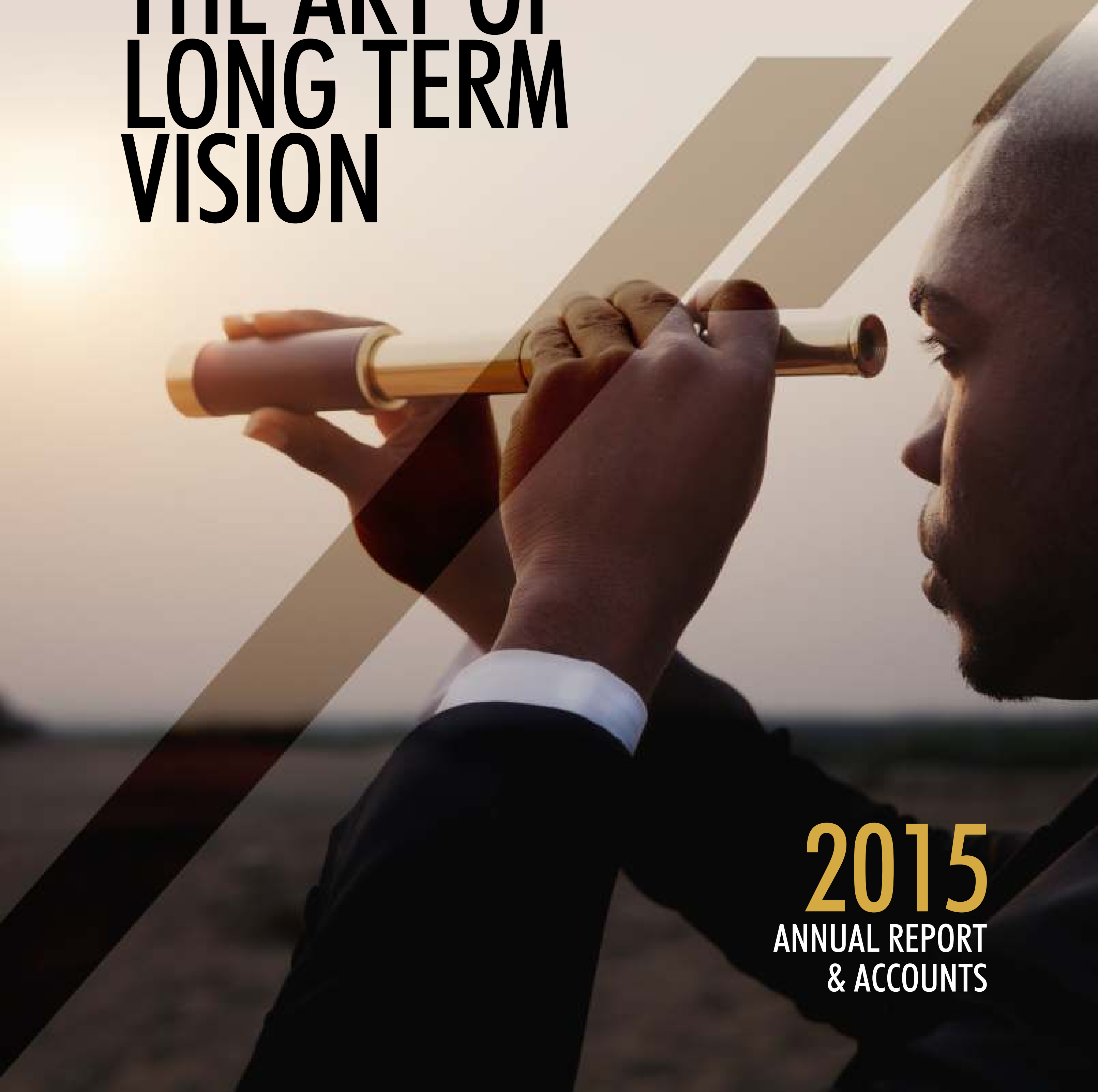
AFC
AFRICA FINANCE CORPORATION

## INFRASTRUCTURE FINANCING

# THE ART OF LONG TERM VISION



2015
ANNUAL REPORT
& ACCOUNTS

INFRASTRUCTURE FINANCING

# THE ART OF LONG TERM VISION

2015 ANNUAL REPORT & ACCOUNTS

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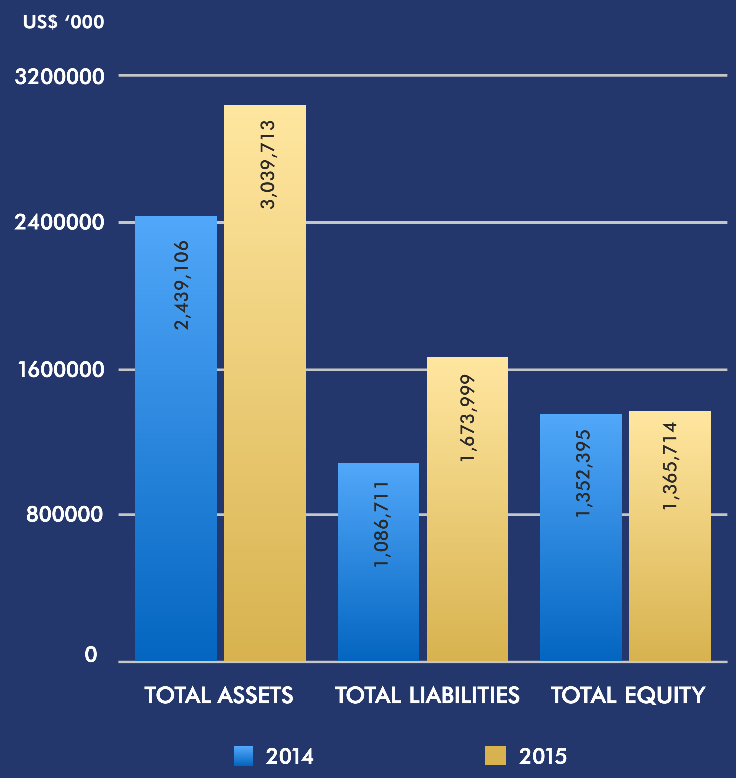
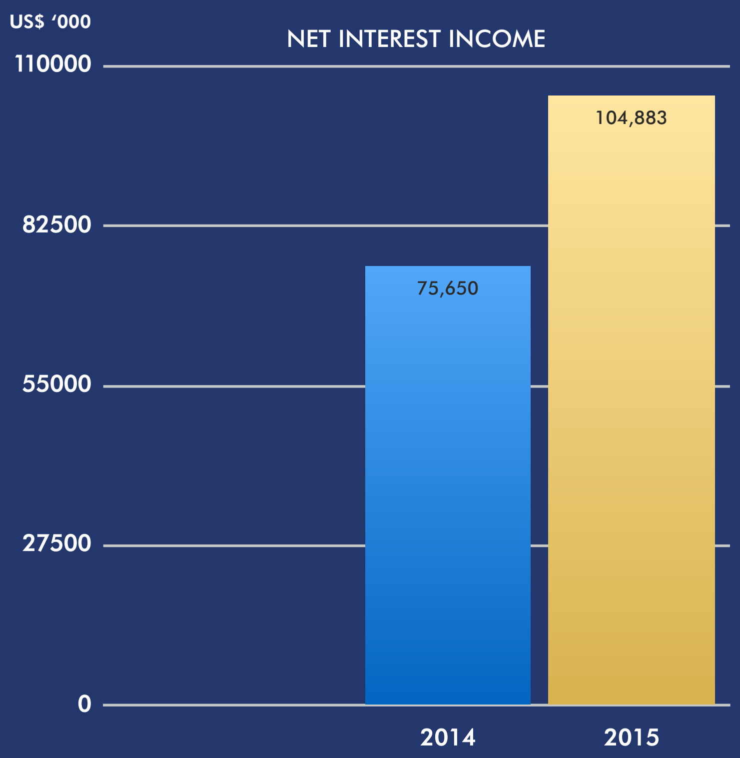



25%
GROWTH IN
BALANCE SHEET




39%
GROWTH IN NET
INTEREST INCOME

CONSOLIDATED STATEMENT OF
# COMPREHENSIVE INCOME

| | Note* | Year ended 31 December 2015 US$'000 | Year ended 31 December 2014 US$'000 |
|---|---|---|---|
| Interest income | 6 | 158,733 | 104,440 |
| Interest expense | 6 | (53,850) | (28,790) |
| Net interest income | | 104,883 | 75,650 |
| Dividend income | 7 | 30 | 1,228 |
| Fees, commissions and other income | 8 | 9,891 | 38,599 |
| Income from sale of equity investments | 9 | - | 24,592 |
| **Operating income** | | **114,804** | **140,069** |
| Net gain on financial instruments at fair value through profit or loss | 10 | 18,867 | 9,779 |
| Loss on financial instruments at amortised cost | | (4,348) | - |
| Impairment charge on financial assets | 11 | (26,710) | (6,586) |
| Operating expenses | 12 | (30,020) | (38,576) |
| **Profit for the year** | | **72,593** | **104,686** |
| Other Comprehensive Income | | | |
| Items that are or may be reclassified to profit or loss: | | | |
| Net (loss)/gain on available-for-sale financial assets | 20(b) | (2,316) | 9,265 |
| **Total Comprehensive Income for the year** | | **70,277** | **113,951** |
| Earnings per share for profit attributable to equity holders during the period (expressed in United States cents per share) | | | |
| - basic | 14 | 6.67 | 9.61 |
| - diluted | 14 | 6.67 | 9.61 |

**The accompanying notes 1-33 are an integral part of these financial statements.*

CONSOLIDATED STATEMENT OF
# FINANCIAL POSITION

| | Note* | Year ended 31 December 2015 US$'000 | Year ended 31 December 2014 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with commercial banks | 15 | 40,414 | 86,551 |
| Loans and advances to banks | 16 | 976,130 | 370,476 |
| Derivative financial instruments | 17 | 3,534 | 639 |
| Financial assets at fair value through profit or loss | 18 | 226,228 | 189,148 |
| Loans and advances to other customers | 19 | 1,177,864 | 1,087,390 |
| Investment securities: | | | |
| - Financial assets at amortised cost | 20(a) | 497,805 | 535,086 |
| - Financial assets at fair value through OCI | 20(b) | 98,491 | 100,373 |
| Other assets | 21 | 16,760 | 66,204 |
| Property and equipment | 22 | 1,845 | 2,001 |
| Intangible assets | 23 | 642 | 1,238 |
| **Total assets** | | **3,039,713** | **2,439,106** |
| **LIABILITIES** | | | |
| Accrued expenses and other liabilities | 24 | 24,345 | 25,104 |
| Derivative financial instruments | 17 | 2,718 | 14 |
| Borrowings | 25 | 1,646,936 | 1,061,593 |
| **Total liabilities** | | **1,673,999** | **1,086,711** |
| **EQUITY** | | | |
| Capital and reserves attributable to the Corporation's equity holders: | | | |
| Share capital | 27 | 1,089,067 | 1,089,067 |
| Retained earnings | 28 | 255,335 | 239,700 |
| Fair value reserves | 29 | 21,312 | 23,628 |
| **Total equity** | | **1,365,714** | **1,352,395** |
| **Total liabilities and equity** | | **3,039,713** | **2,439,106** |

**The accompanying notes 1-33 are an integral part of these financial statements.*

CONSOLIDATED STATEMENT OF
# CHANGES IN EQUITY

| | Share Capital US$'000 | Retained Earnings US$'000 | Fair Value Reserves US$'000 | Total US$'000 |
|---|---|---|---|---|
| As at 1 January 2014 | 1,089,067 | 178,577 | 14,363 | 1,282,007 |
| Dividends paid during the year | - | (43,563) | - | (43,563) |
| Total comprehensive income | - | 104,686 | 9,265 | 113,951 |
| **As at 31 December 2014** | **1,089,067** | **239,700** | **23,628** | **1,352,395** |
| **As at 1 January 2015** | 1,089,067 | 239,700 | 23,628 | 1,352,395 |
| Profit for the year | - | 72,593 | - | 72,593 |
| Dividends paid during the year | - | (56,958) | - | (56,958) |
| **Other comprehensive income** | | | | |
| Fair value change in financial assets | - | - | (2,316) | (2,316) |
| **As at 31 December 2015** | **1,089,067** | **255,335** | **21,312** | **1,365,714** |

# CONSOLIDATED STATEMENT OF
# CASH FLOWS

| | Note* | Year ended 31 December 2015 US$'000 | Year ended 31 December 2014 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest and similar income received | | 151,825 | 100,916 |
| Interest expense | | (54,273) | (27,097) |
| Fee and commission receipts | | 10,106 | 68,410 |
| Dividend income | 7 | 30 | 1,228 |
| Cash payments to employees and suppliers | | (28,464) | (27,657) |
| Other assets | | 49,444 | (29,751) |
| Loans and advances to customers | | (113,654) | (565,932) |
| Financial assets at fair value through profit or loss | | (14,889) | (39,388) |
| Purchase of available-for-sale securities | | (11,095) | (1,650) |
| Proceeds on disposal of available-for-sale securities | | 5,816 | 3,922 |
| Other liabilities | | 4 | (375) |
| Net cash from operating activities | | (5,150) | (517,374) |
| **Cash flows from investing activities** | | | |
| Purchase of non-traded debt securities | | (23,167) | (127,154) |
| Capital repayments of non-traded debt securities | | 56,664 | 12,021 |
| Proceeds on disposal of non-traded debt securities | | 2,571 | - |
| Proceeds on disposal of property and equipment | | 90 | 206 |
| Purchase of property and equipment | 22 | (845) | (890) |
| Purchase of software/Intangibles | 23 | (24) | (509) |
| Net cash from investment activities | | 35,289 | (116,326) |
| **Cash flows from financing activities** | | | |
| Net proceeds from borrowings | | 1,234,000 | 447,440 |
| Repayment of borrowings | | (648,234) | (19,500) |
| Dividend payments | 30 | (56,958) | (43,563) |
| Net cash from financing activities | | 528,808 | 384,377 |
| Net (decrease)/increase in cash and cash equivalents | | 558,947 | (249,323) |
| **Cash and cash equivalents at the beginning of the year** | | **457,019** | **706,342** |
| **Cash and cash equivalents at the end of the year** | **31** | **1,015,966** | **457,019** |

*The accompanying notes 1-33 are an integral part of these financial statements.

# STATEMENT FROM THE CHAIR

Africa's share of global private infrastructure investment has remained small at less than 5%, while Africa's demand for robust infrastructure assets remains persistently high. Africa Finance Corporation ("AFC" or "The Corporation") was created to address this infrastructure investment gap.

AFC's long term vision is to be the leading African Institution in infrastructure financing on the continent, and to foster economic growth and the industrial development of African countries. During 2015 we have continued to grow, expanding our geographical presence and membership base and proactively developing long term infrastructure projects from inception to completion.

Investments in the project development asset class, one of our core differentiating value propositions, had a marked positive impact on the value and performance of our total investments in 2014, when one of our flagship projects, Cenpower Kpone IPP in Ghana, reached financial close. In 2015, however, challenging market conditions have impacted our business in various ways, by reducing the value and performance of some of the investments that we manage.

2015 was a challenging year, both for the Continent and for AFC. The year was characterised by a decline in commodity prices, in particular oil, minerals, and soft commodities. Oil prices were pressured by a supply glut; a situation which saw prices plummet by approximately 50% during the year. The slowdown in Chinese and broader emerging market demand, tepid economic expansion in Europe and a strengthening of the US dollar consequent on an increase in interest rates by the Federal Reserve has negatively impacted African economies and their foreign exchange reserves. This has resulted in currency devaluation in many African countries, tighter credit markets, and a slowdown in international investment on the continent.

## Global Environment

### Strong Economic Headwinds

There was a slowdown in growth of the global economy in 2015. This was largely due to the gradual tightening of monetary policy in the United States and the economic slowdown in China, as China's demand for raw material imports declined, and the Chinese economy rebalanced away from manufacturing to services. This has contributed to falling commodity prices and increased market volatility. The net result of these factors is that sub-Saharan Africa's growth rate for 2015 is estimated to have been against earlier forecasts of up to 4.2%.

Overall, business activity appeared to remain resilient in the US, reinforced by the strengthening housing and labour markets. The strengthening US dollar however, has begun to weigh on manufacturing activity. Lower oil and commodity prices are curtailing investment in the mining and the oil and gas sectors. The divergence in monetary policy between the US and the Eurozone reflects the differing economic performance of the regions.

Throughout 2015, most sub-Saharan African economies saw higher budget deficits, which are likely to result in increased borrowing and generally higher risk profiles. Some economies, such as Cote d'Ivoire, Kenya and Mozambique, gained momentum due to their lower exposure to the commodity slowdown, and are expected to maintain increasing growth rates. This projected gradual increase in growth and related opportunities is reassuring, and we remain committed and optimistic for an increase in deal flow in our core sectors: power, natural resources, heavy industry, telecom-munications and transportation.

### Mitigating the challenges

The mixed performance of the global economy and the continuous negative market sentiment is generating considerable concern across AFC's core sectors. Credit growth slowed significantly during the year, as did investment inflows, reflecting both the difficult environment conditions and increased risk perception. In many African oil-exporting economies, 2015 was especially challenging in light of the falling oil price.

While falling commodity prices and the challenging economic environment placed pressure on the potential performance of AFC's assets, the Corporation ended the year with no non-performing loans. This is due to the pro-active monitoring and management of those assets that were showing signs of stress. Nevertheless, as a measure of prudence and in accordance with applicable accounting standards, the Corporation took a general portfolio provision to recognize the increased risks associated with some of its portfolio assets.

As part of our proactive approach to portfolio management, a Risk Assurance Unit has been created to continue to effectively manage stressed assets in the Corporation's portfolio.

## Financial Performance

Despite the challenging operating environment, the Africa Finance Corporation delivered strong underlying operating results. At year-end 2015, the Corporation achieved a significant 25% growth in its balance sheet with respect to 2014, with total assets in excess of US$3 billion. It generated gross revenues of US$168.63 million, driven by strong accrual income and impressive annuity revenues on the existing debt portfolio, and increased income from short term treasury placements, with net interest margins growing to 4.4%.

Net interest income increased by 39% to US$104.8 million, a 7% improvement over 2014, driven by lower borrowing costs. Fees, commissions and other income however declined by 85% mainly due to one-off revenues of US$46 million recorded in 2014.

Given the difficult economic environment, there was the need to maintain a tight rein on costs. The prudent management of operating costs resulted in year-on-year decline to US$30 million (from US$38

25%

GROWTH IN BALANCE SHEET

39%

INCREASE IN NET INTEREST INCOME

22%

DECREASE IN COST TO INCOME RATIO

million), delivering a cost to income ratio of 22%.

Although no risk asset was impaired during the year under review, the Corporation's first portfolio impairment charge of US$26.7 million was recorded, in light of increased probability of default risks, particularly in the Corporation's natural resources portfolio. Overall, the Corporation remains strongly capitalized, with a capital adequacy ratio of 50%, and, highly liquid, with approximately US$1 billion liquidity as at 31 December, 2015. This positions the Corporation to take advantage of investment opportunities in 2016.

The Corporation recorded total comprehensive income of US$70.3 million for the year, however "normalised" total comprehensive income (after the adjustment for the exceptional fees earned in 2014) represents a growth of 3%, despite taking into consideration the Corporation's portfolio impairment charge.

## Developments in 2015

**Membership Expansion** - In 2015, AFC expanded into East and Francophone Africa as we progressively aligned our country membership with our investment footprint, consistent with a carefully designed membership expansion strategy. The accession of Côte d'Ivoire, Gabon, Rwanda and Uganda, marks a significant milestone in AFC's mission to be the leading institution fostering economic growth and industrial development in Africa, through the financing of large scale infrastructure projects.

**Awards** - The Cenpower project continued to receive accolades including the award for best deal of the year 2015 at the Africa Banker Awards. The Corporation also received best energy project developer and private sector co-developer of the year for the Cenpower project. This is in addition to the Project Finance International (PFI) awards for the best project finance power deal in Africa for 2014. Additionally, AFC was awarded the Global Trade Review Deal of the Year 2014, as a key lender to the Port of Abidjan project in Côte d'Ivoire.

**Maiden Eurobond** - In line with AFC's objective of diversifying its funding base, the corporation successfully issued a debut US$750 million Eurobond under a US$3 billion Global Medium Term Notes (MTN) programme. The Bond issue was 6 times oversubscribed and attracted a wide range of investors from around the globe, especially from Asia, Europe, the Middle East, and the USA.

The Corporation significantly, secured a US$50 million 15 year line of financing, from the Islamic Development Bank (IDB). The funds will be used to finance projects that are Islamic finance compliant and are located across the numerous African IDB member countries. AFC's agreement with the IDB establishes an important partnership, which will pave the way for future collaboration between African and Middle Eastern institutions.

The Corporation raised funding totaling US$30 million from other sources.

**Moody's reaffirmed rating** - In March 2015, Moody's rating services reaffirmed its investment grade rating of the Corporation at A3/P2 (Stable outlook). The Corporation's sound capital adequacy position, owing to good equity buffers and low debt levels, strong prudential framework which supports a high degree of liquidity, and, a liquid treasury portfolio with no exposure to structured finance instruments or derivatives, were cited as the rationale for the reaffirmation.

**Green Climate Fund Accreditation** - During the course of the year, the Corporation was accredited as a partnering Institution to the Green Climate Fund (GCF), making AFC the GCF's first African Development finance institution partner.

The GCF is a unique global initiative in response to climate change by investing in low-emission and climate-resilient development on the planet. GCF was established by 194 governments to limit or reduce greenhouse gas emissions in developing countries, and to help adapt vulnerable societies to the potential impacts of climate change. Given the urgency and seriousness of the challenge, the Fund is mandated to make an ambitious contribution to the united global response to climate change. The Fund aims to mobilize unprecedented levels of funding to invest in low-emission and climate-resilient project across the world.

AFC's full accreditation was announced by GCF in July, 2015 after an extensive due diligence and approval by the GCF Board. Accreditation by the GCF enables AFC to access its committed capital of US$9.3 billion; a pool of funds for climate change projects to be utilized by partners for on-lending, grants, lines of credit, guarantees and other similar purposes.

## People & Organisation

The restructured organisation which was implemented during 2015, introduced a new operating structure, embedding the development of business units with 'end-to-end' responsibility, with a view to positioning the Corporation for a sustained step change in growth, revenue and profitability.

The management and staff of AFC must be commended for the sustained progress achieved in managing the corporation's business, effectively and efficiently since inception. Our competitive advantage continues to be our expertise in innovative structuring and arranging, financial and technical advisory and project development. In addition to this, the competence, commitment and professionalism of our employees continues to be critical to the successful delivery of our business objectives.

Against a backdrop of the lowest attrition rate in the last 3 years, our workforce size increased to 80 with sustained diversity and continental representation. Starting the year with 20% of the approved workforce positions vacant following the restructuring, the Corporation recruited top talent in a fiercely competitive talent market, including a selection of C-suite positions.

Talent and competence reviews were completed, providing management with deep insights into the overall quality of its talent pipeline and helping to focus its people development efforts aimed at continuously strengthening the Corporation's talent pipeline and leadership bench-strength.

## Corporate Governance

**Board and Management Changes:**
***New Appointments and Retirements*** - As chair, I am pleased to report that the Corporation further enhanced its corporate governance structure and continued to be governed and managed with openness and transparency. The Corporation appointed its first independent director, Mr. Grant Harris- a US national, on January 1st, 2016, to further enhance and strengthen the composition of the Board.

On 31 December, 2015, Messrs Bisi Onasanya and Jibril Aku retired as Chief Executive Officer of First Bank of Nigeria and Ecobank Nigeria Limited, respectively. Mr. Onasanya resigned from the Board, effective January 1st, 2016 and Mr. Aku, resigned with effect from February 15, 2016. Mr Lewis Tung, Group CEO & Managing Director, WEMPCO, also resigned from the Board on February 22nd, 2016. I would like to thank all of them for their immense contributions to the Board and to the Corporation.

To replace the retired Non-Executive Directors, the Board appointed Dr. Adesola Adeduntan, the Chief Executive Officer of First Bank of Nigeria, Mr. Charles Kie, the Managing Director of Ecobank Nigeria Limited, and Mr. Lawrence Tung, Group Executive Director, WEMPCO, as representatives for First Bank Nigeria, Ecobank Nigeria Limited and WEMPCO, respectively. Their appointments will be presented for the approval of shareholders at the General Meeting.

At the management level, Mr. Sanjeev Gupta, joined the team as the Executive Director Financial services and Roger Ellender retired from the Corporation as Chief Risk Officer, following his attainment of the mandatory retirement age. He was succeeded by David Johnson as the new Chief Risk Officer. I thank Roger for his contribution to the Corporation and for successfully maintaining a track record of no non-performing loans on the books of the Corporation since inception. He also laid the foundation for the establishment and embedding of the AFC's risk management framework.

I must at this point applaud the management and staff of AFC for the continuous progress the Corporation is making by managing the business efficiently and effectively in a difficult and challenging year.

Our core differentiating factors are our expertise in innovative deal structuring and arranging, financial and technical advisory, and project development. Allied to this, is the commitment, resilience and professionalism of our employees which has been crucial to the successful delivery of our business objectives.

We remain cautious about the current environment. AFC will be highly selective and prudent in pursuing opportunities that align with our value proposition. We will focus on our sectoral expertise and capabilities to enhance our existing investment portfolio as well as exploring other niche markets.

AFC will be highly selective and prudent in pursuing opportunities that align with our value proposition. We will focus on our sectoral expertise and capabilities to enhance our existing investment portfolio as well as exploring other niche markets.

## Outlook in 2016

The lacklustre outlook for global economic activity could have a significant bearing on AFC's business in 2016. AFC exists to bridge the deficit in infrastructure financing across Africa, a downturn in the commodity markets into 2016, adds fresh impetus to create more diversified economies, which will give rise to greater demand for investments in Power, Transport and Heavy industry. We look forward to working with our member countries and other partners to realise such investment opportunities.

In holding true to our long term vision and time horizons for infrastructure development, we will adhere to our plan to grow our asset base, accelerate our funding, whilst maintaining a prudent liquidity buffer. With the changes at operational level (management and corporate restructuring) fully embedded, and, with the continued support from our stakeholders and development partners, we remain optimistic that we can accomplish the goals that have been set for 2016 and the years to come.

**Dr. Sarah Alade, OON**
Chair, Africa Finance Corporation

# DIRECTORS' REPORT

The Directors present their report together with the audited consolidated financial statements for the year ended 31 December 2015. The comparative period is for the year ended 31 December 2014.

## Principal Activity

Africa Finance Corporation, is a multilateral development financial institution established by an agreement amongst Sovereign States. Its principal activity is the provision of infrastructure finance through equity participation, debt finance, and technical, management and financial advisory services as may be required to obtain funding for and to develop infrastructure and industrial capacity across Africa.

## Membership

I am pleased to report that 2015 was a successful year in our membership drive. Four African countries joined the membership of AFC; Cote d'Ivoire, Gabon, Rwanda and Uganda. This represents a 40% increase in the number of member countries and brings the total number of countries who have either signed or acceded to the AFC Establishment Agreement to thirteen. There are discussions with Kenya, Tanzania, Mozambique, Mauritius and Zambia with the possibility of these countries acceding to AFC's membership in 2016.

Ghana has made a substantial deposit for its shares and discussions are also ongoing with Gabon in respect of their subscription for AFC's shares. Follow up discussions are being held with some multilateral development finance institutions in relation to their interest to subscribe for shares in AFC, namely: African Development Bank (AfDB), ECOWAS Bank of Investment and Development (EBID) and East African Development Bank (EADB). The Corporation will continue to pursue its membership drive in 2016.

## Financial Position

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under historical cost convention, except for derivative financial instruments, available-for-sale financial assets, and financial liabilities held at fair value through profit or loss, which have been measured at fair value. The financial statements are presented in United States dollars (US$).

The Corporation's consolidated total comprehensive income for 2015 financial year was US$70.27 million. The details of the results for the year are set out in the financial statements. The board approved the financial statements of the Corporation for the year ended 31 December, 2015 at a meeting of the board held on 22 February, 2016.

## Shareholder Returns

The issued share capital of the Corporation as at December 31, 2015 remains unchanged (US$1,089,067,000). The board has recommended a dividend payout of US3.23 cents per share (US$35,176,865 in aggregate), as payment to all shareholders, subject to approval at 2015 Annual General Meeting.

## Long term Loans

The AFC Board approves the Corporation's total financing plans for every year. The Board Risk and Investment Committee approves each individual borrowing under the Corporation's total financing plans. During the year, as part of the Corporation's Board approved Borrowing Programme, the Corporation's US$3 Billion Global Medium Term Notes Programme (the "GMTN Programme") was established, under which the Corporation's Maiden US$750 Million Eurobond was successfully launched and concluded a US$30 million Term Loan Facility with Oesterreichische Entwicklungsbank AG (OeEB).

The inaugural 5 year Eurobond yielded 4.595%. The bond, which was both Regulation S and Rule 144A compliant, (Reg S and 144A, Regulation S provides an exclusion from the Section 5 registration requirements of the United States Securities Act, 1933, for offerings made outside the United States by both U.S. and foreign issuers) attracted investors worldwide, with Europe, Asia and the US showing the highest levels of demand. The bond was 6 times oversubscribed with orders totaling US$4.6billion from 315 investors, enabling a diversified distribution among international institutions. The GMTN Programme and the Eurobond were both assigned an investment grade A3 (Long-Term) and/P2(Short-term) by Moody's. The ratings mirrored the international credit rating of the Corporation.

The successful issuance of AFC's debut Eurobond put AFC's credit on the radar of global fixed income investors in 2015. It is not surprising therefore that since the bond was issued, we received a number of enquiries from investors seeking exposure to AFC through privately placed MTNs. Following the maiden Eurobond issue, AFC successfully issued four private placement notes under the Corporation's GMTN Programme with a total value of US$104 million. The notes were issued to investors in Thailand, Qatar, Dubai, and Sweden.

As at 31 December, 2015 borrowings stood at US$1,646,936,000, a 55% increase of US$585,343,000 compared to borrowings of US$1, 061, 593,000 as at 31 December, 2014.

## Corporate Governance and Compliance

Corporate governance at AFC is a core and vital discipline that complements our desire to continually improve upon the success of the young organization on behalf of our shareholders. Our approach to governance is set by the Board. We believe that effective governance is achieved through leadership and collaboration, resulting in consistently focused and sensible business decisions. Management ensures that corporate governance is effectively implemented across the whole business, and that all our employees are aware of and abide by the Corporation's culture, vision and values, and uphold the highest standards of service.

In my capacity as Corporate Secretary, I am pleased to report that the Corporation has continued to embed and adopt leading corporate governance principles in our corporate policies, which are updated annually to reflect changing corporate requirements and best practice. AFC complies with international best practices in corporate governance through engagement with counterparties on the basis of strong principles of governance and compliance that provide the framework which guides its operations.

We have continued to engage with our stakeholders and to seek independent reviews of our performance so as to help us identify further opportunities to improve our business. Our approach for 2016 is to further engage with stakeholders on a regular basis in order to build solid relationships that will stand the test of time.

The Board believes regular and appropriate Board and Committee evaluation is key to achieving and improving Board effectiveness. In our bid to continue to make our business more efficient, the Corporation's Corporate Governance processes and systems were assessed. To this end the Board chose to conduct an externally facilitated evaluation of its performance. KPMG Professionals was engaged by the Board on the recommendation of the Board Nominations and Corporate Governance Committee. KPMG's report has been considered by the Board and its recommendations will be key issues of focus for corporate governance in 2016.

Management continues to strive to treat all employees fairly. To this end, Management supports employees through organisational changes and ensuring that appropriate jobs are aligned to employee skills. Furthermore, we conduct an annual analysis of learning needs to identify priorities and ensure that learning plans support our business strategy. Every employee also has a formal review twice a year with their manager to review their performance and at the end of each year, set clear goals and development plans for the year ahead.

Our team brings together specialist skills and diverse experience used on investment decisions and to manage our portfolio on an asset-by-asset basis, to ensure the achievement of our strategic priorities. Our corporate culture is grounded in mutual respect and non-discrimination irrespective of age, disability, gender, race, nationality, sexual orientation or educational background. Our aim is to foster a culture of respect and fairness where individual success depends solely on ability, behaviour, work performance, demonstrated potential and perhaps the most key of all, the ability to work as part of a team. Whilst our policy remains that selection should be based on the best person for the role, we recognise the benefits of gender and nationality diversity.

In our bid to further strengthen unity amongst staff and instill the culture of mutual respect and non–discrimination and align individual objectives with the Corporation's strategy, town hall meetings are held regularly with all staff, Knowledge sharing sessions facilitated by the different divisions, Monthly Birthday dinners are held to help ensure that employees have an avenue to raise concerns directly with Senior management and periodically Newsletters are issued to all staff to keep them abreast of the Corporation's activities.

In accordance with international best practices, the Corporation continues to subscribe to the KPMG Ethics Line to provide a forum to report incidents of misconduct, in a confidential and anonymous manner.

We have identified our significant role in ensuring that we help protect our continent, Africa, from environmental practices that continually adversely impacts our continent. To this end, in 2015, AFC achieved Green Climate Fund (GCF) accreditation, as the first international financial institution on the Continent to be so accredited. This means that funds can now be channelled to Africa through AFC as an implementing agency. We believe that with our partnership, AFC together with GCF will unlock and facilitate critical financing for an array of climate change projects, especially for mass transit solutions including urban rail, water transport and roads – projects historically deemed too difficult, too expensive or not bankable.

In the Corporation's drive to entrench good corporate governance and strengthen the Corporation's risk management framework, the Corporation implemented a Governance and Risk Compliance IT solution ("SAP GRC") platform, during the year. The GRC platform helps the Board and Management efficiently put policies and controls in place to address all its compliance obligations while at the same time gathering information that helps proactively run the business of the Corporation.

During 2015, the Corporation's Internal Audit Charter was reviewed to ensure compliance with Standard 1000 of the International Standards for the Professional Practice of Internal Auditing. Furthermore, the Board through the Audit and Compliance Committee engaged the services of Akintola Williams Deloitte to independently assess our internal audit and compliance systems.

## Board of Directors

The AFC Charter defines the roles of the Board of Directors, Management, and Shareholders including the protection of minority interests. There are standard written rules for the internal operation of the Boards of Directors and the Board Sub-Committees, a code of conduct on business ethics for staff, all of which are aimed at ensuring transparency and accountability.

The Board is accountable for managing the Corporation on behalf of its shareholders and each Director acts in a way which promotes the long term success of the organisation for the benefit of the

Corporation's shareholders as a whole. The Board ensures that an appropriate balance between promoting long term growth and delivering short term objectives is achieved.

The Corporation's Board meets at least once every quarter or as the business of the Corporation may require. Some of the Board Committees meet on a more regular basis depending upon the exigencies of the business. The Board provides entrepreneurial leadership of the organisation within a framework of prudent and effective controls for risk assessment and management. The Board is primarily responsible for: determining strategic direction and demonstrating leadership; focusing on matters that consistently add value for shareholders; the governance and stewardship of the AFC to provide protection and security for the shareholders' assets; the management of the Corporation's employees; and ensuring that its obligations to shareholders and other stakeholders are understood and met; and determining the nature and extent of the significant risks the Corporation is willing to take to achieve its strategic objectives.

The Board has a schedule of matters reserved for their approval and all other items are delegated to Board Committees and Executive Management under the leadership of the Chief Executive Officer. The Chairperson of each Board Committee and the Chief Executive Officer presents a report of their activities at each Board meeting for approval of decisions, as appropriate, reached at the Committee and Management levels.

**Board Composition**

The AFC Board of Directors consist of institutional investors represented by individuals with, amongst other criteria, have a proven expertise in business management and economic development, with a successful track record in the AFC investment sectors; a strong reputation in the business community; experience in investment banking, infrastructure finance, accounting, and or law; possess a high level of integrity, professional and personal ethics and values consistent with the AFC corporate culture.

As part of AFC's Board succession process, two Board members: Mr. Bisi Onasanya and Mr. Jibril Aku retired from the Board of Directors. Following their retirement, the Board on the recommendation of the Board Nominations and Corporate Governance Committee ("BNGC") elected Dr. Adesola Adeduntan and Mr. Charles Kie as Non-Executive Directors of the Corporation. Dr. Adesola Adeduntan, who was the former CFO of AFC, is the Group Managing Director of First Bank Nigeria Limited and Mr. Charles Kie is the Managing Director and Chief Executive Officer of Ecobank Nigeria Limited. The Board, upon the recommendation of the BNGC also approved the following renewals and appointments: the terms of Mr. Emeka Emuwa as Non-Executive Director and Dr. Adesegun Akin-Olugbade as Executive Director were renewed. Mr. Sanjeev Gupta was appointed as a new Executive Director of the Corporation.

In accordance with the provisions of the AFC Charter, I am pleased to report that the AFC Board on the recommendation of the BNGC has appointed its first independent Director, Mr. Grant Harris with effect from January 1, 2016. In making their recommendation to appoint the first independent director, the BNGC reviewed a list of persons with requisite experience, business acumen and knowledge of Africa.

The BNGC has continued to assess appointment of candidates in accordance with the Board's Corporate Guidelines framework on succession planning for Directors and Executives.

**Board Induction**

Upon appointment, non-executive directors undertake a tailored induction programme. The induction is designed to meet each individual non-executive director's skills and needs and to introduce them to, and familiarise them with, the principal activities of the Corporation. This includes one to one meetings with the Chief Executive Officer and Executive Director and General Counsel of the Corporation. The induction covers the legal structure of AFC, the terms of reference of board committees and specifically the committees on which the director sits.

I am pleased to report that in line with leading corporate governance best practices, we have in place for 2016, a more robust Board induction programme facilitated by Division Heads and Management.

**Update on the Activities of the Board Audit & Compliance Committee (BACC)**

The BACC continued to monitor the integrity of the financial statements of the Corporation including management reports and compliance with accounting standards. During the year, the Committee reviewed and approved: the Corporation's Three Year Rolling Plan, 2016 Operating Budget, the Model Financial Statements to ensure compliance with the 2015 Disclosure Checklist in conjunction with the External Auditors, reviewed policies on the Corporation's financial performance, and monitored the utilization of the 2015 budget. The Committee monitored the Corporation and Business Units' financial performance. The Audit and Compliance Committee met with the External Auditors and Management in joint sessions to review the Audited Financial Statements. The BACC engaged the services of an External Consultant, Akintola Williams Deloitte to conduct an independent Quality Assessment of the Internal Audit function. BACC also reviewed, approved and monitored the implementation of the approved annual audit plan as proposed by the Head of Internal Audit. The Audit Committee reviewed and approved the Corporation's Expense Management Policy and Procurement Guidelines. The BACC conducted a review of the effectiveness of the system of internal controls and risk management during the year and monitored the Corporation's compliance with systems through the Chief Compliance Officer's Compliance Dashboard and Report. The Committee reviewed and updated the Internal Audit Charter in compliance with the requirement of *"The International Standards for the Professional Practice of Internal Auditing",* issued by the Institute of Internal Auditors. A specific area of underlying oversight for the BACC throughout 2015 has been to provide the Board, Shareholders and stakeholders with Annual Financial Statements that presents an accurate position of the performance of the Corporation. The Committee was made up of six members and met four times in the year.

**Update on the Activities of the Board Risk & Investment Committee (BRIC)**

The slowdown in most African economies and heightened risk profile in the region created a number of complexities for the Corporation. Under the guidance of the BRIC, the focus for most part of the year was to ensure limited deterioration in asset quality of the existing portfolio while seeking to grow new assets on a more selective basis. While Management and BRIC were successful in ensuring that no specific asset was non-performing in 2015 (albeit with required portfolio provisions), the pace of asset growth with respect to new projects slowed down.

In 2015, the BRIC reviewed and approved AFC's borrowing decisions within the 2015 Financing Plan approved by the Board of Directors. The BRIC also reviewed and approved the Corporation's investment decisions of circa US$700 million and approved the revisions to the Corporation's Policies on: Credit Risk Management, Market Risk Management, Operational Risk Management, Environmental and Social Risk Management, Asset and Liability Management, and Anti-Money Laundering, Combating Financing of Terrorism and Anti Bribery and Anti-Corruption, Country Limits, Liquidity Management Framework, the 2015 Liquidity Plan and the Environmental & Social Risk Management Policy. In addition, the BRIC held special sessions to assess, monitor and approve the restructuring, as appropriate, of the Corporation's Oil and Gas Portfolio. The BRIC monitored the Corporation's financial performance through periodic reports from the Chief Executive Officer and the Chief Financial Officer. The Committee assessed and through a rigorous interview session selected a new Chief Risk Officer. The Committee was made up of seven members and met six times all through the year 2015.

**Update on the Activities of the Board Nomination & Corporate Governance Committee (BNGC)**

The BNGC in 2015 reviewed and approved several policies on: People Management issues / matters, succession planning, appointments for executive, independent and non – executive directors, new Headquarters Building project, Annual Board

Evaluation, and the Delegation of Approval Authority Limits for Debt and Equity Investments. During the year, the BNGC met four times.

**Board Balance of skills**

The Board through its nomination and governance committee evaluated the balance of skills, knowledge, experience and diversity on the Board. Collectively, the Board has an appropriate balance of skills, experience, independence, knowledge and diversity to enable it discharge its duties and responsibilities effectively. It is expected that with the recent appointments to the Board, the AFC Board will be infused with an increased level of skills and experience, knowledge and diversity. All Directors have access to the advice and services of the General Counsel, the Chief Risk Officer and Head of Internal Auditor and the external auditors, who are currently PricewaterhouseCoopers. There is an agreed process by which Directors may seek independent professional advice at the Corporation's expense in the furtherance of their duties.

**Responsibilities of Directors**

The Board of Directors is responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs of the Corporation at the end of the financial period and of the results for that period. These responsibilities include: - the institution of adequate internal control procedures to safeguard assets, prevent and detect fraud or other irregularities; maintenance of proper accounting records; adherence to applicable accounting standards; relevant accounting policies used and consistently applied; and the financial statements are prepared on a going concern basis.

The Directors consider that the Annual Report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Corporation's financial performance, business model and strategy.

## Independence

The Board considers all of its Non-Executive Directors to be independent in character and judgment and free from any business or other relationship which could materially interfere with the exercise of their judgment.

## Independent External Auditors

PricewaterhouseCoopers, Lagos Nigeria, has indicated its willingness to continue in office as the Corporation's external auditors. A resolution will be presented at the 2016 AGM to approve their re-appointment and authorise the Directors to determine their remuneration.

## Annual General Meeting

Pursuant to the provisions of the AFC Charter, an Annual General Meeting will be held in April 2016. A copy of the Notice is available on our website.

**Dr. Adesegun Akin-Olugbade,**
Executive Director and Corporate Secretary

Board Composition as at 31 December 2015

| Name | Representative Shareholding Institution | Committee membership | Date of Appointment | Changes to the Board |
|---|---|---|---|---|
| Sarah Alade, OON | Central Bank of Nigeria | Chairperson, Board & BNGC | 30 July 2014 | |
| Tony Elumelu, CON | United Bank for Africa Plc | Chairman, BRIC Member BNGC | 16 May 2007 | |
| Tunde Lemo, OFR | Central Bank of Nigeria | Interim Chairman, BACC, Member BNGC | 16 May 2007 | |
| Aigboje Aig-Imoukhuede | Access Bank Plc | Chairman, BRIC Member BNGC | 26 November 2012 | |
| Jibril Aku | Ecobank Nigeria | Member, BACC and BNGC | 19 March 2012 | Resigned December 31, 2015 |
| Lamido Yuguda | Central Bank of Nigeria | Member, BRIC and BACC | 30 July 2014 | |
| Emeka Emuwa | Union Bank Plc | Member, BRIC and BNGC | 26 November 2012 | |
| Bisi Onasanya | First Bank, Nigeria Plc | Member, BRIC and BACC | 2010 | Resigned December 31, 2015 |
| Ebenezer Onyeagwu | Zenith Bank Plc | Member, BRIC and BACC | 7 November 2013 | |
| Lewis Tung | WEMPCO | Member, BRIC | January 2008 | Resigned 4 February 2016 |
| Robert Tung | Gloria Investments | Member, BACC | 24 April 2008 | |
| Andrew Alli | AFC | Executive Director | 1 November, 2008 | |
| Adesegun Akin-Olugbade | AFC | Executive Director | 1 January, 2009 | |
| Oliver Andrews | AFC | Executive Director | 1 August, 2014 | |
| Sanjeev Gupta | AFC | Executive Director | 1 November, 2015 | |

# LEADERSHIP AND GOVERNANCE

## Board of Directors

The Board is committed to developing and applying the highest standards of corporate governance both in the management of its business and in its accountability to shareholders.

Standing (L-R):

**Mr. Emeka Emuwa,**
Group Managing Director,
Union Bank of Nigeria Plc
*Representing Union Bank of Nigeria Plc*

**Mr. Sanjeev Gupta**
Executive Director Financial Services

**Dr. Sola Adedutan,**
Group Managing Director,
First Bank of Nigeria Limited
*Representing First Bank of Nigeria Limited*

**Mr. Lamido Yuguda,**
Director, Reserve Management Department
Central Bank of Nigeria
*Representing Central Bank of Nigeria*

**Dr. Adesegun A. Akin-Olugbade, OON**
Executive Director & General Counsel

**Mr. Aigboje Aig-Imoukhuede, CON**
Chairman, WAPIC Insurance Plc
*Representing Access Bank Plc*

**Mr. Ebenezer Onyeagwu,**
Executive Director Zenith Bank Plc
*Representing Zenith Bank Plc*

**Mr. Lewis Tung,**
Managing Director & CEO
WEMPCO Group
*Representing WEMPCO Group*

**Mr. Grant Harris**
Managing Director, Harris Africa,
*Independent Non-Executive Director*

Seated (L-R):

**Mr. Tunde Lemo, OFR**
Chairman, Lambeth Trust and Investment Company Limited
*Representing Central Bank of Nigeria*

**Mr. Andrew Alli,**
President & Chief Executive Officer

**Dr. Sarah Alade, OON**
Deputy Governor, Central Bank of Nigeria
Chair, AFC Board

**Mr. Tony Elumelu, CON**
Chairman, Heirs Holdings
*Representing United Bank for Africa Plc*

*Missing from Photograph:*

**Mr. Charles Kie,**
Managing Director,
Ecobank Nigeria Limited
*Representing Ecobank Nigeria Limited*

**Mr. Robert Tung,**
Director Gloria Investments Limited
*Representing Gloria Investments Ltd*

**Mr. Oliver Andrews**
Executive Director & Chief Investment Officer

## Executive Committee

The Executive Committee focuses on our strategy, financial structure and planning, financial and competitive performance, succession planning, organisational development and Corporation – wide policies. The Executive Committee includes the Executive Directors, details of whom are shown on page 24, and the senior managers who are listed below.

**Mr. Andrew Alli**
President & Chief Executive Officer

**Dr. Adesegun A. Akin-Olugbade, OON**
Executive Director & General Counsel

**Mr. Oliver Andrews**
Executive Director & Chief Investment Officer

**Mr. Sanjeev Gupta**
Executive Director Financial Services

**Mr. Ayotunde Anjorin**
Chief Financial Officer

**Mr. Roger Ellender**
Chief Risk Officer (Retired December 2015)

**Mr. David Johnson**
Chief Risk Officer (Effective 1 January, 2016)

## Leadership Profile

### The following is a summary of the business experience and principal outside business interests of the Board of Directors and Executive Management.

**Sarah Alade** is the non-Executive Chair of Africa Finance Corporation and a Deputy Governor of the Central Bank of Nigeria (CBN) on Economic Policy. Prior to her current position, she served as the Acting CBN Governor between February and June, 2014. She joined the CBN in 1993 as an Assistant Director in the Research Department where she served as Head, State Government Finance Office, and thereafter Head, Federal Government Finance Office and Head, Fiscal Analysis Division. She was appointed Director Banking Operations Department in May 2004.

Prior to becoming a regulator, Dr Alade was a Lecturer at the University of Ilorin in the Department of Accounting and Finance. She is a Fellow of the Nigerian Institute of Operational Research. She holds a Bachelor of Science in Economics from the University of Ife, Nigeria, a Masters in Communication from the University of Melbourne, Australia and a Ph. D in Management Sciences (Operations Research) from University of Ife, Nigeria.

**Tunde Lemo** is the Chairman of the Board Audit and Compliance Committee and a non-executive director of the Corporation. He is a fellow of the Institute of Chartered Accountants of Nigeria and the Chartered Institute of Bankers with significant leadership and top management experience in both the public and private sector spanning over 27 years. He holds a Bachelor of Science in Accountancy (first class division) from the University of Nigeria, Nsukka.

Mr Lemo retired in 2014 as Deputy Governor in charge of Operations, at the Central Bank of Nigeria, in which he formulated the industry – wide shared services initiative towards achieving efficient banking services for the Nigerian banking industry and greater dissemination of banking services. Prior to his appointment as Deputy Governor, he was a Managing Director and Chief Executive Officer of Wema Bank Plc.

**Tony Elumelu** is the Chairman of the Board Risk and Investment Committee and a non-executive director of the Corporation. He is the Chairman of United Bank for Africa and Heirs Holdings Limited, an African proprietary investment company investing in in strategic sectors of Africa's economy. He is the founder of the Tony Elumelu Foundation, an Africa-based and African-funded, philanthropic organisation dedicated to the promotion of excellence in business leadership and entrepreneurship, to enhance the competitiveness of the private sector across Africa.

He was formerly the Chief Executive Officer of United Bank for Africa Plc and was responsible for transforming the bank from a single currency bank to a Pan – African institution serving over 7 million customers in 20 African counties and operating in three continents.

He earned a Bachelor of Science degree in Economics from Bendel State University, Nigeria and Master of Science in Economics from the University of Lagos, Nigeria.

**Aigboje Aig-Imoukhuede** is the President of the Nigerian Stock Exchange and non – executive director of the Corporation. Aigboje is the Chairman of WAPIC Insurance Plc, a Nigeria-based company engaged in offering insurance covers for over half a century, offering a comprehensive range of insurance coverage. The Company has built a strong franchise in the largest economies in Sub-Saharan Africa.

Aigboje was formerly the Group Managing Director and Chief Executive Officer of Access Bank Plc. His visionary leadership inspired Access Bank's rapid and unprecedented growth which has seen the Bank ranked amongst the top four African banks. He holds a Bachelor of Laws from the University of Benin, Nigeria and a Barrister-at-law diploma from the Nigeria Law School. He is also a Fellow of the Chartered Institute of Bankers.

**Jibril Aku** was the Managing Director of Ecobank Nigeria Limited and a non – executive director of the Corporation. Jibril is a former President of the Money Market Association of Nigeria (MMAN) and serves as Chairman of the NIBOR Committee of the Association.

Prior to joining Ecobank in 2006, he worked for Nigeria International Bank Limited (Citibank) and later with Afribank Nigeria Plc as Executive Director in charge of Operations & Information Technology.

Jibril has over 30 years banking experience with 20 years spent in senior management. He has served two terms as Director of Nigeria Inter-bank Settlement Systems (NIBSS) and various subsidiaries of Afribank Group. Jibril was Executive Director responsible for Ecobank's Treasury & Financial Institutions Group amongst others from April 2006 to March 2010. He holds both Bachelors and Masters Degrees in Business Administration.

**Emeka Emuwa** is the Group Managing Director and Chief Executive Officer of Union Bank Nigeria Plc and a non – executive director of the Corporation. Emeka joined Union Bank Nigeria Plc, after 25 years with Citigroup having served as Chief Executive Officer and Managing Director of Citibank Nigeria Limited from 2005 - 2012. He began his banking career in 1986 as Management Associate with Citibank Nigeria Limited. Emeka served as Country Officer / Country Head in Cameroon, where he was responsible for the regional banks Central African businesses in Gabon and Congo.

He is a graduate of Finance from the University of Lagos, Nigeria and holds a Master of Science in Management from Purdue University's Krannert School of Management, Indiana, United States.

**Bisi Onasanya,** was the Managing Director and Chief Executive Officer of First Bank Nigeria Limited and a non – executive director of the Corporation. Prior to joining the Board of First Bank Nigeria Limited, He was the Managing Director / Chief Executive Officer of First Pension Custodian Nigeria Limited, a wholly owned subsidiary of FBN Holdings. Bisi started his banking career at Wema Bank Plc in 1985.

Bisi holds an HND Upper Credit in Accountancy from Lagos State College of Science and Technology. He is also a Fellow of the Institute of Chartered Accountants of Nigeria and an Associate Member of the Nigeria Institute of Taxation. He is a director of FBN Bank (UK) Limited and FBN Insurance Brokers Limited.

**Ebenezer Onyeagwu** is currently a Fellow of the Institute of Chartered Accountants of Nigeria and an Alumnus of the University of Pennsylvania, United States (Wharton Executive Education), Columbia Business School, Columbia and Harvard Business School.

Mr Onyeagwu has over twenty-two years banking industry experience. He worked as Credit Analyst in the defunct Financial Merchant Bank Limited and later joined Citizens International Bank Limited where he held several management positions. He joined Zenith Bank Plc in 2002 as a Senior Manager in the Internal Control and Audit Group of the bank and has served in various capacities as Assistant General Manager, in charge of coordination of strategies for Business Development and Relationship Management. He is currently an Executive Director at Zenith Bank Group.

**Lewis Tung** is the Managing Director and Chief Executive Officer of WEMPCO Group and a non – executive director of AFC. Lewis studied Business Administration at the University of Hawaii, USA and has over 30 years work experience in Nigeria.

WEMPCO Group is one of the largest manufacturing groups operating in Nigeria. Products manufactured by the Group include roofing sheets, galvanised pipes, wire nails, plywood, ceramic tiles and sanitary ware. The Group is additionally actively involved in activities in the agriculture and hospitality sectors.

**Robert Tung** is a Director at Gloria Investments Limited and a Senior Executive of WEMPCO Group. He has a degree in Business Administration from Hong Kong, and has worked with the Group for over 41 years. He is a Non-Executive Director of AFC.

**Lamido Yuguda** was appointed as a non-executive director of the Corporation in July 2014. He is currently the Director, Reserve Management Department of the Central Bank of Nigeria (CBN), where he provides leadership and strategic direction for the external reserve management functions in addition to managing the relationship between CBN and its international correspondent banks and investment managers. Lamido started his banking career as Senior Supervisor, Foreign Operations Department in 1984 and has held several positions at the CBN. Lamido was the Secretary of the Bank's Investment Committee. He had also served as an Economist in the African Department of the International Monetary Fund (IMF), Washington, DC, USA, between November 1997 and November 2001.

He holds a Bachelor of Science in Accounting from Ahmadu Bello University, Zaria and a Master of Science in Money, Banking and Finance from the University of Birmingham, United Kingdom. He also holds a certificate in Financial Asset Management and Engineering from the Swiss Finance Institute, Geneva Switzerland. Lamido is a Fellow of the Institute of Chartered Accountants of Nigeria, and a Chartered Financial Analyst.

**Andrew Alli,** President & Chief Executive Officer

Andrew joined AFC in 2008 and is the President and Chief Executive Officer of the Corporation. Until his appointment, he was a partner at Travant Capital having previously served in the International Finance Corporation ("IFC") as Country Head for Southern Africa. He joined IFC in 1996 and held various positions in Washington D.C. before being appointed Country Manager for Nigeria in 2002. Mr. Alli holds a Bsc in Electrical Engineering from Kings College, University of London, an MBA from INSEAD, France and qualified as a Chartered Accountant with Coopers & Lybrand (PricewaterhouseCoopers) in the U.K.

**Adesegun Akin-Olugbade (OON),**
Executive Director & Chief Operating Officer

Adesegun is an Executive Director and the Chief Operating Officer. He is also the General Counsel and Corporate Secretary of AFC. His oversight functions include Corporate Governance, Legal, Information Technology, Administration, Corporate Communications and Country Membership. A former General Counsel and Director at the African Development Bank and a graduate of Harvard Law School, Dr. Akin-Olugbade has 30 years of experience in legal/financial sectors having worked at both technical and management levels, in the public and private sector, leading corporate and commercial law firms and international financial institutions. Dr. Akin-Olugbade was the pioneer Chief Legal Officer and Head of the Legal Services Department of the African Export-Import Bank (Afreximbank). He was appointed to the Board of Directors of Ecobank Transnational Inc. (ETI) as a Non-Executive Director in June 2014. He is an alumnus of the IMD Executive Management Programme.

**Oliver Andrews,**
Executive Director & Chief Investment Officer

Oliver is an Executive Director and the Chief Investment Officer. His oversight functions include end to end origination and execution of transactions for AFC. An entrepreneurial engineer and transport economist with extensive background in engineering, transport and project finance, Oliver has over 30 years experience in the infrastructure sector as an infrastructure project developer, financier and strategic adviser. He has successfully directed numerous infrastructure deals in Africa leading project development teams providing strategic, policy, program and commercial advice on infrastructure development issues to development financial institutions, international blue chip corporations, and Governments both in Africa and Europe. Oliver is a former CEO of TCI Infrastructure Limited (TCII) and the Gambia Ports Authority. He holds an MBA from the University of Wales, and is an Electrical and Electronic Engineer, a Chartered Marketer and also a fellow of the Chartered Institute of Transport and Logistics.

**Sanjeev Gupta,**
Executive Director, Financial Services

Sanjeev was recently appointed Executive Director, Financial Services. He is responsible for Treasury, Syndication and Advisory lines of business for AFC. Sanjeev has over 25 years' experience in Investment Management, Private Equity and Corporate Advisory Services and his forte has been to blend together divergent corporates, investors and governments to develop sustainable business and development models. Prior to joining AFC, he was the Managing Partner in charge of Emerging Markets M&A at Ernst Young Transaction Advisory Services. Sanjeev was also the Chief Executive Officer of Sanlam Investment Management, responsible for Emerging Markets as well as Founder and Managing Partner of Emerging Opportunity Consulting. He has a bachelor's degree from the University of Calcutta, India and is also an alumnus of the Said Business School, University of Oxford, England. He is a fellow of the institute of chartered accountants of India (FCA), and a member of the Institute of Investment Analysts of South Africa.

**Ayotunde Anjorin,**
Director & Chief Financial Officer

Ayotunde is a Director and the Chief Financial Officer. Prior to this, he was AFC's Senior Vice President and Head of Finance & Operations with strategic leadership responsibilities for all finance related activities comprising banking operations, financial reporting and control, product control, and settlement. Ayotunde had joined the Corporation as the Vice President and Financial Controller in 2011. Before joining AFC, Ayotunde worked at Standard Chartered Bank Nigeria, where he held a number of positions within the Finance group and Internal Audit at national and regional levels. He was the regional Head of Wholesale Banking Finance at Standard Chartered Bank responsible for managing wholesale banking finance activities across West Africa. He has also worked as a consultant for KPMG. Ayotunde is a chartered accountant with more than 15 years post qualification experience encompassing financial accounting, reporting and control, management accounting, financial risk management, process re-engineering and reviews. He holds a Bachelor of Science degree in Accounting from Obafemi Awolowo University, Ile-Ife.

**David Johnson,**

Senior Vice President and Chief Risk Officer

David Johnson is the Senior Vice President and Chief Risk Officer. Before assuming this role, he was Vice President responsible for Market Risk Management overseeing capital preservation, liquidity management, good corporate governance and ensuring risk limits are consistent with Board specified risk appetite and the Corporation's risk capacity. Prior to AFC, David spent fifteen years working as a Risk Manager, Trader and Structurer at various international banks in London. His career in the City of London included, most recently, Rabobank and WestLB AG. At Rabobank (the only bank in the world without government shareholding that achieved a AAA credit rating from the three international rating agencies) he was a Fund Derivatives Trader within a team of three traders managing a EUR 3bn portfolio. At WestLB, he was a Structured Credit and Fund Derivatives Trader managing a portfolio of EUR 1bn. David's academic background spans Mechanical Engineering, Computing, Mathematical Trading and Finance.

# THE ART OF LONG TERM VISION

## 2015 BUSINESS REVIEW

AFC has a mandate to accelerate Africa's economic growth and industrial development through the financing and development of infrastructure on the continent. Our portfolio therefore is directly aligned to the sectors we believe are most critical to Africa's long term growth: power, natural resources, transportation, heavy industry and telecommunications.

### NATURAL RESOURCES

2015 was characterised by a decline in oil prices from an average of US$96.3 per barrel in 2014 to US$51.2 per barrel in 2015. Similarly, the mining sector continued to experience a downturn with general pricing indicators declining for the fifth year in succession. Oil prices remained under pressure owing to a supply glut; a situation which saw prices plummet by approximately 50% during the year, as China's demand for raw material imports decreased and the Chinese economy rebalanced away from manufacturing to services. The decline in Chinese and broader emerging market demand, tepid economic expansion in Europe and recovery in the USA, has negatively impacted commodity dependent economies in Africa.

With Africa accounting for approximately 11% of global oil production and 18% of the continent generating more than 10% of its GDP from mining activities, the downturn in the natural resources sector has had a mixed impact across the continent, particularly as it relates to importer dependent versus export-dependent economies. Nevertheless, while recognising the cyclical nature of the sector, AFC continues to be optimistic and takes a long-term investment view. The current downturn whilst challenging, also presents significant opportunities. A commodity downturn usually adds fresh impetus to create a more diversified economy, and development of higher value domestic industries which will result in increased investments in power, transport and heavy industry. It also allows import dependent African economies to earnestly focus and implement economic diversification strategies.

AFC believes there are 3 key themes that will guide the sector through the downturn:

1. **Operational Strategy Realignment**

Survival in the downturn will be determined by the ability to realign costs to current realities, driving efficiencies and maintaining financial resilience for long term growth. Nimble, cash rich and cost efficient stakeholders will fare better than others; there will be continuous reviews of financing strategies, cost reduction programs, capital structure and balance sheet optimization strategies, with a focus on improved access to capital.

2. **Mergers and Acquisitions**

Lower valuations have created an opportunity for consolidation and acquisition of high quality assets. We anticipate distressed asset sales, consolidation plays and restructuring as a result of high gearing and limited access to the capital markets.

3. **Development of the Domestic Industry**

Current market realities have highlighted the over reliance of African economies on oil and mining and the need for domestic value addition.

## Oil and Gas

The current challenges in the oil and gas sector have been largely been driven by an unprecedented change in global demand and supply dynamics. Data from The Organization of Petroleum Exporting Countries (OPEC) inventories of advanced economies were more than 210 million barrels above the 5-year average. In addition, an oversupply from unconventional oil sources through the shale boom compounded pressures on price and adding to an already precarious situation. From almost no production in 2010, shale production has risen to almost 5 million barrels per day with productivity growing at a rate of 30% year on year since 2007

As the United States continues to maintain its place as a major producer of both oil and gas, historical energy trade patterns are shifting. The country can now satisfy roughly 90% of its energy needs from domestic sources, up from 70% in 2005. Additionally, over the past 4 years, c. 20,000 new shale wells have been completed in the United States – boosting oil production to nearly 9 million barrels per day in 2015.

Furthermore, Iran, a potentially disruptive market re-entrant, will be contributing, in the first instance, an additional 500,000 barrels per day once it comes back on stream in 2016, and up to c.3 million barrels per day within 12 months.

### Outlook

**The Emerging Growth of Midstream Value Chain:** The oversupply of crude oil has led to a sharp rise in demand for storage facilities across the globe. Countries with refining capacities have also seen huge gains in comparison to importing refined products due to the low cost of the feed crude and surplus supply. Additionally, there has been an opportunity to invest in required infrastructure such as intra and international pipelines to transport crude and refined products to facilities.

**Acquisition Opportunities:** The decline in oil prices has presented a unique opportunity for long-term and cash-rich participants in the sector to acquire good quality assets. Such assets may require development financing or may simply be non-core to their current operators and a means of raising additional revenues. As a long-term investor in the sector, AFC will continue to seek opportunities to participate in accretive high quality acquisition projects.

**Restructuring:** In Nigeria where in recent years, indigenous E&P's have benefited from the acquisition of assets from the IOC's, some of these transactions are facing stress under the new pricing regime and will be forced to restructure the acquisition debt financing. The financial assumptions and structure of these new facilities will be more conservative enabling these investments to withstand pricing volatility across various cycles. In essence, there will be a process that will result in the "best man standing", along with availability of higher quality investable opportunities.

## Mining

Plummeting commodity prices and China's waning appetite for natural resources has been at the centre of the commodity rout. China has changed from being an economy driven by investment growth to a consumption-led one. The weak demand from China has led to a spiral in revenue for a majority of mining operators – commodity assets under management are now the lowest they have been in 6 years.

**Sale of non-core assets:** Mining giants and investors have embarked on focusing on their core strategies and profitable mining operations. By doing this they have also created an avenue to raise revenues through the sale or divestment from non-core assets.

**Junior Miners' growth opportunity:** As the mining giants divest from non-core, unprofitable and comparably smaller mines, junior miners are then given the opportunity to grow their asset portfolios, operations and outputs through acquiring additional assets at significantly lower valuations.

**Efficiency:** The downturn in the market has caused all participants in the industry to review their strategies with the object of being more capital and resource efficient.

**The Untouchables:** Precious metals such as gold that have withstood the price pressure and Chinese slump in demand over the last few years will continue to be an opportunity for investment with lower anticipated swings in price volatility.

## Natural Resources Portfolio

Natural resources (oil, gas and mining) is an important focus area for AFC. In particular, the Corporation is developing a rapidly expanding franchise across Sub Saharan-Africa, with a number of landmark transactions approved and executed.

The Corporation has acting as financier and adviser to a number of leading sponsors seeking to undertake important financing transactions in the oil, gas, mining and associated infrastructure space in the last 6 years, combining significant in-house technical and structuring capability with a willingness to commit its balance sheet. As an existing lender and equity investor in various assets within this sector, AFC provides practical working experience in dealing with various technical, regulatory, business climate and operational challenges.

## Seven Energy

AFC views the development of Africa's significantly underdeveloped gas resources as key to unlocking the power sector and industrialisation of African economies. AFC is a pioneer investor in Seven Energy, the leading integrated gas company in south east Nigeria, with oil and gas interests in the region.

The company is currently delivering total gas volumes in excess of 110 million standard cubic feet per day to three power stations, a cement plant and a fertilizer factory, and is the leading integrated gas company in south east Nigeria.

Gas deliveries have more than trebled during the course of 2015, and are currently running in excess of 110 million scf/d. As the power stations - Alaoji, Calabar and Ibom - complete their commissioning work and electricity transmission infrastructure, the company forecasts gas deliveries to increase to 200 MMcfpd in 2016, further establishing Seven Energy as a significant participant in the rapidly developing Nigerian gas market.

With the success of Seven Energy in developing a successful gas infrastructure franchise for supply to a high demand cluster of Nigeria, AFC considers the replication of this model as a sustainable way for attaining rapid industrialisation across the African continent.

Seven Energy - A central processing facility, CPF, and pipeline to supply gas to Ibom Power, Akwa Ibom State, and the Niger Delta Power Holding Company, NDPHC's, Calabar Power Plant,Cross River State, Nigeria

**US$145m** spent on procurement of local products and services

**US$16.5m** spent on local vendor contracts in 2015

**92%** Nigerian companies that make up the company's vendor ratio

**100** communities running with the Green Team Initiative

## Development Impact of Our Investment

**Local Content**
Seven Energy sustained its conscious efforts towards the retention of benefits in our areas of operation at the federal, state, local government and community levels through our development activities in gas infrastructure across the south east of Nigeria.

The company continue to implement its Nigerian Content Development Strategy in 2015 by building capacity in the local community through individual projects and education for permanent and contract staff. In a demanding and cost focused business environment, Seven Energy continue to show dedication and investment in this area.

Developing local services and suppliers is a critical market differentiator for the company and during 2015, Seven Energy's vendor management and development strategy continued to yield positive results through the dedicated principle of 'first consideration for Nigerian goods and services' in all its procurement and contracts undertakings.

42 vendors have been hired under contracts covering operations vehicle leasing, manpower supplies, waste management and civil construction, at a total cost of $16.5 million in 2015. This investment has grown local businesses into measurable small and medium scale enterprises and created job opportunities at the community and local government levels. Seven Energy also offers a Vendor's Development Programme where local vendors are encouraged to connect and assist one another.

Seven Energy has also made a significant investment in local procurement of pipeline construction materials, safety wares, operations and maintenance materials and services such as environmental, security, vehicle supplies, financial, legal, insurance, telecommunication, travel and other related services which amounted to $145 million during 2015. Nigerian companies make up the largest portion of the company's vendor ratio at 92%. This underlines its commitment to building in country manufacturing and local content growth.

**Green Team Initiative**
Seven Energy's Green Team Initiative was launched in June 2015 in a bid to ensure that its gas pipelines and associated Right of Ways ("RoW") are kept safe, accessible, clear and clean. It is currently running smoothly across 100 communities on the Uquo-Ikot Abasi and East Horizon Gas pipelines RoW. Through this initiative, over 200 youths across Akwa Ibom and Cross River States have been engaged. The benefits of this initiative are the assured safety of Seven Energy's RoW, clearance of obstructions and wild vegetation and regular engagement with its RoW communities.

A further benefit of the Green Team initiative is that the company is able to quickly identify and manage encroachments and any negative activities, including erosion, on the RoW. The communities, who provide much of the information and intelligence relating to encroach-ments and erosion points via the initiative, are Seven Energy's eyes and ears on the ground and ensure that its vision of developing and providing gas to light up Nigeria is sustainable.

Etoile open-pit copper mine - Lubumbashi, Katanga province, DRC

## Shalina Resources Limited

**Shalina** Resources Limited (Shalina) is a multinational copper and cobalt mining and metals company, with mines operating in the Democratic Republic of the Congo (DRC). Established as a small mining company in 2001, the company has experienced significant growth over the years. In 2015, despite a difficult commodity price environment AFC provided a US$110 million pre-export finance syndicated loan facility to Shalina Resources in collaboration with First Bank of Nigeria(UK) FBN UK and Trafigura Beheer BV (Trafigura), a Dutch multinational commodity trading company founded in 1993 trading in base metals and energy, including oil. The loan facility will primarily be used to fund the construction of a leach solvent extraction and electro winning (SX/EW) plant at its Etoile mine. Etoile mine is an open-pit copper mine on the outskirts of Lubumbashi in Katanga province of the DRC. Prior to this expansion, Shalina produced more than 19,000 tonnes of copper cathodes and approximately 1,200 tonnes of cobalt metal in the form of cobalt hydroxide annually.

The planned expansion works are expected to deliver improvements in cost efficiency leading to a higher recovery of copper and cobalt from available ore. The boost to saleable output is estimated to be an additional 20,000 tonnes of copper cathode and 4,500 tonnes cobalt hydroxide annually. The improved cost efficiencies and production volumes will make Shalina one of the leading low-cost copper producers in the DRC.

Shalina recognises the important role that local communities and its employees play in the success of its business. The company delivers its 'social dividend' through its commitment to job creation, skills and knowledge transfer, value creation, attracting investment and adhering to international best practice with regards to its social and environmental policies.

## Vivo Energy

In 2011, AFC backed the Vivo buy-out of the downstream fuels business of Royal Dutch Shell PLC (Shell) across 16 African countries in collaboration with Helios Investment Partners and Vitol Group.

Vivo Energy currently employs around 2,250 people, operates in 1,470 retail stations under the Shell brand and has access to around 900,000 cubic meters of fuel storage capacity.

Africa's economy is growing faster than that of any other continent. Predicted GDP growth for the continent as a whole is expected to exceed 5% in 2016. Vivo Energy's business is fundamental to the existence of economies, and linked to economic growth in core sectors in Africa such as transport, mining and power, fitting with the developmental impact sought by AFC.

AFC supports the company's vision '*to create Africa's most respected energy business*'. Vivo's shareholders are committed to zero tolerance for corruption, unsafe practices, environmental neglect or unfair competition. The company demonstrates this by putting safety first; investing in the communities in which it operates; empowering, recognising and rewarding employees; and caring for the environment of the countries in which it operates.

AFC further supports Vivo's reinvestment in the business to extend and improve existing services, expand access by adding locations and bringing innovations that improve the experience customer experience. For example, Vivo is expanding convenience retailing and is currently developing new formats, including the addition of quick service restaurants in partnership with major food brands. They are bringing superior fuels like Shell FuelSave to more sites in more countries and, with Shell Card offers, lube and car-wash bays and the provision of a market-leading retail experience, they are setting new standards for quality, convenience and service wherever they operate in Africa.

## Looking to the Future

The lacklustre outlook for global economic activity could have a significant bearing on AFC's business in 2016. However, as we look forward to the year ahead, we believe that now is the time for African countries, particularly those suffering from low commodities prices, to take the steps they need to broaden their economies and to create the right investment environments to attract private capital to African infrastructure. Despite the challenges that exist in the global economy, investors still stand to benefit from well-structured African infrastructure deals. AFC exists to bridge the deficit in infrastructure financing across continental Africa. A downturn in the natural resource markets in 2015 into 2016, adds fresh impetus to create more diversified economies, which will give rise to greater demand for investments, particularly in the mining sectors in our host country Nigeria and some of our new member states: - Côte d'Ivoire, Gabon, Rwanda, Uganda.

Despite the challenges that exist in the global economy, investors still stand to benefit from well-structured African infrastructure deals. AFC exists to bridge the deficit in infrastructure financing across continental Africa.

AFC has developed a phased strategy which immediately exploits depressed market conditions in West Africa, especially for indigenous players in the sector. Further, in the medium to long-term this strategy would promote value addition opportunities in high capital requirement projects in the mid and downstream sectors. This sector is an area of interest for AFC especially given the opportunity for value addition and the positive developmental impact.

AFC has obtained final board approval for over $200M transaction value, which are all expected to be close and be disbursed in 2016. These transactions are expected to geographically diversify the portfolio, with these projects in Guinea Conakry, Tunisia, Liberia and a Pan-African asset portfolio across various mining production, oil & gas production assets, and oil & gas midstream infrastructure sub-sectors. As a long-term investor in the sector, AFC believes that the investment of high impact private capital in well-structured transactions despite the current market challenges, reinforces AFC's commitment to the development of African economies and its overall objective of positive developmental impact.

# POWER

In 2015, the business climate in many African Countries presented challenging circumstances in line with the general global economic and financial headwinds. The economic challenges in Africa were exacerbated by the decline in commodity prices deteriorating terms of trade and declining gross domestic product growth forecasts; all a consequence of African countries' continuing dependence on one or two commodity exports. In spite of these hiccups, in 2015, AFC continued to build on its significant experience and track record in the power sector. This was accomplished through continuing work on power project development initiatives in Ivory Coast, Rwanda, Mozambique, Ghana and Nigeria, while initiating new development and investment opportunities in Zambia.

AFC's work in the sector will ultimately provide African countries and sponsors with bankable projects and financing to overcome the huge infrastructure deficits in the power value chain, and thus scale-up and help diversify these economies; through import substitution, local manufacturing and exports.

In the short term, power sector investments in the operations phase, 2015 was particularly challenging in Nigeria. The year saw the introduction of currency controls which restricted access to foreign currencies, and increased the difficulty of industry players in fulfilling their foreign currency denominated obligations, including servicing AFC loans. AFC continued to provide support for its investee companies and borrowers that acquired assets under the Nigerian power privatization process and also played an active role in engaging the Central Bank of Nigeria with a view to assisting qualified entities access foreign currency. A number of other countries also experienced currency devaluations and in some cases increased currency controls, such as Ghana, but this did not noticeably affect the capacity of client companies to meet their obligations to AFC.

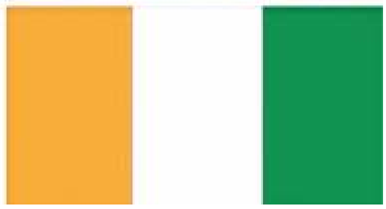
Climatic conditions such as low levels of rainfall and drought in some parts of Africa resulted in severe electricity generation deficits in a number of hydro-dependent countries including Zambia and Ghana. AFC is increasingly becoming part of these countries' solution to diversifying their energy mix. For example, in a bid to address the serious power deficit in Zambia, AFC has secured requisite approval to provide up to US$55mm, as part of an $515 million senior loan facility to finance a 300MW coal-fired project currently under construction in Zambia. Disbursement is planned for early 2016. AFC is also in discussions to act as Mandated Lead Arranger ("MLA") for an emergency power project in Ghana.

Other notable highlights of AFC's participation in the African power sector in 2015 are as follows:

## Green Climate Fund Accreditation for Renewable Energy Projects

In July 2015, Africa Finance Corporation became the first African Development Finance Institution to be accredited by the Green Climate Fund. The Green Climate Fund (GCF) was adopted as a financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC) at the end of 2011. It aims to make an ambitious contribution to attaining the mitigation and adaptation goals of the international community. Its mission is to promote low-emission and climate-resilient development pathways by providing support to developing countries and to help them limit or reduce their greenhouse gas emissions. By becoming an accredited entity, AFC now has access to GCF's committed capital of US$9.3 billion to fund environmentally-friendly and renewable energy projects.

In line with its recent accreditation and award winning wind IPP in Cape Verde, AFC is committed to expanding its pipeline of environmentally-friendly and renewable energy projects in Africa with advanced discussions on several projects in West and East Africa through the use of the GCF Facility.



## Singrobo Hydro Independent Power Project, Côte d'Ivoire

The Singrobo Project is a concession awarded to Ivory Hydro Energy SA on a Build, Operate and Transfer (BOT) basis. The 44 MW plant is located 3km down-stream from an existing hydroelectric plant, and will have a 35-year take-or-pay Power purchase agreenemen (PPA) with CI-Energies, Côte d'Ivoire's public utility.

In 2015, AFC executed a Joint Development Agreement (JDA) to act as co-developer and to invest up to US$4.5 million to drive project development activities to financial close. The project development expenses will be jointly funded by AFC and the Dutch development bank FMO, through the joint AFC-FMO Project Development Facility. Financial close is targeted in 2016.

It is of note that the project won the top prize of $1 million in the West African Forum for Clean Energy Financing Award, 2015.

## Cabeolica

AFC executed a Share purchase agreement with InfraCo Africa in 2015, increasing its stake to 57% in the Cabeólica wind farm in Cape Verde, with equity close attained in early 2016. Cabeólica is the first privately-financed sustainable wind farm on a commercial scale in sub-Saharan Africa.

*Cabeólica's Sal wind farm in operation*

▲ *Kpone IPP General plant, Tema, Ghana - Overview North to South*
*Kpone IPP Collector sub-station site* ▶▶

## Cenpower- Kpone IPP

In January 2015, the ground-breaking ceremony was held for AFC's landmark 350MW Cenpower Combined Cycle IPP Project in Ghana. Construction is underway, with operations expected to commence in the second half of 2017.

## West African Power Pool ("WAPP") Regional Generation Facilities

AFC secured a Lead developer mandate for the development of a 450MW Regional power generation facility in the Republic of Bénin and the 450MW Domunli regional power generation facility in Jomoro District, Western Region, Republic of Ghana, a Joint development agreement was executed between AFC and WAPP in 2015.

The Pre-Feasibility Study for the project has since been concluded and adopted by the participating WAPP Member Utilities. Other project development activities are currently on-going and with Financial Close targeted for 2017.

The West African Power Pool ("WAPP") is a specialised Institution of the Economic Community of West African States (ECOWAS) established in 2006 to develop a regional power market. WAPP is made up of Public and Private Generation, Transmission and Distribution companies involved in the operation of the electricity in West Africa. It has to date, 26 member countries.

## Volta River Authority

AFC continues to cement its financing track record of key projects in the power sector in Ghana. AFC provided a US$60 million facility to the Volta River Authority (VRA), Ghana, to finance the completion of the 220MW Kpone Thermal Power Plant (KTPP) and the conversion to gas of the 80MW Mine Reserve Plant (MRP), in Tema. The project will further improve power generation in Ghana and support VRA's export sales of electricity to Communaute' Electrique du Benin (CEB), an international utility company co-owned by the Governments of Togo and Benin.

### Hakan Independent Power Project, Rwanda

In January, 2014, AFC was appointed the mandated lead arranger on the innovative 80MW peat-to-power IPP in Rwanda. A consoritum of African DFIs and a European DFI, form the Lender group and world-class advisors and technology have been procured to deliver the project. Financial close is targeted in 2016. The project will be the largest project finance transaction in Rwanda's history, and is expected to drastically reduce the use of expensive imported diesel / heavy fuel oil.

## TRANSPORT

In order to consolidate AFC's contribution to the transport infrastructure deficit, which continues to greatly impact productivity, AFC continued to seek innovative and alternative funding sources to 'fast-track' development of transportation projects.

Within the **Roads** sector, there has been an acceleration of Public Private Partnership (PPP) Programs as a means of fast tracking the development and expansion of road infrastructure in several countries in sub-Saharan Africa. We have seen the Kenyan Government work towards the development of 10,000km of roads, the Ugandan government planned development of the Kampala-Jinja road and the Zambian Government targeting the development of 2,000km through road annuity programs. Other countries have sought to utilize the build and transfer model through contractor led financing backed by government term repayments.

In 2015, AFC made its first investment in Guinea, by providing a EUR30 million to Group EBOMAF for the rehabilitation of the 194km section of the National Route 6 (NR 6), connecting Kissidougou and Kankan. The road is a national priority for Guinea, as it not only connects the two largest natural areas in the country, but also forms the junction between the trans-coastal highway running between Conakry to Ouagadougou and Dakar. Once complete, the road will significantly improve travel time between the 34 villages and 11 towns that lie along the route.

AFC has now become one of the largest shareholders in the Henri Konan Bedié Bridge concession in Côte d'Ivoire which was opened in December 2014. The project, which involved the design, construction, financing and commissioning of a 6.4km highway and 1.9km bridge, has transformed the landscape of the historic city of Abidjan. AFC is also working with a number of governments and consortia in support of proposals to develop, structure and fund annuity programs in order to deliver projects more efficiently and effectively

Despite the historic decline of **Rail** as a mode of connectivity, we have seen a re-emergence of governments committing to the development of rail infrastructure in urban cities. The road congestion in a number of urban cities has led governments to prioritize the development of urban rail transportation. AFC is working with government agencies and strategic players to lead the project development of urban transportation. In addition, a major bottleneck to the exploitation of natural resources in a number of West African economies is the transport logistics to evacuate products for export. Countries with a very high reliance on oil are now focussed on diversifying their economies through the provision on multi-user transport logistics which involves the development of rail and port terminal infrastructure.

The economic slowdown in most African countries continued as oil price levels plummet by approximately 50% during the year; political uncertainties in a number of countries that held presidential and parliamentary elections, most notably Nigeria; declining demand from China as the Chinese economy rebalanced away from manufacturing to services and the resulting depreciation of most African currencies led to a slowdown in **Maritime** activity. As a result, the sector which had started to see the development of much needed infrastructure to keep up with changing pattern of increased domestic production and international trade experienced a slowdown in 2015.

AFC continued to support the development of two significant port projects in West Africa which are anticipated to come on stream in 2016 / 2017.

A continued focus for 2016 will be to consolidate efforts to promote domestic and regional transport connectivity, and improve access to funding through an active role in project development to get projects to reality much faster.

These projects will contribute to ease congestion at the ports and facilitate mineral and agriculture exports within the region.

The performance of the **Aviation** sector continues to lag behind other economies. The development of the sector is heavily constrained by limited regional integration and slow progress in the liberalization of intra-African air transportation in line with the Yamoussoukro declaration. In addition, poor infrastructure, limited connectivity across Africa and the high cost of operation driven by regulation, government taxation, handling charges and airport charges continue to result in high cost of travel and declining profitability of African airline companies.

In line with AFC's objective to support the development of airport infrastructure, aircraft financing and aviation logistics, AFC provided a US$50 million loan as part of a US$500 million senior syndicated loan facility to Ghana Airport Company Limited's expansion and upgrade of 5 airports, including Kotoka International Airport (KIA). The project was in line with the Government of Ghana's goal to develop aviation infrastructure in step with increased economic activity at domestic airports.

A continued focus for 2016 will be to consolidate efforts to promote domestic and regional transport connectivity, and improve access to funding through an active role in project development to get projects to reality much faster. AFC intends to leverage strategic partnerships with other investors in the development of transport projects through the setting up of transportation platforms. We believe that the greatest development impact will be through collaboration via investing in sub-sector specific platform companies.

## HEAVY INDUSTRY

Despite the recent decade of rapid economic growth driven by high commodity prices, Africa's social development indicators of unemployment and poverty remain weak, with minimal gains in industrialization and labour driven sectors. With the recent downturn, many African countries now confront dwindling foreign exchange revenues, current account deficits and deteriorating balance of payments; hence rapid Industrialization as an anchor to pivot African economies into sustainable management of economic cyclicality has become even more salient.

AFC's mandate to develop Africa's Heavy Industries Sector is positioned to drive not only economic diversification but value addition and sustainable value chain integration in Africa thereby resolving economic distortions, improving productivity and creating employment.

Africa's natural resource base is prolific and encompasses oil and gas, iron ore, copper, gold, as well as several commercially relevant agricultural resources. At least eleven countries in Africa are among the top ten sources for at least one major mineral in the world while the continent's global oil output is estimated at more than 13 percent of the world's total, compared to 9 percent in 1998. However, value addition to these commodities and other forms of vertical integration to expand the productive value chain have remained elusive. An exception to this is the cement industry, where during the last decade, African entrepreneurs have become influential in the manufacture of cement across the continent.

The development of Africa's industrial and manufacturing sector requires a foundation of actual and institutional infrastructure including: power, roads, rail, ports as well as education, integrated trade policies and cluster development. The linkage of industrial zones to the value chain of economic

# US$366m

CURRENT CUMULATIVE VALUE OF AFC'S FINANCING OF HEAVY INDUSTRY PROJECTS

# US$225m

CORPORATION'S PIPELINE OF PROJECTS FOR 2016

activity in the country is also crucial.

Ultimately, the industrial and manufacturing sector has the potential to provide much needed backdrop for economic stability on the continent. However, the development of an adequate industrial base requires a coordinated network of qualified firms, capital, underlying infrastructure, value chain development, policy support and an educated labour force. African policy makers and investors must integrate as part of the development plan, building a competitive productive base via industrialization serving as the catalyst to diversify the production structure of African economies; to create job opportunities for an ever-growing workforce and to build wealth for African nations.

Heavy Industries is a priority sector for AFC. AFC is actively developing an investment program to address four verticals in the industrial sector; Chemicals, Building Materials, Steel and Industrial Inputs. These sub sectors address value chain accretion by investing in projects that include one or more industrial processing layer(s) on commodities thereby capturing more value or integrate one or more levels of backward integration using locally available raw materials to produce end-user products to serve local and regional demand.

The corporation has provided investment capital in equity, debt, and trade financing for several projects including; fertilizer (ammonia/urea and phosphates), cement, and refineries. These investments have been made in Nigeria, Kenya, DRC, South Africa, Cote d'Ivoire, Zambia, Malawi, and Morocco.

One of the projects that AFC has supported in the heavy industries sector is ARM cement in Kenya. ARM is one of the largest cement manufacturers in East Africa. The cumulative value of AFC's financing of heavy industry projects currently stands at approximately US$366 million while the Corporation's pipeline of projects for 2016 is approximately US$ 225 million.

## TELECOMMUNICATIONS

The African Telecommunications Sector has experienced significant growth over the last decade with revolutionary adoption rates of digital communications and data connectivity. Although in recent years, subscription growth rates have slowed, the telecoms sector has continued along an upward trajectory driven by increasing volumes of mobile services leveraging on wide reaching networks, improved macro-economic environment, licensing opportunities and improving regulatory frameworks. Currently the telecoms sector is maturing with slower growth rates with respect to voice but latent demand with respect to internet penetration. This in line with the convergence of services and products integrated into the mobile offerings will convert the telecoms sector into an integrated technology based product and service delivery sector that can only achieve its potential if there is robust underlying telecommunications / broad band infrastructure to support the transformation.

In the context of the changing opportunity landscape for telecoms, underlying infrastructure remains a critical need albeit with capacity required toward the end of the delivery spectrum. Africa's international fibre connectivity deployment which began in 2007 is now maturing with significant capacity available offshore driving the need for and increasing development of terrestrial fibre infrastructure to take advantage of this huge latent capacity. Infrastructure efficiency and sharing models have also been well established with significant investor interest. The large number of tower transfers have led to the emergence of leading tower companies with scale to drive impact with respect to efficiency and cost savings.

Energy costs continue to present a major pressure point but hybrid energy solutions to reduce costs are being deployed with some successful pilots being converted to scalable initiatives. Despite improved coverage in urban areas, rural connectivity has been slower to develop but there are interesting business models emerging to support this important sub-segment.

Ultimately, Africa needs a well-developed telecommunications infrastructure to drive productivity. GSMA research states that a 10% increase in mobile penetration in developing economies is likely to increase productivity by 4.2%. A strong telecom infrastructure base will enhance access and promote the next generation of service offerings and products to deliver a robust network based economy.

The economic development principle underlying AFC's approach to investing in telecommunications is to enhance broad reaching connectivity, internet access and affordability. AFC's cornerstone investment in Main One remains a major contribution to the revolution in undersea cables in Africa as well as the development of terrestrial fibre, data centers and value added services leveraging on the Main One platform. AFC is considering investments to improve connectivity especially in countries with low internet penetration as well as investment to support infrastructure sharing and energy savings. AFC currently has a telecom pipeline of over US$ 150 million in assets.

## FINANCIAL SERVICES

### Financial Advisory

AFC continues to strengthen its financial advisory services, and was involved in several interesting engagements during the year. The Corporation continues to act as Technical Adviser to the Central Bank of Nigeria on its NGN300 billion (US$2 billion) Power and Aviation Intervention Fund (PAIF). As at the end of 2014, the Fund had disbursed NGN107.5 billion to 27 companies generating over 860 megawatts of mainly off-grid electricity, while NGN11.3 billion was disbursed to 2 gas-to-power projects, and an additional NGN117.4 billion to 10 aviation companies.

During the year, AFC was appointed as the Financial Adviser to the development of the Second Niger Bridge, a project which is being jointly sponsored by the Nigeria Sovereign Investment Authority (NSIA) and Julius Berger Investments under a Public Private Partnership arrangement. AFC is also advising on a number of private infrastructure projects including a proposed petroleum products refinery, the indigenous manufacturing of high-grade transmission towers, and a peat-fired power project in East Africa.

### Trade Finance

During the 2015 financial year, AFC's trade finance product continued to play a role in the Corporation's asset creation and income generation activities and in the process acting as a useful avenue for liquidity management given the short-term nature of some of trade finance assets. Trade finance assets accounted for approximately 42% of AFC's loan portfolio while contributing 17% of AFC's total interest income.

The trade finance asset class includes structured trade finance solutions such as prepayment financing facilities, pre-export facilities, and asset-backed financing facilities and also includes more traditional solutions such as invoice discounting.

AFC's trade finance product is designed to provide financial solutions across the Corporation's focus sectors while allowing AFC the flexibility to participate under risk-participations with select partner banks and/or financial institutions with regards to other qualifying transactions such as: Letters of Credit (LC) confirmation enhancement, agri-commodities.

AFC has executed Master-Risk Participation Agreements (MRPA) with a host of partner banks including PTA Bank, FBN UK, Standard Bank, Standard Chartered Bank, Zenith Bank UK etc. Under the various MRPA's, AFC ably deployed its credit rating to enhance the ability of LC confirming ability of confirmation banks; thus expanding the capacity of the confirming banks to do more with the LC issuing banks (usually a bank that has a credit line with AFC).

## Treasury

Securing finance from international capital markets is central to our strategy to diversify funding sources and attract more private investment from around the world to infrastructure opportunities in Africa. The AFC's debut Eurobond was only possible because of the Corporation's international credit rating, received in March 2014, and, reaffirmed in 2015. The Africa Finance Corporation is one of the highest investment grade rated multilateral finance institutions in Africa.

Following the success of AFC's maiden Euro Bond issue, under our Global Medium term Notes (GMTN) program, the Corporation issued a US$20 million one-year note to Krung Thai Asset Management Public Company Limited ("KTAM"), a Thai government owned asset manager with over US$18 billion under management. The purpose of the facility was to further strengthen and deepen the institution's relationship in Asia. This is a welcome development, which indicates a strong appetite for AFC risk, despite the negative sentiments towards the continent. In addition to this, a US$ 20 million floating interest rate note was issued to a Middle Eastern investor, Doha-based Qatar Insurance Company (QIC). In September 2015, Board approval was obtained for a YEN 3 billion (circa US$25 million) fixed interest rate note issuance to a Japanese investor.

We are aware that the current negative investor sentiment towards emerging market risk and subsequently sell-off may adversely affect the Corporation's cost of funds, our treasury unit actively engaged investors and developed niche products aimed at diversifying our funding sources. Given the opportunity presented by the current high yields on African Eurobonds, the Corporation continues to selectively grow its fixed income portfolio and generate additional stable accrual income. The Board also approved AFC's first bond in an African local currency; The Naira Medium Term Note.

# CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

STATEMENT OF
# DIRECTORS' RESPONSIBILITY

The directors are responsible for the preparation of the financial statements for each financial year that gives a true and fair view of the state of financial affairs of the Corporation at the end of the year and of its profit or loss. The directors are also responsible for ensuring that the Corporation keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Corporation. They are also responsible for safeguarding the assets of the Corporation.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable estimates, in conformity with International Financial Reporting Standards. The directors further accept responsibility for the maintenance of accounting records that may be relied upon in the preparation of the financial statements, as well as for designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement.

Nothing has come to the attention of the directors to indicate that the Corporation will not remain a going concern for at least twelve months from the date of this statement.

### Approval of Annual Financial Statements

The annual financial statements, presented on pages 47 to 115, were approved by the board of directors on 22 February, 2016 and were signed on its behalf by:

Chairman

Andrew Alli

President & CEO

REPORT OF THE
# AUDIT AND COMPLIANCE COMMITTEE
To the Board of Directors and General Meeting of the Africa Finance Corporation

In compliance with the provisions of Article 28 of the Charter of the Africa Finance Corporation and pursuant to the terms of the Audit and Compliance Committee (the "Committee") statute concerning the establishment, membership, functions and powers of the Audit Committee of the Africa Finance Corporation, the Committee considered the audited financial statements for the year ended 31 December 2015, at its meeting held on 12 February, 2016.

In our opinion, the scope and planning of the audit for the year ended 31 December 2015 were adequate.

The Committee reviewed and was satisfied with the auditor's submissions.

After due consideration, the Committee accepted the report of the auditors to the effect that the financial statements were prepared in accordance with the International Financial Reporting Standards and gave a true and fair view of the state of affairs of the Corporation's financial condition as at 31 December 2015.

The Committee, therefore, recommended that the audited financial statements of the Corporation for the financial year ended 31 December 2015 and the auditor's report thereon be approved by the Board and presented for consideration by shareholders at the general meeting.

The Committee accepted the provision made in the financial statements for the remuneration of the auditors and recommended that the Board accept same. Furthermore, the Committee recommended to the shareholders, the reappointment of PricewaterhouseCoopers as the Corporation's external auditors for the 2016 Financial Year.

**Tunde Lemo,** OFR
Chairman, Audit & Compliance Committee

**Members of the Committee**
Dr. Adesola Adeduntan
Mr. Ebenezer Onyeagwu
Mr. Jibril Aku
Mr. Lamido Yuguda
Mr. Robert Tung

REPORT OF
# THE INDEPENDENT AUDITOR
TO THE MEMBERS OF AFRICA FINANCE CORPORATION

### Report on the financial statements
We have audited the accompanying financial statements of Africa Finance Corporation ("the Corporation"). These financial statements comprise the statement of financial position as at 31 December 2015 and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

### Directors' responsibility for the financial statements
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control, as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's responsibility
Our responsibility is to express an opinion on the financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform our audit to obtain reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Opinion
In our opinion the accompanying financial statements give a true and fair view of the state of the Corporation's financial affairs as at 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Patrick Obianwa

**PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria

Engagement partner: Patrick Obianwa

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**29 February 2016**

*PricewaterhouseCooper Chartered Accountants, 25E Muri Okunola Street, Victoria Island Lagos, Nigeria.*

# CONSOLIDATED STATEMENT OF **COMPREHENSIVE INCOME**

| | Note* | Year ended 31 December 2015 US$'000 | Year ended 31 December 2014 US$'000 |
|---|---|---|---|
| Interest income | 6 | 158,733 | 104,440 |
| Interest expense | 6 | (53,850) | (28,790) |
| Net interest income | | 104,883 | 75,650 |
| Dividend income | 7 | 30 | 1,228 |
| Fees, commissions and other income | 8 | 9,891 | 38,599 |
| Income from sale of equity investments | 9 | - | 24,592 |
| **Operating income** | | **114,804** | **140,069** |
| Net gain on financial instruments at fair value through profit or loss | 10 | 18,867 | 9,779 |
| Loss on financial instruments at amortised cost | | (4,348) | - |
| Impairment charge on financial assets | 11 | (26,710) | (6,586) |
| Operating expenses | 12 | (30,020) | (38,576) |
| **Profit for the year** | | **72,593** | **104,686** |
| **Other Comprehensive Income** | | | |
| **Items that are or may be reclassified to profit or loss:** | | | |
| Net (loss)/gain on available-for-sale financial assets | 20(b) | (2,316) | 9,265 |
| **Total Comprehensive Income for the year** | | **70,277** | **113,951** |
| Earnings per share for profit attributable to equity holders during the period (expressed in United States cents per share) | | | |
| - basic | 14 | 6.67 | 9.61 |
| - diluted | 14 | 6.67 | 9.61 |

**The accompanying notes 1-33 are an integral part of these financial statements.*

CONSOLIDATED STATEMENT OF
# FINANCIAL POSITION

| | Note* | Year ended 31 December 2015 US$'000 | Year ended 31 December 2014 US$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with commercial banks | 15 | 40,414 | 86,551 |
| Loans and advances to banks | 16 | 976,130 | 370,476 |
| Derivative financial instruments | 17 | 3,534 | 639 |
| Financial assets at fair value through profit or loss | 18 | 226,228 | 189,148 |
| Loans and advances to other customers | 19 | 1,177,864 | 1,087,390 |
| Investment securities: | | | |
| - Financial assets at amortised cost | 20(a) | 497,805 | 535,086 |
| - Financial assets at fair value through OCI | 20(b) | 98,491 | 100,373 |
| Other assets | 21 | 16,760 | 66,204 |
| Property and equipment | 22 | 1,845 | 2,001 |
| Intangible assets | 23 | 642 | 1,238 |
| **Total assets** | | **3,039,713** | **2,439,106** |
| **LIABILITIES:** | | | |
| Accrued expenses and other liabilities | 24 | 24,345 | 25,104 |
| Derivative financial instruments | 17 | 2,718 | 14 |
| Borrowings | 25 | 1,646,936 | 1,061,593 |
| **Total liabilities** | | **1,673,999** | **1,086,711** |
| **EQUITY** | | | |
| Capital and reserves attributable to the Corporation's equity holders: | | | |
| Share capital | 27 | 1,089,067 | 1,089,067 |
| Retained earnings | 28 | 255,335 | 239,700 |
| Fair value reserves | 29 | 21,312 | 23,628 |
| **Total equity** | | **1,365,714** | **1,352,395** |
| **Total liabilities and equity** | | **3,039,713** | **2,439,106** |

**The accompanying notes 1-33 are an integral part of these financial statements.*

## CONSOLIDATED STATEMENT OF
# CHANGES IN EQUITY

| | Share Capital US$'000 | Retained Earnings US$'000 | Fair Value Reserves US$'000 | Total US$'000 |
|---|---|---|---|---|
| As at 1 January 2014 | 1,089,067 | 178,577 | 14,363 | 1,282,007 |
| Dividends paid during the year | - | (43,563) | - | (43,563) |
| Total comprehensive income | - | 104,686 | 9,265 | 113,951 |
| **As at 31 December 2014** | **1,089,067** | **239,700** | **23,628** | **1,352,395** |
| **As at 1 January 2015** | 1,089,067 | 239,700 | 23,628 | 1,352,395 |
| Profit for the year | - | 72,593 | - | 72,593 |
| Dividends paid during the year | - | (56,958) | - | (56,958) |
| **Other comprehensive income** | | | | |
| Fair value change in financial assets | - | - | (2,316) | (2,316) |
| **As at 31 December 2015** | **1,089,067** | **255,335** | **21,312** | **1,365,714** |

## CONSOLIDATED STATEMENT OF **CASH FLOWS**

| | Note* | Year ended 31 December 2015 US$'000 | Year ended 31 December 2014 US$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Interest and similar income received | | 151,825 | 100,916 |
| Interest expense | | (54,273) | (27,097) |
| Fee and commission receipts | | 10,106 | 68,410 |
| Dividend income | 7 | 30 | 1,228 |
| Cash payments to employees and suppliers | | (28,464) | (27,657) |
| Other assets | | 49,444 | (29,751) |
| Loans and advances to customers | | (113,654) | (565,932) |
| Financial assets at fair value through profit or loss | | (14,889) | (39,388) |
| Purchase of available-for-sale securities | | (11,095) | (1,650) |
| Proceeds on disposal of available-for-sale securities | | 5,816 | 3,922 |
| Other liabilities | | 4 | (375) |
| Net cash from operating activities | | (5,150) | (517,374) |
| **Cash flows from investing activities** | | | |
| Purchase of non-traded debt securities | | (23,167) | (127,154) |
| Capital repayments of non-traded debt securities | | 56,664 | 12,021 |
| Proceeds on disposal of non-traded debt securities | | 2,571 | - |
| Proceeds on disposal of property and equipment | | 90 | 206 |
| Purchase of property and equipment | 22 | (845) | (890) |
| Purchase of software/Intangibles | 23 | (24) | (509) |
| Net cash from investment activities | | 35,289 | (116,326) |
| **Cash flows from financing activities** | | | |
| Net proceeds from borrowings | | 1,234,000 | 447,440 |
| Repayment of borrowings | | (648,234) | (19,500) |
| Dividend payments | 30 | (56,958) | (43,563) |
| Net cash from financing activities | | 528,808 | 384,377 |
| Net (decrease)/increase in cash and cash equivalents | | 558,947 | (249,323) |
| **Cash and cash equivalents at the beginning of the year** | | **457,019** | **706,342** |
| **Cash and cash equivalents at the end of the year** | **31** | **1,015,966** | **457,019** |

**The accompanying notes 1-33 are an integral part of these financial statements.*

## 1. General information

Africa Finance Corporation ("AFC" or the "Corporation") is a multilateral development finance institution established by an international agreement between sovereign states.

AFC was created by two constitutive legal instruments: (i) the Agreement for the Establishment of the Africa Finance Corporation (the "AFC Agreement") and (ii) the Charter of the Africa Finance Corporation (the "AFC Charter"). AFC is headquartered in the Federal Republic of Nigeria, based on the Headquarters Agreement dated 28 May 2007 between the Federal Republic of Nigeria and the Africa Finance Corporation. AFC's headquarters is located at 3a Osborne Road, Ikoyi, Lagos, Nigeria. In September 2013, the Corporation incorporated a special purpose entity (AFC Equity Investments Limited) in Mauritius to hold certain investments. AFC Equity became operational in the 2014 financial year.

The Corporation's shareholders principally comprise African States and corporate entities, such as major commercial banks, other financial institutions and other private sector commercial entities. The current member states are Chad, Cote d'Ivoire, Gabon, Ghana, Guinea Bissau, Guinea Conakry, Liberia, Nigeria, Rwanda, Sierra Leone, Cape Verde, The Gambia, and Uganda. Other potential member States are going through the process of acceding to membership of the Corporation in accordance with their respective internal procedures.

Twenty five (25) shareholders have thus far subscribed and paid for shares in AFC in accordance with the terms of the AFC Charter. As at 31 December 2015, the list of shareholders holding more than 5% of the issued share capital of the Corporation is as follows:

| Name of Shareholder | Percentage of shareholding (%) |
|---|---|
| Central Bank of Nigeria | 42.5 |
| United Bank for Africa Plc | 10.7 |
| Access Bank Plc | 10.2 |
| First Bank of Nigeria Limited | 9.2 |
| WEMPCO Limited | 4.6* |
| Gloria Investment Limited | 4.6* |

** Related companies with combined shareholding of 9.2%*

The Corporation's primary objective is to finance infrastructure (power, transportation, telecommunications, heavy industry and natural resource) projects in Africa and to provide advisory, project development and other services related thereto. The Corporation also provides trade finance facilities to facilitate African trade.

The Corporation commenced operations on 1 November 2007, after certain conditions prescribed in its constitutive instruments were fulfilled.

The financial statements for the period ended 31 December, 2015 were authorised and approved for issue by the Board of Directors on 22 February, 2016.

## 2. Summary of significant accounting policies

The Principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied, unless otherwise stated.

### 2.1 Basis of preparation

The Corporation's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements are presented in United States dollars (US$) rounded to the nearest thousand. The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, available-for-sale financial assets, financial assets and financial liabilities held at fair value through profit or loss, which have been measured at fair value.

The financial statements comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and explanatory notes.

The statement of cash flows shows the change in cash and cash equivalents during the year from operating, financing and investing activities. Cash and cash equivalents include highly liquid investments. Note 31 shows which items of the statement of financial position are included in cash and cash equivalents.

The cash flow from operating activities is determined using the direct method. The Corporation's assignment of cash flows to operating, financing and investing categories depends on the Corporation's business model (management approach).

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires the directors to exercise judgement in the process of applying the Corporation's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

#### *2.1.1 Changes in accounting policy and disclosures*

(a) New and amended standards adopted by the Corporation

It is important to note that no standards or amendments to existing standards took effect during the reporting period. Hence, there was no impact on the accounting policies, financial position or performance of the Corporation.

(b) New standards, amendments and interpretations that are not yet effective have not been adopted early by the Corporation.

No new standard with annual periods beginning after 1 January 2016 is expected to have an effect on the financial statements of the Corporation, except the following:

i. IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. Issued in November 2009 and October 2010, it replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the statement of comprehensive income, unless this creates an accounting mismatch. Given the nature of the Corporation's operations, the standard is expected to have a pervasive impact on the financial statements. In particular, the calculation of impairment loss using the expected credit loss model could result in an overall increase in impairment charges.

ii. Amendment to IFRS 11, 'Joint arrangements' on acquisition of an interest in a joint operation. - This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions. This amendment will have no significant effect on the Corporation's financials when effective.

iii. Amendment to IAS 16, 'Property, plant and equipment' and IAS 38,'Intangible assets', on depreciation and amortisation. - In this amendment the IASB has clarified that the use of revenue based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The IASB has also clarified that revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset. This amendment will have no significant effect on the Corporation's financials when effective.

iv. Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint ventures' on sale or contribution of assets' - The IASB has issued this amendment to eliminate the inconsistency between IFRS 10 and IAS 28. If the non-monetary assets sold or contributed to an associate or joint venture constitute a 'business', then the full gain or loss will be recognised by the investor. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are housed in a subsidiary. This amendment will have no significant effect on the Corporation's financials when effective.

v. Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28,'Investments in associates and joint ventures' on applying the consolidation exemption' - The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries. This amendment will have no significant effect on the Corporation's financials when effective.

vi Amendments to IAS 1,'Presentation of financial statements' disclosure initiative'- In December 2014 the IASB issued amendments to clarify guidance in IAS 1 on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies. This amendment will have no significant effect on the Corporation's financials when effective.

vii IFRS 15 – Revenue from contracts with customers - The FASB and IASB issued their long awaited converged standard on revenue recognition on 29 May 2014. It is a single, comprehensive revenue recognition model for all contracts with customers to achieve greater consistency in the recognition and presentation of revenue. Revenue is recognised based on the satisfaction of performance obligations, which occurs when control of good or service transfers to a customer. This amendment will have no significant effect on the Corporation's financials when effective.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Corporation.

**Annual Improvements 2012 issued December 2013**

Improvements to IFRSs (Issued Dec 2013) was issued by the IASB as part of the 'annual improvements process' resulting in the following amendments to standards issued, but effective for the first time for 31 December 2015 year-ends:

| IFRS | Effective Date | Subject of amendment |
|---|---|---|
| Amendment to IFRS 2, 'Share based payment' | 1 July 2014 | The amendment clarifies the definition of a 'vesting condition' and separately defines 'performance condition' and 'service condition'. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |
| Amendment to IFRS 3, 'Business combinations' | 1 July 2014 | The standard is amended to clarify that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, 'Financial instruments: Presentation'.<br><br>The standard is further amended to clarify that all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss.<br><br>Consequential changes are also made to IFRS 9, IAS 37 and IAS 39. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |
| Amendment to IFRS 8, 'Operating segments' | 1 July 2014 | The standard is amended to require disclosure of the judgements made by management in aggregating operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics.<br><br>The standard is further amended to require a reconciliation of segment assets to the entity's assets when segment assets are reported. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |

| IFRS | Effective Date | Subject of amendment |
|---|---|---|
| Amendment to IFRS 13, 'Fair value measurement' | 1 July 2014 | When IFRS 13 was published, paragraphs B5.4.12 of IFRS 9 and AG79 of IAS 39 were deleted as consequential amendments. This led to a concern that entities no longer had the ability to measure short-term receivables and payables at invoice amounts where the impact of not discounting is immaterial. The IASB has amended the basis for conclusions of IFRS 13 to clarify that it did not intend to remove the ability to measure short-term receivables and payables at invoice amounts in such cases. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |
| IAS 16, 'Property, plant and equipment', and IAS 38, 'Intangible assets' | 1 July 2014 | Both standards are amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model.<br><br>The carrying amount of the asset is restated to the revalued amount. The split between gross carrying amount and accumulated depreciation is treated in one of the following ways:<br><br>• either the gross carrying amount is restated in a manner consistent with the revaluation of the carrying amount, and the accumulated depreciation is adjusted to equal the difference between the gross carrying amount and the carrying amount after taking into account accumulated impairment losses; or<br>• the accumulated depreciation is eliminated against the gross.<br><br>This amendment does not affect the Corporation's accounting policies or any of the disclosures. |
| IAS 24, 'Related party disclosures' | 1 July 2014 | The standard is amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity ('the management entity'). This amendment does not affect the Corporation's accounting policies or any of the disclosures. |

**Annual Improvements 2013, issued December 2013**

The IASB published the final standard for the 2011 – 2013 cycle of the annual improvements with amendments that affected 4 standards issued, but effective for the first time for 31 December 2015 year-ends:

| IFRS | Effective Date | Subject of amendment |
|---|---|---|
| IFRS 1, 'First-time adoption of International Financial Reporting Standards' | 1 July 2014 | The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |
| IFRS 13, 'Fair value measurement' | 1 July 2014 | The amendment clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including non-financial contracts) within the scope of IAS 39 or IFRS 9. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |

| IFRS | Effective Date | Subject of amendment |
|---|---|---|
| IAS 40, 'Investment property' | 1 July 2014 | The standard is amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |
| IFRS 3, 'Business combinations' | 1 July 2014 | The standard is amended to clarify that IFRS 3 does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. This amendment does not affect the Corporation's accounting policies or any of the disclosures. |

## Annual Improvements 2014, issued September 2014

In September 2014, the IASB issued Annual improvements to IFRSs 2012 – 2014 Cycle, which contains five amendments to four standards, excluding consequential amendments. The amendments are effective for annual periods beginning on or after 1 January 2016. As these amendments merely clarify existing requirements, they do not affect the Corporation's accounting policies.

| IFRS | Effective Date | Subject of amendment |
|---|---|---|
| IFRS 5 Non-current Assets Held for Sale and Discontinued Operations | 1 January 2016 | This is an amendment to the changes in methods of disposal –<br><br>Assets (or disposal groups) are generally disposed of either through sale or through distribution to owners. The amendment to IFRS 5 clarifies that changing from one of these disposal methods to the other should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. There is therefore no interruption of the application of the requirements in IFRS 5.<br><br>The amendment also clarifies that changing the disposal method does not change the date of classification. |
| IFRS 7 – Financial Instruments; Disclosures | 1 January 2016 | Applicability of the offsetting disclosures to condensed interim financial statements.<br><br>The amendment removes the phrase 'and interim periods within those annual periods' from paragraph 44R, clarifying that these IFRS 7 disclosures are not required in the condensed interim financial report. However, the Board noted that IAS 34 requires an entity to disclose an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the entity since the end of the last annual reporting period'. Therefore, if the IFRS 7 disclosures provide a significant update to the information reported in the most recent annual report, the Board would expect the disclosures to be included in the entity's condensed interim financial report. |

| IFRS | Effective Date | Subject of amendment |
|---|---|---|
| IFRS 7 – Financial Instruments; Disclosures | 1 January 2016 | Servicing contracts - The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and arrangement against the guidance for continuing involvement in paragraphs IFRS 7.B30 and IFRS 7.42C in order to assess whether the disclosures are required. |
| IAS 19 – Employee Benefits | 1 January 2016 | Discount rate: regional market issue - The amendment to IAS 19 clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. |
| IAS 34 – Interim Financial Reporting | 1 January 2016 | Disclosure of information 'elsewhere in the interim financial report'<br><br>The amendment states that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the greater interim financial report (e.g., in the management commentary or risk report).<br><br>The Board specified that the other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. If users do not have access to the other information in this manner, then the interim financial report is incomplete. |

## 2.2 Basis of consolidation

### (i) Subsidiaries

Subsidiaries (including structured entities) are entities controlled by the Corporation. Control exists when the Corporation is exposed, or has rights, to variable returns from its involvement with an entity and has the ability to affect those returns through its power over the entity. In assessing control, potential voting rights that presently are exercisable are taken into account. The Corporation also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. Subsidiaries are fully consolidated from the date in which control is transferred to the Corporation. They are deconsolidated from the date control ceases.

The accounting policies of subsidiaries have been designed, to align with the policies adopted by the Corporation. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests, even if doing so causes the non-controlling interests to have a deficit balance.

### (ii) Business combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Corporation.

The Corporation measures goodwill at the acquisition date as the total of:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interest in the acquiree;
- plus if the business combination is achieved in stages, the fair value of the existing equity interest in the acquiree;
- less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When this total is negative, a bargain purchase gain is recognised immediately in profit or loss.

The Corporation recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the identifiable net assets for components that are present ownership interests and entitle their holders to proportionate share of the net assets in the event of liquidation. All other components of non-controlling interests are measured at fair value.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Costs related to the acquisition, other than those associated with the issue of debt or equity securities that the Corporation incurs in connection with a business combination are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

### (iii) Loss of control

Upon the loss of control, the Corporation derecognises the assets and liabilities of the subsidiary, and non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Corporation retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently, it is accounted for as an equity-accounted investee or in accordance with the Corporation's accounting policy for financial instruments depending on the level of influence retained.

### (iv) Acquisitions under common control

Business combinations between entities that are under common control are accounted for at book values. The assets and liabilities acquired or transferred are recognised or derecognised at the carrying amounts previously recognised in the Corporation controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within the Corporation equity and any gain/loss arising is recognised directly in equity.

### (v) Transactions eliminated on consolidation

Intra-Corporation balances and any unrealised gains or losses or incomes and expenses arising from intra-Corporation transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Corporation's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

## 2.3 Foreign currency translation

### a) Functional and presentation currency

Items presented in the Corporation's financial statements are measured in its functional currency (United States dollars) and figures are stated in thousands of dollars.

### b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of comprehensive income.

Monetary items denominated in foreign currency are translated with the closing rate as at the reporting date. Non-monetary items measured at historical cost denominated in a foreign currency are translated with the exchange rate as at the date of initial recognition; non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value was determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in the amortised cost are recognised in profit or loss, and other changes in the carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the other comprehensive income.

## 2.4 Financial assets and liabilities

All financial assets and liabilities, which include derivative financial instruments, have to be recognised in the statement of financial position and measured in accordance with their assigned category.

### *2.4.1 Financial Assets*

The Corporation classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification at initial recognition. The Corporation uses trade date accounting for regular way contracts when recording financial asset transactions (see note 3.6 on financial instruments by category).

*(a) Financial assets at fair value through profit or loss*

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Financial assets held for trading consist of debt instruments, including money-market paper, traded corporate loans, and equity instruments, as well as financial assets with embedded derivatives. They are recognised in the statement of financial position as 'Financial assets held for trading'. There were no such assets in the current year.

The Corporation designates certain financial assets upon initial recognition as at fair value through profit or loss (fair value option). This designation cannot subsequently be changed and can only be applied when the following conditions are met:

- the application of the fair value option reduces or eliminates an accounting mismatch that would otherwise arise or
- the financial assets are part of a portfolio of financial instruments which is risk managed and reported to senior management on a fair value basis or
- the financial assets consist of debt host and an embedded derivative that must be separated.

Financial instruments included in this category are recognised initially at fair value; transaction costs are taken directly to profit or loss. Gains and losses arising from changes in fair value are included directly in profit or loss and are reported as 'Net gains/(losses) on financial instruments at fair value through profit or loss.' Interest income and expense and dividend income and expenses on financial assets held for trading are included in 'Net interest income' or 'Dividend income', respectively.

Equity investments that result in the Corporation having control over the financial and operating policies of the investee companies are carried in the statement of financial position at fair value through profit or loss rather than accounted for as subsidiary and consolidated. This treatment is permitted under IFRS 10 on Consolidated financial statement and IFRS 12 on Disclosure of interest in other entities, which require investments held by Investment Entities to be accounted for at fair value through profit or loss in accordance with IAS 39 with changes in fair value recognised in the income statement in the period of the change.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the Corporation intends to sell immediately or in the short term, which are classified as held for trading, and those that the Corporation upon initial recognition designates at fair value through profit or loss; or
(b) those that the Corporation upon initial recognition designates as available-for-sale; or
(c) those for which the Corporation may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

*(c) Held-to-maturity*

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Corporation's management has the positive intention and ability to hold to maturity, other than:

(a) those that the Corporation upon initial recognition designates at fair value through profit or loss;
(b) those that the Corporation designates as available-for-sale; and
(c) those that meet the definition of loans and receivables.

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method.

Interest on held-to-maturity investments is included in the statement of comprehensive income and reported as 'interest income'. In the case of an impairment, the impairment loss is reported as a deduction from the carrying value of the investment and recognised in the statement of comprehensive income as 'net gains/(losses) on investments. Held-to-maturity investments are corporate and sovereign securities.

*(d) Available-for-Sale*

Available-for-sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices or that are not classified as loans and receivables, held-to-maturity investments or financial assets at fair value through profit or loss.

Available-for-sale investments are recognized initially at fair value plus transaction costs and are subsequently carried at fair value. Gains or losses arising from remeasurement are recognized in other comprehensive income except for exchange gains and losses on the translation of debt securities, which are recognized in the statement of comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from other comprehensive income to the income statement and are included in “other gains and losses (net)”.

Available-for-sale investments are classified as non-current, unless an investment matures within twelve months, or management expects to dispose of it within twelve months. Interest on available-for-sale debt instruments, calculated using the effective interest method, is recognized in the statement of income as part of interest income. Dividends on available-for-sale equity instruments are recognized in the statement of comprehensive income as dividend income when the Corporation's right to receive payment is established.

### *2.4.2 Financial Liabilities*

The Corporation's holding in financial liabilities represents mainly borrowings and other liabilities. Such financial liabilities are initially recognised at fair value and subsequently measured at amortised cost.

*(a) Financial liabilities at fair value through profit or loss*

This category comprises two sub-categories: financial liabilities classified as held for trading and financial liabilities designated by the Corporation at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed where the Corporation is a short seller. Those financial instruments are recognised in the statement of financial position as 'Financial liabilites held for trading'.

Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of comprehensive income and are reported as 'Net gains/(losses) on financial instruments at fair value through profit or loss'. Interest expenses on financial liabilities held for trading are included in 'Net interest income'.

Where the Corporation designates certain debt securities upon initial recognition as at fair value through profit or loss (fair value option); this designation cannot be changed subsequently.

There are no financial liabilities classified as held for trading or specifically designated at fair value through profit or loss as at 31 December 2015.

(b) *Other liabilities measured at amortised cost*

Financial liabilities that are not classified at fair value through profit or loss fall into this category and are measured at amortised cost. Financial liabilities measured at amortised cost are borrowings, debt securities in issue for which the fair value option are not applied, convertible bonds and subordinated debts.

### *2.4.3 Determination of fair value*

'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 in the principal or, in its absence, the most advantageous market to which the Corporation has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Corporation 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 Corporation 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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Corporation determines that the fair value at 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 that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at 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 Corporation measures assets and long positions at a bid price and liabilities and short positions at an ask price. Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Corporation on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The Corporation, in circumstances whereby this is applicable, uses widely recognised valuation models for determining fair values of non-standardised financial instruments of lower complexity. Inputs into models are generally market-observable for these financial instruments.

For more complex instruments, the Corporation uses internally developed models, which are usually based on valuation methods and techniques generally recognised as standard within the industry. Valuation models are used primarily to value derivatives transacted in the over-the-counter market, unlisted debt securities (including those with embedded derivatives), unlisted equity and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty, and valuation techniques employed may not fully reflect all factors relevant to the positions the Corporation holds. Valuations are therefore adjusted, where appropriate, to allow for additional factors including model risks, liquidity risk and counterparty credit risk. Based on the established fair value model governance policies, and related controls and procedures applied, management believes that these valuation adjustments are necessary and appropriate to fairly state the values of financial instruments carried at fair value in the statement of financial position. Price data and parameters used in the measurement procedures applied are generally reviewed carefully and adjusted, if necessary – particularly in view of current market developments.

In cases where the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment.

The fair value of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

### *2.4.4 Transfers of financial assets*

The Corporation, in the ordinary course of business enters into transactions that result in the transfer of financial assets, primarily debt securities. The transferred financial assets continue to be recognised in their entirety or to the extent of the Corporation's continuing involvement, or are derecognised in their entirety. The Corporation transfers financial assets, that are not derecognised in their entirety or for which it has continuing involvement primarily through sale and repurchase of securities.

Sale and repurchase agreements' are transactions in which the Corporation sells a security and simultaneously agrees to repurchase it (or an asset that is substantially the same) at a fixed price on a future date. The Corporation continues to recognise the securities in their entirety in the statement of financial position because it retains substantially all of the risks and rewards of ownership. The cash consideration received is recognised as a financial asset and a financial liability is recognised for the obligation to pay the repurchase price. Because the Corporation sells the contractual rights to the cash flows of the securities, it does not have the ability to use the transferred assets during the term of the arrangement.

### 2.5 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Corporation tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition). Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

### 2.6 Reclassification of financial assets

The Corporation may choose to reclassify a non-derivative financial asset held for trading out of the held for trading category if the financial asset is no longer held for the purpose of selling it in the near-term. Financial assets other than loans and receivables are permitted to be reclassified out of the held for trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near-term. In addition, the Corporation may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held for trading or available-for-sale categories if the Corporation has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortised cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively. On reclassification of a financial asset out of the 'at fair value through profit or loss' category, all embedded derivatives are re-assessed and, if necessary, separately accounted for.

### 2.7 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

### 2.8 Interest income and expense

Interest income and expense for all interest-bearing financial instruments are recognised within 'interest income' and 'interest expense' in the statement of comprehensive income using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

### 2.9 Fee and commission income

Fees and commissions are generally recognised on an accrual basis when the service has been provided except for structuring fees (i.e. fees related to structuring, term sheet negotiation and coordination) which are recognised at the completion of work. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognised as an adjustment to the effective interest rate on the loan. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses – are recognised on completion of the underlying transaction. Portfolio and other management advisory and service fees are recognised based on the applicable service contracts, usually on a time-apportioned basis. Performance-linked fees or fee components are recognised when the performance criteria are fulfilled.

### 2.10 Sale and repurchase agreements

Securities sold subject to repurchase agreements 'repos' are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or re-pledge the collateral. Where this right to sell or re-pledge does not exist, the transferee does not reclassify the assets but discloses the 'repos' as a note in the financial statements. the counterparty liability is included in amounts due to other banks, deposits from banks, other deposits or deposits due to customers, as appropriate. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate. The difference between the sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

### 2.11 Repossessed collateral

Repossessed collateral represents financial and non-financial assets acquired by the Corporation in settlement of overdue loans. The assets are initially recognised at fair value when acquired and included in the relevant assets depending on the nature and the Corporation's intention in respect of recovery of these assets, and are subsequently remeasured and accounted for in accordance with the accounting policies for these categories of assets.

### 2.12 Impairment of financial assets

a) *Assets carried at amortised cost*

The Corporation assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets 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 initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or a group of assets is impaired includes observable data that comes to the attention of the Corporation about the following loss events:-

a) significant financial difficulty of the borrower;
b) a breach of contract, such as default or delinquency in interest or principal repayments;
c) the corporation granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the Corporation would not otherwise consider;
d) it has become probable that the borrower will enter bankruptcy or other financial reorganisation;
e) the disappearance of an active market for that financial asset because of financial difficulties; or
f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Corporation, including:
   - adverse changes in the payment status of borrowers from the Corporation; or
   - national or local economic conditions that correlate with defaults on the assets in the Corporation.

The Corporation first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Corporation determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the statement of comprehensive income. If a loan or held-to-maturity asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Corporation may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e. on the basis of the Corporation's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Corporation and historical loss experience for assets with credit risk characteristics similar to those in the Corporation. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

Estimates of changes in future cash flows for groups of assets should reflect, and be directionally consistent with, changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the Corporation and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Corporation 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 and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of provision for loan impairment in the statement of comprehensive income. 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 (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognised in the statement of comprehensive income when applicable.

(b) *Assets classified as available-for-sale*

The Corporation assesses at each statement of financial position date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the statement of comprehensive income – is removed from equity and recognised in the statement of comprehensive income. If, in a subsequent period, the fair value of an equity investment classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through Other Comprehensive Income. For debt instruments classified as available for sale, the impairment loss is reversed through profit or loss.

## 2.13 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). The impairment test also can be performed on a single asset when the fair value less cost to sell or the value in use can be determined reliably. Non-financial assets that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2.14 Cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents comprise balances with less than three month's maturity from the date of acquisition, including cash and non-restricted balances with central banks, treasury bills and other eligible bills, loans and advances to banks, amounts due from other banks and short term government securities.

## 2.15 Derivative financial instruments

Derivatives are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets (for example, for exchange-traded options), including recent market transactions, and valuation techniques (for example, for swaps and currency transactions) including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments, such as the conversion option in a purchased convertible bond, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are separately accounted for at fair value, with changes in fair value recognised in the statement of comprehensive income unless the Corporation chooses to designate the hybrid contracts at fair value through profit or loss.

Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognised immediately in the statement of comprehensive income under 'net gains/ (losses) on financial instruments classified as held for trading'. However, the gains and losses arising from changes in the fair value of derivatives that are managed in conjunction with financial assets or financial liabilities designated at fair value are included in 'net gains on financial instruments designated at fair value'.

## 2.16 Hedge accounting

Derivatives are used to hedge interest rate, exchange rate, commodity, and equity exposures and exposures related to non-trading positions. Where derivatives are held for risk management purposes, and when transactions meet the required criteria, the Corporation applies fair value hedge accounting, cash flow hedge accounting, or hedging of a net investment in a foreign operation as appropriate to the risks being hedged. When a financial instrument is designated as a hedge, the Corporation formally documents the relationship between the hedging instrument and hedged item as well as its risk management objectives and its strategy for undertaking the various hedging transactions. The Corporation also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The Corporation discontinues hedge accounting when:

a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
b) the derivative expires, is terminated, or exercised;
c) the hedged item matures or is repaid

*a) Fair value hedge accounting*

Changes in fair value of derivatives that qualify and are designated as fair value hedges are recorded in the statement of comprehensive income, together with changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair value hedges of interest rate risk, the fair value adjustment to the hedged item is amortised to the statement of comprehensive income over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortised fair value adjustment is recognised immediately in the statement of comprehensive income.

*b) Cash flow hedges*

For qualifying cash flow hedges, the fair value gain or loss associated with the effective portion of the cash flow hedge is recognised initially in shareholders' equity, and recycled to the statement of comprehensive income in the periods when the hedged item will affect profit or loss. Any ineffective portion of the gain or loss on the hedging instrument is recognised in the statement of comprehensive income immediately. When a hedging instrument expires or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the hedged item is ultimately recognised in the statement of comprehensive income.

*c) Hedges of net investments*

Hedges of net investments in foreign operations, including monetary items that are accounted for as part of the net investment, are accounted for similarly to cash flow hedges; the effective portion of the gain or loss on the hedging instrument is recognised directly in equity and the ineffective portion is recognised immediately in the statement of comprehensive income. The cumulative gain or loss previously recognised in equity is recognised in the statement of comprehensive income on the disposal or partial disposal of the foreign operation, or other reductions in the Corporation's investment in the operation.

Hedges of net investments may include non-derivative liabilities as well as derivative financial instruments.

## 2.17 Property and equipment

All property and equipment are stated at historical cost less depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Corporation and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost to residual value over estimated useful lives, as follows:

| | |
|---|---|
| Leasehold improvement | 25 years or over the period of the lease, if less. |
| Furniture and equipment | 3 - 8 years |
| Motor vehicles | 4 years |

The assets residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the statement of comprehensive income.

## 2.18 Intangible assets

Intangible assets comprise separately identifiable items arising from computer software licences and other intangible assets. Intangible assets are recognised at cost. Intangible assets with definite useful lives are amortised using the straight-line method over the estimated useful economic life. Intangible assets with an indefinite useful life are not amortised. At each date of the statement of financial position, intangible assets are reviewed for indications of impairment or changes in estimated future economic benefits. If such indications exist, the intangibles assets are analysed to assess whether their carrying amount is fully recoverable. An impairment loss is recognised if the carrying amount exceeds the recoverable amount. The Corporation chooses to use the cost model for the measurement after recognition. Intangible assets with indefinite useful lives are annually tested for impairment and whenever there is an indication that the asset may be impaired.

### a) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on the basis of the expected useful lives.

Costs associated with developing or maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Corporation, and that will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software costs recognised as assets are amortised using the straight-line method over 3 years.

Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Corporation are recognised as intangible assets when the following criteria are met:

(i) It is technically feasible to complete the software product so that it will be available for use.
(ii) Management intends to complete the software product and use or sell it.
(iii) There is an ability to use or sell the software product.
(iv) It can be demonstrated how the software product will generate probable future economic benefits.
(v) Adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
(vi) The expenditure attributable to the software product during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

### b) Project Development Expenditure

Costs associated with development of projects are capitalised when they meet the following recognition requirements of IAS 38: (i) the cost can be separated from other costs of the business; (ii) future economic benefits will flow to the Corporation; (iii) the cost can be measured reliably.

## 2.19 Employee Benefits

The Corporation established a defined contributory pension scheme in 2012. This is a pension plan under which the Corporation pays fixed contributions (7.5% of basic salary) and employees contribute a mimium of 5% of their basic salary into a separate entity.

The Corporation has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognised as employee benefit expense in the statement of comprehensive income when it falls due.

**2.20 Provisions**

Provisions for restructuring costs and legal claims are recognised when: the Corporation has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations is small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**2.21 Borrowings**

Borrowings are recognised initially at fair value, being their issue proceeds (fair value of consideration received) net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds net of transaction costs and the redemption value is recognised in the statement of comprehensive income over the period of the borrowing using the effective interest method.

**2.22 Share capital**

a) **Share issue costs**
Incremental costs directly attributable to the issue of new shares or options or to the acquisition of a business are shown in equity as a deduction from the proceeds.

b) **Dividends on ordinary shares**
Dividends on ordinary shares are recognised in equity in the year in which they are approved by the Corporation's shareholders.

c) **Treasury shares**
Where the Corporation purchase its equity shares, the consideration paid is deducted from total shareholders' equity as treasury shares until they are cancelled. Where such shares are subsequently sold or re-issued, any consideration received is included in shareholders' equity.

### 2.23 Dividend income and payment

Dividend incomes are recognised in profit or loss when the Corporation's right to receive payment is established. Dividend payments on ordinary shares are charged to equity in the period in which they are declared.

### 2.24 Acceptances and letters of credit

Acceptances and letters of credit are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

### 2.25 Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures will be adjusted to conform to changes in presentation in the current year.

## 3. Financial Risk Management

AFC's business philosophy recognises that risks are an inevitable consequence of being in business. The Corporation's aim, therefore, is not to eliminate all risks, but to design policies, processes and procedures that will enable it achieve an appropriate balance between risk and return. AFC believes that a strong risk management function is key to its successful long-term operations.

AFC operates a multi-layered risk management governance structure, with the Board of Directors at its apex, exercising and assuming ultimate authority and responsibility for the Corporation's risk management. Other layers in the risk management governance structure are: (i) the Board Risk and Investment Committee, responsible for oversight and approval of risk policies, and credit approvals above management's authority levels; (ii) Executive Management Committee (EXCO), responsible for review of investment proposals, and exercise of management's delegated authority for investment approvals; (iii) Management Risk Committee, responsible for the risk policy review and implementation; (iv) Asset and Liability Committee (ALCO), responsible for monitoring and management of the Corporation's liquidity and interest rate risks; (v) Risk Management Department, responsible for risk policy development, management and monitoring; and (vi) Business Units, responsible for the creation and management of risk assets.

AFC manages its financial risks through Policies approved by the Board Risk and Investment Committee, and these are reviewed annually. The Policies also provide parameters and guidelines as to AFC's risk appetite, the approval process in respect of transactions, and how transactions are monitored and managed, in respect of any changes in the risk profile.

In managing those risks, Risk Management's independence and accountability is sustained by the Chief Risk Officer's direct reporting line to both the President & CEO and to the Chairman of the Board Risk and Investment Committee and the Policy requires the Chief Risk Officer's affirmative vote before a transaction can be approved.

In order to regularly monitor the risks in AFC's portfolio, Risk Management generates a number of reports, including a Daily Risk Report for the Executive Management Committee (EXCO) and a Portfolio Risk Dashboard for each meeting of the Board Risk and Investment Committee. In addition to these reports, Risk Management also provides independent risk assessment to transaction monitoring reports, which are prepared by the Business Originators on a quarterly basis.

Although, in the case of treasury investments and corporate lending transactions, AFC can lend unsecured, almost all of AFC's loans, which are largely project and corporate financing and asset backed structured trade are secured by collateral. Because many of AFC's project lending transactions are bespoke, the collateral package is tailored to the individual project. However, some collateral requirements are generic, including domiciliation of contract proceeds and the proceeds of off-take agreements and pledges or liens over physical assets. In the case of asset backed trade related transactions, the collateral is a mix of product, cash and receivables. The efficacy of the collateral arrangements are monitored and reviewed by Risk Management on a quarterly basis, though a rapid change in the collateral value profile (e.g. a significant fall in commodity prices) is monitored more frequently.

In order to manage the risk of portfolio concentration, AFC has Limits approved by the Board Risk and Investment Committee in respect of Countries, Sectors (e.g. Power, Natural Resources, etc.), Single Obligor and Sector Single Obligor.

The most important types of risks faced by the Corporation are credit risk, market risk, and liquidity risk. These individual sources of risk and how the Corporation manages them are described in more detail below.

## 3.1 Credit Risk

The Corporation takes on exposures to credit risk, which is the risk of financial loss as a result of a failure by a client or counterparty to meet its contractual obligation to the Corporation. The Corporation has two principal sources of credit risk: (i) credit risk on its loans and investments; and (ii) counterparty credit risk on its portfolio of treasury investments. The Corporation's credit risks are managed within a framework of credit policies, guidelines and processes, which are described in more detail below:

### *3.1.1 Project and Investment Credit Risk*

The Corporation has developed a comprehensive Credit Risk Policy (CRP) that details its risk philosophy and metrics. The CRP defines the level and type of credit exposures that AFC is prepared to accept in order to achieve its business goals and objectives. It defines the Corporation's risk apetite along three key metrics; Capital Adequacy Framework, Exposure Limits Framework and Credit Risk Acceptance criteria.

AFC's Capital Adequacy Framework creates a quantifiable link between the risks assumed and the amount of risk capital required to support those risks. The capital adequacy framework ensures that the Corporation holds adequate levels of capital to support its investment operations.

AFC uses the Exposure Limits Framework to manage its exposures to individual and group credit risks. The objective is to ensure that AFC avoids excessive portfolio concentration either in single projects or groups of projects, or in particular sectors that could be simultaneously affected by similar exogenous events. The Exposure Limits Framework defines the limits of risk exposures in relation to a single borrower or groups of borrowers, to industry sectors and to individual countries. The limits are recommended by management and approved by the Board Risk and Investment Committee.

The Credit Risk Acceptance Criteria refer to the set of terms and conditions to be met before an investment is accepted into AFC's portfolio. These include specific industry, financial, managerial and competitive benchmarks that proposed investments must meet before they are considered for AFC credit exposures.

### *3.1.2 Counterparty Credit Risk*

AFC invests its liquid assets in different financial instruments to generate income. These financial instruments involve, to some degree, the risk that the counterparty to the transaction may be unable to meet its obligation to the Corporation when it falls due. The Corporation manages this counterparty risk by executing transactions within a prudent framework of approved counterparties, counterparty credit rating standards and counterparty risk exposures limits. The risk exposure limit for each counterparty is a function of the counterparty's credit rating and its shareholders funds (unimpaired by losses). The risk limits are proposed by the Risk Management Division and approved by the Executive Management Committee.

### *3.1.3 Credit risk measurement*

The estimation of credit exposure is complex and requires the use of models, as the value of a product varies with changes in market variables, expected cash flows and the passage of time. The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties.

The Corporation has developed models to support the quantification of credit risk. These rating and scoring models are in use for all key credit portfolios and form the basis for measuring default risks. In measuring credit risk of loan and advances at a counterparty level, the Corporation considers three components: (i) the 'probability of default' (PD) by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development, from which the Corporation derive the 'exposure at default' (EAD); and (iii) the likely recovery ratio on the defaulted obligations (the 'loss given default') (LGD). The models are reviewed regularly to monitor their robustness relative to actual performance and amended as necessary to optimise their effectiveness.

### *3.1.4 Risk limit control and mitigation policies*

The Corporation manages, limits and controls concentrations of credit risk wherever they are identified – in particular, to individual counterparties and corporations, and to industries and countries. The Corporation structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by product, industry sector and country are approved by the Board Risk and Investment Committee.

### *3.1.5 Risk Concentration*

| | Maximum exposure 2015 US$'000 | Maximum exposure 2014 US$'000 |
|---|---|---|
| Balances with commercial banks | 40,402 | 86,532 |
| Loan and advances to banks: | | |
| - Placements with banks | 976,130 | 370,476 |
| Loan and advances to other customers: | | |
| - Project finance loans | 694,500 | 572,542 |
| - Trade finance loans | 483,364 | 514,848 |
| Financial assets at fair value through profit or loss: | | |
| - Hybrid instruments (convertible debt) | 53,625 | 72,316 |
| - Asset under management | 14,469 | 17,266 |
| Investment Securities: | | |
| - Corporate debt securites | 433,153 | 454,098 |
| - Government debt securities | 68,326 | 80,988 |
| Other assets: | | |
| - Fee receivable | - | 32,852 |
| - Account receivable | 11,215 | 29,448 |
| **At 31 December** | **2,775,184** | **2,231,366** |
| **Off-balance sheet commitments** | | |
| **Debt commitments** | **140,760** | **56,581** |

The above table represents a worst case scenario of credit risk exposure faced by Corporation as at the reporting dates without taking account of any collateral held or other credit enhancements attached. The exposures are based on net carrying amounts as reported in the statement of financial position.

Management is confident in its ability to continue to control and effectively manage the credit risk exposure in the Corporation's loan and advances portfolio.

### *3.1.6 Credit quality analysis*

#### General Risk Rating Process

Investment risk rating and acceptance criteria represent a vital aspect of the Corporation's risk appetite definition process. Before credit risk can be managed, it must first be identified and measured. A 10-point credit risk rating methodology, from "1" (excellent, very low risk) to "10" (expected loss, very high risk) is applied by the Corporation. The methodology encompasses the analysis of a client's fundamental financial strength, adjusted with obligor risk control factors, and further adjusted by facility risk control factors. The risk rating process measures the expected loss of a credit facility over its tenor and it integrates assessments of the probability of default, the exposure at default, and the loss given default of the facility. The 10-point risk rating scale is further collapsed into five generic risk classes, of “very low risk”, “low risk”, “moderate risk”, “high risk”, and “very high risk”. Generally, transactions rated “5” (acceptable, high risk) or better would be considered for financing by the Corporation.

The risk ratings are a primary tool in the review and decision making in the credit process and this is carried out quarterly for each obligor. The integrity of the Corporation's portfolio management process is dependent on accurate and timely risk ratings. Deterioration in credit risks is quickly identified and communicated to facilitate prompt action. The rating is reviewed when there is a default and this is reflected in the management of such portfolio. A default would also lead to prevention of further drawdown while steps are taken to recover the oustanding balance and/or realise collaterals.

Deterioration in credit risk are identified based on factors such as:

- ratings downgrade;
- missed payments;
- non-compliance with loan covenants; and
- deterioration of quality/value of collateral

**Credit Rating of Counterparty/Obligor**

Counterparties are subject to the Corporation's internal rating process as part of its credit approval and review process. All risk rating processes are reviewed and validated periodically to ensure relevance to business realities, and relate to loans and advances to customers, loans and advances to banks, and investment securities. External ratings may also be obtained where such is available. There were no changes to the risk rating process in the financial year. The Corporation's risk rating buckets and definitions are as highlighted below:

*Risk Buckets and Definition*

<table>
<tr><th>Description</th><th>Rating bucket</th><th>Range of scores</th><th colspan="2">Risk range description</th></tr>
<tr><td>Very Low Risk</td><td>AAA to A-</td><td>1.00 – 1.60</td><td>Excellent</td><td rowspan="4">Acceptable risk range</td></tr>
<tr><td>Low Risk</td><td>BBB+ to BB+</td><td>1.70 – 2.00</td><td>Strong</td></tr>
<tr><td>Moderate Risk</td><td>BB to B-</td><td>2.00 - 4.00</td><td>Good</td></tr>
<tr><td>High Risk</td><td>CCC+</td><td>4.00 – 5.00</td><td>Fair</td></tr>
<tr><td>High Risk</td><td>CCC</td><td>5.00 - 6.00</td><td>Marginal</td><td rowspan="2">Unacceptable risk range</td></tr>
<tr><td>Very High Risk</td><td>CCC- to D</td><td>7.00 - 9.00</td><td>Special attention</td></tr>
</table>

The internal credit risk rating bucket has been caliberated to the S&P rating grades for obligors. Our credit grades are not intended to replicate external credit grades (where these are available), and ratings assigned by external ratings agencies are not used in determining our internal credit grades. Nonetheless, as the factors used to grade a borrower may be similar, a borrower rated poorly by an external rating agency is typically assigned a worse internal credit grade.

The credit quality of the balances with banks, loans and advances and debt securities that are neither past due nor impaired is detailed below:

| | 31 December 2015<br>US$'000 | 31 December 2014<br>US$'000 |
|---|---|---|
| Counterparties with international credit rating (S&P, Fitch, Moody's) | | |
| Investment grade (AAA to BBB-) | 898,131 | 564,006 |
| Others (BB+, BB, BB-, B+, B, B-) | 570,227 | 334,641 |
| | 1,468,358 | 898,647 |
| Counterparties without international credit ratings | | |
| Group 1 | 42,189 | 265,191 |
| Group 2 | 1,264,637 | 1,067,528 |
| | 1,306,826 | 1,332,719 |
| **Total unimpaired nor past due loans, advances and debt securities** | **2,775,184** | **2,231,366** |

Group 1 – New customers/related parties (less than 6 months).
Group 2 – Existing customers/related parties (more than 6 months) with no defaults in the past.

Using the Corporation's internal credit rating, the credit quality of the loans and advances to banks and other customers that are neither past due nor impaired is detailed below:

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| **Cash and balance with banks:** | | |
| - Excellent | 39,665 | 80,328 |
| - Strong | - | 4,992 |
| - Good | 737 | 1,212 |
| **Total neither past due nor impaired** | **40,402** | **86,532** |
| **Loan and advances to banks:** | | |
| - Excellent | 735,664 | 253,199 |
| - Strong | 110,009 | 117,004 |
| - Good | 130,457 | 273 |
| **Total neither past due nor impaired** | **976,130** | **370,476** |

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| **Loan and advances to other customers:** | | |
| *Project Finance:* | | |
| - Strong | 604 | 1,562 |
| - Good | 400,020 | 321,939 |
| - Fair | 293,876 | 249,041 |
| *Trade Finance:* | | |
| - Strong | 50,005 | 50,087 |
| - Good | 464,761 | 226,050 |
| - Fair | - | 464,761 |
| **Total neither past due nor impaired** | **1,177,864** | **1,087,390** |
| **Financial assets at fair value through profit or loss** | | |
| *Hybrid instruments (convertible debt)* | | |
| - Good | 53,625 | 72,316 |
| *Asset under management* | | |
| - Good | 14,469 | 17,266 |
| **Total neither past due nor impaired** | **68,094** | **89,582** |
| **Investment securities:** | | |
| *Corporate debt securities:* | | |
| - Excellent | 24,381 | - |
| - Strong | 15,025 | 54,697 |
| - Good | 373,258 | 335,768 |
| - Fair | 20,489 | 63,633 |
| *Government debt securities:* | | |
| - Good | 68,326 | 80,988 |
| **Total neither past due nor impaired** | **501,479** | **535,086** |
| **Other assets** | | |
| *Fee receivable:* | | |
| - Strong | - | 32,852 |
| *Account receivable:* | | |
| - Strong | 11,215 | 29,448 |
| **Total neither past due nor impaired** | **11,215** | **62,300** |

The Corporation holds collateral and other credit enhancements against certain of its credit exposures. For loans and advances to customers, the general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. However, collateral provides additional security and the Corporation generally requests that borrowers provide it. The extent to which collateral values are actively managed will depend on the credit quality and other circumstances of the obligor. Although lending decisions are predominantly based on expected cash flows, any collateral provided may impact the pricing and other terms of a loan or facility granted; this will have a financial impact on the amount of net interest income recognised and on internal loss-given-default estimates that contribute to the determination of asset quality.

For unimpaired secured lending, the Corporation reports assets gross of collateral and therefore discloses the maximum loss exposure. The Corporation believes that this approach is appropriate as collateral values at origination and during a period of good performance may not be representative of the value of collateral if the obligor enters a distressed state.
Unimpaired secured lending is predominantly managed on a cash flow basis. On occasion, it may include an assessment of underlying collateral, although, for impaired lending, this will not always involve assessing it on a fair value basis. No aggregated collateral information for the entire unimpaired secured wholesale lending portfolio is provided to EXCO
Valuation of collateral is updated when the credit risk of a loan deteriorates significantly and the loan is monitored more closely. No collateral is held for balances with commercial banks, loans and advances to banks, debt securities and other assets.

Please refer to note 2.11 on the Corporation's policy on repossessed collateral.

### *3.1.7 Concentration of risks of financial assets with credit risk exposure*

**Geographical sectors**

The following table analyses the Corporation's main credit exposures at their carrying amounts, categorised by geographical region, as at 31 December 2015. The Corporation has allocated exposures to regions based on the country of domicile of its counterparties.

| 31 December 2015 | West Africa US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|
| Cash and balances with commercial banks | 39,665 | 737 | 40,402 |
| Loans and advances to banks: | | | |
| - Placements with banks | 150,464 | 825,666 | 976,130 |
| Loans and advances to other customers: | | | |
| - Project finance | 537,311 | 157,189 | 694,500 |
| - Trade finance | 262,960 | 220,404 | 483,364 |
| Financial assets at fair value through profit or loss: | | | |
| - Hybrid instruments (convertible debt) | - | 53,625 | 53,625 |
| - Asset under management | - | 14,469 | 14,469 |
| Investment securities: | | | |
| - Corporate debt securites | 384,943 | 48,210 | 433,153 |
| - Government debt securities | 56,284 | 12,042 | 68,326 |
| Other assets: | | | |
| - Account receivable | 11,215 | - | 11,215 |
| | **1,442,842** | **1,332,342** | **2,775,184** |
| **Commitments** | **111,877** | **28,883** | **140,760** |

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| 31 December 2014 | West Africa US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|
| Cash and balances with commercial banks | 1,218 | 85,314 | 86,532 |
| Loans and advances to banks: | | | |
| - Placements with banks | 272 | 370,204 | 370,476 |
| Loans and advances to other customers: | | | |
| - Project finance | 517,454 | 55,088 | 572,542 |
| - Trade finance | 344,777 | 170,071 | 514,848 |
| Financial assets at fair value through profit or loss: | | | |
| - Hybrid instruments (convertible debt) | - | 72,316 | 72,316 |
| - Asset under management | - | 17,266 | 17,266 |
| Investment securities: | | | |
| - Corporate debt securities | 410,264 | 43,834 | 454,098 |
| - Government debt securities | 68,945 | 12,043 | 80,988 |
| Other assets: | | | |
| - Fee receivable | 32,494 | 358 | 32,852 |
| - Account receivable | 29,448 | - | 29,448 |
| | **1,404,872** | **826,494** | **2,231,366** |
| **Commitments** | **47,385** | **9,196** | **56,581** |

### Credit Concentration by Industry

**31 December 2015**

| | Natural Resources US$'000 | Heavy Industry & Telecoms US$'000 | Power US$'000 | Transport US$'000 | Financial Services & Others US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| Cash and balances with banks | - | - | - | - | 40,402 | 40,402 |
| Loans and advances to banks: | | | | | | |
| - Placements with banks | - | - | - | - | 976,130 | 976,130 |
| Loans and advances to other customers: | | | | | | |
| - Project finance | 330,248 | 51,173 | 192,996 | 120,083 | - | 694,500 |
| - Trade finance | 208,223 | 103,912 | - | 7,336 | 163,893 | 483,364 |
| Financial assets at fair value through profit or loss: | | | | | | |
| - Hybrid instruments (convertible debt) | - | 53,625 | - | - | - | 53,625 |
| - Asset under management | - | - | - | - | 14,469 | 14,469 |
| Investment securities: | | | | | | |
| - Corporate debt securities | - | - | 30,209 | 67,691 | 335,253 | 433,153 |
| - Government debt securities | - | - | - | - | 68,326 | 68,326 |
| Other assets: | | | | | | |
| - Account receivable | - | - | - | - | 11,215 | 11,215 |
| | **538,471** | **208,710** | **223,205** | **195,110** | **1,609,688** | **2,775,184** |
| Commitments | - | 48,883 | 10,829 | 67,848 | 13,200 | 140,760 |

**31 December 2014**

| | Natural Resources US$'000 | Heavy Industry & Telecoms US$'000 | Power US$'000 | Transport US$'000 | Financial Services & Others US$'000 | Total US$'000 |
|---|---|---|---|---|---|---|
| Cash and balances with banks | - | - | - | - | 86,532 | 86,532 |
| Loans and advances to banks: | | | | | | |
| - Placements with banks | - | - | - | - | 370,476 | 370,476 |
| Loans and advances to other customers: | | | | | | |
| - Project finance | 315,329 | 30,015 | 180,059 | 47,139 | - | 572,542 |
| - Trade finance | 164,805 | 117,645 | - | 11,025 | 221,373 | 514,848 |
| Financial assets at fair value through profit or loss: | | | | | | |
| - Hybrid instruments (convertible debt) | - | 72,316 | - | - | - | 72,316 |
| - Asset under management | - | - | - | - | 17,266 | 17,266 |
| Investment securities: | | | | | | |
| - Corporate debt securities | - | 32,092 | 31,540 | 69,402 | 321,064 | 454,098 |
| - Government debt securities | - | - | - | - | 80,988 | 80,988 |
| Other assets: | | | | | | |
| - Fee receivable | - | - | 32,852 | - | - | 32,852 |
| - Account receivable | - | - | - | - | 29,448 | 29,448 |
| | **480,134** | **252,068** | **244,451** | **127,566** | **1,127,147** | **2,231,366** |
| Commitments | 45,880 | - | 10,701 | - | - | 56,581 |

## 3.2 Market Risk

AFC takes on exposures to market risks, which is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risks arise from open positions in interest rates, commodities, currency and equity products, all of which are exposed to general and specific market movements and changes in the level of volatility of market rates or prices such as interest rates, commodity prices, credit spreads, foreign exchange rates and equity prices.

### *3.2.1 Market risk measurement techniques*

The major measurement techniques used to measure and control market risk are outlined below.

#### (a) Value at Risk

Value at risk ("VAR") methodology is applied to quantify and control market risk of assets and liabilities designated at fair value. This methodology is applied to individual portfolios and on an enterprise wide basis. The Corporation applies VAR for items designated as held-to-maturity where there are observable prices.

Historical Simulation methodology is applied used for calculating Value at Risk (VaR). This variant has an implicit assumption that future market movements are similar to historical market movements. This methodology accurately reflects the historical probability distribution of market variables. In applying the model, a time series is created by revaluing the portfolio using market variables (e.g. Yield curves, Foreign Exchange and implied volatilities for Derivatives) for the last 251 business days. The resulting historical series of 250 portfolio value changes is sorted into percentiles. The VaR for the portfolio is the value change corresponding to the required level of confidence.

As the Corporation does not have a trading book, VAR sensitivities have not been computed.

VAR is a statistically based estimate of the maximum expected loss on the current portfolio from adverse market movements. This maximum expected loss is determined with a level of confidence (95%) and a holding period (1 day). This implies that realized losses may exceed the VAR estimate 5 days out of every 100 days. This assumption is monitored daily by comparing realized gains/losses against the VAR estimate.

As VAR constitutes an integral part of the Corporation's market risk control regime, VAR limits are established by the Board annually and allocated to business units. Actual exposure against limits, together with a Corporation-wide VAR, is reviewed daily. For the 2015 financial year, the average daily FX VAR was US$285,186 (2014: US$172,158) and average daily Interest Rate VAR was US$3,059,000 (2014: US$1,870,097). The quality of the VAR model is continuously monitored by back-testing the VAR estimates against actuals. All back-testing exceptions (positive or negative) are investigated, and reported to ALCO monthly.

VAR position summary

| | **12 months to 31 December 2015** | | | 12 months to 31 December 2014 | | |
|---|---|---|---|---|---|---|
| **All numbers in US$'000** | **Average** | **High** | **Low** | Average | High | Low |
| Foreign exchange risk | 285 | 595 | 90 | 172 | 194 | 155 |
| Interest rate risk | 3,059 | 2,238 | 1,719 | 1,870 | 2,270 | 1,576 |
| **Total VAR** | 3,344 | 2,833 | 1,809 | 2,042 | 2,464 | 1,731 |

## (b) Stress Test

Stress tests provide an indication of the potential size of losses that could arise in extreme conditions. The Corporation carries out stress tests for its core investment and treasury portfolios.

The Board Risk and Investment Committee agrees the range of scenarios to be tested and the independent risk management function co-ordinates the process, using bottom-up analysis performed by the businesses. The results of the stress tests are reviewed by the Executive Management and the Board Risk and Investment Committee.

### 3.2.2 *Foreign exchange risk*

In the normal course of business, the Corporation is exposed to the effects of fluctuations in the prevailing foreign currency exchange rates on its financial position and cash flows. The Board sets limits on the level of exposure by currency, which are monitored. The table below summarizes the Corporation's exposure to foreign exchange rate risk at 31 December 2015. Included in the table are the Corporation's financial instruments at carrying amounts, categorised by currency.

**Concentrations of currency risk – on-balance sheet financial instruments**

| 31 December 2015 | US dollars US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|
| **Assets** | | | |
| Cash and balances with commercial banks | 39,759 | 655 | 40,414 |
| Loans and advances to banks | 976,130 | - | 976,130 |
| Derivative financial assets | 3,534 | - | 3,534 |
| Loans and advances to other customers | 1,124,659 | 53,205 | 1,177,864 |
| Financial assets at fair value through profit or loss | 200,923 | 25,305 | 226,228 |
| Investment securities | 584,765 | 11,531 | 596,296 |
| Other assets | 9,922 | 1,293 | 11,215 |
| **Total financial assets** | **2,939,692** | **91,989** | **3,031,681** |
| Borrowings | 1,619,833 | 27,103 | 1,646,936 |
| Derivative financial liabilities | 2,718 | - | 2,718 |
| Accrued expenses and other liabilities | 6,874 | 593 | 7,467 |
| **Total financial liabilities** | **1,629,425** | **27,696** | **1,657,121** |
| Net financial position | **1,310,267** | **64,293** | **1,374,560** |
| Commitments | **151,407** | **37,848** | **189,255** |
| **31 December 2014** | | | |
| **Assets** | | | |
| Cash and balances with commercial banks | 66,857 | 19,694 | 86,551 |
| Loans and advances to banks | 370,203 | 273 | 370,476 |
| Derivative financial assets | 639 | - | 639 |
| Loans and advances to other customers | 1,087,390 | - | 1,087,390 |
| Financial assets at fair value through profit or loss | 173,012 | 16,136 | 189,148 |
| Investment securities | 606,646 | 28,813 | 635,459 |
| Other assets | 60,370 | 1,930 | 62,300 |
| **Total financial assets** | **2,365,117** | **66,846** | **2,431,963** |

| | US dollars US$'000 | Others US$'000 | Total US$'000 |
|---|---|---|---|
| Borrowings | 1,031,391 | 30,202 | 1,061,593 |
| Derivative financial liabilities | 14 | - | 14 |
| Accrued expenses and other liabilities | 18,645 | 318 | 18,963 |
| **Total financial liabilities** | **1,050,050** | **30,520** | **1,080,570** |
| Net financial position | **1,315,067** | **36,326** | **1,351,393** |
| Commitments | **111,429** | **172** | **111,601** |

Currency exposures emanating from AFC's investment portfolio are hedged in line with the Corporation's policy on hedging. As at 31 December 2015, the net open FX position was US$29,753,000 (31 December 2014: US$18,568,000) representing 2.2% (31 December 2014: 1.4%) of shareholders' funds as of that date; the net open FX position principally relates to undrawn portion of off-balance sheet debt commitments as at reporting date.

### 3.2.3 *Interest rate risk*

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Corporation takes on exposures to the effects of fluctuations in the prevailing levels of market interest rates on both the fair value of its financial instruments and cash flows. Interest margins may increase as a result of such changes but may produce losses in the event that adverse movements arise. The Board sets applicable limits on the level of interest rate mismatch that may be undertaken.

The table below summarises the Corporation's exposure to interest rate risks. It includes the Corporation's financial instruments at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

**As at 31 December 2015**

| | Up to 3 months US$'000 | Above 3 months US$'000 | Non-Interest Bearing US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with Commercial banks | - | - | 40,414 | 40,414 |
| Loans and advances to banks | 976,130 | - | - | 976,130 |
| Loans and advances to customers | 1,072,203 | 105,661 | - | 1,177,864 |
| Financial assets at fair value through profit or loss | 53,625 | - | 172,603 | 226,228 |
| Investment securities | 269,617 | 231,862 | 94,817 | 596,296 |
| Other assets | - | - | 11,215 | 11,215 |
| **Total financial assets** | **2,371,575** | **337,523** | **319,049** | **3,028,147** |

| *As at 31 December 2015 cont'd* | Up to 3 months US$'000 | Above 3 months US$'000 | Non-Interest Bearing US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Borrowings | 823,375 | 823,561 | - | 1,646,936 |
| Other liabilities | - | - | 7,467 | 7,467 |
| **Total financial liabilities** | **823,375** | **823,561** | **7,467** | **1,654,403** |
| **Total interest repricing gap** | **1,548,200** | **(486,038)** | **311,582** | **1,373,744** |

| **As at 31 December 2014** | Up to 3 months US$'000 | Above 3 months US$'000 | Non-Interest Bearing US$'000 | Total US$'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and balances with Commercial banks | - | - | 86,551 | 86,551 |
| Loans and advances to banks | 370,476 | - | - | 370,476 |
| Loans and advances to customers | 961,548 | 125,842 | - | 1,087,390 |
| Financial assets at fair value through profit or loss | 72,316 | - | 116,832 | 189,148 |
| Investment securities | 51,704 | 483,382 | 100,373 | 635,459 |
| Other assets | - | - | 62,300 | 62,300 |
| **Total financial assets** | **1,456,044** | **609,224** | **366,056** | **2,431,324** |
| **Liabilities** | | | | |
| Borrowings | 707,774 | 353,819 | - | 1,061,593 |
| Other liabilities | - | - | 18,963 | 18,963 |
| **Total financial liabilities** | **707,774** | **353,819** | **18,963** | **1,080,556** |
| **Total interest repricing gap** | **748,270** | **255,405** | **347,093** | **1,350,768** |

### 3.3 Liquidity Risk

Liquidity risk is the risk that the Corporation is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay lenders and fulfil commitments to lend

The Corporation's liquidity management process includes:

- day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met;
- monitoring statement of financial position liquidity ratios against internal requirements; and
- managing the concentration and profile of debt maturities.

The Corporation holds a diversified portfolio of cash and High-Quality Liquid Assets ("HQLA") to support financial obligations and contingent funding in a stressed market environment. The

Corporation's assets held for managing liquidity risk comprise:

- cash and balances with commercial banks, loan and advances to banks ; and
- investment grade sovereign and corporate securities with a highly liquid secondary market

Monitoring and reporting take the form of daily cash flow measurement and projections. The starting point for those projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The Corporation has a Liquidity Policy and Contingency Funding Plan that defines extensively how liquidity risk would be managed within the Corporation. The policy requires that the Corporations keeps High Quality Liquid Assets ("HQLA") to covers its Minimum Liquidity Level ("MLL") at twelve and eighteen months under 'stress' and business as usual ("BAU") conditions respectively. MLL, for the purpose of the Corporation, is defined as the level of liquidity that is available to meet the Corporation's financial obligations (repayment of borrowing, operating expenses and other non-cancellable debt and equity commitments) . Similar to the provisions of Basel III Capital Accord on Liquidity, the Corporation has defined its Liquidity Coverage Ratio ("LCR") as its stock of HQLA as a proportion of its MLL, as defined above. Under both stress and BAU conditions, the LCR is required to be greater than 100%.

As at 31 December 2015, the LCR was 192% under stress scenario (December 2014: 169%) and 249% under normal circumstances (December 2014: 155%).

The table below analyses the Corporation's financial instruments into relevant maturity groupings based on the remaining period at the statement of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

As at 31 December 2015

| All figures in US$'000 | Carrying amount | Within 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 2yrs | 2 -5 yrs | Above 5 yrs |
|---|---|---|---|---|---|---|---|---|
| Total Financial Assets | 3,028,147 | 1,101,718 | 78,146 | 307,857 | 134,240 | 233,103 | 1,096,692 | 605,093 |
| Total Financial Liabilities | 1,671,281 | 14,008 | 6,923 | 121,291 | 230,500 | 313,397 | 875,989 | 171,136 |
| Derivative Liabilities | 2,718 | - | 2,718 | - | - | - | - | - |
| Loan commitments | 140,760 | 10,702 | 13,200 | 48,788 | - | 68,070 | - | - |
| Funding gap | - | 1,077,008 | 55,305 | 137,778 | (96,260) | (148,364) | 220,703 | 423,957 |
| Cummulative funding gap | - | 1,077,008 | 1,132,313 | 1,270,091 | 1,173,831 | 1,025,467 | 1,246,170 | 1,680,127 |

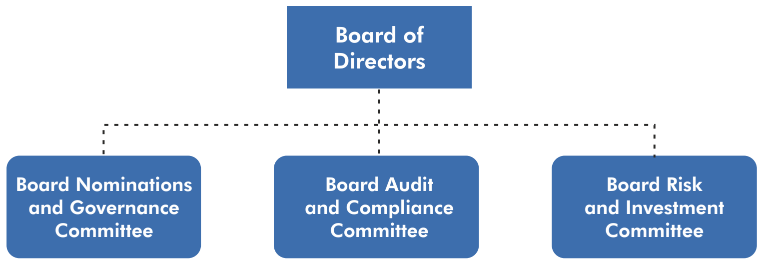
As at 31 December 2014

| All figures in US$'000 | Carrying amount | Within 1 month | 1 to 3 months | 3 to 6 months | 6 to 12 months | 1 to 2yrs | 2 -5 yrs | Above 5 yrs |
|---|---|---|---|---|---|---|---|---|
| Total Financial Assets | 2,431,324 | 531,366 | 199,538 | 230,063 | 121,429 | 188,608 | 934,931 | 741,090 |
| Total Financial Liabilities | 1,086,697 | 149,354 | 17,546 | 11,444 | 332,644 | 179,145 | 340,852 | 160,340 |
| Loan commitments | 56,581 | - | 13,767 | 9,196 | - | - | 33,618 | - |
| Funding gap | - | 382,012 | 168,225 | 209,423 | (211,215) | 9,463 | 560,461 | 580,750 |
| Cummulative funding gap | - | 382,012 | 550,237 | 759,660 | 548,445 | 557,908 | 1,118,369 | 1,699,119 |

The gap identified in the 6 months to 2 years period will be funded with maturities from earlier periods, as evidenced in the cumulative funding gap contained in the table above.

### 3.4 Capital Management & Governance structure

The Board of Directors has ultimate responsibility for policy formulation, strategy and decision making, with specific authority delegated to three subsidiary committees and Executive Management for day-to-day operations. Below represents the reporting structures of the various Board committees within the Corporation.




| | | | |
|---|---|---|---|
| Delegated Role | • Nominations and Appointments<br>• Governance Policy and Monitoring | • Audit Review and Approval<br>• Internal Compliance Monitoring | • Risk Policy and Units<br>• Investment Strategy and Approvals |
| Sitting Frequency | Quarterly | Quarterly | Quarterly + As required |

In carrying out its oversight functions, EXCO through various committees manages the day to day operations of the Corporation. Below is a chart of the various sub committees of EXCO and their mandates.


| | | | | | |
|---|---|---|---|---|---|
| Critically appraises potential investment commitments | Responsible for liquidity management and market risk | Implementation of the risk management framework | Review valuations of equity and hybrid investments | Manages the procurement process. Ensures value for money | Provides strategic direction on IT architecture and infrastructure |
| As required | Monthly | Monthly | Quarterly | As required | As required |

The Corporation's objectives when managing capital, which is a broader concept than the 'equity' on the face of the statement of financial position are:

- to comply with the capital requirements set by the Board of Directors of the Corporation;
- to safeguard the Corporation's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to maintain a strong capital base to support the development of its business.

Capital adequacy is monitored regularly by the Corporation's management, employing techniques derived from the guidelines developed by the Basel Committee. The Corporation's Capital Adequacy Framework requires the business to maintain a ratio of total risk capital to the risk-weighted asset (the Basel ratio) at a minimum of 30%. To allow for a proactive management of any issue with its capital position, the Corporation has further defined an internal trigger at 40% that would necessitate the activation of a remedial action.

The Corporation's capital is managed by the Finance and Financial Services Divisions and currently comprises of Tier 1 (96%) and Tier 2 (4%) capital as shown below:

Tier 1: Comprises of share capital, retained earnings and reserves created by appropriations of retained earnings.

Tier 2: Comprises of unrealised gains arising on the fair valuation of equity instruments held as available-for-sale and collective impairment allowance made on loans and advances.

The risk weighted assets are measured by means of a hierarchy of risk weights classified according to the nature of (and reflecting an estimate of credit, market and other risks associated with) each asset and counterparty, taking into account any eligible collateral or guarantees. A similar treatment is adopted for off-balance sheet exposures, with some adjustments to reflect the more contingent nature of the potential losses.

The table below summarises the composition of capital and the ratios of the Corporation for the period ended 31 December 2015. The Corporation has no externally imposed capital requirements, but complied with its own internal capital adequacy requirements described above, during the year under review.

| | 31 Dec. 2015 US$'000 | 31 Dec. 2014 US$'000 |
|---|---|---|
| **Tier 1 capital** | | |
| Share capital | 1,089,067 | 1,089,067 |
| Retained earnings | 255,335 | 239,700 |
| **Total qualifying Tier 1 capital** | **1,344,402** | **1,328,767** |
| Net fair valuation gain on available-for-sale assets | 21,312 | 23,628 |
| Collective impairment allowance | 26,710 | - |
| **Total qualifying capital** | **1,392,424** | **1,352,395** |
| **Risk-weighted assets:** | | |
| On-balance sheet | 2,703,622 | 2,231,685 |
| Off-balance sheet | 73,787 | 66,028 |
| Total risk-weighted assets | 2,777,409 | 2,297,713 |
| **Basel ratio** | **50.1%** | **58.9%** |

### 3.5 Fair value of financial assets and liabilities

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Corporation determines fair values using other valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

#### (a) Valuation models

The Corporation measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements.

- **Level 1:** inputs that are quoted market prices (unadjusted) in active markets for identical instruments.

- **Level 2:** inputs other than quoted prices included within Level 1 that are observable either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques in which all significant inputs are directly or indirectly observable from market data.

- **Level 3:** inputs that are unobservable. This category includes all instruments for which the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments for which significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques include net present value and discounted cash flow models, comparison with similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, bond and equity prices, foreign currency exchange rates, equity and equity index prices and expected price volatilities and correlations.

The objective of valuation techniques is to arrive at a fair value measurement that reflects the price that would be received to sell the asset or paid to transfer the liability in an orderly transaction between market participants at the measurement date.

The Corporation uses widely recognised valuation models for determining the fair value of common and plain vanilla financial instruments, such as interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices or model inputs are usually available in the market for listed debt and equity securities, exchange-traded derivatives and simple over-the-counter derivatives such as interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determining fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

For more complex financial instruments, the Corporation uses proprietary valuation models, which are usually developed from recognised valuation models. Some or all of the significant inputs into these models may not be observable in the market, and are derived from market prices or rates or are estimated based on assumptions. Examples of instruments involving significant unobservable inputs include unquoted equity securities for which there is no active market. Valuation models that employ significant unobservable inputs require a higher degree of management judgement and estimation in the determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of the probability of counterparty default and prepayments and selection of appropriate discount rates.

Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties, to the extent that the Corporation believes that a third party market participant would take them into account in pricing a transaction. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the counterparty where appropriate.

### (b) Valuation framework

The Corporation has an established control framework with respect to the measurement of fair values. This framework includes a Product Control function, which is independent of front office management and reports to the Chief Financial Officer, and which has overall responsibility for independently verifying the results of investment operations and all fair value measurements. Specific controls in the Corporation's valuation control framework include:

- an established procedure for the verification of observable market prices;
- an established procedure for the independent re-performance and validation of model-based valuations;
- a review and approval process for new models and changes to models analysis and investigation of significant daily valuation movements; and
- review of unobservable inputs, valuation adjustments and changes to the fair value measurement of Level 3 instruments compared with the previous period, by the valuation committee (a committee which includes the Chief Financial Officer and the Chief Risk Officer)

Level 2 and 3 categories, fair valuation adjustments are approved by the Board of Directors through two of its subsidiary committees: Audit and Compliance Committee and Risk and Investment Committee.

The following table analyses financial instruments measured at fair value as at 31 December 2015, by the level in the fair value hierarchy into which the fair value measurement is categorised. The amounts are based on the values recognised in the statement of financial position.

| **31 December 2015** | **Level 1 US$'000** | **Level 2 US$'000** | **Level 3 US$'000** |
|---|---|---|---|
| Derivatives assets | | | |
| - Options | - | 2,041 | - |
| - Forward contracts | - | 1,493 | - |
| Financial assets at fair value through profit or loss: | | | |
| - Assets under management | 14,469 | - | - |
| - Hybrid instrument (convertible debt) | - | 53,625 | - |
| - Equity securities | 3,059 | - | 155,075 |
| Investment securities: | | | |
| - Equity securities (available-for-sale) | - | - | 94,817 |
| - Corporate debt securities | 3,674 | - | - |
| **Total** | **21,202** | **57,159** | **249,892** |
| Derivatives Liabilities: | | | |
| - Interest rate swaps | - | 2,718 | - |

| **31 December 2014** | **Level 1 US$'000** | **Level 2 US$'000** | **Level 3 US$'000** |
|---|---|---|---|
| Derivatives assets (Options contract) | - | 639 | - |
| Financial assets at fair value through profit or loss: | | | |
| - Assets under management | 17,266 | - | - |
| - Hybrid instrument (convertible debt) | - | 72,316 | - |
| - Equity securities | - | - | 99,566 |
| Investment securities: | | | |
| - Equity securities (available-for-sale) | - | - | 100,373 |
| **Total** | **17,266** | **72,955** | **199,939** |
| Derivatives Liabilities: | | | |
| - Option contract | - | 14 | - |

There were no transfers between levels 1 and 2 for recurring fair value measurements during the year. For transfers in and out of level 3 measurements, see reconciliation overleaf:

**Reconciliation of Level 3 items**

| | US$'000 2015 | US$'000 2014 |
|---|---|---|
| At beginning of year | 199,939 | 144,950 |
| Unrealised gains or losses: | | |
| - in OCI | (2,316) | 9,265 |
| - in Profit or loss | 42,587 | 17,155 |
| Transfer to Level 1 | (5,000) | - |
| Impairment loss | - | (6,586) |
| Purchases | 19,017 | 44,998 |
| Capital repayments | (4,335) | (9,843) |
| **At end of year** | **249,892** | **199,939** |

The table below sets out information about significant unobservable inputs used as at 31 December 2015 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

| Type of financial instrument | Fair value as at 31 December 2015 (US$'000) | Valuation technique | Significant unobservable input | Range of estimates for unobservable input | Fair value measurement sensitivity to unobservable inputs |
|---|---|---|---|---|---|
| Unquoted equity securities | 227,325 | Discounted cashflow | Cost of equity | 12% – 25% | Significant increases in cost of equity, in isolation, would result in lower fair values. Significant reduction would result in higher fair values |
| | | | Terminal growth rate | 2% - 3% | Significant increases in terminal growth rate, in isolation, would result in higher fair values. Significant reduction would result in lower fair values |
| | 22,567 | Price of recent transaction | Price | NA | These are prices agreed between a willing buyer and seller. The agreed prices have been applied to value the number of shareholding in these investments. |
| **Total** | **249,892** | - | - | - | - |

| Type of financial instrument | Fair value as at 31 December 2014 (US$'000) | Valuation technique | Significant unobservable input | Range of estimates for unobservable input | Fair value measurement sensitivity to unobservable inputs |
|---|---|---|---|---|---|
| Unquoted equity securities | 112,479 | Discounted cashflow | Cost of equity | 15% – 25% | Significant increases in cost of equity, in isolation, would result in lower fair values. Significant reduction would result in higher fair values |
| | | | Terminal growth rate | 2% - 3% | Significant increases in terminal growth rate, in isolation, would result in higher fair values. Significant reduction would result in lower fair values |
| | 87,460 | Price of recent transaction ** | Price | NA | These are prices agreed between a willing buyer and seller. The agreed prices have been applied to value the number of shareholding in these investments. |
| **Total** | **199,939** | - | - | - | - |

** Certain equity investments which were previously valued using the income approach were valued using the market approach as there were recent equity transactions in those investee entities. These are prices agreed between a willing buyer and seller and were adjusted to reflect the timing of those transactions and other transaction specific conditions.

Significant unobservable inputs in the discounted cash flow technique applied are developed as follows:

i. The Corporation applied the Capital Asset Pricing Model to determine the cost of equities for its various unquoted equities which were fair valued at year end.
ii. The risk free rate was determined using the yield on the US Government bond of the appropriate tenor and this was adjusted for country risk premium (for unquoted securities denominated in US$) .
iii. Equity risk premium was determined using Standards and Poors (S&P) 500 Stock Price Index, for similar business sectors.
iv. Beta estimates were obtained from Damodaran Online.

The Corporation believes that its estimates of fair values are appropriate. However, the use of different methodologies or assumptions could lead to different measurements of fair value. For fair value measurements in Level 3, changing the cost of equity or terminal growth rate by a reasonable possible value, in isolation, would have the following effects on Other Comprehensive Income and profit or loss for the year as follows:

| US$'000 | Effect on Other Comprehensive Income | | Effect on profit or loss | |
|---|---|---|---|---|
| **Key Assumption** | 1% Increase | 1% Decrease | 1% Increase | 1% Decrease |
| Cost of equity | (7,793) | 8,650 | (5,543) | 6,165 |
| Terminal growth rate | 5,308 | (4,300) | 7,883 | (6,599) |

The hybrid instrument was valued using a binomial distribution methodology involving three to twenty five steps. The table below highlights the market data used for the purpose of valuation of the convertible instrument:

| Parameters | Input Market Data |
|---|---|
| Risk free rate | 1.76% |
| Credit risk | 4.7% - 6.6% |
| Standard deviation/Volatility | 44% |
| Dividend Yield | 1.44% |
| Period | 6 years/American |
| Sensitivity | 10% |

The derivative assets (option contract) was valued using the Black Scholes option pricing model. The table below highlights the market data used for the purpose of valuation of the derivative instrument:

| Parameters | Input Market Data |
|---|---|
| Volatility | 20.62% |
| Delta | 85.79% |

### c) Financial instruments not measured at fair value

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

**31 December 2015**

| | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | Total fair values US$'000 | Total carrying values US$'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans and advances to bank: | | | | | |
| - Placements | 976,130 | - | - | 976,130 | 976,130 |
| Loans and advances to other customers: | | | | | |
| - Project finance | - | 694,500 | - | 694,500 | 694,500 |
| - Trade finance | - | 483,364 | - | 483,364 | 483,364 |
| Investment securities: | | | | | |
| - Corporate debt securities | 282,710 | - | 131,805 | 414,515 | 433,153 |
| - Government debt securities | 48,840 | - | 13,462 | 62,302 | 68,326 |
| **Total** | **1,307,680** | **1,177,864** | **145,267** | **2,630,811** | **2,655,473** |
| **Liabilities** | | | | | |
| Borrowings | 856,002 | 796,525 | - | 1,652,527 | 1,646,936 |
| **Total** | **856,002** | **796,525** | **-** | **1,652,527** | **1,646,936** |

**31 December 2014**

| | Level 1 US$'000 | Level 2 US$'000 | Level 3 US$'000 | Total fair values US$'000 | Total carrying values US$'000 |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Loans and advances to bank: | | | | | |
| - Placements | 370,476 | - | - | 370,476 | 370,476 |
| Loans and advances to other customers: | | | | | |
| - Project finance | - | 572,542 | - | 572,542 | 572,542 |
| - Trade finance | - | 226,050 | - | 226,050 | 226,050 |
| Investment securities: | | | | | |
| - Corporate debt securities | 83,725 | - | 362,519 | 446,244 | 454,098 |
| - Government debt securities | 53,393 | - | 26,198 | 79,591 | 80,988 |
| **Total** | **507,594** | **1,087,390** | **388,717** | **1,983,701** | **1,992,952** |
| **Liabilities** | | | | | |
| Borrowings | - | 1,061,593 | - | 1,061,593 | 1,061,593 |
| **Total** | **-** | **1,061,593** | **-** | **1,061,593** | **1,061,593** |

Where available, the fair value of investment securities, loans and advances are based on observable market transactions. Where observable market transactions are not available, fair value is estimated using valuation models, such as discounted cash flow techniques.

The fair value of borrowing from counterparty is estimated using discounted cash flow techniques, applying the rates that are offered for deposits of similar maturities and terms.

## 3.6 Financial instruments by category

### 31 December 2014

Assets as per Statement of Financial Position

| | Loans and Receivables US$'000 | Fair value through Profit or loss US$'000 | Available-for-sale US$'000 | Held-to-Maturity US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Cash and balances with commercial banks | 40,414 | - | - | - | 40,414 |
| Loans and advances to banks: | | | | | |
| - Placements with banks | 976,130 | - | - | - | 976,130 |
| Derivatives | - | 3,534 | - | - | 3,534 |
| Financial assets at fair value through profit or loss | - | 226,228 | - | - | 226,228 |
| Loan and advances to other customers: | | | | | |
| - Project finance | 694,500 | - | - | - | 694,500 |
| - Trade finance | 483,364 | - | - | - | 483,364 |
| Investment securities: | | | | | |
| - Debt securities | 63,110 | - | 3,674 | 434,695 | 501,479 |
| - Equity securities | - | - | 94,817 | - | 94,817 |
| Other assets: | | | | | |
| - Account receivable | 11,215 | - | - | - | 11,215 |
| **Net book amount** | **2,268,733** | **229,762** | **98,491** | **434,695** | **3,031,681** |

### 31 December 2014

Assets as per Statement of Financial Position

| | Loans and Receivables US$'000 | Fair value through Profit r loss US$'000 | Available-for-sale US$'000 | Held-to-Maturity US$'000 | Total US$'000 |
|---|---|---|---|---|---|
| Cash and cash equivalents | 86,551 | - | - | - | 86,551 |
| Loans and advances to banks: | | | | | |
| - Placements with banks | 370,476 | - | - | - | 370,476 |
| Derivatives | - | 639 | - | - | 639 |
| Financial assets at fair value through profit or loss | - | 189,148 | - | | 189,148 |
| Loan and advances to other customers: | | | | | |
| - Project finance | 572,542 | - | - | - | 572,542 |
| - Trade finance | 514,848 | - | - | - | 514,848 |
| Investment securities: | | | | | |
| - Debt securities | 63,633 | - | - | 471,453 | 535,086 |
| - Equity securities | - | - | 100,373 | - | 100,373 |
| Other assets | | | | | |
| - Fee receivable | 32,852 | - | - | - | 32,852 |
| - Account receivable | 29,448 | - | - | - | 29,448 |
| **Net book amount** | **1,670,350** | **189,787** | **100,373** | **471,453** | **2,431,963** |

The Corporation's financial liabilities are all measured at amortised costs.

## 4. Critical accounting estimates and judgements in applying accounting policies

AFC's financial statements and its financial result are influenced by accounting policies, assumptions, estimates and management judgement, which necessarily have to be made in the course of preparation of the financial statements.

The Corporation makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances

**(a) *Assumption and estimation uncertainties***

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ending 31 December 2015 is set out in note 3.5 (a) (determination of the fair value of financial instruments with significant unobservable inputs) relation to the impairment of financial instruments and in the following notes in relation to other areas:

***(b) Impairment losses on loans and advances***

The Corporation reviews its loan portfolio to assess impairment on an ongoing basis. In determining whether an impairment loss should be recorded in the statement of comprehensive income, the Corporation makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets of the Corporation. Management uses estimates based on knowledge of the client business and agreed worked out solutions when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Corporation's loan portfolio consists of two classes namely – trade loans and project finance loans. Trade loans are granted for trade finance and have an average tenor of one year while project finance loans have an average tenor of up to five years. The Corporation, being a supranational, enjoys preferred creditor status across its member countries; this is a strong loss mitigant for the Corporation. Also, the Corporation does not have a credit loss history on its loan portfolio since inception. The Corporation's credit framework is very robust as all credits are reviewed and forwarded to the BRIC for ratification/approval depending on size of the facility.

The Corporation performs extensive review of its loan portfolio quarterly. The status of each credit is assessed independently by relevant industry specialists and Risk Management by comparing the actual level of the project against the plan and assessing its performace based on market information and other operational indices. The quarterly assessment is reviewed and approved by the management's investment committee (INVESTCO), EXCO and the Board Risk and Investment Committee (BRIC).

In measuring credit risk of loans and advances to various counterparties, the Corporation considers the character and capacity of the obligor, the probability that an obligor or counterparty will default over a given period (probability of default – PD), the portion of the loan expected to be irrecoverable at the time of loan default (loss given default – LGD) and carrying amount of the loan that is outstanding as at reporting date (exposure at default – EAD). The table below shows the sensitivities of the impairment loss provision for 1% increase or decrease in the LGD and PD.

| | 31 December 2015 | | 31 December 2014 | |
|---|---|---|---|---|
| **Increase/decrease** | **Probability of default - PD US'000** | **Loss given default-LGD US'000** | **Probability of default - PD US'000** | **Loss given default – LGD US'000** |
| 1% increase | 3,568 | 801 | - | - |
| 1% decrease | (3,568) | (801) | - | - |

*(c) Impairment of available-for-sale equity investments*

The Corporation determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in the fair value below cost. The determination of what is significant or prolonged requires judgement. The Corporation regards decline in fair value in excess of 20% to be significant. In making this judgement, the Corporation evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial condition of the investee, its industry and sector performance, as well as, adverse changes in technology that negatively impact the operational and financing cash flows of the investee company.

*(d) 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 or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of those that sourced them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To a practible extent, models use only observable data; however, areas such as credit risk (both own credit risk and counterparty risk), volatilities and correlations require management to make estimates.

Changes in assumptions about these factors could affect the reported fair value of financial instruments.

*(e) Exemption under IAS 28 – Investment in Associates*

Equity investments that result in the Corporation having a significant influence, but not control, over the financial and operating policies of the investee companies are carried in the statement of financial position at fair value through profit or loss rather than accounted for as associates using the equity method of accounting. This treatment is permitted by IAS 28 Investment in Associates, which requires investments held by venture capital organizations and similar financial institutions to be excluded from its scope where those investments are designated, upon initial recognition, as at fair value through profit or loss and accounted for in accordance with IAS 39, with changes in fair value recognised in the income statement in the period of the change. The Corporation's operational activities typically entail provision of equity finance to unquoted companies and taking an active role in helping to build and develop such companies by having a representation on the Board of the investee companies. The equity business of the Corporation is managed and appraised independently from other business entities within the Corporation, with the objective of earning capital return on its venture capital investments upon exit in the medium term. The Corporation is also a member of the Africa Private Equity & Venture Capital Association (AVCA).

## 5. Business Units

The Corporation's primary objective is to finance infrastructure projects across Africa and to provide advisory, project development and other services related thereto.

Operating units are reported in a manner consistent with the internal reporting provided to executive management committee and Board of Directors. Segment information is provided on the basis of business units as the Corporation manages its affairs and business through these areas. The business units presented reflect the management structure of the Corporation and the way in which the Corporation's management reviews performance. The Corporation evaluates the performance of its operating segments primarily based on segment operating profit, as defined below:

**1) Investment Division**

The Corporation's Investment division is responsible for the end-to-end project development, origination, structuring and execution of investments. This division is further divided into groups based on sector classifications, with each group responsible for customer relationship management and investments within its sector. The Investment division also works closely with Risk Management to perform portfolio management functions for the Corporation's investment portfolio. The Investment division offers a diverse range of financing products, such as loans, quasi-equity financing, equity and arranging services to infrastructure projects in Africa. It also provides technical and economic advisory services to projects that are in the early stage of project development.

**2) Financial Services Division**

The Corporation's Financial Services division is divided into three groups, (i) treasury and funding, (ii) financial institutions and syndication, and (ii) financial advisory. The treasury and funding group is responsible for the Corporation's capital raising and covers both debt and equity. Its function is to seek to ensure that the Corporation has adequate capital and the appropriate capital structure.

The treasury and funding group interfaces with the Corporation's shareholders, bankers, potential lenders, rating agencies and other providers of capital. It is also responsible for the management of the liquidity of the Corporation, ensuring that all liquidity risk management indices are met and that the Corporation is able to meet its contractual obligations under normal as well as stressed environments. It is also responsible for designing and executing hedging activities to manage the Corporation's exposures to market risk. The financial institutions and syndication team is responsible for leading syndications of the Corporation's transactions and participations in external syndications, as well as seeking and executing asset buy and sell down opportunities. It is also responsible for trade finance transactions that do not fall under one of the sectors in the Investment division and those that involve financial institutions. The financial advisory group is responsible for providing advisory services to clients and generating fee-based income for the Corporation.

The segment information provided to the Corporation's Board for the reportable segments for the period ended 31 December 2015 is as follows:

| 31 December 2015 | Investment US$'000 | Financial Services US$'000 | Total US$'000 |
|---|---|---|---|
| Interest income | 97,859 | 60,874 | 158,733 |
| Fee, commission and other income | 7,348 | 2,573 | 9,921 |
| Net gain on financial instruments at fair value through profit or loss | 22,283 | (3,416) | 18,867 |
| Collective impairment | (26,710) | - | (26,710) |
| Loss on financial instruments at amortised cost | - | (4,348) | (4,348) |
| Interest & administrative expenses | (55,499) | (28,371) | (83,870) |
| **Operating profit** | **45,281** | **27,312** | **72,593** |
| **Total Assets** | **1,453,687** | **1,586,026** | **3,039,713** |
| **Total liabilities** | **24,345** | **1,649,654** | **1,673,999** |
| Expenditure on reportable segment: | | | |
| Non-current assets | 538 | 331 | 869 |
| Depreciation and amortisation | 964 | 592 | 1,556 |
| **31 December 2014** | | | |
| Interest income | 69,650 | 34,790 | 104,440 |
| Fee, commission and other income | 63,932 | - | 63,932 |
| Net gain on financial instruments at fair value through profit or loss | 9,979 | 287 | 10,266 |
| Impairment loss on financial assets | (6,586) | - | (6,586) |
| Interest & administrative expenses | (55,972) | (11,394) | (67,366) |
| **Operating profit** | **81,003** | **23,683** | **104,686** |
| **Total Assets** | **1,559,574** | **879,532** | **2,439,106** |
| **Total liabilities** | **14,027** | **1,072,684** | **1,086,711** |
| Expenditure on reportable segment: | | | |
| Non-current assets | 1,238 | 161 | 1,399 |
| Depreciation and amortisation | 1,228 | 160 | 1,388 |

| | | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **6.** | **Interest income** | | |
| | From | | |
| | - Loans and advances to other customers | 96,228 | 67,178 |
| | - Loans and advances to banks | 29,084 | 8,644 |
| | - Investment securities | 33,421 | 28,618 |
| | | **158,733** | **104,440** |
| | **Interest expense** | | |
| | Borrowings from financial institutions | 35,970 | 28,790 |
| | Corporate bonds | 17,880 | - |
| | | **53,850** | **28,790** |
| **7.** | **Dividend income** | | |
| | Available-for-sale securities | 30 | 1,228 |
| | | **30** | **1,228** |
| **8.** | **Fee and commission income** | | |
| | Risk participation and commitment fees | 3,974 | 3,350 |
| | Advisory and structuring fees | 3,602 | 8,632 |
| | Development fees | - | 21,401 |
| | Arrangement and facility fees | 2,315 | 5,216 |
| | | **9,891** | **38,599** |

**9.** In prior year, the Corporation recognised income from sale of its investments in certain equity securities, in line with the Corporation's exit strategy on these investments. There were no exits in the current year.

| | | 2015 US$'000 | 2014 US$'000 |
|---|---|---|---|
| **10.** | **Net gain/(loss) on financial instruments at fair value through profit or loss** | | |
| | Equity investments | 40,646 | 17,155 |
| | Hybrid instruments | (20,060) | (7,176) |
| | Asset under management | 236 | 287 |
| | Derivatives held for risk management purposes: | | |
| | Interest rate | (2,718) | - |
| | Foreign exchange | 763 | (487) |
| | | **18,867** | **9,779** |

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|

## 11. Impairment charge on financial assets

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Loans and receivables (collective impairment) | 26,710 | - |
| Available-for-sale financial assets | - | 6,586 |
| | **26,710** | **6,586** |

## 12. Operating expenses

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| **Staff cost:** | | |
| Wages and salaries | 15,958 | 25,864 |
| **Other operating expenses:** | | |
| - Rent, rates and utilities | 1,151 | 1,220 |
| - Insurance | 79 | 121 |
| - Advertising and business promotion | 1,441 | 1,622 |
| - Auditor's remuneration | 212 | 193 |
| - Communication | 636 | 791 |
| - Travel | 873 | 968 |
| - Board expenses, including Directors' fees | 443 | 472 |
| - Training, seminars and conferences | 1,196 | 1,192 |
| - Repairs and maintenance | 89 | 95 |
| - Project and other transaction fees | 3,803 | 2,872 |
| - Consultancy fees | 1,548 | 875 |
| - Other expenses | 1,035 | 903 |
| - Depreciation and amortisation (Notes 22 & 23) | 1,556 | 1,388 |
| | **30,020** | **38,576** |

## 13. Taxation

Under the Headquarters Agreement between AFC and the Government of the Federal Republic of Nigeria signed in May 2007, AFC is exempt from tax on all its income arising from operations in Nigeria. This is provided for in the Diplomatic Immunities and Privileges Order, published in the Federal Republic of Nigeria's Official Gazette No. 23 dated 15 February, 2010 vol 97 section 1 (4)

## 14. Earnings per share

**Basic**

Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the Corporation by the weighted average number of ordinary shares in issue during the year.

| | 2015 | 2014 |
|---|---|---|
| Profit attributable to equity holders of the Corporation (US$' 000) | 72,593 | 104,686 |
| Weighted average number of ordinary shares in issue (' 000) | 1,089,067 | 1,089,067 |
| Basic earnings per share (expressed in US cents per share) | 6.67 | 9.61 |

**Diluted**

The dilutive earnings per share is calculated by adjusting the weighted average number of ordinary shares to assume conversion of all dilutive potential ordinary shares. (There were no potential dilutive ordinary shares during the year).

| | 2015 | 2014 |
|---|---|---|
| Weighted average number of ordinary shares in issue (' 000) | 1,089,067 | 1,089,067 |
| Diluted earnings per share (expressed in US cents per share) | 6.67 | 9.61 |

## 15. Cash and balances commercial banks

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Cash in hand | 12 | 19 |
| Balances with commercial banks | 40,402 | 86,532 |
| | **40,414** | **86,551** |

## 16. Loans and advances to banks

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Placements with banks | **976,130** | **370,476** |

All loans and advances to banks are current.

## 17. Derivative financial instruments

The table below shows the fair values of derivative financial instruments recorded as assets or liabilities together with their notional amounts. The notional amount, recorded gross, is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding at the year end and are indicative of neither the market risk nor the credit risk.

| | Assets 2015 US$'000 | Liabilities 2015 US$'000 | Notionals 2015 US$'000 |
|---|---|---|---|
| **Derivatives** | | | |
| Options | 2,041 | - | 14,576 |
| Forward contracts | 1,493 | | 57,812 |
| Interest rate swaps | - | 2,718 | 770,000 |
| | **3,534** | **2,718** | **842,388** |

| | Assets 2014 US$'000 | Liabilities 2014 US$'000 | Notionals 2014 US$'000 |
|---|---|---|---|
| **Derivatives** | | | |
| Options | 639 | 14 | 17,930 |

All derivatives are current in nature.

## 18. Financial assets at fair value through profit or loss

| | 2014 US$'000 | 2013 US$'000 |
|---|---|---|
| Designated at initial recognition | | |
| - Hybrid instruments (convertible debt) (a) | 53,625 | 72,316 |
| - Equity securities (b) | 158,134 | 99,566 |
| Assets under management (c) | 14,469 | 17,266 |
| | **226,228** | **189,148** |
| Current | 361 | 341 |
| Non-current | 225,867 | 188,807 |

(a) The option component of the convertible debt is equity indexed, which results in no closely related risks inherent in the host contract. The Corporation therefore designated the hybrid contract as financial asset at fair value through profit or loss. Valuation was carried out using a binomial distribution methodology.

(b) Equity securities at fair value through profit or loss include:

| | 2015 US$'000 | 2014 US$'000 | Percentage shareholding |
|---|---|---|---|
| MainOne Cable Company (i) | 40,359 | 36,265 | 23% |
| Cabeolica S.A. (ii) | 14,900 | 13,899 | 42% |
| Vigeo Power (iii) | 12,739 | 7,795 | 20% |
| Cenpower Generation Company (iv) | 78,605 | 36,607 | 32% |
| Ncondezi (v) | 3,059 | 5,000 | 23% |
| Socoprim | 8,161 | - | 26% |
| Singrobro | 311 | - | 22% |
| | **158,134** | **99,566** | |

(i) **MainOne Cable Company:** is a telecommunications company and a leading provider of innovative telecom services and network solutions for businesses in West Africa. Total direct and indirect holding in MainOne stood at 23% as at 31 December 2015. The summarized un-audited financial information for MainOne is presented below:

| | October 2015 US$'000 | October 2014 US$'000 |
|---|---|---|
| Current assets | 38,085 | 33,340 |
| Non-current assets | 219,506 | 230,996 |
| Current liabilities | 32,122 | 30,662 |
| Non-current liabilities | 57,969 | 48,511 |
| Revenue | 46,646 | 44,818 |
| Profit/(loss) after tax | 979 | 3,175 |
| Total comprehensive income/(loss) | 979 | 2,391 |

(ii) **Cabeolica S.A:** a wind power company based in Cape Verde supplying about 20% of installed electricity capacity of the country. The summarized un-audited financial information for Cabeolica S.A. is presented below:

| | December 2015 US$'000 | December 2014 US$'000 |
|---|---|---|
| Current assets | 9,198 | 10,855 |
| Non-current assets | 53,970 | 63,998 |
| Current liabilities | 7,278 | 9,133 |
| Non-current liabilities | 53,706 | 64,364 |
| Revenue | 11,453 | 12,835 |
| Profit/(loss) after tax | 1,291 | 821 |
| Total comprehensive income/(loss) | 1,291 | 821 |

(iii) **Vigeo Power Limited:** a power distribution company in south-west part of the host country Nigeria.

(iv) **Cenpower Generation Company:** a power generating company in Ghana. The summarized un-audited financial information for Cenpower is presented below:

| | December 2015 US$'000 | December 2014 US$'000 |
|---|---|---|
| Current assets | 50,255 | 21,142 |
| Non-current assets | 7 | 207,588 |
| Current liabilities | 29 | 132,968 |
| Non-current liabilities | - | 63,927 |

(v) **Ncondezi:** a power development company with an integrated thermal coal power plant and mine project located on the Ncondezi licences in the Tete Province, Northern Mozambique.

The Corporation acquired stakes in these companies with the intention to exit at a future date. The Corporation does not have any commitments to these entities outside the existing investments.

(c) Assets under management represent funds that are managed by a third party investment company on a discretionary basis. The market prices of these investments are observable.

## 19. Loans and advances to other customers

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Project finance loans | 713,885 | 572,542 |
| Advances under trade finance | 490,689 | 514,848 |
| | 1,204,574 | 1,087,390 |
| Collective impairment | (26,710) | - |
| | **1,177,864** | **1,087,390** |
| Current | 378,299 | 426,104 |
| Non-current | 799,565 | 661,286 |

## 20. Investment securities

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| (a) Debt securities at amortised cost (see note(i) below): | | |
| - Corporate debt securities | 429,479 | 454,098 |
| - Sovereign debt securities | 68,326 | 80,988 |
| | **497,805** | **535,086** |
| Current | 108,672 | 38,419 |
| Non-current | 389,133 | 496,667 |

(i) Included in investment securities are debt securities which have been transferred but not derecognised in the consolidated financials statement as the Corporation still retained the risks and rewards as at reporting date. These transactions were conducted under terms that are usual and customary to standard lending and repurchase activities.

Details are as below:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Carrying amount of the assets (See note 25) | 158,300 | 214,325 |
| Carrying amount of the associated liabilities (See note 25) | 108,836 | 148,928 |
| Fair value of the assets | 136,505 | 208,732 |
| Fair value of the liabilities | (108,836) | (148,928) |
| Net fair value | 27,669 | 59,80 |

As at 31 December 2015, the Corporation held no collateral, which it was permitted to sell or repledge in the absence of default by the owner of the collateral (31 December 2014: Nil).

(b) Financial assets at fair value through OCI

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| - Equity securities – unlisted (see note (i) below) | 94,817 | 100,373 |
| - Debt securities | 3,674 | - |
| | **98,491** | **100,373** |
| Current | - | - |
| Non-current | 98,491 | 100,373 |

(i) The movement in financial assets at fair value through OCI (equities) from the preceding financial year is as follows:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| **At beginning of the year** | 100,373 | 99,966 |
| Additions | 1,095 | 1,650 |
| Net (loss)/gain on fair valuation through other comprehensive income | (2,417) | 9,265 |
| Impairment loss on financial assets | - | (6,586) |
| Capital repayments | (4,234) | (3,922) |
| **At end of the year** | **94,817** | **100,373** |

## 21. Other assets

| | | |
|---|---|---|
| Fees receivable | - | 32,852 |
| Account receivable | 11,215 | 29,448 |
| Prepayments | 5,545 | 3,904 |
| | **16,760** | **66,204** |
| Current | 6,389 | 64,799 |
| Non-current | 10,371 | 1,405 |

Other assets are neither past due nor impaired.

## 22. Property and equipment

| | Motor Vehicles US$'000 | Leasehold improvement US$'000 | Furniture & equipment US$'000 | Total US$'000 |
|---|---|---|---|---|
| **At 1 January 2014** | | | | |
| Cost | 2,529 | 1,582 | 2,921 | 7,032 |
| Accumulated depreciation | (1,084) | (1,568) | (2,247) | (4,899) |
| **Net book amount** | **1,445** | **14** | **674** | **2,133** |
| **Year ended December 2014** | | | | |
| Opening net book value | 1,445 | 14 | 674 | 2,133 |
| Additions | 473 | 12 | 405 | 890 |
| Disposal – cost | (587) | - | (37) | (624) |
| Disposals – accumulated depreciation | 400 | - | 37 | 437 |
| Depreciation charge | (594) | (5) | (236) | (835) |
| **Closing net book amount** | **1,137** | **21** | **843** | **2,001** |
| **At 1 January 2015** | | | | |
| Cost | 2,415 | 1,594 | 3,288 | 7,297 |
| Accumulated depreciation | (1,278) | (1,573) | (2,445) | (5,296) |
| **Net book amount** | **1,137** | **21** | **843** | **2,001** |
| **Period ended 31 December 2015** | | | | |
| Opening net book value | 1,137 | 21 | 843 | 2,001 |
| Additions | 502 | - | 343 | 845 |
| Disposal – cost | (276) | - | (107) | (383) |
| Disposals – accumulated depreciation | 236 | - | 82 | 318 |
| Depreciation charge | (610) | (7) | (319) | (936) |
| **Closing net book amount** | **989** | **14** | **842** | **1,845** |
| **At 31 December 2015** | | | | |
| Cost | 2,641 | 1,594 | 3,524 | 7,759 |
| Accumulated depreciation | (1,652) | (1,580) | (2,682) | (5,914) |
| **Net book amount** | **989** | **14** | **842** | **1,845** |

## 23. Intangible assets

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Software cost | 642 | 1,238 |

Software costs are costs incurred on the purchase and implementation of the Corporation's software.

The movement in intangible assets from the preceding financial year is as follows:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| At 1 January | 1,238 | 1,282 |
| Additions | 24 | 509 |
| Amortisation | (620) | (553) |
| At 31 December | 642 | 1,238 |

## 24. Accrued expenses and other liabilities

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Unearned commission | 6,878 | 6,115 |
| Accruals | 3,253 | 11,104 |
| Accounts payable | 4,188 | 4,742 |
| Deposit for shares (note (i)) | 10,000 | - |
| Balances held under facility agency arrangement (note(ii)) | - | 3,018 |
| Pension liabilities | - | 99 |
| Other liabilities | 26 | 26 |
| | **24,345** | **25,104** |

All liabilities above are current.

(i) Amount represents deposit made by the Republic of Ghana during the year, for subscription to the shares of the Corporation.

(ii) Balances held under facility agency arrangement represents amount received by the Corporation in its capacity as Facility Agent from the borrower in a project finance transaction.

## 25. Borrowings

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Corporate bonds issued (note (i)) | 853,406 | - |
| Other borrowings (note (ii)) | 793,530 | 1,061,593 |
| | **1,646,936** | **1,061,593** |
| Current | 340,942 | 455,337 |
| Non-current | 1,305,994 | 606,256 |

(i) Amount represents outstanding balance on issuances made under the Corporation's maiden Eurobond program. The Corporation had its maiden eurobond issue during the year and established a US$3billion Global Medium Term Notes (GMTN) program under the eurobond issue. The terms and conditions of the term notes issued under the Corporation's GMTN program are as follows:

| | Year of Maturity | Rate (%) | Rate Type |
|---|---|---|---|
| US$ 750 million GMTN | 2020 | 4.375 | Fixed |
| US$ 50 million GMTN | 2017 | 1.314 | Floating |
| US$ 20 million GMTN | 2016 | 1.500 | Fixed |
| US$ 20 million GMTN | 2016 | 1.326 | Floating |
| US$ 14 million GMTN | 2016 | 1.212 | Floating |

(ii) Other borrowings comprises borrowings from banks and other development financial institutions within Africa and Europe. These are floating rate liabilities and repricing of these borrowings are between 3 months and 6 months.

(iii) Included in other borrowings is an amount of US$ 108,836,072 (2014: US$148,928,014) which has been secured using Corporate and Sovereign securities of US$158,300,000 (2014: US$214,325,000). See note 20(a)(i) for more details.

(iv) The Corporation has not had any defaults of principal, interest and other covenant breaches with respect to its borrowings.

(v) The maturity profile of borrowings are as follows:

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Less than 1 year | 340,942 | 455,337 |
| 1 – 3 years | 318,109 | 401,405 |
| Over 3 years | 987,885 | 204,851 |
| | **1,646,936** | **1,061,593** |

## 26. Contingent liabilities and commitments

### A) *Legal proceedings*

As at 31 December, 2015, there was one legal proceeding against the Corporation for which no provision has been made. The directors, having sought the advice of professional legal counsel, are of the opinion that no liability will crystalise from this case.

### B) *Equity commitments*

These commitments as at 31 December 2015 relate to equity financing commitments to third parties.

### C) *Debt commitments*

Other commitments as at 31 December 2015 relate to trade finance and debt commitments on transactions.

Commitments details as at 31 December, 2015 are as follows:

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| Equity commitments | 48,495 | 55,020 |
| Debt commitments | 140,760 | 56,581 |
| | **189,255** | **111,601** |

## 27. Share capital

| | No. of shares<br>In thousands | Ordinary shares<br>US$'000 |
|---|---|---|
| At 1 January 2015 | 1,089,067 | 1,089,067 |
| At 31 December 2015 | 1,089,067 | 1,089,067 |

The total authorised number of ordinary shares is 2 billion with a par value of US$1.00 per share.

## 28. Retained earnings

| | 2015<br>US$'000 | 2014<br>US$'000 |
|---|---|---|
| At beginning of the year | 239,700 | 178,577 |
| Dividend declared and paid during the year | (56,958) | (43,563) |
| Retained earnings for the year | 72,593 | 104,686 |
| At end of the year | **255,335** | **239,700** |

## 29. Fair value reserves

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| At beginning of the year | 23,628 | 14,363 |
| Net gains on available-for-sale financial assets | (2,316) | 9,265 |
| At end of the year | **21,312** | **23,628** |

## 30. Dividends

Dividends are not accounted for until they have been ratified at the Annual General Meeting.

The Board of Directors is proposing a dividend of 3.23 US cents per share (2014: 5.23 cents per share), amounting to approximately US$ 35,176,865 (2014: US$56,958,205). The resolution on payment of dividend will be tabled before the annual general meeting scheduled for 4 April 2016 and if approved, the dividend will be paid to all qualifying shareholders who are on the register of members as of that date.

## 31. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances with less than three months maturity from the date of acquisition.

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Cash in hand and balances with commercial banks (Note 15) | 40,414 | 86,551 |
| Placements with other banks (see (i) below) | 975,552 | 370,468 |
| **At end of the year** | **1,015,966** | **457,019** |

(i) Amount excludes the interest receivable portion of placements with other banks.

## 32. Related party transactions

Parties are considered to be related if one party has the ability to control the other party or exercise influence over the other party in making financial and operational decisions, or one other party controls both. The definition includes subsidiaries, associates, significant shareholders and their companies as well as key management personnel.

A number of transactions were entered into during the year with related parties in the normal course of business. These transactions were with banks that are shareholders of the Corporation and an institutional shareholder. The outstanding related party transactions at year end and the related income for the year are as follows:

a) *Loans and advances to related parties*

| | Banks and other shareholders | |
|---|---|---|
| | 2015 US$'000 | 2014 US$'000 |
| Loans outstanding as at end of year | 229,984 | 152,708 |
| Corporate bonds as at end of year | 199,128 | 152,000 |
| Interest income earned | 44,582 | 22,586 |

20% of the loans made to related parties are secured. The remaining unsecured balance represents loans which are short term in nature. No specific provisions have been recognised in respect of any related party credit facility.

b) *Key management compensation*

| | 2015 US$'000 | 2014 US$'000 |
|---|---|---|
| Salaries and other short-term benefits | 3,610 | 3,790 |
| Post employment benefits | 448 | 1,481 |

Key management staff refers to members of the Executive Management Committee, which are: (a) President and Chief Executive Officer, (b) Executive Director, Chief Operating Officer and General Counsel, (c) Executive Director and Chief Investment Officer, (d) Executive Director, Financial Services, (e) Director & Chief Financial Officer, and (f) Senior Vice President & Chief Risk Officer.

## 33. Events after the statement of financial position date

There were no events after the statement of financial position date which materially affect these financial statements.

# CORPORATE INFORMATION

**Africa Finance Corporation**

**A:** Headquarters
3a Osborne Road Ikoyi
Lagos State
Nigeria

**T:** +234 1 279 9600
**E:** contact@africafc.org
**W:** africafc.org

**Auditors**
PriceWaterHouseCoopers
Plot 252E Muri Okunola Street
Victoria Island
Lagos State
Nigeria

**Principal Bankers**

| | |
|---|---|
| **Access Bank plc**<br>Oyin Jolayemi Street Victoria Island<br>Lagos State<br>Nigeria | **J P Morgan Chase & Co.**<br>270 Park Avenue<br>New York, NY 10017-2070 USA |
| **Deutsche Bank AG**<br>Herengracht 450 2nd Floor<br>1017 CA Amsterdam Netherlands | **Standard Chartered Bank**<br>Head Office<br>1 Basinghall Avenue<br>London EC2V 5DD<br>UK |
| **Ecobank plc**<br>Plot 21 Ahmadu Bello Way<br>Victoria Island<br>Lagos State<br>Nigeria | **United Bank for Africa**<br>UBA House, 57 Marina P.O. Box 2406<br>Lagos State<br>Nigeria |
| **Guaranty Trust Bank plc**<br>Plot 635, Akin Adesola<br>Victoria Island<br>Lagos State<br>Nigeria | **Zenith Bank plc**<br>Plot 84 Ajose Adeogun Street<br>Victoria Island<br>Lagos State<br>Nigeria |

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**Africa Finance Corporation**
3A Osborne Road,
Ikoyi, Lagos
Nigeria
+234 1 279 9600
contact@africafc.org
www.africafc.org
@africa_finance