

African Export-Import Bank

Multilateral Development Bank Analysis

November 2017

Rating class	Rating scale	Rating	Rating outlook	Expiry date
Long-term	International FC	BBB+	Stable	November 2018
Short-term	International FC	A2		
Long-term	National†	AAA _(EG)	Stable	November 2018
Short-term	National†	A1+ _(EG)		
USD5bn Euro Medium Term Note Programme	International FC	BBB+	Stable	November 2018

Financial data:

USDm comparative

	31/12/15	31/12/16
Total assets	7 132.9	11 726.1
Capital and reserves	1 266.7	1 626.4
Borrowings	4 413.0	6 141.9
Net advances	6 061.3	10 148.2
Liquid assets	824.1	1 269.1
Operating income	231.4	305.4
Net income	125.3	165.0
Market cap.		n.a.
Market share		n.a.

Rating history:

Initial/last rating (February 2017)

Long-term (International FC): BBB+

Short-term (International FC): A2

Rating outlook: Stable

Long-term (National): AAA_(EG)Short-term (National): A1+_(EG)

Rating outlook: Stable

USD5bn EMTN programme

Initial/last rating (June 2017)

Long-term (International FC): BBB+

Rating outlook: Stable

Related methodologies/research:

Global Criteria for Rating Banks and Other Financial Institutions, updated March 2017

Global Criteria for Rating Multilateral Development Banks ("MDBs"), updated September 2017

Afreximbank rating report, 2016

EMTNP report, 2017

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Summary rating rationale

- African Export-Import Bank's ("Afreximbank", "the bank") ratings reflect its favourable strategic position on the African continent, derived from its development mandate and broad equity participation (comprising 138 shareholders, 38 of which are African governments and their central banks). The bank's distinctive trade and development expertise and commitment to promote intra- and extra- African trade (including trade facilitation programmes with commercial banks to support small and medium sized trade enterprises ("SME's")), underpin its significance and leverage with governments in the region, given a deepening trade finance gap in Africa.
 - The bank's strong intrinsic credit profile supported by its risk appropriate capitalisation, sound asset quality metrics, strong liquidity, enhanced risk management framework and profitable bottom-line, further underpinned the ratings.
 - Shareholders have demonstrated strong commitment and support with continuous capital contributions to sustain expansion, despite the low average shareholder rating. Total capital and reserves grew by 28.4% to USD1.6bn at FY16 (FY15: 37.8%), supported by capital injections (USD275.2m) from shareholders and earnings retention. A General Capital Increase ("GCI") of USD500m approved by shareholders in September 2014 (target December 2016), was successfully completed by July 2016. Furthermore, in line with growth opportunities in Africa, the bank has implemented an equity mobilisation drive targeting both existing and new shareholders to raise an additional USD1bn by end-2021.
 - The bank reported a risk-adjusted capital adequacy ratio of 23.8% at 1H FY17 (FY16: 22.8%). The leverage ratio (debt/equity) increased to 412.3% 1H FY17 (FY16: 377.6%). Financial flexibility is further boosted by the bank's access to callable capital (USD569m at 1H FY17), which acts as a guarantee for the bank's borrowings. The callable capital provides an additional buffer and demonstrates shareholder commitment in the event of financial stress. To strengthen the quality of callable capital, the bank credit enhanced callable capital (up to USD409m) via a medium-term credit risk mitigation instrument to avert possible delays in collecting capital from specified member states with low credit ratings.
 - Gross non-performing loans ("NPLs") decreased to 2.3% of gross loans at 1H FY17 (FY16: 2.4%), supported by loan growth and recoveries. The loan portfolio displays significant concentration to member states in the North and West African regions with recent growth supported by lending under counter-cyclical trade liquidity facility ("COTRALF"). Notwithstanding this, Afreximbank's relatively low risk short-term trade finance facilities, collateralised lending (with 45.2% in the form of cash cover at 1H FY17) and experienced management team significantly mitigates this risk. Furthermore, the bank has demonstrated preferred creditor status in its member states, supporting a high recovery rate. Provisions and collateral covered 130% of NPLs at 1H FY17 (FY16:133%).
 - Profit for the year grew by 31.7% to USD165.3m in FY16 (FY15: 19.4%). Overall, the ROaE remained flat at 11.4%, while the ROaA decreased to 1.8% in FY16 (FY17: 2.1%), although in line with budget and management preference for creating low risk/return assets under the difficult environment that prevailed.
 - Liquidity risk is well managed with cumulative liquidity buffers maintained across all maturity buckets. The bank has access to funding from international banks and development finance institutions ("DFIs") and has issued senior unsecured unsubordinated debt securities under its USD5bn Euro Medium Term Note Programme ("EMTNP").
- The international scale foreign currency rating is based on the following:
- Given the shareholder diversity, the level of sovereign interference risk is considered to be relatively low. The majority of liquid assets are USD denominated and placed with investment grade rated counterparties.

Factors that could trigger a rating action may include

Positive change: Maintaining profitability, strong asset quality, liquidity and capital metrics and a diversified loan portfolio would sustain the bank's financial profile. Furthermore, sovereign rating upgrades would be a positive for the support and shareholder profile.

Negative change: A sharp deterioration in asset quality, earnings, liquidity and capital adequacy metrics, could see the ratings come under pressure.

† GCR has also assigned national scale ratings in the following markets: Nigeria: AAA_(NG)/A1+_(NG)/Stable; Ghana: AAA_(GH)/A1+_(GH)/Stable; Kenya: AAA_(KE)/A1+_(KE)/Stable; Uganda: AAA_(UG)/A1+_(UG)/Stable; Cote D'Ivoire: AAA_(CI)/A1+_(CI)/Stable; Tanzania: AAA_(TZ)/A1+_(TZ)/Stable; Namibia: AAA_(NA)/A1+_(NA)/Stable; Mauritius: AA+_(MU)/A1+_(MU)/Stable; and Botswana: AA_(BW)/A1+_(BW)/Stable.

Organisational profile

Business summary

Afreximbank is a multilateral development financial institution (“DFI”) established on 27 October 1993 under African Development Bank’s (“AfDB”) auspices. It was established by African Governments as well as African and non-African public and private investors to facilitate, promote and expand intra-African and extra-African trade. The Bank commenced lending activities on 30 September 1994.

The bank’s mission is 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. To date, 46 African countries have signed, or acceded to, the Agreement for the establishment of Afreximbank (“Afreximbank Agreement”), making them participating states. Eligible borrowers must be domiciled in one of the bank’s participant states, be shareholders themselves, or be buyers from entities located in a participant state. Eligible borrowers in non-participating states must be buying eligible goods and services from suppliers in participating states.

The bank’s legal status is one of full judicial personality and legal capacity to carry out its operations. Participating member states have agreed to waive, and refrain from imposing, any administrative, financial, tax or other regulatory restrictions on the bank, and have typically granted it preferred creditor status.

The bank is headquartered in Cairo (Egypt), with regional offices in Abidjan (Cote d’Ivoire), Abuja (Nigeria) and Harare (Zimbabwe). A fifth regional office is in the process of being set up in East Africa. At 1H FY17, the bank had a total head count of 178 (FY16: 171).

Ownership structure

Table 1 sets out paid in capital of the bank’s top 20 shareholders (>1.1% shareholding) at 30 June 2017. Per the bank’s Charter, ordinary shares may be offered to African states and their designated institutions/state-owned entities (“SOEs”), AfDB, and African regional/sub-regional institutions (Class A), African institutions and African public and private investors (Class B) or non-African institutions (Class C). The Charter also allows for the issuance of Class D shares to any person (first issued in October 2017).

At 1H FY17, the bank had 138 shareholders (FY15: 135), including 38 African states (holding 63.4% of the bank’s capital), African non-government institutions (26.3%) and non-African institutions (10.3%). The bank aims to extend its membership to all 54 sovereign African nations, thereby expanding its geographic coverage, and increasing diversification and growth.

Table 1: Total paid up capital at 30 June 2017	Class A %	Class B %	Class C %
African states/SOEs and AfDB	63.4		
Egypt	10.0	-	-
Nigeria	13.5	-	-
Zimbabwe	6.7	-	-
African Development Bank	4.8	-	-
Cote D’Ivoire	4.7	-	-
Congo Brazzaville	3.2	-	-
Tunisie	2.6	-	-
Uganda	2.4	-	-
Cameroon	2.1	-	-
Kenya	1.4	-	-
Ghana	1.3	-	-
Angola	1.2	-	-
Other	9.5	-	-
African institutions	-	26.3	
Non-regional institutions	-	-	10.3

Source: Management.

All share classes currently in issue have the same rights and obligations with respect to the paid in vs. callable component of share capital. Subscribed capital in respect of Class A, B and C shares is divided into five equal instalments, the first two of which are required to be paid in, with the remainder being callable capital. Class D shares are fully payable upon subscription. Shareholders may also use their dividend entitlements to subscribe for additional shares. The subscription for Class D shares started in October 2017.

New share issues are typically priced at the bank’s net asset value (“NAV”), with shares having a nominal value of USD10,000 and the excess above this being paid as share premium. The Bank amended the pricing guidelines of its shares effective 1 July 2017 after the 2017 Annual General Meeting of the Bank by applying the net asset value of the recent audited accounts to all instalments rather than the called-up instalments to all shareholders who will subscribe for new shares. The impact will be more callable capital obligations assumed by investors.

Governance structure

The bank’s affairs are directed by the board of directors (“BOD”) as its key policy organ. The BOD totals 12 members, consists of four directors for Class A shareholders (with AfDB having a permanent seat), four for Class B shareholders, two for Class C shareholders, and two independent directors. The President chairs the BOD although he is not a director. In order to promote diversity of the BOD, as well as optimal representation of all member states, no two directors may be of the same nationality. Furthermore, each director casts a single vote, and decisions are based on a majority of total votes.

The BOD meets quarterly to oversee the conduct of the bank’s operations, including budget approval; financial submissions to the shareholders; review of financing, funding and investment decisions; branch office administration; and establishment of subsidiary organs/committees. The BOD is assisted in discharging its responsibilities by Executive, Audit,

Branch, Strategy and Risk, Remuneration, and Founding Awards sub-committees.

The bank's Office of the President heads the executive management team, functionally supported by EVP's for:

- Business development and corporate banking (origination, structuring, products, syndications functions);
- Corporate governance and legal services (including Legal and Compliance services); and
- Finance, administration and banking services.

Strategy and operations

Afreximbank's mandate is to finance and promote intra- and extra-African trade through three broad service offerings:

- Credit (Trade and Project Financing);
- Risk Bearing (Guarantees and Credit Insurance); and
- Trade Information and Advisory Services.

Strategy

The bank's current operations are conducted under its fifth strategic plan (covering the period 2017-21), tactical implementation of which is governed by annual budgets and work programmes. The strategic plan dubbed 'Impact 21 - Africa Transformed' is premised on the following four key pillars:

- Intra-African Trade;
- Industrialisation and Export Development;
- Trade Finance Leadership; and
- Financial Soundness and Performance.

Implementation of the bank's strategic initiatives both on a continuous basis, and in response to specific economic challenges in 2015 and 2016, have served to enhance its developmental relevance, and capital raising and income generating abilities.

Operations

The bank has been providing funding for both public and private sector projects via several product programmes major ones are as depicted in Table 2.

Afreximbank's trade finance facilities are typically short dated. At FY16, the bank's loan portfolio had an average maturity profile of 167 months (FY15: 17 months), with 15.7% of loans maturing within three months and 53.9% in the 3-12 months maturity bucket.

Table 2: Key programmes/products

Special risk (country risk and other)	Designed to provide comfort to lenders, extending facilities to African sovereigns, banks, and corporates by transferring some of the financing risks to Afreximbank.
Note purchases	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.
Receivables purchase and discounting	Facilities involving purchase of specific (group of) receivables from the sale of goods and services to foreign or domestic buyers, with or without recourse to the seller. Facilities include: (i) forfeiting; (ii) receivables /invoice discounting; (iii) factoring and receivables management; and (iv) joint financing and refinancing

	/bill discounting.
Direct financing	Pre- and post-export financing directly to corporates with a balance sheet size of at least USD2m and an annual trade turnover of at least USD10m.
Project and export development financing	Focuses on: (i) developing Africa's export manufacturing capacity, by financing imports of capital goods and equipment needed for export manufacturing and for infrastructure projects that facilitate exports or generate trade-supporting infrastructure, such as power, ports, and telecommunications; and (ii) assisting 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.
Syndication	A risk sharing programme used by the bank to leverage international financing in support of trade- and project-related activities on the continent. The Bank arranges or joins a syndicate or club of reputable international and/or African banks to provide financing to African entities.
Future flow pre-financing	Future-flow debt offerings that rely (for their repayment), upon receivables not generated from the export of physical goods. Such receivables include credit card or cheque receivables, hotel receivables, migrant remittances, royalties arising from bilateral, air services agreements, overflight fees, etc.
Asset-backed lending	Serves the growing demand by African entrepreneurs for financing to acquire physical assets within the framework of privatisation and local-content-promotion opportunities.
Country	Under the Country Programme, the bank assists its member states in peculiar difficulties not amenable to solutions offered by the rest of the bank's menu of products.

Source: AFS.

During 2014 and 2015, the bank launched two new products directed at the central banks of member states, with the aim of countering the adverse effects of external shocks, and to harness central banks' foreign currency reserves to fund Africa's development projects. These products include:

- CENDEP – a central bank deposit/investment programme, designed to mobilise a component of African central banks' foreign reserves to fund viable trade programmes and projects in Africa, while providing favourable returns on deposits; and
- COTRALF – a counter-cyclical trade liquidity facility or two-year emergency intervention instrument introduced by the bank to avail foreign currency liquidity to member states to support trade and enable them to achieve an orderly adjustment to economic shocks (including commodity price and terrorism induced shocks) that increased in intensity in Africa from later 2015. COTRALF has high quality collateral backing in the form of cash cover (45% of the book at 1H FY17) which means that interventions are backed by high quality collaterals. Accordingly, they attract commensurate (relatively low) margins.

Financial reporting

Afreximbank's annual financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Ernst & Young and Deloitte & Touche, the bank's joint external auditors, issued an unqualified opinion on the FY16 financial statements.

Operating environment: Africa

Economic overview

Pan-African economic and trade overview¹

Africa's GDP growth was 2.8% in 2015 (2016: 2.9%), constrained by commodity price declines which started in 2014, lower global demand leading to decelerating global trade growth to 1.7% in 2016 (2015: 2.8%) and continued slowdown in China. African merchandise exports is estimated to have expanded 4.1% in 2016, after contracting 14.3% in 2015, with the growth largely attributable to the slight recovery in commodity prices mainly for crude oil. However, aside from external pressures, persistent terrorism-related activities, and increases in population displacement due to political instability and drought, have increased the perception of country risk in Africa, diminishing trade, investment and tourism activities in some countries.

Furthermore, despite the notable recovery in Africa's merchandise exports in 2016, constraints remain including protracted trade finance gaps and the withdrawal of international banks from the continent and termination of correspondent banking relationships, which adversely affected the ability of African exporters to secure needed financing. According to the International Chamber of Commerce, the shortage in trade finance was singled out as one of the key constraints to global trade in 2016, particularly in developing regions, including Africa SMEs are being particularly negatively impacted by an inability to access trade finance. The role of MDBs in facilitating and supporting trade in developing markets and the SME sector is increasing in importance, and international and regional development banks (particularly the AfDB and Afreximbank), have made significant contributions in this area in recent times. With SMEs accounting for over 80% of private sector employment across Africa, the under-servicing of the SME segment in the region is particularly concerning and the consequences acute, thus in urgent need of rectification

That said, intra-African trade increased 8.6% in 2016, from a 7.4% decrease in 2015 at the height of the global commodity crisis. The growth of intra-African trade was on the back of improved investment on the back of a gradual recovery in commodity prices and continued efforts by African countries and regional economic communities towards regional integration², as well as ongoing efforts to accelerate structural transformation and trade diversification across Africa.

¹ Source: Afreximbank annual report; International Chamber of Commerce ("ICC") Report entitled, "2017: Rethinking Trade and Finance".

² During 2015, important steps were taken to unify the East African Community ("EAC"), Southern African Development Community ("SADC") and Common Market for East and Southern Africa ("COMESA") under the Tripartite Free Trade Area ("TFTA") bringing together 26 member states with a market size and GDP of about 625m people and USD1.2tr, respectively.

However, barriers including high tariff rates and under-developed regional infrastructure persist. The Continental Free Trade Area ("CFTA"), set to be established in 2017, will be an important milestone in the continent's ongoing efforts to deepen economic integration. According to the African Union, the CFTA is expected to pave the way for the establishment of the African Customs Union.

International Monetary Fund ("IMF") data does not classify continental Africa as a single region. The majority of the continent is grouped within sub-Saharan Africa ("SSA"), comprising 45 countries including the Southern, Eastern, Western and Central African regions. North Africa – comprising nine countries – is grouped with the Middle East and selected Central Asian countries ("MENAP").

Of interest is the variation in economic activity within the regions of Africa. This has much to do with differing levels of political stability, economic development, and exposure to oil or other commodities.

Sub-Saharan Africa ("SSA")³

SSA growth slowed sharply in 2016, with real GDP growth averaging 1.4%, the lowest in two decades. About two-thirds of the countries in the region, together accounting for 83% of the region's GDP, slowed down, although some countries still continued to expand strongly. A modest rebound in growth to 2.6% is expected in 2017, to a large extent driven by one-off factors in the three largest countries ie, a recovery in oil production in Nigeria, higher public spending ahead of the elections in Angola, and the fading of drought effects in South Africa.

Table 3: Macroeconomic indicators for Sub-Saharan Africa (in %)

	2014	2015	2016	2017f
Real GDP growth	5.1	3.4	1.4	2.6
Inflation (annual average % change)	6.3	7.0	11.4	10.7
Government gross debt % of GDP	31.5	37.4	42.5	44.6
Current account % of GDP	(3.9)	(6.0)	(4.0)	(3.8)

f – forecast. Source: IMF Regional Economic Outlook, April 2017

The countries hardest hit by the oil price shock (Angola, Nigeria, and the countries of the Central African Economic and Monetary Community, CEMAC) are still struggling to deal with the unusually large terms-of-trade shock and implied budgetary revenue losses. Some other commodity exporters, such as Ghana, Zambia, and Zimbabwe, are also grappling with larger fiscal deficits in a context of already high debt levels and concerns about growth. Elsewhere, non-resource-intensive countries, such as Côte d'Ivoire, Kenya, and Senegal, have generally maintained high growth rates.

³ Source: IMF Regional Economic Outlook ("REO"), Sub-Saharan Africa, May 2017.

North Africa (“MENAP”)⁴

Real GDP growth for economies of North Africa contracted by 0.4% in 2016 (2015: 1.7%). The contraction was largely driven by the challenges emanating from a loss of revenue as a result of declining commodity prices and, in the case of Libya, exacerbated by socio-political instability. The tourism sector in Egypt and Tunisia was negatively affected by ongoing security concerns, which created macroeconomic imbalances. While the IMF’s MENAP outlook provides a number of insights into various sub-regions, the broad conclusions are that North African growth remains vulnerable to changes in oil prices and the global outlook, and to geopolitical developments. Growth in oil-exporting countries (Libya, Algeria) is expected to slow because of the oil production cuts agreed to under the terms of the recent Organization of the Petroleum Exporting Countries (“OPEC”) agreement. Underpinned by past reforms, improved confidence, and increasing external demand, output growth in most oil importers is expected to gradually recover.

Competitive position

Table 4 provides a comparison of Afreximbank to other regional MDBs with broad lending mandates, based on key balance sheet and income statement indicators and ratios at 31 December 2016.

Table 4: Peer comparison (USDm)	EADB	TDB	Afreximbank
Total assets	392.7	4 261.3	11 726.1
Capital and reserves	251.1	856.5	1 626.4
Borrowings	123.7	3 163.5	6 141.9
Net loans and advances	184.6	3 240.0	10 148.2
Net income	7.6	101.5	165.0
Selected ratios (%)			
Equity/Total assets	63.7	20.1	13.9
Debt/Equity	49.2	369.4	377.6
Liquid assets/Total funding	126.9	18.8	102.3
Cost ratio	54.0	19.5	18.3
Gross NPLs/Gross loans	7.0	2.8	2.4
ROaE	3.1	13.5	11.4
ROaA	2.0	2.6	1.8

Source: AFS.

It has been estimated that the trade financing gap in Africa is about USD120bn. However, with total African trade averaging USD1.2tn during 2013-15 the average financing requirement for African trade could be as high as USD360bn per annum, assuming 30% of the trade required pre-financing. This high volume of financing, coupled with the huge trade-related infrastructure suggests that no single financial institution or development finance institution could single handedly meet the trade financing needs of the continent. Against this backdrop and the fact that Afreximbank was established in the spirit of international public-private partnership to promote and finance intra- and extra-African trade, the bank has

been financing African trade in partnership with African and non-African commercial banks. On account of Afreximbank’s preferred creditor status in its member states on the continent, many international banks with African finance desks consider Afreximbank as a partner of choice in the pursuit of bankable trade and trade-related project finance deals in Africa. The bank’s Charter enjoins its management to complement/supplement the trade financing being provided by local banks rather than displace or compete with them. Thus, apart from providing lines under which local banks could draw on to finance trade, all Afreximbank’s transactions entail involvement of local banks as partners – either as guarantors, co-financiers and/or as local administrative agents for the deals.

Shareholder support

Whilst Afreximbank does not have a formal support policy in place, given its mandate and shareholder profile, shareholder support is considered likely in the event of need. In addition, Afreximbank had callable capital of USD568.6m at 1H FY17 (FY16: USD567.7m. Notwithstanding this, cognisance is taken of possible delays in the payment of capital commitments by some member states with weak credit ratings. Positively, the bank recently credit enhanced its callable capital through a mid-term credit risk mitigation instrument which covers an amount of USD409m (ie. 71.9% of callable capital at 1H FY17).

Shareholder capacity

In order to assess the capacity of shareholders to support an MDB, GCR takes into account their international scale credit ratings in the first instance. With the majority of Afreximbank’s shareholders having non-investment grade ratings, the weighted average shareholder rating is *very low*.

Table 5: Shareholder strength (key shareholders) †	% shareholding	Rating*
Member states/SOEs and multilaterals		
Nigeria*	13.5	B+
Egypt*	10.0	B
Zimbabwe	6.7	-
AfDB*	4.8	AAA
Cote D’Ivoire*	4.7	B+
African non-government investors		
National Bank of Egypt*	6.6	B
Institutional investors		
China Eximbank^	5.4	A+
Total	51.6	
Other notable shareholders		
Standard Chartered Bank*	2.6	A+
SBM (NBFC) Holdings Limited (Mauritius)^	1.4	BBB-
Citibank*	0.4	A
Export Import Bank of India*	0.2	BBB-
HSBC Bank PLC*	0.2	AA-
KBC Bank PLC*	0.1	A-
Landesbank Baden-Wuerttemberg *	0.1	A-
Botswana^	0.1	A
Namibia*	0.4	BBB-

* Fitch Ratings at 15 November 2017.

^ Moody’s Investors Service at 15 November 2017.

Source: Afreximbank, and Fitch and Moody’s Investors Service websites.

⁴ Source: IMF Regional Economic Outlook, Middle East, North Africa and Pakistan (“MENAP”), April 2017; Afreximbank annual report.

Table 5 shows the ratings of the bank's key (top shareholders up to 50% of total shareholding) and other notable shareholders at 1H FY17.

The weighted average rating of Afreximbank's key shareholders is in the 'B' band, with selected unrated countries most likely to be in the 'single B' range and below on the international scale.

AfDB is a founding shareholder and provides support to the bank, through its 5% equity stake and lines of credit. China Eximbank's total shareholding in the bank was 5.4% at that date. A selection of non-key shareholders of Afreximbank are rated in the investment grade ie, Mauritius, Namibia and Botswana member states, as well as a number of African private institutions and MDBs, and non-regional institutions (which together account for about 5.5% of total shares at 1H FY17).

Demonstrating shareholder support and commitment, in September 2014, the bank's shareholders approved a capital increase of USD500m (to be paid in by the end of 2016). By July 2016, all contributions in respect of this significant capital increase had been received (ie, a subscription rate of 100%). At FY16 and 1H FY17, paid up capital amounted to USD378.5m and USD379.1m respectively, while callable capital stood at USD567.7m and USD568.6m respectively.

In line with its objectives to extend its membership to all sovereign nations in Africa, in 2016 three new Class A shareholders (Togo, Chad and Republic of the Congo) acceded to the Afreximbank Agreement. Furthermore, 2016 saw six new Class B shareholders contribute capital. In 2017, South Africa joined the bank, while Eritrea, the Island of Comoros and Madagascar have signed the Bank Agreement and become participating states but are still to take up shareholding in the bank. Table 6 illustrates the capital position of the bank at FY16.

Table 6: Paid up capital	FY14 USDm	FY15 USDm	FY16 USDm
Authorised ordinary capital	5 000	5 000	5 000
Subscribed capital	464	768	946
Class A shares	298	451	601
Class B shares	113	220	247
Class C shares	53	97	98
Paid in capital	186	307	379
Class A shares	119	180	240
Class B shares	45	88	99
Class C shares	21	39	39
Callable capital	278	461	568
Class A shares	179	270	361
Class B shares	68	132	149
Class C shares	32	58	59
Payable capital	278	461	568
Paid up capital	186	307	379

Source: AFS, Afreximbank.

The bank's total subscribed capital amounted to USD947m at 1H FY17, of which USD568m is callable and USD379m is paid up. At 1H FY17, 100% of paid in capital was paid up. Consequently, capital in arrears

representing due and payable capital outstanding totalled Zero. The Charter prevents dividend distribution to shareholders that are late in paying capital instalments.

Callable capital

Callable capital provides an additional buffer and demonstrates shareholder commitment in the event of financial stress and also acts as a guarantee to the bank's borrowings. Callable capital is payable on all share classes currently in issue except for Class D. As such, shareholders' contributions to callable capital are equivalent to their holdings of paid in capital per Table 1. According to the Charter, paid in and callable Class A, B and C shares shall be available for subscription by shareholders in such proportion that for every five shares subscribed two shall be fully paid in.

At 1H FY17 callable capital from investment grade shareholders (including AfDB, China Eximbank, and selected other member states and institutional shareholders), amounted to USD90m. To reduce the risk of non-payment or delays in receiving capital from non-investment grade shareholders/member states, the bank secured a medium-term credit risk mitigation instrument for USD409m to timeously cover callable capital obligations from specified non-investment grade member states, which is considered credit positive. The medium-term credit risk mitigation instrument acts as a guarantee on the callable capital from specified non-investment grade member states up to a total of USD409m. This raised callable capital from investment grade shareholders to USD499m or 88.7% of total callable capital at 1H FY17 and covered 4.1% of debt.

Afreximbank's BOD can call capital as and when necessary to finance growth in operations or recapitalise the bank. Most MDBs can only call capital in an emergency situation. However, the bank has never resorted to this measure and maintains callable capital as an additional buffer.

Willingness to support

Shareholders have shown willingness to support the bank by approving capital increases from time to time, and complying with relatively short-duration capital contribution deadlines. Notwithstanding this, the weak credit status of member states and ability to timeously pay capital contributions remains an issue. It is noted that the bank's lending is most significant in West, North and Southern Africa, which is broadly aligned to the proportions of shareholdings. Nonetheless, the bank's investments show broad diversification across the region, and its trade focus as well as the new stability-related products (eg COTRALF) engender a high degree of support from its membership, as demonstrated by the increase in CENDEP deposits.

Table 7 shows shareholders' capital contributions from FY12 to FY16. Following a capital raise of USD500m concluded in July 2016, shareholders

approved an additional capital raise of USD1bn by 2021 to support the new five strategic plan (2017-2021), which targets existing and new shareholders.

Table 7: Capital contributions (USDm)	FY12	FY13	FY14	FY15	FY16
Class A, B and C shares	170	176	186	307	378
Share premium †	25	39	57	204	355
Total	195	215	243	511	733

Source: AFS.

Financial profile

Funding composition

The bank relies predominantly on five avenues for funding, namely: bilateral lines of credit, syndicated loans, customer accounts and deposits, bond issues and equity injections by shareholders. A summary breakdown of the bank's funding profile is shown in Table 8.

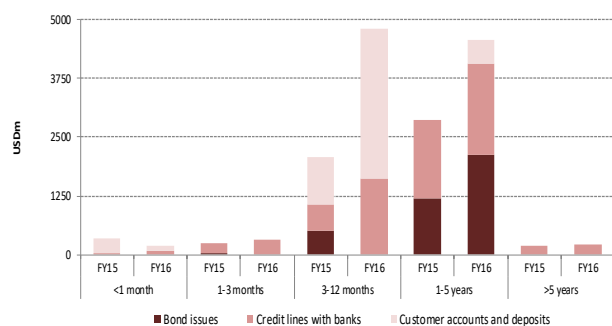
Table 8:	FY15		FY16		1H FY17	
Funding base	USDm	%	USDm	%	USDm	%
Bond issues	1 734	24.8	2 091	18.1	2 838	20.5
Credit lines with banks	2 679	38.3	4 051	35.1	4 371	31.5
Cust. accounts† and CENDEP deposits	1 308	18.7	3 778	32.7	4 906	35.4
Total non-equity funding	5 721	81.9	9 920	85.9	12 115	87.4
Capital and reserves	1 267	18.1	1 626	14.1	1 749	12.6
Total	6 988	100.0	11 547	100.0	13 864	100.0

† From sovereigns, enterprises and financial institutions. Deposit accounts are used as structural elements in trade finance transactions and are usually held until the client's outstanding amounts are fully paid, and may be used to retire loans.

Source: AFS.

Total funding grew by 65.2% to USD11.5bn at FY16 (FY15: 37.8%), attributable mainly to the launch of CENDEP (a central bank deposit/investment programme) and growth in lines of credit. CENDEP deposits from African central banks increased from USD 1.3bn in FY15 to USD3.8bn in FY16. At FY16, 67% (FY15: 69%) of the funding pool excluding equity) had a maturity profile of more than one year.

Figure 1: Contractual funding maturity profile (borrowings)



Bond issues

The bank has issued debt securities ("the Notes"), under its USD5bn EMTNP. The Notes are unsecured and unsubordinated obligations of the Issuer and rank at least equally with all other unsecured and

unsubordinated indebtedness and monetary obligations of the Issuer/Afreximbank. The Notes may be issued on a continuing basis, while the aggregate nominal amount of Notes outstanding may not exceed USD5bn. Notes are issued in series and each series may be issued in tranches, with different coupon rates and maturities. The ratings of the USD5bn EMTNP are premised on the long-term international scale FC rating accorded to the Issuer/Afreximbank. A breakdown of the bank's bond issues is shown in Table 9.

Table 9: Bond issues	Coupon rate	Date of issue	Date of maturity	FY16 USDm	1H FY17 USDm
Fixed rate debt	3.88	Jun-13	Jun-18	500	500
securities	4.75	Jun-14	Jul-19	700	700
	4.00	May-16	May-21	900	900
		Jun-17	Jun-24	-	750
				2 100	2850
Other†				(9.0)	(12)
Total				2 091	2 838

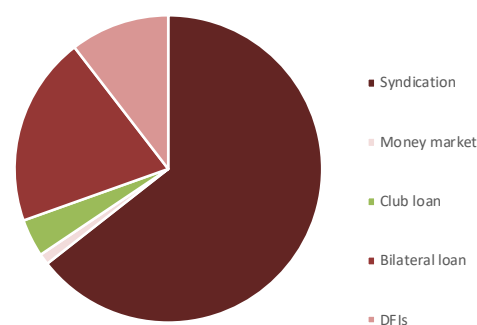
† Bond costs, premium and discount payable.

Source: AFS.

Credit lines with banks

The bank has access to funding from international banks and ECAs/ DFIs. The facilities are unsecured. A breakdown of the bank facilities/lines of credit is shown in Figure 2. Lines of credit grew further by 7.9% during 1H FY17 (FY16: 51.2%), due to additional lines secured and further drawdown on existing facilities.

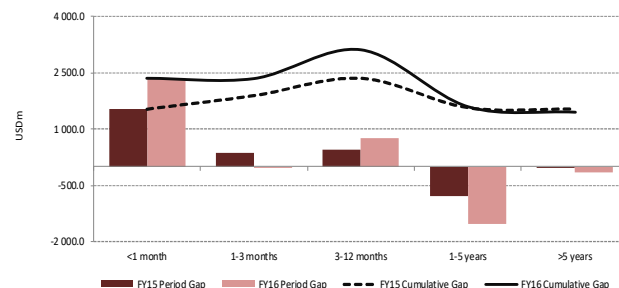
Figure 2: Credit lines with banks at 1H FY17



Liquidity risk

Liquidity is sound overall, due to the short maturity of loans that are largely funded by liabilities with longer maturities.

Figure 3: Contractual maturity gap analysis



At FY16, 69.6% of the loan portfolio had a maturity profile of less than one year, compared to 32.5% of

borrowings (lines of credit and bond issues). The bank's balance sheet structure results in positive cumulative liquidity gaps being reflected across all maturity buckets hence, liquidity risk is effectively ameliorated. The bank's liquidity is further enhanced by its access to committed unused credit lines of about USD1.25bn at 1H FY17. Treasury assets covered 61.5% of borrowings (<1-year maturity) at FY16 (FY15: 60.5%). The bank's liquidity position remained strong, as reflected by liquidity coverage ratio of 255% at 1H FY17 (FY16: 173%), well above the Basel III phase in requirement of 80% effective on 1 January 2017.

Funding and liquidity risk is also actively managed through, cash flow forecasts covering all unexpected cash flows from assets and liabilities, investments in short term liquidity instruments, maintaining a diverse range of funding sources and documented liquidity and funding contingency plans.

Capital structure

Total capital and reserves grew by 28.4% to USD1.6bn at FY16 (FY15: 30.1%), supported by capital injections (USD223m) from shareholders and internal capital generation (USD137m).

Table 10: Total capital and reserves	FY15	FY16	1H FY17
	USDm	USDm	USDm
Paid up capital	307	378	379
Share premium	204	355	355
Warrants†	46	99	99
Reserves	354	364	369
Retained earnings	355	429	547
Total	1 267	1 626	1 749
Callable capital	461	568	569

† Warrants convertible into Class D shares and qualifying Tier 1 capital issued, to be paid off through proceeds expected from some existing shareholders who made firm commitments to take up additional equity in the Bank. The share warrants account is non-distributable and will be transferred to share capital and premium accounts upon the exercise of warrants.

Source: AFS.

Capitalisation remains adequate relative to the bank's current risk profile. The capital/assets ratio decreased to 13.9% due to higher asset growth backed by debt and deposit funding. Accordingly, the leverage (debt/equity) ratio increased to 377.6% at FY16 (FY15: 348.4%).

Table 11: Capital adequacy	FY15	FY16	1H FY17
	USDm	USDm	USDm
Tier 1 capital	1 215	1 628.2	1 746.5
Tier 2 capital	40	28.3	27.3
Total capital	1 256	1 657	1 774
Total risk weighted assets (RWA)	4 829	7 280	7 459
Key capitalisation indicators (%):			
Capital adequacy ratio	26.0	22.8	23.8
Debt/Equity (%)	348.4	377.6	412.3
Total capital/Total assets	17.7	17.8	13.9

Source: AFS.

Although Afreximbank is not subject to a regulatory capital ratio, the bank calculates capital adequacy in line with Basel II requirements. A risk weighted CAR of 23.8% was reported at 1H FY17 (FY16: 22.8%).

The bank maintained a dividend payout ratio of 23% for FY16 (consistent with prior years), amounting to USD37.9m (FY16: USD28.8m). Article 31 of the Charter allows the payment of dividends. The Charter also allows the set off of any dividend distribution entitlement against unpaid obligations in respect of shares. Shareholders can also elect to receive additional allotment of shares instead of cash in respect of a dividend.

Operational profile

The responsibility to establish and oversee the bank's risk management framework lies with the BOD. The BOD has approved the Risk Management Policies and Procedures ("RMPP"), an integrated document that takes an enterprise wide approach to risk management. The risk management governance structure comprises the BOD, Board Executive Committee (credit approvals above management's authority levels); Management Risk and Strategy Committee (risk policies review and implementation); and Risk Management Department (risk policies development and monitoring).

During FY16, risk management activities focused on a comprehensive review and enhancement of the RMPPs, review of the bank's delegated authority framework, implementation of the operational risk management system, finalisation of the bank's revised loan grading system, enhancement of the risk reporting framework, and the management and recovery of NPLs.

The bank's products are structured to significantly minimise default risk. Under the bank's typical trade finance model; performance risk is retained on the exporter, payment risk is isolated and transferred to an Economic Co-operation and Development ("OECD") buyer, price risk is mitigated by pre-financing firm fixed price contracts or through a hedge price and security and repayment are achieved through assignment and acknowledgements, charges, pledges, etc.

The bank has set maximum exposures per country, obligor, transaction and sector. The limits are applied on the exposure netted with a factor defined by the bank based on the quality of the collateral held. Lending to a single obligor is limited to 20% of the bank's unimpaired capital.

Asset composition

Total assets grew by 64.4% at FY16 (FY15: 37.5%) supported by growth in funding liabilities and equity. The bulk of the credit risk exposure emanates from the loan portfolio, contributing a slightly higher 86.5% of total assets at FY16 (FY15: 85%). Credit risk is also present in the bank's treasury portfolio and interbank exposures, although the investment portfolio mainly comprises low-risk financial instruments held for liquidity management purposes. Treasury/liquid assets are mainly in the form of short-term placements with

investment grade rated counterparties, limiting credit risk. Liquid assets contributed 10.8% of total assets at FY16 (FY15: 11.6%), supporting the bank's liquidity levels.

Table 12: Asset composition	FY15		FY16		1H FY17	
	USDm	%	USDm	%	USDm	%
Liquid assets	824	11.6	1 269	10.8	3 197	22.7
Net loans	6 061	85.0	10 148	86.5	10 505	74.7
Investments	-	-	30	0.3	30	0.2
Derivatives	23	0.3	9	0.1	7	0.1
Fixed assets	46	0.6	25	0.2	24	0.2
Other assets	179	2.5	244	2.1	299	2.1
Total assets	7 133	100.0	11 726	100.0	14 062	100.0

† Cash in hand, due from banks and placements.

Source: AFS.

Off balance sheet assets/credit related contingencies

A portion of the bank's risky assets are held off-balance sheet in the form of letters of credit, guarantees and loan commitments, amounting to 9.3% of total on- and off-balance sheet assets at FY16 (FY15: 9.5%). The majority of the guarantees and letters of credit are self-liquidating trade finance facilities (collateralised by the underlying shipment or stock) limiting credit risk.

Table 13: Contingencies†	FY15		FY16		1H FY17	
	USDm	%	USDm	%	USDm	%
Letters of credit	76	10.2	245	20.4	294	25.4
Guarantees	438	58.4	500	41.7	466	40.3
Other commitments†	236	31.5	453	37.8	396	34.2
Total assets	750	100.0	1 199	100	1 157	100.0

† Loan commitments approved but not yet disbursed.

Source: AFS.

Loan portfolio

A breakdown of the bank's gross loan portfolio by region is shown in Table 14. Total gross loans grew by 67.2% to USD10.3bn at FY16 (FY15: 40.5%%).

Table 14: Gross loans by region	FY15		FY16	
	USDm	%	USDm	%
West Africa	2 969	48.1	4 510	43.7
North Africa	1 691	27.4	4 365	42.3
Regional†	164	2.7	108	1.1
East Africa	493	8.0	442	4.3
Central Africa	111	1.8	137	1.3
Southern Africa	739	12.0	754	7.3
Total	6 168	100.0	10 316	100.0

† Refers to entities operating within several countries in two or more regions.

Source: AFS.

The bank had exposures in 26 African countries at FY16 (FY15: 26), largely skewed towards the North and West African regions. The loan portfolio typically follows the trade patterns in Africa, and as a result the biggest share of exposure has historically been to West Africa due to Nigeria, although this has shifted to North Africa following the introduction of COTRALF.

Lending to financial institutions was a significantly higher 71.9% of the total gross loan portfolio at FY16 (FY15: 57.4%). The bank provides funded and unfunded credit lines to creditworthy African and non-African banks designated as the bank's trade-finance intermediaries ("TFIs"). Through TFIs the bank

indirectly supports private sector operations across various sectors, which was a preferred lending channel in 2016 for risk management purposes given the tough economic climate. The bank has the status of preferred creditor in its member states, supporting a high recovery rate.

Table 15: Gross loans by counterparty	FY15		FY16		1H FY17	
	USDm	%	USDm	%	USDm	%
Corporates/gov.	2 630	42.6	2 725	26.4	2 862	27.0
Fin. institutions	3 538	57.4	7 413	71.9	7 296	68.0
Government	-	-	178	1.7	516	5.0
Total	6 168	100.0	10 316	100.0	10 674	100.0
By programme						
Lines of credit	2 806	45.5	5 809	56.3	5 750	53.9
Note purchase	100	1.6	160	1.5	249	2.3
Receivables	167	2.7	127	1.2	101	0.9
Direct financing	393	6.4	570	5.5	662	6.2
Project and export	147	2.4	122	1.2	200	1.9
Syndications	1 905	30.9	3 073	29.8	3 006	28.2
Special risk	151	2.5	110	1.1	150	1.4
Future-flow pre-financing	345	5.6	304	2.9	517	4.8
Asset-backed	154	2.5	41	0.4	39	0.4
Total	6 168	100.0	10 316	100.0	10 674	100.0

† Trade finance intermediaries (TFI's) on-lending to corporates in Afreximbank's target economic sectors. Lending to TFI's is mainly through the line of credit programme ("LOCP"), the bank's main indirect lending product. Products under the LOCP include: Trade Finance (Export-Import) Facility; Pre- and Post-Export Financing Facility; Loan/Credit Confirmation and Refinancing Facility; and Reimbursement Guarantee Facility. The LOCP provides loan and guarantee facilities to entities whose balance sheet size and trade turnover would not normally qualify them for Afreximbank's direct lending.

^ Shareholder governments and related institutions.

Source: AFS, Afreximbank.

Direct lending to the energy sector (power, oil and gas) reduced to 18% of the loan portfolio at 1HFY17 (FY15: 22.4%), attributable to the re-balancing of the portfolio in response to macroeconomic dynamics.

Table 16: Gross loans by sector	FY15		FY16		1H FY17	
	USDm	%	USDm	%	USDm	%
Agriculture	349	5.7	412	4.0	520	5.0
Energy	1 383	22.4	1 634	15.8	1 855	18.0
Services	172	2.8	288	2.8	328	3.0
Metals/minerals	31	0.5	176	1.7	138	1.0
Transportation	476	7.7	319	3.1	304	3.0
Manufacturing	161	2.6	147	1.4	221	2.0
Telecoms	283	4.6	275	2.7	356	3.0
Fin. institutions†	3 312	53.7	7 065	68.5	6 952	65.0
Total	6 168	100.0	10 316	100.0	10 674	100.0

Source: AFS.

The average tenor loans remained relatively stable at 17 months in FY16.

Table 17: Gross loans by contractual maturity	FY15	FY16	1H FY17
	%	%	%
<1 month	16.5	12.5	13.0
1-3 months	9.2	3.2	4.0
3-12 months	39.1	53.9	56.0
1-5 years	32.5	29.6	26.0
>5 years	2.7	0.8	1.0
Total	100.0	100.0	100.0

Source: AFS.

The loan portfolio is fairly diversified in terms of size. Collectively, the single and 10 largest exposures equated to 36% and 63% of gross loans, respectively, at FY16 and 8% and 44% after mitigation.

Table 18: Gross loans at FY16[†]

By size	% of gross loans	% of net loans after mitigates	Net loans after mitigates as a % of capital
Single largest loan	36.0	8.0	12.0
2 largest loans	46.0	21.0	31.0
5 largest loans	55.0	30.0	44.0
10 largest loans	63.0	44.0	66.0
20 largest loans	74.0	59.0	88.0

[†] Exposure to a single obligor is limited to 20% of the bank's unimpaired capital. The limits are applied on the exposure netted with a factor defined by the bank based on the quality of the collateral held.

Source: Afreximbank.

Asset quality

The gross NPL ratio continued to trend downwards closing at 2.4% in FY16 (FY15: 2.8%, supported by loan growth spurred by the COTRAF programme and recoveries. Impaired loans grew by 41.1% at FY16: (FY15: 4.9%), on the back of challenging economic conditions in target markets (including weak commodity prices and currency weakness). Loans past due but not impaired amounted to 3.2% of gross loans at FY16, up from 1.7% at FY15.

Impairment coverage by provisions (specific) increased to 58.9% at FY16 (FY15: 46.0%), pre-collateral. Accordingly, unreserved impaired loans (net NPLs) declined to 6.1% of capital at FY16 (FY15: 7.4%). Including collaterals, NPL coverage was 124.0% at FY16 (FY15: 121.6%).

Table 19: Asset quality	FY15 USDm	FY16 USDm
Gross loans and advances	6 168	10 316
Neither past due nor impaired	5 888	9 745
Past due but not impaired	106	325
Impaired	174	245
Less : Provisions	(107)	(167)
Individual	(80)	(144)
Collective	(26)	(23)
Net advances	6 061	10 148
Net NPLs	93	101
Fair value collateral on NPLs	131	160
Key asset quality indicators (%):		
Gross NPL ratio (%)	2.8	2.4
Net NPL ratio (%)	1.5	1.0
Net NPL/Total Capital (%)	7.4	6.1
Coverage ratio (specific provisions)	46.0	58.9
Coverage ratio (specific + collective)	61.3	68.3
Coverage ratio (specific + collateral)	121.6	124.0
Credit loss ratio [†]	1.2	1.0

[†] Income statement impairment charge as a % of average gross loans and advances.

Source: AFS.

At FY16, 92% (FY15: 93%) of net loans were secured, through trade receivables (frequently from OECD buyers), pledged assets, trade credit insurance, bank guarantees and/or cash. The loan book was 36% cash collateralised in USD and 46% cash collateralised in USD and other currencies. The distribution of the bank's collateral at FY16 is shown in Table 21. In addition, the bank has advanced with its plans for the Capital Risk Protection Facility, that will protect the bank's capital from unexpected credit losses following a catastrophic event in any one or a combination of the bank's member states. At IH FY17, the bank had transferred USD1.5bn of the portfolio at risk

(including USD27m off-balance assets) to highly rated insurers and USD72m to AfDB to enhance the quality of the loan book.

Table 20: Collateral	FY16		1H FY17	
	USDm	%	USDm	%
Cash	4 714	45.7	4 825	45.2
Trade receivables/contracts	2 063	20.0	2 259	21.2
Guarantees by banks/govts/duel recourse	1 888	18.3	2 071	19.4
Pledge over assets	655	6.3	741	6.9
Other collateral	144	1.4	146	1.4
None /clean book	852	8.3	632	5.9
Total	10 316	100.0	10 674	100.0
Other mitigates	FY16		1H FY17	
	USDm		USDm	
AfDB portfolio participation	100		72	
Insurance/guarantees from A+ rated entities	929		1 123	
Insurance/guarantees from A+ rated entities off-balance sheet	-		-	27

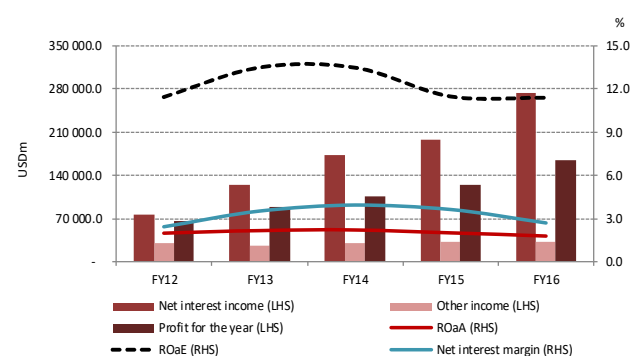
Source: Afreximbank.

Financial performance

A three year financial synopsis is reflected on page 13 of this report, supplemented by the commentary below.

As a supranational institution, Afreximbank is self-regulated and carries out its operations in accordance with its statutes on a commercial basis. Furthermore, the bank enjoys tax exempt status, eliminating the possibility of adjustments due to deferred taxation or tax credits. Afreximbank showed positive earnings over the review period and earnings volatility is sufficiently low, supporting the bank's loss absorption capacity.

Figure 4: Earnings performance



The bank's profit grew by 31.7% to USD165.0m in FY16 (FY15: 19.4%), buoyed by strong growth in credit. Accordingly, net interest income grew by 37.5% in FY16 (FY15: 14.8%), despite a decrease in net interest margins to 2.7% (FY15: 3.6%), partly due to lower margins earned on the cash-backed COTRALF (49% of the loan portfolio) in FY16. Non-interest income contracted 1.6% in FY16 (FY15: 5.8% increase) partly due to lower advisory transaction volumes compared to the previous year and fees paid on new borrowings. Overall total operating income grew by 32% in FY16 (FY15: 13.4%). Operating expenses grew by 19.3% in FY16 (FY15: 15.2%), driven mainly by increase in head-count and relocations costs, and general and administration costs

(eg, travelling, business development and strategy meetings). The cost ratio decreased to 18.3% in FY16 (FY15: 21.0%). Loan impairment charges grew by 30.4% (FY15: 13.9%) at FY16, in line with growth in impaired loans. The ROaE remained relatively stable at 11.4%. The ROaA decreased to 1.8% at FY16 (FY15: 2.1%). The profitability indicators were in line with budget and deliberate strategy to create low risk assets (mainly COTRALF facilities) amid a challenging economic climate. Operating efficiency (supported by a very low-cost ratio) has allowed the bank to operate profitably with low but relatively stable margins.

Future prospects

The actual unaudited results for the six months to 30 June 2017 are shown in Table 21 below.

A net profit of USD117m was recorded for 1H FY17, up 30% from the previous corresponding period and well above expectations. The bank's performance is guided by the five year strategic plan (2017-21), under which Afreximbank prepares forecasts and annual budgets. Looking ahead the bank will continue to focus on providing innovative solutions to member states in a challenging economic climate.

Table 21: Selected performance Indicators	Actual 1H FY16	Actual 1H FY17	% change
Net Profit for the period	90	117	30
Total assets	11 195	14 062	25.6
Cash and liquid assets	1 464	3 197	118.4
Loans and advances	9 430	10 505	11.4
Due to banks	3 275	4 371	33.5
Debt securities	2 438	2 838	16.4
Deposits and customer accounts	3 881	4 906	26.4
Equity	1 476	1 749	18.4
Selected ratios			
Cost ratio	21.0	15.0	(28.6)
ROaA	2.0	1.8	(7.6)
ROaE	13.2	13.9	5.5
Net interest margin	2.2	3.0	34.4
Gross NPL ratio	2.0	2.3	12.4
CAR	23.0	24.0	4.348

Source: Afreximbank.

International foreign currency rating factors

In according Afreximbank an international foreign currency rating, the following major factors were considered:

Sovereign interference risk

The diversity of Afreximbank's shareholding structure, with no single country currently having total paid in capital of more than 15%, suggests that sovereign interference risk is limited.

Currency transfer and convertibility risk

In assessing currency conversion risk, the following provisions of the bank's Charter were considered:

- Each Participating State shall waive, and refrain from imposing, any administrative, financial or other regulatory restrictions that are likely to hinder in any manner the smooth functioning of the bank or impair its operations.

- The bank, its property, assets, operations and activities shall be free from restrictions, regulations, supervision or controls, moratoria and other legislative, executive, administrative, fiscal and monetary restrictions of any nature.
- The bank may freely and without any restriction, but to the extent necessary to implement its purpose and carry out its functions set forth in the Charter:
 - i. Purchase, hold and dispose of convertible currencies, securities, bills of exchange and negotiable instruments, and transfer the same to, from or within the territory of any Participating State;
 - ii. Open, maintain and operate convertible currency accounts in the territories and outside the territories of the Participating States; and
 - iii. Raise funds and make loans in convertible currencies, provided that it shall seek the consent of the participating State in whose market it intends to raise funds.

Table 22 sets out the bank's currency asset/liability position. At FY16, c.92% of assets/liabilities are matched in USD and only non-USD open positions are shown.

Table 22: Currency matching (USDm)	Euro	NGN	Other	Total
Cash and short-term funds	9	2	0	11
Loans and advances	917	-	-	917
Total fin. assets	926	2	0	928
Due to banks	764	-	-	764
Deposits and customer accounts	16	3	-	19
Hedge derivatives	157	-	-	157
Other	2	-	-	2
Total fin. liabilities	939	3	-	942
Net fin. position	(13)	(1)	0	(14)
Credit commitments and financial	288	-	-	288

Source: AFS.

There were no material net open currency positions at FY16. The bank borrows in the currency of lending and where there are misalignments the bank enters into foreign-exchange derivative contracts with creditworthy counterparties to hedge the net open position. The bank uses interest rate swaps, cross currency swaps and currency forward contracts to manage interest rate and currency risks. Outstanding interest rate swaps and forward foreign exchange contracts entered into by the bank amounted to USD1.7m and EUR51m respectively at 1H FY17.

Debt cover

Treasury assets are mainly placed with international banking groups rated at least 'BBB' on the foreign currency denominated scale (mostly in the European Union). Liquid assets and investments cover 26.4% of Afreximbank's debt obligations at 1H FY17.

Other cross border risks

Albeit provisions in the bank's Charter provide a level of comfort; in practice, currency conversion risk is heavily influenced by the socio-political and economic

environments, as well as market liquidity constraints of member states. As such, with the member states having sub-investment grade sovereign credit ratings (owing to alleged nascent democratisation, agriculture-based, non-diversified economies and weak external positions), currency conversion risk for Afreximbank may be a significant factor. This is mitigated by preferred creditor status as well as being paid directly in hard currency (USD or EUR) by OECD buyers of African exports.

African Export Import Bank

(US dollars in thousands except as noted)

Year end: 31 December			
Income Statement Analysis			
	2014	2015	2016
Interest income	317 511	371 569	484 012
Interest expense	(144 363)	(172 791)	(210 758)
Net interest income	173 148	198 778	273 254
Fee and commission income	28 423	29 802	30 435
Other income	2 420	2 828	1 675
Total operating income	203 991	231 408	305 364
Impairment charge	(55 696)	(63 447)	(82 747)
Operating expenditure	(40 602)	(48 421)	(55 785)
Exchange adjustments	(1 759)	11 847	2 124
Other provisions	(949)	(6 070)	(3 922)
Profit for the year	104 985	125 317	165 034
Balance Sheet Analysis			
Subscribed capital	242 419	511 013	733 798
Reserves (incl. net income for the year)	676 650	755 696	892 570
Total capital and reserves	919 069	1 266 709	1 626 368
Bond issues	1 762 055	1 734 272	2 090 972
Due to banks	2 093 037	2 678 765	4 050 912
Deposits and customer accounts	296 780	1 308 143	3 778 493
Payables/Deferred liabilities	118 253	145 648	179 360
Total liabilities	4 270 125	5 866 828	10 099 737
Total capital and liabilities	5 189 194	7 133 537	11 726 105
Cash and due from banks	354 339	153 750	618 845
Property and equipment	45 654	45 941	25 280
Receivables/Deferred assets	101 180	178 536	244 483
Derivative financial instruments	41 970	23 652	8 792
Non-earning assets	543 143	401 879	927 668
Loans and advances (net of provisions)	4 346 009	6 061 316	10 148 202
Bank placements	300 042	670 342	650 235
Total earning assets	4 646 051	6 731 658	10 798 437
Total assets	5 189 194	7 133 537	11 726 105
Contingencies	577 058	750 284	1 198 923
Ratio Analysis (%)			
Capitalisation			
Internal capital generation	11.4	9.9	10.1
Total capital / Net advances + net equity invest. + guarantees	21.0	20.6	15.6
Total capital / Total assets	17.7	17.8	13.9
Total debt / Equity	419.5	348.4	377.6
Liquidity			
Net advances / Total funding (excl. equity portion)	104.7	105.9	102.3
Liquid and trading assets / Total assets	12.6	11.6	10.8
Liquid and trading assets / Total funding (excl. equity portion)	15.8	14.4	12.8
Asset quality			
Impaired loans / Gross advances	3.8	2.8	2.4
Total loan loss reserves / Gross advances	1.0	1.7	1.6
Bad debt charge (income statement) / Gross advances (avg.)	1.4	1.2	1.0
Bad debt charge (income statement) / Total operating income	27.3	27.4	27.1
Profitability			
Net interest margin	3.9	3.6	2.7
Non-interest income / Total operating income	15.1	14.1	10.5
Non-interest income / Total operating expenses (or burden ratio)	76.0	67.4	57.6
Cost ratio	20.0	21.0	18.3
ROaE	13.5	11.4	11.4
ROaA	2.2	2.1	1.8
Nominal growth indicators			
Total assets (incl. contingencies)	19.1	37.5	64.4
Net advances	26.6	39.5	67.4
Shareholders funds	30.1	37.8	28.4
Total capital and reserves	30.1	37.8	28.4
Total borrowings	133.4	123.1	160.6
Total funding (excl. equity portion)	22.9	37.8	73.4
Net income	17.9	10.2	31.7

GLOSSARY OF TERMS/ACRONYMS USED IN THIS DOCUMENT AS PER GCR'S FINANCIAL INSTITUTIONS GLOSSARY

Arrears	An overdue debt, liability or obligation. An account is said to be 'in arrears' if one or more payments have been missed in transactions where regular payments are contractually required.
Asset	A resource with economic value that a company owns or controls with the expectation that it will provide future benefit.
Asset Quality	Refers primarily to the credit quality of a bank's earning assets, the bulk of which comprises its loan portfolio, but will also include its investment portfolio as well as off balance sheet items. Quality in this context means the degree to which the loans that the bank has extended are performing (ie, being paid back in accordance with their terms) and the likelihood that they will continue to perform.
Balance Sheet	Also known as a Statement of Financial Position. A statement of a company's assets and liabilities provided for the benefit of shareholders and regulators. It gives a snapshot at a specific point in time of the assets the company holds and how they have been financed.
Basel	Basel Committee on Banking Supervision housed at the Bank for International Settlements.
Basel I	Basel Committee regulations, which set out the minimum capital requirements of financial institutions with the goal of minimising credit risk.
Bond	A long term debt instrument issued by either: a company, institution or the government to raise funds.
Budget	Financial plan that serves as an estimate of future cost, revenues or both.
Callable	A provision that allows an Issuer to repurchase a security before its maturity.
Capital	The sum of money that is invested to generate proceeds.
Capital Adequacy	A measure of the adequacy of an entity's capital resources in relation to its current liabilities and also in relation to the risks associated with its assets. An appropriate level of capital adequacy ensures that the entity has sufficient capital to support its activities and that its net worth is sufficient to absorb adverse changes in the value of its assets without becoming insolvent.
Cash	Funds that can be readily spent or used to meet current obligations.
Cash Flow	The inflow and outflow of cash and cash equivalents. Such flows arise from operating, investing and financing activities.
Collateral	Asset provided to a creditor as security for a loan.
Corporate Governance	Refers to the mechanisms, processes and relations by which corporations are controlled and directed, and is used to ensure the effectiveness, accountability and transparency of an entity to its stakeholders.
Cost Ratio	The ratio of operating expenses to operating income. Used to measure a bank's efficiency.
Country Risk	The range of risks emerging from the political, legal, economic and social conditions of a country that have adverse consequences affecting investors and creditors with exposure to the country, and may also include negative effects on financial institutions and borrowers in the country.
Coupon	The interest paid on a bond expressed as a percentage of the face value. If a bond carries a fixed coupon, the interest is usually paid on an annual or semi-annual basis. The term also refers to the detachable certificate entitling the bearer to the interest payment.
Credit Rating	An opinion regarding the creditworthiness of an entity, a security or financial instrument, or an issuer of securities or financial instruments, using an established and defined ranking system of rating categories.
Credit Risk	The possibility that a bond issuer or any other borrowers (including debtors/creditors) will default and fail to pay the principal and/or interest when due.
Debt	An obligation to repay a sum of money. More specifically, it is funds passed from a creditor to a debtor in exchange for interest and a commitment to repay the principal in full on a specified date or over a specified period.
Default	Failure to meet the payment obligation of either interest or principal on a debt or bond. Technically, a borrower does not default, the initiative comes from the lender who declares that the borrower is in default.
Diversification	Spreading risk by constructing a portfolio that contains different investments, whose returns are relatively uncorrelated. The term also refers to companies which move into markets or products that bear little relation to ones they already operate in.
Dividend	The portion of a company's after-tax earnings that is distributed to shareholders.
Drawdown	When a company utilises facilities availed by a financial institution or lender, there is said to be a drawdown of funds.
Equity	Equity (or shareholders' funds) is the holding or stake that shareholders have in a company. Equity capital is raised by the issue of new shares or by retaining profit.
Exposure	Exposure is the amount of risk the holder of an asset or security is faced with as a consequence of holding the security or asset. For a company, its exposure may relate to a particular product class or customer grouping. Exposure may also arise from an overreliance on one source of funding.
Facility	The grant of availability of money at some future date in return for a fee.
Fair Value	The fair value of a security, an asset or a company is the rational view of its worth. It may be different from cost or market value.
Financial Institution	An entity that focuses on dealing with financial transactions, such as investments, loans and deposits.
Financial Statements	Presentation of financial data including balance sheets, income statements and statements of cash flow, or any supporting statement that is intended to communicate an entity's financial position at a point in time.
Fixed Assets	Assets of a company that will be used or held for longer than a year. They include tangible assets, such as land and equipment, stake in subsidiaries and other investments, as well as intangible assets such as goodwill, information technology or a company's logo and brand.
Forecast	A calculation or estimate of future financial events.
Guarantee	An undertaking in writing by one person (the guarantor) given to another, usually a bank (the creditor) to be answerable for the debt of a third person (the debtor) to the creditor, upon default of the debtor.
Hedge	A risk management technique used to reduce the possibility of loss resulting from adverse movements in commodity prices, equity prices, interest rates or exchange rates arising from normal banking operations. Most often, the hedge involves the use of a financial instrument or derivative such as a forward, future, option or swap. Hedging may prove to be ineffective in reducing the possibility of loss as a result of, inter alia, breakdowns in observed correlations between instruments, or markets or currencies and other market rates.
Impairment	Reduction in the value of an asset because the asset is no longer expected to generate the same benefits, as determined by the company through periodic assessments.
Income Statement	A summary of all the expenditure and income of a company over a set period.
Institutional Investors	Financial institutions such as pension funds, asset managers and insurance companies, which invest large amounts in financial markets on behalf of their clients.
Interest	Scheduled payments made to a creditor in return for the use of borrowed money. The size of the payments will be determined by the interest rate, the amount borrowed or principal and the duration of the loan.
Interest Rate	The charge or the return on an asset or debt expressed as a percentage of the price or size of the asset or debt. It is usually expressed on an annual basis.
International Financial Reporting Standards	IFRS is designed as a common global language for business affairs so that company accounts are understandable and comparable across international boundaries.
International Scale Rating FC	International foreign currency (International FC) ratings measure the ability of an organisation to service foreign currency obligations, taking into account transfer and convertibility risk.
Investment Grade	Credit ratings equal to or higher than 'BBB-'.

Leverage	With regard to corporate analysis, leverage (or gearing) refers to the extent to which a company is funded by debt.
Liabilities	All financial claims, debts or potential losses incurred by an individual or an organisation.
Liquid Assets	Assets, generally of a short term, that can be converted into cash.
Liquidity	The speed at which assets can be converted to cash. It can also refer to the ability of a company to service its debt obligations due to the presence of liquid assets such as cash and its equivalents. Market liquidity refers to the ease with which a security can be bought or sold quickly and in large volumes without substantially affecting the market price.
Liquidity Risk	The risk that a company may not be able to meet its financial obligations or other operational cash requirements due to an inability to timeously realise cash from its assets. Regarding securities, the risk that a financial instrument cannot be traded at its market price due to the size, structure or efficiency of the market.
Long-Term	Not current; ordinarily more than one year.
Long-Term Rating	Reflects an issuer's ability to meet its financial obligations over the following three to five year period, including interest payments and debt redemptions. This encompasses an evaluation of the organisation's current financial position, as well as how the position may change in the future with regard to meeting longer term financial obligations.
Margin	The rate taken by the lender over the cost of funds, which effectively represents the entity's profit and remuneration for taking the risk of the loan; also known as spread.
Maturity	The length of time between the issue of a bond or other security and the date on which it becomes payable in full.
National Scale Rating	Provides a relative measure of creditworthiness for rated entities only within the country concerned. Under this rating scale, a 'AAA' long term national scale rating will typically be assigned to the lowest relative risk within that country, which in most cases will be the sovereign state.
Net Asset Value	The value of an entity's assets less its liabilities. It is a reflection of the company's underlying value and is usually quoted on a per share basis.
Net Interest Margin	Net interest income divided by average interest earning assets. Measures a bank's margin after paying funding sources and how successful a bank's interest-related operations are.
Net Profit	Trading/operating profits after deducting the expenses detailed in the profit and loss account (including taxes).
Nominal Value	The value of a security set by the entity that issues it. It is unrelated to market value. Also known as face value or par value.
Off Balance Sheet	Off balance sheet items are assets or liabilities that are not shown on a company's balance sheet. They are usually referred to in the notes to a company's accounts.
Operational Risk	The risk of loss resulting from inadequate or failed internal processes, people or systems or from external events. This includes legal risk, but excludes strategic risk and reputational risk.
Past Due	Any note or other time instrument of indebtedness that has not been paid on the due date.
Performing Loan	A loan is said to be performing if the borrower is paying the interest on it on a timely basis.
Pledge	An asset or right delivered as security for the payment of a debt or fulfilment of a promise, and subject to forfeiture on failure to pay or fulfil the promise.
Portfolio	A collection of investments held by an individual investor or financial institution. They may include stocks, bonds, futures contracts, options, real estate investments or any item that the holder believes will retain its value.
Provision	The amount set aside or deducted from operating income to cover expected or identified loan losses.
Rating Outlook	Indicates the potential direction of a rated entity's rating over the medium term, typically one to two years. An outlook may be defined as: 'Stable' (nothing to suggest that the rating will change), 'Positive' (the rating symbol may be raised), 'Negative' (the rating symbol may be lowered) or 'Evolving' (the rating symbol may be raised or lowered).
Receivables	Any outstanding debts, current or not, due to be paid to a company in cash.
Recourse	The right to demand payment/collect from the maker or endorser of a negotiable instrument.
Refinancing	The issue of new debt/loan to replace maturing debt/loan. New debt may be provided by existing or new lenders, with a new set of terms in place.
Regulatory Capital	The total of primary, secondary and tertiary capital.
Retained Earnings	Earnings not paid out as dividends by a company. Retained earnings are typically reinvested back into the business and are an important component of shareholders' equity.
Risk	The chance of future uncertainty (i.e. deviation from expected earnings or an expected outcome) that will have an impact on objectives.
Risk Management	Process of identifying and monitoring business risks in a manner that offers a risk/return relationship that is acceptable to an entity's operating philosophy.
Securities	Various instruments used in the capital market to raise funds.
Security	An asset deposited or pledged as a guarantee of the fulfilment of an undertaking or the repayment of a loan, to be forfeited in case of default.
Shareholder	An individual, entity or financial institution that holds shares or stock in an organisation or company.
Short-Term	Current; ordinarily less than one year.
Short-Term Rating	An opinion of an issuer's ability to meet all financial obligations over the upcoming 12 month period, including interest payments and debt redemptions.
Swap	An exchange of payment streams between two parties for their mutual benefit. Swaps can involve an exchange of debt obligations, interest payments or currencies, with a commitment to re-exchange them at a specified time.
Syndicated Loan	A large loan arranged by a group of funders, usually international banks, that form a syndicate, headed by a lead manager.
Tenor	The time from the value date until the expiry date of a financial instrument.
Tier 1 Capital	Primary capital consists of issued ordinary share capital, hybrid debt capital, perpetual preference share capital, retained earnings and reserves. This amount is then reduced by the portion of capital that is allocated to trading activities and other regulatory deductions.
Tier 2 Capital	Secondary capital is mainly made up of subordinated debt, portfolio impairment and 50% of any revaluation reserves and other specified regulatory deductions.
Tranche	Used to mean an allocation or instalment of a larger loan facility. Tranches of the same debt programme may differ from each other because they pay different interest rates, mature on different dates, carry different levels of risk, or differ in some other way.

For a detailed glossary of terms please click [here](#)

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African Export-Import Bank participated in the rating process via face-to-face management meetings, teleconferences and other written correspondence. Furthermore, the quality of information received was considered adequate and has been independently verified where possible.

The credit ratings have been disclosed to African Export-Import Bank with no contestation of the ratings.

Information Received

- Audited financial results of the bank as at 31 December 2016 (plus four years of comparative figures)
- Unaudited interim results of the bank as at 30 June 2017
- Budgeted financial statements for 2016 and 2017
- Latest internal and/or external audit report to management
- Reserving methodologies
- A breakdown of facilities available and related counterparties
- Corporate governance and enterprise risk framework
- Industry comparative and regulatory framework

The ratings above were solicited by, or on behalf of, African Export-Import Bank, and therefore, GCR has been compensated for the provision of the ratings.

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