11	0.06	0.05	0.07	0.05	0.04	(27.74)	(27.63)	0.05	0.03	0.02	(0.06)	(0.05)	(0.03)
2.03	1.84	1.99	3.24	3.38	3.60	4.46	6.36	2.41	2.17	2.43	0.69	(1.36)	1.00
0.94	0.43	0.38	1.96	1.68	1.68	(14.53)	0.03	1.46	1.07	1.13	0.78	(0.32)	1.18
0.37	0.32	0.39	0.51	0.58	0.66	13.05	14.61	0.38	0.37	0.45	0.05	(0.24)	0.15
0.42	0.28	0.29	0.27	0.21	0.31	(22.29)	47.77	0.20	0.14	0.21	(0.26)	(0.21)	(0.06)
1.73	1.56	1.41	3.11	3.70	3.22	19.11	(13.15)	2.31	2.37	2.18	0.94	(1.15)	1.37
0.45	0.46	0.49	1.10	1.39	1.39	26.74	(0.46)	0.82	0.89	0.94	0.53	(0.34)	0.74
0.07	0.05	0.06	0.08	0.05	0.07	(35.61)	38.19	0.06	0.03	0.05	(0.01)	(0.04)	(0.01)
2.54	2.36	2.04	3.41	3.55	2.88	3.97	(18.94)	2.54	2.28	1.95	0.22	(1.74)	0.20
1.99	2.14	2.30	1.61	2.07	1.94	28.84	(6.23)	1.19	1.33	1.31	(0.90)	(1.58)	(1.07)
0.23	0.23	0.35	0.18	0.19	0.24	7.44	22.36	0.13	0.12	0.16	(0.11)	(0.17)	(0.22)
0.36	0.38	0.62	0.32	0.42	0.47	31.11	12.48	0.24	0.27	0.32	(0.14)	(0.28)	(0.34)
0.54	0.51	0.52	0.55	0.73	0.55	33.77	(25.58)	0.41	0.47	0.37	(0.13)	(0.38)	(0.13)
1.16	1.00	1.20	0.98	1.07	1.17	9.53	9.12	0.73	0.69	0.79	(0.49)	(0.74)	(0.40)
2.93	2.60	3.10	2.99	2.59	2.72	(13.16)	4.96	2.22	1.66	1.84	(0.70)	(1.92)	(1.34)
0.31	0.26	0.37	0.33	0.65	0.85	92.96	31.86	0.25	0.41	0.58	(0.05)	(0.19)	0.36
1.13	0.99	1.01	1.16	1.20	1.12	3.89	(6.52)	0.86	0.77	0.76	(0.26)	(0.74)	(0.20)
1.71	1.91	1.68	3.24	3.24	2.46	0.14	(24.18)	2.41	2.08	1.66	1.08	(1.41)	0.26
2.97	2.74	3.79	2.91	3.12	3.72	7.12	19.56	2.16	2.00	2.52	(0.82)	(2.03)	(1.25)
7.19	7.51	8.94	6.74	7.89	7.48	17.16	(5.28)	5.01	5.06	5.06	(2.30)	(5.55)	(4.24)
0.57	0.55	0.84	0.54	0.51	0.70	(5.66)	36.78	0.40	0.33	0.47	(0.18)	(0.40)	(0.40)
2.28	2.43	2.44	6.99	10.91	10.40	56.11	(4.70)	5.20	6.99	7.03	4.13	(1.80)	7.20
0.90	0.96	1.08	0.76	1.08	0.90	41.75	(16.95)	0.57	0.69	0.61	(0.37)	(0.71)	(0.52)
0.06	0.05	0.05	0.04	0.04	0.03	6.69	(10.48)	0.03	0.02	0.02	(0.03)	(0.04)	(0.03)
1.61	1.73	1.69	2.09	2.37	2.22	13.72	(6.26)	1.55	1.52	1.50	0.07	(1.28)	0.01
0.21	0.17	0.18	0.16	0.16	0.17	(2.63)	7.50	0.12	0.10	0.12	(0.10)	(0.13)	(0.06)
0.13	0.12	0.13	0.12	0.13	0.15	9.45	14.11	0.09	0.09	0.10	(0.04)	(0.09)	(0.02)
0.87	0.66	0.75	0.62	0.59	0.66	(5.08)	12.12	0.46	0.38	0.45	(0.47)	(0.49)	(0.33)
13.64	15.67	15.45	31.94	36.37	34.16	13.86	(6.08)	23.76	23.31	23.10	14.79	(11.59)	13.91
0.83	0.57	0.69	0.52	0.42	0.45	(19.21)	6.33	0.39	0.27	0.30	(0.52)	(0.42)	(0.45)
0.52	0.42	0.66	0.53	0.44	0.46	(16.81)	3.74	0.40	0.28	0.31	(0.12)	(0.31)	(0.40)
1.00	1.28	1.36	2.06	2.43	2.33	17.82	(3.97)	1.53	1.56	1.58	0.80	(0.95)	0.54
0.43	0.25	0.22	0.87	0.89	1.20	2.72	34.85	0.65	0.57	0.81	0.33	(0.18)	0.91
1.53	1.54	1.79	1.99	2.21	2.32	11.36	5.03	1.48	1.42	1.57	0.06	(1.14)	(0.02)
1.44	1.77	3.64	2.10	2.55	3.25	21.45	27.46	1.56	1.63	2.20	0.28	(1.31)	(1.53)
8.15	7.14	5.12	6.71	7.23	4.96	7.84	(31.40)	4.99	4.64	3.36	(3.53)	(5.28)	(1.75)
5.58	5.05	5.00	6.17	6.34	5.83	2.86	(8.07)	4.59	4.07	3.95	(0.85)	(3.74)	(0.73)
100.00	100.00	100.00	134.47	156.00	147.84	16.01	(5.23)	100.00	100.00	100.00	8.77	(73.98)	16.73

Chapter Three

Operations and Activities



03





Chapter Three

Operations and Activities

In 2019, the Afreximbank continued to support the expansion and diversification of African production and trade through pre- and post-export direct financing across multiple sectors as well as essential projects that create an environment conducive for investment in export promotion. The Bank also provided support for receivables, structural transformation efforts to enhance value-added manufactured production exports, and the financing of physical assets to drive local-content opportunities.

The Afreximbank's Syndications Programme successfully leveraged international financing by a ratio of 3.5 to support trade and project-related activities across the African continent, while the 'Exim-Plus' strategy provided comprehensive trade facilitation and financing solutions for export credit and specialised trade.



US\$

12.4bn

Total credit approvals
in 2019

11.4%

Growth in loans
outstanding in
2019

Operations and Activities

In 2019, business fundamentals remained solid and the Bank's facility approvals remained above US\$12 billion for a second consecutive year.

3.1 OPERATIONS

2019—the third full year of implementation of the Bank's fifth Strategic Plan, IMPACT 2021 – Africa Transformed, covering 2017–21—saw the Bank enhance its operations and activities in support of member states and customers in line with the planned 2019 Budget and Work Programme. The operations and activities of the Bank were also executed taking into consideration the global economic and trade developments discussed in Chapter 2.

3.1.1 Review of Lending Operations

In line with its mandate and main strategic pillars—to promote Intra-African Trade, Industrialisation and Export Development, Trade Finance Leadership, and Financial Soundness and Performance—the Bank maintained its strong support to African economies throughout the year by deploying a wide range of existing and new programmes and products. This section provides a review of the Bank's lending programmes, including among others, the Line of Credit Programme, Direct Financing Programme, and Afreximbank Guarantees Programme.

Despite the challenging global economic and trade environment—stemming largely from the trade war between the

United States and China, uncertainties over Brexit, and tight global financing conditions—the demand for the Bank's funded and unfunded facilities continued to grow, attesting to its relevance in supporting African countries in times of difficulty.

In this context, the Bank continued to focus on strengthening its credit portfolio and improving operating efficiency. In 2019, business fundamentals remained solid and, as a result, the Bank's facility approvals (Figure 3.1) for a second consecutive year remained above US\$12 billion at US\$12.39 billion—marginally lower than in 2018 (US\$12.41 billion) and 56.52 percent higher than in 2017 (US\$7.93 billion). In the same vein, total loans outstanding stood at US\$12.38 billion at the end of the year, up by 11.43 percent from US\$11.11 billion at the end of 2018 (Figure 3.2). The outstanding balance under guarantees and other contingent liabilities amounted to US\$1,424.85 million in 2019, up from US\$858.00 million in 2018. Accordingly, the total value of loans and contingent liabilities amounted to US\$13.80 billion at the end of 2019 compared with US\$11.96 billion at the end of 2018 (an increase of 15.38 percent, year on year).

The details of the Bank's interventions by programmes in 2019 are discussed below.

3.1.1.1 Line of Credit Programme

The Line of Credit Programme (LOCP), which remains the Bank's main lending instrument, 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. The facilities provided under the LOCP include the Trade Finance (Export-Import) Facility, Pre- and Post-Export Financing Facility, Letter of Credit Confirmation and Refinancing Facility, and Reimbursement Guarantee Facility.

In 2019, the Bank approved US\$7.18 billion under the LOCP compared with US\$7.95 billion and US\$4.73 billion in 2018 and 2017, respectively. As such, the programme continued to be the largest in terms of approvals, accounting for 57.92 percent of total approvals in 2019. Total loans outstanding under the LOCP stood at US\$4.86 billion in 2019 compared with US\$5.25 billion in 2018, accounting for 39.29 percent of the total portfolio (Table 3.1 and Figure 3.3).

3.1.1.2 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.

Total approvals under the programme rose by 3.47 percent from US\$3.37 billion in 2018 to US\$3.49 billion in 2019. The programme accounted for 28.20 percent of total approvals in 2019, slightly higher than the share of 27.23 percent recorded in 2018, making it the second-largest programme. Outstanding loans under the programme amounted to US\$4.32 billion at the end of the year. The programme accounted for about 34.90 percent of the Bank's total portfolio as at the end of December 2019 (Table 3.1 and Figure 3.3).

3.1.1.3 Project Financing Programme

The Bank's Industrialisation and Export Development strategic pillar aims to stimulate a consistent expansion and diversification of African production and trade through direct financing. The Bank has therefore prioritised the use of the Project Financing Programme by committing 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, telecoms, 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.

Total approvals under the Project Financing Programme increased

significantly from US\$288.64 million in 2018 to US\$593.13 million in 2019. The programme accounted for slightly less than 5 percent of the total. The balance of outstanding loans under the programme amounted to US\$960.78 million, accounting for about 7.76 percent of the Bank's total portfolio (Table 3.1 and Figure 3.3).

3.1.1.4 Receivables Purchase/Discounting Programme

The Receivables Purchase/Discounting Programme comprises of a family of facilities involving purchase of specific or groups of receivables from the sale of goods and services to foreign or domestic buyers, with or without recourse to the seller. The facilities operated under this programme are (1) forfaiting, (2) invoice/receivables discounting, (3) factoring and receivables management, and (4) joint bill discounting/financing and refinancing.

The value of approved transactions under the programme increased from US\$297.02 million in 2018 to US\$563.81 million in 2019, an increase of 89.82 percent. The programme accounted for 4.55 percent of total approvals in 2019. In terms of outstanding loans, the balance under the programme stood at US\$665.78 million, representing 5.38 percent of the total portfolio as at the end of the year (Table 3.1 and Figure 3.3).

3.1.1.5 Export Development Programme

Under the Industrialisation and Export Development pillar, the Bank has positioned itself to support the structural transformation of Africa's production and exports into higher value-added and manufactured exports through the Export Development Programme. This 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 at facilitating non-commodity export production, especially export manufacturing, and fostering the implementation of regional projects, including tradable infrastructure services.

In 2019, the Bank approved four transactions under the Export Development Programme totalling US\$551.00 million compared with US\$471.15 million in 2018 (a 16.95 percent increase). The programme accounted for 4.44 percent of total approvals in 2019. In terms of outstanding loans, with a balance of US\$115.88 million, the programme accounted for less than 1 percent of the total portfolio as at the end of 2019. Key sectors supported by the Bank under the programme included oil and gas, special economic and investment free zones, and a health care facility (Table 3.1 and Figure 3.3).

3.1.1.6 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.

Total outstanding loans under the Asset-Backed Lending Programme stood at US\$1,378.51 million in 2019 compared with US\$164.14 million in 2018, accounting for 11.13 percent of the Bank's total exposure. The increase of outstanding loans under the programme mainly reflects the re-classification of several syndicated transactions to the Asset-Backed Lending Programme¹ (Table 3.1 and Figure 3.3).

¹ The Syndications Programme is re-classified as a memorandum item. See Section 3.1.1.8.2 and Table 3.1.

Operations and Activities

Table 3.1 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Product/Programme*, 2017–19

Type of Product/Programme	Approvals (US\$ millions)			Growth Rate (percent)	
	2017	2018	2019	2017/18	2018/19
Line of Credit	4,730.65	7,950.01	7,182.36	68.05	-9.66
Direct Financing	2,863.41	3,379.29	3,496.54	18.02	3.47
Project Finance	25.00	288.64	593.13	1054.56	105.49
Receivables Purchase/Discounting	29.35	297.02	563.81	911.99	89.82
Export Development	107.00	4,71.15	551.00	340.33	16.95
Asset-Backed Lending	100.00	0.00	0.00	-100.00	-
Others**	75.00	26.22	12.70	-65.04	-51.56
Memorandum Items					
Country Programme	883.38	1,191.34	1,360.86	34.86	14.23
Syndications ^{a)}	2,243.00	2,542.64	3,797.91	13.36	49.37
Afreximbank Guarantee Programme ^{b)}	0.00	2,173.41	2,791.73	-	28.45
Countercyclical Trade Liquidity Facility	0.00	0.00	0.00	-	-
Total	7,930.41	12,412.33	12,399.54	56.52	-0.10
Cumulative Totals^{c)}	56,628.59	69,040.92	81,440.46	21.92	17.96

Source: Afreximbank.

* Reflecting re-classification of programmes in 2017, 2018, and 2019: Syndications and Guarantees as 'Memorandum Items'/** Note Purchase and Future Flows Programmes regrouped under 'Others'. Special Risk Programme included in Afreximbank Guarantee Programme.

^{a)} Includes cofinancing and participations.

^{b)} Contingent liabilities reported on Afreximbank Guarantee Programme, which was officially launched in December 2017.

^{c)} Since the Bank began operations in September 1994.

Note: Gaps represent infinity.

3.1.1.7 Other Programmes

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 avalised or guaranteed by an acceptable bank or other corporates. Financial future-flow transactions refer to future-flow debt offerings that rely, for their repayment, on 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-flow debt offerings provide flexibility in financing difficult transactions.

Approvals under these programmes stood at US\$12.70 million in 2019 compared with US\$26.22 percent (a decrease of 51.56 percent). In terms of outstanding loans, the programmes accounted for 0.61 percent of the total portfolio with US\$74.94 million (Table 3.1 and Figure 3.3).

3.1.1.8 Memorandum Items

3.1.1.8.1 Country Programme

Under the Country Programme, the Bank assists its member states in peculiar circumstances not amenable to solutions

offered by any one 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 2019, approvals under the Country Programme amounted to US\$1.36 billion, 14.23 percent higher than in 2018 (US\$1.19 billion). Three countries—Côte d'Ivoire, Sudan, and Zimbabwe—benefited from the programme in 2019. In terms of outstanding loans, the programme recorded an increase of 30.45 percent from US\$1.38 billion in 2018 to US\$1.80 billion in 2019 (Table 3.1 and Figure 3.3).

Share of Approvals by Type of Programme (percent)			Outstandings (US\$ millions, end of period)			Growth Rate (percent)		Share of Outstandings by Type of Programme (percent)		
2017	2018	2019	2017	2018	2019	2017/18	2018/19	2017	2018	2019
59.65	64.05	57.92	3,662.12	5,250.69	4,865.71	43.38	-7.33	43.18	47.25	39.29
36.11	27.23	28.20	722.33	2,571.86	4,321.82	256.05	68.04	8.52	23.14	34.90
0.32	2.33	4.78	196.93	246.67	960.78	25.26	289.50	2.32	2.22	7.76
0.37	2.39	4.55	98.24	162.22	665.78	65.13	310.42	1.16	1.46	5.38
1.35	3.80	4.44	73.48	311.57	115.88	324.02	-62.81	0.87	2.80	0.94
1.26	0.00	0.00	138.84	164.14	1,378.51	18.22	739.84	1.64	1.48	11.13
0.95	0.21	0.10	616.35	614.43	74.94	-0.31	-87.80	7.27	5.53	0.61
11.14	9.60	10.98	1,176.63	1,381.55	1,802.23	17.42	30.45	13.87	12.43	14.55
28.28	20.48	30.63	2,862.26	1,729.69	5,777.29	-39.57	234.01	33.75	15.56	47.47
0.00	17.51	22.51	0.00	858.00	1,424.85	-	66.07	0.00	7.72	11.71
0.00	0.00	0.00	1,600.00	0.00	0.00	-100.00	-	18.87	0.00	0.00
100.00	100.00	100.00	8,480.54	11,113.15	12,383.42	31.04	11.43	100.00	100.00	100.00

3.1.1.8.2 Syndications Programme

In 2019, the Bank delivered substantial resources through its Syndications Programme. This programme is a risk-sharing programme used by the Bank to leverage international financing in support of trade- and project-related activities across the continent. Under this programme, the Bank arranges or joins a syndicate or club of reputable international and/or African banks to provide financing to African entities.

Under the Syndications Programme, the Bank approved US\$3.69 billion in 2019, 45.44 percent higher than the level in 2018 (US\$2.54 billion). About 29.80 percent

of the Bank's approvals in 2019 were syndicated transactions, reflecting the growing role of the Bank in the African syndicated loans market. Consequently, outstanding loans under the programme rose to US\$5.77 billion in 2019 from US\$1.72 billion in 2018 (Table 3.1 and Figure 3.3).

3.1.1.8.3 Afreximbank Guarantee Programme

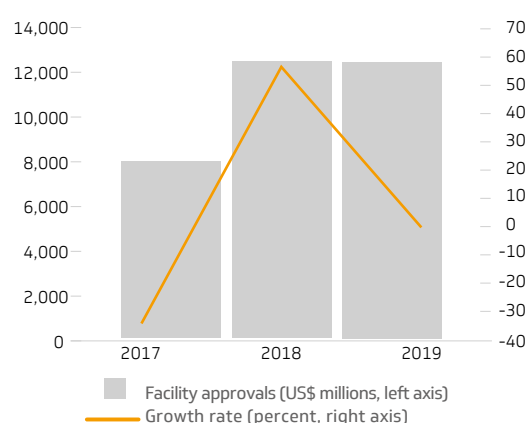
A key growth strategy for the Bank involves the deployment of a bouquet of guarantee products under the Afreximbank Guarantee Programme (AFGAP). The AFGAP, launched at the end of 2017, offers a variety of credit

enhancement solutions as part of the Bank's 'Exim-Plus' strategy, which offers comprehensive trade facilitation and financing solutions associated with export credit and specialised trade. The AFGAP is aimed at unlocking capital and leveraging financing in Africa by helping to de-risk African transactions to make them more attractive to investors and financiers.

Under the AFGAP, the Bank approved US\$2.79 billion in 2019 against US\$2.17 billion in 2018. The AFGAP accounted for about 28.45 percent of total approvals in 2019, and the outstanding balance under the AFGAP stood at US\$1,424.85 million in 2019 against US\$858.00 million in 2018 (Table 3.1 and Figure 3.3).

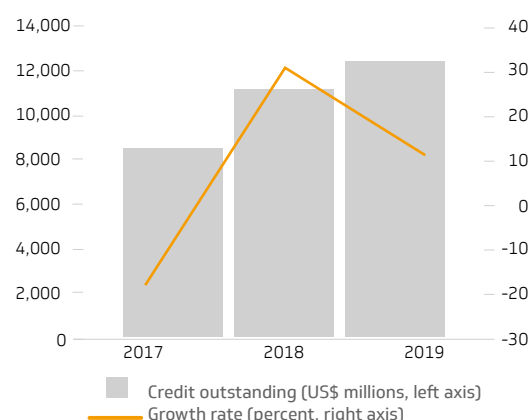
Operations and Activities

Figure 3.1 Afreximbank: Facility Approvals, 2017–19



Source: Afreximbank.

Figure 3.2 Afreximbank: Credit Outstanding as at December 31, 2017–19



Source: Afreximbank.

3.1.2 Analysis of Transactions

3.1.2.1 Sectors Financed

Approvals to financial institutions increased by 5.69 percent in 2019, reaching US\$7.72 billion, up from US\$7.31 billion in 2018, making it the largest sector supported by the Bank. This was consistent with the Bank's operating model, whereby the Bank's trade finance intermediaries are the main channels of product and services delivery to customers. In terms of outstanding loans, the sector continued to constitute the Bank's largest exposure (US\$5.59 billion in 2019), 1.79 percent higher than the level recorded in 2018 (US\$5.49 billion).

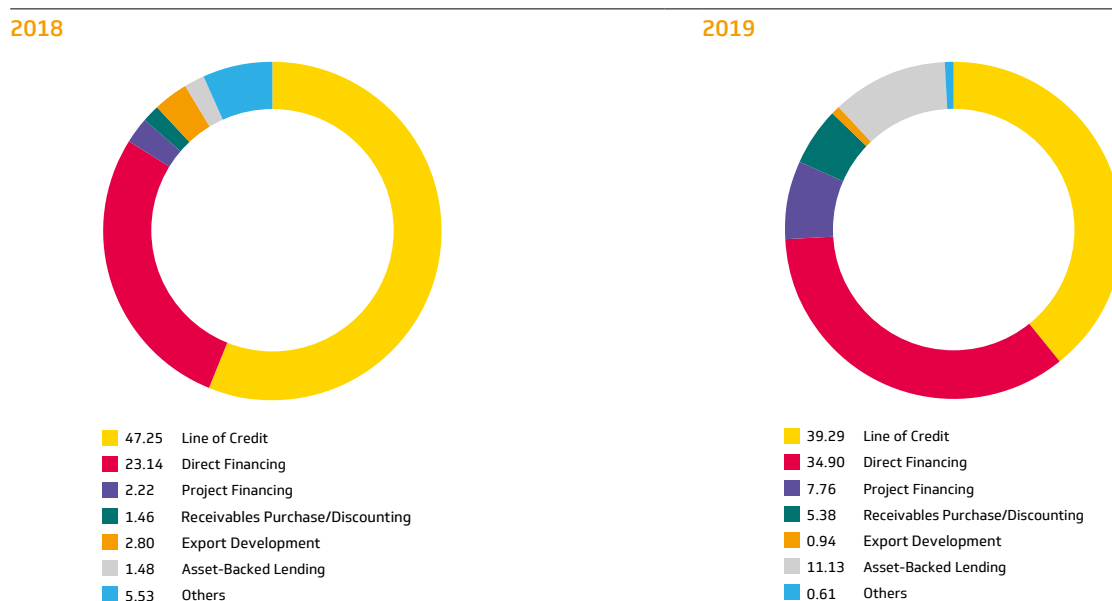
The sector accounted for 45.16 percent of the total portfolio in 2019 against 49.44 percent in 2018.

The energy sector continued to be a major driver of economic growth in Africa, thus resulting in the Bank's exposure to the energy sector growing in tandem with the industry. The energy sector (including oil, gas, and power) was the second-largest sector in terms of approvals at US\$3.38 billion in 2019, 23.34 percent higher than in 2018 (US\$2.74 billion). The sector accounted for 27.28 percent of total approvals in 2019 compared with 22.10 percent in 2018. The Bank continued to support the energy sector by deploying

some of its main lending programmes, including Direct Financing, Syndications, and Project Financing. This was in line with two of the Bank's main strategic pillars: promotion of Intra-African Trade and Industrialisation and Export Development.

The sector was also the second-largest in terms of outstanding loans, with a balance of US\$3.73 billion, accounting for 30.13 percent of the total loan portfolio, underlying the Bank's continued capacity to originate loans in support of the energy sector across the region, also increasing the Bank's short- to medium-term disbursements in response to business opportunities of customers.

Figure 3.3 Afreximbank: Distribution of Outstanding Loans by Type of Product/Programme, 2018–19 (percent)



Source: Afreximbank.

Approvals to the telecommunications sector fell from US\$1,024.10 million in 2018 to US\$429.10 million in 2019 (a decrease of 58.10 percent, year on year). Nevertheless, the sector remained the third largest in terms of approvals after the financial services and energy sectors. In terms of outstanding loans, the sector accounted for about 4.94 percent of the total portfolio in 2019 at US\$612.22 million.

In 2019, the Bank approved US\$339.41 million for the services sector, 4.12 percent lower than the level recorded in 2018. Outstanding loans for the sector amounted to US\$725.88 million in 2019, accounting for 5.86 percent of the total portfolio.

In 2019, the Bank also provided support to the manufacturing sector through various facilities, with a total approved amount of US\$270.08 million (down from US\$363.07 million in 2018), accounting for more than 2 percent of total approvals for the year. Outstanding loans were at US\$1,000.87 million in 2019, accounting for 8.08 percent of the Bank's total portfolio.

Approvals in support of the metals and minerals, transportation, and agriculture sectors in 2019 stood at US\$142.00 million, US\$89.68 million, and US\$17.39 million, respectively. In terms of outstanding loans, the Bank's exposure to these three sectors in 2019 amounted to US\$302.32 million,

US\$327.03 million, and US\$91.75 million, respectively, accounting together for about 7 percent of total exposure (Table 3.2 and Figure 3.4).

Operations and Activities

Table 3.2 Afreximbank: Distribution of Loan Approvals and Outstandings by Sector, 2017–19

Sector Financed	Approvals (US\$ millions)			Growth Rate (percent)	
	2017	2018	2019	2017/18	2018/19
Financial Services	5,100.65	7,312.25	7,728.38	43.36	5.69
Energy	677.95	2,743.02	3,383.20	304.61	23.34
Telecommunications	105.00	1,024.10	429.10	875.33	-58.10
Services	294.47	353.99	339.41	20.21	-4.12
Manufacturing	1,210.26	363.07	270.38	-70.00	-25.53
Metals and Minerals	60.86	0.00	142.00	-100.00	-
Transportation	113.00	445.13	89.68	293.92	-79.85
Agriculture	368.22	170.77	17.39	-53.62	-89.82
Total	7,930.41	12,412.33	12,399.54	56.52	-0.10
Cumulative Totals^{a)}	56,628.59	69,040.92	81,440.46	21.92	17.96

Source: Afreximbank.

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

3.1.2.2 Beneficiary Institutions

In 2019, the Bank approved transactions to financial institutions, including commercial banks, central banks, and multilateral financial institutions, amounting to US\$7.40 billion, an increase of 5.65 percent relative to 2018. Financial institutions accounted for about 60 percent of total approvals in 2019. In terms of outstanding loans, exposure to financial institutions stood at US\$5.63 billion in 2019, 3.07 percent lower than in 2018, accounting for 45.48 percent of the total portfolio.

During the same period, approvals to corporates amounted to US\$3.59 billion, down from US\$4.23 billion in 2018. However, approvals to sovereigns, including governments, state-owned companies, and parastatals, rose by 19.70 percent from US\$1.16 billion in 2018 to US\$1.39 billion in 2019, reflecting greater support by the Bank to the public sector,

especially in financing intra-African trade-facilitating infrastructure, such as roads, railways, among others. In 2019, the value of outstanding loans to corporates and sovereigns amounted to US\$4,669.48 million and US\$2,082.01 million, respectively, compared with US\$4,516.32 million and US\$786.71 million, respectively, in 2018 (Table 3.3).

3.1.2.3 Direction of Trade Financed

The value of transactions approved in support to intra-African trade decreased to US\$1.01 billion in 2019 (8.19 percent of total approvals) compared with US\$1.83 billion in 2018 (14.79 percent of total approvals). However, in support of this strategic pillar, the level of intra-African trade outstanding loans rose by 42.10 percent from US\$2.76 billion in 2018 to US\$3.93 billion in 2019, accounting for 31.75 percent of the total portfolio. The

increase in the share of the intra-African trade portfolio in total loans reflected the Bank's strong commitment to support regional trade in the context of the implementation of the African Continental Free Trade Area (AfCFTA).

In line with the Bank's fifth Strategic Plan, the share of intra-African trade approvals will continue to remain high over the medium term as the Bank's strategy of deepening its effort to promote intra-regional trade across Africa is cemented.

In 2019, mixed-directional (both extra- and intra-African trade) accounted for the largest share of approvals and outstanding loans, at US\$10.23 billion (82.52 percent of total approvals) and US\$6.25 billion (50.52 percent of the total portfolio). Approvals for extra-African trade transactions amounted to US\$1.15 billion in 2019, while outstanding loans stood at US\$2.19 billion. About one-half of the

Share of Approvals by Sector (percent)			Outstandings (US\$ millions, end of period)			Growth Rate (percent)		Share of Outstandings by Sector (percent)		
2017	2018	2019	2017	2018	2019	2017/18	2018/19	2017	2018	2019
64.32	58.91	62.33	4,866.68	5,494.23	5,592.40	12.89	1.79	57.39	49.44	45.16
8.55	22.10	27.28	1,720.48	2,704.28	3,730.95	57.18	37.96	20.29	24.33	30.13
1.32	8.25	3.46	327.50	778.31	612.22	137.65	-21.34	3.86	7.00	4.94
3.71	2.85	2.74	358.04	172.05	725.88	-51.95	321.90	4.22	1.55	5.86
15.26	2.93	2.18	272.73	707.27	1,000.87	159.33	41.51	3.22	6.36	8.08
0.77	0.00	1.15	23.66	491.97	302.32	1979.33	-38.55	0.28	4.43	2.44
1.42	3.59	0.72	277.56	310.69	327.03	11.94%	5.26	3.27	2.80	2.64
4.64	1.38	0.14	633.89	454.35	91.75	-28.32	-79.81	7.47	4.09	0.74
100.00	100.00	100.00	8,480.54	11,113.15	12,383.42	31.04	11.43	100.00	100.00	100.00

outstanding loans to extra-African trade benefited from South-South transactions, reflecting greater emphasis of the Bank to boost trade ties with partners, mainly in Southeast Asia (Table 3.4).

3.1.2.4 Transaction Size and Other Transaction Features

In 2019, the Bank approved 156 transactions compared with 135 and 82 in 2018 and 2017, respectively. This increase reflects the strong support provided by the Bank to African countries in the context of the challenging and uncertain international economic and trade environment. Consequently, the average size of approved transactions decreased from US\$91.9 million in 2018 to US\$79.5 million in 2019 (Figure 3.5).

In 2019, the average maturity of approved transactions decreased slightly to 30.38 months from 35.34

months in 2018 and 33.6 in 2017. The standard deviation (measuring the amount of dispersion around the average value) of approved transactions was relatively stable at 27.02 months in 2019 compared with 27.91 months in 2018 (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 onlending to entities that would ordinarily be unable to access the international financial markets, and providing advisory services that encourage the flow of loans and foreign direct investment into Africa.

In 2019, the Bank was the mandated lead arranger or co-mandated lead arranger for 21 syndicated transactions, totalling US\$12.71 billion (including the participation of other co-lenders), compared with US\$9.56 billion in 2018.

The share of the Bank in these syndicated transactions amounted to US\$3.59 billion, reflecting a leverage ratio of 3.5² (US\$3.5 leveraged into the continent for each US\$1 committed by the Bank), unchanged from the level recorded in 2018 (Figure 3.7).

Reflecting this performance, the Bank was ranked as the lead bookrunner of Africa borrower loans and second as mandated lead arranger of Africa borrower loans in the Bloomberg 2019 League Table.

² Based on approvals.

Operations and Activities

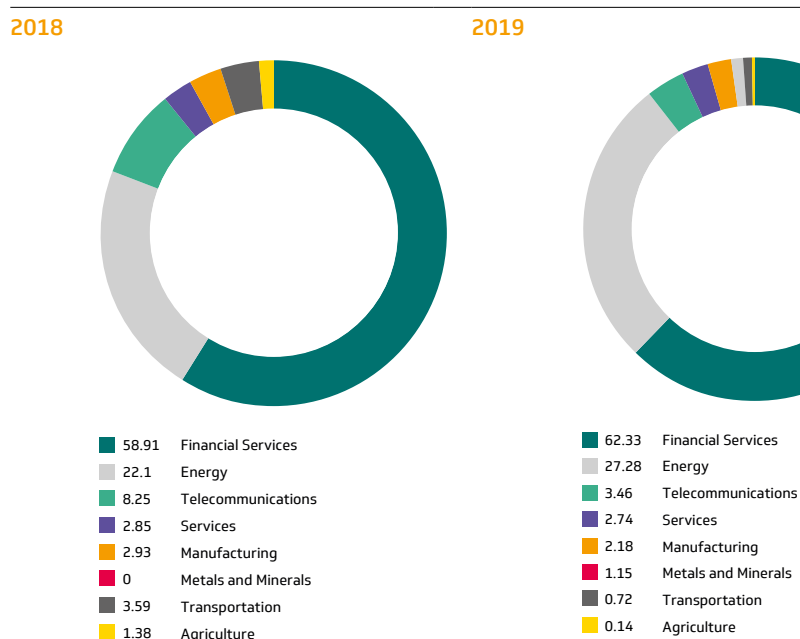
Table 3.3 Afreximbank: Distribution of Loan Approvals and Outstandings by Type of Beneficiary Institution, 2017–19

Type of Beneficiary Institution	Approvals (US\$ millions)			Growth Rate (percent)	
	2017	2018	2019	2017/18	2018/19
Financial Institutions	5,100.65	7,012.25	7,408.78	37.48	5.65
Corporates	2,679.76	4,232.85	3,593.54	57.96	-15.10
Sovereigns	150.00	1,167.23	1,397.22	678.15	19.70
Total	7,930.41	12,412.33	12,399.54	56.52	-0.10
Cumulative Totals^{a)}	56,628.59	69,040.92	81,440.46	21.92	17.96

Source: Afreximbank.

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

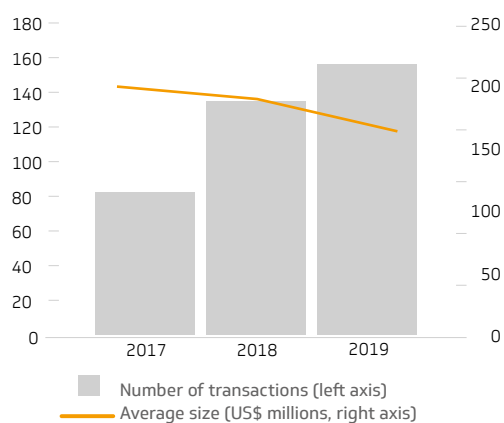
Figure 3.4 Afreximbank: Distribution of Loan Approvals by Sector, 2018–19 (percent)



Source: Afreximbank.

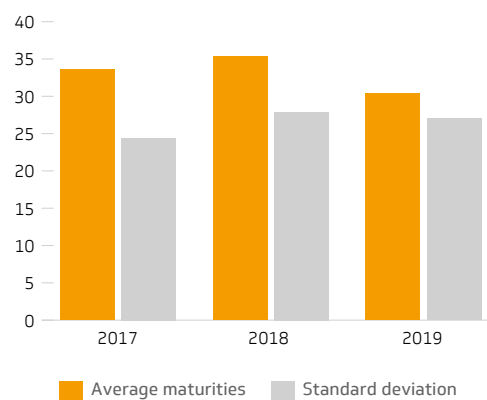
Share of Approvals by Type of Beneficiary Institution (percent)			Outstandings (US\$ millions, end of period)			Growth Rate (percent)		Share of Outstandings by Type of Beneficiary Institution (percent)		
2017	2018	2019	2017	2018	2019	2017/18	2018/19	2017	2018	2019
64.32	56.49	59.75	5,053.16	5,810.12	5,631.93	14.98	-3.07	59.59	52.28	45.48
33.79	34.10	28.98	2,802.31	4,516.32	4,669.48	61.16	3.39	33.04	40.64	37.71
1.89	9.40	11.27	625.07	786.71	2,082.01	25.86	164.65	7.37	7.08	16.81
100.00	100.00	100.00	8,480.54	11,113.15	12,383.42	31.04	11.43	100.00	100.00	100.00

Figure 3.5 Afreximbank: Number and Average Size of Approved Transactions, 2017–19



Source: Afreximbank.

Figure 3.6 Afreximbank: Average Maturity and Standard Deviation of Approved Transactions, 2017–19 (months)



Source: Afreximbank.

Operations and Activities

Table 3.4 Afreximbank: Distribution of Loan Approvals and Outstandings by Trade Direction, 2017–19

Trade Direction	Approvals (US\$ millions)			Growth Rate (percent)	
	2017	2018	2019	2017/18	2018/19
Intra-African ^{a)}	2,468.83	1,836.14	1,015.37	-25.63	-44.70
Extra-African ^{b)}	148.76	479.97	1,152.00	222.65	140.02
Mixed-Directional ^{c)}	5,312.82	10,096.22	10,232.17	90.04	1.35
Total	7,930.41	12,412.33	12,399.54	56.52	-0.10
Cumulative Totals^{d)}	56,628.59	69,040.92	81,440.46	21.92	17.96

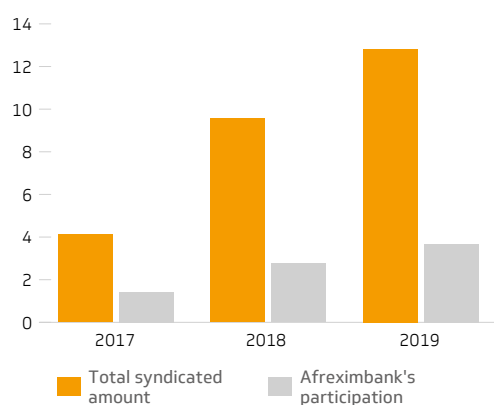
Source: Afreximbank.

^{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 the Bank began operations in September 1994.

Figure 3.7 Syndications/Club Deals Arranged or Co-arranged by the Afreximbank, 2017–19 (US\$ millions)


Source: Afreximbank.

Share of Approvals by Trade Direction (percent)			Outstandings (US\$ millions, end of period)			Growth Rate (percent)		Share of Outstandings by Trade Direction (percent)		
2017	2018	2019	2017	2018	2019	2017/18	2018/19	2017	2018	2019
31.13	14.79	8.19	692.18	2,766.65	3,931.30	299.70	42.10	8.16	24.90	31.75
1.88	3.87	9.29	329.39	365.48	2,195.77	10.96	500.79	3.88	3.29	17.73
66.99	81.34	82.52	7,458.97	7,981.02	6,256.35	7.00	-21.61	87.95	71.82	50.52
100.00	100.00	100.00	8,480.54	11,113.15	12,383.42	31.04	11.43	100.00	100.00	100.00

3.1.3 Other Major Operational Highlights

3.1.3.1 Russia–Africa Summit and Economic Forum

Afreximbank President Oramah led a delegation to attend the first-ever Russia–Africa Summit and Economic Forum, held in Sochi, Russia, during 23–24 October 2019. The Russia–Africa Economic Forum was co-organised by Russia, through the Roscongress Foundation, the Russian Export Centre, and the Bank. According to Afreximbank President Oramah, the event provided a platform for African and Russian businesses to connect and to promote increased trade between Africa and Russia. It also provided an opportunity for Africa to find new partners to support the continent in dealing with some of its challenges.

3.1.3.2 Launch of the Operational Phase of the AfCFTA and Afreximbank Initiatives

During the 12th African Union Extraordinary Summit of Heads of States, held in Niamey, Niger, on 7 July 2019, the African Union launched the operational phase of the AfCFTA. The launch of the

AfCFTA followed the coming-into-force of the trade area on 30 May 2019, after the deposit of the required minimum of 22 ratifications by member states of the African Union.

Afreximbank President Oramah addressed the summit and announced a series of initiatives to support the implementation of the agreement for the AfCFTA. The Afreximbank instituted a US\$1 billion AfCFTA Adjustment Facility to enable countries to adjust in an orderly manner to sudden significant tariff revenue losses as a result of the implementation of the agreement. One of the objectives of the facility is to accelerate the ratification of the AfCFTA by African governments.

During the summit, HE President Abdel Fattah el-Sisi, president of Egypt, and Afreximbank President Oramah jointly launched the Pan-African Payment and Settlement System (PAPSS)—the first continent-wide payment digital system focused on facilitating payments for goods and services in intra-African trade in African currencies. The platform is projected to domesticate intra-regional payments; save the continent more than US\$5 billion in payment transaction

costs a year; formalise a significant proportion of the estimated US\$50 billion of informal intra-African trade; and, above all, contribute in boosting intra-African trade.

3.1.3.3 Opening of the Kampala Branch Office

In September 2019, at a ceremony witnessed by HE President Yoweri Museveni of Uganda and former Nigerian President Olusegun Obasanjo, the Bank concluded the formalities for the take-off of its Kampala Branch Office (covering East Africa), as it signed the two principal documents with the government of Uganda. During the ceremony, President Museveni commended the Bank for choosing to establish the branch office in Uganda and promised the support of the government to ensure its success. Afreximbank President Oramah noted that the establishment of the branch office had set the stage for deepening the Bank's operation across the 11 East African countries under its jurisdiction and expressed gratitude to the government of Uganda for agreeing to host it and for its efforts towards the realisation of that goal.

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Box 3.1 Powering the African Loans Syndications Market: The Contributions of the Afreximbank

Among the instruments that the Afreximbank (the Bank) uses to leverage international financing for Africa are syndications and loan asset sales activities. The Bank's leveraging role is critical to its mandate of improving access to trade and trade-related project finance in Africa.

In 2019, the Bank emerged as a leading arranger of syndicated loans in Africa. The Bank was voted 'African Bank of the Year' by *African Banker* and ranked first among bookrunners of Africa borrower loans and second among lead arrangers of Africa borrower loans in the Bloomberg League Tables (Table 3.1.1). These testimonials of the Bank's achievements are a recognition of its continued efforts to achieve its developmental mandate and strategic initiatives under its current five-year Strategic Plan 'IMPACT 2021 – Africa Transformed'. The achievements also underscore the Bank's drive to become the main convening institution for mobilising capital into Africa.

Over the past three years, the African syndicated loans market has shown no significant upward trend, with volumes of about US\$37 billion in 2017, increasing only marginally to US\$42 billion in 2018, and dropping back to US\$37 billion in 2019. During this

period, the number of syndicated loans hovered at approximately 100 deals a year (Table 3.1.1). Nevertheless, this period witnessed a visible trend of increased geographic reach through the opening of new markets, with an increasing number of borrowers on the continent now being able to access cross-border hard currency loans. In addition, the diversity of loan investors providing capital across and into the continent, both from within the continent and from the rest of the world, increased.

The Bank has played an instrumental role in contributing to this growth over the past three years.

- The Bank can be credited with opening up the syndicated loan market for sovereigns in Africa, thus providing an alternative to the debt capital market. The Bank not only fostered investor confidence to attract other investors, it was also a market leader in setting maturity benchmarks ranging between 7 and 12 years, thereby alleviating short-term refinancing risk for sovereign borrowers and matching debt maturities with the longer-dated nature of financing for trade-enabling, capital-intensive, and infrastructure investments. The Bank was involved in

arranging sovereign and/or sovereign-backed syndicated loans for Côte d'Ivoire, Kenya, Nigeria, Senegal, South Africa, South Sudan, Tanzania, Uganda, and Zimbabwe.

- The Bank has played a leading role in arranging syndicated loans for energy utilities in Angola, Egypt, Ghana, Côte d'Ivoire, South Africa, and Zimbabwe, among others. Some of these were achieved with syndicates comprising local and African regional financial institutions.

- The Bank has successfully partnered with both African and non-African banks and financial institutions, regional and multilateral development banks, and export credit agencies. Syndicated loans arranged by the Bank over the past three years have seen an increase in participation from African, Asian, and Middle Eastern banks, as well as from funds and institutional investors. The Bank has also acted as arranger of local bank syndications and concluded its first local currency club deal in South Africa in 2019.

- In 2019, the Bank actively arranged syndicated loans for borrowers who previously had limited access to cross-border commercial capital, including Eritrea, Mauritania, South Sudan, and Zimbabwe, among others. Through leading these transactions, the Bank has provided the necessary investor confidence to attract additional partner investors, thereby enabling the opening of these countries to international capital.

- The Bank has consistently been at the forefront of enabling landmark transactions. The Bank was the sole

Table 3.1.1 Bloomberg Africa Loan League Tables

	Bookrunner			Mandated Lead Arranger		
	2019	2018	2017	2019	2018	2017
League Table Ranking (Afreximbank)	1	2	25	2	3	33
Percent of Market Share (Afreximbank)	8.7	6.8	1.2	6.8	5.1	1.2
Number of Transactions	73	69	68	101	103	96
Total Annual Loan Volumes (US\$ billions)	32	34	28	37	43	37

Source: Bloomberg.

lead arranger and bookrunner for the US\$750 million five-year Bank of Industry loan in 2018, representing the first major syndicated loan for a financial institution in Nigeria in a number of years—a transaction that greatly restored investor confidence for future cross-border loans in the sector. In 2019, the Bank was jointly mandated to arrange a follow-on €750–€1,000 million syndicated loan for the same borrower. In addition, the Bank jointly arranged two syndicated loans (in the amount of US\$1.5 billion and US\$1.1 billion) for the Angolan state-owned oil company Sonangol in 2018, and enabled a landmark transaction for Zimbabwe.

- When raising capital from the syndicated loan market through the Treasury Department on the liability side, the Bank has continued to be regarded as one of the top blue-chip borrowers on the continent and has extended its investor base to financial institutions as far afield as China, Japan, Korea, the Middle East, and Taiwan, Province of China. In this context, the Bank has further promoted investor confidence in the continent and has continued to set the maturity and pricing benchmarks for other financial institutions on the continent seeking to raise capital internationally.

In driving the trends, the Bank has considerably increased its annual syndicated loans volumes (total share syndicated) from US\$3.11 billion in 2017 to US\$12.71 billion in 2019 (Table 3.1.2). While always ensuring the success of its transactions through significant capital commitments, the Bank is also focussed on maximising the developmental impact of its own limited balance sheet. In that vein, syndication serves as the tool to leverage additional loan capital into and across the continent, and the Bank has managed to increase its leverage ratio (dollars raised for every dollar committed in syndicated loans) from 3 in 2017 to 5.1 in 2019 (Table 3.1.2).

As another form of effective leveraging, the Bank has been promoting its Afreximbank Guarantee Program in syndicated loans to provide the necessary risk cover to attract commercial banks as syndicate members. Furthermore, the Bank hosts two annual Insurance Investor Days for underwriters—one in Cairo and one in London—where it presents economic trends in Africa as well as the Bank's strategic targets for the year. These events strengthen relationships with the insurance market, which enables the Bank to call on underwriters' support, in particular when arranging transactions with innovative structures, or in countries with limited access to cross-border capital.

In order for the Bank to offer the full lending value chain, it has built a dedicated team that provides specialised loans agency and security trustee services. As of the end of 2019, the team is acting as facility agent and/or security trustee for 27 transactions totalling US\$5.5 billion across the continent for borrowers ranging from sovereigns, sub-sovereigns, financial institutions, and corporates. The Bank was ranked ninth in the Bloomberg Loans Agency League Tables for Africa in 2019.

The Bank remains dedicated to promoting syndications and loans agency among local and regional African financial institutions on the continent. The Bank's Annual Structured Trade Finance Seminar, which has been held for the past 25 years, now includes a dedicated one-day workshop on syndications and loans agency, thereby furthering specialised skills across the continent. In London, which remains the most important financial capital for arranging African loans, the Bank hosts and administers a quarterly event (the Africa Syndications Forum), which brings together all London-based African and international banks active in the African syndicated loan market. The forum provides an opportunity to grow new partnerships and foster the exchange of knowledge for syndicated lending in Africa.

Looking ahead, the Bank remains committed to its strategic objectives and developmental mandate of helping to close trade and infrastructure financing gaps across Africa by being a market leader in the syndicated loan market and continuing to leverage capital into the continent.

Table 3.1.2 Afreximbank: Syndicated Loan Market Contributions

	2019	2018	2017
Syndicated Loan Commitments (US\$ billions)	12.71	9.56	3.11
Leverage Ratio	5.1	4.11	3

Source: Afreximbank.

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3.1.3.4 Agreement Signing—Yaoundé Branch Office

In December, the Afreximbank, represented by President and Chairman of the Board of Directors Oramah, and the government of Cameroon, represented by HE Minister of External Affairs of Cameroon Mr Lejeune Mbella, signed the principal documents finalising the protocol towards the establishment of the Bank's Yaoundé Branch Office (covering Central Africa). The signature ceremony of the branch office agreement and the memorandum of understanding concerning the temporary and permanent premises of the branch office were witnessed by HE Prime Minister Dr Joseph Dion Ngute of Cameroon.

According to Afreximbank President Oramah, the establishment of the branch office sets the stage for deepening the Bank's operation across Central African countries, which had a combined GDP of US\$250 billion and trade size of about US\$120 billion in 2019. The branch will deepen the financial services sector in the country through improved access to affordable and competitive financing for local banks. It will also support local exporters to benefit from export advisory services and trade and investment information about opportunities across other parts of the continent.

3.1.3.5 Mid-Term Review of Strategic Plan

In September 2019, the Bank held a three-day retreat in Kampala, Uganda, for the mid-term review of its fifth Strategic Plan. Participating in the mid-term retreat were staff and management of the Bank as well as members of the Board of Directors. Several special guests, including Olusegun Obasanjo, the former president of Nigeria, and the two former presidents of the Afreximbank, Christopher Edordu and Jean-Louis Ekra, were also invited to the event. In addition, the event

was attended by key stakeholders and customers, including the African Union commissioner for trade and industry, the governor of the Central Bank of Malawi, representatives of African commercial banks, African corporates and technology companies, academics, as well as an official from the Exim Bank of India discussing the creative industry, and an expert from China focusing on industrial parks. These experts provided valuable input during the retreat, based on their experience in their respective institutions.

The fifth Strategic Plan, approved by the Bank's Board of Directors on 10 December 2016, sets out four strategic pillars for the Bank and defines a set of macro and corporate objectives and targets. The four key strategic pillars on which the plan is anchored are the promotion of: Intra-African Trade, Industrialisation and Export Development, Trade Finance Leadership, and Financial Soundness and Performance.

It was concluded that the Bank's strategy has delivered results at a time of great economic turbulence and uncertainty. It has also reacted swiftly and decisively to new challenges that were not factored in at the time the Bank was developing its fifth Strategic Plan, thus showing responsiveness to stay relevant to Africa's needs.

“In 2019, the Bank opened its Kampala Branch Office (covering East Africa) and signed the Agreement of Yaoundé Branch Office (covering Central Africa).”

3.2 ACTIVITIES

3.2.1 Treasury Activities, Risk Management, and Compliance

3.2.1.1 Treasury Activities

In 2019, the Bank pursued its treasury activities in accordance with Treasury Policies and Procedures enshrined in the Risk Management Policies and Procedures document. In line with its funding and investment strategies for 2019, as well as the Bank's fifth Strategic Plan, the main treasury activities conducted during the year included funding the Bank's requirements, as approved by the Board in December 2018; hedging non-US dollar exposures of the Bank; investing any surplus and/or strategic liquid resources; and enhancing the Treasury and Markets Department's operating systems. Some of the key treasury activities in 2019 are outlined below.

In line with the funding plan approved by the Board, the Bank mobilised about US\$6.4 billion between January and December 2019, spread across diverse sources. US\$3.3 billion was raised under the Central Bank Deposit Programme (CENDEP)—from both African central banks and non-central banks—with about US\$985 million raised from bilateral lines. In addition, US\$803 million was raised through syndicated loans, while US\$750 million was raised through the issuance of a bond under the Bank's Global Medium-Term Note (GMTN) Programme. A further US\$529 million was raised from development finance institutions and export credit agencies. The above included transactions that were concluded in 2018, but funds were only drawn down during the first quarter of 2019. These included a US\$500 million Asia-focused, China Exim Bank guaranteed syndicated loan and a US\$500 million loan from a development finance institution.

In addition to the fundraising activities mentioned above, the Bank concluded two notable transactions between January and December 2019—a Samurai syndicated loan and a bond issued under the GMTN Programme. In March, the Bank closed a dual currency syndicated Samurai loan in the amount of about US\$200 million in Japan in an exercise meant to buttress the Bank's efforts to diversify its sources of funding. The documentation has an accordion provision, which enabled the Bank to tap liquidity under the same facility during 2019. As such, in June 2019, US\$20 million was drawn down under the accordion of the Samurai loan concluded in March 2019. In September 2019, about US\$80 million was drawn down through the accordion. An additional US\$10 million was drawn down in December 2019 under the same accordion. The facility, which was the second to be arranged by the Bank in the Japanese market, helped it to diversify its sources of funding by geography, instrument, and investor base. The facility, which aimed to raise US\$150 million was oversubscribed to the tune of US\$300 million, with seven Japanese banks joining.

In addition, in September 2019, the Bank raised US\$750 million through an issuance of a bond under the recently upgraded US\$5 billion GMTN. The debut US\$750 million 10-year notes due September 2029 were issued on 17 September 2019. The issuance was the first time that the Bank accessed the 144a US market since its first issue in 2009. Just prior to the issuance, the Bank conducted a two-team extensive roadshow that covered Asia, Europe, the United Arab Emirates, and the United States. During the well-attended roadshows, the Bank met both existing and new investors. The positive feedback received during the road shows is testimony of investor confidence in the Afreximbank's credit profile and strategy.

The conclusion of this transaction is a major milestone for the Bank as it fulfils some of the key objectives of the Bank's liability management which, among other things, include diversification of the liability book by geography, investor type, and tenor. The issuance marked the first time that the Afreximbank accessed the 144a US market and is the Bank's longest-ever tenor (10 years) in the debt capital markets, extending the curve and offering a reference point for future issuances, thereby supporting the Bank's Strategic Plan. The order book peaked at US\$3.6 billion, with a final book of US\$3.35 billion, representing 4.5 times the subscription level, marking the Bank's largest-ever order book to date. The quality of the investors was impeccable, with the issue selling primarily to high-quality accounts with fund managers and banks/private banks taking 79 percent and 18 percent, respectively.

According to the funding plan for 2019, the Bank had refinancing requirements of about US\$2.552 billion in the first half of 2019. The bulk of maturities during that period was CENDEP deposits amounting to US\$2.03 billion, of which one-half was repaid, with the rest being rolled over. Other notable key repayments in the first half of the year included a US\$155.5 million Samurai loan in March, a US\$25 million bilateral loan in March, US\$280 million syndicated loan transaction in May, and a further US\$56 million Development Finance Institution Facility in June. With regard to the second half of 2019, notable repayments included a US\$700 million bond, a US\$75 million and €20 million bilateral line, US\$110 million in development finance institution loans, a further US\$75 million bilateral line, and a US\$445 million syndicated loan. In addition, US\$2.6 billion CENDEP deposits matured during the second half of the year. The bulk of the CENDEP deposits that matured were rolled over, in line

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with the retention strategy that the Bank institutes on deposits.

Further, in 2019, the Bank continued to manage foreign exchange risk arising from its financing operations by borrowing in currency of lending and/or entering into foreign exchange derivative contracts with creditworthy counterparties where the currency of borrowing is non-functional. All foreign exchange derivatives entered into by the Bank in 2019 yielded a cost that was competitive and 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 31 December 2019, US\$1.3 billion was placed with a number of approved counterparties, while about US\$972 million was maintained in current accounts to ensure sufficient liquid balances to fund recurring financial obligations as they fall due as per the Bank's Liquidity Management Policy.

The marketing of the Bank's Africa Resource Mobilisation Initiative continues to gain traction. The initiative was marketed to new central banks in the Bank's member states and targeted non-central bank African institutions. This saw US\$3.3 billion being raised from Africa in 2019. Furthermore, significant progress was recorded with respect to the Local Currency Funding Programme project, aimed at raising local currency in order to fund customers in the same local currency. The local currency programme is part of the Bank's objective to expand the use of local currencies in the conduct of intra-African trade, which, together with the Bank's PAPSS, will ensure that all foreign currency risks that have inhibited intra-regional trade are

minimised considerably. In this regard, by December 2019 the Bank completed all arrangements for establishing its 300-billion-naira domestic bond issuance programme in Nigeria. The establishment of the Bank's maiden 300-billion-naira bond programme defines a new phase of the rapidly growing relationship between the Afreximbank and Nigeria's borrowing entities. It also sets the stage for a stronger and more productive relationship between Nigeria's financial institutions and the Bank.

In a bid to continuously improve efficiency in the Treasury and Markets Department, the Bank consistently reviews its processes and system capabilities to identify any areas of weaknesses that require improvement. As such, the Bank embarked on the implementation of a number of technology systems in the Treasury and Markets Department, which included (1) the Bloomberg Collateral Management Module, which will help in the management of derivative products; (2) an asset and liability management system (Armbit Focus) which, once completed, will result in a major improvement in reporting and decision-making capability; and (3) the addition of derivative modules to the Treasury Management System, which involves enhancement of the system capabilities to handle derivative instruments. Furthermore, the Bank commenced with the implementation of the Internal Capital and Liquidity Adequacy Processes (ICAAP/ILAAP), with most of the work concluded in December 2019. The ICAAP/ILAAP implementation will strengthen the Bank's capacity to manage its capital adequacy and liquidity. The above-mentioned efforts are meant to appropriately resource the Treasury and Markets Department to adapt to the ever-evolving new technology, changing economic environment, and best in-class market practices.

Furthermore, in preparation for the expected ending of the production of LIBOR, during the reporting period, the Bank, through its Treasury and Markets Department, has been actively following developments around the possible replacement of LIBOR. The Bank carried out a risk assessment of the impact associated with the transition and is in the process of putting in place a governance framework that will oversee the transition work.

3.2.1.2 Risk Management

The Risk Management Department is tasked with the maintenance and effective implementation of the Bank's Enterprise Risk Management Policies and Procedures. It facilitates the process of embedding a strong risk culture; creating risk awareness across the organisation; and facilitating the identification, measurement, monitoring, controlling, and aggregated reporting of the Bank's principal risks. The Bank's key risk universe includes business and strategy, credit, operational, liquidity, market, compliance, and reputational risks.

In 2019, risk management activities continued to focus on improving, strengthening, and enhancing the Bank's risk management framework. Key milestones achieved during the period included the completion of Phase 1 of the project aimed at enhancing the Bank's Enterprise Risk Management Framework. The Risk Management Department also continued the implementation of the Bank's operational risk management tools, including Risk Control Self Assessments, Key Risk Indicators, and enhanced the Incident Management and Operational Loss Reporting processes. The loan remediation function made significant progress in ensuring that the Bank's asset quality is sound through effective recovery and remediation efforts.

Furthermore, the Bank strengthened its risk management capacity through risk awareness activities, Bank-wide risk training, and the automation of its risk management processes. Initiatives concluded in 2019 include (1) the rollout of a Bank-wide Risk Environment and Social Risk Awareness Programme for all staff; (2) implementation of the pilot Control Testing Programme; and (3) launch of the Governance Compendium—a centralised electronic repository for the Bank's policies, procedures, and guidelines.

3.2.1.3 Compliance Processes

In 2019, Mr Idrissa Diop, a banking professional with more than 20 years of experience in compliance risk management in international organisations, was named as the new director of the Compliance Department. Some of the key compliance initiatives include:

Monitoring of Compliance Risks: The Compliance Department continues to improve its ability to monitor compliance risks through the Bank's deployment of the SAS Compliance, World-Check, and SWIFT Alliance Lite Sanctions Screening systems.

Anti-Money Laundering Programme: The Bank's relationships were assessed against financial crime risk, including periodic reviews of relationships as part of ongoing monitoring. Adequate measures were put in place to mitigate identified risks, in line with the Bank's Enterprise Risk Management Framework.

Annual Staff Training: All staff of the Bank participated in the annual compliance training event on United Nations Security Council Resolutions (United Nations sanctions), which was facilitated by experts from the United Nations.

Annual Compliance Forum: In November 2019, the Bank held the Compliance Forum on the sidelines of the Annual

Structured Trade Finance Workshop in Durban, South Africa, to sensitise partners and customers of the Bank about the need to better integrate compliance best practices with business strategies and processes.

3.2.2 Shareholders' Matters

The Bank held its 26th Annual General Meeting (AGM) from 18 to 22 June 2019 at the Radisson Collection Hotel in Moscow, Russia. It was the second time the Bank held its AGM outside of Africa, the first being the 19th AGM held in Beijing, People's Republic of China on 9 July 2012. The event focused on the theme 'Harnessing Emerging Partnerships in an Era of Rising Protectionism'. More than 100 speakers, including ministers, central bank governors, subject matter experts, business leaders, representatives of international trade organisations, export credit agencies, African and global trade development experts, and academics, spoke during the meetings. The AGM also featured a seminar and meeting of the Advisory Group on Trade Finance and Export Development in Africa; a closed session of the AGM of shareholders on 22 June 2019; the launch of the African Trade Report 2019; the launch of the Afreximbank Export Trading Companies Strategy; an alignment meeting with central bank governors of the West African Monetary Zone to update them on the progress made with regards to implementation of the PAPSS; and a half-day programme of activities dedicated to Russia–Africa investment cooperation. A number of trade agreements were also signed at the event. Finally, an investment forum was held with the theme 'Russia – Africa Investment Cooperation: Experience and Perspectives'.

The shareholders held their 26th AGM on 22 June 2019. At the meeting, shareholders approved the *Annual Report and Financial Statements*, together with the Declaration and Distribution of Dividends for the

year ended 31 December 2018, as recommended by the Board of Directors. They also approved the reappointment of Price Waterhouse Coopers, Zimbabwe, and KPMG, Egypt, as joint external auditors of the Bank for the 2019 financial year.

Other updates provided to shareholders during the AGM include the status of implementation of the ongoing equity mobilisation exercise and the various initiatives for optimising the capital of the Bank, including insurance of the Bank's loan portfolio, credit enhancement of the callable capital, capital risk protection facility, and a second round of capital market activities to raise equity following the successful completion of the maiden Depositary Receipt Issuance Programme in Mauritius. In addition, shareholders were provided with an update on the establishment by the Bank of the Fund for Export Development in Africa (FEDA), a subsidiary of the Bank that has been set up to provide capital and related financial, non-financial, and support services to Africa's trade sector and related support sectors with an emphasis on activities to promote economic development and facilitate intra-African trade. Shareholders, in particular members states, were requested to provide the necessary support to FEDA through accession and ratification of the FEDA Treaty, which would be circulated to the member states, and thereby conferring privileges and immunities on FEDA and its related entities.

In 2019, the Bank continued with the implementation of its strategic objectives of mobilising more equity. This was in the context of the US\$1 billion general capital raise approved by shareholders at the 23rd AGM in Seychelles, to be raised under the fifth Strategic Plan, which runs to 2021. Thus, shareholders continued to support the Bank by injecting new capital, including through reinvesting

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their dividends. In this regard, six new shareholders joined the Bank, namely the government of Madagascar and the Central Bank of Malawi in Class A; and Caisse Nationale de Prevoyance Sociale of Cameroon; Aeroportos e Seguranca Aera, and Instituto Nacional de Previdencia social (both from Cabo Verde); and OPAIA SA from Angola, in Class B. OPAIA SA joined the shareholding of the Bank through the purchase of shares from an existing Class B shareholder. As a result, the number of the Bank's shareholders increased to 156 in 2019, up from 150 in 2018. The new shareholders acquired 2,210 shares, bringing in US\$39.88 million in paid-in capital and share premium, with US\$59.82 million remaining as callable capital. Thus, at the end of 2019, the total number of shares subscribed stood at 127,272 shares with a nominal value of US\$1.27 billion, up from 116,210 shares with a nominal value of US\$1.16 billion at the end of 2018.

3.2.3 Meetings and Cooperation

In 2019, consistent with its strategic objectives, the Bank organised and participated in several meetings, seminars, conferences, and workshops. Selected actions taken by the Bank in this regard are highlighted below.

3.2.3.1 Events Organised by the Afreximbank

Founders' Day

On 8 May 2019, the Bank held the second session of the Founders' Day Celebration, which was inaugurated in 2018 as an annual forum to allow for reflection and introspection of the aspiration of its founders. Key highlights of the 2019 event include (1) a speech by the president; (2) the 'Memory Lane' presentation, which looks back at the history of the Bank; and (3) a presentation of long-service awards. The event was attended by the Bank's staff and their spouses, officials

from the government of Egypt, officials representing African embassies in Cairo, and representatives of the Egyptian business community, among others.

Structured Trade Finance Seminar

The 20th session of the Bank's Trade Finance Seminar and Workshop was held in Durban, South Africa, in November 2019. The objective of the event was to ensure that African banks and bankers are well equipped to deal with the risks in financing trade under a difficult political-economic environment and changing trade counterparties. The seminar, co-organised in collaboration with the South African province of Kwazulu-Natal, was part of the Bank's strategy to develop and strengthen trade finance capacity in Africa. It was structured to ensure that participants acquire the capacity to structure bankable trade finance deals of varying levels of complexity.

Intra-African Trade Fair Advisory Council

In June 2019, the Advisory Council of the 2020 Intra-African Trade Fair met in Cairo to discuss the arrangements towards the organisation of the trade fair to be held in Kigali, Rwanda, in September 2020. The meeting, held at the headquarters of the Afreximbank, followed the signing of the 2020 Intra-African Trade Fair hosting agreement, the launch of the trade fair in Kigali on 14 May 2019, and the engagement of the event organisers.

The seminar was attended by more than 200 participants, including senior executives from African banks, financial institutions, regulatory institutions, hedge funds, African country funds, venture capital institutions, corporate entities engaged in trade, manufacturing and privatised infrastructure projects, the Afreximbank's trade finance and project finance intermediaries, and African law firms and insurance firms.

Afreximbank Compliance Forum

During 6–7 November 2019, the Afreximbank held its Compliance Forum in Durban, South Africa. The event was well attended by compliance officers and practitioners from financial institutions across Africa. As the importance of compliance to organisations, economies, and world trade continued to grow, the Afreximbank Compliance Forum was developed as an ideal platform for sharing international best practice and for networking by practitioners within Africa.

3.2.3.2 Events Organised by Other Parties

Belt and Road Forum for International Cooperation

In April 2019, a delegation of the Bank, led by Afreximbank President Oramah, attended the second Belt and Road Forum for International Cooperation in Beijing, China. The forum attracted leaders, including heads of state and government, from nearly 40 countries. The Belt and Road Initiative, proposed by China in 2013, seeks to build a trade and infrastructure network connecting Asia with Europe and Africa along the ancient Silk Road trade routes to seek common development and prosperity. To date, 126 countries and 29 international organisations have signed cooperation documents with China on the initiative.

World Bank and International Monetary Fund Spring Meetings

In April, a Bank delegation, led by Afreximbank President Oramah, attended the 2019 World Bank – International Monetary Fund Spring Meetings, held in Washington, DC. The delegation took advantage of the presence of finance ministers, institutional leaders, and other high-ranking officials to engage in meetings and discussions focusing on the work of the Bank and its support for intra-African trade and the development of African economies.



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3.2.4 The Board of Directors

The Board of Directors and its committees held its meetings as scheduled throughout the year and complied with all its statutory meeting requirements. The Board considered the *Annual Report and Financial Statements* as well as the Declaration and Distribution of Dividends for the year ended 31 December 2018 as well as the reappointment of external auditors along with their fees, recommending them for shareholders' approval. The Board also reviewed and provided direction on actions to be taken to manage the impact of issues raised in the reports on the Bank's loan assets, 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, investments, borrowings, advisory services, risk management, internal audit, and compliance.

The Board further took stock of progress in the implementation of various strategic initiatives, including the establishment of Africa medical centres of excellence, the development of industrial parks and special economic zones, the development of Africa quality assurance centres, the progress on the arrangement of a Capital Protection Facility, the loan asset securitisation, and the framework for an adjustment facility to support the AfCFTA.

In addition, the Board noted the progress in the implementation of FEDA, the Africa Due Diligence Data Platform, and the setup of the Managed General Agency.

In September 2019, the Board joined management in Kampala, Uganda, to carry out a mid-term review of the Bank's fifth Strategic Plan. The Board noted progress made and provided guidance to ensure the successful

delivery of the projects and programmes planned during the second half of the implementation of the Strategic Plan.

As part of measures to improve its effectiveness, the Board carried out its annual self-assessment review as well as the review of its committees' terms of reference, and the revised the Conflict of Interest Guidelines.

The Executive Committee considered and approved transactions and received reports on the Bank's credit operations, loan portfolio, investment and borrowings, compliance, syndication and guarantees, and advisory and capital markets. Other matters considered by the Executive Committee include a review of country reports, which provide updates on the recent political and economic developments in selected participating states and their impact on the business of the Bank.

Branch offices' reports were considered in order to ascertain the operational and administrative performance of the branches and, in all instances, this was deemed satisfactory. The Branch Management Committee was also updated on the construction of the permanent office in Harare and Abuja and the Afreximbank – Africa Trade Centre concept. Further, the committee noted the fruitful negotiations with the governments of Uganda and Cameroon for the establishment of the East and Central Africa branch offices, respectively, which led to the execution of the Kampala Branch Office Agreement on 20 September 2019 and Yaoundé Branch Office Agreement on 13 December 2019.

The Audit Committee reviewed various internal audit reports from the Internal Audit Department and BDO (the external audit firm to which some internal audit functions were outsourced). The

committee also paid attention to the implementation of the recommendations made by the internal and external auditors to improve the various functions and processes of the Bank and approved the scope of work of the internal and external auditors. The committee further reviewed the financial statements and the *Strategy and Risk Reports*.

The Strategy and Risk Committee assessed the risks of the Bank and duly considered the risk management and loan remediation reports. One of the meetings was dedicated to a detailed review of the loan portfolio, including past-due obligations, the watch list, and transactions written off. The committee also considered the impact of International Financial Reporting Standards (IFRS 9) on the portfolio.

The Remuneration Committee reviewed various matters intended to enhance the remuneration and reward of staff, including the progression model for executive vice presidents, the status of the implementation of the new pension scheme, and the status of the implementation of the Employer Assisted Home Ownership Scheme.

The Branch Office Construction Committee provided strategic oversight to the construction of the Bank's permanent branch offices. In this regard, the committee noted the important milestones achieved in the implementation of the Afreximbank – Africa Trade Centre in the first two cities selected for the construction, namely Harare and Abuja. Thus, the committee approved the updated feasibility study and business plan, as well as the selection of the architect and engineering consultants, and noted the progress made in the implementation of the project designs, branding, selection of contractors, and trade name registration.

With regard to the Board composition, at the 27th AGM held in Moscow, Mr Louis Austin Kirangwa Kasekende (a Class B director) retired and was replaced by Dr Denny Kalyalya, who was an alternate director. Mr Daniel Hannah joined the Board as Class C director replacing Mr Anil Dua, who became an independent director, replacing Mr Andrew Gamble, who retired. Following these changes in the Board composition, the Board committees were reconstituted accordingly.

3.2.5 Membership Mobilisation

The number of African participating states increased to 51 at the end of 2019, from 50 at the end of 2018, with the accession to the Bank Agreement by Eswatini. The Bank also intensified efforts towards encouraging African member states that were yet to finalise the ratification of the Bank Agreement to do so. As a result, ratification instruments were received from Comoros, thus, bringing the number of countries that had provided their ratification instruments to 39 by the end of 2019, up from 38 in 2018.

3.2.6 Branch Offices

In 2019, the activities of the Bank's branch offices in Abidjan, Abuja, Harare, and Kampala were in line with the set operational targets.

3.2.6.31 Abidjan Branch Office

In 2019, the Abidjan branch office (covering francophone West Africa) recorded disbursements amounting to US\$405 million against US\$701.3 million in 2018. Loans outstanding stood at US\$1.5 billion in 2019 compared with US\$1.7 billion in 2018, attributable to higher loan repayment and delayed disbursements. Transactions amounting to US\$811 million were approved in 2019 but not disbursed, pending legal documentation. The volume of transactions originated in the pipeline stood at about US\$2.8 billion in 2019 compared with US\$2.9 billion in 2018. The income generated by the branch in 2019 increased by 7 percent to US\$130 million from US\$121 million in 2018, driven by advisory services.

3.2.6.2 Abuja Branch Office

In 2019, total disbursements by the Abuja Branch Office (covering anglophone West Africa) increased by 31.4 percent to US\$2.30 billion compared with US\$1.75 billion in 2018. Furthermore, transactions amounting to US\$1.38 billion were approved and awaiting conclusion of documentation and disbursement. The volume of proposals in the pipeline increased from US\$3.84 billion in 2018 to US\$5.04 billion in 2019, reflecting the results of the improved resourcing of the branch office in 2019. The amount of loans outstanding increased modestly to US\$4.38 billion in 2019 from US\$4.16 billion in 2018. In terms of income generation, the regional branch office contributed US\$347.44 million compared with US\$333.2 million in 2018.

3.2.6.3 Harare Branch Office

In 2019, the volume of business generated by the Harare Branch Office (covering Southern Africa) increased by 11 percent from US\$7.24 billion in 2018 to US\$8.1 billion in 2019. Of this volume, transactions approved by the Executive Committee of the Board of Directors amounted to US\$3.4 billion (2018: US\$4.09 billion), representing a decrease of about 17 percent over the level reached in 2018. The volume of transactions at different stages of development stood at US\$5.5 billion, representing an increase of 35 percent from US\$4.73 billion in 2018. The volume of operational facilities at the end of 2019 amounted to US\$3.3 billion (comprising funded facilities of US\$2.7 billion and unfunded facilities of US\$0.6 billion), representing an increase of 113 percent compared with the level at the end of 2018 (US\$1.42 billion). These trends in business activities of the Harare Branch Office translated into annual revenue attributable to the branch of US\$238 million (2018: US\$136.59 million), representing an increase of 101 percent.

3.2.6.4 Kampala Branch Office

The Kampala Branch Office (covering East Africa) witnessed a significant growth with a pipeline of approved deals amounting to US\$1.65 billion in 2019 compared with US\$690 million in 2018. Total disbursements increased by 128 percent from US\$469 million in 2018 to US\$1,071 million in 2019. Total loans outstanding grew from US\$1,125 billion in 2018 to US\$1,66 billion in 2019, representing a growth of 47 percent. In 2019, total income generated amounted to US\$130 million compared with US\$100 million in 2018, representing a growth of 30 percent.

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3.2.7 Human Resources and Administration

3.2.7.1 Human Resources

Resourcing: The Bank's human resources capacity grew by 5.97 percent from 201 staff as at 31 December 2018 to 213 staff as at 31 December 2019. To ensure the availability of capacity to meet the Bank's current and future needs, additional staff were recruited in the areas of compliance, advisory and capital markets, export development, trade finance, syndications and agency, client relations, information technology and communications, and events. A key appointment was that of the director for compliance to replace the incumbent who was retiring so as to ensure continuity in this critical unit. In addition, in line with the Bank's Branch Expansion Programme, the Human Resources Department assisted in the deployment of staff to the new branch office in Kampala, Uganda, to ensure that it had in place the required resources to meet the Bank's objectives.

Building the Afreximbank through Development: The Bank's Learning and Development Plan for 2019 was effectively implemented to ensure that staff were equipped to deliver the Bank's strategy under the revised structure. In 2019, the Bank continuously invested into various capacity programmes for its staff members through various training programmes. These include training programmes in the areas of structured trade finance, leadership, ICAAP/ILAAP, ECL and Price Modelling, IFRS 9, environmental and social risk management, protection of information assets, fraud awareness, and information security.

In 2019, one of the key milestones achieved in this area was the implementation of the Talent Review Framework across the Bank. The overall goal of this project is to help the Bank

to develop a portfolio of leaders and experts to further support its strategy execution and continuous business growth. The second phase of the project is expected to be fully implemented in 2020. In addition, the deployment of the Emotional Resilience Survey among all management staff members was another key success that contributed to creating employee self-awareness, which is part of the Bank's efforts in leadership and management staff upskilling.

Building the Afreximbank through Performance: In 2019, the Human Resources and Strategy Teams worked towards improving performance measurement and monitoring at all levels by refining the performance management process to ensure that the Bank continues to align itself to the Balanced Scorecard's best practices. In addition, all Bank staff has completed the 2019 year-end reviews while also ensuring that their individual Tier-3 scorecards for 2020 are well set to deliver the expected strategic objectives and outcomes set for their respective functions.

Reward and Wellness: In a key milestone, a revamped and updated staff handbook, which is a compendium of policies and procedures that guide employee actions was launched to staff in January 2019 following approval by the Board of Directors in 2018. The handbook is aligned to the Bank's employer/employee value proposition and incorporates a code of conduct and business ethics. Employee wellness continues to be an area of key focus for the Bank and the Human Resources Department also put in place the required staff social support programmes to support staff and their dependents located in the new branch office in Kampala, Uganda.

3.2.7.2 Administration

In 2019, the department enabled the Bank functions through several projects and activities as outlined below.

Premises and Office Management. The department, together with government of Uganda officials, identified, readied, and operationalised premises for the new Kampala Branch Office (covering East Africa) and demobilised operations in Nairobi. The department also embarked on the process of identification of premises for the Yaoundé Branch Office (covering Central Africa), and plans are under way to ready and operationalise the branch in early 2020 following the execution of the Branch Establishment Agreements in Yaoundé in December 2019.

Afreximbank – Africa Trade Centre: In support of its fifth Strategic Plan, the Bank has set out to establish trade centres in Africa as a special initiative to bridge the trade information gap and to harness intra-African trade. To that end, the Bank intends to transform its existing and future buildings into iconic business complexes that provide integrated one-stop shops for trade information, trade services, and trade finance. In 2019, the Bank engaged several consultants to carry out the pre-construction works for the Abuja and Harare trade centres. The Bank is set to commence construction in 2020, with expected commissioning of the Abuja and Harare trade centres in 2023. In addition, the Bank actively engaged with authorities in Abidjan, Cairo, Kampala, Tunis, and Yaoundé, to allocate suitably located and sized land for the construction of Africa trade centres in these locations.

3.2.8 Business Continuity and Crisis Management

The Bank continued to enhance and exercise its Business Continuity Plan, Crisis Management Plan, and Security Evacuation Plan, and further embed Business Continuity Management (BCM) into the Bank's day-to-day operations. A range of BCM activities



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were successfully concluded: review and update of BCM Policies and Plans; re-validation of Business Impact Assessments and preparation of those assessments for new business units; BCM tests for local recovery sites in Abidjan, Abuja, and Cairo; 'Work from Home' BCM tests; emergency evacuation earthquake and fire drills; testing of the Bank's emergency notification and communication systems; BCM and emergency readiness awareness sessions for staff and dependents; security risk assessments for Bank premises and staff residences; monitoring of the operating environment; and issuance of security, medical, and travel advisories, among others. The test exercises provided further confirmation that the Bank possesses inherent resilience and capacity to respond, recover, and resume from contingency triggers, in line with established recovery time objectives and cost.

3.2.9 Information and Communication Technology

In 2019, the Bank successfully implemented the Core Banking System (Finacle), which improved operational efficiencies across many business lines, including bilateral loans, syndicated loans, trade services, limits management, collateral management, liability management, payments, nostro reconciliation, and general ledger. The e-banking module of Finacle for customers was also deployed.

Other significant business process automation achievements in 2019 include (1) enhancement of Salesforce system for business origination and customer relationship management, (2) deployment of SAP Concur for travel and expense management, and (3) automation of legal matter and invoice management.

On the technology infrastructure side, the upgrade of the Bank's network and telecommunication systems was completed for headquarters, leading to improved system experience. The Bank also implemented new information security enhancements, which further strengthened data leakage prevention, mobile device management, and system access controls. In addition, the annual disaster recovery rehearsal was successfully conducted with full achievement of the recovery objectives.

3.2.10 Banking Relationships

In 2019, 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 in 2019.



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Box 3.2 The Pan-African Payment and Settlement System: An Instrument for Boosting Intra-African Trade

Africa's cross-border payment and settlement infrastructure is underdeveloped and fragmented and has resulted in Africa being one of the least financially integrated regions in the world. This shortcoming is one of the most significant impediments to growth in intra-African trade and, if not addressed, will have dire consequences for the continent. In response, in 2019, the Afreximbank formally launched the Pan-African Payment and Settlement System (PAPSS), designed to support payment arrangements for the purpose of expanding Africa's trade and economic and financial integration.

Drawbacks in Africa's Payment System

Africa's cross-border payment system—characterised by exorbitant costs; payment delays; operational inefficiencies; limited transparency; compliance concerns for traders, buyers, and sellers; and complicated transferral of remittances—poses multiple challenges to executing intra-African payment services. As such, a significant portion of African payments are routed offshore for clearing and settlement through international banking relationships, with less than 20 percent of payment flows being cleared in Africa. For instance, in 2017, 39 percent of cross-border transactions sent by African banks to African counterparty banks were cleared via a correspondent bank in North America. This has resulted in persistent liquidity pressures and an inefficient flow of funds across the African financial system, thereby hindering economic growth.

An additional challenge is posed by the fact that 40 percent of Africa's cross-border trade is informal. While informal trade is an important source of job creation in Africa—providing 20–75 percent of total employment in most countries—it also means that only 60 percent of Africa's trade is declared and recorded.¹ And, because it is difficult to obtain precise data on informal trade, policymakers and providers of financial services face major challenges in formulating appropriate interventions targeted at this sector. As such, there is, for example, little innovation in designing mechanisms or services to integrate informal trade activities into the formal financial system or to reduce incentives for cross-border traders to rely on informal means of engaging in financial transactions. As a result, the informal sector and a significant portion of small and medium-sized enterprises across the continent are marginalised.

Addressing the Drawbacks

The African Continental Free Trade Area (AfCFTA), launched in 2018, established a single continental market for goods and services, with a combined population of more than 1.2 billion people and a combined GDP of more than US\$2.5 trillion. It is the world's largest free trade area since the creation of the World Trade Organization in 1995, and is expected to increase intra-African trade by 52.3 percent by 2022.

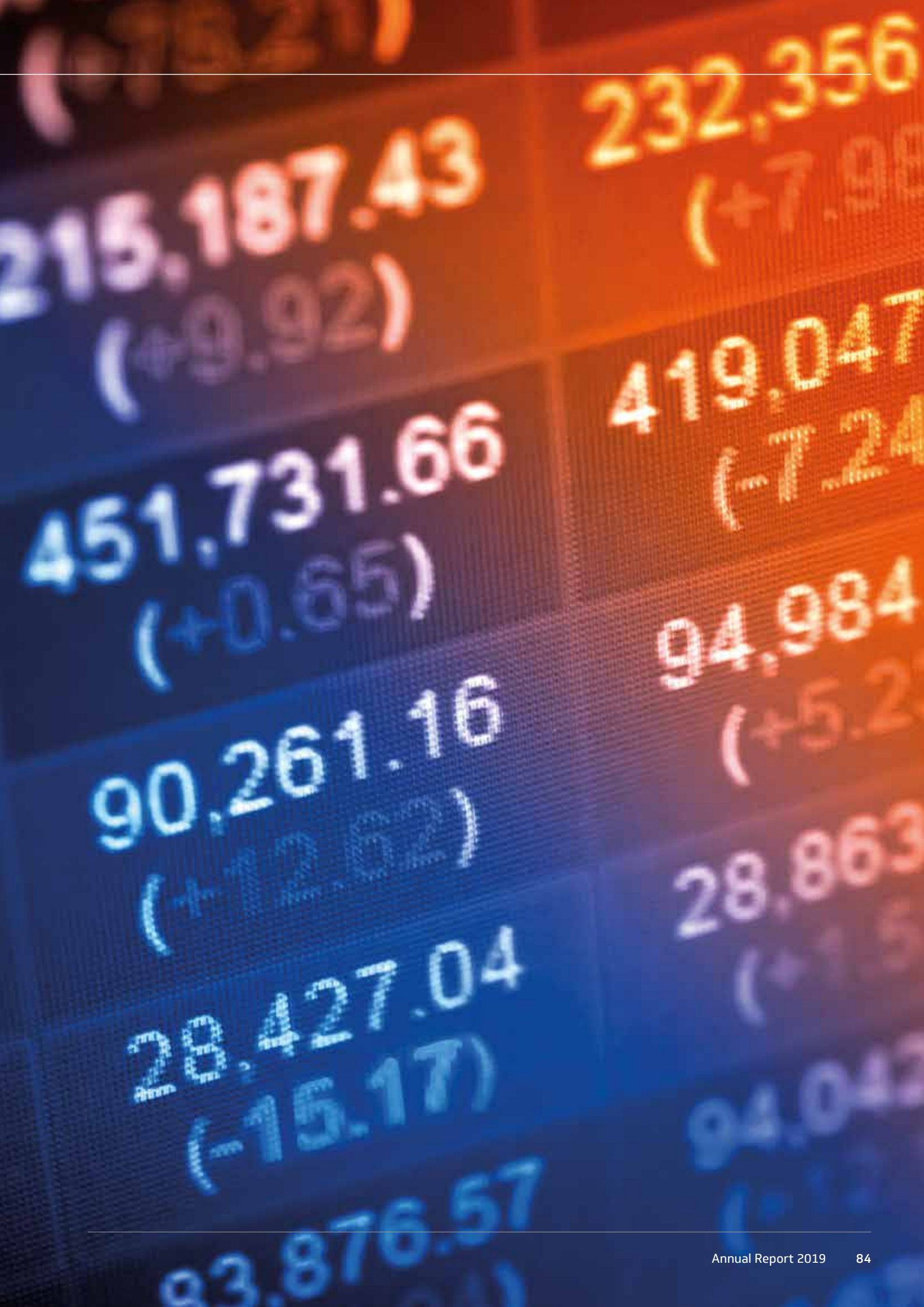
A United Nations Conference on Trade and Development report notes that, as intra-African trade comprises a higher

skill and technology content compared to Africa's trade with others, the AfCFTA can boost diversification and the industrial product and technology content of African Union member state exports. Furthermore, intra-African trade in industrial products could increase by US\$60 billion annually if the implementation of the AfCFTA is accompanied by robust trade facilitation measures.

Recognising that the realisation of the AfCFTA's potential hinges on a supportive trade environment—a key component of which is financial integration—on 7 July 2019, at the African Union Summit of Heads of States and Governments, the Afreximbank launched the PAPSS. The PAPSS is a digital payments system that provides the mechanism for the processing, clearing, and settling of intra-African trade and commerce payments in local currencies. More importantly, it aims to underpin the seamless operation of the AfCFTA single market in payment services.

The ultimate goal of the PAPSS is to provide convenience by cutting the cost of cross-border payments and reducing the duration and time variability of cross-border payments; lower recurrent hard currency liquidity shortages across Africa; strengthen central banks' oversight of cross-border payment systems; and help formalise a significant proportion of the estimated US\$50 billion of informal intra-African trade.

¹ United Nations Economic Commission for Africa. 2010. 'Assessing Regional Integration in Africa IV: Enhancing Intra-African Trade'. Addis Ababa, Ethiopia.



Chapter Four

Trade Development Impact of the Afreximbank's Operations and Activities

04

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The Afreximbank's Intra-African Trade strategic pillar is strongly supportive of the African Continental Free Trade Area (AfCFTA) and the African Union's Agenda 2063 and, in 2019, it exceeded its targeted financing of total intra-African trade. The Bank launched the first continent-wide instant payment digital solution—the Pan-African Payment and Settlement System—and has unveiled its US\$1 billion AfCFTA Agreement Facility to assist countries suffering tariff revenue losses.

The Bank's trade development financing and trade finance leadership play catalytic roles in driving Africa's export diversification, commodity processing, trade-related infrastructure, and service exports, and in enhancing small and medium-sized enterprises' potential.



US\$

8.9bn

Record level in loan
disbursements in 2019

Trade Development Impact of the Afreximbank's Operations and Activities

Infrastructure financed in the Gabon Special Economic Zone Mineral Ports will clear congestion and boost trade in Central Africa.

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

For more than two-and-a-half decades, the Afreximbank has been a leader in advancing African trade and economic development, working with member states, the private sector, and development partners to deliver impactful projects across the continent. It is off the back of this momentum that three years ago the Bank embraced a bold transformation agenda under its fifth Strategic Plan.

2019 was a year of change and progress, the year that marked the beginning of the second half of the implementation of the Bank's Strategic Plan. It was also the year that Africa made an historic achievement with the launch of the operational phase of the African Continental Free Trade Area (AfCFTA), which has the potential to unlock significant intra-African trade opportunities and deliver greater impact of the Bank's strategic objectives. It was therefore apt that the Bank successfully expanded its operations with a record level of US\$8.9 billion in disbursements. The Bank made good progress in delivering on each of its key strategic pillars.

Projects financed in 2019 under the Intra-African Trade strategic pillar were expected to connect 33,000 rural farmers and small and medium-sized enterprises in Benin, Cameroon, Côte d'Ivoire, Kenya, Mozambique, and Nigeria to formal markets. In the area of trade facilitation, the Liwonde Dry Port project in Southern Africa is expected to reduce the time to export by 14 days as well as costs to export by US\$971 a day. The construction and commissioning of a civil aviation and immigration security system for the South Sudan Juba International Airport in East Africa will enhance the flow of goods, services, investments, and people. To support the successful implementation of the AfCFTA, the Bank is arranging a US\$4 billion AfCFTA Adjustment Facility as well as operating the first continent-wide instant payment digital system (the Pan-African Payment and Settlement System) and is working towards harmonisation of trade standards to facilitate removal of non-tariff barriers across Africa.

In advancing its Industrialisation and Export Development strategic pillar, the Bank remains committed to addressing constraints directly affecting industrialisation and building export

capabilities in Africa. For example, with financial support from the Bank, the acquisition of rolling stocks (17 locomotives and 740 wagons) and extension of the rail handling capacity in the Gabon Special Economic Zone Mineral Ports (GSEZ MP) is expected to clear congestion at Port Owendo (Gabon's largest port) and boost trade in Central Africa. Through its Centre of Excellence for Medical Services Initiative, the Bank invested in the development of a first-rate medical centre for the people of Liberia in West Africa to drive excellence and promote intra-African medical tourism. In addition, the financing of a solar power generation project in South Sudan is expected to provide an additional 29 gigawatts of clean energy, benefiting more than 58,000 households while enhancing export competitiveness in East Africa. Furthermore, about US\$3.1 billion increase in exports, 10,000 direct and 40,000 indirect jobs, and US\$1.1 billion in government revenues are expected from the Bank's support to the construction of the largest liquefied natural gas (seventh train) in West Africa.

With respect to the Trade Finance Leadership strategic pillar, the Bank is helping to fill both the financing and knowledge gaps in Africa's trade finance market. In 2019, the Bank contributed to the narrowing of the trade finance gap in Africa by almost 10 percent. By the end of the year, the Bank had granted 129 trade finance lines amounting to US\$5 billion to more than 24 African countries. Under its newly introduced Country Export Programme, the Bank assisted the central bank in North Africa to establish an export credit agency (export credit risk guarantee company), which is expected to unlock about US\$60 billion annually in export credit to exporters.

The Bank's Trade Development Impact Assessment Framework (TDIA) was adopted in 2018 and the implementation started in 2019. The Bank achieved significant progress in implementing the new Framework. The first edition of the *Annual Trade Development Effectiveness Report*, aimed at providing an update of Africa's progress against its trade development goals, and assesses the contribution made by the Bank to that progress in 2019, is issued along with the Bank's 2020 *Annual Report*. As the Bank enters into the final phase of its Strategic Plan V, the TDIA Framework will enable the Bank to work more effectively and achieve greater development impact and help it to strengthen its role as Africa's leading Trade development finance institution.

4.1 INTRA-AFRICAN TRADE

Intra-African trade is a driver of social and economic development. It creates the potential for high-value manufacturing, knowledge transfer, productivity growth, and job creation. Expanding access to regional and international markets generates additional income for Africans and helps to relieve poverty.

By lowering tariffs on 90 percent of African goods and addressing other non-tariff barriers to trade, the AfCFTA is expected to significantly increase

the value of intra-African trade and investment. Large markets with large economies of scale and regulatory cooperation will reduce the cost of doing business in Africa. The AfCFTA will also attract foreign direct investment and facilitate the development of regional supply chains, which have been key engines of economic transformation in other regions.

The Bank believes deeply in the prospects of economic integration to expand intra-African trade and promote inclusive growth. Its Intra-African Trade Strategy supports the African Union's vision for the continent, Agenda 2063, and the establishment of the AfCFTA.

In 2019, the Bank financed about 1.8 percent of total intra-African trade—which was well beyond the set target of 1.6 percent—and this was expected to directly contribute more than US\$1.8 billion (1.3 percent) to the value of total intra-African trade.

4.1.1 Supporting the Implementation of the AfCFTA

While trade integration supports growth, it may also entail costs, and its benefits may not be evenly distributed across and within countries. Policymakers are often rightly concerned that further integrating their economies with those of other countries may benefit some industries and hurt others, negatively affect earnings and employment opportunities in certain sectors and for certain skill levels, and reduce fiscal revenues.

As part of its efforts to support the implementation of the AfCFTA, the Bank instituted a US\$1 billion AfCFTA Adjustment Facility in 2019, while working to raise additional US\$3 billion from markets to enable countries to adjust in an orderly manner to sudden significant tariff revenue losses as a result of the implementation of the AfCFTA. The facility is also extended to the African private sector to support retooling of industries, with a view to boosting manufacturing

output and accelerating the process of industrialisation.

Furthermore, 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 the euro. Consequently, making cross-border payments easier, cheaper, and safer is an obvious critical step in implementing the AfCFTA. The Pan-African Payment and Settlement System, the first continent-wide instant payment digital system, which focuses on facilitating payments for goods and services in intra-African trade in African currencies, was launched at the Extra-Ordinary Summit of African Heads of State in Niamey, Niger, on 7 July 2019. The digital payment platform will save the continent more than US\$5 billion in payment transaction costs a year; formalise a significant portion of informal cross-border trade within the region; and, above all, contribute to boosting intra-African trade. The platform will be piloted in West Africa and expanded to the rest of the continent in 2020.

The multiplicity of standards is another challenge affecting intra-African trade. This is even more critical in Africa because one African standard replaces 55 national standards, 55 tests certificates, and 55 national inspections. Harmonisation of trade standards will facilitate removal of non-tariff barriers and the implementation of the AfCFTA. To that end, in 2019, the Bank and Physikalisch-Technische Bundesanstalt (the German national metrology institution), African Organisation for Standardisation (ARSO), and the African Union, in consultation with regional economic communities and member states, developed the Draft Pan-African Quality Policy. This policy will support the Bank in the development of Africa Quality Assurance Centres across the continent, including the development of regional reference labs in collaboration with the African Union Commission.

Trade Development Impact of the Afreximbank's Operations and Activities

4.1.2 Deepening Access to Trade Information

Adequate, easily accessible, and timely trade information is necessary for taking full advantage of opportunities offered by the AfCFTA and expanded intra-African trade and bridging the trade and market information gap.

To that end, the Bank is convening the second Intra-African Trade Fair (IATF) in 2020 in Rwanda against the backdrop of the successful first IATF held in Egypt in 2018. Almost one-half of US\$32 billion in trade deals that were struck during the 2018 IATF have been closed as at December 2019; 40 percent are still in process while 10 percent did not materialise. The beneficiary countries include Egypt, Ghana, Malawi, Morocco, Namibia, Nigeria, Sierra Leone, and South Sudan.

Some African entities gave testimonies to the success of the 2018 IATF. For example, after gaining access to the IATF, a robotic-based African entrepreneur was linked to the Singapore Ministry of Manpower and today the drone company is up and running in Singapore. A Moroccan fashion designer, who developed a women's wear production line that has become a leading designer in Morocco, was able to find an Egyptian franchisee through participating in IATF 2018. After participating in the trade fair, a Namibian developer of an African natural ethnic hair and skincare line expanded beyond African borders. The fair afforded an African commodity trader the opportunity to meet with its clients for the first time, leading to an increase in the volume of exports. An indigenous large firm was able to connect with potential off-takers for its business and new projects, helping it to expand across the continent. In fact, the IATF was a platform for Africa partnerships and trade integration, availing great opportunities to African entities to meet African and global manufacturers, investors, and financiers

in one place. A testimonial from the government of South Sudan on the importance of the trade fair and other Afreximbank interventions on South Sudan and rest of the continent, underscores the commitment of the Bank to fulfil its mandates in support of intra-African trade and regional integration. In addition, the development of the Bank's trade information portal is almost complete.

4.1.3 Promoting Regional Supply Chain and Investment

In Africa, many manufacturing companies are small, which means that their technical capability may not be as advanced as that of larger companies. Owing to their size, these companies may find it difficult to deliver on large contracts as they do not have the necessary capacity to produce the desired product; their low production volumes also push up costs and make them less competitive.

Through its Global Facility for African Multinational Corporations (Intra-African Trade Champions), the Bank has 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. To benefit from the AfCFTA, intra-African investment must grow significantly.

In 2019, over US\$2.3 billion worth of contracts was awarded to large indigenous firms to enable them to provide services to countries across the region at competitive prices. The Bank's support is expected to create more than 35,000 jobs and transfer skills to more than 5,000 Africans, particularly among the youth.

Moreover, to facilitate the growth of large indigenous firms in Africa,

the Bank, through its Feeder Group Programme, is working to develop a mechanism that allows indigenous feeder enterprises to be transformed into large corporates, some of which will ultimately graduate and become Intra-African Champions. Development of industrial subcontracting and partnership programmes—in which an African larger firm assigns production of components and major and minor assembly parts or parts of services that are required for the production of final products to one or more feeder enterprises who in turn carry out the work according to determined technical specifications—is one of the most modern and effective organisational ways to develop more large indigenous African firms.

4.1.4 Leveraging for Intra-African Trade Facilitation

One-stop border posts also facilitate the free movement of goods across the continent. According to a recent report by the African Development Bank, there are now 76 one-stop border posts across Africa, with additional ones in the pipeline. Before 2009, there were none. Trade facilitation is a strong focus of the Bank. Improving the procedures, limiting the controls that govern the movement of goods, and lowering trade costs across national borders in Africa are vital for African countries to integrate.

Through its Liwonde Dry Port project, the Bank is providing an efficient and less-expensive logistic solution to create a one-stop shop facility for trade in Malawi, a country that has one of the most expensive road freights in Africa, even when compared with other landlocked countries, according to the World Bank's *Doing Business 2019* report. The high transportation cost is mainly due to the single mode and single access way to the exporting port. Once completed, this project will reduce the time to import (export) by 19 days (14 days) as well as costs to import (export)



Trade Development Impact of the Afreximbank's Operations and Activities

by US\$1,666 a day (US\$971 a day). It is also projected to improve the Malawian trade balance by 58 percent after coming on stream and create an estimated 1,000 direct jobs and 2,600 indirect jobs.

The Bank also supported the construction and commissioning of a civil aviation and immigration security system for the Juba International Airport to enhance the flow of goods, services, investment, and people. The project will support South Sudan's development agenda and is in line with the objectives of the Single African Air Transport Market (the African Union project that seeks to integrate the African aviation industry and create a single market for air transport in Africa as a rapid way of advancing the African Union's Agenda 2063).

4.2 INDUSTRIALISATION AND EXPORT DEVELOPMENT

A dynamic industrial sector is a critical engine of inclusive growth and economic transformation. Industrial development has the potential to create the jobs required for large-scale poverty reduction and generate valuable export revenues for African economies. To sustain growth, Africa is diversifying its economies and strengthening regional ties.

As a trade development financier, the Bank plays a facilitative and catalytic role, working with the public and private sectors and specialist international organisations to build a strong industrial base in Africa through export diversification, supportive infrastructure, service exports, and unlocking of small and medium-sized enterprises' potential.

In 2019, the Bank financed about 1.3 percent of Africa's total manufactured exports, which was beyond the set target of 1 percent. This was estimated to have directly contributed to a US\$474 million (0.9 percent) increase in the value of Africa's total manufactured exports.

4.2.1 Promoting Export Diversification through Financing of Processing of Commodities

To build cross-border value chains to achieve inclusive and sustainable industrial development in Africa requires full realisation of commodity-based industrialisation, as envisioned in the African Union's Continental Commodities Strategy. The Bank has prioritised the light manufacturing and agro-processing sectors in Africa, which remain largely untapped, and it is actively supporting the processing of African commodities for export.

In 2019, the Bank supported the processing of 732,600 metric tons of agricultural commodities, which was expected to directly contribute to a US\$254 million increase in intra-African trade and generate income and employment for 33,000 local farmers in Benin, Cameroon, Côte d'Ivoire, Kenya, Mozambique, and Nigeria.

In addition, the Bank invested in the maintenance of a vertically integrated agro-allied and fertiliser producing African entity to restore its production capacity to 1,500 metric tons a day from the current 1,000 metric tons a day and contribute to the provision of specialised fertilisers and increase the scale of inputs used in value-added export.

The realisation of commodity-based industrialisation in Africa depends on countries implementing effective industrial and sector strategies. To that end, the Bank organised capacity building workshops in Eswatini, Malawi, Mozambique, and Namibia in an effort to assist member states to develop strong and coherent industrial policies that will foster private sector engagement and enable them to tap value from their commodities.

4.2.2 Enabling Access to Trade-Related Infrastructure

The Bank's growing regional projects are helping to connect countries, promote trade, and improve competitiveness, and in turn transform economies and foster sustainable development.

Through its Centre of Excellence Initiative, aimed at providing a range of specialist health care services to improve the quality of health care for Africans and promote intra-African medical tourism, the Bank invested in the development of a first-rate medical centre for the people of Liberia to drive excellence. The Jahmale medical project integrates a premier clinic (general practice, specialists, pharmacy, and vaccines) and a state-of-the-art laboratory and imaging diagnostics into one outpatient medical centre.

Jahmale's development includes the first MRI in Liberia that has now performed over 300 studies—the only facility in the country with radiologist-read CT images—and has now generated over 750 images with official reports; it has the highest-capacity private laboratory, with more than 5,500 studies performed thus far, and the largest private multi-specialist outpatient clinic, seeing over 3,000 patients in the first year.

In 2019, the Bank supported the acquisition of rolling stocks (17 locomotives and 740 wagons) and extension of its rail handling capacity in GSEZ MP. Due to the increase in import and export flows in Gabon (cargo traffic increased by an estimated 5 percent a year between 2009 and 2016), GSEZ MP (the sole provider of transport and railway services in the country) is no longer adequately equipped to meet demand from its existing and new clients. This has led to severe congestion at Port Owendo (Gabon's largest port, handling over 95 percent of the country's mineral and agricultural

products exports). Through this facility, GSEZ MP has embarked on an expansion plan to alleviate the severe transport constraints that Gabon is facing.

The Bank is also scaling up efforts and building innovative partnerships to help a number of pilot countries to establish industrial parks and export processing zones, including the development of the Abidjan PK-24 industrial park in Côte d'Ivoire, the financing of Phase 1 (1,351 hectares) of the special economic zone in Nigeria, and the construction of the fully integrated textile and garments park in Burkina Faso. The Bank is also supporting the government of Malawi in implementing the country's industrial parks initiative; and discussions continued with the governments of Ghana, Kenya, and Rwanda to develop and finance industrial parks in their countries.

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.

In 2019, the Bank invested in the seventh train of liquefied natural gas, the largest of all trains in Nigeria, which promises to raise the country's liquefied natural gas production capacity by an additional 7.4 metric tons a year (34 percent) and boost activities in the downstream sector. Nigeria accounts for over 50 percent of current liquefied natural gas production capacity on the continent, contributing about 6 percent of global liquefied natural gas exports. Once operational, this project will increase exports by US\$3.1 billion, create 10,000 direct and 40,000 indirect jobs, and generate US\$1.1 billion in government revenue. The Bank has also been actively supporting Egypt's petroleum sector to increase local value-added, production, and exports.

In the energy sector, competitiveness in the production of industrial goods depends on the availability of affordable electricity and a robust infrastructure. To that end, in 2019, the Bank supported the construction of the second peat power plant in Gisagara District, Rwanda, which is expected to produce 80 megawatts of energy at a cost 35–40 percent cheaper than EUCL, the national utility company. The power plant is expected to increase the country's generation capacity by an estimated 61 percent and create 1,000 jobs.

The Bank is helping the government of Tanzania to achieve its vision of increasing the total installed electricity capacity to 5 gigawatts by 2021 and to 10 gigawatts by 2025 to spur industrial growth and export competitiveness. The 2,100-megawatt Rufiji hydropower project is being built on the Rufiji River in Stielger's Gorge, Selous Game Reserve of Tanzania. With a gross output of 5,920 gigawatt hours, the plant will more than double the country's power generation capacity, upon commissioning.

The Nesitu Hybrid Solar Photovoltaic project in South Sudan also promises an estimated annual 29 gigawatts of clean energy, benefiting more than 58,000 South Sudanese households and eliminating over 12,000 tons of carbon dioxide a year.

In addition, the Bank signed a memorandum of understanding with a leading South African railway conglomerate to collaborate in supporting the modernisation of the continent's railways as a catalyst to promoting trade, investment, and economic skills development, with particular emphasis on the freight railway sector.

The Bank, through its Project Preparation Facility, is providing technical and financial support in preparation and

development of projects from conceptual stage to bankable stage. In 2019, the facility was deployed to the government of Zanzibar towards financing the preparation of feasibility studies, environmental impact assessment studies, hydrological and marine studies, and procurement of transaction advisory services for the development of bulk liquid terminal with a capacity to handle 30,000–40,000 metric tons of refined fuel product to be located at Bumbwini/Mangapwani, Zanzibar.

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

African small and medium-sized enterprises have a fundamental role to play in transforming African economies and accelerating the pace of industrialisation to promote high and inclusive growth. More than 80 percent of firms across the continent are these enterprises and account for about 60 percent of employment. The Bank has identified factoring as a solution to bridge the funding gap facing small and medium-sized enterprises and to facilitate an expansion of their contribution to industrial development. The Bank's factoring strategy is built around financial interventions, legal and regulatory advisory, awareness, capacity building, and strategic partnerships.

In 2019, the Bank approved US\$22 million to factoring companies in Africa. In addition, 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. During the year, the law was ratified and is now applicable. The implementation of a factoring law is also in progress in Nigeria, and Botswana is considering a factoring law using the Bank Model Law as a guide. Furthermore, in 2019, three factoring workshops in Botswana,

Trade Development Impact of the Afreximbank's Operations and Activities

Egypt, and South Africa 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 Factors Chain International, six companies—in Egypt, Kenya, Mauritius, Nigeria, Senegal, and Uganda—joined Factors Chain International in 2019. 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.

Furthermore, through the Bank's strategy for promoting the emergence and expansion of export trading companies, the Bank provides market access and a range of services required to facilitate exports to smallholder farmers and is working to ensure that a fair share of value-added goes to producers.

4.2.4 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 that was launched in 2018 with an initial US\$100 million commitment from the Bank—entered into operational phase in 2019. It expands the Bank's offerings to include equity investments and will facilitate foreign direct investment into the African export sector. The target fund size over the medium term is US\$1 billion.

4.3 TRADE FINANCE LEADERSHIP

Trade finance provides the credit, payment guarantees, and insurance needed to facilitate the payment for merchandise or service on terms that will satisfy both the exporter and the importer. Hence, trade finance is a lubricant of trade. For Africa to boost intra-African trade, promote value addition and industrialisation, and achieve sustainable and inclusive growth and development, it is essential that African countries become more integrated and have a strong and well-diversified export base. For this to happen, trade finance must be genuinely accessible and affordable.

Unmet trade finance demand (the trade finance gap) in Africa ranges between US\$90 billion and US\$120 billion according to the 2017 *African Development Bank Report*. In 2019, the value of Bank-related trade finance disbursed was US\$8.4 billion, 23 percent of which was dedicated to intra-African trade. This implies that the Bank contributed to the narrowing of the trade finance gap in Africa by almost 10 percent in 2019.

The Bank's Trade Facilitation Programme, which comprises a Letter of Credit Confirmation Programme and a Letter of Credit Confirmation Guarantee Programme, has acquired a great deal of traction. In 2019, the Bank onboarded about 305 African banks (against the target of 500 set for 2021), and extended letter of credit confirmation lines to a good number. The Bank also granted 129 trade finance lines amounting to US\$5 billion to more than 24 countries across Africa (predominantly landlocked countries) to meet their trade financing needs.

The Bank's Africa Customer Due Diligence Repository Platform entered

into its operational phase in 2019. The platform provides the single trusted source of primary data required to conduct due diligence checks on counterparties in Africa. It 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. Across the continent, 18 central banks and 55 financial institutions were trained in 2019 on how to upload their data onto the platform.

Africa must develop robust national and continental export credit structures to help exporters on the continent compete favourably with exporters from other parts of the world. Often, exporters outside of Africa are backed by their national export credit agencies with attractive credit packages, making it extremely difficult for some exporters in Africa to compete because of a financing disadvantage. To that end, in 2019, the Bank introduced the Country Export Programme, which combines advisory services, financing, advocacy, cooperation, mentorship, and capacity building to help member states develop and enhance their trade- and export credit-related activities. The programme involves working closely with relevant authorities in member states to develop and promote their national export credit agencies and to work with existing export credit agencies to enhance their capabilities and effectiveness.

In 2019, the Bank assisted the Central Bank of Egypt to establish an export credit agency (export credit risk guarantee company), which is expected to unlock about US\$60 billion annually in export credit to Egyptian exporters. The Central Bank of Malawi is considering similar support.



Trade Development Impact of the Afreximbank's Operations and Activities

Box 4.1 Africa's Creative Industry: An Engine for Development

Creative industries comprise one of the most rapidly growing sectors in the global economy. They generate income through trade in goods, services, and intellectual property, and their value chains have created numerous economic opportunities, particularly for small and medium-sized enterprises. In Africa, these industries are increasingly recognised as meaningful contributors to national GDP and as vehicles for promoting innovation, enhancing trade, and reducing unemployment.

While Africa's share of the global creative economy during the past decade has remained stagnant (at about 1 percent), evidence points to these industries' enormous potential in increasing Africa's share of the export market, particularly in areas where the creative economy intersects with the 'borderless' digital economy. However, Africa's creative industries often face limited access to finance, skilled human resources, technology, and an unsupportive policy environment. As such, a key challenge for Africa is to address these shortcomings to help unleash these industries' potential and facilitate the growth of more globally competitive creative content. To that end, greater access to finance, training, and technology, along with supportive policies, are critical.

Boosting Access to Finance

A major hindrance to the development of Africa's creative industries is the availability of finance. Lenders and

investors tend to be reluctant to engage with the creative enterprise sector, given its lack of assets that could be offered as collateral, its innovation-driven character, and the (sometimes unfounded) perception that creative enterprises struggle to commercialise their products and drive profitability.

To help close this financing gap, the Afreximbank (the Bank) is committed to deploying US\$500 million in debt and guarantee instruments to support the development of Africa's creative economy between 2020 and 2021. The fund is mandated to expedite the development of content and infrastructure across various creative value chains, including film, music, fashion, technology, arts and craft, among others.

Building Capacity Development

An essential building block of any creative activity is human capital development. While most generic commercial skills are readily available across Africa, the specific needs of creative industries are not easily accessible. For example, capabilities in the digital field (such as special effects, audio-visuals, and sound engineering, among others) are in severe shortage, which means that skills must be imported to complete the creative process. This over-reliance on external solutions breaks vital learning loops and undermines local skill development.

To address these shortcomings, a number of the Bank's capacity building initiatives have incorporated 'creative capacity' elements into their complement of training modules. In addition, the Bank's Intra-Africa Trade Fair, Annual General Meetings, and Structured Trade Finance Seminars are vehicles for organising lectures, workshops, and seminars to build capacity in the sector.

Taking Advantage of Technology

E-commerce has great potential to invigorate African's creative industries. Critically for the creative sector (and small and medium-sized enterprises at large), e-commerce platforms have emerged as an equalising force between large and small enterprises and offer the potential for Africa's creative sector to reach profitable segments in international markets. On this front, the Bank has already scaled up its support for consumer and retail businesses, helping them drive export growth by leveraging digital solutions through, for example, the Pan-African Payments and Settlement System (see Box 3.2) and the African Customer Due Diligence Repository Platform (MANSA). In addition, the Bank is conceptualising a digital platform for African creative enterprises, which is envisaged as an interactive application to provide access to entertainment content (such as film and music), facilitate trade, commercialise opportunities, and serve as a knowledge resource centre for Africa's creative economy.

Addressing Policy Constraints

African countries typically lack key business-friendly institutional and regulatory conditions. The lack of protection of intellectual property rights, in particular, is frequently cited as a barrier to creative economy growth. Intellectual property rights afford incentives and rewards that encourage investment and the development of sustainable business models, helping to produce lasting economic and social benefits. As such, the Bank, in conjunction with the African Union and other key stakeholders, will work to place particular emphasis on intellectual property protection to support the creative sector.



Trade Development Impact of the Afreximbank's Operations and Activities

Box 4.2: African Continental Free Trade Area Adjustment Facility: Coming into Force

In 2019, Africa reached a historic milestone with the launch of the operational phase of the African Continental Free Trade Agreement (AfCFTA), which, by liberalising trade, has the potential to unlock significant intra-African trade opportunities and foster sustainable development across the continent.

The AfCFTA will help countries to specialise in the production of goods and services in which they have a comparative advantage and to exploit economies of scale, thereby promoting productivity, intra-regional trade, and economic growth. It will also foster structural change by spreading knowledge and technology and spurring the development of new products, which will attract foreign direct investment and facilitate the development of regional supply chains, which have been key engines of economic transformation in other industrialising regions.

Costs of Trade Liberalisation

It is widely accepted that trade liberalisation supports growth, but it can also entail costs in the short term and its benefits may not be evenly distributed within or across countries. As such, policymakers are often rightly concerned that, while further trade liberalisation may benefit some industries, it may negatively affect domestic earnings and employment opportunities in certain sectors and for certain skill levels, and reduce fiscal revenues.

In fact, the United Nations Conference on Trade and Development estimates that the AfCFTA could result in a US\$3.2–US\$4.1 billion loss in trade revenue across the continent. In a similar vein, the International Monetary Fund projects that, given existing tariffs and regional trade links, revenue losses in some countries could be significant, exceeding 1–2 percent of GDP and, in some instances, reaching up to 3–5 percent of GDP.

Despite significant trade liberalisation in recent years, and a corresponding decline in the contribution of trade taxes to total revenues (Figure 4.2.1), many African economies continue to rely heavily on trade taxes as a source of government revenue. Available data for 38 African countries indicates that 15 of them are heavily reliant on customs taxes as a source of revenue (Table 4.2.1) and, hence, are most likely to be most adversely impacted by trade liberalisation.

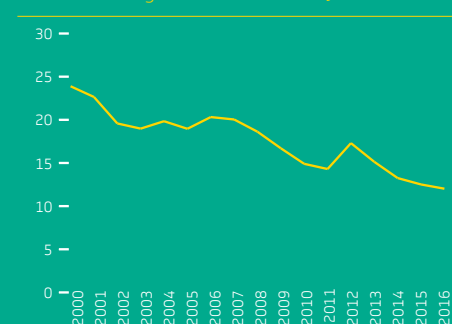
For countries that rely heavily on trade taxes, the sudden and sharp fall in tariff revenues may have significant effects on government budget balances and therefore adversely affect governments' capacity to support investment in infrastructure, export sectors, and education and social programmes that are crucial to enable the private sector to exploit the opportunities afforded under the AfCFTA. Declining fiscal revenues and widening fiscal deficits also hold important implications for country risk, the cost at which a country is able to

borrow to finance investments, and its ability to service debt.

Adjustment Assistance

Several policy mechanisms are in place to mitigate trade shocks that arise from market opening, for example, trade assistance or adjustment programmes that are designed to compensate or assist workers or firms that are adversely affected by trade liberalisation. These programmes also play an important role in garnering political support for the ratification and implementation of trade agreements. Examples include the US Trade Adjustment Assistance and the European Globalization Adjustment Fund, both of which are grant facilities, and the Common Market for Eastern and Southern Africa Fund, which addresses effects of trade liberalisation that may require adjustments in addition to building infrastructure to consolidate the regional market.

Figure 4.2.1 Taxes on International Trade
(percent of Africa's total government revenue)



Source: World Bank, World Development Indicators database.

Table 4.2.1 Risk to Government Revenue from Trade Liberalisation

Customs Revenue as a Percent of Total Tax Revenue	Extent of Risk to Revenue from Trade Liberalisation
<p>≥20</p> <p>Benin (28), Botswana (45), Cabo Verde (20.5), Cameroon (24), Central African Republic (25), Democratic Republic of the Congo (34), Eswatini (62), Ethiopia (46), Gambia (32), Ghana (23), Lesotho (51), Liberia (39), Namibia (30), Togo (21), Zimbabwe (22)</p>	Very high to high
<p>≥10 but ≤20</p> <p>Burkina Faso, Côte d'Ivoire, Congo Republic, Mali, Nigeria, Senegal, Sierra Leone, Uganda (32), Ghana (23), Lesotho (51), Liberia (39), Namibia (30), Togo (21), Zimbabwe (22)</p>	High to moderate
<p>≥5 but ≤10</p> <p>Angola, Burundi, Egypt, Kenya, Malawi, Morocco, Mozambique, Rwanda, Seychelles, Tunisia, Zambia</p>	Moderate to low
<p>≤5</p> <p>Algeria, Equatorial Guinea, Mauritius, South Africa</p>	Low

Source: World Bank, World Development Indicators database.

Similarly, in 2019, the Afreximbank—consistent with its strategy of promoting intra-African trade and supporting industrialisation and export diversification—instituted a US\$1 billion AfCFTA Adjustment Facility while working to raise an additional US\$3 billion from the markets, to enable countries to adjust in an orderly manner to sudden significant tariff revenue losses as a result of the implementation of the AfCFTA. The facility also extends to the private sector to support the retooling of industries, with a view to boosting manufacturing output and accelerating the process of

industrialisation, assisting in the creation or retention of private sector jobs, and stimulating investment to support trade and economic growth during the adjustment period following liberalisation. These efforts are on top of the assistance the Afreximbank already provides—most notably through its Export Development Programme and Intra-African Trade Initiative—to support the growth of its member states' exports.

Next Steps

Looking ahead, in February 2020, the thirty-third Ordinary Session of

the Assembly of Heads of State and Government requested the Ministers of Trade and Finance, in partnership with the Afreximbank, to conclude the work on the AfCFTA Adjustment Facility during the course of 2020 and bring to the February 2021 Summit, the draft statutes and resource mobilisation plan and initiative for its consideration.



Chapter Five

Management's Discussion and Analysis of the Financial Year Ended 31 December 2019

05



Chapter Five

Management's Discussion and Analysis of the Financial Year Ended 31 December 2019

The Afreximbank delivered a strong financial performance, which exceeded targets for 2019, with net income and operating income increasing by 14 percent and 27 percent, respectively; loans and advances growing by 8 percent; and an annual return on average shareholders' equity of 11.76 percent. In addition, equity mobilisation initiatives were successful and internal capital generation was robust.

The Bank's total assets and net loans and advances both grew by 8 percent to US\$14.44 billion and US\$12.03 billion, respectively. Achievements included higher profitability; solid growth in business volume; and the maintenance of strong capital adequacy, liquidity, and asset quality, despite the difficult global operating environment.

US\$

315m

Net income in 2019

14%

Growth in net
income over 2018



Management's Discussion and Analysis of the Financial Year Ended 31 December 2019

The Afreximbank will continue to focus on maintaining a cautious balance between profitability, liquidity, and risk, with the goal of delivering profitable and sustainable growth of its assets.

5.1 INTRODUCTION

The financial statements of the Afreximbank include the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Shareholders' Equity, Statement of Cash Flows, and the accompanying notes. The following discussion presents the Bank's audited financial statements for the year ended 31 December 2019, paying particular attention to the factors that influenced the observed results.

5.2 STATEMENT OF COMPREHENSIVE INCOME

In 2019, in the context of the operating environment reported in Chapters 2 and 3 and the Bank's activities detailed in Chapter 4, the Bank delivered solid financial results once again. Of particular note are high profitability ratios and high levels of operational efficiency. Notwithstanding the challenging economic environment across some of the Bank's member states, the Bank recorded strong growth in its business volume and, correspondingly, its balance sheet.

Net income rose by 14 percent in 2019 to reach US\$315.3 million—a solid growth compared with US\$275.9 million in 2018. This performance was underpinned by net loans and advances, which grew

by nearly US\$1 billion (8 percent) and resulted in increased interest and similar income. The combined 29 percent growth in interest and fee income, which reached US\$1.1 billion in 2019 (2018: US\$813.85 million), supported the significant growth in net income. The year marked the first time Bank's revenues exceeded the US\$1 billion mark.

The Bank achieved an annual return on average shareholders' equity of 11.76 percent (2018: 11.78 percent), in line with expectations. The significant increase in net income also resulted in the Bank realising a return on average assets of 2.26 percent in 2019 compared with 2.18 percent in 2018. In tandem with the substantial increase in net income, basic earnings per equivalent of fully paid shares rose from US\$5,620 in 2018 to US\$6,099 in 2019. Furthermore, in line with the Bank's long-term capital management strategic and policy targets, the capital adequacy ratio remained at a sound level of 23 percent (2018: 25 percent) on the back of the Bank's successful equity mobilisation initiatives as well as strong internal capital generation. A further detailed analysis of the Statement of Comprehensive Income is presented hereunder.

5.2.1 Net Interest Income and Margin

In 2019, net interest income grew by 30 percent to US\$524.91 million (2018: US\$403.82 million), mainly driven by a significant increase in interest and similar income, which grew by 32 percent to reach US\$948.42 million (2018: US\$720.13 million). The increase in interest and similar income was largely the result of comparatively higher interest rates as well as growth in the volume of net loans and advances, which rose by US\$900 million (8 percent) from US\$11.13 billion as at the end of December 2018 to US\$12.03 billion as at the end of December 2019. Interest income earned from money market investments, which amounted to US\$61.20 million (2018: US\$40.49 million), also contributed to interest and similar income. At the same time, interest and similar expenses increased by 35 percent to US\$413.55 million (2018: US\$305.65 million) as a result of a 24 percent year-on-year growth in average interest-bearing liabilities as well as an increase in the average LIBOR rate. Interest bearing liabilities rose as a result of increased funding mobilised to support growth in the Bank's business volume.

The net interest margin, at 3.66 percent in 2019 (2018: 3.64 percent), was satisfactory and in line with expected average yields achieved on the Bank's interest-bearing assets. The efficiency of treasury activities in managing cost of funds also contributed to the reported margins. These activities included diversification of the funding mix, which saw lower-priced, Africa-sourced liabilities making a significant contribution to the total funding pool.

5.2.2 Non-Interest Income

Net fee and commission income, amounting to US\$91.84 million in 2019, increased by 10 percent compared with US\$83.69 million in 2018. This increase was driven by strong growth in advisory fee income, which grew by 11 percent to close the year at US\$87.52 million (2018: US\$79.2 million). In addition, guarantee fee income, amounting to US\$7.42 million (2018: US\$5.97 million), recorded a solid growth of 24 percent, in line with the strategic target to grow this line of business by focusing on driving the Afreximbank Guarantee Programme.

5.2.3 Operating Income

Operating income—the sum of net interest income, net fees and commissions income, and other operating income—increased by 27 percent in 2019 to US\$622.50 million (2018: US\$489.83 million). The increase is explained mainly by higher net interest income arising from growth in loan assets and fee income.

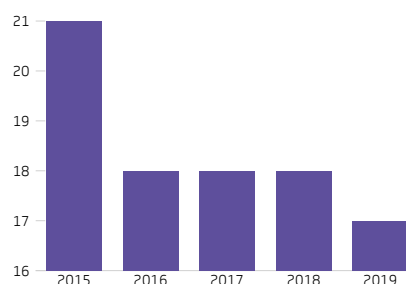
5.2.4 Operating Expenses

Operating expenses grew by 24 percent in 2019 relative to 2018 to reach US\$108.19 million (2018: US\$87.59 million). The increase reflects the planned expansion of professional staff recruitment needed to support growth in business volume, which, in turn, increased staff costs by 27 percent. In addition, general and administrative expenses increased by 15 percent in support of the Bank's various strategic initiatives. General expenses included a donation of US\$1.5 million towards ameliorating the devastating effects of cyclone Idai, which affected Malawi, Mozambique, and Zimbabwe.

5.2.5 Cost-to-Income Ratio

As shown in Figure 5.1, the Bank recorded a cost-to-income ratio of 17 percent in 2019—a slight improvement from 18 percent in 2018 and within the Bank's risk appetite for this metric, which is in the range of 17 percent to 30 percent. The outcome reflects effective cost controls and greater operating efficiencies.

Figure 5.1 Afreximbank: Cost-to-Income Ratio, 2015–19 (percent)



Source: Afreximbank.

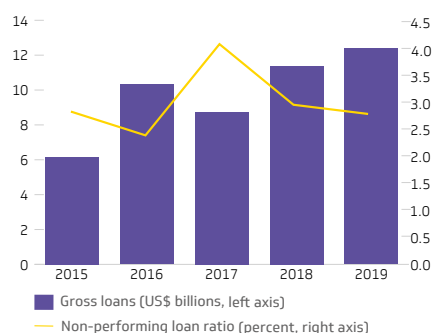
5.2.6 Expected Credit Loss

The Bank reported US\$326.7 million in expected credit losses (2018: US\$270.4 million) as at 31 December 2019—a growth of 21 percent. This increase resulted in an allowance for impairment charge to the Bank's Profit or Loss Statement in an amount of US\$216.03 million (2018: US\$118.9 million). Impairments arising from loans and advances contributed 91 percent (2018: 93 percent) of the total reported expected credit losses as at 31 December 2019. This was in line with the significant contribution of loans and advances, at 71 percent (2018: 76 percent) as at the end of 2019, to the Bank's total credit risk exposure.

Management's Discussion and Analysis of the Financial Year Ended 31 December 2019

The Bank's asset quality was within acceptable levels, as reflected in a non-performing loan ratio of 2.78 percent (2018: 2.95 percent). This outcome (Figure 5.2) reflects the prudence of structured trade finance-based lending, the benefits of preferred creditor treatment across the Bank's member states, sound risk management, and solid knowledge of African markets. In addition, the provisions coverage ratio on loans and advances, at 118 percent (2018: 132 percent), was well above the 100 percent minimum threshold. The expected credit losses coverage ratio on loans and advances was 2.52 percent (2018: 3.11 percent).

Figure 5.2 Afreximbank: Non-Performing Loan Ratio versus Gross Loans, 2015–19



Source: Afreximbank.

5.2.7 Dividends

Given the increase in the Bank's net income in 2019, and taking into account investors in fully paid Class D shares issued to back the depository receipts listed on the stock exchange of Mauritius, the Board of Directors recommended a dividend payout of US\$78.83 million (2018: US\$68.97 million) to shareholders—that is, a

25 percent (2018: 25 percent) payout ratio*. The proposal maintains the tradition of higher dividends payments to shareholders from year to year. As the Bank is raising capital to support business growth, shareholders will have an option of receiving the dividend entitlement through acquiring additional ordinary shares of the Bank.

In making its recommendation on the level of ordinary dividends, the Board took into consideration the objective of maintaining an orderly growth trend in dividend payments, as well as profit performance, the need to retain earnings to support ongoing business growth, capital adequacy, inflation, and balancing internal and external financing.

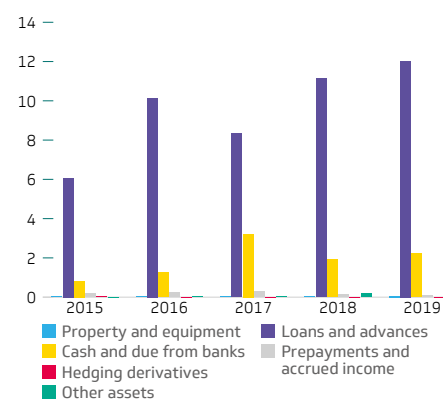
5.3 STATEMENT OF FINANCIAL POSITION

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 for 2019 is presented hereunder.

5.3.1 Assets

The Bank's total assets grew by 8 percent, from US\$13.42 billion as at 31 December 2018 to US\$14.44 billion as at 31 December 2019 (Figure 5.3), mainly on account of the solid growth in net loans and advances, which grew by 8 percent. Liquid assets increased by 16 percent to end the year, amounting to US\$2.23 billion (2018: US\$1.92 billion) and accounting for 15 percent of total assets (2018: 14 percent). Net loans and advances, at US\$12.03 billion (2018: US\$11.13 billion), contributed significantly (83 percent in both 2019 and 2018) to total assets. Loans and advances increased in line with expectations and consistent with the Bank's capital position.

Figure 5.3 Afreximbank: Assets 2015–19 (US\$ billions)



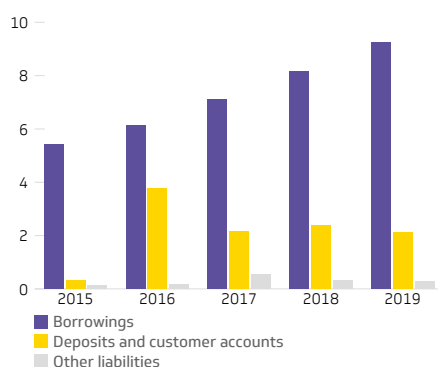
Source: Afreximbank.

5.3.2 Liabilities

The Bank's total liabilities grew by 7 percent to US\$11.64 billion in 2019, up from US\$10.86 billion in 2018 (Figure 5.4). The main reason for this increase was the borrowings balance, which increased by 14 percent to US\$8.31 billion (2018: US\$7.3 billion) to fund the growth in the loan book. Total borrowings (due to banks and debt securities) accounted for about 71 percent (2018: 67 percent) of total liabilities while customer deposits and balances accounted for about 18 percent (2018: 22 percent) of total liabilities.

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

Figure 5.4 Afreximbank: Liabilities 2015–19 (US\$ billions)



Source: Afreximbank.

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

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

5.3.3 Shareholders' Funds

The Bank's shareholders' funds increased by 9 percent to US\$2.8 billion in 2019 from US\$2.56 billion in 2018, primarily driven by internal capital generated from higher profitability, which contributed to the increase in the Bank's net worth. In line with its strategic plan to expand

operations, the Bank raised new capital in the amount of US\$178.65 million. The Bank's callable capital—an additional buffer in case of need, which has been credit-enhanced as part of the Bank's capital management initiative—amounted to US\$1.2 billion as at 31 December 2019 (2018: US\$873 million).

CONCLUSIONS AND OUTLOOK

The Bank's commendable financial performance in 2019—as reflected in higher profitability, strong growth in earnings and business volume, sound capital adequacy and liquidity ratios, and solid asset quality—met or exceeded targets, despite a difficult operating environment in some parts of Africa and globally. Looking ahead, management expects to continue to intensify its efforts to improve efficiency throughout the Bank and harness the benefits of the new core banking system implemented during the first half of 2019. A number of technology-driven initiatives, such as the African Customer Due Diligence Repository Platform, the Pan-African Payment and Settlement System, the Trade Information Portal, and Corporate Internet Banking, have been put in place to set the Bank on a path of creating a digital bank for the future, with the view of becoming Africa's trade gateway. The digital platform is expected to drive fee income in the future, and added value will be derived from the Managing General Agency initiative intended to boost fee income from insurance underwritten on deals originated by the Bank. The Bank will continue to focus on maintaining a cautious balance between profitability, liquidity, and risk, with the goal of delivering profitable and sustainable growth, and retaining high-quality assets and a solid net interest margin, despite continued interest rate cuts.

Chapter Six

Financial Statements for the Year Ended 31 December 2019



06



Chapter Six

Financial Statements for the Year Ended 31 December 2019

This section contains the Independent Auditors' Report to the Shareholders of the African-Export-Import Bank and provides detailed financial information on the Bank's performance during 2019, together with comparative figures for 2018.

US\$

14.4bn

Total assets in 2019

7.6%

Increase over
2018

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Financial Statements for the Year Ended 31 December 2019

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/BC/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 2019 at its meeting held on 20 March 2020.

In our opinion, the scope and planning of the audit for the year ended 31 December 2019 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\$315.3 million (2018: US\$275.9 million), a 14 percent growth compared to the prior year. The Bank maintained a low cost-to-income ratio of 17 percent (2018: 18 percent). The return on average assets and return on average equity were satisfactory and in line with internal targets at 2.26 percent (2018: 2.18 percent) and 11.76 percent (2018: 11.78 percent), respectively.

Asset quality remained relatively high, with a non-performing loan ratio of 2.78 percent (2018: 2.95 percent) while the loan loss coverage ratio stood at 118 percent (2018: 132 percent), well above the minimum target of 100 percent. The Bank shareholders' funds at US\$2.8 billion grew by 9 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 adequate.

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 give a true and fair view of the state of affairs of the Bank's financial condition as at 31 December 2019.

The committee, therefore, recommended that the audited financial statements of the Bank for the financial year ended 31 December 2019 and auditors' report thereon be approved by the Board and presented for consideration to shareholders at the twenty-seventh General Meeting.

The committee accepted the provision made in the financial statements for the remuneration of the auditors and recommends that the Board accepts same. Furthermore, the Audit Committee recommends to the shareholders the reappointment of KPMG Hazem Hassan of Egypt and PricewaterhouseCoopers Zimbabwe as the Bank's external auditors for the financial year 2020.



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 2019

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 2019, 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 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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
<p>Expected credit losses on financial assets</p> <p>IFRS 9 Financial Instruments 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 amortised cost are measured using a three-stage model, which is outlined in note 2.3 to the financial statements.</p> <p>The impairment of financial assets was considered to be a matter of most significance in the current year audit due to the significant management judgement applied in determining the impairment, particularly in relation to:</p> <ul style="list-style-type: none"> – classifying exposures into the relevant impairment stage (as informed by significant increase in credit risk (SICR) criteria, and default status); – determining credit risk grade; – Incorporation of macro-economic inputs and forward-looking information in determining the ECL; – determining the probability of default (PD), loss given default (LGD), and exposure at default (EAD); and – application of overlays, to cover for the fact that certain aspects of the ECL may not be fully reflected by the underlying model due to factors such as market volatility and modelling complexity. <p>The Bank's financial assets, both on and offbalance sheet, subject to credit risk, were US\$17,430 million as at 31 December 2019, 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\$358 million, for the year ended 31 December 2019.</p>	<p>Our audit of the expected credit losses on financial assets included the following procedures:</p> <p>We assessed the appropriateness of accounting policies and evaluated the impairment methodologies applied by the Bank against the requirements of IFRS 9.</p> <p>We utilised our valuation expertise to assess whether the models used by the Bank comply with the requirements of IFRS 9.</p> <p>We assessed the design and implementation, and tested the operating effectiveness, of controls over the following areas:</p> <ul style="list-style-type: none"> – the modelling process, including governance over monitoring of the models and approval of key assumptions; – the classification of financial assets and offbalance sheet exposures into the various stages of impairment; and – the integrity of data inputs into the ECL model. <p>We selected a sample of stage 1 and stage 2 exposures and assessed whether the stage classification was appropriate in terms of the Bank's accounting policy for SICR at reporting date since origination of the exposures. These procedures included the inspection of credit risk ratings at reporting date relative to origination date.</p> <p>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.</p> <p>Where ECL has been raised for stage 3 exposures, we considered the impairment indicators, uncertainties and assumptions applied by management in their assessment of recoverability. For a sample of stage 3 exposures, we recalculated the ECL based on our assessment of expected cash flows and recoverability of collateral at individual exposure level.</p> <p>We evaluated the appropriateness of forward-looking economic expectations included in the ECL by comparing it to independent industry data.</p> <p>We evaluated management's economic response models to assess whether the macro-economic inputs are appropriately incorporated into the ECL models.</p> <p>For collateral held, we inspected legal agreements and relevant underlying documentation to assess the existence and legal right to collateral.</p>

Financial Statements for the Year Ended 31 December 2019



KEY AUDIT MATTER	How our Audit Addressed the Key Audit Matter (continued)
	<p>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.</p> <p>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, assessing key assumptions against historical trends, inspecting the calculation methodology and tracing a sample of overlay adjustments back to source data.</p> <p>We tested the mathematical accuracy of the ECL for a sample of loans.</p> <p>We assessed the adequacy of disclosures in the financial statements against the requirements of IFRS 9.</p>

Other Information

Management is responsible for the other information. The other information comprises the information included in the document titled 'Report of the Audit Committee to the Board of Directors and General Meeting of the African Export Import Bank', which we obtained prior to the date of this auditor's report, and the information included in the document titled 'African Export-Import Bank 2019 Annual Report', which is expected to be made available to us after that date. Other information does not include the financial statements and our auditors' report thereon. Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

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

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

Responsibilities of 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 IFRS 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.

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 2019



Report on Other Legal and Regulatory 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).

PricewaterhouseCoopers

PricewaterhouseCoopers

Chartered Accountants Zimbabwe

Building No. 4, Arundel Office Park

Norfolk Road, Mount Pleasant

Harare, Zimbabwe

11/04/2020

Date

KPMG Hazem Hassan

KPMG Hazem Hassan

Public Accountants & Consultants

B (105) - Avenue (2) Smart Village

Km 28 Cairo/Alexandria Desert Road

Cairo, Egypt

11.04.2020

Date

AFRICAN EXPORT-IMPORT BANK

Statement of Financial Position for the Year Ended 31 December 2019

	Note	2019 US\$ 000	2018 US\$ 000
ASSETS			
Cash and cash equivalents	16	2,225,470	1,918,434
Derivative assets held for risk management	5	541	3,684
Loans and advances to customers	17	12,029,548	11,134,424
Prepayments and accrued income	18	82,647	134,358
Financial investments at amortised cost	20	29,238	168,328
Other assets	19	11,598	13,988
Property and equipment	24	48,814	39,806
Intangible assets	25	11,707	6,348
Total assets		14,439,563	13,419,370
LIABILITIES			
Derivative liabilities held for risk management	5	4,935	24,840
Money market deposits	22	931,620	878,332
Due to banks	21	5,225,516	4,269,612
Deposits and customer accounts	26	2,102,814	2,365,385
Debt securities in issue	22	3,080,608	3,027,717
Other liabilities and provisions	27	291,999	293,737
Total liabilities		11,637,492	10,859,623
CAPITAL FUNDS			
Share capital	28	550,548	506,300
Share premium	29	899,192	764,790
Warrants	33	-	191,531
Reserves	30	721,369	594,541
Retained earnings	31	630,962	502,585
Total capital funds		2,802,071	2,559,747
Total liabilities and capital funds		14,439,563	13,419,370

The financial statements were approved by the Board of Directors on 20 March 2020 and signed on its behalf as follows:

Professor 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 2019

AFRICAN EXPORT-IMPORT BANK

Statement of Profit or Loss and Other Comprehensive Income for the Year Ended 31 December 2019

	Note	2019 US\$ 000	2018 US\$ 000
Interest and similar income using the effective interest method	8	948,422	720,130
Interest and similar expense using the effective interest method	9	(413,549)	(305,654)
Other interest and similar expense		(9,963)	(10,652)
Net interest and similar income		524,910	403,824
Fee and commission income	10	104,683	93,717
Fee and commission expense	11	(12,848)	(10,029)
Net fee and commission income		91,835	83,688
Other operating income	12	5,754	2,321
Personnel expenses	13	(59,892)	(46,984)
General and administrative expenses	14	(41,704)	(36,292)
Depreciation and amortisation expense	24, 25	(6,593)	(4,315)
Exchange adjustments		(732)	(2,337)
Fair value gain / loss from financial instruments at FVTPL		17,761	(5,126)
Credit losses on financial instruments	17.1.b	(216,024)	(118,877)
PROFIT FOR THE YEAR		315,315	275,902
OTHER COMPREHENSIVE INCOME			
Other comprehensive income to be reclassified to profit or loss in subsequent periods			
Gains on revaluation of land and buildings	24	8,860	9,491
Total items that will not be reclassified to profit or loss in subsequent periods		8,860	9,491
Total other comprehensive income		8,860	9,491
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		324,175	285,393
Earnings per share			
Basic earnings per share (expressed in US\$ 000 per share)	15	6.10	5.62
Diluted earnings per share (expressed in US\$ 000 per share)	15	2.56	2.44

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 2019

	Share Capital (Note 28) US\$ 000	Share Premium (Note 29) US\$ 000	Warrants (Note 33) US\$ 000	General Reserve (Note 30) US\$ 000	Asset Revaluation Reserve (Note 30) US\$ 000	Project Preparation Facility Fund Reserve (Note 30) US\$ 000	Retained Earnings (Note 31) US\$ 000	Total US\$ 000
Balance as at 31 December 2018	506,300	764,790	191,531	551,228	28,313	15,000	502,585	2,559,747
Total comprehensive income								
Profit for the year	-	-	-	-	-	-	315,315	315,315
Other comprehensive income								
Asset revaluation reserve	-	-	-	-	8,860	-	-	8,860
Total other comprehensive income								8,860
Total comprehensive income								324,175
Transactions with equity owners of the Bank								
Transfer to general reserve	-	-	-	118,243	-	-	(118,243)	-
Depreciation transfer: buildings	-	-	-	-	(275)	-	275	-
Warrants retirement	-	-	(191,531)	-	-	-	-	(191,531)
Issued and Paid in capital during 2019	44,248	134,402	-	-	-	-	-	178,650
Dividends for year 2018	-	-	-	-	-	-	(68,970)	(68,970)
Balance as at 31 December 2019	550,548	899,192	-	669,471	36,898	15,000	630,962	2,802,071
Balance as 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	-	-	-	-	-	-	(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 for the year	-	-	-	-	-	-	275,902	275,902
Other comprehensive income								
Asset revaluation reserve	-	-	-	-	9,491	-	-	9,491
Total other comprehensive income								9,491
Total comprehensive income								285,393
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 as at 31 December 2018	506,300	764,790	191,531	-	28,313	15,000	502,585	2,559,747

Financial Statements for the Year Ended 31 December 2019

AFRICAN EXPORT-IMPORT BANK

Statement of Cash Flows for the Year Ended 31 December 2019

	Note	2019 US\$ 000	2018 US\$ 000
CASHFLOW FROM OPERATING ACTIVITIES			
Profit for the year		315,315	275,902
Adjustment for non-cash items:			
Credit losses on financial instruments	17.1 (b)	216,024	118,877
Depreciation of property and equipment	24	5,103	3,818
Amortisation of intangible assets	25	1,490	500
Net interest income		(524,910)	(403,824)
Fair value loss on derivative instruments		(17,761)	5,126
		(4,741)	399
Changes in :			
Money market placements - Maturity more than 3 months		-	2,244,638
Prepayments and accrued income		42,526	(52,152)
Derivatives instruments		999	(1,863)
Other assets		2,390	(11,057)
Other liabilities		(4,286)	(217,342)
Money market deposits		53,288	-
Deposits and customer accounts		(262,572)	216,029
Loans and advances to customers		(1,100,326)	(2,680,869)
		(1,272,722)	(502,217)
Interest received		679,660	537,860
Interest paid		(211,923)	(279,635)
Net cash outflows used in operating activities		(804,985)	(243,992)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property and equipment	24	(2,256)	(7,112)
Payments for software and development costs	25	(6,849)	-
Proceeds from sale of property and equipment		3,055	-
Proceeds from/(Purchase of) treasury bills		140,000	(139,190)
Net cash inflow / (used in) investing activities		133,950	(146,302)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net cash from capital subscriptions and share premium		146,745	209,462
Proceeds from issue of warrants	33	-	191,531
Retirement of warrants	33	(191,531)	(91,723)
Dividends paid		(39,226)	(33,143)
Proceeds from borrowed funds and debt securities		14,312,658	3,305,466
Repayment of borrowed funds and debt securities		(13,250,575)	(2,242,800)
Net cash inflows from financing activities		978,071	1,338,793
Net increase in cash and cash equivalents		307,036	948,499
Cash and cash equivalents at 1 January		1,918,434	969,935
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		2,225,470	1,918,434
Represented in:			
Cash and Cash Equivalent as presented in the statement of financial position	16	2,225,470	1,918,434
CASH AND CASH EQUIVALENTS AT 31 DECEMBER		2,225,470	1,918,434

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 2019

1 GENERAL INFORMATION

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

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 at 1 January 2019 as disclosed in note 2.1.1 below and applied by the Bank are summarised below.

2.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board (IASB).

The financial statements are prepared on a historical cost basis except for land

and buildings and derivative financial instruments that have been measured at fair value and are presented in US dollars in accordance with the Bank's charter. The functional currency of the Bank is the US dollar-based on the fact that most of the activities of the Bank are conducted in US dollar. The financial statements are presented in US dollars and all values are rounded to the nearest thousand (US\$'000). The Bank has not applied any IFRS before their effective dates.

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

2.2 Initial Application of New Amendments to the Existing Standards Effective for 1 January 2019

2.2.1 Change in accounting policies - IFRS 16

The Bank adapted IFRS 16 from the effective date of 1 January 2019, but has not restated comparative figures for 2018 reporting period, as permitted under the specific transition practise under the standard. The new accounting policies are disclosed in note 7.2.

In Adoption of IFRS 16, the bank recognised lease liabilities in relation to leases which had previously been classified as 'Operating expenses' under IAS 17 Leases. Accordingly, the comparative information presented for 2018 is not restated – that is, it is presented, as previously reported, under IAS 17 and related interpretations. Additionally, the disclosure requirements in IFRS 16 have not been generally applied to comparative information.

i. Definition of a lease

Previously, the Bank determined at contract inception whether an arrangement is or contains a lease under IFRIC 4 Determining whether an Arrangement contains a Lease. The Bank now assesses whether a contract is or contains a lease based on the definition of a lease. At inception of a contract the Bank assess whether a contract contains a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in IFRS 16.

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the the Bank's incremental borrowing rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Financial Statements for the Year Ended 31 December 2019

ii. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

iii. Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments

associated with these leases as an expense on a straight-line basis over the lease term.

Impact on financial statements

Impact on transition

On transition to IFRS 16, the Bank recognised additional right-of-use assets and additional lease liabilities.

The impact on transition is summarised below.

	2019 US\$000
Right-of-use assets presented in property and equipment	2,993
Lease liabilities	(2,993)

When measuring lease liabilities for leases that were classified as operating leases the Bank discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3.91 percent.

Other accounting policies

2.3 Financial Instruments

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 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 customers' 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: amortised 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 amortised 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 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 amortised 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 which 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 realising 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 realised.

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 (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money - e.g. 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 derecognised and a new financial asset is recognised 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 recognises

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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 derecognised 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 recognised at fair value. The difference between the financial liability extinguished and the new financial liability with modified terms is recognised 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 recognised in profit or loss (similar to the principle for accounting for modification of financial asset 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 currently enforceable a legal right to offset the amounts and intends either to settle on a net basis or to realise 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 derecognises 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 recognised 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 recognised in other comprehensive income is recognised 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 derecognition 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, while subsequently measured at amortised 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 which 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 recognised 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 recognised in profit or loss immediately. A derivative with a positive fair value is recognised as a financial asset; a derivative with a negative fair value is recognised as a financial liability.

Impairment

The Bank recognises 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 recognised 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.

Life time 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-month 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 realising 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: e.g. breach of covenants that are deemed as default events;
- quantitative: e.g. 90 days overdue status and non-payment of another obligation of the same issuer to the Bank; and
- based on internally 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

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that consider 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.

From a quantitative point, 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 have 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 – e.g. 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 of shared credit risk characteristics:

- 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 – e.g. 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 derecognised and the renegotiated loan recognised 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 derecognised 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 recognised 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 amortised 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 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 governments/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 amortised 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 recognised 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 recognised 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

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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 recognised 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.

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.

Derivative financial instruments and hedge accounting

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

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

At each hedge effectiveness assessment date, a hedge relationship must be

expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80 percent to 125 percent and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognised 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 recognised 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 recognised 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 amortised cost, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge using the recalculated effective interest rate method. If the hedged item is

derecognised, the unamortised fair value adjustment is recognised 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 recognised 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 recognised 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 recognised 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 recognised 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 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 recognised in profit or loss. Further details on estimates and assumptions used in impairment of loans and advances are shown in **note 6**.

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment provision against loans and advances which although not specifically identified as requiring specific provisions, have a greater risk of default than when originally granted. The amount of provision is based on historical loss experience for loans.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, including obtaining Board

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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 recognised, the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised 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 derecognised (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 derecognised 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 recognised in profit or loss.

Interest income and expense

For all financial instruments measured

at amortised cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognised 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 recognised 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 recognised 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 recognised 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 amortisation calculated to recognise in the statement of profit or loss and other comprehensive income the fee income

earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the reporting date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to profit or loss under operating expenses.

2.4 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.

2.5 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 amortised cost in the statement of financial position.

2.6 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 categorised 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 (e.g. 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.

2.7 Debt Securities in Issue

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

2.8 Fees and Commission Income

Unless included in the effective interest rate calculation, fees and commissions are generally recognised 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 (e.g. investment banking advisory services including among other things evaluating financing options, debt restructuring, etc.) are recognised when the performance criteria are fulfilled in accordance with the applicable terms of engagement.

2.9 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.

2.10 Operating Expenses

Operating expenses are recorded on accrual basis.

2.11 Dividends on Ordinary Shares

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

2.12 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 recognised 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

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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 recognised in other comprehensive income or profit or loss are also recognised in other Comprehensive income or profit or loss, respectively).

2.13 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 recognised 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-recognised 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-recognised.

The assets residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively if appropriate. Further details on key estimates and assumptions made are disclosed in note 6.

The headquarters' land and building are measured at fair value less accumulated depreciation on buildings and impairment losses recognised 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 recognised in profit or loss, the increase is recognised in profit or loss.

A revaluation deficit is recognised in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings. An annual transfer from the asset revaluation reserve to retained earnings is made for the difference between depreciation based on the revalued amount of the asset and depreciation based on the asset original cost.

2.14 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 the end of each financial year. 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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2.15 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.

2.16 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).

2.17 Employee Benefits

i. Defined contribution plan

The Bank operates a defined contribution plan approved by the Board of Directors. Contributions are recognised 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 recognised 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 recognises 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 recognised 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.

2.18 Provisions

Provisions are recognised 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 recognised in profit or loss as an expense.

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

2.19 Leases

2.19.1 Policy applicable before 1 January 2019

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

i) Bank as lessee

Leases which do not transfer to the Bank substantially all the risks and benefits incidental to ownership of the leased item, are accounted for as operating leases. The Bank has entered into operating lease agreements for leasing of office premises. These leases have an average life of between two and five years, with renewal option included in the contracts.

The total payments made under operating leases are charged to profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is

recognised 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 recognised 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

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whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Bank estimates the asset's recoverable amount. A previously recognised 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 recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised 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.

2.19.2 Policy applicable after 1 January 2019

The Bank recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments

that are not paid at the commencement date, discounted using the the Bank's incremental borrowing rate.

The Bank determines its incremental borrowing rate by analysing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

ii. Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use assets in 'property and equipment' and lease liabilities in 'other liabilities' in the statement of financial position.

iii. Short-term leases and leases of low-value assets

The Bank has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases, including leases of IT equipment. The Bank recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

2.20 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.

2.21 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 17 'insurance contracts'** (effective for annual periods beginning on or after 1 January 2023).

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.

- Amendments to References to Conceptual Framework in IFRS Standards;
- Definition of a business (amendments to IFRS 3);
- Definition of a material (amendments to IAS 1 to IAS 8);
- Interest rate benchmark reform (amendments to IFRS 9, IAS 39 & IFRS 7).

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	2019 Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total
Loans and advances to customers at amortised cost				
Grades 1-3: Low risk	605,279	-	-	605,279
Grades 4-6: Satisfactory risk	2,795,289	-	-	2,795,289
Grades 7-8: Satisfactory risk	6,081,349	215,062	-	6,296,411
Grade 9-10: Moderate risk	491,119	110,899	5,094	607,112
Grade 11: Watchlist	-	1,417,756	87,799	1,505,555
Grade 12-13: Sub-standard, doubtful and bad	-	168,361	405,418	573,779
Grade 14: Loss	-	-	-	-
Gross amount	9,973,036	1,912,078	498,311	12,383,425
Loss allowance	(42,707)	(100,853)	(183,096)	(326,656)
Suspended interest	-	-	(27,221)	(27,221)
Carrying amount	9,930,329	1,811,225	287,995	12,029,548
Accrued income				
Ungraded	-	-	34,014	34,014
Gross amount	-	-	34,014	34,014
Loss allowance	-	-	(18,815)	(18,815)
Carrying amount	-	-	15,199	15,199
Loan Commitment				
Grades 1-3: Low risk	206,430	-	-	206,430
Grades 4-6: Satisfactory risk	356,075	-	-	356,075
Grades 7-8: Satisfactory risk	636,994	-	-	636,994
Grades 9-10: Moderate risk	-	33,332	-	33,332
Grade 11: Watchlist	-	-	-	-
Gross amount	1,199,499	33,332	-	1,232,831
Loss allowance	(7,887)	(62)	-	(7,949)
Carrying amount	1,191,612	33,270	-	1,224,882
Financial guarantee contracts				
Grades 1-3: Low risk	206,430	-	-	206,430
Grades 4-6: Satisfactory risk	78,753	-	-	78,753
Grades 7-8: Satisfactory risk	759,779	-	-	759,779
Grades 9-10: Moderate risk	-	-	-	-
Grade 11: Watchlist	20,820	-	-	20,820
Gross amount	1,065,782	-	-	1,065,782
Loss allowance	(1,295)	-	-	(1,295)
Carrying amount	1,064,487	-	-	1,064,487

Credit Risk Exposure

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

In US\$ 000	12-Month ECL	2019 Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total
Letters of credit				
Grades 1-3: Low risk	-	-	-	-
Grades 4-6: Satisfactory risk	201,272	-	-	-
Grades 7-8: Satisfactory risk	256,889	-	-	201,272
Grades 9-10: Moderate risk	-	-	-	256,889
Grade 11: Watchlist	-	-	-	-
Gross amount	458,161	-	-	458,161
Loss allowance	(2,463)	-	-	(2,463)
Carrying amount	455,698	-	-	455,698

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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
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
Grades 7-8: Satisfactory risk	3,828,321	-	-	3,828,321
Grades 9-10: Moderate risk	1,013,738	-	-	1,013,738
Grade 11: Watchlist	-	1,684,583	257,629	2,509,751
Grades 12-13 Sub-standard, doubtful and bad	-	90,893	671,848	195,202
Grade 14: Loss	-	-	436	436
Gross amount	8,569,670	1,775,476	929,913	11,275,059
Loss allowance	(47,849)	(60,049)	(162,520)	(270,418)
Suspended interest				
Carrying amount	8,521,821	1,715,427	767,393	11,004,641
Accrued income				
Ungraded	-	-	49,549	49,549
Gross amount	-	-	49,549	49,549
Loss allowance	-	-	(9,722)	(9,722)
Carrying amount	-	-	39,827	39,827
Loan Commitment				
Grades 1-3: Low risk	-	-	-	-
Grades 4-6: Satisfactory risk	40,617	-	-	40,617
Grades 7-8: Satisfactory risk	335,623	-	-	335,623
Grades 9-10: Moderate risk	1,545	-	-	1,545
Grade 11: Watchlist	167,389	-	-	167,389
Gross amount	545,174	-	-	545,174
Loss allowance	(7,171)	-	-	(7,171)
Carrying amount	538,003	-	-	538,003
Financial guarantee contracts				
Grades 1-3: Low risk	-	-	-	-
Grades 4-6: Satisfactory risk	50,000	-	-	50,000
Grades 7-8: Satisfactory risk	199,182	-	-	199,182
Grades 9-10: Moderate risk	-	-	-	-
Grade 11: Watchlist	187,284	-	-	187,284
Gross amount	436,466	-	-	436,466
Loss allowance	(1,645)	-	-	(1,645)
Carrying amount	434,821	-	-	434,821

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
Letters of credit				
Grades 1-3: Low risk	-	-	-	-
Grades 4-6: Satisfactory risk	155,652	-	-	155,652
Grades 7-8: Satisfactory risk	260,238	-	-	260,238
Grades 9-10: Moderate risk	-	-	-	-
Grade 11: Watchlist	5,669	-	-	5,669
Gross amount	421,559	-	-	421,559
Loss allowance	(343)	-	-	(343)
Carrying amount	421,216	-	-	421,216

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 investment securities, money market placements deposits with other banks are under stage 1 given that there is no significant deterioration in the credit risk.

Investment securities - Treasury bills

	Note	2019	2018
Rated AAA	20	-	-
Rated AA- to AA+	20	-	-
Rated A- to A+	20	-	-
Rated BBB+ and below	20	-	-
Unrated	20	30,268	170,268
Gross amount		30,268	170,268
Loss allowance		(1,030)	(1,940)
Carrying amount		29,238	168,328

Money market placements

	Note	2019	2018
Rated AAA	16.1	201,991	150,107
Rated AA- to AA+	16.1	303,846	50,000
Rated A- to A+	16.1	528,645	602,659
Rated BBB+ and below	16.1	228,584	502,860
Gross amount		1,263,066	1,305,626
Loss allowance		(11)	(36)
Carrying amount		1,263,055	1,305,590

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Deposit with other banks

	Note	12-Month ECL	2019 Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total
Rated AAA	16.1	-	-	-	-
Rated AA- to AA+	16.1	200,732	-	-	200,732
Rated A- to A+	16.1	569,510	-	-	569,510
Rated BBB+ and below	16.1	1,763	-	-	1,763
Unrated		190,355	-	-	190,355
Gross amount		962,360	-	-	962,360
Loss allowance		(28)	-	-	(28)
Carrying amount		962,332	-	-	962,332

	Note	12-Month ECL	2018 Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total
Rated AAA	16.1	-	-	-	-
Rated AA- to AA+	16.1	469,577	-	-	469,577
Rated A- to A+	16.1	32,010	-	-	32,010
Rated BBB+ and below	16.1	170	-	-	170
Unrated		111,000	-	-	111,000
Gross amount		612,757	-	-	612,757
Loss allowance		(14)	-	-	(14)
Carrying amount		612,743	-	-	612,743

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

	2019	2018
In millions of US dollars		
Loans and advances to customers		
Grades 7-8: Satisfactory 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 Collateralised Notional Amount	Fair Value
2019				
Derivative assets	145,050	541	145,050	541
Derivative liabilities	932,343	(4,935)	932,343	(4,935)
2018				
Derivative assets	888,500	3,684	888,500	3,684
Derivative liabilities	700,000	(24,840)	700,000	(24,840)

Deposits with other banks

The Bank held cash and bank balances US\$962 million at December 2019 (2018: US\$613 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 agency 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

In US\$ 000	Percentage of Exposure that is Subject to Collateral Requirements		Principal Type of Collateral Held
	31 December 2019	31 December 2018	
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

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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 liens 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 2019, the net carrying amount of credit-impaired loans and advances to customers amounted to US\$173 million (2018: US\$174 million) and the value of identifiable collateral held against those loans and advances amounted to US\$264 million (2018: US\$215 million). For each loan, the value of disclosed collateral is capped to the nominal amount of the loan that is held against. The table below summarised the total values of the collateral by collateral types:

Collateral Types	2019 US\$ 000	2018 US\$ 000
Guarantees	3,344,116	6,282,519
Equity instruments	1,322,603	836,963
Machineries	480,088	2,996,907
Cash	1,531,613	2,866,667
Treasury bills	1,170,320	1,427,265
Insurance	1,435,868	1,399,613
Legal Mortgage	3,068,435	227,329
Inventories	731,539	153,337
Total	13,084,582	16,190,600

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

See accounting policy for Financial instruments (note 2.2.2)

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 - e.g. 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

The table below shows the Bank's rating grades and their risk definitions:

Rating Grades	IFRS 9 Reclassification Grade	Description
1	IF1	Low risk
2		
3		
4		
5	IF2	Satisfactory risk
6		
7		
8		
9	IF3	Satisfactory risk
10		
11		
12		
13	IF5	Moderate risk
14		
		Watchlist
		Default
		Default
		Default

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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.

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 macro-economic factors as well as in-depth analysis of the impact of certain other factors (e.g. forbearance experience) on the risk of default. For most exposures, key macro-economic 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 Bank's RICO 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 macro-economic indicators, based on trends in the indicators and macro-economic 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 set out in 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 behaviour 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 - e.g. breaches of covenant;
- quantitative - e.g. 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. The Bank has identified likely 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 macro-economic variables and historical credit risk and credit losses. Based on advice from the Bank's experts 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 overlay on both individual and portfolio basis.

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 in the near future

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 macro-economic variables and credit risk and credit losses. 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 estimate 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 homogenous segmentation. This means

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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 are 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 repayment.

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 letter 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 amortisation pattern of the loan	Segmented based on collateral type.	Segmented based on internal credit rating
Off-balance sheet items	Segmented based on type of off-balance sheet item.		
Placements, Debt/Investment securities, and Trade receivables with significant financing components	Estimated Individually based on amortisation pattern of the security	Estimated collectively based on external data (e.g. 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 is used to supplement the internally available data.

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 17.

	2019				2018			
	12-Month ECL	Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total	12-Month ECL	Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total
In US\$ 000								
Loans and advances to customers at amortised cost								
Balance at 1 January	47,849	60,049	162,520	270,418	50,727	48,521	205,372	304,620
Transfer to 12-month ECL	174,857	(69,952)	(104,905)	-	7,038	(7,038)	-	-
Transfer to lifetime ECL not credit-impaired	(24,715)	25,448	(733)	-	(20,002)	53,265	(33,262)	-
Transfer to lifetime ECL credit-impaired	(60,521)	(13,439)	73,960	-	-	(11,482)	11,482	-
Net remeasurement of loss allowance including changes in EAD	(192,171)	98,747	201,228	107,804	(21,769)	(16,518)	120,189	81,902
New financial assets originated or purchased	97,408	-	-	97,408	41,211	-	-	41,211
Financial assets that have been derecognised	-	-	-	-	(9,356)	(6,699)	(2,096)	(18,151)
Write-offs	-	-	(148,974)	(148,974)	-	-	(139,164)	(139,164)
Balance at 31 December	42,707	100,853	183,096	326,656	47,849	60,048	162,521	270,418

The changes in the reported loss allowance as disclosed in the table above was mainly impacted by the gross loans amounts written off during 2019 as shown in note 17.2 (a).

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3.3.3 Allowance for impairment (continued)

	2019				2018			
	12-Month ECL	Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total	12-Month ECL	Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total
Money market placements								
Balance at 1 January	36	–	–	36	–	99	–	99
Net remeasurement of loss allowance	(25)	–	–	(25)	–	(63)	–	(63)
Balance at 31 December	11	–	–	11	–	36	–	36
Deposit with other banks								
Balance at 1 January	14	–	–	14	–	3	–	3
Net remeasurement of loss allowance	14	–	–	14	–	11	–	11
Balance at 31 December	28	–	–	28	–	14	–	14
Investment securities at amortised cost								
Balance at 1 January	1,940	–	–	1,940	–	810	–	810
Net remeasurement of loss allowance	(910)	–	–	(910)	–	1,130	–	1,130
Balance at 31 December	1,030	–	–	1,030	–	1,940	–	1,940
Financial guarantee contracts								
Balance at 1 January	1,645	–	–	1,645	–	701	–	701
Net remeasurement of loss allowance	(350)	–	–	(350)	–	944	–	944
Changes in models/risk parameters	–	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–	–
Balance at 31 December	1,295	–	–	1,295	–	1,645	–	1,645
Loan commitments								
Balance at 1 January	7,171	–	–	7,171	–	3,940	–	3,940
Net remeasurement of loss allowance	778	–	–	778	–	3,231	–	3,231
Changes in models/risk parameters	–	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–	–
Balance at 31 December	7,950	–	–	7,950	–	7,171	–	7,171

3.3.3 Allowance for impairment (continued)

	2019				2018			
	12-Month ECL	Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total	12-Month ECL	Lifetime ECL Not Credit-Impaired	Lifetime ECL Credit-Impaired	Total
Letters of credit								
Balance at 1 January	343	–	–	343	–	85	–	85
Net remeasurement of loss allowance	2,120	–	–	2,120	–	258	–	258
Changes in models/risk parameters	–	–	–	–	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–	–
Balance at 31 December	2,463	–	–	2,463	–	343	–	343
Prepayments and Accrued income								
Balance at 1 January	–	–	9,722	9,722	–	–	1,319	1,319
New financial assets originated or purchased	–	–	9,185	9,185	–	–	8,403	8,403
Write-offs	–	–	(92)	(92)	–	–	–	–
Foreign exchange and other movements	–	–	–	–	–	–	–	–
Balance at 31 December	–	–	18,815	18,815	–	–	9,722	9,722

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

	2019	2018
US\$000		
Credit-impaired loans and advances to customers at 1 January	174,426	150,750
Change in allowance for impairment	(98,856)	(96,991)
Classified as credit-impaired during the year	338,729	288,782
Transferred to not credit-impaired during the year	(509,948)	(93,808)
Net repayments	256,978	(74,307)
Credit-impaired loans and advances to customers at 31 December	161,329	174,426

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3.3.3 Allowance for impairment (continued)

Impaired financial assets

	Loan Advances to Customers 2019 US\$000	Loan Advances to Customers 2018 US\$000
Neither past due nor impaired		
Grades 1-3: Low risk	605,279	1,256,151
Grades 4-6: Satisfactory risk	2,795,289	2,471,460
Grades 7-8: Satisfactory risk	6,081,349	3,828,321
Grade 9-10: Moderate risk	542,111	1,223,660
Grade 11: Watchlist	1,191,378	389,153
Grade 12-13: Substandard, doubtful and bad	162,630	-
Grade 14: Loss	-	-
	11,378,036	9,168,745
Past due but not impaired		
30-60 days	28,056	-
61-90 days	243,645	231,418
91-180 days	11,834	579,652
181 days+	377,428	958,297
	660,964	1,769,367
Individually impaired		
Grade 11: Watchlist	52,638	53,773
Grade 12-13: Substandard, doubtful and badd	291,787	282,737
Grade 14: Loss	-	436
	344,425	336,946
Allowance for impairment		
Individual	183,096	162,520
Collective	143,560	107,898
Total allowance for impairment	326,656	270,418

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 categorised by geographical region as at 31 December 2019 and 31 December 2018 of the Bank's counterparties.

	%	2019 US\$ 000	%	2018 US\$ 000
West Africa	43.9	5,430,630	48.7	5,548,560
North Africa	16.3	2,023,445	25.2	2,879,597
East Africa	14.0	1,732,221	9.5	1,089,106
Central Africa	5.5	679,633	5.0	575,226
Southern Africa	20.3	2,517,496	11.6	1,312,353
Total (note 17)	100	12,383,425	100	11,404,842

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 categorised by industry sector as at 31 December 2019 and 31 December 2018 of the Bank's counterparties.

	%	2019 US\$000	%	2018 US\$000
Agriculture	0.7	91,749	2.0	225,151
Agro-processing	0.5	62,049	3.5	402,755
Financial Services	45.2	5,592,405	49.8	5,674,340
Government	4.5	554,455	5.5	629,692
Hospitality (Hotels, Resorts, etc.)	1.4	171,427	1.5	172,323
Manufacturing	6.2	771,423	2.8	317,595
Metals and Minerals	2.4	302,325	1.0	115,660
Oil and Gas	22.8	2,823,484	18.6	2,122,734
Other	0.3	37,965	0.3	42,967
Power	7.3	907,464	5.6	634,007
Telecommunication	4.9	612,216	7.0	795,330
Transportation	2.3	289,066	2.4	272,288
Construction	1.4	167,396	-	-
Total (note 17)	100	12,383,425	100	11,404,842

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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 summarises the Bank's exposure to interest rate risks as at 31 December 2019. It includes the Bank's financial instruments at carrying amounts (non-derivatives), categorised by the period of contractual re-pricing.

As at 31 December 2019	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	2019 Total US\$ 000
Financial assets							
Cash and due from banks	962,360	-	-	-	82	-	962,441
Money market placements	1,263,067	-	-	-	-	-	1,263,067
Loans and advances to customers at amortised cost	8,941,085	1,394,010	75,897	-	-	1,972,433	12,383,425
Loans and advances to customers (FVTPL)	-	-	-	-	-	-	-
Other assets	-	-	-	-	11,598	-	11,598
Financial investments - held to maturity	-	-	-	-	-	29,238	29,238
Total financial assets	11,166,512	1,394,010	75,897	-	11,680	2,001,671	14,649,770
Financial liabilities							
Due to banks	356,100	1,013,397	241,230	3,318,418	-	1,227,992	6,157,137
Debt securities in issue	-	-	-	186,500	-	2,900,000	3,086,500
Deposits and customer accounts	79,020	-	-	-	-	2,023,793	2,102,813
Other liabilities	-	-	-	-	105,194	-	105,194
Total financial liabilities	435,120	1,013,397	241,230	3,504,918	105,194	6,151,785	11,451,644
Total interest gap	10,731,391	380,613	(165,333)	(3,504,918)	(93,514)	(4,150,114)	3,198,125
Cumulative gap	10,731,391	11,112,004	10,946,671	7,441,754			

3.4.1 Interest rate risk (continued)

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	-	612,858
Money market placements	1,305,626	-	-	-	-	-	1,305,626
Loans and advances to customers at amortised cost	7,804,378	1,942,411	-	-	-	1,528,270	11,275,059
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	9,852,544	1,942,411	-	-	14,089	1,696,598	13,505,642
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	9,350,473	1,606,411	(1,134,525)	(3,694,556)	(99,716)	(3,177,297)	2,850,791
Cumulative gap	9,350,473	10,956,884	9,822,360	6,127,804			

At 31 December 2019, if interest rates at that date had been 15 basis points higher with all other variables held constant, profit and reserves for the year would have been US\$6,102,000 (2018: US\$11,484,000) 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 15 basis points (2018: 15 basis points) lower, with all other variables held constant, profit would have been US\$6,102,000 (2018: US\$11,484,000) 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 2019 than in 2018 due to increase in interest rate sensitive assets and liabilities.

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The table below summarises the impact on profit or loss and equity for each category of financial instruments held as at 31 December 2019 and comparatives. It includes the Bank's financial instruments at carrying amounts.

	Carrying Amount 2019 US\$ 000	Impact on Profit or Loss and Equity 2019 US\$ 000	Impact on Profit or Loss and Equity 2019 US\$ 000	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
Changes in interest rates		+15bp of US\$1R	(-)15bp of US\$1R		+15bp of US\$1R	(-)15bp of US\$1R
Financial assets						
Cash due from banks	962,360	1,444	(1,444)	612,858	919	(919)
Deposits with other banks	1,263,067	1,895	(1,895)	1,305,626	1,958	(1,958)
Gross loans and advances to customers	12,383,425	18,575	(18,575)	11,404,842	17,107	(17,107)
Impact from financial assets	14,608,852	21,913	(21,913)	13,323,326	19,984	(19,984)
Financial liabilities						
Due to banks	5,147,945	(7,722)	7,722	3,884,747	(5,827)	5,827
Debt securities in issue	3,027,717	(4,542)	4,542	1,461,500	(2,192)	2,192
Deposits and customer accounts	2,365,385	(3,548)	3,548	320,904	(481)	481
Impact from financial liabilities	10,541,047	(15,812)	15,812	5,667,151	(8,500)	8,500
Total increase/(decrease) on profit or loss and equity	4,067,805	6,102	(6,102)	7,656,175	11,484	(11,484)

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. Open currency positions are monitored regularly and appropriate hedging actions taken. Please refer to note 5 for further details on derivative financial instruments.

The table below summarises the Bank exposure to foreign currency exchange rate risk as at 31 December 2019. Included in the table are the Bank's financial instruments at carrying amounts, categorised by currency:

As at 31 December 2019	Euro US\$ 000	Nigerian Naira US\$ 000	Other Currencies US\$ 000	Total US\$ 000
Assets				
Cash and due from banks	159,401	1,734	559	161,694
Loans and advances to customers	1,588,919	-	170,666	1,759,585
Derivative for risk management	182	-	359	541
Total financial assets	1,748,503	1,734	171,584	1,921,819
Liabilities				
Due to banks	1,587,867	-	22,532	1,610,399
Deposits and customer accounts	25,985		1,736	27,721
Other liabilities	237,037	614	1,358	239,009
Derivatives for risk management	413	-	1,073	1,486
Total financial liabilities	1,851,302	614	26,699	1,878,615
Net exposure on statement of financial position	(102,799)	1,120	144,885	43,204
Credit commitments and financial guarantees	261,000	-	-	261,000

As at 31 December 2018	Euro US\$ 000	Nigerian Naira 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
Derivatives 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)	451	5,514	776
Credit commitments and financial guarantees	87,781	-	-	87,781

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Foreign exchange risk sensitivity analysis

At 31 December 2019, if foreign exchange rates at that date had been 10 percent lower with all other variables held constant, profit and reserves for the year would have been US\$1,419,761 (2018: US\$348,000) 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\$1,419,761 (2018: US\$348,000) 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 summarises the impact on profit or loss and equity for each category of euro financial instruments held as at 31 December 2019. It includes the Bank's euro financial instruments at carrying amounts.

	Carrying Amount 2019 US\$ 000	Impact on Profit or Loss and Equity 2019 US\$ 000	Impact on Profit or Loss and Equity 2019 US\$ 000	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
Changes in value of US dollar against euro		10 percent increase	10 percent decrease		10 percent increase	10 percent decrease
Financial assets						
Cash due from banks	159,401	15,940	(15,940)	44,711	4,471	(4,471)
Gross loans and advances to customers	1,588,919	158,892	(158,892)	1,276,631	127,663	(127,663)
Hedging derivatives	182	18	(18)	-	-	-
Impact from financial assets	1,748,502	174,850	(174,850)	1,321,342	132,134	(132,134)
Financial liabilities						
Due to banks	1,587,867	(158,787)	158,787	1,094,590	(109,459)	109,459
Deposits and customer accounts	25,985	(2,599)	2,599	5,568	(557)	557
Other liabilities	237,037	(23,704)	23,704	224,660	(22,466)	22,466
Impact from financial liabilities	1,850,889	(185,090)	185,090	1,324,818	(132,482)	132,482
Total increase/(decrease) on profit or loss and equity	(102,387)	(10,240)	10,240	(3,476)	(348)	348

3.5 Liquidity Risk

Liquidity risk concerns the ability of the Bank to fulfill its financial obligations as they become due. The management of the liquidity risk is focused on the timing of the cash inflows and outflows as well as in the adequacy of the available cash, credit lines and high liquidity investments. The Bank manages its liquidity risk by preparing dynamic cash flow forecasts covering all expected cash flows from assets and liabilities and taking appropriate advance actions. Further, the bank has committed credit lines it can draw in case of need. Liquidity ratio is 15 percent (2018: 14 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 2019 and the amounts disclosed in the table are the contractual undiscounted cash flows:

As at 31 December 2019	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	2019 Total US\$ 000
Financial assets by type						
Non-derivative assets						
Cash and due from banks	962,513	-	-	-	-	962,513
Deposits with other banks	1,088,543	198,057	-	-	-	1,286,600
Loans and advances to customers (HTM)	1,940,381	495,515	2,204,212	6,896,060	847,257	12,383,425
Derivative assets						
Derivative assets held for risk management	25	158	-	358	-	541
Total assets	3,991,462	693,730	2,204,212	6,896,418	847,257	14,633,079
Financial liabilities						
Non-derivative liabilities						
Money market deposits	246,895	159,320	525,482	-	-	931,697
Due to banks	-	356,122	1,271,214	2,733,321	869,593	5,230,250
Debt securities in issue	-	-	-	2,339,668	752,956	3,092,623
Deposits and customer accounts	1,622,786	-	499,169	-	-	2,121,955
Derivative liabilities						
Derivative liabilities held for risk management	413	1,018	-	3,504	-	4,935
Total liabilities	1,870,094	516,460	2,295,865	5,076,493	1,622,549	11,381,460
Net liquidity gap	2,121,368	177,270	(91,653)	1,819,925	(775,292)	3,251,619
Cumulative liquidity gap	2,121,368	2,298,638	2,206,985	4,026,910	3,251,618	

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3.5 Liquidity Risk (continued)

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	-	-	-	1,305,627
Loans and advances to customers (HTM)	3,085,274	739,476	3,537,763	3,546,332	366,790	11,275,635
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	3,603,886	3,578,634	366,790	13,327,012
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	(616,465)	(899,820)	3,018,594
Cumulative liquidity gap	3,457,648	3,391,166	4,534,879	3,918,414	3,018,594	

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 2019	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	324,013	91,810	38,914	3,424	-	458,161
Financial guarantees	9,386	33,750	122,336	900,310	-	1,065,782
Total	333,399	125,560	161,250	903,734	-	1,523,943

As at 31 December 2018						
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

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 percent 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 Bank's capital adequacy consists of the sum of the following elements.

- Common Equity Tier 1 capital, which includes ordinary share capital, related share premiums, retained earnings, reserves intangible assets and other adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes.
- Tier 2 capital, which includes assets revaluation reserves and collective impairment allowance.

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3.6 Capital Management (continued)

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

	2019 US\$ 000	2018 US\$ 000
Capital adequacy		
Share capital	550,548	506,300
Share premium	899,192	764,790
Warrants	-	191,531
Reserves	684,471	566,228
Retained earnings	630,962	502,585
Intangible assets	(11,707)	(6,348)
Total Tier 1 capital	2,753,466	2,525,086
Asset revaluation reserve	16,604	12,741
Collective impairment allowance	143,560	107,898
Total Tier 2 capital	160,164	120,639
Total capital base	2,913,630	2,645,725
Risk weighted assets		
On-statement of financial position	10,594,223	9,016,700
Off-statement of financial position		
Credit risk	1,371,178	784,148
Operational risk	927,786	729,572
Market risk	43,206	774
Total risk weighted assets	12,936,393	10,531,194
Basel capital adequacy ratio (Total capital base/Total risk weighted assets)	23%	25%

The increase of the capital in 2019 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.

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain the future development of the business. The impact of the level of capital on shareholders' returns is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a stronger capital position.

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 recognised 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 summarises 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	
	2019 US\$ 000	2018 US\$ 000	2019 US\$ 000	2018 US\$ 000
Financial assets				
Cash and cash equivalents	2,225,470	1,918,434	2,225,470	1,918,434
Loans and advances to customers - amortised cost	12,029,548	11,134,424	12,395,359	11,420,557
Financial investments at amortised cost	29,238	168,328	29,238	168,328
Other assets	11,598	13,988	11,598	13,988
Financial liabilities				
Money market placements	931,621	878,332	931,996	879,994
Due to banks	5,225,515	4,269,613	5,480,754	4,618,416
Deposits and customer accounts	2,102,814	2,365,385	2,102,814	2,365,385
Debt securities in issue	3,080,608	3,027,717	3,208,103	3,016,768
Other liabilities and provisions	291,999	293,737	291,999	293,737

– 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.

– Debt securities in issue

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

– 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.

– Debt securities in issue

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

– Other assets and other liabilities

The carrying amounts of these balances approximate their fair values.

– Debt securities in issue

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

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(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 stock exchanges (for example, in London, Frankfurt, New York) 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 the end of the year.

Level 2	2019 US\$ 000	2018 US\$ 000
Assets		
Interest rate swap	-	1,520
Foreign exchange forward contracts	182	577
Cross Currency Swap	359	1,587
	541	3,684
Liabilities		
Interest rate swap	(3,450)	(24,840)
Foreign exchange forward contracts	(1,431)	-
Cross Currency Swap	(54)	-
	(4,935)	(24,840)
	(4,394)	(21,156)

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

Level 3	2019 US\$ 000	2018 US\$ 000
Revalued property and equipment		
Land and building	43,224	36,275

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

Level 2	2019 US\$ 000	2018 US\$ 000
Financial assets		
Loans and advances	12,395,359	11,420,557
Financial liabilities		
Money market deposits	931,996	879,994
Due to banks	5,480,754	4,618,416
Debt securities in issue (gross)	3,208,103	3,016,768
	9,620,853	8,515,178

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

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

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

Revalued property and equipment	Land and Building	
	2019 US\$ 000	2018 US\$ 000
Valuation as at 1 January	36,275	29,069
Addition in the year	924	217
Total gain / (loss) recorded in other comprehensive income	8,859	9,491
Accumulated depreciation eliminated on revaluation	(2,835)	(2,502)
Valuation as at 31 December	43,223	36,275

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 recognised 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**.

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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 December 2019		31 December 2018	
	Carrying Amount US\$ 000	Effect of 10 percent Change in Annual Market Rentals US\$ 000	Carrying Amount US\$ 000	Effect of 10 percent Change in Annual Market Rentals US\$ 000
Property and equipment	43,223	4,322	36,275	3,628

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 the end of the year.

	2019 US\$ 000	2018 US\$ 000
Derivative assets		
Interest rate swap	-	1,520
Foreign exchange forward contracts	182	577
Cross currency swap	359	1,587
	541	3,684
Derivative liabilities		
Interest rate swap	(3,450)	(24,840)
Foreign exchange forward contracts	(1,431)	-
Cross currency swap	(54)	-
	(4,935)	(24,840)

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:

	2019 US\$ 000	2018 US\$ 000
Interest rate derivative contracts		
Interest rate swap	700,000	1,275,000

The Bank entered into interest rate swap to hedge US\$700 million (2018: US\$1,275 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\$3,450,000 (2018: US\$ 23,319,000) 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	2019 US\$ 000	2018 US\$ 000
Up to one year	182	3,684
One to five years	359	-
	541	3,684
Liabilities		
Up to one year	(1,431)	-
One to five years	(3,504)	(24,840)
	(4,935)	(24,840)

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 notes 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 recognised 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.

(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 recognised 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.

Financial Statements for the Year Ended 31 December 2019

(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

7.1.1 Contingent liabilities

	2019 US\$ 000	2018 US\$ 000
Letters of credit	458,161	421,559
Guarantees	1,065,782	436,466
	1,523,943	858,025

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

7.1.2 Commitments

Credit lines and other commitments to lend

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

	2019 US\$ 000	2018 US\$ 000
Less than one year	314,542	73,547
More than one year	918,289	471,627
	1,232,831	545,174

Loan commitments are firm commitments to provide credit under pre-specified terms and conditions. The amount above represent undrawn portions of the loan commitments comprising 'committed facilities' and 'unconditionally cancellable commitments'. Committed facilities amount to US\$510 million.

7.2 Lease arrangements

7.2.1 Operating lease commitments - Bank as lessee

The Bank has entered into operating lease agreements for leasing of office premises for executive residences. These leases have an average life of between two and five years, with renewal option included in the contracts. For some leases, payments are renegotiated every five years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

Previously, these leases were classified as operating leases under IAS 17.

Information about leases for which the Bank is a lessee is presented below.

7.2.1.1 Right-of-use assets

Right-of-use assets relate to leased office premises executive residences that are presented within property and equipment (refer to note 24).

	2019 US\$ 000
Balance at 1 January	2,993
Depreciation charge for the year	(1,019)
Additions	-
Balance at 31 December	1,974

Under IFRS 16 Interest on lease liabilities amounted to US\$78,006 during 2019

At 31 December 2018, the future minimum lease payments under non-cancellable operating leases were payable as follows.

	2018 US\$ 000
Less than one year	619
After one year but not later than five years	253
	872

Included in administrative expenses & personnel expenses is minimum lease payments recognised as an operating lease expense amounting to US\$954,950 (2018 : US\$492,000).

7.2.2 Operating lease commitments - Bank as lessor

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

	2019 US\$ 000	2018 US\$ 000
Less than one year	310	234
After one year but not later than five years	526	131
	836	365

Included in other operating income recognised as an operating lease income amounting to US\$277 (2018 : US\$633)

The Bank leases out its investment property. The Bank has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Financial Statements for the Year Ended 31 December 2019

8 INTEREST AND SIMILAR INCOME

	2019 US\$ 000	2018 US\$ 000
Loans and advances	878,354	675,600
Interest on money market investments	61,197	40,488
Interest on investments at amortised cost	8,871	4,042
	948,422	720,130

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

9 INTEREST AND SIMILAR EXPENSE

	2019 US\$ 000	2018 US\$ 000
Due to banks	223,790	151,274
Debt securities in issue	133,820	122,542
Shareholder and customer deposits	55,939	31,838
	413,549	305,654

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

10 FEES AND COMMISSION INCOME

	2019 US\$ 000	2018 US\$ 000
Advisory fees	87,518	79,201
Commission on L/Cs	9,573	7,762
Guarantee fees	7,415	5,965
Other Fees	177	789
	104,683	93,717

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

	2019 US\$ 000	2018 US\$ 000
Bond issue fees	429	827
Legal and agency fees	1,762	642
Other fees paid	10,657	8,560
	12,848	10,029

12 OTHER OPERATING INCOME

	2019 US\$ 000	2018 US\$ 000
Rental income	278	633
Other income	5,476	1,688
	5,754	2,321

Other income mainly comprise of recoveries from previously written off facilities.

13 PERSONNEL EXPENSES

Personnel expenses are made up as follows:

	2019 US\$ 000	2018 US\$ 000
Wages and salaries	40,183	30,300
Staff provident fund costs (note 2.17)	3,700	1,180
Other employee benefits	16,009	15,504
	59,892	46,984

Other employee benefits mainly comprise of housing allowance, education grant & medical expenses.

14 GENERAL AND ADMINISTRATIVE EXPENSE

General and administrative expenses are made up as follows:

	2019 US\$ 000	2018 US\$ 000
Operational missions and statutory meetings	18,985	15,036
Professional service fees	9,450	10,946
Communications	4,486	4,186
Other general and administrative expenses	8,783	6,124
Total	41,704	36,292

Professional services fees include US\$190,000 (2018: US\$210,000) 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.

	2019 US\$ 000	2018 US\$ 000
Net income attributable to equity holders of the bank	315,315	275,902
Weighted average number of ordinary shares in issue (basic) (note 15.1)	51,699	49,092
Weighted average number of ordinary shares in issue (diluted) (note 15.2)	123,257	113,066
Basic earnings per share (expressed in US\$000 per share)	6.10	5.62
Diluted earnings per share (expressed in US\$000 per share)	2.56	2.44

Financial Statements for the Year Ended 31 December 2019

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

	2019 US\$ 000	2018 US\$ 000
Issued ordinary shares at 1 January	50,630	47,082
Issued during the year	1,069	2,010
Weighted average number of ordinary shares at 31 December	51,699	49,092

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

	2019 US\$ 000	2018 US\$ 000
Weighted average number of ordinary shares in issue (basic)	51,699	49,092
Effect of warrants issuance	4,373	440
Effect of partly paid shares	67,184	63,534
Weighted average number of ordinary shares at 31 December	123,256	113,066

16 CASH AND CASH EQUIVALENTS

	2019 US\$ 000	2018 US\$ 000
Cash in hand	82	101
Deposits with other banks	962,360	612,757
Money market placements	1,263,067	1,305,626
Gross	2,225,509	1,918,484
Less: allowance for impairment		
12 months ECL	(39)	(50)
Net cash and cash equivalents	2,225,470	1,918,434

These instruments are allocated in stage 1 for ECL purposes. There were no restricted deposits at year end (2018:US\$ nil).

16.1 Net Money Market Placements

	2019 US\$ 000	2018 US\$ 000
Current	1,263,067	1,305,576
Non-current	-	-
	1,263,067	1,305,576

17 LOANS AND ADVANCES TO CUSTOMERS

	Stage 1 US\$ 000	Stage 2 US\$ 000	Stage 3 US\$ 000	2019 Total US\$ 000
Loans and advances to customers at amortised cost				
Gross amount	9,973,036	1,912,078	498,311	12,383,425
Less: Allowance for impairment (note 17.1)				
12months ECL	(42,707)			(42,707)
Lifetime ECL not credit impaired		(100,853)		(100,853)
Lifetime ECL credit impaired			(183,096)	(183,096)
Less: Suspended interest			(27,221)	(27,221)
Net loans and advances to customers	9,930,330	1,811,225	287,994	12,029,548

	Stage 1 US\$ 000	Stage 2 US\$ 000	Stage 3 US\$ 000	2018 Total US\$ 000
Loans and advances to customers at amortised cost				
Gross amount	8,569,670	1,775,476	929,913	11,275,059
Less: Allowance for impairment (note 17.1)				
12months 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

Loans and advances to customers at FVTPL

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

	2019 US\$ 000	2018 US\$ 000
	-	129,783
	-	129,783
Total loans and advances to customers	12,029,548	11,134,424
Net loans and advances to customers		
Current	4,749,102	7,208,168
Non-current	7,280,446	3,926,256
	12,029,548	11,134,424

Financial Statements for the Year Ended 31 December 2019

17.1 CREDIT LOSSES ON FINANCIAL INSTRUMENTS

(a) Statement of Financial Position

	2019 US\$ 000	2018 US\$ 000
Loans and advances	326,656	270,418
Money market placements	11	36
Deposit with other banks	28	14
Investment securities at amortised cost	1,030	1,940
Financial guarantee contracts	1,295	1,645
Letter of credits	2,463	343
Loan commitments	7,949	7,171
Prepayments and accrued income	18,815	9,722
Other Assets	-	4,322
	358,247	295,611

(b) Statement of Comprehensive Income

	2019 US\$ 000	2018 US\$ 000
Loans and advances	205,212	104,963
Money market placements	(25)	(63)
Deposit with other banks	14	11
Investment securities at amortised cost	(910)	1,130
Financial guarantee contracts	(350)	944
Letter of credits	2,120	258
Loan commitments	778	3,231
Prepayments and accrued income	9,185	8,403
	216,024	118,877

17.2 Allowance for Impairment on Loans and Advances

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

(a) Statement of Financial Position

	2019 US\$ 000	2018 US\$ 000
Balance as at 1 January	270,418	180,600
Remeasurement	-	124,020
Restated balance at 1 January	270,418	304,620
Impairment charge for the year (note 17.1b)	205,212	104,962
Loans written off during the year as uncollectible	(148,974)	(139,164)
Balance as at 31 December (note 17)	326,656	270,418

(b) Statement of Comprehensive Income

Impairment charge for the year on loans and advances	205,212	104,962
	205,212	104,962

18 PREPAYMENTS AND ACCRUED INCOME

	2019 US\$ 000	2018 US\$ 000
Accrued income	34,014	49,549
Other prepayments	67,448	94,531
Less: Impairment on accrued income (note 18.1)	(18,815)	(9,722)
	82,647	134,358

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

18.1 Impairment on Prepayments and Accrued Income

(a) Statement of Financial Position

	2019 US\$ 000	2018 US\$ 000
Balance as at 1 January	9,722	1,099
Remeasurement	-	220
Restated balance at 1 January	9,722	1,319
Impairment charge for the year (note 18.1b)	9,185	8,403
Written off during the year as uncollectible	(92)	-
Balance as at 31 December (note 18)	18,815	9,722

(b) Statement of Comprehensive Income

	2019 US\$ 000	2018 US\$ 000
Impairment charge for the year	9,185	8,403
	9,185	8,403

19 OTHER ASSETS

	2019 US\$ 000	2018 US\$ 000
Other receivables	4,572	3,883
Sundry debtors	11,348	14,427
Less: Impairment on other assets (note 19.1)	(4,322)	(4,322)
	11,598	13,988

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 37). There are all current in nature.

Financial Statements for the Year Ended 31 December 2019

19.1 Impairment on Other Assets

ECL on other assets are estimated on lifetime basis

(a) Statement of Financial Position

	2019 US\$ 000	2018 US\$ 000
Balance as at 1 January	4,322	4,322
Balance as at 31 December (note 19)	4,322	4,322

20 FINANCIAL INVESTMENTS AT AMORTISED COST

	2019 US\$ 000	2018 US\$ 000
Beginning balance at 1 January	170,268	30,268
Additions during the year	(140,000)	140,000
Gross	30,268	170,268
Less: allowance for impairment		
12months ECL	(1,030)	(1,940)
Net financial assets at amortised cost	29,238	168,328

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

	2019 US\$ 000	2018 US\$ 000
Net financial investments at amortised cost		
Current		138,060
Non current	29,238	30,268
	29,238	168,328

21 DUE TO BANKS

	2019 US\$ 000	2018 US\$ 000
Loans from financial institutions	5,225,516	4,269,612
	5,225,516	4,269,612
	2019 US\$ 000	2018 US\$ 000
Current	1,627,198	1,176,691
Non current	3,598,318	3,092,921
	5,225,516	4,269,612

Loans from financial institutions, have both short-term and long-term borrowings ranging from tenor periods of one month to 13 years with interest rates ranging from 0.2 percent to 4.86 percent. Note that the long-term tenor borrowings are matched with specific assets with the same tenor.

22 MONEY MARKET DEPOSITS

	2019 US\$ 000	2018 US\$ 000
Money market deposits	931,620	878,332
	931,620	878,332
	2019 US\$ 000	2018 US\$ 000
Current	931,620	878,332
Non current	-	-
	931,620	878,332

23 DEBT SECURITIES IN ISSUE

The Bank issued, under the Euro Medium Term Note Programme (EMTN), US\$3,086 million bonds (2018: US\$3,036 million) with different maturities and coupon rates. Further, the Bank issued under an EMTN Programme, US\$186.5 million (2018: US\$186.5 million) private placement with floating rate. Fitch Ratings and Moody's assigned these bonds an investment grade rating BBB-, and Baa2, respectively.

Debt securities at amortised cost:	Coupon percent	2019 US\$ 000	2018 US\$ 000	Date of Issuance	Date of Maturity
Fixed rate debt securities due 2019	4.75	-	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	5.25	500,000	500,000	Oct 2018	Oct 2023
Fixed rate debt securities due 2024	4.13	750,000	750,000	Jun 2017	Jun 2024
Fixed rate debt securities due 2029	3.99	750,000	-	Sept 2019	Sept 2029
Floating rate private placement note due 2021		41,500	41,500	Jul 2017	Jul 2021
Floating rate private placement note due 2022		145,000	145,000	Jul 2018	Aug 2022
Less: Discount on bond payable		(6,523)	(9,873)		
Add: Premium on bond payable		631	1,090		
		3,080,608	3,027,717		
		2019 US\$ 000	2018 US\$ 000		
Current		-	700,000		
Non current		3,080,608	2,327,717		
		3,080,608	3,027,717		

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 2019 and 2018. The debt securities in issue are unsecured.

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24 PROPERTY AND EQUIPMENT

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

	Land US\$ 000	Building US\$ 000	Motor Vehicles US\$ 000	Furniture and Equipment US\$ 000	Leasehold Improvements US\$ 000	Assets Under Construction US\$ 000	Total US\$ 000
YEAR ENDED 31 DECEMBER 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	22,861	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)	(1,185)	(3)	-	(3,818)
Disposals	-	-	-	-	-	-	-
Transfer*	-	2,502	-	-	-	-	2,502
Total accumulated depreciation as at 31 December 2018	-	-	(501)	(8,948)	(1,034)	-	(10,483)
Net carrying amount as at 31 December 2018	13,414	22,861	392	2,117	-	1,022	39,806

24 PROPERTY AND EQUIPMENT (continued)

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

	Land US\$ 000	Building US\$ 000	Motor Vehicles US\$ 000	Furniture and Equipment US\$ 000	Leasehold Improvements US\$ 000	Assets Under Construction US\$ 000	Right of Use Asset US\$ 000	Total US\$ 000
YEAR ENDED 31 DECEMBER 2019								
COST								
Cost/valuation as at 1 January 2019	13,414	22,861	893	11,065	1,034	1,022	2,993	53,282
Additions	-	10	374	629	10	1,233	-	2,256
Capitalisation of assets under construction	-	914	-	-	-	(914)	-	-
Disposals	-	-	(30)	(3,025)	-	-	-	(3,055)
Revaluation	2,395	6,465	-	-	-	-	-	8,860
Transfer*	-	(2,835)	-	-	-	-	-	(2,835)
Cost/valuation as at 31 December 2019	15,809	27,415	1,237	8,669	1,044	1,341	2,993	58,508
ACCUMULATED DEPRECIATION								
Accumulated depreciation as at 1 January 2019	-	-	(501)	(8,948)	(1,034)	-	-	(10,483)
Charge for the year	-	(2,835)	(164)	(1,084)	(1)	-	(1,019)	(5,103)
Disposals	-	-	30	3,025	-	-	-	3,055
Transfer*	-	2,835	-	-	-	-	-	2,835
Total accumulated depreciation as at 31 December 2019	-	-	(635)	(7,007)	(1,035)	-	(1,019)	(9,694)
Net carrying amount as at 31 December 2019	15,809	27,415	602	1,662	9	1,341	1,974	48,814

*Transfers 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 a land from 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.

During 2018 the Bank received a five hectare parcel of land along Lagos-Ibadan Expressway from Ogun State Government in Nigeria to establish an internationally accredited African Quality Assurance Centre that will provide testing, inspection and certification services for food and agri products. The land has a market value of Naira 400 million equivalent to US\$1,099,022 which will be 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\$27,418,000 (2018: US\$22,860,000) and US\$15,809,000 (2018: US\$13,415,000), respectively. The fair value was determined using an independent valuer on 31 December 2019. The valuer used was Arab Group for Technical Consultant who has experience in similar projects. The net carrying amount of the headquarters' land and building would have been US\$34,000 (2018: US\$34,000) and US\$6,336,000 (2018: US\$8,247,000), respectively, if both classes had not been revalued.

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25 INTANGIBLE ASSETS

	2019 US\$ 000	2018 US\$ 000
Cost 1 January	9,535	3,935
Additions	1,454	456
Additions of software in progress	5,395	5,144
Cost 31 December	16,384	9,535
Accumulated amortisation		
As at 1 January	(3,187)	(2,687)
Amortisation charges for the year	(1,490)	(500)
As at 31 December	(4,677)	(3,187)
Net value as 31 December	11,707	6,348

26 DEPOSITS AND CUSTOMER ACCOUNTS

	2019 US\$ 000	2018 US\$ 000
Shareholders' deposits for shares	9,561	9,307
Deposit accounts	1,178,147	195,932
Customer accounts	915,106	2,160,146
	2,102,814	2,365,385
Current	2,102,814	2,365,385
Non-Current		
	2,102,814	2,365,385

In terms of customer group, the deposits and customer accounts above were from sovereigns, enterprises and financial institutions. The fair value of the deposits of customer accounts approximate the carrying amount, as they have variable interest rates.

27 OTHER LIABILITIES AND PROVISIONS

	2018 US\$ 000	2017 US\$ 000
Provision on Financial guarantee contracts issued	1,295	1,645
Provision on Loan commitments issued	7,949	7,171
Provision on Letter of credits	2,463	343
Lease Liability	1,749	-
Other liabilities recognised (note 27.1)	278,543	284,578
	291,999	293,737

27.1 Other Liabilities

	2019 US\$ 000	2018 US\$ 000
Prepaid and unearned income	146,945	118,560
Dividends payable	12,874	10,713
Accrued expenses	92,320	103,092
Sundry creditors	2,586	42,942
Legal fees deposits	23,818	9,271
	278,543	284,578
Current	29,010	29,640
Non-Current	249,533	254,938
	278,543	284,578

28 SHARE CAPITAL

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

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

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

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

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

	2019 US\$ 000	2018 US\$ 000
Authorised capital		
500,000 ordinary shares of US\$10,000 each	5,000,000	5,000,000
Paid in capital -class A	301,320	270,264
Paid in capital -class B	127,744	120,700
Paid in capital -class C	52,384	46,236
Paid in capital -class D	69,100	69,100
	550,548	506,300

As at 31 December 2019 the authorised capital comprised 500,000 ordinary shares (2018: 500,000 ordinary shares). The number shares issued but not fully paid as at 31 December 2019 was 120,362 (2018: 109,300). The number of fully paid shares as at 31 December 2019 was 6,910 (2018: 6,910). The nominal value per share is US\$10,000.

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

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

	2019 No of Shares	2019 US\$ 000	2018 No of Shares	2018 US\$ 000
At 1 January	116,210	506,300	107,687	470,816
Paid up from dividends during the year	1,768	7,072	1,595	6,380
Paid up in cash during the year	9,294	37,176	6,928	29,104
At 31 December	127,272	550,548	116,210	506,300

29 SHARE PREMIUM

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

The movement in share premium account is summarised as follows:

	2019 No of Shares	2019 US\$ 000	2018 No of Shares	2018 US\$ 000
At 1 January	116,210	764,790	107,687	562,350
Paid up from dividends during the year	1,768	24,833	1,595	22,082
Paid up in cash during the year	9,294	130,539	6,928	189,852
Transaction cost of raising equity		(20,970)	-	(9,494)
At 31 December	127,272	899,192	116,210	764,790

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, 11,062 additional shares (2018: 8,523 additional shares) were issued during the year bring in total capital of US\$178,650,000 (2018: US\$237,924,000).

30 RESERVES

	General Reserves US\$ 000	Asset Revaluation Reserve US\$ 000	Project Preparation Facility Fund Reserve US\$ 000	Total US\$ 000
Balance as at 1 January 2018	447,762	19,471	7,500	474,733
Revaluation of land	-	7,506	-	7,506
Revaluation of building	-	1,985	-	1,985
Depreciation transfer: buildings	-	(649)	-	(649)
Transfer from retained earnings (note 31)	103,446	-	7,500	110,966
Balance as at 31 December 2018	551,228	28,313	15,000	594,541
Balance as at 1 January 2019	551,228	28,313	15,000	594,541
Revaluation of land	-	2,395	-	2,395
Revaluation of building	-	6,465	-	6,465
Depreciation transfer : buildings	-	(275)	-	(275)
Recycling of fair value adjustment to profit and loss	-	-	-	-
Transfer from retained earnings (note 31)	118,243	-	-	118,243
Balance as at 31 December 2019	669,471	36,898	15,000	721,369

- 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 2019 for the purposes of setting funds aside to be

Financial Statements for the Year Ended 31 December 2019

utilised by the Bank during project preparation phase. Project preparation phase will comprise the entire set of activities undertaken to progress a project from conceptualisation 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 2019. The fund will be operated on a full cost recovery revolving basis and solely deployed towards project preparation work and related activities.

31 RETAINED EARNINGS

	2019 US\$ 000	2018 US\$ 000
Balance as at 1 January	502,585	524,412
Impact of Adopting IFRS 9 at 1 January 2018	-	(129,878)
Restated Balance at 1 January 2018	502,585	394,534
Profit for the year	315,315	275,902
Transfer to general reserve	(118,243)	(103,466)
Transfer to Project preparation facility	-	(7,500)
Depreciation transfer: buildings	275	649
Dividends for prior year	(68,970)	(57,534)
Balance as at 31 December	630,962	502,585

32 DIVIDENDS

After reporting date, the directors proposed dividends appropriations amounting to US\$78,329,000 (2017: US\$68,970,000). The 2017 dividend appropriation is subject to approval by the shareholders in their Annual General Meeting. These financial statements do not reflect the dividend payable, which will be accounted for in equity as an appropriation of retained earnings in the year ending 2019.

Dividends per share is summarised as follows:

	2019 US\$ 000	2018 US\$ 000
Proposed dividends per share		
Dividends appropriations	78,829	68,970
Number of shares at 31 December	127,272	116,210
Dividends per share	0.62	0.59
Dividends per share declared and paid		
Dividends appropriations	68,970	57,534
Number of shares at 31 December of the previous year	116,210	107,687
Dividends per share	0.59	0.53

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.

33 WARRANTS

	2019 No of Warrants	2019 US\$ 000	2018 No of Warrants	2018 US\$ 000
At 1 January	5,284	191,531	2,515	91,723
Retirement during the year	(5,284)	(191,531)	(2,515)	(91,723)
Issued during the year	-	-	5,284	191,531
At 31 December	-	-	5,284	191,531

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 retired 5,284 share warrants, which were issued in 2018 to two investors for an aggregate principal amount of of US\$214,978,062.

34 RELATED PARTY TRANSACTIONS

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

The details of related party transactions are as follows:

34 KEY MANAGEMENT PERSONNEL COMPENSATION

34.1 Salaries and Benefits to Management Personnel

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

	2019 US\$ 000	2018 US\$ 000
Salaries and short-term benefits	17,254	13,185
Other long-term benefits	4,977	3,417
Post-employment benefits	3,049	1,290
Termination benefits	207	261
Balance as at 31 December	25,487	18,153

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

34.2 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 2019 was as follows:

	2019 US\$ 000	2018 US\$ 000
Balance as at 1 January	556	507
Loan disbursements during the year	2,443	766
Loan repayments during the year	(135)	(717)
Balance as at 31 December	2,864	556

Financial Statements for the Year Ended 31 December 2019

Interest income from staff loans amounted to US\$34,170 (2018: US\$26,451). There were no loan loss provisions on staff loans in both current and prior year.

No loans to related parties were written off in 2019 and 2018.

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 3.3.4.

	Lending 2019 US\$ 000	Treasury 2019 US\$ 000	Total 2019 US\$ 000	Lending 2018 US\$ 000	Treasury 2018 US\$ 000	Total 2018 US\$ 000
Statement of profit or loss and other comprehensive income						
Interest income	877,399	71,023	948,422	683,750	36,381	720,130
Net fees and commission	137,744	(45,909)	91,835	90,162	(6,474)	83,688
Other operating income	5,754	-	5,754	2,485	(164)	2,321
Total segment revenue	1,020,897	25,114	1,046,011	776,397	29,743	806,139
Less: interest expense	-	(423,512)	(423,512)	-	(316,306)	(316,306)
Foreign exchange adjustments & Fair value adjustment	(732)	17,761	17,029	(8,184)	721	(7,463)
Less: personnel and other admin. expenses	(98,364)	(3,232)	(101,596)	(86,857)	3,581	(83,276)
Less: depreciation and amortisation	(6,421)	(172)	(6,593)	(4,175)	(140)	(4,315)
Segment income before impairment	915,380	(384,041)	531,339	677,181	(282,401)	394,779
Less: loan impairment charges	(216,024)	-	(216,024)	(118,877)	-	(118,877)
Net income for the year	699,356	(384,041)	315,315	558,304	(282,401)	275,902
Financial Position						
Segment assets	12,133,380	2,256,505	14,389,885	11,350,883	2,068,486	13,419,370
Capital expenditures	49,678	-	49,678	-	-	-
Total assets at year end	12,183,058	2,256,505	14,439,563	11,350,883	2,068,486	13,419,370
Segment liabilities	1,189,436	10,448,057	11,637,492	2,659,120	8,200,501	10,834,783
Capital funds	-	-	2,802,071	-	-	2,559,747
Total liabilities and capital funds	12,183,058	2,256,505	14,439,563	11,350,883	2,068,486	13,394,530

The segment income are 100 percent external, thus there are 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.

36 TAXATION

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

37 EVENTS AFTER THE REPORTING DATE

The existence of novel coronavirus (COVID-19) was confirmed in early 2020 and has spread beyond China to the rest of the world, causing disruptions to businesses and economic activity. The Bank considers this outbreak to be a non-adjusting post balance sheet event. The Board and Management recognise that COVID-19 will negatively impact the health of citizens, countries and companies in 2020 and possibly beyond. Consequently, the Bank's customers/borrowers and other stakeholders will also be impacted. In order to help our member countries through their central banks, financial institutions and the bank's customers to deal with the economic and health impacts of the COVID-19 pandemic, the Bank announced and put in place a US\$3 billion facility named Pandemic Trade Impact Mitigation Facility (PATIMFA). This facility was approved by the Bank's board of directors on 20 March 2020.

The PATIMFA facility will support member countries, central banks, financial institutions and the Bank's customers meet trade debt payments as they fall due, avert trade payment defaults and support and stabilise the foreign exchange resources of central banks of member countries. It will also assist member countries and organisations whose revenues are tied to specific export revenues such as minerals to manage any sudden fiscal revenue declines due to commodity price reduction as well as provide emergency trade financing for importation of urgent requirements to combat the pandemic including medicines and medical and hospital equipment. The Board and Management's assessment is that while it is difficult to estimate the exact impact of the pandemic at this point, this facility together with the strong balance sheet of the bank should enable the bank to mitigate the negative impact of COVID-19 pandemic. The PATIMFA facility will be funded from existing liquidity and borrowings as follows;

1. The Bank has cash resources amounting to US\$3 billion on 20 March 2020 giving a liquidity coverage ratio of nearly 200 percent.
2. The Bank has and will continue to draw-down on existing and available borrowing facilities. It is also finalising negotiating new facilities from various export credit agencies (ECAs), development finance institutions (DFIs), bilateral and syndicated loan markets, and new CENDEP deposits, amounting to US\$4.4 billion.

In addition to the above facility the bank has the following strengths that will help in minimising the negative impact of COVID-19;

- a) A very strong balance sheet with total equity of US\$2.8 billion at 31 December 2019 giving a CAR OF 23 percent.
- b) Substantial cash and cash equivalent holdings of US\$2.2 billion at 31 December 2019
- c) Callable capital at 31 December 2019 was US\$1.2 billion and this can be called up when needed to support Bank operations
- d) The Bank has a good credit standing (credit ratings of A-, Baa1 and BBB-) and a strong track record of fundraising at competitive borrowing rates even during crisis periods
- e) The Bank's customers are mainly large stable corporates who are expected to weather the impact of COVID-19 better than others.
- f) The Bank's loans and advances to customers are backed up by strong collateral security whose value, in most cases, exceeds the loan balances at 31 December 2019, its exposure to commodities such as oil and gas is price hedged. Through the use of a structured trade finance approach that transfers risks to those more able to bear them, in part using instruments such as the assignment of trade-receivables, the use of cash collaterals and credit insurance, the Bank is able to continue to support African trade while effectively mitigating credit risks in countries of operation. This model has enabled the Bank to ensure reimbursement of advances from underlying transactions.
- g) The Bank, like all DFI's, has a preferred creditors' status in all its member states, from where all its borrowers operate. The benefits of this Preferred Creditor Treatment has been demonstrated over many years in a number of countries. As a result of the earlier mentioned factors, the NPL ratio has historically been very low. The performance of the Bank's loan portfolio is usually not significantly impacted by the economic performance of the countries or regions where the borrowers reside because of the above mentioned features.

Financial Statements for the Year Ended 31 December 2019

The Board and Management have reviewed the Bank's loan portfolio, engaged with clients and used the Bank's knowledge of the markets across the African continent and noted that as at 20 March 2020 most of the Bank's clients are not showing unusual and unmitigated signs of financial struggle, while acknowledging that these are early days in the outbreak of the COVID-19 pandemic in Africa.

Based on the above measures and considerations, it is the Board of Directors' and Management's view that the Bank remains a going concern.

38 RECLASSIFICATION FOR COMPARATIVE FIGURES

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

39 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Directors on 20 March 2020.



Chapter Seven

Investor Information

07





Chapter Seven

Investor Information

The following pages contain important information for shareholders about the four classes of shares, the authorised share capital and the number of shares, shareholders and type of shareholder in each class. In addition, it lists the 20 largest shareholders of Afreximbank at 31 December 2019, together with dividend history and a summary of the Bank's credit rating.

156

Number of shareholders
as at the end of 2019

Investor Information

Afreximbank's Investor Relations team welcomes enquiries on shareholdings, financial and business updates.

INVESTOR INFORMATION

African Export-Import Bank ('Afreximbank' or the 'Bank') is a supranational financial institution based in Cairo (Egypt) and with operations in Abuja (Nigeria), Abidjan (Côte d'Ivoire), Harare (Zimbabwe), and Kampala (Uganda). The Bank has four classes of shares; A, B, C and D. Class D shares are currently issued through Depository Receipts (DRs) that were listed on the stock exchange of Mauritius on 4 October 2017. The Bank's current number of DRs outstanding is 69,100,000 and a summary of the DR trading data is shown in the table.

DEPOSITORY RECEIPTS ('DR') DATA AS AT 31 DECEMBER 2019

Share data as at 31 December 2019	
SEM ticker	AEIB
DR price (US\$)	4.09
DR outstanding	69,090,397
Market capitalisation (US\$ millions)	2,252
12-month average trading volume	78,703
12-month high DR price (US\$)	4.3
12-month low DR price (US\$)	3.2

Note: Value of the unlisted shares (paid-in proportion) has been reflected in the market value.

SHARE CAPITAL (AUTHORISED AND FULLY PAID)

The Bank's authorised share capital as at 31 December 2019 amounted to US\$5,000,000,000 consisting 500,000 ordinary shares of US\$10,000 each. The total number of shares in issue is 127,272 of which 55,055 shares are fully paid. The unpaid portion of the capital are callable upon holders of holding Classes A, B and C. The total shares attributable to DR holders are 6,910 shares and they are fully paid for. They are the underlying shares for the Bank's 69,100,000 depository receipts that are listed on the stock exchange of Mauritius.

CALLABLE CAPITAL AS AT 31 DECEMBER 2019

As at 31 December 2019, the Bank had callable capital amounting to US\$1,173 million as analysed in the table below:

Shareholding Class	Callable Capital (US\$)
Class A	736,811,883
Class B	289,374,095
Class C	146,320,503
Class D	-
Total	1,172,506,482

SHAREHOLDERS

As at 31 December 2019, Afreximbank's shares were held by a total of 156 shareholders as analysed in the table below:

	Number of Shares Held	Percent of Total Shareholding	Number of Shareholders	Percent of Total Shareholders
Class A	75,330	59.19	51	32.69
Class B	31,936	25.09	90	57.69
Class C	13,096	10.29	14	8.97
Class D	6,910	5.43	1	0.65
Total	127,272	100	156	100

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

Investor Information

DETAILS / ANALYSES OF SHAREHOLDERS BY CLASS

Class A	Class B	Class C	Class D
<ul style="list-style-type: none"> – African governments and government institutions – 51 shareholders – 59.2 percent of total issued shares 	<ul style="list-style-type: none"> – African non-government investors – 90 shareholders – 25.1 percent of total issued shares 	<ul style="list-style-type: none"> – Non-African investors – 14 shareholders – 10.3 percent of total issued shares 	<ul style="list-style-type: none"> – Open to any investor – 1 shareholder – 5.4 percent of total issued shares

ANALYSIS OF SHAREHOLDING RANGE

Shareholding Range	Number of Shares Held	Percent of Total Shareholding	Number of Shareholders	Percent of Total Shareholders
10 -100	2,216	1.67	64	41
101-200	3,606	2.83	28	18
201-300	4,465	3.51	18	12
301-1000	9,704	7.62	19	12
1001-5000	48,825	38.36	20	13
5001 and above	58,546	46.00	7	4
Total	127,272	100	156	100

TOP 20 SHAREHOLDERS AS AT 31 DECEMBER 2019

	Shareholder's Name	Country	Share Class
1	Central Bank of Egypt	Egypt	A
2	Federal Republic of Nigeria	Nigeria	A
3	Central Bank of Nigeria	Nigeria	A
4	SBM Securities Limited	Mauritius	D
5	Reserve Bank of Zimbabwe	Zimbabwe	A
6	National Bank of Egypt	Egypt	B
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

	Shareholder's Name	Country	Share Class
14	BADEA	Regional	C
15	Bank of Uganda	Uganda	A
16	Standard Chartered Bank	United Kingdom	C
17	Export Credit Insurance Corporation (ECIC)	South Africa	B
18	Republique Du Cameroun	Cameroun	A
19	Government Employees Pension Fund (PIC)	South Africa	B
20	JSC Russia Export Centre (REC)	Russia	C

TEN-YEAR HISTORY OF SHARE CAPITALISATION

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Authorised Capital (500,000 ordinary shares of US\$10,000 each from 2012)	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	5,000,000
Paid-Up Share Capital - Class A (US\$'000)	105,442	105,495	108,087	109,349	110,081	119,168	180,224	240,416	248,868	270,264	301,320
Paid-Up Share Capital - Class B (US\$'000)	43,676	43,685	43,885	43,948	44,340	45,204	88,072	98,976	109,092	120,700	127,744
Paid-Up Share Capital - Class C (US\$'000)	17,182	17,192	17,200	17,200	21,200	21,200	38,856	39,096	46,076	46,236	52,384
Paid-Up Share Capital - Class D (US\$'000)									66,780	69,100	69,100
Total Paid-Up Share Capital (US\$'000)	166,300	166,372	69,172	170,497	75,621	185,572	307,152	378,488	470,816	506,300	550,548

The number of shareholders in the Bank increased to 156 in 2019, up from 151 in 2018. The new and existing shareholders acquired 11,062 shares, amounting to US\$200.04 million in paid-in capital, while US\$300.6 million remains as callable capital in relation to the new investment. Therefore, the total number of shares subscribed stood at 127,272 as at 31 December 2019 compared to 116,210 shares recorded at the end of 2018.

Investor Information

TEN-YEAR DIVIDEND PAYMENT HISTORY

Year Ended	Date Declared	Total Amount (US\$)	Dividend Payout Ratio (Percent)
31-Dec-19	13-Jun-20	78,829,000	25
31-Dec-18	22-Jun-19	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

Note:

i. This dividend payment relates to the shares of the Bank

ii. The computation of dividends for the DRs is different from the computation for Class A, B and C shares

CREDIT RATING SUMMARY

As at 31 December 2019	Fitch	Global Credit Rating	Moody's
Short-term rating	F3	A2	P-2
Long-term rating	BBB-	A-	Baa1
Previous rating	Unchanged	BBB+	Unchanged
Outlook	Stable	Stable	Stable

ACCESS TO MORE SHAREHOLDER INFORMATION

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

CONTACT US:

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

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



