

INFRASTRUCTURE FINANCING

ACCELERATING
DEVELOPMENT IMPACT,
INTEGRATING ECONOMIES

2018

ANNUAL REPORT & FINANCIAL STATEMENTS



WHO WE ARE

AFC is a Multilateral Financial Institution, created by sovereign African states to provide pragmatic solutions to Africa's Infrastructure deficit and challenging operating environment, by developing and financing infrastructure, natural resources and industrial assets, for enhanced productivity and economic growth of African states.

OUR VISION

To become Africa's leading infrastructure solutions provider

OUR MISSION

To foster economic growth and industrial development of African countries, while delivering a competitive return on investment to our shareholders.

INFRASTRUCTURE FINANCING ACCELERATING DEVELOPMENT IMPACT, INTEGRATING ECONOMIES



2018
ANNUAL REPORT &
FINANCIAL STATEMENTS

contents

About	
About AFC	04
Chairman's Statement	08
CEO's Letter to Shareholders	13
Financial Highlights	19
Governance	
Corporate Governance Summary	22
Risk Management Report	30
Environmental & Social Risk Management	31
People & Organisation	40
Operating Review	
Power	42
Natural Resources	46
Transport	53
Heavy Industry & Telecommunications	57
Project Development	60
Treasury	63
Syndication & Trade Finance	64
Financial Advisory	65
Country Relations	67
Financial Report	
Statement of Directors' Responsibility	72
Report of Audit & Compliance Committee	73
Independent Auditor's Report	74
Consolidated Statement of Comprehensive Income	80
Consolidated Statement of Financial Position	81
Consolidated Statement of Changes in Equity	82
Consolidated Statement of Cashflow	83
Notes to the Consolidated Financial Statements	84
Corporate Information	181



ABOUT AFC

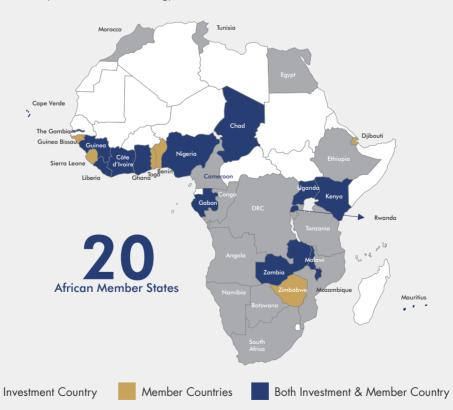
Leading Investment Grade Africa-focused Multilateral Financial Institution

A3 / P-2 Moody's rated multilateral financial institution focused on addressing Africa's infrastructure needs

Background

- Founded in 2007 by an agreement between African sovereign states as a Multilateral Financial Institution
- Structured as a partnership between public and private investors to be consistent with the increasing role of PPPs in infrastructure Investments
- Private sector majority shareholders include leading African Multilaterals and financial institutions
- Key priority sectors include Power, Transport, Natural Resources (Oil, Gas, and mining)

- and Heavy Industries & Telecommunications
- Leading debt, equity and mezzanine financing franchise combined with unrivalled leadership in public sector advice and project development expertise in Africa
- Investment grade rating of A3 (Long-term Issuer) and P-2 (Short term Issuer) from Moody's Investor Services
- 85 competent bi-lingual and multi-cultural employees operating on a Pan-African basis
- Broad investment footprint with US\$4.5 billion cumulative amount disbursed across 28 African countries



OUR BUSINESS POSITIONING



Leading Africa-focused Infrastructure Solutions Provider



Solid Organizational Structure for Access to African Decision Makers

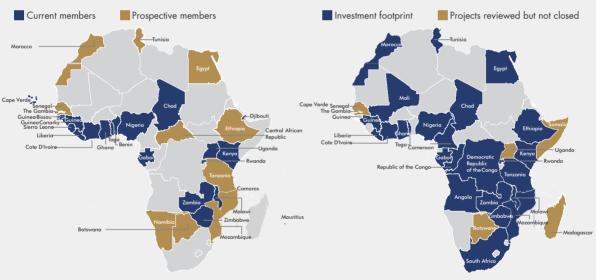


Strong Historical Financial Performance and Growth Pipeline



Core Ethical Values and Organizational Principles

We are uniquely positioned as Africa's infrastructure solutions leader, combining our strong local knowledge with a high quality balance sheet to deliver more investments across the African continent



(1) t

UNRIVALED COUNTRY ACCESS



PAN-AFRICAN PORTFOLIO

Country members provide AFC with the advantage of preferred creditor status, with real benefits for our sponsors and co-investors

Portfolio of projects in 28 African countries and more under review, a testament to our deep local knowledge across the continent



HIGH INVESTMENT CAPACITY

Capacity for additional low cost investments given AFC's very strong credit rating and low leverage balance sheet





Leverage, making its assets one of the least leveraged institutions in the market

OUR INVESTMENT PHILOSOPHY

Our investment philosophy prioritizes projects with high developmental impact and competitive returns in selected sectors, while our investment capacity and talent allows us to provide end-to-end solutions to our clients

INVESTMENT APPROACH

AFC will consider projects of the following nature:



Target a pool of investments with a promising portfolio return (~ 12%)



Co-financing with proven and experienced developers and/or project sponsors



High developmental impact on countries of execution



Located across the African continent



Belonging to core focus sectors: power, transport, telecom, heavy industries and natural resources



Invest across the project lifecycle

INVESTMENT INSTRUMENTS

AFC can participate in a project using instruments across the capital structure



Advisory: Restructuring Capital raising Syndication and distribution



Equity: Project development Brownfield Buy-out



Treasury: Fixed income Money market Liquidity solutions



Debt: Project finance Structured debt Trade finance



Credit enhancement: Derivatives Preferred Creditor Status Hedging products

OUR IDEALS

AFC's next frontier of growth will be anchored on 5 ethos, 4 that define our DNA



We are **Innovative** problem solvers

We commit to dedicating our very best minds and energies daily to innovating and finding creative solutions that exceed the task. We pioneer solutions that become standards in our industry. We do this because we must, we owe it to ourselves, to our communities, and to future generations.



We work with Speed

We will approach all aspects of our work **with a sense of urgency** that reflects our commitment to reducing Africa's infrastructure deficit and maximizing shareholder returns



We Collaborate with colleagues

In putting our clients and the corporation ahead of personal interests. We will work as one organ, seeking out and partnering with the best suited colleagues to deliver distinctive impact to our clients



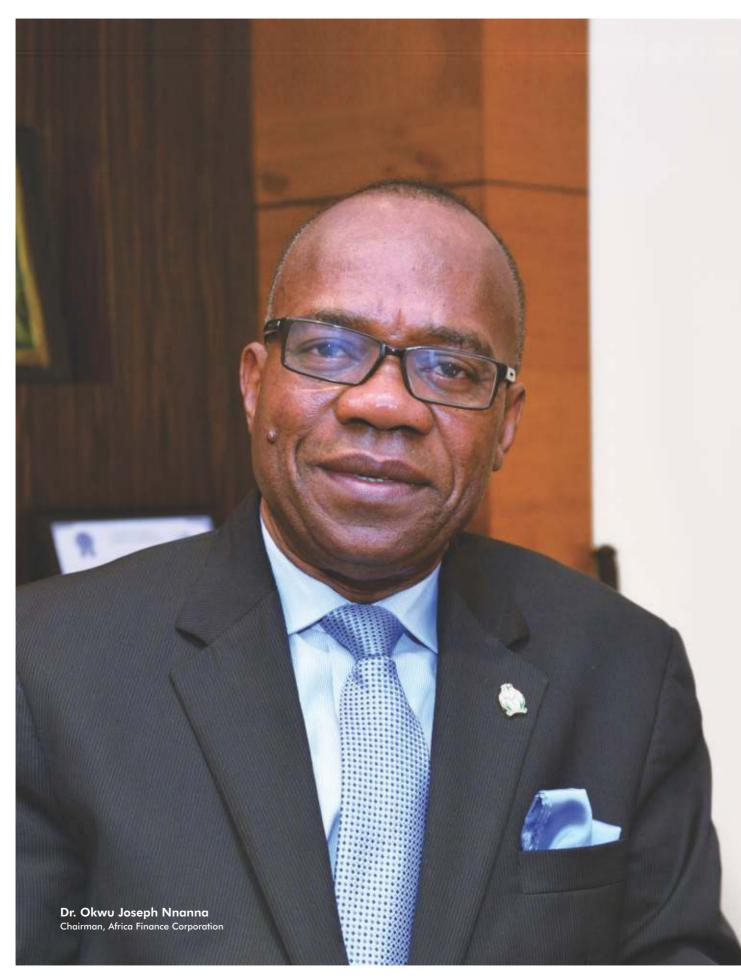
We are people with **Ethics**

We adhere to the **highest ethical and professional standards**; we will approach our work with **integrity and honesty**, knowing that what we do impacts people and shapes Africa's culture.



We are **Responsible** professionals

We will apply the **utmost care in the execution of our responsibilities as professionals** to avoid the incurrence of financial and reputational losses to AFC



CHAIRMAN'S STATEMENT



Going forward we aspire to reduce Africa's infrastructure deficit by identifying, developing and financing high quality projects across the continent, and growing our asset portfolio to accelerate development impact.

espite improving macro-economic conditions across Africa, the continent still suffers from a significant infrastructure investment deficit. Africans are among some of the most vulnerable to the impacts of climate change, this further emphasizes the need to close the infrastructure deficit with solutions that will meet the triple social, environmental and financial bottom lines. It is estimated that approximately US\$170 billion is required annually for the capital expenditure for new infrastructure projects and the maintenance of existing assets. Analysis by the World Bank suggests that Africa's infrastructure gap reduces productivity by 40% and cuts economic growth by 2 percentage points each year.

The infrastructure investment deficit hinders intra and inter-regional integration, limits economic development and is proving to be an obstacle to social progress across the continent, particularly given that the demographics of Africa's population is changing with over 50% of its 1.2 billion population being under the age of 30.

Strategy

Africa Finance Corporation's (AFC) long-term vision is to drive sustainable, economic and social change across Africa through infrastructure investment. AFC's strategy has always been

multilateral: engaging with the private and public sectors to optimize the cost of borrowing by tapping into new markets and cheaper funding sources. In 2018 we continued to build on this mandate, by identifying new projects and welcoming the African Development Bank as a new shareholder and three new country members; the Republics of Malawi, Zimbabwe and Togo.

Infrastructure spend in Africa has on average been about US\$77.2 billion creating a funding gap which presents finance opportunities for players to bridge the investment gap. AFC is therefore focused on providing solutions to bridge Africa's infrastructure gap. Going forward we aspire to reduce Africa's infrastructure deficit by continuing to identify, develop and finance high quality projects across the continent, and growing our portfolio to accelerate development impact.

The Economic Landscape

2018 saw African countries demonstrate their economic resilience. Aggregate GDP growth for the continent rose to 3.9%, which was higher than the World Bank's forecast of 3.1%, and six of the world's ten fastest growing economies were in Africa.

Notwithstanding the impressive growth, the global, and indeed African economies continue to face headwinds arising from complex and interrelated range of issues, such as decelerating



....With strong fundamentals in place, AFC is the only African supranational with fully paid-in capital held exclusively in US dollars. It also has one of the lowest leverage ratios of any supranational, with growth largely financed by its conservative capital structure 33

growth, rising global trade tensions, pervading climate of global fiscal tightening and, on the African continent, widening economic and social inequality. I would like to take this opportunity to assess these issues, as they occurred in 2018, and how they position us for the future.

Growth of the US economy remained stable, growing at 3% in 2018, but it is projected to decline to 2.3% in 2019, due to trade wars and recent economic policies. Though the US Bureau of Labor Statistics suggests that the previous downward trajectory of unemployment is now flatlining, this has mainly been in the lower paying jobs, with fears of an asset price bubble erupting.

Consequently, we expect that interest rates will continue to rise. Having raised its interest rates for the eighth time since 2008, the US Federal Reserve stated it would maintain the target range for its benchmark funds rate at 2.25% to 2.5%. The immediate impact is, of course, felt acutely in Emerging Markets and Developing Economies (EMDEs), as higher interest rates lure investors, who in recent years have looked abroad for returns, back to the US. With the increased cost of borrowing, many of the EMDEs will explore alternative financing sources, and we expect to see a decline in the competitiveness of both sovereign and corporate issuances of bonds and capital raising programs.

China has seen slow growth and Europe is rebalancing economically and politically – they are Africa's largest trading partners, together accounting for more than 70% of trade, but are exacerbating the uncertainties of the global economy. Declining industrial output, exports and consumer demand in China is likely to trigger commodity price declines, which will have a ripple

effect on African economies which are commodity dependent.

However, an increasing number of countries are following China's lead in forging links with Africa. In September 2018, the EU announced the provision of €40 billion in grants from 2021-2027, thus building on Germany's Marshall Plan for Africa which was launched in 2017. In October 2018 the USA doubled the lending capacity of the Overseas Private Investment Corporation (OPIC), which is a key partner of AFC, to US\$60 billion, whilst at the same time increasing its scope of operations, such as, for example, allowing the institution to invest in equity.

The forecast for 2019 is oil at US\$45 per barrel and weakened global trade, and this could usher in recessionary headwinds in 2020, and possibly geopolitical shocks.

Performance

Against this backdrop, the Corporation delivered a commendable performance of US\$ 290.9 million in gross revenue and US\$118 million in total comprehensive income. With strong fundamentals such as its capital, lowest leverage ratios of any supranational, with growth largely financed by its conservative capital structure, AFC is well positioned to deliver its mandate of reducing the continents infrastructure deficit.

Our growth trajectory also reflects the development impact of the projects we support, for instance, the Bugesera International Airport in Kigali, Rwanda, which, once completed, will not only be the largest airport in the country, but also act as a regional hub that should facilitate regional integration and trade.

Dividend

In line with AFC's dividend policy, the Board of Directors recommended a final ordinary dividend of 5.383 US cents per share. The resolution on the payment of dividend will be tabled before the annual general meeting scheduled for 28 March 2019 and, if approved, the dividend will be paid to all qualifying shareholders who are on the register of members as at 28 March 2019.

As Chairman, one of my most important priorities in 2018 was to ensure a smooth and effective leadership transition. As all our stakeholders are aware, the year saw key changes to the Board of Directors. Mr. Andrew Alli 2nd President & CEO and Dr. Adesegun Akin-Olugbade Executive Director, completed their respective tenures, whilst four Non-Executive Directors - Mr. Grant Harris, Mr. Robert Tung, Mr. Lawrence Tung and Mr. Charles Kie, retired from the Board.

During the year, Mr. Samaila Zubairu, the incoming President and CEO of the Corporation joined the Board, as did Mr. Patrick Akinwuntan, CEO, Ecobank Plc. In 2019, we intend to strengthen the Board by appointing two new Independent Directors.

The benchmark institution that AFC has become would not have been possible without the support and contribution of our stakeholders. I would like to take this opportunity to thank everyone who has contributed to the success of the Africa Finance Corporation in 2018. I commend the Board for its diligent stewardship and oversight in a transition year. Our dedicated AFC staff who have worked diligently and contributed to the growth of the Corporation, our industry stakeholders for their partnership, technical support and advice, and our media partners for broadcasting our message.

Lastly, I wish to welcome on board and thank the incoming President and Chief Executive Officer, Mr. Samaila Zubairu, who at the start of his tenure, has strengthened the foundation that is necessary for the sustenance of the AFC, as the leading Africa-focused Infrastructure solutions provider.

House E. Nham

Dr. Okwu Joseph NnannaChairman, Africa Finance Corporation



LETTER TO SHAREHOLDERS



I firmly believe that we will achieve our collective objectives of reducing Africa's infrastructure deficit and accelerating development impact across the continent, whilst ensuring the sustainable growth of our Corporation.

n 2018, Africa Finance Corporation (AFC) continued its growth trajectory with an increase of more than 5% in operating income to US\$181.8 million, driven by strong annuity revenue on the existing debt portfolio, increased income from the treasury portfolio, and higher yields and growth in interest earning assets. Likewise, profits for the year and total comprehensive income grew by 28% and 8% to US\$128.5 million and US\$118 million respectively, mainly from active management to improve portfolio quality.

As we embark on our 12th year of operations, Africa's GDP growth records modest improvements from 3.9% in 2018 to a projected 4.1% in 2019 and 2020. Yet headwinds to growth continue to stalk global markets with the ongoing tension between the USA and China, the world's two largest economies, slowing growth in Europe, the flattening of US yield curves, the ongoing pressure faced by emerging markets in the face of a strengthening US dollar, and reduced demand from China stemming the recovery in commodity prices.

Beyond impacting Africa's largest trading partners, a global slowdown could also impact the levels of foreign direct investment which our continent clearly needs, as African countries grapple with the dynamics of fast changing demographics, which will see 50% of global population growth coming from Africa alone in the next three decades, as

well as the speed of urbanization, which will see an estimated 75% of all Africans living in urban areas by 2050 from today's levels of 50%. With over 600 million of Africa's population under the age of 30 years, the continent is set for a significant period of change and volatility, as Africa continues to increase its participation in an increasingly interconnected world economy.

Africa Economic Outlook

The recovery in Africa continued in 2018. East Africa led with GDP growth estimated at 5.7%, followed by North Africa at 4.9%, West Africa at 3.3%, Central Africa at 2.2% and Southern Africa at 1.2%.

North Africa is expected to account for 40% of Africa's projected growth in 2019 and perhaps even more, if it can overcome its biggest obstacles: political instability followed by financial markets slowdown and inconsistent electricity supply.

Key external risks include an unexpectedly sharp decline in commodity prices, the impact of volatile currencies, rising debt of some African countries, further fiscal tightening and escalating trade tensions involving major economies. Domestically, the principal risks relate to fiscal management, political stability, domestic and regional conflicts and climate change.



We are innovating around long-lived market challenges with immediate priority for positioning as the market maker that provides the liquidity solutions for African infrastructure investment portfolios including AFC's own portfolio. 77

Continued economic expansion will be profoundly shaped by how African governments prioritize spending and structural reforms, to improve the very challenging operating environment and weak infrastructure. The impact of global economic trends on the demand for new infrastructure assets and the growth of existing ones cannot be underestimated.

Overall, growth was driven by increased agricultural production, public spending and consumer demand in non-resource-rich countries, while oil exporters were buoyed by a recovery in oil prices in the first three quarters of 2018. The North Africa region's long-term fundamentals remain strong; as arowth stands to benefit from favourable demographics, industrialization as well as policy and structural transformation.

Trends

Between 2013 and 2016 average infrastructure investment per annum in Africa stood at US\$77.2 billion rising to US\$82 billion in 2017, well below Africa's infrastructure needs, which is estimated to be US\$170 billion per year, implying an annual infrastructure deficit of US\$88 billion including maintenance expenditure of the existing infrastructure stock.

The major obstacle remains project bankability. There is an immense pipeline of projects but less than 10% of the projects reach financial close, due to low project bankability driven by many factors such as the inadequate supply of quality project developers and a difficult operating environment with economic and political challenges. Tempering these challenges are demand drivers such as: the fast pace of industrialization and the urbanization of certain African economies and cities; advances

in renewable energy technology enabling lowercost and more decentralized power generation projects; Africa being a major driver in the demand for extraction; and transportation and trade of a limited supply of natural resources.

This bodes well for AFC as it enters the next phase of its growth. We have renewed active engagements with African governments on their infrastructure and industrial masterplans, in line with our mandate of reducing the infrastructure deficit on the continent and accelerating Africa's economic growth and industrial development. Over the last 11 years, AFC has made significant strides in actualizing this mandate. However, maintaining the momentum while remaining profitable, requires us to reposition ourselves to diversify revenue growth, optimize funding sources, improve portfolio quality and balance sheet velocity.

Accelerating Development Impact

To sustain our leadership as Africa's Infrastructure solutions provider, AFC will actively increase the volume and quality of bankable projects for accelerated development impact by positioning project development, financial advisory and country relations as origination engines for early access and influence to create quality de-risked investments. This should translate into higher revenue and yield, captured along the investment cycle as we drive asset growth with increased geographic and sectoral diversity to actively construct a higher quality portfolio of risk assets. We are increasing the number and depth of country partnerships in order to improve access to proprietary pipelines and take full advantage of AFC's privileged position in member countries. AFC is seeking partnerships and alliances to improve access to the North, East and Southern

US\$'Millions

PROFIT FOR THE YEAR

128.5m

28% FROM FY 2017 FY2018 TOTAL COMPREHENSIVE INCOME

118m

8% FROM FY 2013

FY2018 NET OPERATING INCOME

181.8m

5% FROM FY 2017

FY2018 TOTAL ASSETS

4.5bn

8% FROM FY 2017

African pipeline of infrastructure, natural resources and industrial opportunities.

We will consolidate on the gains of early success in special economic zones by embedding integrated country and vertical industry ecosystems into AFC's investment philosophy. We are actively seeking out opportunities led by effective collaboration to access or develop integrated projects that stretch from opening a mine to a power plant, industrial plant to a toll road or rail track to a port or industrial park, over discrete investments into each asset type in separate locations.

We are innovating around long-lived market challenges with immediate priority for positioning as the market maker that provides the liquidity solutions for African infrastructure investment portfolios including AFC's own portfolio. AFC will expand early successes with platform companies and partnerships, such as Anergi, to build permanent capital vehicles for the broader market.

Building a coalition of investors

Given the scale of Africa's infrastructure deficit, which is estimated to grow at US\$88 billion annually, Africa needs to attract large scale institutional capital, and AFC is actively seeking close, aligned and impactful collaboration with key stakeholders.

Simultaneously, we are deepening our partnerships with development finance institutions, sponsors, institutional investors and other stakeholders to scale our impact on the continent, by identifying opportunities to securitize African infrastructure assets. Working together as a team with the same goals, to leverage on the broad range of skills, is

allowing AFC to compete effectively with much larger peers in its industry.

Furthermore, we believe we can bring much value to our current member states. We have identified several challenges facing the public sector and governments' ability to deliver on its infrastructure plans. For example, many African governments have limited project development expertise and remain financially constrained. AFC, with its end-to-end project development and advisory services that encompass procurement, development and financing, can alleviate many of these challenges through leveraging our core skills and experience gained over the last decade or more.

We recognize that AFC's aspirations will only be attained with the right people and capabilities. Therefore, we are committed to enhancing the skills and capabilities of our own talent pool to convert the infrastructure deficit, natural resource and industrial opportunities into bankable projects. Furthermore, as we increase our footprint across the continent, we will build a more diverse team that has deep local knowledge grounded in global perspectives.

Our 2018 performance

AFC continues to consolidate its performance by delivering improved operating results which supports its history of growth and development impact as a multilateral financial institution with substantial private sector participation. For the financial year ended 31 December 2018, the Corporation achieved an increase of 28% in profits of US\$128.6 million from US\$100.5 million recorded in the prior year, while its total comprehensive income increased by 8%, to

US\$118.0 million up from to US\$109.2 million recorded in 2017.

The performance was largely driven by income from the loan, advances and fixed income portfolios. While net interest margin was lower at 4.2% due to higher funding costs, net interest income and operating income increased by 6% and 5% respectively.

Although the Corporation recorded a net loss on financial instruments at fair value through profit or loss, the 67% year on year decline in the impairment charge on financial assets, contributed to the improved performance for the year. The lower impairment charge was as a result of our strong risk management practices and proactive portfolio management. The impairment assessment of loans and other financial assets was performed using the Expected Credit Loss model in accordance with the requirements of IFRS 9 Financial Instruments. The Corporation adopted IFRS 9 with effect from 1 January 2018.

In addition, the Corporation recorded a gain on the disposal of financial assets, compared to a loss in the prior year, representing growth of 168%.

Given the challenging economic environment, the Corporation maintained its tight rein on operating expenses which increased by 10%, with a cost-to-income ratio of 26%. The cost-to-income ratio remained comfortably below the limit approved by the Board.

The Corporation achieved a growth of 8% in total assets over the prior year, to US\$4.5 billion, compared to US\$4.2 billion in 2017. The growth was largely driven by increases in our loan book and treasury assets. The growth was funded by borrowings which grew by 17%. In terms of shareholders equity, we welcomed African Reinsurance as a shareholder during the year, with its investment of US\$2 million in the Corporation.

The Corporation remains well capitalized, with a capital adequacy ratio of 39.2%, and, highly liquid, with about US\$1.6 billion in money market placements at the end of the year. This strategically

positions The Corporation to take advantage of investment opportunities in the year ahead.

Sector Performance and Outlook

It would be almost impossible for Africa to attain its full potential without achieving widespread industrialization across the continent. By 2030, business-to-business spending in manufacturing in Africa is projected to reach US\$666.3 billion, almost tripling the expenditure levels achieved in 2015. While policy solutions are likely to differ across countries, manufacturing and industrial development will be central to Africa's ability to meet its development goals. Many African countries, especially resource-rich states, suffer the 'resource curse' and are stuck in a cycle of exporting commodities without any beneficiation, thereby forfeiting the generation of incremental jobs and earnings that could be realized from value addition.

To support this industrialization agenda, we continuously look for opportunities that will act as a catalyst for creating jobs. In December 2018, we successfully arranged and led the €577 million syndicated-debt financing for Société Ivoirienne de Raffinage ("SIR") of Côte d'Ivoire, which has an annual output of 3.8 million tons of refined crude oil products, making it the largest crude oil refinery in West Africa.

The same urgency applies to the power sector. Our continent still ranks poorly with only 38% of the population having access to electricity. To achieve universal energy access by 2030, Sub-Saharan Africa needs an electrification growth rate of 8.4% per annum. One of AFC's key contributions in 2018 was our investment in the construction of the 44-MW Singrobo-Ahouaty hydroelectric power plant in Côte d'Ivoire, as well as the 420 MW Nachtigal hydro-electric power plant in Cameroon. These two investments consecutively marked AFC's first and second equity investment in hydro Independent Power Producers in francophone Africa. Singrobo-Ahouaty is expected to create 1,200 jobs (500 permanent and 700 temporary) during the construction phase and approximately 50 permanent high-quality jobs

when operational. Meanwhile, Nachtigal will bring power to a grid where it is expected demand will more than double, from 5.7 TWh in 2016 to above 13TWh by 2030.

Natural resources' contribution to Africa remains important. If managed well, natural resources can play a crucial role in transforming economies through the re-investment of proceeds from natural resources into other sectors of the economy, promoting diversification and ultimately reducing dependence on commodities. As such, we remain active in this sector, leveraging the strength and opportunities that they offer to create more diversified economies.

In August 2018, we announced the on-time and on-budget completion of the Bel Air Mine in Guinea and its first shipment of high-grade bauxite to China. Bauxite is a key ingredient in the manufacturing of Aluminum. Guinea has the largest reserves in the world of this metal. Steady production capacity will reach 5.5 million tons of bauxite per annum, which will add to Guinea's average yearly exports of about 35 million tonnes of bauxite. In addition to the mine, the project also included the construction of a sea port which was the first deep-sea port built in offshore West Africa in 20 years. The port will support sustainable growth in Guinea's mining industry by providing much-needed connections to international value chains as well as employment opportunities.

In relation to corporate funding, we continue to diversify and broaden our investor base, creating new relationships and welcoming organizations across the globe that are relevant to the continent and our business. This year, we welcomed the Export-Import Bank of China, through the acquisition of a US\$300 million loan facility. The facility includes a US\$200 million five-year loan and a US\$100 million five-year standby facility for general corporate purposes. This is the first loan transaction that AFC has entered into with a Chinese State-owned entity.

Similarly, as we recognize the constraints of Africa's economies in sourcing hard currency, we are

reforming our Treasury Client Solutions, and are actively pursuing innovative solutions such as cross-currency swaps with central banks to further de-risk infrastructure projects, by reducing currency risks and borrowing cost, with longer tenured local currency finance which should allow capital recovery over longer periods and hence lower tariffs to improve affordability. Including new products like interest swaps and other credit enhancement solutions required for capital mobilization.

People and Organization

Our people remain our greatest asset and the main source of our competitive advantage. Given the competitive nature of our industry, our mandate recognizes that it is essential that we attract and retain the best talent. Therefore, we continue to implement a people strategy that focuses on ensuring an enabling environment, empowering our staff with purpose, to create and provide the solutions that will address Africa's infrastructure deficit.

We continue to strengthen the diversity of our workforce and actively embed inclusiveness. We have staff from 14 different nationalities and a 66:34 male-female gender split.

Environmental, Social and Governance

The Board and Management is fully committed to Environmental, Social and Governance performance and views it as an integral part of our responsibility to clients, shareholders, communities and the environment in which we operate.

The Board and Management are committed to achieving the highest standards of professional conduct across the Corporation.

Country Membership and External Relationships

In 2018, we welcomed three new member countries: Malawi, Zimbabwe and Togo increasing AFC member countrues to 20, with an in-principle

agreement also signed by Mauritius to become a member state in the near future. We will continue to explore opportunities to increase the number of member countries with the aim of onboarding most African countries in line with our pan-African mandate. Regardless of whether countries are members of AFC, we review project opportunities across the continent. Currently, we have a portfolio of projects across 28 African countries with several more opportunities in new jurisdictions under review.

In 2018 we also welcomed AfDB as a new shareholder, following their Board's approval of a US\$50 million investment in the Corporation in November 2018. This investment will enable both institutions to accelerate and deepen co-financing opportunities, joint implementation, knowledge sharing and capacity development for the continent's benefit.

In closing, I would like to take this opportunity to thank the Board of Directors and my colleagues at AFC, as well as our various clients who have provided us the opportunity to serve them, for their continued support and perseverance on the journey to unlock Africa's vast potential. I firmly believe that we will achieve our collective objectives of reducing Africa's infrastructure deficit and accelerating development impact across the continent, whilst ensuring the sustainable growth of our Corporation.

Samaila Zubairu

President & CEO

FINANCIAL HIGHLIGHTS



US\$181.8m

15% on prior year

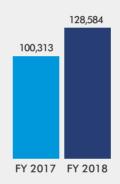


\$

FY2018 NET PROFIT

US\$128.6m

128% on prior year





FY2018 TOTAL COMPREHENSIVE INCOME

US\$118m

18% on prior year



\$ 000

FY2018 TOTAL ASSETS

US\$4.5bn

180/0 on prior year





AFRICA FINANCE CORPORATION

GOVERNANCE

CORPORATE GOVERNANCE SUMMARY

AFC is an investment grade Pan-African multilateral development finance institution, established in 2007 by treaty among sovereign African states, to catalyse private sector-led infrastructure investment across Africa.

The Corporation was created to provide leadership in addressing Africa's infrastructure challenges by proactively creating, acquiring and managing infrastructure, natural resource, industrial and financial assets, to fast-track Africa's economic development. AFC Equity Investments Limited (AFC Equity), a wholly owned subsidiary of AFC, was incorporated in Mauritius in 2013 to hold the Corporation's equity investments.

Corporate governance at AFC is the system of rules, practices and processes by which the Corporation and its wholly owned subsidiary, AFC Equity, collectively referred to as the Group, is directed and controlled.

The AFC Establishment Agreement and Charter form the basis of the organization's corporate governance practices. AFC, as a supranational entity which is self-regulated, adheres to international best practice in its operations.

The Group's corporate governance structure comprises the: General Meeting of Shareholders; Board of Directors; the following Board Committees: Board Nomination and Governance Committee (BNGC), Board Risk and Investment Committee (BRIC) and Board Audit and Compliance Committee (BACC); and the Executive Management Committee (EXCO). The Board and its Committees are responsible for ensuring that the Group's operations, processes and activities are supported by a strong system of governance which is fully integrated into all aspects of its business, while empowering management to execute and deliver against the Corporation's strategy.

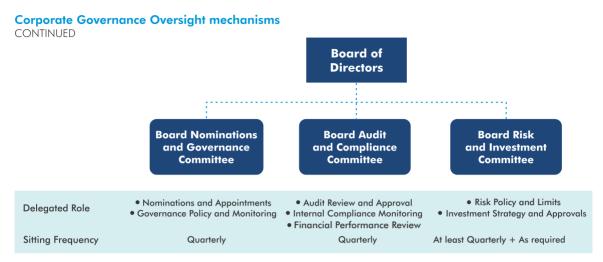
Corporate governance seeks to balance the interests of AFC's stakeholders: shareholders, management, investors, government and the community. AFC's approach to corporate governance is to:

Promote the long-term profitability of AFC
while prudently managing risk; Drive superior
and sustainable long-term shareholder value
through the alignment of the interests of
shareholders, member countries and staff;
and meet stakeholder expectations of sound
corporate governance as part of AFC's
broader responsibility to shareholders,
member states, investors, project partners and
the communities and countries in which it
operates.

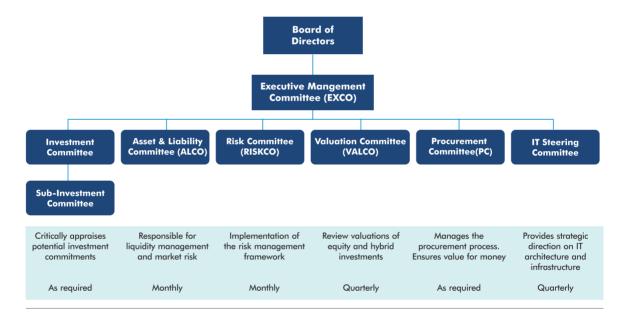
AFC's Code of Ethics sets out the expectations of the personal conduct of staff and how they should conduct business on behalf of the Corporation.

Corporate Governance Oversight mechanisms

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 (EXCO) for day-to-day operations. The chart below represents the reporting structures of the various Board committees within The Corporation.



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.



Shareholders

The Shareholders, at the General Meeting, exercise the various powers conferred on them by the AFC Charter, for effective governance of the Corporation. AFC's unique feature as a multilateral organization, is the delineation between its membership and shareholding structure. Whilst the Corporation allows for private sector ownership, only sovereign states can be both members and shareholders.

In 2018, Western Metal Products Company Limited (WEMPCO) transferred its shares to Zenith Bank Plc, and Gloria Investment Company Limited transferred its shares to Coronation Trustees Limited and the Central Bank of Nigeria.

The Board approved a share capital increase, comprising the issue of an additional 250 million new shares of AFC to international institutions with credit ratings equal to, or better than that of AFC's. This should result in the diversification of AFC's shareholder base. In anticipation of the equity raise and the likely new shareholders, the Board also approved an increase in the limit of the shareholding of non-African shareholders from 20% to 24%.

Board of Directors

The Board of Directors is responsible for providing overall leadership and setting strategic objectives for the long-term success of AFC. The Board is committed to setting and maintaining superior standards on corporate governance.

The Board provides oversight of the business performance of AFC and sets principles of ethics and values for the organization to ensure that obligations to its shareholders and stakeholders are met. The Corporation has well defined corporate policies, business practices and internal controls, to help safeguard the Group's interests whilst pursuing growth. Collectively, the Board has an excellent balance of skills, experience, independence and knowledge to enable it to discharge its duties and responsibilities effectively.

The Board meets quarterly, to satisfy the exigencies of the business, and has a schedule of matters reserved for their approval. All other items are delegated to Board Committees and Executive Management.

The Board:

- (a) Reviews annual budgets, financial plans, investment decisions beyond a set threshold, funding and investment proposals;
- (b) Monitors the financial performance of the Group and the management's performance;
- (c) Oversees processes for evaluating the adequacy of internal controls, risk management, financial reporting and compliance;
- (d) Assumes responsibility for corporate governance;
- (e) Considers sustainability issues such as environmental and social factors as part of its strategic formulation; and
- (f) Ensures compliance by the Group with the AFC constitutive documents.

Members of the Board include representatives of shareholder institutions, Non-Executive Directors, Independent Non-Executive Directors and Executive Directors. The Independent Directors balance the shareholder board representation and the Executive Directors represent the management of the Corporation to provide context to the Board in their decision making.

As at 31 December 2018, the Board comprised of fifteen Directors, twelve of whom were Non-Executive Directors and three of whom were Executive Directors. No individual or group dominates the Board's decision-making processes. The Chairpersons, Non-Executive Directors and other members of the Board, Audit and Compliance Committee, Nomination and Governance Committee and Risk and Investment Committee are as set out in this Annual Report. There is a clear separation of the roles of the Chairman of the Board and the President and Chief Executive. The Chairman, Dr. O. Joseph Nnanna, is responsible for the running of the Board and for ensuring that all Directors are fully informed of matters, sufficient for them to make informed strategic decisions. As President and Chief Executive Officer, Samaila D. Zubairu has responsibility for implementing the strategy agreed with the Board, and for managing the Group. He is supported in this role by an Executive Committee.

All Directors have access to the advice and services of the General Counsel, the Chief Risk Officer, the Head of Internal Audit and the external auditors. The Board Charter provides a process by which Directors may seek independent professional advice at the Corporation's expense in the performance of their duties.

Board Changes

There were key changes to the Board of Directors in 2018. Two Executive Directors, Mr. Andrew Alli and Dr. Adesegun Akin-Olugbade, completed their respective tenures, whilst three Non-Executive Directors; Mr. Robert Tung, Mr. Lawrence Tung and Mr. Charles Kie, retired from the Board. Mr. Grant Harris also retired from the Board at the end of his tenure.

During the year, Mr. Samaila Zubairu, joined the Board as the President and Chief Executive Officer of the Corporation, as did Mr. Patrick Akinwuntan, as representative of Ecobank Nigeria plc. We intend to strengthen the Board by appointing two new Independent Non-Executive Directors in 2019.

One of the Independent Non-Executive Directors will serve as the Chairperson of the Corporation's Board Audit and Compliance Committee, as stipulated in the Charter of the Corporation.

Responsibilities of Directors

The Board of Directors is responsible for providing oversight to, and monitoring of, the senior management and governance of the Corporation. The Board also steers the Corporation towards a sustainable future by adopting sound, ethical governance and financial management policies, as well as ensuring that the Corporation has the adequate resources to advance its mission.

The Board's 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 International accounting standards and ensuring that the financial statements are prepared on a going concern basis.

The Directors ensure that the Annual Report and Financial statements, provide the information necessary for shareholders to assess the Corporation's financial performance, business model and strategy.

Board Committees

The Board Committees, other than the BRIC, meet quarterly to satisfy the exigencies of the business. The BRIC meets as often as the business requires. The Chairman of each Board Committee and the Chief Executive Officer present reports on their activities over the previous quarter at each Board meeting. Decisions outside the remit of the Board Committees are presented to the full Board for approval.

Board Audit and Compliance Committee (BACC)

The BACC monitors the integrity of the financial statements of the Corporation, including management reports and compliance with International accounting standards. During the year, the Committee reviewed and approved: The Corporation's 2019 Operating budget; implementation of IFRS 9; policies on the Corporation's financial performance, and it monitored the utilization of the 2018 budget. The Committee also monitored The Corporation's financial performance.

The BACC met with the External Auditors and Executive Management in joint sessions to review the Audited Financial Statements for the year ended December 31, 2018 and obtain confirmation that they present an accurate position of the performance of the Corporation. The BACC also reviewed, approved and monitored the implementation of the 2018 Internal Audit Plan and the Corporation's Expense Management Policy and Procurement Guidelines.

The BACC reviewed the effectiveness of the system of internal controls and risk management during the year and monitored the Corporation's compliance with relevant laws, regulations and policies through the Chief Compliance Officer's Compliance Report. The Committee confirmed that the Internal Audit Charter was reviewed, in compliance with the requirement of The International Standards for the Professional Practice of Internal Auditing, issued by the Institute of Internal Auditors. As part of its oversight, the BACC confirmed that the Internal Audit function maintained its independence.

The Committee currently has five members and met four times in the year.

Board Risk and Investment Committee (BRIC)

The focus of the BRIC during 2018 was to ensure limited deterioration in the asset quality of the existing portfolio, while seeking to grow new assets pragmatically.

During the year, the BRIC reviewed and approved AFC's borrowing decisions within the 2018 Financing Plan approved by the Board of Directors. The BRIC also reviewed and approved the Corporation's investment decisions; approved revisions to the Corporation's policies including: Credit Risk Management; Market Risk Management; Operational Risk Management; Environmental and Social Risk Management; Asset and Liability Management; Anti-Money Laundering, Combating Financing of Terrorism and Anti Bribery and Anti-Corruption; Country Limits and Liquidity Management.

Additionally, the BRIC held special sessions to assess and monitor the Corporation's portfolio. The BRIC engaged with Executive management on how to harness the lessons learnt from previous transactions, and to utilize the knowledge for future transactions.

The BRIC has oversight of the Corporation's financial performance through periodic reporting from the President and Chief Executive Officer, and the Chief Financial Officer. The Committee is made up of seven members and met six times during the year.

Board Nomination and Corporate Governance Committee (BNGC)

The BNGC reviews and approves policies on: AFC's Corporate Governance Structure and Framework; Staff manual; Code of Conduct on business ethics; appointment of Non–Executive and Executive Directors. In 2018, the BNGC reviewed and approved policies on: People management; succession planning; reappointment of Executive Directors, Independent and Non–Executive Directors; the Headquarters building; and the annual board evaluation.

The BNGC is made up of 7 members and met four times during the year.

Independence

The Board considers Non-Executive Directors to be independent in character and judgment and free from any relationship which could materially interfere with the exercise of their judgment. There is no majority on the Board. Each director has one vote and the Chairman of the Board does not have a casting vote.

In 2018 the Board reviewed the Related party policy to emphasize the limits on related party transactions and to ensure the independence of decision making. The Related party policy requires that all related party conflicts are adequately disclosed; and that the conflicted Board member is recused from the decision making and is not present when the matter is discussed or voted upon.

Performance Evaluation

Performance evaluation of the Board is conducted every two years. The Board engaged KPMG Professional Services Limited (KPMG) to conduct the performance assessment of Directors, individually and collectively. KPMG also assessed the corporate governance practices, procedures and policies of the Corporation. The Corporation was recorded to have high quality corporate governance controls and principles.

Attendance at Board and Board Committee Meetings

	Board of Directors	BACC	BNGC	BRIC	Comment
Total number of meetings	4	4	4	6	
Non-Executive Directors					
Joseph Nnanna	4		4		
Adesola Adeduntan	3			5	
Ahmad Abdullahi	4			5	
Charles Kie	2		1	0	Resigned March, 2018
Emeka Emuwa	4		3	6	
Ebenezer Onyeagwu	4			6	
Grant Harris	4		4		Resigned 1st January, 2019
Lawrence Tung	-			1	Resigned March, 2018
Tunde Lemo	4	4	4		
Patrick Akinwuntan	1	-	-	-	Joined the Board December, 2018
Robert Tung	2	3			Resigned December, 2018
Roosevelt Ogbonna	4		4	6	
Victor Osadolor	4	1	4	5	
Executive Directors					
Samaila Zubairu	3	•	•	•	Joined the Board July, 2018
Oliver Andrews	4	+	•	•	*
Sanjeev Gupta	4	•	•	•	*

BACC - Board Audit & Compliance Committee
BNGC - Board Nominations and Governance Committee
BRIC - Board Risk and Investment Committee

♦ In attendance at all Board committee meetings

Code of Ethics

AFC's Code of Ethics is consistent with international standards and is applied to all business dealings and relationships with stakeholders. The Board is of the view that having a strong ethical and moral compass is the underlying lens by which the Corporation consistently operates. The Directors and management adhere to the highest standards of ethics. The AFC core values lie at the heart of our business operations and remains the basis of how we interact with stakeholders and do business. The work and impact of AFC continues to be recognized in Africa and globally.

Procurement

The policy, processes and systems for procuring goods and services required for corporate operations, are encapsulated in a Board approved procurement manual, administered by a Procurement Committee, and supported by the procurement secretariat. The Procurement Committee has cross divisional representation and is appointed by the Executive Management Committee on a three-year rotation.

The Procurement Committee and secretariat are entrusted with ensuring that procurement activities deliver significant cost savings, benefits and efficiencies to AFC and its stakeholders, through the application of International procurement, negotiating and contracting standards and best practice.

Other Developments in 2018

In 2018 management ensured that all staff were trained in Anti-Money Laundering and Know Your Client requirements.

Whistleblowing

Management maintains whistleblowing call lines, managed by KPMG Professional Services. There were no reported incidents of unethical conduct, harassment or intimidation in 2018. The Corporation continues to advise staff on whistleblowing and reporting.

Independent External Auditors

In line with the Corporation's policy to rotate its external Auditor's every ten years, and in accordance with best corporate governance practices, PricewaterhouseCoopers (PWC) resigned their appointment as the Corporation's auditors at the Annual General Meeting (AGM) held in April 2018. The Board, following the confirmation of the general meeting of shareholders, approved KPMG Professional Services (KPMG) as the Corporation's external auditors.

Annual General Meeting

The Annual General Meeting will be held in March 2019. A copy of the notice is available on our website.

LEADERSHIP & GOVERNANCE

BOARD



Dr. Okwu Joseph Nnanna (Chairman, Board of Directors)



Dr. Adesola Adeduntan Non-Executive Director



Mr. Ahmad Abdullahi Non-Executive Director



Mr. Tunde Lemo, OFR Non-Executive Director



Mr. Emeka Emuwa Non-Executive Director



Mr. Ebenezer Onyeagwu Non-Executive Director



Mr. Grant HarrisNon-Executive Director



Mr. Victor Osadolor Non-Executive Director



Mr. Roosevelt Ogbonna, FCA Non-Executive Director



Mr. Patrick Akinwuntan Non-Executive Director



Mr. Robert Tung Non-Executive Director



Mr. Charles Kie Non-Executive Director



Mr. Lawrence Tung Non-Executive Director



Mr. Samaila Zubairu President & Chief Executive Officer



Mr. Oliver Andrews Executive Director & Chief Investment Officer



Mr. Sanjeev GuptaExecutive Director,
Financial Services

RISK MANAGEMENT

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 to 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 the:

- Board Risk and Investment Committee (BRIC), responsible for the 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 the 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 BRIC, 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.

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 which include money market deals and other debt securities. The Corporation's credit risks are managed within a framework of credit policies, guidelines and processes.

Market Risk

AFC takes on exposures to market risk, 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.

The Corporation's portfolio comprises majorly of non-trading portfolios. The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Management Unit in its day-to-day monitoring activities. These day-to-day activities include monitoring changes in the Corporation's interest rate exposures, which include the impact of the Corporation's outstanding or forecast debt obligations.

ENVIRONMENTAL & SOCIAL RISK MANAGEMENT



What does Sustainability mean to us at AFC?

t is our belief that Africa's future must be safeguarded through the development of infrastructure which promotes economic growth and the quality of life of Africans, but does not threaten surrounding communities or the natural environment.

At AFC we strive to achieve sustainability through careful and proactive environmental and social risk management. Our goals are built around providing the financing solutions for sustainable infrastructure that will stand the test of time. To achieve this, we are continually seeking ways to facilitate businesses, while integrating projects throughout multiple value chains, in order to create the sustainable business ecosystems which will transform Africa's economies and lives."

To us at AFC, this is the true meaning of Sustainability.

SUSTAINABILITY IN 2018

AFC's sustainability journey in 2018 was all about Building...

AFC provides innovative financing solutions which address the African continent's infrastructure investment gap. By supporting every part of the value chain, AFC is supporting communities, driving cross-border integration and transforming lives.

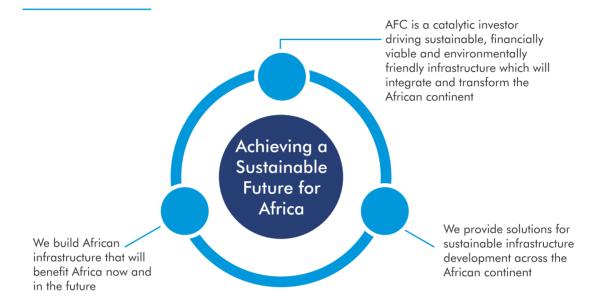
Building the environmental, social, safety, occupational health and security management systems needed to proactively identify risks in our transaction pipeline and portfolio.

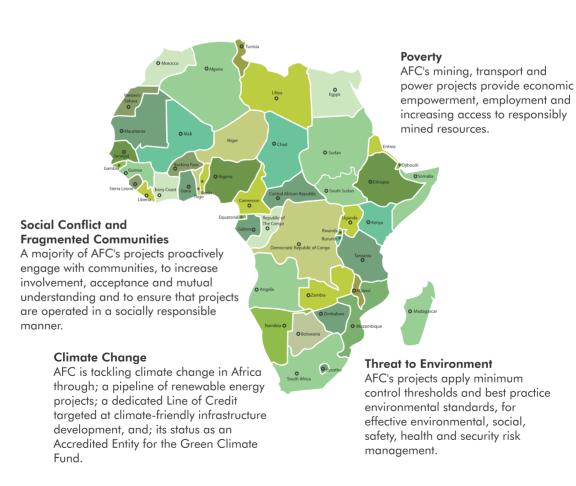
Building the organizational culture, values and attitudes that will drive the prioritization of sustainability considerations in credit and portfolio monitoring processes.

Building an increasing pool of funds and financial solutions that will help to drive the development of climate-friendly infrastructure development.

Building the relationships that will support the achievement of our sustainability goals.

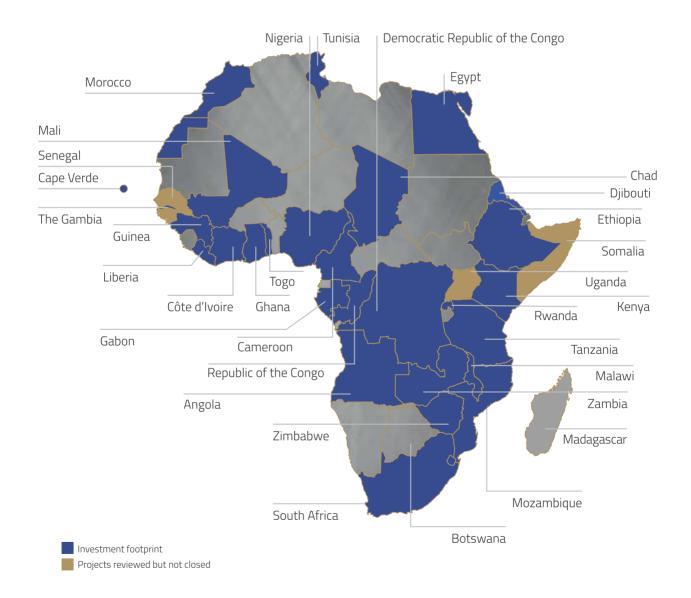
SUSTAINABILITY AN AFRICAN WATCHWORD

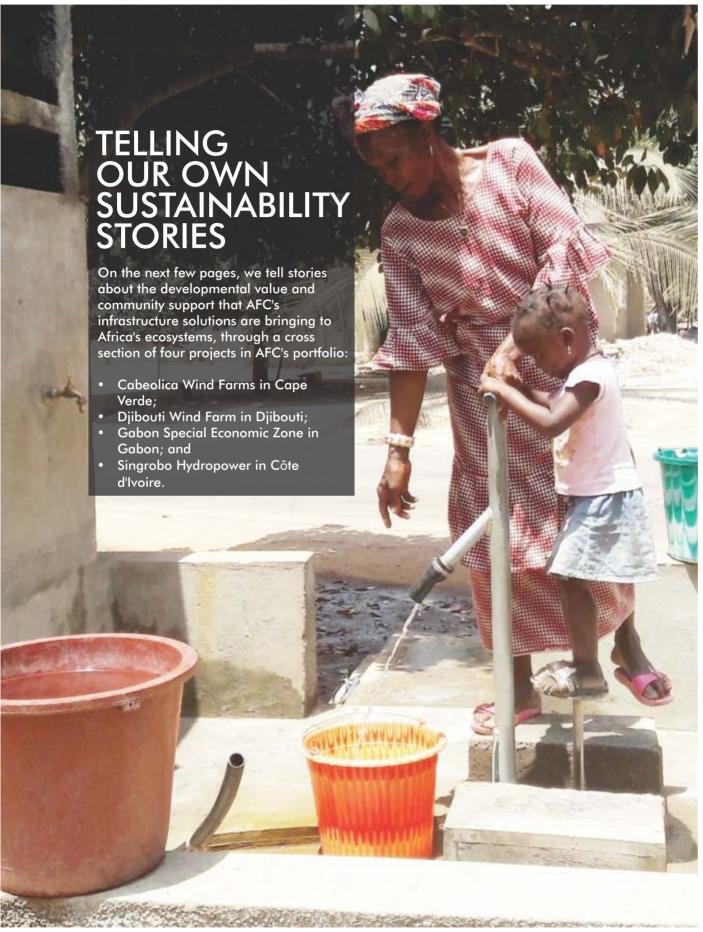




MAKING AN IMPACT ACROSS AFRICA

e develop and finance projects in subsectors that include hydropower and wind, thermal, combined gas and peat power plants, oil and gas production and storage operations, cement and petrochemical manufacturing operations, toll roads and bridges, as well as bauxite ore and gold mining. AFC's projects trigger economic growth and business expansion bringing transformational change to Africa and its ecosystems, by creating new opportunities for local and international employment, proactive environmental management and community development.





• AFC-sponsored Water Supply Programme for Communities around the Alufer Bauxite Mining Project

CABEOLICA WIND FARMSTRANSFORMING A NATION



n 2018, AFC and Finnfund, the flagship financiers of the Cabeolica Wind Farms in Cape Verde, jointly commissioned an assessment study to analyse the developmental impact of the wind farm's operations on Cape Verde's economy and communities.

The assessment evaluated the employment and the value-added effects on Cape Verde's Gross Domestic Product, as well as the secondary effects of the additional power supplied to its national grid, by the four wind farms operated by the Cabeolica renewable energy project.

The assessment revealed the transformational direct and indirect effects that the Cabeolica Wind Farms have had on Cape Verde's economy and society. In addition to the quantifiable impacts, Cabeolica further benefits Cape Verde's economy through its investments in local sourcing, knowledge development and the sharing of know-how.

25MW

Combined installed capacity of the four Cabeolica wind farms

12%

Percentage of Cape Verde's total carbon dioxide emissions saved in 2016 (which is 59 kilo tonnes) valued at €0.2 million

50%

Reduction in electricity outage time on all four islands

62

€10.6 million

Value of 22% of

imported fuel displaced

(in 2016)

Number of direct and indirect jobs supported annually by Cabeolica's direct operations

3

Number of indirect jobs created as a result of a reduction of outage time

€1.9 Million

Subsequent increased income for households (salaries), companies (profit) and the Cape Verde State (taxes)

GABON SPECIAL ECONOMIC ZONE PIONEERING INNOVATIVE ECOSYSTEMS





FC is a co-investor in the Gabon Special Economic Zone (GSEZ), in a joint venture with the Republic of Gabon and Olam International Ltd. The GSEZ mandate is to "develop infrastructure, enhance industrial

competitiveness and build a business-friendly ecosystem in Gabon." Since inception in 2010, GSEZ has hosted more than 141 investors from 18 different countries.

600%

Increase in palm oil exports as a result of the General Cargo Port

3 million

Tons of total cargo handling capacity

10 million

Tons of total handling capacity of mineral port

97%

Local Workforce

4,600

Jobs created to date

66

Companies currently operational

4.8 million

Metric tons of manganese exported, representing 20% of Gabon's manganese export

DJIBOUTI WIND

RAMPING UP ON CLEAN POWER

n 2017, AFC signed a Memorandum of Understanding with Electricite de Djibouti, the country's national utility, to lead the development, financing, and construction of a wind turbine powered Independent Power Plant Project in Ghoubet, which is located between Lake Assal and Djibouti City in Djibouti.

The Djibouti wind farm project will help the country reach its goal of moving from 100% fossil thermal to 100% renewable sources for power generation.



60MW

Energy to be contributed to the Djibouti national grid

US\$200M

Potential savings from reduction in petroleum imports

World-class

Environmental and Social Risk Assessment, Management and Controls

48%

Potential contribution to Djibouti's energy requirement

250

Direct and Indirect Construction jobs to be created

SINGROBO HYDROPOWER RENEWABLE BASE LOAD FOR CÔTE D'IVOIRE



• A shop owner in the community around the Singrobo-Ahouaty Hydropower Dam in Côte d'Ivoire

he Singrobo-Ahouaty Hydropower Project is a joint development between AFC and Ivoire Hydro Energy, to develop a 44MW hydroelectric power plant in the West African country of Côte d'Ivoire. The construction of the Singrobo Hydro Electric Plant will entail an earthen/rockfill dam that is located down-stream from the existing Taabo Hydro Electric Plant, on the main Bandama River near Singrobo and Ahouaty villages.

The Singrobo-Ahouaty Dam will provide muchneeded additional base load capacity to the Côte d'Ivoire national grid. The project has an E&S risk management process run by a team of local and international specialists and will minimize E&S risks by operating at the highest international standards.

Stakeholder Engagement

The project has organized and run numerous community engagement initiatives, to keep surrounding communities fully engaged and to ensure there is complete understanding of its activities and objectives.

The community engagement programme is designed to ensure the participation of all vulnerables groups, including the very elderly.

Proactive Environmental and Social Risk Management

Since the start of the project's development, AFC has worked with the project sponsor, equity partners and lenders to ensure that proactive E&S risk management is embedded in the Singrobo-Ahouaty Dam project operations. Risk assessment studies have been conducted to identify environmental, social, health, safety and security risks, in line with international best practice.

Focused Action Planning

The Singrobo-Ahouaty Dam project operates an E&S Action Planning process focused on identifying and detailing specific, measurable and time-bound actions to be taken to mitigate E&S risks during all phases of the Project.



• Main One Data Centre, Lagos, Nigeria

WHAT DOES THE FUTURE HOLD?

s we move into the future, AFC will continue to build, while consolidating on the structures that are needed to achieve true sustainability or, in other words – a dynamic balance between environmental preservation, social cohesion and economic value. We will continue to align the businesses in which we invest with the requirements of the environment in which they operate. We regard this as an essential tenet for ensuring each project's success, as well as its financial viability and sustainability.



Climate Financing

We will continue to invest in infrastructure projects that benefit the environment'



Project Development

Through early involvement and planning we will continue to proactively ensure that projects are sustainable



Integration

Our investment in selfsustaining projects will support ecosystems that drive Africa's economic growth.



Innovative Fund Raising

Our funding strategies enable us to continue to offer competitive pricing to projects.



Increased Speed

Our automated E&S risk reviews enable us to quickly and efficiently assess numerous transactions.



Collaboration

We will continue to collaborate with partners who use world-class E&S practices'

PEOPLE & ORGANISATION

Our people are our most enduring and significant competitive advantage

onsistent with our People Strategy, we continue to focus on attracting and retaining the highly competent and diverse talent, that can ensure the most effective execution of our mandate, to further our positioning and intent to become the leading infrastructure developer and financier on the African continent.

The organization has been restructured to create a collaborative and client-centric culture, encourage innovation, promote agility and ensure the flawless execution of our recently defined 5-year strategy (2019 - 2023). New business lines have been created with a view to trebling revenue growth, doubling the balance sheet, significantly improving return on equity and accelerating net income generation. In direct support of this ambition, several measures have been taken. Firstly, we are embedding our new five principles of Innovation, Speed, Collaboration, Ethics and Responsibility which essentially redefine each AFC person's DNA. Secondly, we have reengineered the performance management process, to ensure that it drives excellence in delivery by improving its objectivity and achieving alignment between AFC's strategic goals and the key performance indicators defined for employees. Thirdly, our agility and speed to

market will be fostered through seamless teamwork and the appropriate delegation of authority, amongst other measures.

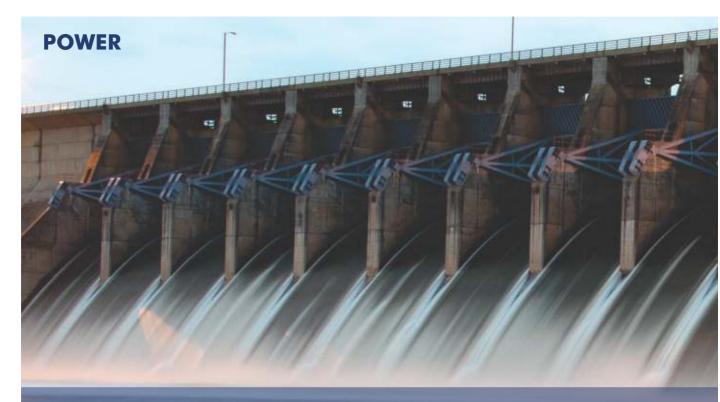
Capability development remains a top priority and it is bolstered by the implementation of a learning map, instilling a systematic approach to learning which will ensure that knowledge, skills and abilities are acquired in a structured and progressive manner, at all levels from entry to leadership and at varying levels of competencies, across all disciplines and employees in the Corporation.

Our annual talent review examines the overall quality of divisional talent pools and the corporate talent pipeline, providing salient talent data points critical for our succession planning. It is designed to drive management development and increase our talents' management and leadership skills, to provide us with a ready supply for our next generation of leaders, whenever or wherever the need to 'step-up' materializes.

The biennial employee opinion survey provides insights into the nature, trends and level of employee engagement and pinpoints any areas of concern. These are aggregated and developed into an Institutional Improvement Plan, the sole purpose of which is to address revealed or perceived issues and to continually strengthen employee engagement, so that there is relentless improvement in our business performance, longevity, talent retention and organisational renewal.

In line with our pan- African mandate we strive to build a multi-national, multi-cultural and diverse workforce, in a manner that will help the Corporation tap the inherent advantages in diversity: Gender, nationality, ethnicity and technical disciplines.





2018 witnessed continued private sector investment in renewable on-grid and off-grid energy projects, in preference to conventional on-grid thermal projects. About 90% of the power sector deals closed in the continent, in terms of both number and value, were renewable energy projects.

However, with the exception of the round 4 scheme of the South African Renewable Energy power procurement scheme which recorded the close of about 20 new projects, overall deal flows across the continent have remained low. Private sector-led projects were closed in only 8 other African countries.

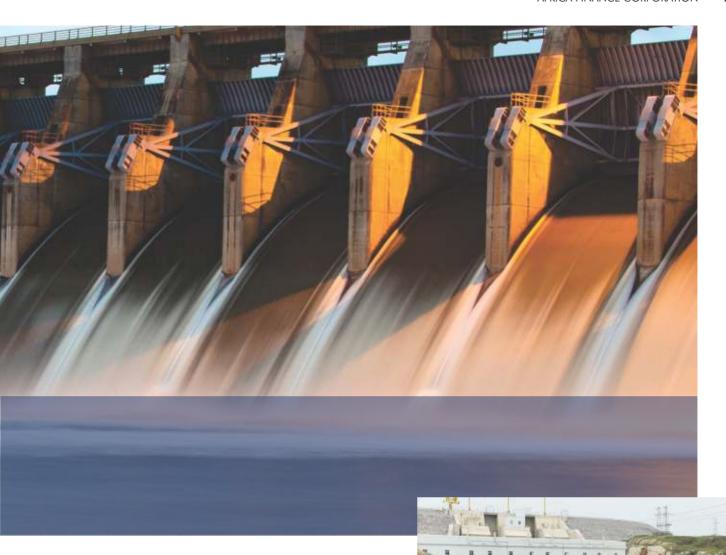
The downward trend of energy tariffs for renewable energy projects continued in 2018, with record-breaking low levels of tariffs achieved on some solar projects. This has increased the pressure on financiers to provide competitively-priced financing solutions for these projects as overall returns expectations have been declining. More countries are adopting standardized processes for procuring power projects, especially in the renewable space. The market has also seen the development and deployment of innovative financing and structuring models for investing in mini-grid and off-grid projects.

In line with market trends, all of AFC's new 2018 investments in the power sector went into renewable energy projects.

420MW Nachtigal Hydroelectric Project, Cameroon

AFC continued to establish itself as a leading financier of choice for Africa's power sector, as illustrated by its participation as a lender in the award-winning 420MW Nachtigal hydro project in Cameroon. At a total project cost of €1.2 billion, the project was the largest power sector financing deal to close on the continent in 2018. The project involved AFC's deployment of one of its climate-finance lines of credit, the Agence Française de Développement ("AFD") Climate Finance Facility, for the first time.

The Nachtigal project was awarded the 'Global Multilateral Deal of the Year 2018' by Project



Finance International (PFI) and has also been nominated for several other awards. Once completed, the Nachtigal project will increase Cameroon's installed capacity by 30% and will be one of the cheapest power generation plants in the country.

44MW Singrobo Hydroelectric Project, Côte d'Ivoire

AFC again demonstrated its innovation and flexibility with the 2018 disbursement of the bridge finance instruments it provided to the 44MW Singrobo Hydro project in Côte d'Ivoire, under an agreement signed in December 2017. The facility has accelerated the achievement of financial close and the construction activities on the project, prior to the conclusion of long-term financing negotiations and documentation. Long-term financing for the project is expected to be secured later in 2019.

Gabon Hydroelectric Projects

One of AFC's key strategies in the power sector is to actively pursue development opportunities, arranging mandates and participating in projects that are in mid- to late-stage development. Financial close can typically be attained within 12 to 18 months to ensure a robust project pipeline. In line with this strategy, AFC was announced as the preferred Co-Mandate Lead Arranger for two hydro projects in Gabon following a competitive tender process which completed in October 2018. Mandate negotiations are underway, with financial close targeted for late 2019.





Nigeria Solar IPP Program

AFC recognizes the value of strategic partnerships and continuously seeks to consolidate and leverage on its key existing partnerships towards solving Africa's energy deficit. In November 2018, AFC, in partnership with the African Development Bank ("AfDB"), submitted a US\$100 million climate-financing funding proposal to the Green Climate Fund ("GCF"), which aims to provide competitive funding for the on-grid solar independent power program in Nigeria. As a significant milestone in February 2019, the GCF Board approved AFC's funding request to roll out the program, which will see the GCF providing matched concessional financing alongside the AFC and the AfDB to shortlisted projects under the program. This climate-friendly program will serve as a key enabler for the technological and geographical diversification of Nigeria's electricity generation mix, which is currently heavily dependent on thermal sources and largely concentrated within one region of the country. AFC continues to actively pursue the development of similar programs that will catalyse investments into climate-friendly renewable projects which will further improve electricity access and installed electricity generation capacity across Africa.

Off-Grid Solar Program

AFC believes that the only way to close the significant energy gap in Africa is through a multipronged approach: diversification of its resources by investing across the value chain (on-grid

generation, transmission and distribution) and in innovative ways, such as off-grid and alternative energy solutions. In 2018, AFC progressed discussions with several off-grid energy solution providers and believes that the market is ready for transformative solutions that can be replicated across the region. Historically, off-grid energy solution providers have been unable to fully implement their strategies because the most competitive financing solutions require larger scale projects, with the latter obtaining a more secure offtake structure. The small-scale nature of the offgrid solar solutions and the higher risks associated with the retail element of their product structure small payments from customers over time - is a significant investment barrier, which AFC is wellpositioned to address. AFC is currently developing a blended instrument, which it hopes to pilot in H1 2019.

Notwithstanding AFC's growing influence in the renewable energy space, AFC continues to provide support for high impact non-renewable energy projects that promote energy independence across Africa. One such projects for which AFC has provided support, acted as Mandated Lead Arranger, and provided a US\$110 million senior debt and mezzanine facility, is the 80MW Hakan Quantum peat-fired power project in Rwanda, which reached financial close in 2017.

Construction works are progressing well, with commercial operations targeted for Q1 2020.

Once completed, the power plant will enhance Rwanda's energy independence, improve electricity access and result in a 40% increase in Rwanda's installed capacity, at a cost that is about 30%

cheaper than Rwanda's current average cost of generation.

Looking ahead, in 2019 AFC intends to further advance its profile as a leading financier of choice for both renewable and conventional power projects on the continent. AFC will seek to further strengthen its capacity in the origination, development and execution of high-quality on-grid and off-grid power transactions on the continent. It will continue to pursue the deployment of innovative financing solutions and explore new market segments in its bid to ensure that electricity access becomes a reality for Africa's underserved population.

Djibouti 60MW Wind Project

Another key project that is currently in late stage development in AFC's portfolio is the 60MW wind project in Djibouti. AFC signed the Memorandum of Agreement with the Djiboutian national utility, Electiricté de Djibouti, in 2017. Project

development activities have progressed significantly with key development milestones reached during 2018. The milestones achieved included the completion of the EPC tender process, incorporation of the project company, completion of all technical and environmental studies and the appointment of all the advisors required for the project. AFC will seek to deploy its bridge financing instrument to ensure financial close later in 2019.

Anergi: Cabeolica 26MW Wind Project

AFC's dedicated power sector equity investment vehicle, Anergi Holdings, progressed its strategy of acquiring and increasing its equity stake in high-performing power assets across Africa. In line with this strategy, Anergi acquired an additional stake in Cabeolica S.A., which is a 26MW wind firm developed by AFC in Cape Verde, taking its ownership to 94% of the company. Similar negotiations are underway for some other assets and are expected to be concluded during 2019.

ANERGI HOLDINGS

Anergi Holding Company ("Anergi") is a pan-African power sector-focused joint venture platform established by AFC and Harith General Partners to own as well as develop and operate generation, distribution, transmission and fuel supply infrastructure assets across Africa.

Anergi currently owns assets with a combined gross capacity of c.1,786 MW across 5 jurisdictions including the following:

- 450 MW Azura Gas-fired power plant in Nigeria
- 350 MW Cenpower tri-fuel power plant, Ghana
- 325 MW Kelvin IPP, South Africa
- 310 MW Lake Turkana Wind Farm, Kenya
- 192 MW Amandi Gas-fired power plant, Ghana
- 90 MW Rabai Heavy Fuel Oil plant, Kenya; and
- 26 MW Cabeolica Wind Farm, Cape Verde.

Anergi's strong portfolio of assets is diversified by geography, and fuel source and benefit from long-term power purchase agreements with utilities on the continent, backed by appropriate sovereign guarantees, political risk insurance and other credit enhancement instruments as applicable.

Following transaction close in December 2017, the company has focused its attention on increasing shareholding in existing assets. As Anergi's balance sheet grows, it will explore opportunities to deploy innovative funding solutions to fund project development and construction activities, including where possible, funding initially on an all-equity basis to fast-track development/construction activities, while seeking to concurrently mobilize long-term debt/mezzanine financing, thus introducing a transformational approach

AWARDS

- EMEA Project Finance Award Champion of Finance 2018
- Infrastructure Journal Awards
 AFC named winner of the Africa Power
 Deal of the Year in the Infrastructure
 Journal Global Awards 2017 for the
 80MW peat to power project in Rwanda.
 The Project is expected to improve access
 to electricity for three quarters of the
 country's population that is currently off
 the grid. AFC was the Mandated Lead
 Arranger for the project debt, and
 successfully arranged total senior debt
 facilities of US\$245 million, contributing
 US\$75 million of its funding to the
 facilities.



Oliver Andrews – Executive Director & Chief Investment Officer accepting the Champion of finance award.

NATURAL RESOURCES



The global natural resources sector stabilised in 2018 and recorded a stronger year than in recent years, largely due to increased commodity demand and constrained supply for most resources. Despite the improvements recorded in 2018, the sector must now contend with a number of emerging trends, most notably the impact of digital technologies. This reality is most evident in the mining sector, given increased consumer demand for electric vehicles. Tracking and monitoring of trends, such as fluctuating consumer demands, global demographic and economic shifts through the adoption of new technologies, are now more important for the long-term sustainability of companies operating in the sector. Additionally, obtaining the requisite licence to operate from communities through the robust implementation of environmental and social impact plans is now prominently at the core of the operating philosophy for companies and stakeholders in the sector.

As the sector recovers from the lows of the last few years, many companies still face a huge debt overhang together with legacy issues that are impeding exploration and development programs. This recovery therefore presents an opportunity for financial institutions and strategists to offer unique financing solutions to meet the growth requirements of the sector.

Despite the customary headwinds and the associated market volatility of the natural resources sector, AFC continues to retain a long-term investment philosophy and will remain an active investor in the sector. Since its inception in 2007, AFC has grown its natural resources investment portfolio from under US\$100 million in 2010 to over US\$700 million today. In line with the Corporation's growth ambitions, it aims to double its investment exposure in the natural resources sector over the next five years.



Oil and Gas Sector

2018 Market Overview

In 2018, the oil and gas industry continued to rebound from the 2014 oil price crash with Brent Crude peaking over US\$80 a barrel and averaging over US\$70 a barrel during the course of the year. Against the backdrop of the low oil price a few years ago, the market rebound has reinforced the need for the continued enforcement of capital discipline and productivity efficiencies. Exploration and production companies prioritized de-risking their projects and portfolios by focusing on lower break-even cost projects with shorter lead times and lower risks, as well as portfolio restructurings. Nevertheless, there was an increase in capital programs as demonstrated by the increase in the number of Final Investment Decisions (FID) taken - for example the Mozambique's Coral FLNG project reached FID - with preference for brownfield expansions rather than greenfield projects. According to Ernest & Young, 2018 recorded a year-over-year increase in the total deal value in the oil & gas sector of US\$79.7 billion, to reach US\$426.8 billion, despite a decrease of 18% in deal volume. Specifically, in the upstream subsector, deal value declined from US\$164.8 billion, to US\$130.3 billion during 2018, while deal counts declined by 26%. The midstream

sub-sector represented the largest total deal value for oil and gas transactions since 2015, with transactions valued at US\$193.1 billion being recorded, representing 45% of all oil & gas transactions. Downstream activity in 2018 was at historically high levels. Deal values reached US\$82.5 billion, up 11% from 2017, while deal volume reached 172, also up 11% from 2017. The deal activity in 2018 indicates that risk sensitivity and the continued focus on portfolio optimization has shifted capital from the upstream to the mid and downstream sub-sectors in 2018. In general, a more disciplined approach to capital deployment has affected M&A activity as upstream players are focusing on their highest productivity investments and reducing debt.

Key Drivers and Trends

Key drivers and trends in the oil & gas industry include the impact of US shale oil, supply disruptions and associated inadequate reserves replacement rates, the digital revolution and the push towards improved energy efficiency, while preserving social and economic development.

OPEC's traditional role as the balancing mechanism for global oil supply and price control is being strongly challenged. Whilst OPEC is still able to withdraw millions of barrels from the market, increased US shale activities now offer a



Africa-focused companies have an opportunity to focus on gas monetization projects, as there are abundant deposits of the resource on the continent.

counterbalance to OPEC. Production from the US shale industry continues to grow. According to the US Energy Information Administration (EIA), in December 2014 US shale oil production stood at 5.23 million barrels per day. By December 2018, this production figure had risen to over 8 million barrels per day, with large oil majors including BP, ExxonMobil and Chevron now playing a more prominent role in the industry. For example, Chevron has announced plans to invest US\$3.6 billion in the Permian and US\$1.6 billion in other shale and tight oil plays throughout 2019. Whilst it seems highly unlikely that, in the medium to long term, the US shale industry will be able to break OPEC's dominance over global oil prices, it has reinvigorated the energy industry and has become an important consideration in the geopolitics of oil prices.

OPEC's waning ability to effectively manage the balance of global oil supply is exacerbated by declining reserve replacement. Reserve replacement rates have generally been inadequate, largely due to minimal capital spend, thus, not enough new reserves have been discovered to offset the decline rate of existing fields. In some countries, the supply disruption is related to geopolitical issues. In Venezuela, for example, there has been a 40% decrease in the country's production since 2015. In Libya, current output is around 990,000 barrels per day, which is well below the 1.5 million barrels per day that it was producing in 2012.

The industry is grappling with the challenges of dealing with the push towards a carbon free world. Energy transition is gaining momentum and international oil companies are investing in strategies that reduce overall carbon emissions. Africa-focused companies are increasingly targeting gas monetization projects, as natural gas has been promoted as a "bridge fuel" even by some environmentalists because it emits half as much CO2 as coal to produce a given amount of electricity.

Africa has two key LNG projects worth watching in 2019, and these are the US\$20 billion Mozambique LNG project, and the Fortuna LNG project situated offshore Equatorial Guinea. Outside Africa, there is also renewed focus on gas projects. In the US and Canada for instance, several large-scale projects are either in the process of being commissioned or in the early stages of operations, such as the US\$40 billion Canada LNG project, the US\$10 billion Jordan Cove LNG project in Oregon and the US\$30 billion Driftwood LNG project in Louisiana.

The impact and response to the emerging digital revolution is another key dimension for companies operating in the industry. Notable efficiency gains have been made per barrel of oil since the 2014 oil-price downturn. Oil and Gas companies are increasingly more open to innovation and investments that can unlock tremendous value through volatile market cycles. The growing electrification of transport, the projected decline in oil demand in the near future and the deployment of smart technologies to better manage supply and demand, require that oil and gas companies critically reassess their business models.

Sector Outlook

The 2019 outlook for the industry is expected to be shaped by continued restricted supply, stable pricing, a nominal increase in capital expenditure, together with a focus on deepwater finds, gas options and carbon efficient programs.

The International Energy Agency (IEA) estimates global crude supply growth of 1.8 million barrels per day in 2019, slightly lower than the 2.2 million barrels per day in 2018. The current oil price recovery reflects a tight demand and supply balance as well as indications that there may be a potential supply crunch in 2020. Venezuela's reduced production and sanctions on Iran are two important factors that could shape this. On this basis, the oil price in 2019 is expected to remain largely at the same level as in 2018, with fewer volatile swings.

Upstream capital expenditure, which dropped nearly 45% between 2014 and 2016, is forecast to rise by 6% in the medium term. Projects and events that are likely to contribute to an increase in upstream spend include: Tullow Oil winning an offshore licence in Côte d' Ivoire; Exxon Mobil entering Ghana, Namibia and offshore Mauritania; and British Petroleum, along with its partner Kosmos Energy, commencing exploration off the shore of Côte d' Ivoire.

In 2019, there is likely to be a resurgence in deepwater exploration and production activities, after many years of limited activity. Prior to the 2014 oil price crash, investment levels in deepwater projects by oil majors hovered around US\$300 billion per year and then collapsed to a low of US\$155 billion in 2018. However, Rystad Energy estimates that from 2019 through to 2022, deepwater investments will increase back over the US\$230 billion per year mark. The relative recovery in oil prices, improved breakeven prices and the opening up of new leases offshore the Gulf of Mexico, West Africa and other global locations have once again made capital-intensive deepwater projects an attractive proposition.

Mining Sector

2018 Market Overview

The performance of the global metals and mining industry in 2018 improved from that in 2017. Overall, the financial prudence among major producers will be sustained in view of generally supportive price regimes, however, there were price retreats for some commodities.

For bulk materials, iron ore exhibited limited volatility in 2018, averaging out at about US\$70 per tonne. Gold prices on the other hand, exhibited some volatility, ranging from a low of US\$1,190 to a high of US\$1,320 and this was driven by the strengthening dollar and increased interest rates. In Africa, the Rand strengthened by June 2018 and this resulted in average local currency prices decreasing for gold, platinum and iron ore. This decrease in local currency prices put gold and platinum South African producers under significant financial pressure. that the reduced profitability in local price terms will require South Africa to advance technological developments to optimize costs in their deepunderground mines.

Platinum prices decreased by about 5% from their 2017 levels and generally traded at volatility levels of about 35% over the course of the year. This decrease in platinum prices was offset by an increase in other platinum group metals prices as palladium, rhodium and other by-products such as nickel and chrome which contributed balancing revenues to platinum group metals mining companies. Despite various cost-saving initiatives, increases in inflation and lower production of gold and platinum led to higher per unit costs for the sector broadly speaking. This resulted in negative or lower profit margins in most operations, which is threatening the sustainability of some mines.

Key Drivers and Trends

Key drivers and trends in the mining and metals industry globally include changes in commodity demand and supply dynamics driven by lifestyle trends which inform the choices for the minerals and commodities to be exploited. With resource nationalism on the rise in many mining jurisdictions, there is now more focus on enhanced host community and stakeholder involvement in management. Given the political nature of the mining resource business, which is a core contributor to many developing economies and governments, contending with inherent regulatory challenges has become more important. As the sector emerges from the downcycle of a few years ago, efficiently managing costs is also a key focus for operators.

Mining companies must now contend with the impact of digital technologies, e.g. growing demand for electric vehicle batteries. Tracking and monitoring the fluctuating consumer demands, global demographic and economic shifts, the effects of environmental change, and the emergence and adoption of new technologies are important as it impacts on the type and nature of minerals that will be exploited in the future. For example, there is increased demand for lithium, graphite, cobalt, nickel and copper because of the growth of the electric vehicle market and their batteries over the last 5 years.

Changing local content and fiscal regulations were an emerging issue throughout 2018. These include meeting demands to increase local employment opportunities; improve infrastructure; cope with steeper regulatory compliance costs; deliver greater environmental protection; and manage strong government relations. In Zimbabwe, the government scrapped the 51% indigenous shareholding quota for all minerals, with the exclusion of diamonds and platinum. The Democratic Republic of Congo (DRC) enacted a new Mining Code in 2018 to secure more benefits by introducing new taxes, while Zambia is also set to introduce a new tax structure in January 2019, in order to increase revenues collected from the mining sector.

Higher energy prices in 2018 fueled inflation across the industry with diesel, freight and electricity bills rising. The general trend that we expect going into 2019 is that there will be pockets of slightly higher demand for specialized machinery and skills. Also as demand for services pick up, existing suppliers have commenced the renegotiation of contracts to get better rates. Simultaneously, operators are planning to reduce their cost base by improving productivity, deploying automation/imaging technology and refining their mine plans.

Sector Outlook

The general outlook for the mining sector in 2019 is positive. Forecasts generally predict stable prices for most metals and mining commodities, balanced global supply and demand, reduction in the debt cycle for most producers and improved regulations across most jurisdictions.

Stable prices will largely be driven by the sustained influence of Chinese foreign direct investments ("FDIs") and demand which continues to be a fundamentally positive force. However, there is a risk if current trade negotiations between the US and China descend into a trade war, demand and prices may face negative pressure. A strengthening US dollar could also have downward pressure on commodity prices.



Balance sheet prudence and reducing the debt burdens on companies is expected to continue to feature strongly in the sector in 2019. This may result weakened appetite for financing new projects. Thus, capex expectations are subdued in 2019. In the future, constraints in new supply coming online can result in potentially higher prices driving a new investment cycle in the medium term.

2018 AFC Natural Resources Transactions

In 2018, the corporation reached financial close for the following transactions in the natural resources sector:

Bonikro Gold Mine

AFC and its partner, F&M Gold Resources (F&M), completed the acquisition of the Bonikro Gold Mine in Côte d' Ivoire from Newcrest Mining Limited in 2018. The total consideration of US\$81 million was financed with a combination of debt, equity and a gold prepayment loan. The mine includes two operating licences: Bonikro and Hire. The pits from both licences together produced 117,000 ounces of gold in 2018 at an average all in sustaining cost of about US\$1,000/ounce and generated about US\$40 million of free cash flow. It has proven mineral reserves of 430,000 ounces as at January 2017, with a mine life of at least six years and exploration potential that can further extend the mine life.

This investment was part of the AFC's strategy to utilize a platform approach to invest in a larger pipeline of similar projects to be developed and financed simultaneously. This transaction will help to preserve the value of this mine for the local stakeholders and thus ensure the consistent stream of cashflows for the Government and local stakeholders.

Svenska

In 2018, AFC and Standard Bank of South Africa closed a US\$120 million reserve-based lending to Svenska Petroleum Exploration ("Svenska"). The facility was applied to fund Svenska's net c. 30% paying interest in Phase 4 of the development of the Baobab Field in Côte d'Ivoire and to refinance an existing debt. Production at Baobab commenced in August 2005 and averaged 21,850 bopd in 2017. The Phase 4 development of Baobab involves drilling five new wells, which will have the effect of keeping the annual average gross production above 20,000 bopd throughout the 5-year tenor of the Facility.

The Baobab field lies in Block CI-40, located about 25km off the coast of Côte d'Ivoire, with water depths ranging from 900m (2,952.7ft) to 1,300m (4,265ft). The field is operated by Canadian Natural Resources (CNR), which holds a 57.61% interest in the project. Svenska holds 27.39% and the national oil company, Petroci Holding, holds the remaining 15% interest in the field (10% carried and 5% paying interest).



Baobab has gross 2P Reserves of 136.6 million barrels of oil equivalent (126.3 million barrels of oil) and 2C Resources of 168.5 million barrels of oil equivalent (160 million barrels of oil).

AFC Natural Resources Business Model and 2019 Strategy

AFC continues to view the natural resources sector as a key focus area for catalysing economic growth and sustainable development in the African continent. The majority of African countries are commodity driven economies with vast untapped resources. There is a clear case for AFC to play a pivotal role in addressing these challenges faced across the continent, by deploying its range of technical and financial solutions to enable the development of critical infrastructure and resource assets, whilst ensuring the bankability of transactions in the sector.

The volatility of the natural resources industry particularly underscores the need for a long-term and flexible financing model for African projects and sponsors. As an African funded and based institution with a long-term pro-developmental view of projects, AFC is well positioned to be the partner of choice across various investment cycles.

It is estimated that over 75% of natural resources produced in Africa are exported without value additions, and subsequently imported back to the continent at a significant cost increase. AFC's focus is to enhance the value of the natural resources produced on the continent by facilitating financing

for end-to-end solutions for value addition and beneficiation, thereby retaining significant value and socio-economic benefits in the continent. AFC's investment strategy in the natural resources sector therefore takes an integrated approach to development and financing of projects and assets. AFC deploys capital across the value chain to enhance development impact whilst taking account of related infrastructure, power solutions, and logistics.

Going forward, in the natural resource sector, AFC will be taking a more pro-active approach to projects and transactions by increasingly acting in the capacity of the leading equity sponsor. With over US\$250mm invested in the sector over the last decade, AFC is now seeking to improve the efficiency of capital deployment by engaging partners at the early stages of project development and shepherding the projects to financial close. AFC plans to leverage its experience and sectoral knowledge to develop platform resource companies and vehicles across sub-sectors and commodities, through the acquisition and consolidation of attractive assets, such as the recently acquired Bonikro gold mine.

In 2019, the corporation will continue to implement its strategy, while giving equal focus to geographical, subsector diversification and integrated projects. AFC's current natural resources pipeline of transactions includes potential investments in Ghana, Nigeria, Eritrea, Zimbabwe, Mali, Ethiopia, Gabon, Angola and South Africa.

TRANSPORT

Over the last decade there have been notable efforts to improve the African continent's transportation systems and trade connectivity by governments, development finance institutions (DFIs) and the private sector. Most improvements have taken place at the country level. Regional integration projects have been slow to get off the ground, due to the lack of political will to surrender decision making to regional bodies that would be binding at the country level.

Although African governments remain constrained by limited resources, much of the transport infrastructure funding continues to be provided by governments, through budgetary allocations and for the raising of government debt. However, the heavy debt burden, IMF conditionalities and the lack of resources has led many governments to turn towards the private sector to develop transport projects on a commercial basis, with little or no government support.

The trend is slowly moving towards leveraging the private sector to deliver the developmental objectives through the award of concessions for the development of transport projects.

We have seen continued development of several transport sector projects across Africa on a public-private partnership basis. Although the level of activity in the sector was very strong with bids for concession transport projects across Africa, a number of these projects did not reach financial close in 2018.

Road infrastructure development has been the subject of a significant number of recent Public Private Partnership (PPP) activities across the continent, with governments creating national road funds to support road development programs. Private equity infrastructure funds and strategic investors, such as construction companies and shipping lines, have increased their participation and relevance in the space and are demonstrating increased appetite for investments in transport infrastructure. This has been influenced by the

growing prevalence of project finance structures in the funding of African infrastructure development. Development Finance Institutions (DFIs) and Export Credit Agencies (ECAs) have played a major role in project financing, as they provide a combination of reasonably priced funds as well as the provision of technical expertise for the projects being developed.

2018 Strategy

The key objective of the transport and logistics sector in 2018 was the continued implementation of its strategy to effect economic development, through the provision of transport and logistics infrastructure, which will unlock the potential of key strategic sectors in countries. In furtherance of this goal, AFC's investment in Arise (Gabon Special Economic Zone) has been utilized as a platform to replicate some of the successes in developing a general cargo and mineral port to help other economies in Africa that are seeking to improve port and road infrastructure for the efficient movement of goods and services.

Africa holds a wealth of natural resources and agricultural produce that require efficient logistical solutions to facilitate their transportation to buyers. The lack of adequate logistics has led to resource and economic opportunities being untapped in remote localities. The development of adequate multi-user logistics solutions to reduce unit cost, has been a key objective of the transport sector in 2018 and continues to be pursued.

Arise (Gabon Special Economic Zone), Gabon













The transport and logistics infrastructures are a major focus sector of AFC's strategy towards addressing Africa's infrastructure development needs and several of our portfolio investments exhibit significant developmental and financial impacts.

Mining of Manganese ore

In 2017 Gabon was the fourth-largest producer of manganese at 1.6 million MT and the world's second-largest producer of high-grade manganese ore.

AFC's investment in the Gabon Special Economic Zone (GSEZ), which is a diversified portfolio of infrastructure projects, continued to yield significant benefits in 2018 from the completion and operations of the mineral and general cargo port. The investment has helped to fulfil AFC's broader strategy of investing in 'platform' vehicles that enable the development of several projects via a single investment. The mineral port, linked by rail to the manganese producing regions, has improved the transport logistics of mining companies who can now concentrate their focus upon the business of mining.

The project has facilitated significant multi-sector development impact, whilst enabling the effective diversification of the Gabonese economy from its erstwhile dependence on crude oil exports. Sectors that have been enhanced as a result of the GSEZ investment include:

- The wood industry as one of the major tenants of the special economic zone. Timber from Gabon is not exported in its raw state, instead value addition is within the economic zone with the output being processed wood and finished furniture products;
- The GSEZ multi-purpose port has improved efficiencies for the export and import of containerized and bulk goods. The multipurpose terminal is also equipped to cater for grains, liquid products (e.g. palm oil) and petroleum products; and

• The GSEZ mineral port has enhanced the export capacity for mineral resources. GSEZ can provide end-to-end logistics solutions to mines in Gabon, starting with its rail cars that receive ore concentrates from the mining regions, and continuing to the port for shipment to foreign locations. The mines can now plan output capacity improvements due to the improved infrastructure facilities.

Conex Petroleum

In 2016, AFC provided Conex with a US\$16 million facility to complete the construction of a petroleum storage terminal. The tank farm became operational in 2017 and Conex has successfully paid down the loan to circa US\$9 million. In order to support the growth objectives of Conex to expand and diversify its business, AFC collaborated with Gemcorp Capital LLP to leverage the tank farm and provide additional resources for the development of a modular refinery. Once completed the modular refinery will utilize the tank farm for the storage of crude oil, integrating and transforming the business from a purely storage facility into an integrated storage and modular refinery.

AFC Transport sector business outlook

The outlook for 2019 is strong. We continue to build upon our multi-sector platform and integrated project initiatives, as we seek opportunities to develop the transport infrastructure that will unlock the trapped economic potential and deliver the promised multiplier effect on the host economies in an environmentally responsible and sustainable manner. A key constraint is the long gestation period for projects reaching financial close. Our plan is to be more proactive in working with clients to seek the innovative financing solutions that will shorten the project cycle for bankable projects. We are currently working on several initiatives in the West African region, as we continue to see transport and logistics infrastructure, as a key driver of economic growth.



HEAVY INDUSTRY

High quality industrial development is essential for Africa to drive sustainable economic growth and job creation. Rarely has a country or region progressed to achieving prosperity without the development of a robust industrial sector.

Data from the Overseas Development Institute shows that African manufacturing production and Foreign Direct Investment (FDI) have developed positively over the last decade from US\$73 billion to US\$157 billion, growing 3.5% annually in real terms. However, according to the United Nations **Industrial Development** Organization (UNIDO), despite being richly endowed in natural resources and minerals, Africa still accounts for a small share of global manufacturing.

Since 2005, Africa has accounted for no more than 2.0% of global Manufacturing Value Added (MVA) whereas industrial regions like Asia, Europe and North America each accounted for a substantial portion of global MVA during the same time period.

Over the years, Africa's industrialization has failed to evolve due to insufficient infrastructure. The sector is highly dependent on other critical sectors such as electricity supply to power industrial activities and transport infrastructure for the movement of raw materials and distribution of finished products. Consequently, deficits in these sectors adversely impact the development of the industrial sector.

In recognition of the need to continually develop a sustainable industrial sector, AFC provides private sector dynamism to fund investments on the continent through debt and principal investments. AFC's investments in the sector are diverse and consists of four sub-vertical sectors specifically Chemicals (refineries, petrochemicals, fertilizer and natural gas conversion), Building Materials (cement, float glass), Enterprise Industrial Inputs (bottling, pulp and paper) and Metals (steel, mineral beneficiation).

AFC's Heavy Industry Activity

AFC has supported projects in crude oil refining, cement, ammonia/urea and phosphates in West Africa, East and Central Africa and South Africa. Some of AFC's key investments in the industrial sector are as follows:

SOCIÉTÉ IVOIRIENNE DE RAFFINAGE (SIR), COTE D'IVOIRE

As sole Mandated Lead Arranger, AFC successfully raised a €577 million facility for SIR to repay historical obligations on crude oil supply, provide a long tenured facility and reduce the interest rate of SIR's stock debt. SIR is currently the largest and most sophisticated operational refinery in West Africa and the facility was integral to the conditionality of the International Monetary Fund's (IMF) financial programme, given that the IMF considers SIR to be a strategic asset for Cote d'Ivoire

SOCIÉTÉ NATIONALE DE RAFFINAGE (SONARA), CAMEROON

AFC partly financed a US\$250 million prepayment facility used to finance Sonara's expansion and rehabilitation project related to a new vacuum distillation unit (VDU). The VDU is expected to increase Sonara's production of fuel oil and vacuum gas oil (VGO) to over 1.4 mtpa and also lead to a general increase in refinery production to 3.5mtpa.

CARBON HOLDINGS, EGYPT

AFC invested in Carbon Holdings, a petrochemical developer and operator to deliver an integrated large-scale petrochemicals platform (polypropylene plant, mining grade ammonium nitrate plant and naphtha cracker) in Egypt to take advantage of Egypt's geographically strategic location.

PPC BARNET, DEMOCRATIC REPUBLIC OF CONGO

AFC supported the construction of a 1.25mtpa integrated cement plant in the Bas-Congo province of DRC.

MERIDIAN CONSOLIDATED INVESTMENTS, MAURITIUS

AFC co-financed a US\$60 million stock finance facility to finance Meridian's fertilizer manufacturing and soft commodity business activities across Malawi, Mozambique, Zambia and Zimbabwe.

More broadly AFC is playing an active role to mobilize capital to complement its direct investments and is doing so by serving as mandated arranger for several large transactions in the sector. In addition to acting as the sole mandated lead arranger for Société Ivorienne de Raffinage, AFC is also a mandated arranger for a US\$1.25 billion convertible loan for Tahrir Petrochemicals Company in Egypt sponsored by Carbon Holdings.

AFC's Heavy Industry Business Outlook

The focus in the coming years will be to support key sponsors to develop industrial projects, work in partnership with other financial institutions to facilitate mobilization of financing, to fund industrial projects.

Several large-scale industrial projects are currently being developed across Africa especially in the fertilizer sector due to increased investments in the agriculture sector, and most governments shifting policies towards local companies for food security. Improved global recovery has also affected global demand for steel. This has led to an increase in the development of tailings and beneficiation projects specifically in the Southern Africa region. The need for consolidation in the cement industry was also witnessed as large-scale players sought opportunities to acquire competitors or strategic players; as the industry went through turbulent times due to increased competition and slower than expected growth in the construction sector. New refining projects are also currently being developed in western and eastern Africa in order to take steps towards reduced reliance on imports. The largest such project is the 650,000 bpd Dangote refinery in Nigeria, which could have ground breaking impact on the entire western region. Other ambitious refining projects have been announced in Uganda, Guinea and Ghana.



The Sub Saharan Africa telecoms market is growing faster than any other region. According to GSMA data (2018), Sub Saharan Africa will have the largest increase in mobile subscribers from 2017 to 2025 (8%) largely due to growing mobile network coverage in rural areas.

In order to capture this opportunity in rural and semi-urban areas, operators are investing heavily in energy efficient towers, while submarine and terrestrial cable providers have been increasing the available backbone infrastructure. Until recently, access to broadband connectivity in many regions was limited to the use of fiber cables, however these investments could only be economically justified for connecting areas with high traffic and a high concentration of users. The emergence of low orbit geostationary satellites could lead to improved broadband connectivity in markets with low broadband penetration including those in remote, isolated and underserved areas.

Expanding connectivity, energy efficient equipment and consolidation in the mobile operator space, are predicted to be the main drivers of investment and deal activity in Sub-

Saharan Africa over the coming years.

AFC has supported several companies in the telecom sector such as AFC's cornerstone investment in Main One which remains a major contribution to the revolution in undersea cables in Africa, as well as the development of terrestrial fiber, data centers and value-added services leveraging on the Main One platform. AFC has also financed I.H.S Towers, Africa's leading tower company in Africa and MTN Nigeria on their network upgrade needs.

The Corporation will continue to invest in the telecommunication sector with a key focus on connectivity and consolidation. AFC currently has a pipeline of over US\$300 million for 2019 that will play a major role in supporting these key initiatives.

PROJECT DEVELOPMENT

2018 was an exciting year for AFC's project development activities. During the year the Corporation focused on consolidating its efforts and expanding its expertise within the project development space. It led the development of several early stage projects across the continent, leveraged existing partnerships and developed new ones, entered new markets and provided a variety of product offerings within the project development asset class, all aimed at accelerating the progress of infrastructure financing in Africa.

A Renewed Focus

The new strategic focus of the Corporation, which was brought about by the recent management changes at AFC, renewed our commitment to enhancing AFC's project development capabilities with respect to additional resources - financial and human capital - for project origination, execution and investment. The emphasis is on large regional projects aimed at enhancing intra-Africa trade and improving productivity, as well as on national projects that are impactful and capable of improving the quality of life for the populace.

As part of the renewed focus, AFC is developing new ecosystems by creating and providing financing solutions for several inter-related or integrated projects across the value chain, especially in fragile countries. This is creating tangible project development pipelines for the Corporation, and we are working with other stakeholders to share risks and provide holistic solutions for the development of infrastructure across the continent. One such initiative is in Sierra Leone where AFC, alongside other partners, has articulated a road map to develop a suite of projects in the power, mining and transport beneficiation sectors in the country.

New Markets for Growth

New markets, which include Botswana, Djibouti, Ethiopia, Gambia, Guinea, Mozambique, Sierra Leone and Uganda are playing host to AFC's project development activities and are continuing to provide new frontiers for incremental growth. Our projects and achievements in over 28 countries are providing the solutions for new development opportunities. In Djibouti we are developing a 60MW wind project. It is advancing rapidly and should achieve financial close later in 2019.

Uganda and Guinea host exciting opportunities for renewable energy and industrial projects which will have huge development impacts - economic, social and environmental - for both countries. Ethiopia and Sierra Leone provide a good platform for developing ecosystems as their sectors tend to be integrated.

Regional projects, such as the Lagos-Abidjan road corridor and the two 450MW West African Power Pool thermal power projects, have created tangible development projects that are transformational for the countries across the region. In addition, these projects create a useful template for developing other similar projects on the continent.

Leveraging Partnerships for Risk Sharing and Sustainable Development

As an institution with a sizeable balance sheet, we are deploying early stage development capital for projects. We also recognize the value of collaboration through partnerships to ensure the sustainable development of projects.

For example, we have leveraged on the Africa Development Bank led initiative, the Africa Investment Forum, as a platform for defining the new frontiers. It created the DFI Forum which led to the development of the ecosystem initiatives mentioned previously. These platforms, and those like AfIDA (the Africa Infrastructure Developers Association), create useful frameworks to develop solutions that help to de-risk development projects.

AFC remains committed to long term partnerships and will continue to work with other development partners to expand its activities for developing projects. The concept of risk sharing on projects remains a vital component in our engagements with our partners given the early stage nature of these projects. Expanding the AFC-FMO development facility to include other development partners is one of our objectives for 2019.

Product Offerings Aimed at Accelerating the Development Timeline

AFC continually develops and mobilizes its balance sheet to enable its development projects to achieve financial close more quickly, while developing the projects to the highest standards of bankability.

One way of achieving this has been through providing Sponsor's Equity Bridge Financing, whereby AFC, alongside its partners, provides 100% of the total project costs in the form of equity and shareholder loans, with up to 75% or 80% of the Bridge Equity replaced by lenders, on, or before, the commercial operational date of the Project. This is easily applied to projects where the total project cost is below US\$200 million, as it can reasonably be allocated amongst the sponsor group, which further emphasises the benefit of risk sharing among partners.

AFC has been able to successfully deploy this product to the 44MW Singrobo-Ahouaty Hydropower Project in Côte d'Ivoire, in which the Corporation served as the lead developer. This is also the approach being adopted for the Djibouti

60MW wind farm project which is currently being developed.

The discipline of project finance remains, and the replacement of the bridge equity remains attractive for the prospective lenders who will be providing the long-term debt financing, because most of the project risks will have been fully mitigated.

Our 2018 Development Icon - The Singrobo-Ahouaty Hydropower Project

From 2015, AFC began working as co-developer of the 44-MW Singrobo-Ahouaty Hydropower Project and Transmission infrastructure in Côte d'Ivoire and it achieved financial close in December 2018. AFC is proud to be a major investor and facilitator in the project because this new source of renewable energy will be integral to Côte d'Ivoire's economic growth and social development.

The Corporation invested €174 million in the form of Sponsor's equity bridge to shorten the development cycle and accelerate the construction of the project, while the lenders due diligence was ongoing. The African Development Bank is arranging the long-term debt financing, most of which has already secured approvals.

As well as being a good demonstration of AFC's product offering and a model which accelerates the process of developing projects in Africa, thus enabling more power projects to come on stream, the project has also achieved several firsts.

For example, the project is AFC's first equity investment in a hydro power project and the Corporation's first power equity investment in a Francophone country. It is therefore an optimal step towards diversifying AFC's power portfolio, building our balance sheet and expanding our reach across French-speaking Africa.

Project Development – AFC's Cornerstone

Project Development will continue to remain integral to AFC's overall strategy. In today's world, project development may not provide the muchneeded differentiation to AFC's strategy, but our focus in the coming years is to seek better ways of accelerating the development of projects, by making the project development experience less onerous and applying more pragmatic solutions to the problems faced by both public and private sector developers.

Capacity building, advocacy and dialogue remain the tools for engagement and for this reason we remain fully committed to AfIDA – **www.afida-africa.org**, which is a useful platform for collective intervention.

As an innovative infrastructure solutions provider to project developers, AFC is financing the ecosystems that are driving economies, supporting communities and integrating and transforming lives.

FINANCIAL SERVICES

TREASURY

The Corporation remained highly liquid in 2018. Borrowing activities for the year focused on further diversifying our funding sources, as well as maintaining and building new banking relationships.

In 2017, we embarked on discussions with the Import-Export Bank of China (CEXIM) for a US\$300 million 5-year Loan Facility. Following a due diligence process carried out on AFC by CEXIM, the bank successfully obtained requisite approvals to extend a credit facility to AFC. The facility comprised a US\$200 million 5-year Term Loan Facility and a US\$100 million Standby Facility, which will provide contingent funding for the Corporation, and, will therefore be an important liquidity management resource. This is the Corporation's first borrowing from CEXIM - a strategic partnership for AFC. The Facility was signed in September 2018 and we hope to leverage this in-road into China, to further broaden our strategic relationships with Chinese entities.

In the international loan market, we continued to actively engage our lenders and leverage our global banking relationships, to support our funding efforts. In November 2018, we successfully launched a US\$300 million Club Loan Facility. We received commitments of US\$475 million, recording another oversubscription for an AFC Facility in the international loan market. This level of subscription reflects the strong relationships that we have been able to nurture with our global banks. This is particularly important in an era where access to the debt capital markets at an attractive funding cost, is no longer guaranteed. Entities may be forced to rely more on their relationship banks for their funding requirements.

Market conditions for emerging market borrowers were particularly challenging in 2018, with multiple rate hikes by the United States Federal

Reserve, as it started unwinding its decade-long quantitative easing program, triggering significant fund outflows from emerging markets. The situation was exacerbated by the trade war between China and the United States and the accompanying contagion effects. As a result, the credit spreads of emerging market borrowers widened during the year. In many instances during the year, the bond market was closed to emerging markets issuers and borrowers. Those who eventually tapped the bond market, did so at significant new issue premiums.

Despite the challenges outlined, AFC's borrowing facilities in the loan market were raised at highly competitive rates, as the Corporation was still able to maintain its credit spread in the international loan market. In the bond market, even though our credit spreads widened in line with general market movement, AFC's Eurobonds continued to be resilient and outperformed the Eurobonds of all African sovereign and multilateral issuers (excluding the African Development Bank). This good secondary market performance reflects AFC's high credit quality and the unique characteristics and diversity of our bondholders who tend to buy and hold our bonds.

Overall, our balance sheet remains healthy with good liquidity buffers to support our future operations.

The Corporation also made progress in its quest to help African companies and projects to access financial risk management products from global capital markets, through our Treasury client solutions business.

2018 Performance

In 2018, AFC collaborated with one global bank and a multilateral financial institution to hedge interest rate risk for a € 430 million floating rate loan for a power project in Cameroon.
The hedging institutions executed an 18 -year

EURO interest rate swap (IRS), to allow the client to transform the EURO floating interest rate loans it secured from lenders, to fixed interest rate loans. The IRS positioned the client to improve budget predictability over the 3-year construction period and the first 15 years of operations of the power plant. With the hedge, the client does not bear increased interest expense if EURIBOR rises during the 18-year tenor of the IRS.

During the year, AFC also provided Interest Rate Floors, Caps, Swaps and other derivatives solutions to clients in addition to using the products to hedge financial risks from the Corporation's balance sheet.

The Corporation provided innovative funding solutions for an African bank and an African central bank. The Innovation was that a swap was used to provide USD funding to the institutions, securing the USD funding with local currency securities of the relevant countries. This solution allowed the institutions to use their financial assets to raise hard currency funding, at relatively attractive rates. AFC is stepping up efforts to bring such innovative funding solutions to more African central banks and financial institutions, as The Corporation positions itself to play an important role in the development of African capital markets.

As part of AFC's investment mandate in the African continent, The Corporation also supports African issuers in the international debt capital markets, by investing in Eurobonds floated by African entities. This broad group of issuers access the global markets to finance their needs such as, Infrastructure development, and refinancing. These investments which are originated either via the primary market or the secondary market, focus on Eurobonds issued by African Sovereigns, financial institutions and corporates. AFC's commitments to these transactions, testifies to the Corporation's appetite to supply capital which supports the funding needs of African entities.

SYNDICATION & TRADE FINANCE

Syndication

Mobilization of private capital sits at the core of AFC's mandate. AFC's syndication platform plays a critical role in channeling both domestic and foreign direct investment into Infrastructure projects in Africa, with the ultimate goal of addressing the continent's infrastructure deficit. To fulfil our mobilization mandate, we partner with commercial banks, Developmental Financial Institutions, Institutional investors, Sovereign Wealth Funds and Insurance Companies among others.

In addition to our B loan and parallel loan mobilization programs, we have introduced new credit mobilization products to enable us to provide incremental financing to our clients by leveraging our preferred creditor status in member countries. In 2018, we successful launched our Partnership Loan (P-Loan) and Unfunded Risk Participation (URP) products. Our debut Unfunded Risk Participation product allowed AFC to mobilize US\$ 152 million into a single transaction. With this new product, we have formed strong and strategic alliances with six Insurance Companies namely; Munich Re, Great Lakes Insurance SE, XL Insurance Company SE, SCOR UK, Liberty Mutual Insurance Europe SE and Chubb European Group SE.

These credit mobilization products allow AFC to provide larger financing to its clients, minimize its headroom and capital constraints, while crowding in capital from funding sources that traditionally may not be available to such clients, projects or countries in Africa.

In 2018, AFC successfully arranged and acted as sole mandated lead arranger, to a dual-currency and dual-tenor syndicated financing package totaling €578 million to Société Ivoirienne de Raffinage (SIR), the sole crude oil refinery in Côte d'Ivoire and the largest crude oil refinery in West Africa.

The funding will help SIR to restructure its balance sheet, to achieve improved financial and operational performance. It will ensure its long-term viability, being one of the most strategic assets to the country. AFC mobilized a significant portion of the financing in partnership and parallel loans, and through unfunded risk participations provided by commercial banks, insurance companies and development finance institutions.

Trade Finance

The Syndications and Trade Finance unit witnessed a significant growth in the Corporation's short-term Trade Finance activities in 2018. Short-term trade finance assets (comprising both Financial Institutions and Corporate risk) grew by 168% from US\$ 90.5 million at the end of 2017, to US\$ 242.2 million at the at the end of 2018. Our asset growth strategy was hinged on three core pillars – active business development, robust risk management and the building of key strategic partnerships.

Two such strategic partnerships entered into by AFC are with Standard Chartered Bank and Caraill Financial Services. AFC and Standard Chartered Bank announced the launch of a US\$ 200 million funded risk participation program for Financial Institutions in Africa as a catalyst to boost trade finance and economic growth across the region. The program, a first between Standard Chartered and AFC, is expected to generate an estimated incremental trade volume in excess of US\$350 million over the three-year life of the partnership. The program is a portfolio-based risksharing facility, with Standard Chartered and AFC sharing the risk on an equitable basis on the underlying portfolio of the trade finance instruments, through African issuing banks. Similarly, AFC also entered into a strategic alliance with Cargill Financial Service and continued to ramp up its risk participation in the program, through which trade finance capacity is made available for African Financial Institutions.

AFC also became a member of the Society for Worldwide Interbank Financial Telecommunications (SWIFT) through which it hopes to widen its global network of partner banks and to continue to

deploy its investment grade rating and balance sheet strength to support trade finance capacity for African Financial Institutions and Corporates. AFC's flagship short term Trade Finance programs include its Trade Finance Support Program (TFSP), whose main objective is to raise trade finance capacity in Africa by offering payment guarantees to global banks to support the trade finance requirements of African Financial Institutions, its Line of Credit Program (LCP), through which AFC provides trade finance facilities (both funded and unfunded) directly to suitable African Financial Institutions on a bilateral or syndicated basis, and its Commodity Trade Finance Program (CFTP) which is targeted at African Commodity aggregators, to promote export development and export value addition.

FINANCIAL ADVISORY

The Financial Advisory Department provides financial and technical advice to public and private sector clients across Africa, in the areas of infrastructure project development, transaction management, policy formulation and implementation, project financing, mergers, acquisitions, fund management and corporate restructurings.

The suite of advisory services offered cover the Corporation's core areas of operational strength: project concept and development, technical appraisal, investment structuring, capital raising and portfolio monitoring. In this capacity, the Corporation offers proven expertise and relationships in these crucial areas to a select number of public and private clients in Africa. The Corporation also partners with a broad range of international and local institutions focused on Africa, with a view to delivering high quality advisory input to sponsors, governments and corporate groups that are seeking to develop significant infrastructure projects in Africa.

Key projects have included advice and capital raising services for governments, private sponsors and state-owned enterprises working on transformational infrastructure projects in Nigeria, Guinea, Cote d'Ivoire, Rwanda, and Djibouti, as well as large multinational corporations undertak-

ing, or seeking to enter into, large infrastructure investments in several African countries.

Recent milestones have included providing ongoing advice to a private sector consortium in the project development and funding for a US\$500 million greenfield international airport to be located in the Bugesera district of Rwanda. This project alone will create up to 1,500 jobs during construction and result in an additional 2,000 full-time employees after commissioning. The new Airport will improve throughput capacity in the country to 1.9 million passengers annually, provide terminal capacity for 29,000 passengers, and play a key strategic role in boosting tourism and foreign direct investments, helping to drive Rwanda towards becoming a middle-income economy by 2020.

In Djibouti, the Corporation is advising the Djibouti Port and Free Zone Authority on a variety of financial transactions. These include the development of a greenfield world-class ship repair facility, which is expected to assist in retaining significant local content and expertise within the fast-growing country. AFC advisory services are helping to fast-track the project development and financing process, which is supported by strong international construction and financing expertise, designed to further diversity and industrialize the economy. In the same country, we are also assisting a private consortium that is developing a 60MW wind farm.

In Nigeria, AFC continues to lead an ongoing assignment to assist the Central Bank of Nigeria (CBN) and the state-owned Bank of Industry in the deployment and monitoring of a critical US\$2.0 billion infrastructure intervention facility for Nigeria's electricity and aviation sectors. This Facility remains the single largest source of low cost, local currency financing for infrastructure projects in Nigeria over the last decade, with AFC advising on over 160 power and aviation projects and making total investment recommendations of US\$1.6 billion (equivalent) to-date. With AFC's counsel, the facility has financed about 1,370MW of power projects in Nigeria, with 940MW of this capacity providing new supply to the country.

Other projects for which the Financial Advisory Department has provided support include a jointly led mandate to raise US\$1.1 billion in debt financing for the vessel acquisition subsidiary of Nigeria Liquefied Natural Gas Limited; a mandate as financial arranger for a 340MW gas-fired Independent Power Producer ("IPP") in Ghana; a mandate as lead arranger in the development and financing of an 80MW peat-to-power IPP in Rwanda; the merger of AFC's electricity sector assets into a new joint venture entity called Anerai Holdings Limited ("Anergi"), as well as the provision of ongoing technical advice to the private-sector managers of the largest innovative local currency infrastructure fund focused on Nigeria. In addition, AFC has advised a number of critical public sector entities, and state-owned Enterprises, including the Federal Ministry of Finance in Nigeria, on the financing of critical infrastructure projects, and the Federal Ministry of Transport in Nigeria on a private sector concession in its national railway infrastructure.

AFC's Financial Advisory Department is creating innovative solutions for major infrastructure projects across Africa. These are progressively addressing the infrastructure gap and creating the sound foundations upon which the continent's economies can develop and grow.

COUNTRY RELATIONS



Infrastructure connects producers to markets in an efficient manner; reduces production and distribution costs, increases competitiveness, attracts new investors and fosters economic growth.

frica has a significant infrastructure investment gap of US\$170 billion a year, challenging economic conditions and other developmental constraints.

Africa's infrastructure deficit undermines industrial development and underlines the limited value addition in manufacturing.

Africa therefore needs to find ways to enable and accelerate infrastructure development, if it is to reach its fullest economic, environmental and social potential.

AFC's long-term vision is to become Africa's leading Infrastructure solutions provider, effectively addressing the urgent mandate of developing and financing infrastructure, natural resources and industrial assets, to accelerate sustainable inclusive economic growth across the continent.

A combined effort from a wide range of stakeholders, offers the best chance of tackling Africa's developmental deficit. To that end, AFC's strategy includes active engagement with the private and public sectors. In order to achieve its vision, AFC must not only attract long term, large scale institutional capital, but also align its offerings to the needs of African sovereign states and trading blocs, with whom it will deepen relationships and alliances.

AFC's investment remit is pan-African, focusing on investment across five key sectors - Power, Transport & Logistics, Natural Resources, Telecommunications and Heavy Industries – because we believe these are the sectors most

essential to unlocking the economic potential of Africa. They are enablers that will deliver; access to markets, job creation needed given the continent's burgeoning population, and accelerating economic growth.

AFC's unique feature as a multilateral organization, is its delineation between membership and shareholding structure. Whilst the Corporation allows for private sector ownership, only sovereign states can be both members and shareholders. Membership, and the privileges it provides to signatory countries, is open to all African sovereign states through their respective ministries of finance, central banks, sovereign wealth funds, state pension funds, regional and sub-regional development finance institutions; and private and public sector institutional shareholders. The public sector shareholding gives AFC important access to government, which is critical for sustainable investments in infrastructure in Africa. Private sector institutional investors broaden AFC's reach and strengthen its partnerships.

In order to derive the maximum benefit and privileges from membership, sovereign states upon acceding to membership, are required to ratify AFC's constitutive instruments, in line with their national laws. Sovereign states, upon accession to membership, grant the Corporation a preferred creditor status, consequently obviating the need for political risk insurance to cover country risk on project loans. Given that project risk insurance is usually an additional cost to project loans, country membership reduces the average cost of debt financing and improves the bankability of projects in member countries.

AFC currently has 20 member states from West, Central, East and Southern Africa:- Nigeria (the host country), Benin, Cape Verde, Chad, Côte d'Ivoire, Djibouti, Gabon, Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Liberia, Malawi, Rwanda, Sierra Leone, Togo, Uganda, Zambia and Zimbabwe; and 24 Institutional shareholders.

2018 Highlights

In 2018, Zimbabwe and Malawi, in Southern Africa, and Togo joined the Corporation. This increased the total number of member countries to 20, up from 17 the previous year. The accession to membership by countries in Southern Africa widened the geographical spread of members which was hitherto skewed to West Africa. AFC also received an agreement in principle from the Republic of Mauritius, to join the membership of the Corporation. Increases in country membership are beneficial to the Corporation. They enhance AFC's ability to identify, develop and deliver infrastructure projects through partnerships with member countries.

The Government of Ghana invested US\$10 million out of a committed amount of US\$50 million. Additionally, the African Reinsurance Corporation (Africa Re) invested US\$2 million in AFC, making it the first multilateral institution to subscribe to the shares of the Corporation. This was followed by the African Development Bank's (AfDB) Board approval of a US\$50 million investment in the equity of the Corporation. AfDB is Africa's sole triple A rated institution. AFC has received expressions of interest of equity investment from the Rwanda Social Security Board, the Reserve Bank of Zimbabwe and the government of Uganda.

In 2018 the Corporation established a partnership with a European development finance institution for the provision of a share acquisition facility: The Sovereign Financial Assistance Program (SFAP), to assist existing and prospective AFC member countries to part-finance their acquisition of shares in the Corporation.

The SFAP, enables AFC to be included in the Organisation for Economic Co-operation and Development's (OECD) Development Assistance Committee's list of eligible International organizations. The listing of AFC in OECD's register of eligible International organisations across the continent, will create a platform for AFC to partner with the OECD Development Assistance Committee members, to deliver sustainable infrastructure across Africa.

Beyond AFC, the call for collaboration at the 2018 Africa Investment Forum demonstrates a growing recognition of the need for a combined effort in tackling Africa's infrastructure deficit.

2019 Outlook - The Road Ahead

In recent years, there have been unprecedented levels of infrastructure investment made across Africa. Between 2013 and 2017, annual infrastructure spending averaged a record level of US\$ 77.2 billion. Africa Finance Corporation, after 12 years of operation, is proud to report the role which it has played in investing over US\$ 4.5 billion in infrastructure projects, across 28 countries, which are transforming communities and economies.

However, with US\$170 billion required annually for both capital expenditure on new assets and maintenance of existing assets, more needs to be done to close the gap. It is reported that the gap reduces Africa's GDP growth by 2%, and productivity by 40%. Moreover, with over 50% of the world's population growth by 2050, expected to take place in Africa, rising urbanization, and over 50% of Africans under the age of 30, increased pressure will be placed on infrastructure development.

AFC is therefore radically rethinking its investment approach in response to the ever-growing needs of Africa's infrastructure. AFC will take a wholesale approach by seeking to invest in every step of the infrastructure value chain, through financing ecosystems that help integrate economies and transform lives and communities. More importantly, a new and sustainable approach to the way

in which we deliver infrastructure, is urgently needed. Replacing deteriorating infrastructure, combined with developing new infrastructure globally, including in emerging and frontier economies has given rise to an infrastructure development market estimated by Bain & Co. to be worth circa US\$ 4 trillion. With many governments facing budget deficits that curb such spending, private institutional capital is stepping in.

Africa has become the second most attractive investment destination in the world. FDI inflows into Africa have risen from approximately US\$ 10 billion in 2000 to over US\$ 42 billion in 2018. Intra-African investment is on the rise, from 8% as a share of Africa's trade with the world in 2003 to over 25% in 2016.

AFC has successfully mobilized and served as a conduit for both the public and private sectors to invest in infrastructure to spur economic development across the African continent. Our landmark investments, detailed in this report, affirm the positive economic and public policy impact of the projects which AFC undertakes. We believe the multiplier effects of our US\$4.5 billon investments to date, are considerable.

Accelerating Development Impact - Building a Coalition of Investors

Strong partnerships and innovative strategic solutions will be key to tackling the challenges in solving the infrastructure paradox faced by the continent. There is therefore an urgent need for a broad coalition of Institutional investors across the globe, to enable us to collectively close the infrastructure financing gap that is stunting Africa's economic growth, and pace of poverty alleviation.

broader coalition of Institutional investors across the globe through strategic and complimentary partnerships with African governments, pension funds and International Institutional investors. This will enable AFC to diversify its shareholder base, accelerate the sustainable, economic development of natural resource, industrial assets and industrial parks to beneficiate resources, and, limit import substitution.

To accelerate our efforts, AFC is seeking to build a

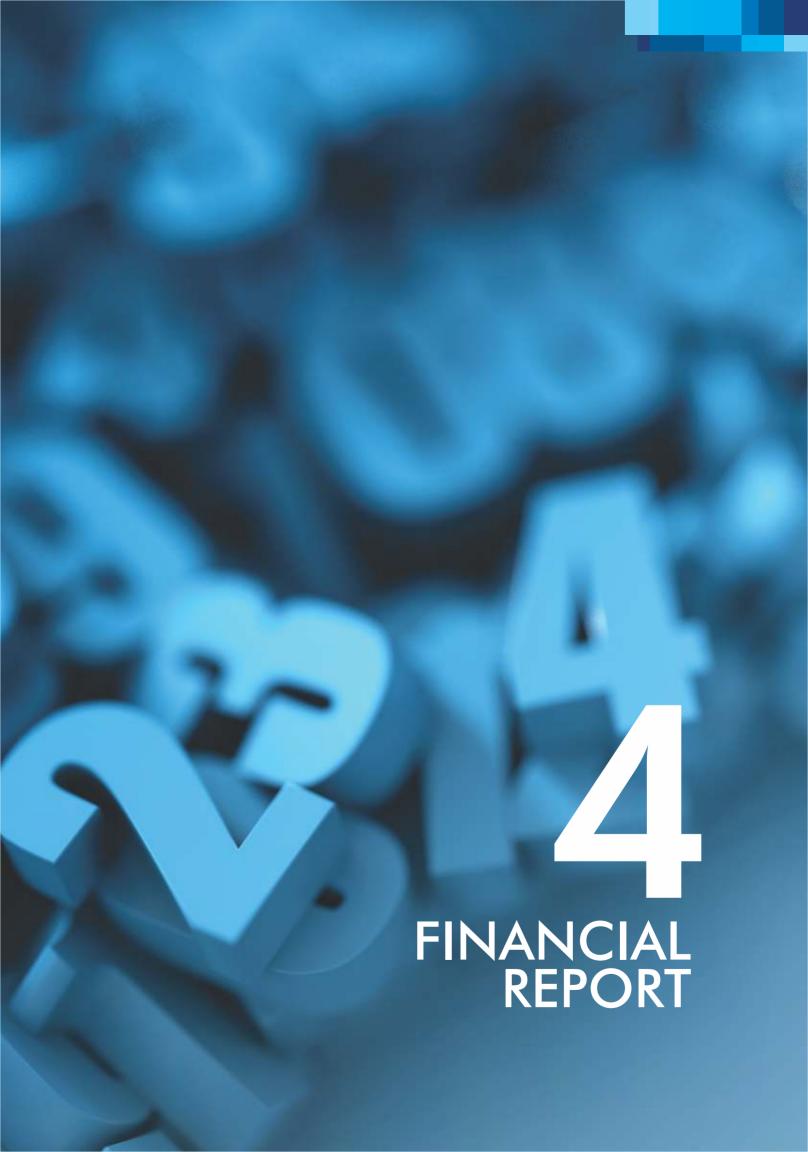
Investing in the equity of AFC has benefits for the investor and project countries:

The Investor - AFC has an investment grade international credit rating, one of the highest sovereign ratings on the continent, from Moody's Investor services. Attaining an investment grade international credit rating, six years after inception, and maintaining it for 5 consecutive years, is a major milestone in the Corporation's history. This rating, together with AFC's strong capital position and the quality of its portfolio, will enable AFC to grow its balance sheet, broaden its asset base and expand its geographical footprint. It is a further endorsement of the Corporation's rigorous investment process, innovative approach to infrastructure investment on the continent, corporate governance and solid shareholder support. AFC has continued its track record of delivering transformational projects with developmental impact on the lives of the African people. Most notably in 2018:

- Delivered the US\$205 million Bel Air Mine in Guinea-Conakry on time and to budget.
 Withthe world's largest bauxite reserves and comprising approximately 32% of its exports, the high-grade bauxite mine is of strategic significance to the country's economic growth and job creation.
- Closed the €1.2 billion investment in the Nachtigal Hydro Power Company, a 420MW hydro-electric power station in Cameroon that will be the cornerstone of the country's lowcarbon development plan. As part of a consortium of investors, AFC provided € 50 million in debt and an additional 18-year interest rate swap of up to €75 million.
- Moody's Investors Services, for the 5th consecutive year, affirmed our investment grade rating, enabling us to access capital, from diverse sources, at a more competitive rate.
- AFC announced a loan facility of US\$ 300 million secured from the China EXIM Bank, following our strategy to diversify our investor base.

Project Countries – There are a number of benefits that come with being a member of AFC. Firstly, AFC's long-term approach to this sector. Infrastructure investment across Africa requires investors to take a long term view. It is in part, for this reason, that many of the traditional institutions, in particular private equity firms, have shied away from this sector. This therefore makes AFC's offering very attractive. We believe we can bring much value to our current member states. We have identified several challenges facing the public sector and governments' ability to deliver on its infrastructure plans. Many African governments have limited project development expertise and remain financially constrained. AFC, with its endto-end project development and advisory services that encompass procurement, development and financing, can alleviate many of these challenges through leveraging our core skills and experience.

We believe that in partnership with African sovereign states and regional trading blocs, we can more effectively address policy, economic development, engineering and innovations for African led approaches to developing viable infrastructure projects, and, in securing the funding and technical expertise needed to deliver them, a true roadmap can be established to a sustainable future.



STATEMENT OF DIRECTORS' RESPONSIBILITIES

The directors are responsible for the preparation of the financial statements for each financial year, that give 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 74 to 180, were approved by the board of directors on 8 March 2019 and were signed on its behalf by:

Chairman

President & CEC

REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE

TO THE BOARD OF DIRECTORS AND GENERAL MEETING OF THE AFRICA FINANCE CORPORATION

n 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 2018, at its meeting held on 25 February 2019.

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

The Committee, therefore, recommended that the audited financial statements of the Corporation for the financial year ended 31 December 2018 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 KPMG as the Corporation's external auditors for the 2019 financial year.

Tunde Lemo, OFR Chairman

Audit & Compliance Committee

Members of the Committee

Dr. Adesola Adeduntan Mr. Ahmad Abdullahi Mr. Ebenezer Onyeagwu Mr. Patrick Akinwuntan



INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF AFRICA FINANCE CORPORATION

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Africa Finance Corporation ("the Corporation") which comprise the consolidated statement of financial position as at 31 December, 2018, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information, as set out on pages 80-180.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Corporation as at 31 December, 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the consolidated financial statements section of our report. We are independent of the Corporation in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Nigeria and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of Loans and Advances

During the year, the Corporation adopted a new and complex accounting standard, IFRS 9 Financial Instruments which became effective on 1 January 2018. For the Corporation, the key change arising from the adoption of IFRS 9 was that the Corporation's impairment losses on financial assets are now based on an Expected Credit Loss (ECL) model rather than an incurred loss model, with the most significant impact on impairment of loans and advances.

The determination of the impairment allowance using the ECL model requires the application of certain financial indices which are estimated from historical financial data obtained from within and outside the Corporation, as inputs, into complex financial models.

KPMG

Impairment allowance on loans and advances that have shown a significant increase in credit risk and credit impaired exposures is based on the Corporation's estimate of losses expected to result from default events over the life of the loans. Impairment allowance on loans and advances that have not shown a significant increase in credit risk is recognized based on an estimate of the losses expected to result from default events within 12 months after the reporting date.

The estimate of the expected credit losses is an output of models, with the key assumptions being the:

- possibility of a loan becoming past due and subsequently defaulting; and
- rate of recovery on the loans that are past due and in default.

The Corporation incorporates forward-looking information into the measurement of ECL. This includes consideration of the impact of changes in the economic environment on the calculation of ECLs of loans and advances.

The impairment of loans and advances is considered to be of most significance in the audit due to the high level of subjectivity, judgments and assumptions applied by management in estimating the impact of key assumptions on the recoverability of loan and advance balances, including the application of industry knowledge and future economic conditions in arriving at the level of impairment allowance required.

How the matter was addressed in our audit

Our procedures included the following:

- We evaluated the design, implementation and operating effectiveness of the key controls over the impairment assessment process such as:
 - the Board Risk and Investment Committee's review and monitoring of the performance of loans and advances; and
 - the evaluation of relevant data used in the calculation of expected credit losses including forward looking macroeconomic data to be included in the impairment model.
- We tested the appropriateness of the Corporation's determination of significant increase in credit risk
 and credit impaired exposures and the resultant classification of loans and advances into groups by
 examining the loans and advances. We evaluated the level of past due obligations and qualitative
 factors such as publicly available information about the customer to determine whether the
 Corporation should estimate the expected credit loss over a period of 12 months or over the life of the
 loans and advances.
- With the assistance of our financial risk management specialists, we tested the key data and assumptions for the data input into the ECL model used by the Corporation and the accuracy of impairment allowance charged by:
 - challenging the reasonableness of the Corporation's ECL methodology, considering whether it reflects unbiased and probability-weighted amounts that are determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information at the reporting date about past events, current conditions and forecasts of future economic condition. Information considered include: historical default rates and commodity index;
 - assessing the appropriateness of the Corporation's forward looking assumptions comprising the Standard and Poor's Goldman Sach's Commodity Index (SPGCSI) used in the ECL calculations by using available information from external sources such as Bloomberg;

крид

- evaluating the appropriateness of the basis of determining Exposure at Default by considering the contractual cash flows, outstanding loan balance, loan repayment type, loan tenor and effective interest rate;
- assessing the appropriateness of the approach and significant assumptions for determining the Probability of Default (PD) and Loss Given Default (LGD) used by the Corporation in its ECL calculation by ensuring the data applied from external sources are in line with the generally available data and assessing whether the Corporation's methodology is in line with IFRS 9 requirement; and
- re-performing the calculations of impairment allowance for loans and advances as at 1 January 2018 and 31 December 2018 using the Corporation's impairment model and validating key inputs to ensure compliance with the newly adopted standard.

The Corporation's accounting policy on impairment and related disclosures on credit risk are shown in notes 2.8, 2.1.2 and 3.1.6 of these financial statements.

Fair valuation of financial instruments measured at fair value (including derivatives and convertible financial instruments)

Valuation of derivatives & Convertible financial instruments

The Corporation's derivative instruments and convertible instruments comprise foreign currency swaps, interest rate swaps, options, futures and foreign exchange forward contracts, which are used to manage foreign exchange risk. The valuation of these instruments involves the use of future pricing parameters. Management applies significant judgment in the estimation of pricing details as at the reporting date, in order to determine the fair value of these instruments, which requires the use of valuation approaches or models to derive forward exchange rates and determine the appropriate discount rates to be applied on future cash flows.

Due to the significance of these instruments and the related judgmental estimation uncertainty, the valuation of the Corporation's derivatives and convertible financial instruments is considered a matter of most significance to the audit

How the matter was addressed in our audit

Our procedures included the following, amongst others:

- We evaluated the design and implementation of key controls over the inputs used in determining the
 valuation of financial assets measured at fair value by checking that there was appropriate review over
 the accuracy of inputs such as the foreign exchange rates and the forward price.
- We engaged our KPMG valuation specialists to:
 - o inspect all contracts to obtain an understanding of the respective transactions; and
 - o recompute the fair value of the entire population of the derivatives and convertible instruments using validated inputs obtained from external sources and compare our results with the Corporation's results

The Corporation's accounting policy on derivative instruments and convertible instruments and relevant fair value disclosures are shown in notes 2.4 and 3.5 respectively.



Valuation of investment in unquoted equities

Owing to the nature of these investments, the assessment of fair value is generally based on methodologies that apply significant unobservable inputs, which entail a significant degree of estimation uncertainty and management judgement including valuation methods, markets multiples and comparable companies. Inappropriate judgements made in the assessment of fair value could have a significant impact on the value of the unquoted investment portfolio, which makes the valuation of investments in unquoted equities a matter of most significance to the audit.

Our audit procedures to assess the reasonableness of the valuation of unquoted equity instruments as at 31 December 2018 included the following:

- Reviewed the valuation methodology and supporting documentation;
- Evaluated the competence, capabilities and objectivity of the independent valuation specialist engaged by management to assess the fair values of the investments;
- Involved our valuation specialists to assist in assessing the valuation methodologies adopted in the valuations with reference to the requirements of the relevant accounting standards;
- Challenged the key assumptions underlying the operational forecasts by comparison with external available information, investee company accounts and management information as applicable;
- Assessed the discount rates applied in the cash flow forecasts, with the assistance of our valuation specialists, by benchmarking against those of similar companies in the markets in which the investees operate;
- Re-performed management's calculations of the valuation for significant investments;
- The Corporation's accounting policy on investment in unquoted equities instruments and relevant fair value disclosures are shown in notes 2.4 and 3.5 respectively.

Other Information

The Directors are responsible for the other information which comprises the Directors' report, Statement of Directors' responsibilities, Financial highlights, Chairman's statement, CEO's Letter to Shareholders, Leadership and Governance, Portfolio review, Sustainability report, and Corporate information (together "Outstanding reports") which we expect to obtain after the date of the auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the outstanding reports, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.



Responsibilities of the Directors for the consolidated financial statements

The Directors are responsible for the preparation of consolidated financial statements that give a true and fair view 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.

In preparing the consolidated financial statements, the Directors are responsible for assessing the Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Corporation or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Consolidated financial statements

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

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

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

KPMG

• Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with the Board Audit and Compliance Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

Other Matter

The financial statements of Africa Finance Corporation for the year end 31 December 2017 were audited by another auditor who expressed an unmodified opinion on those financial statements on 27 March 2018.

Oluwafemi Awotoye, FCA FRC/2013/ICAN/00000001182

For: KPMG Professional Services Chartered AccountantsF 08 March 2019 Lagos, Nigeria



CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note*	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Interest income Interest expense	6 6	260,028 (109,043)	233,943 (91,214)
Net interest income		150,985	142,729
Dividend income Fees, commissions and other income	7 8	15,912 14,934	10,460 19,310
Operating income		181,831	172,499
Net (loss)/gain on financial instruments at fair value through profit or loss Impairment charge on financial assets Gain/(loss) on disposal of financial assets Operating expenses	9 10 11 12	(970) (20,843) 15,744 (47,178)	57,265 (63,077) (23,247) (42,892)
Profit for the year from continuing operations		128,584	100,548
Loss for the year from discontinued operations		-	(235)
Profit for the year		128,584	100,313
Other comprehensive income Items that will not be reclassified to profit or loss: Net gain on available-for-sale financial assets Net loss on FVOCI financial assets (equity instruments) Items that are or may be reclassified to profit or loss:	31	- (10,426)	8,846
Net gain on FVOCI financial assets (debt instruments)		(111)	
Other comprehensive income	31	(10,537)	8,846
Total comprehensive income for the year		118,047	109,159
Profit for the year is attributable to: Parent		128,584	100,313
Profit for the year		128,584	100,313
Total comprehensive income for the year is attributable Parent	e to:	118,047	109,159
Total comprehensive income for the year		118,047	109,159
Basic earnings/(loss) per share (United States cents) - from continuing operations - from discontinued operations	14 14	11.73 -	9.23 (0.02)
		11.73	9.21

^{*} The accompanying notes 1-35 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note*	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
ASSETS			
Cash and balances with banks	15	26,080	29,206
Loans and advances to banks	16	1,598,401	1,471,257
Derivative financial instruments	17	5,322	5,696
Loans and advances to other customers	18	1,339,769	1,162,422
Financial assets at fair value through profit or loss	19	602,536	656,175
Investment securities	20	724,877	569,067
Pledged assets	21	158,907	223,836
Other assets	22	29,104	41,443
Property and equipment	23	2,254	2,451
Intangible assets	24	228	259
Total assets		4,487,478	4,161,812
LIABILITIES			
Accrued expenses and other liabilities	25	29,171	28,750
Derivative financial instruments	17	3,707	10,444
Promissory note	26	-	131,919
Borrowings	27	2,901,941	2,483,392
Total liabilities		2,934,819	2,654,505
EQUITY			
Share capital	29	1,096,395	1,095,343
Share premium	29	4,713	3,765
Retained earnings	30	425,899	372,088
Fair value reserves	31	25,652	36,111
Attributable to the Corporation's equity holders:		1,552,659	1,507,307
Total equity		1,552,659	1,507,307
Total liabilities and equity		4,487,478	4,161,812

^{*} The accompanying notes 1-35 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Note*	Share Capital US\$'000	Share Premium US\$'000	Retained Earnings US\$'000	Fair Value Reserves US\$'000	Total US\$'000	Non- Controlling Interests US\$'000	Total US\$'000
As at 1 January 2017		1,089,067	-	329,495	27,265	1,445,827	1,894	1,447,721
Profit for the year		-	-	100,313	-	100,313	-	100,313
Other comprehensive income	31	-	-	-	8,846	8,846	-	8,846
Total comprehensive income		-	-	100,313	8,846	109,159	-	109,159
Transactions with owners:								
Issued during the year	29	6,276	3,765	-	-	10,041	-	10,041
Acquired/(arising) during the year		-	-	-	-	-	(1,894)	(1,894)
Dividends paid during the year		-	-	(57,720)	-	(57,720)	-	(57,720)
As at 31 December 2017		1,095,343	3,765	372,088	36,111	1,507,307	-	1,507,307
As at 1 January 2018 Impact of adopting IFRS 9		1,095,343	3,765	372,088	36,111	1,507,307	-	1,507,307
(see Note 2.1.2)	30,31	-	-	(20,198)	78	(20,120)	-	(20,120)
Restated balance at 1 January 201	8	1,095,343	3,765	351,890	36,189	1,487,187	-	1,487,187
Profit for the year		_	_	128,584	_	128,584	_	128,584
Other comprehensive income	31	-	-	-	(10,537)	(10,537)	-	(10,537)
Total comprehensive income		-	-	128,584	(10,537)	118,047	-	118,047
Transactions with owners:								
Issued during the year	29	1,052	948	-	-	2,000	-	2,000
Dividends paid during the year		-	-	(54,575)	-	(54,575)	-	(54,575)
As at 31 December 2018		1,096,395	4,713	425,899	25,652	1,552,659	-	1,552,659

^{*} The accompanying notes 1-35 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note*	Year ended 31 December 2018 US\$'000	Year ended 31 December 2017 US\$'000
Cash flows from operating activities			
Interest and similar income received		261,739	227,246
Interest and similar income received	27(vi)	(103,996)	(82,308)
Fee and commission receipts	27 (٧١)	19,451	21,264
Dividend received		5,412	10,460
Cash payments to employees and suppliers		(47,382)	(38,091)
Loans and advances disbursed to customers		(204,991)	(40,664)
Net cash (used in)/generated from operating act	ivities	(69,767)	97,907
Cash flows from investing activities			
Purchase of debt securities		(339,293)	(270,896)
Capital repayments of debt securities		176,903	42,769
Proceeds on disposal of debt securities		-	22,856
Purchase of financial assets at fair value through profit of	or loss	(23,099)	(27,417)
Purchase of available-for-sale equity securities		-	(4,905)
Proceeds on disposal/repayments of equity securities		13,883	17,153
Proceeds on disposal of property and equipment		185	107
Purchase of property and equipment	23	(958)	(1,051)
Purchase of software/Intangibles	24	(75)	(225)
Net cash used in investment activities		(172,454)	(221,609)
Cash flows from financing activities			
Proceeds from borrowings	27(vi)	766,678	845,000
Transaction costs related to borrowings	27(vi)	(6,948)	(3,107)
Repayment of borrowings	27(vi)	(339,673)	(284,101)
Dividend payments		(54,600)	(57,720)
Share proceeds		2,000	-
Net cash generated from financing activities		367,457	500,072
Net increase in cash and cash equivalents		125,236	376,370
Cash and cash equivalents, beginning of the year	r	1,500,463	1,124,093
Cash and cash equivalents, end of the year	33	1,625,699	1,500,463

^{*} The accompanying notes 1-35 are an integral part of these financial statements.

84 AFRICA FINANCE CORPORATION

NOTES TO THE CONSOLIDATED 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.

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. There are twenty (2017: seventeen) member states comprising Benin Republic, Cape Verde, Chad, Cote d'Ivoire, Djibouti, Gabon, Ghana, Guinea-Bissau, Guinea-Conakry, Liberia, Kenya, Malawi, Nigeria, Rwanda, Sierra-Leone, The Gambia, Togolese Republic, Uganda, Zambia and Zimbabwe. Other prospective 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 subscribed and paid for shares in AFC in accordance with the terms of the AFC Charter. As at 31 December 2018, the list of shareholders holding more than 5% of the issued share capital of the Corporation is as follows:

Name of Shareholder	Shareholding (%)
Central Bank of Nigeria	44.7
United Bank of Africa Plc	10.6
Access Bank Plc	10.1
First Bank of Nigeria Plc	9.1
Zenith Bank Plc	9.1

The Corporation's primary objective is to finance infrastructure - power, transportation, telecommunications, heavy industry and natural resource (oil and gas, and mining) - 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 year ended 31 December, 2018 were authorised and approved for issue by the Board of Directors on 8 March, 2019.

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. This is the first set of the Corporation's financial statements in which IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customer have been applied, and their impact is disclosed in note 2.1.1.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets at fair value through other comprehensive income, financial assets and financial liabilities 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 33 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 is determined based 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.

The amounts that are expected to be recovered or settled within 12 months of the reporting period are disclosed as "current" and the amounts expected to be recovered or settled after more than 12 months are disclosed as "non-current" in the notes to the financial statements.

2.1.1 Changes in accounting policy and disclosures

The Corporation has initially adopted IFRS 9 as issued by the IASB in July 2014 (see A) and IFRS 15 (see B) from 1 January 2018. The Corporation did not early adopt IFRS 9 (and any amendments) in previous periods. A number of other new standards are also effective from 1 January 2018, but they do not have a material effect on the Corporation's financial statements.

As permitted by the transitional provisions of IFRS 9, the Corporation elected not to restate comparative information but differences in the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and reserves as at 1 January 2018. Consequently, for notes disclosures, the amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year. Accordingly, the information presented for the comparative period does not reflect IFRS 9 requirements and are not entirely comparable to the information presented for 31 December 2018.

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

The effect of initially applying these standards is mainly attributed to the following:

- an increase in impairment losses recognised on financial assets (see Note 2.1.2);
- additional disclosures related to IFRS 9 (see Notes 2.1.2 and 3.1.6);
- and additional disclosures related to IFRS 15 (see Note 8).

Except for the changes below, the Corporation has consistently applied the accounting policies as set out in Note 2 to all periods presented in these consolidated financial statements.

A) IFRS 9 Financial Instruments

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

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7 'Financial Instruments: Disclosures'.

The key changes to the Corporation's accounting policies resulting from its adoption of IFRS 9 are summarised below. The full impact of adopting the standard is set out in Notes 2.1.2 and 3.1.6 below.

Classification of financial assets and financial liabilities

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). IFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale. Under IFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never bifurcated. Instead, the whole hybrid instrument is measured at fair value through profit or loss. For an explanation of how the Corporation classifies financial assets under IFRS 9, see Note 2.4.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under IFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income (OCI); and
- the remaining amount of change in the fair value is presented in profit or loss.

For an explanation of how the Group classifies financial liabilities under IFRS 9, see Note 2.4.2.

Impairment of financial assets

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

Under IFRS 9, credit losses are recognised earlier than under IAS 39. For an explanation of how the Corporation applies the impairment requirements of IFRS 9, see Notes 2.8 and 3.1.6.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, as described below.

- Comparative periods have not been restated. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and therefore is not comparable to the information presented for 2018 under IFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
- If a debt security had low credit risk at the date of initial application of IFRS 9, then the Corporation has assumed that credit risk on the asset had not increased significantly since its initial recognition.

For more information and details on the changes and implications resulting from the adoption of IFRS 9, see Note 2.1.2.

B) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Corporation initially applied IFRS 15 on 1 January 2018 retrospectively in accordance with IAS 8. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income intergral to financial instruments will continue to fall outside the scope of IFRS 15 and will be accounting for in accordance with the requirements of IFRS 9. The standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards. The following five step model is applied in determining when to recognise revenue and at what amount:

- (i) identify contracts with customers;
- (ii) identify the performance obligations in the contract;
- (iii) determine the transaction price;
- (iv) allocate the transaction price to each of the performance obligations in the contract; and
- (v) recognise the revenue when or as each performance obligation is satisfied.

Transition

Changes in accounting policies resulting from the adoption of IFRS 15 have been applied retrospectively without any practical expedients.

The timing or amount of the Corporation's fee and commission income from contracts with customers was not impacted by the adoption of IFRS 15. The impact of IFRS 15 was limited to the new disclosure requirements (see Note 8).

2.1.2 Impact of the adoption of IFRS 9

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Corporation. Further details of the specific IFRS 9 accounting policies applied in the current period (as well as the previous IAS 39 accounting policies applied in the comparative period) are described in more detail in note 2.4 below.

The following tables summarise the impact of transition to IFRS 9 for each individual line item. There was no impact on the statement of cash flows as a result of adopting the new standards.

Classification and measurement of financial instruments

The measurement category and the carrying amount of financial assets and liabilities in accordance with IAS 39 and IFRS 9 at 1 January 2018 are compared as follows:

	IAS 39		IFRS 9			
Financial Assets	Original measurement category	Carrying amount US\$'000	New measurement category	Carrying amount US\$'000		
Cash and bank balances: - Balances with banks	Amortised cost (Loans and receivables)	29,206	Amortised cost	29,206		
Loans and advances to banks: - Placements with banks	Amortised cost (Loans and receivables)	1,471,257	Amortised cost	1,469,013		
Derivative financial assets	FVTPL	5,696	FVTPL	5,696		
Loans and advances to other customers: - Project finance loans - Trade finance loans	Amortised cost (Loans and receivables) Amortised cost (Loans and receivables)	797,711 364,711	Amortised cost	799,217 361,429		
Financial assets at fair value through profit or loss: - Hybrid instruments(convertible debt securities) - Equity securities - Asset under management (debt securities)	FVTPL FVTPL FVTPL	69,249 567,197 19,729	FVTPL FVTPL FVTPL	69,249 567,197 19,729		

	IAS 39		IFRS 9	
Financial Assets category	Original measurement amount	Carrying category US\$'000	New measurement amount	Carrying US\$'000
Investment Securities: - Debt securities (corporate bonds and sovereign debt) - Debt securities (corporate securities) - Equity securities (unlisted) - Debt securities	Amortised cost (Held-to-maturity) Amortised cost (Loans & receivables) Available-for-sale Available for sale	369,934 60,503 134,471 4,159	Amortised cost Amortised cost FVOCI FVOCI	361,773 57,518 134,471 4,159
Pledged assets: - Debt securities (corporate bonds and sovereign debt)	Amortised cost (Held-to-maturity)	223,836	Amortised cost	219,561
Other assets: - Account receivable - Fee receivable	Amortised cost (Loans and receivables) Amortised cost (Loans and receivables)	19,802 14,122	Amortised cost	19,802 14,122
Total financial assets		4,151,583		4,132,142

Financial liabilities

There is no change in the classification and measurement rules of financial liabilities between IAS 39 and IFRS 9, except in the recognition of fair value gains or losses due to changes in the Corporation's own credit risk for financial liabilities measured at fair value through profit or loss.

Fair value changes related to changes in the Corporation's own credit risk is presented separately in OCI and not recycled to profit or loss even when the liability is derecognised, and the amounts are realised. Own credit risk is determined as either the amount of fair value change not attributable to changes in market risk or using an alternative method that the Corporation believes more faithfully represents the changes in fair value due to 'own credit'. There was no quantitative impact on the financial liabilities as a result of adopting the new standard as the effect of own credit risk on financial liabilities measured at FVTPL was determined to be insignificant.

Reconciliation of statement of financial position balances from IAS 39 to IFRS 9

The Corporation performed a detailed analysis of its business models for managing financial assets and analysis of their cash flow characteristics. The following table reconciles the carrying amounts of financial assets, from their previous measurement category in accordance with IAS 39 to their new measurement categories upon transition to IFRS 9 on 1 January 2018:

	Ref	IAS 39 carrying amount	Reclassi- fications	Remeasure- ments	IFRS 9 carrying amount
Amortised cost		US\$'000	US\$'000	US\$'000	US\$'000
Cash and bank balances					
Opening balance under IAS 39		29,206	-		
Remeasurement	(i)		-	-	
Closing balance under IFRS 9					29,206

Amortised cost	Ref	IAS 39 carrying amount US\$'000	Reclassi- fications US\$'000	Remeasure- ments US\$'000	IFRS 9 carrying amount US\$'000
Loans and advances to banks:		03\$000	033000	03\$000	03\$ 000
- Placement with banks					
Opening balance under IAS 39		1,471,257	_		
Remeasurement	(i)	1,471,237	_	(2,244)	
Closing balance under IFRS 9	()			. , ,	1,469,013
Loans and advances to Customers					
- Project finance					
Opening balance under IAS 39		797,711	_		
Remeasurement		/////	_	1,506	
Closing balance under IFRS 9				1,000	799,217
- Trade finance					,
Opening balance under IAS 39		364,711	-		
Remeasurement	(i)			(3,282)	
Closing balance under IFRS 9					361,429
Investment securities - amortised cost					
Held to maturity:					
Opening balance under IAS 39		369,934			
Reclassification from Held to Maturity (IAS 39)		337773.	(369,934)	_	
Reclassification to amortised cost (IFRS 9)			369,934	_	
Remeasurement	(i)			(8,161)	
Closing balance	()			(, , ,	361,773
Loans and receivables:					
Opening balance under IAS 39		60,503			
Reclassification from Loans		,			
and receivables (IAS 39)			(60,503)	_	
Reclassification to amortised cost (IFRS 9)			60,503	-	
Remeasurement	(i)		,	(2,985)	
Closing balance					57,518
Closing balance under IFRS 9					419,291
Pledged Assets - amortised cost					
Held to maturity:					
Opening balance under IAS 39		223,836			
Reclassification from Held to Maturity (IAS 39)			(223,836)	-	
Reclassification to amortised cost (IFRS 9)			223,836	-	
Remeasurement	(i)			(4,275)	
Closing balance under IFRS 9					219,561
Other Assets					
- Accounts Recevable					
Opening balance under IAS 39		19,802			
Remeasurement			-	-	
Closing balance					19,802
- Fee Receivable					
Opening balance under IAS 39		14,122			
Remeasurement			-	-	
Closing balance					14,122
Closing balance under IFRS 9					33,924
Total financial assets measured at amortise	ed cost	3,351,082	-	(19,441)	3,331,641

	Ref	IAS 39 carrying amount US\$'000	Reclassi- fications US\$'000	Remeasure- ments US\$'000	IFRS 9 carrying amount US\$'000
Fair value through profit or loss (FVTPL)					
Hybrid instruments (convertible debt) Equity securities Asset under management (debt securities)		69,249 567,197 19,729	- - -	- - -	69,249 567,197 19,729
Total financial asset measured at FVTPL		656,175			656,175
Investment securities - Available for sale financial assets Equity securities: Opening balance under IAS 39 Reclassification from available for sale (IAS 39) Reclassification to FVOCI (IFRS 9)		134,471	(134,471) 134,471		
Closing balance					134,471
Debt securities: Opening balance under IAS 39 Reclassification from available for sale (IAS 39) Reclassification to FVOCI (IFRS 9) Remeasurement Fair value reserve	(i)	4,159	(4,159) 4,159	(78) 78	
Closing balance					4,159
Total financial assets measured at FVOCI					138,630
Provision for debt commitments Remeasurement		_	-	(678)	(678)
Closing balance under IFRS 9				. ,	(678)

The total remeasurement loss of US\$20.2 million was recognised in opening reserves at 1 January 2018. This represents the additional impairment loss arising from applying the new expected credit loss model of IFRS 9 at 1 January 2018.

The following explains how applying the new classification requirements of IFRS 9 led to changes in classification of certain financial assets held by the Corporation as shown in the table above.

Reclassification from retired categories with no change in measurement

The following debt instruments have been reclassified to new categories under IFRS 9, as their previous categories under IAS 39 were 'retired', with no changes to their measurement basis:

- (i) Those previously classified as available for sale are now classified and measured at FVOCI;
- (ii) Those previously classified as held to maturity are now classified and measured at amortised cost; and
- (iii) Those previously classified as loans and receivables and now classified as measured at amortised cost;

No financial assets and liabilities were reclassified to the amortised cost category from the fair value category as part of the transition to IFRS 9.

Reconciliation of opening equity from IAS 39 to IFRS 9

The following table summarises the impact of transition to IFRS 9 on the opening balance of the fair value reserve and retained earnings. There was no impact on other components of equity.

	Impact of adopting IFRS 9 1 January 2018 (US\$'000)
Fair Value Reserve	
Closing balance under IAS 39 (31 December 2017)	36,111
Recognition of expected credit losses under IFRS 9	78
Opening balance under IFRS 9 (1 January 2018)	36,189
Retained Earnings	
Closing balance under IAS 39 (31 December 2017)	372,088
Recognition of expected credit losses under IFRS 9	(20,198)
Opening balance under IFRS 9 (1 January 2018)	351,890

Reconciliation of impairment allowance balance from IAS 39 to IFRS 9

The following table reconciles the prior period's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

Measurement category	Loan loss allowance under IAS 39	Reclassi- fication	Remeasure- ment	Loan loss allowance - IFRS 9
	US\$'000	US\$'000	US\$'000	US\$'000
Loans and receivables (IAS 39) / Finance	cial			
assets at amortised cost (IFRS 9)				
Cash and balances with central banks	-	-	-	-
Loans and advances to banks				
- Placement with banks	-	-	2,245	2,245
Loans and advances to customers				
- Project finance	56,648	-	(1,506)	55,142
- Trade finance	6,550	-	3,282	9,832
Investment securities				
- Corporate securities	-	-	2,985	2,985
Other assets				
- Accounts receivable	-		-	-
- Fee receivable	-		-	-
Total	63,198	-	7,006	70,204

Measurement category	Loan loss allowance under IAS 39	Reclassi- fication	Remeasure- ment	Loan loss allowance - IFRS 9
	US\$'000	US\$'000	US\$'000	US\$'000
Held to maturity (IAS 39) / Financial				
assets at amortised cost (IFRS 9)				
Investment securities	-	-	8,161	8,161
Held to maturity (IAS 39) / Financial assets at amortised cost (IFRS 9)				
Pledged assets	-	-	4,275	4,275
Available for sale financial instruments				
(IAS 39) / Financial assets at FVOCI (IFRS 9)			
Investment securities	-	-	78	78
Loan commitments and financial				
guarantee contracts				
Loan commitments	-	-	678	678
Total	63,198	-	20,198	83,396

- (a) New standards, amendments and interpretations that are not yet effective and have not been adopted early by the Corporation.
 - A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2019 and earlier application is permitted; however, the Corporation has not early adopted them in preparing these consolidated financial statements. Those Standards, and Interpretations which may be relevant to the Corporation are set out below:
- IFRS 16 Leases. IFRS 16 will affect primarily the accounting by lessees and will result in the recognition of almost all leases on the statement of financial position. The standard removes the current distinction between operating and financing leases and requires recognition of an asset (the right to use the leased item) and a financial liability to pay rentals for virtually all lease contracts. An optional exemption exists for short-term and low-value leases. The income statement will also be affected because the total expense is typically higher in the earlier years of a lease and lower in later years. Additionally, operating expense will be replaced with interest and depreciation, so key metrics like Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") will change. Operating cash flows will be higher as cash payments for the principal portion of the lease liability are classified within financing activities. Only the part of the payments that reflects interest can continue to be presented as operating cash flows. The accounting by lessors will not significantly change. Some differences may arise as a result of the new guidance on the definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The standard is effective for annual periods beginning on or after 1 January 2019, with early adoption permitted only if the entity also adopts IFRS 15.

This standard will have no significant effect on the Corporation's financial statements when effective and adopted on 1 January 2019.

- ii. The following amended standards, which become effective are not expected to have a significant impact on the Corporation's consolidated financial statements.
 - Annual Improvements to IFRS Standards 2015–2017 Cycle various standards
 - Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
 - Amendments to IFRS 9 Prepayment Features with Negative Compensation
 - Amendments to References to Conceptual Framework in IFRS
 - Amendments to IAS 1 and IAS 8 Definition of Material

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.

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 the 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 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.

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 and subsequently accounted for in accordance with the Corporation's accounting policy for financial instruments depending on the level of interest 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's equity and any gain/loss arising is recognised directly in equity.

(v) Transactions eliminated on consolidation

Intra-Group balances and any unrealised gains or losses or incomes and expenses arising from intragroup 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.

(vi) Non-controlling interests

Non-controlling interests are measured at their proportionate share of the acquiree's identifiable net assets at the date of acquisition. Changes in the Corporation's interest in a subsidiary that does not result in a loss of control are accounted for as equity transactions.

(vii) Interests in associates and joint ventures

Associates are all entities over which the Corporation has significant influence but not control or joint control. This is generally the case where the Corporation holds between 20% and 50% of the voting rights

of the entity. A joint venture is an arrangement in which the Corporation has joint control, whereby the Corporation has rights to the net assets of the arrangement, rather than rights to the assets and obligations for its liabilities.

Interests in associates and joint ventures are initially recognised at cost, which includes transaction cost. Subsequent to initial recognition, they are measured at fair value through profit or loss rather than accounted for using the equity accounted. This treatment is permitted under IAS 28 on Investment in Associates and Joint Ventures, which require such investments held by Venture Capital Entities to be accounted for at fair value in accordance with IFRS 9 with changes in fair value recognised in the income statement in the period of the change.

2.3 Foreign currency

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. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in the foreign currency translated at the spot exchange rate at the end of the year. 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 (before 1 January 2018) 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 (before 1 January 2018, or equity investments in respect of which an election has been made to present subsequent changes in fair value in OCI from 1 January 2018), 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.

Policy applicable from 1 January 2018

Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Corporation entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Corporation commits to purchase or sell the asset.

At initial recognition, the Corporation measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are incremental and directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the Corporation recognises the difference as follows:

- a) When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognised as a gain or loss.
- b) In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortised over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realised through settlement.

2.4.1 Financial assets

Classification and subsequent measurement

From 1 January 2018, the Corporation has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVPL);
- Fair value through other comprehensive income (FVOCI); or
- Amortised cost

The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds, treasury bills and other receivables. Classification and subsequent measurement of debt instruments depend on:

- (i) the Corporation's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Corporation classifies its debt instruments into one of the following three measurement categories:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent Solely Payments of Principal and Interest ('SPPI'), and that are not designated at FTVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in Note 2.1.2. Interest income from these financial assets is included in interest income using the effective interest rate method over the gross carrying amount of the financial assets.
- Fair value through other comprehensive income (FVOCI): Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortised cost which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Gain/Loss on Disposal of Financial Assets". Interest income from these financial assets is included in 'Interest income' using the effective interest rate method over the gross carrying amount of the financial assets.
- Fair value through profit or loss (FVTPL): Assets that do not meet the criteria for amortised cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognised in profit or loss and presented in the profit or loss statement within 'Net gain on financial instruments at fair value through profit or loss' in the period in which it arises. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method over the amortised cost of the financial assets.

Business model

The business model reflects how the Corporation manages the assets in order to generate cash flows. That is, whether the Corporation's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Corporation in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

Solely Payment of Principal and Interest (SPPI)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Corporation assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the `SPPI test'). In making this assessment, the Corporation considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Relassifications

The Corporation reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidences a residual interest in the issuer's net assets. Examples of equity instruments include basic ordinary shares.

The Corporation subsequently measures all equity instruments at fair value through profit or loss, except where management has elected, at initial recognition, to irrevocably designate an equity investment at fair value through other comprehensive income. When this election is used, fair value gains and losses are recognised in OCI and are not subsequently reclassified to profit or loss, including on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognised in profit or loss as dividend income when the Corporation's right to receive payments is established.

Gains and losses on equity investments at FVTPL are included in the Net gain/(loss) on financial instruments at fair value through profit or loss line in the statement of comprehensive income.

Impairment of financial assets

The Corporation assesses on a forward-looking basis the expected credit losses ('ECL') associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantees. The Corporation recognises a loss allowance for such expected losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Modification of loans

The Corporation sometimes renegotiates or otherwise modifies the contractual cash flows of loans to customers. When this happens, the Corporation assesses whether or not the new terms are substantially different to the original terms. The Corporation does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that

- substantially affects the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan

If the terms are substantially different, the Corporation derecognises the original financial asset and recognises a 'new' asset at fair value and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation purposes, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Corporation also assesses whether the new financial asset recognised is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are also recognised in profit or loss as a gain or loss on derecognition.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Corporation recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognises a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows at the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition other than on a modification

Financial assets, or a portion thereof, are derecognised when the contractual rights to receive the cash flows from the assets have expired, or when they have been transferred and either;

- (a) the Corporation transfers substantially all the risks and rewards of ownership, or
- (b) the Corporation neither transfers nor retains substantially all the risks and rewards of ownership and the Corporation has not retained control of the financial asset.

The Corporation may enter into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Corporation:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- (ii) Is prohibited from selling or pledging the assets; and
- (iii) Has an obligation to remit any cash it collects from the assets without material delay.

Collateral (such as ordinary shares or bonds) provided by the Corporation under standard repurchase agreements and securities lending and borrowing transactions are not derecognised because the Corporation retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met. This also applies to certain securitisation transactions in which the Corporation retains a subordinated residual interest.

2.4.2 Financial liabilities

Classification and subsequent measurement

Financial liabilities are classified and subsequently measured at amortised cost, except for financial liabilities at fair value through profit or loss. This classification is applied to derivatives and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at fair value through profit or loss are presented partially in other comprehensive income (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss.

Derecognition

Financial liabilities are derecognised when they are extinguished (i.e. when the obligation specified in the contract is discharged, cancelled or expires).

The exchange between the Corporation and its original lenders of debt instruments with substantially different terms, as well as substantial modifications of the terms of existing financial liabilities, are accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability and a gain or loss is recognised in profit or loss accounts. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, significantly differs from the discounted present value of the remaining cash flows of the original financial liability. In addition, other qualitative factors, such as the currency that the instrument is denominated in, changes in the type of interest rate, new conversion features attached to the instrument and change in covenants are also taken into consideration. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, then the amortised cost of the liability is recalculated by discounting the modification cash flow at the original effective interest rate and the resulting gain or loss is recognised in profit or loss. Any costs or fees incurred adjust the carrying amount of the liability and are amortised over the remaining term of the modified liability.

Financial guarantee contracts and loan commitments

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and others on behalf of customers to secure trade transactions.

Financial guarantee contracts are initially measured at fair value and subsequently measured at the higher of:

- The amount of the loss allowance (calculated as described in note 3.1.6); and
- The premium received on initial recognition less income recognised in accordance with the principles of IFRS 15.

Loan commitments provided by the Corporation are measured as the amount of the loss allowance. The Corporation has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Corporation cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives are embedded in hybrid contracts, such as the conversion option in a convertible bond. If the hybrid contract contains a host that is a financial asset, then the Corporation assesses the entire contract as described in the financial assets section above for classification and measurement purposes. Otherwise, the embedded derivatives (for a host that is not a financial asset) are treated as separate derivatives when:

- (i) Their economic characteristics and risks are not closely related to those of the host contract;
- (ii) A separate instrument with the same terms would meet the definition of a derivative
- (iii) The hybrid contract is not measured 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 profit or loss unless the Corporation chooses to designate the hybrid contracts at fair value through profit or loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Corporation currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

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.

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.

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, or
- financial assets with embedded derivatives.

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 at fair value through profit or loss are included in 'Interest income', 'Interest expense' and 'Dividend income', respectively.

Equity investments that result in the Corporation having significant influence by being able to participate in the financial and operating policy decisions of the investee companies are carried in the statement of financial position at fair value through profit or loss rather than accounted for using the equity accounted. This treatment is permitted under IAS 28 on Investment in Associates and Joint Ventures, which require investments held by Venture Capital 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 Impairment charge on financial assets'. 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-forsale investment is sold or impaired, the accumulated gains or losses are moved from other comprehensive income to the income statement and are included in "impairment charge on financial assets" when impaired, or "gain/(loss) on disposal of financial assets" when disposed.

Interest on available-for-sale debt instruments, calculated using the effective interest method, is recognized in the statement of income as 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.

2.4.4 **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.

Derivatives are also categorised as held for trading unless they are designated and effective as hedging instruments.

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 were no financial liabilities classified as held for trading as at 31 December 2018 (2017: none).

(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

2.4.6 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.

2.4.7 Derecognition

Financial assets are derecognised when the contractual rights to receive the cash flows from these assets have expire, or the right to receive the contractual cashflows has been transferred in a transaction in which substantially all of the risks and rewards of ownership of the assets are also transferred or in which the Corporation neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the asset. Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

Reclassification of financial assets 2.4.8

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.

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 gain/(loss) on financial instruments at fair value through profit or loss'. 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 also included in 'net gain/(loss) on financial instruments at fair value through profit or loss'.

2.5 Interest income and expense

Policy applicable from 1 January 2018

Effective interest rate

Interest income and expense are recognised in profit or loss using the effective interest method. The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Corporation estimates future cash flows considering all contractual terms of the financial instrument, but not ECL. For purchased or originated credit impaired financial assets, a creditadjusted effective interest rate is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Amortised cost and gross carrying amount

The 'amortised cost' of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit loss allowance (or impairment allowance before 1 January 2018).

The 'gross carrying amount of a financial asset' is the amortised cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of interest income and expense

The effective interest rate of a financial asset or financial liability is calculated on initial recognition of a financial asset or a financial liability. In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not creditimpaired) or to the amortised cost of the liability. The effective interest rate is revised as a result of periodic re-estimation of cash flows of floating rate instruments to reflect movements in market rates of interest.

However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortised cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to the gross basis.

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

Presentation

Interest income calculated using the effective interest method presented in the statement of profit or loss and OCI includes:

- interest on financial assets and financial liabilities measured at amortised cost;
- interest on debt instruments measured at FVOCI;

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

- financial liabilities measured at amortised cost; and
- financial liabilities measured at FVTPL.

Policy applicable before 1 January 2018

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.

2.6 Fees, commission and other 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.

2.7 Assets pledged as collateral

Financial assets transferred to external parties and which do not qualify for de-recognition are reclassified in the statement of financial position from treasury bills and investment securities to assets pledged as collateral, if the transferee has received the right to sell or re-pledge them in the event of default from agreed terms. Assets pledged as collateral are initially recognised at fair value, and are subsequently measured at amortised cost or fair value as appropriate. These transactions are performed in accordance with the usual terms of securities lending and borrowing.

2.8 Impairment of financial assets

Policy applicable from 1 January 2018

The Corporation recognises loss allowances for ECL on the following financial instruments that are not measured at FVTPL:

- financial assets that are debt instruments
- financial quarantee contracts issued; and
- loan commitments issued.

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

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

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognised are referred to as 'Stage 1 financial instruments'. Life-time ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognised but which are not credit-impaired are referred to as 'Stage 2 financial instruments'.

Measurement of Expected credit losses

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

financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Corporation expects to receive);

- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the the Corporation if the commitment is drawn down and the cash flows that the Corporation expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Corporation expects to recover.

Restructured financial assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised and ECL are measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset;
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculating the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset. See "Modification of financial assets".

Credit-impaired financial assets

At each reporting date, the Corporation assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

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

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

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Corporation considers the following factors;

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.

- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfil the required criteria.

Reversal of impairment

- For assets measured at amortised cost: If an event occurring after the impairment was recognised caused the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.
- For FVOCI debt securities: If, in a subsequent period, the fair value of an impaired debt security increased and the increase could be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss was reversed through profit or loss; otherwise, any increase in fair value is recognised through OCI.

Any subsequent recovery in the fair value of an impaired equity security which is classified at FVOCI is recognised in OCI.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Corporation determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Recoveries of amounts previously written off are included in 'impairment losses on financial instruments' in the statement of profit or loss and OCI.

However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Corporation's procedures for recovery of amounts due.

Presentation of allowance for ECL in the statement of financial position

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

- financial assets measured at amortised cost: as a deduction from the gross carrying amount of the
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Corporation cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Corporation presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Policy applicable before 1 January 2018

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: -

- significant financial difficulty of the borrower;
- a breach of contract, such as default or delinquency in interest or principal repayments;
- 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;
- it has become probable that the borrower will enter bankruptcy or other financial reorganisation; d)
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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-forsale 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.

2.9 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 annually or 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.

2.10 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 balances with banks and loans and advances to banks which are money market placements.

2.11 **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.

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.

2.12 **Employee Benefits**

Short-term employee benefits

Short-term employee benefits are expenses as the related service is provided. Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plans if the Corporation has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment employee benefits

Defined contribution plan

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 minimum of 5% of their basic salary.

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 they fall due.

2.13 Provisions

Provisions 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.

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

2.15 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) Share premium

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

c) 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.

d) Treasury shares

Where the Corporation purchases 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.

2.16 **Retained earnings**

Retained earnings comprise the undistributed profits from previous periods which have not been reclassified to any specified reserves.

2.17 Fair value reserve

Comprises fair value movements on equity instruments.

2.18 Dividend income and payment

Dividend income is 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.

2.19 Contingent liabilities and commitments

Contingent liabilities and commitments comprise of equity and debt commitments and are accounted for as off-balance sheet transactions and disclosed as contingent liabilities.

Equity commitments are commitments made by the Corporation to provide equity financing to investee companies.

Debt commitments comprise;

- unfunded risk participation arrangements are used in international trade. They are transactions whereby the Corporation does not fund the participation amount unless such facility is in default;
- and loan commitments which are amounts yet to be disbursed to loan customers.

2.20 Non-current assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held-for-sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use. In order to be classified as held for sale, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary and the sale must be highly probable.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on disposal is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to the measured in accordance with the Corporation's other accounting policies. Impairment losses on initial recognition are recognized in profit or loss. Once classified as held-for-sale, intangible assets and property and equipment are no longer amortised or depreciated, and any equity accounted investee is no longer equity accounted.

When the Corporation acquires a subsidiary exclusively with a view to resale, it is accounted for as held for sale and consolidated using the short cut method under by IFRS 5. Initially, the Corporation measures the identifiable liabilities and the acquired assets at fair value. At the reporting period, the Corporation measures the disposal group at the lower of its cost and fair value less cost to sell and the assets and liabilities are recognised separately in the statement of financial position. In the statement of comprehensive income, the Corporation discloses a separate line for the loss on discontinued operations. Further analysis of the assets and liabilities is not required and no further disclosures are made.

2.21 Discontinued operation

A discontinued operation is a component of the Corporation's business, the operations and cashflows of which can be clearly distinguished from the rest of the Group and which:

- Represents a separate major line of business or geographic area of operations;
- Is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- Is a subsidiary exclusively acquired with a view to re-sale.

Classification as a discontinued operation occurs at the earlier of disposal or when the operation meets the criteria to be classified as held-for-sale.

When an operation is classified as a discontinued operation, the comparative statement of profit or loss and OCI is re-presented as if the operation had been discontinued from the start of the comparative year.

2.22 Intangible assets

Intangible assets comprise separately identifiable items arising from computer software licences.

Software acquired by the Corporation is measured at cost less accumulated amortisation and any accumulated impairment losses.

Expenditure on internally developed software is recognised as an asset when the Corporation is able to demonstrate: that the product is technically feasible, its intention and ability to complete the development and use the software in a manner that will generate future economic benefits, and that it can reliably easure the costs to complete the development. The capitalised costs of internally developed software include all costs directly attributable to developing the software and capitalised borrowing costs, and are amortised over its useful life. Internally developed software is stated at capitalised cost less accumulated amortisation and any accumulated impairment losses.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Software is amortised on a straight-line basis in profit or loss over its estimated useful life, from the date on which it is available for use. The estimated useful life of software for the current and comparative periods is three years.

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

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 (BRIC), 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 BRIC, and these are reviewed annually. The policies also provide parameters and quidelines 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 BRIC. 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. The requirement for collateral and the type to be taken at origination will be based upon the nature of the transaction and the credit quality, size and structure of the borrower. The Corporation will often require the collateral to include a first charge over land and buildings owned and occupied by the business, a debenture over one or more of the assets of a company, personal quarantees from the directors of a company. However, some collateral requirements are generic, including domiciliation of contract proceeds and the proceeds of off-take agreements, assignment of all insurance and reinsurance proceeds, charge over the Collections Account and Debt Service Reserve Account and pledges or liens over physical assets. In the case of asset-backed trade related transactions, the collateral is a mix of product financed, cash or receivables.

The principal collateral types acceptable to the Corporation are: commercial properties; charges over business assets such as premises, inventory and plant and machinery; financial instruments such as debt securities, and guarantees received from third parties. The Corporation maintains appetite guidelines on the acceptability of specific classes of collateral. Collateral held as security for financial assets other than loans and advances is determined by the nature of the underlying exposure. Debt securities, including treasury, bonds and other bills are generally unsecured. Collateral is generally not held against loans and advances to banks; however, securities are held as part of reverse repurchase or securities borrowing transactions or where a collateral agreement has been entered into under a master netting agreement. Derivative transactions with financial counterparties are typically collateralised under a Credit Support Annex (CSA), in conjunction with the International Swaps and Derivatives Association (ISDA) Master Agreement. Derivative transactions with non-financial customers are not usually supported by a CSA. The Corporation considers risk concentrations by collateral providers with a view to ensuring that any potential undue concentrations of risk are identified and suitably managed. Generally, the concentration of collateral follows a similar pattern as the geographical and sectoral split of the Corporation's portfolio of loans and advances to customers.

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 which include money market deals and other debt securities. 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 Management Policy (CRMP) that details its risk philosophy and metrics. The CRMP 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 appetite 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 refers 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.

The risk appetite is determined by the Board of Directors, with delegated authority to the Board Risk and Investment Committee and Executive Management Committee. The Corporation has a policy that only the entity that sets a limit or condition may amend the limit. For example, EXCO may only decrease limits but not increase limits set by the higher authorities of BRIC and the Board due to evolving market conditions. While the Board, or BRIC may increase or decrease limits set by EXCO. The Board specifies that risk appetite is consistent with AFC's rating, and eclipsed by the Corporation's capital.

The credit risk management includes a governance structure for the management of credit risk at AFC. This multi-layered structure has, at its apex, the Board of Directors, with other bodies being the Board Risk and Investment Committee (BRIC), the Executive Management Committee (EXCO), the Management Investment Committee (INVESTCO), the Management Risk Committee (RISKCO), and the Risk Management Unit (RMU). The Chief Risk Officer has the authority to terminate a transaction from proceeding in the investment approval process.

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.

Risk Limit Control and Mitigation Policies 3.1.4

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 Maximum exposure to credit risk

- Waxiii on exposore to creati risk	Maximun 31 December 2018 US\$'000	n Exposure 31 December 2017 US\$'000
Balances with banks	26,054	29,175
Loan and advances to banks:		
- Placements with banks	1,598,401	1,471,257
Derivative financial assets	5,322	5,696
Loan and advances to other customers:		
- Project finance loans	979,560	797,711
- Trade finance loans	360,209	364,711
Financial assets at fair value through profit or loss:		
- Hybrid instruments (convertible debt)	65,802	69,249
- Asset under management (debt securities)	19,829	19,729
Investment Securities:		
- Corporate debt securities	353,727	231,097
- Government debt securities	296,991	203,499
Pledged Assets:		
- Corporate debt securities	64,052	114,249
- Government debt securities	94,855	109,587
Other assets:		
- Account receivable	12,301	19,802
- Fee receivable	11,939	14,122
At 31 December	3,889,042	3,449,884
Off-balance sheet commitments		
Debt commitments	229,264	99,045

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.

Credit quality analysis 3.1.6

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 with 23 notches, 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 (excellent)", "low risk (strong)", "moderate risk (good)", "high risk (fair/marginal)", and "very high risk (special attention)". 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 ratings are reviewed quarterly for each obligor or when credit sensitive information is received. 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. Ratings are also reviewed as a result of expectation of credit weaknesses. After disbursement, monitoring phase of each investment commences. A quarterly monitoring report is prepared for each investment; this report is reviewed by Risk Management and presented to the Management Investment Committee. The monitoring report acts as an early warning signal for closer monitoring of credits with a higher probability of facing stress in the short to medium term.

In the event that an asset goes into default, an interdepartmental team comprising of Risk Management, Risk Assurance, Investments and Legal would collaborate with other lenders or sponsors to maximize recovery. This team will give a weekly update on recovery efforts to the Management. A default would also lead to prevention of further drawdown while steps are taken to recover the outstanding balance and/or realise collaterals.

Deterioration in credit risk is 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

Description	Rating bucket	Range of scores	Risk range description
Very Low Risk	AAA to A-	1.00 - 1.60	Excellent
Low Risk	BBB+ to BB+	1.70 - 2.00	Strong
Moderate Risk	BB to B-	2.00 - 4.00	Good
High Risk	CCC+	4.00 - 5.00	Fair
High Risk	CCC	5.00 - 7.00	Marginal
Very High Risk	CCC- to D	7.00 - 10.00	Special attention

The internal credit risk rating bucket has been calibrated to rating grades of international credit rating agencies. Our credit grades are not intended to replicate external credit grades (where these are available), and ratings assigned by external rating 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 2018	31 December 2017
	US\$'000	US\$'000
Counterparties with international credit rating		
(S&P, Fitch, Moody's)		
Investment grade (AAA to BBB-)	1,731,767	1,538,210
Others (BB+, BB, BB-, B+, B, B-)	829,826	702,584
	2,561,593	2,240,794
Counterparties without international credit ratings		
Group 1	412,284	206,629
Group 2	915,165	755,298
	1,327,449	961,927
Total unimpaired nor past due loans, advances	2 000 042	2 202 721
and debt securities	3,889,042	3,202,721
Past due but not impaired	-	247,163
Total loans, advances and debt securities	3,889,042	3,449,884

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 financial assets measured at amortised cost exposed to credit risk is detailed below:

Balances with banks at amortised cost:

In thousands of dollars		2018			2017
	Stage 1	Stage 2	Stage 3	Total	Total
- Excellent	11,006	-	-	11,006	15,737
- Strong	26	-	-	26	13
- Good	15,022	-	-	15,022	13,425
Gross carrying amount	26,054	-	-	26,054	29,175
Loss allowance	-	-	-	-	-
Carrying amount	26,054	-	-	26,054	29,175

Loans and advances to banks at amortised cost:

In thousands of dollars		2017			
	Stage 1	Stage 2	Stage 3	Total	Total
- Excellent - Strong	1,313,158 274,500	-	-	1,313,158 274,500	1,231,693 135,083
- Good	11,961	-	-	11,961	104,481
Gross carrying amount Loss allowance	1,599,619 (1,218)	-	-	1,599,619 (1,218)	1,471,257 -
Carrying amount	1,598,401	-	-	1,598,401	1,471,257

Loans and advances to customers at amortised cost:

In thousands of dollars		2018			2017
	Stage 1	Stage 2	Stage 3	Total	Total
Project finance					
- Good	542,677	-	-	542,677	311,883
- Fair	135,841	-	-	135,841	47,519
- Marginal	93,627	67,428	-	161,055	258,379
- Special attention	-	164,953	-	164,953	236,578
- Default	-	-	52,567	52,567	-
Gross carrying amount	772,145	232,381	52,567	1,057,093	854,359
Loss allowance	(22,486)	(38,305)	(16,742)	(77,533)	(56,648)
	749,659	194,076	35,825	979,560	797,711
Trade finance					
- Strong	-	-	-	-	-
- Good	353,673	-	-	353,673	191,502
- Fair	15,916	-	-	15,916	56,268
- Marginal	-	-	-	-	123,491
	369,589	-	-	369,589	371,261
Loss allowance	(9,380)	-	-	(9,380)	(6,550)
	360,209	-	-	360,209	364,711
Gross loans to other customers	1,141,734	232,381	52,567	1,426,682	1,225,620
Carrying amount	1,109,868	194,076	35,825	1,339,769	1,162,422

The following table sets out information about the overdue status of loans and advances to customers in Stages 1, 2 and 3.

Loans and advances to customers at amortised cost – gross carrying amount

In thousands of dollars		2018			2017
	Stage 1	Stage 2	Stage 3	Total	Total
Current	1,141,734	232,381	-	1,374,115	950,314
Overdue 30 - 90 days	-	-	-	-	44,585
Overdue 90 - 180 days	-	-	-	-	122,491
Overdue > 180 days	-	-	52,567	52,567	108,230
Total	1,141,734	232,381	52,567	1,426,682	1,225,620

Investment securities at amortised cost:

In thousands of dollars		2018			2017
	Stage 1	Stage 2	Stage 3	Total	Total
Corporate debt securities					
- Excellent	125,640	-	-	125,640	-
- Good	125,249	-	-	125,249	110,893
- Fair	41,011	-	-	41,011	37,854
- Marginal	66,491	-	-	66,491	82,350
- Special attention	-	-	-	-	-
	358,391		-	358,391	231,097
Loss allowance	(8,860)	-	-	(8,860)	-
	349,531	-	-	349,531	231,097

In thousands of dollars		2018			2017
	Stage 1	Stage 2	Stage 3	Total	Total
Government debt securities					
- Strong - Good	300,452	-	-	300,452	203,499
- 0000	300,452			300,452	203,477
Loss allowance	(3,460)	_	-	(3,460)	200,477
	296,992	_	_	296,992	203,499
Carrying amount	646,523	-	-	646,523	434,596
Pledged assets:					
In thousands of dollars		2018			2017
III III Oosallas ol aoliais	Stage 1	Stage 2	Stage 3	Total	Total
Corporate debt securities					
- Good	65,797	-	-	65,797	114,249
	65,797	-	-	65,797	114,249
Loss allowance	(1,745)	-	-	(1,745)	-
	64,052	-	-	64,052	114,249
Government debt securities	50.770			50.770	50.000
- Strong - Good	50,770 44,917	-	-	50,770 44,917	50,803 58,784
	95,687			95,687	109,587
Loss allowance	(832)	-	-	(832)	107,307
	94,855		_	94,855	109,587
Carrying amount	158,907	-	-	158,907	223,836
Other assets:					
In thousands of dollars		2018			2017
	Stage 1	Stage 2	Stage 3	Total	Total
Account receivable	10.001			10.001	10.000
- Good	12,301	-	-	12,301	19,802
Fee receivable	11.020			11.000	14100
- Good	11,939	-	-	11,939	14,122
Loss allowance	24,240	-	-	24,240	33,924
Carrying amount	24,240	-	-	24,240	33,924
D. L. C. C.					
Debt commitments:					
In thousands of dollars		2018			2017
	Stage 1	Stage 2	Stage 3	Total	Total
Debt					
- Good	46,384	-	-	46,384	96,913
- Fair - Marginal	182,880	-		182,880	2,132
Carrying amount	229,264	_		229,264	99,045
Loss allowance on commitments	(1,133)	_	_	(1,133)	
2003 anowanice on comminments	(1,133)			(1,133)	

Using the Corporation's internal credit rating, the credit quality of financial assets measured at fair value exposed to credit risk is detailed below:

	2018 US\$'000	2017 US\$'000
Derivative financial assets:		
- Good	5,322	5,696
Financial assets at fair value through profit or loss Hybrid instruments (convertible debt)		
- Good	-	27,799
- Fair	35,816	-
- Marginal	29,986	41,450
Asset under management (debt securities)		
- Good	19,829	19,729
Total neither past due nor impaired	85,631	88,978
Investment securities		
- Good	4,195	4,159

Effects of collateral and other credit enhancements

The Corporation holds collateral and other credit enhancements against certain of its credit exposures. For loans and advances to other customers, the general credit worthiness of a customer tends to be the most relevant indicator of credit quality of a loan extended to it. Collateral values are assessed at the time of loan origination. The Corporation requires collateral to be realistically valued by an appropriately qualified source, independent of both the credit decision process and the customer, at the time of borrowing. 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 key management personnel.

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 cash and balances with banks, loans and advances to banks and other assets.

Where collateral has been obtained in the event of default, the Corporation does not, as a rule, use such assets for its own operations and they would be sold on a timely basis. There were no assets held by the Corporation as at 31 December 2018, as a result of the enforcement of collateral (2017: Nil).

The types of collateral held includes fixed and floating charge on companies' assets and securities and a charge on the commodities financed for trade transactions. The Corporation also uses insurance by a counterparty which is more creditworthy than the original counterparty, as a means of credit enhancement. A portion of hybrid instruments designated at fair value through profit or loss is covered by insurance.

Percentage of exposure secured by collateral and other credit enhancements:

	2018	2017	Type of
Type of credit exposure	%	%	collateral held
Loans and advances to other customers			
- Project finance	92	97	charge on securities/company assets
- Trade finance	64	68	charge on commodities financed
Hybrid instruments	38	46	charge on company assets/insurance
Investment debt securities	5	9	Insurance

Expected Credit Loss ('ECL')

The ECL allowance is based on the credit losses expected to arise over the life of the asset, unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss. The Corporation's policies for determining if there has been a significant increase in credit risk are set out in Note 2.8.

The 12-month ECL is the portion of lifetime ECL that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both life time ECL and 12 months ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit guality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored.
- If a significant increase in credit risk ('SICR') since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. Please refer to note 2.8 for a description of how the Corporation determines when a significant increase in credit risk has
- If the financial instrument is credit-impaired, the financial instrument is moved to 'Stage 3'. Please refer to note 2.8 for a description of how the Corporation defines credit-impaired and default.

Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. Please refer to 'measurement of ECL' below for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. An explanation of how forward-looking information is incorporated in the ECL model is included under 'incorporation of forward-looking information' below.

Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

Stage 1 Stage 2 Stage 3 (Initial recognition) (Significant increase in credit risk (Credit-impaired assets) since initial recognition) 12 month expected credit losses Lifetime expected credit losses Lifetime expected credit losses

Change in credit quality since initial recognition

Significant increase in credit risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Corporation considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Corporation's historical experience and expert credit assessment and including forward-looking information.

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

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

The Corporation uses three criteria for determining whether there has been a significant increase in credit risk:

- quantitative test based on movement in PD;
- qualitative indicators; and
- a backstop of 30 days past due

Credit risk grades

The Corporation allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower. Credit risk grades are defined and calibrated such that the risk of default occurring increases exponentially as the credit risk deteriorates so, for example, the difference in risk of default between credit risk grades 1 and 2 is smaller than the difference between credit risk grades 2 and 3.

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

- Information obtained during periodic review of the obligor e.g. audited financial statements, management accounts, budgets and projections. Examples of areas of particular focus are: gross profit margins, financial leverage ratios, debt service coverage, compliance with covenants, quality of management, senior management changes
- Data from credit reference agencies, press articles, changes in external credit ratings
- Quoted bond and credit default swap (CDS) prices for the borrower where available
- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
- Payment record this includes overdue status as well as a range of variables about payment ratios
- Requests for and granting of forbearance
- Existing and forecast changes in business, financial and economic conditions

The indicative mapping of how the Corporation's internal credit risk grades relate to PD to external credit ratings of is shown in note 3.1.6.

Generating the term structure of PD

Credit risk grades are primary inputs into the determination of the term structure of PD for exposures. The Corporation collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information purchased from external credit reference agencies is also used. The Corporation employs statistical models to analyse the data collected and generate estimates of the remaining lifetime PD of exposures and how these are expected to change as a result of the passage of time.

Definition of default

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

- the borrower is unlikely to pay its credit obligations to the Corporation in full, without recourse by the Corporation to actions such as realising security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Corporation;
- or it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Corporation considers indicators that are:

- qualitative: e.g. breaches of covenant;
- quantitative: e.g. overdue status and non-payment on another obligation of the same issuer to the Corporation; and
- based on data developed internally and obtained from external sources.

Inputs into the assessment of whether a financial instrument is in default and their significance may vary over time to reflect changes in circumstances.

Incorporation of forward-looking information

The Corporation incorporates forward-looking information into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

Based on advice from the Corporation's Risk Management and economic experts and consideration of a variety of external actual and forecast information, the Corporation formulates a 'base case' view of the future direction of relevant economic variables as well as a representative range of other possible forecast scenarios. This process involves developing two or more additional economic scenarios and considering the relative probabilities of each outcome. External information includes economic data and forecasts published by governmental bodies and monetary authorities in the countries where the Corporation invests, supranational organisations such as the OECD and the International Monetary Fund, and selected private-sector and academic forecasters.

The base case represents a most-likely outcome and is aligned with information used by the Corporation for other purposes such as strategic planning and budgeting. The other scenarios represent more optimistic and more pessimistic outcomes. Periodically, the Corporation carries out stress testing of more extreme shocks to calibrate its determination of these other representative scenarios.

The Corporation has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between macro-economic variables and credit risk and credit losses.

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

Measurement of ECL

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

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

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

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on externally compiled data comprising both quantitative and qualitative factors published by International Rating Agencies. Where it is available, market data may also be used to derive the PD for counterparties. If a counterparty or exposure migrates between rating classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. For the purpose of determining LGD, external benchmark information from rating agencies were used to supplement the internally available data. The Moody's Investors Service Default and Recovery rates study was an input into determining the LGD for the Corporation's portfolios.

EAD represents the expected exposure in the event of a default. The Corporation derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For financial guarantees, the EAD represents the amount of the guaranteed exposure when the financial guarantee becomes payable. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Corporation measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Corporation considers a longer period. The maximum contractual period extends to the date at which the Corporation has the right to require repayment of an advance or terminate a loan commitment or guarantee.

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

- instrument type;
- credit risk gradings;
- date of initial recognition;
- remaining term to maturity; sector or industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

The Corporation has limited historical data with no loss experience and external benchmark information is used to supplement the internally available data. This includes: Moody's Investors Service Default and Recovery Rates for the LGD models and Fitch Ratings' Transition and Default study for the PD models.

Loss allowance

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;

- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange translation for assets denominated in foreign currencies and other movements;
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the period

The following tables explain the changes in the loss allowance between the beginning and the end of the annual period due to these factors:

Loans and advances to banks		2018				
at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased credit impaired	Total	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	-	-	-	-	-	-
Impact of adopting IFRS 9	2,245	-	-	-	2,245	-
Net remeasurement of loss allowance	(1,027)	-	-	-	(1,027)	-
Balance at 31 December	1,218	-	-	-	1,218	-

Loans and advances to			2018				2017	
customers at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Individual	Collective	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at								
1 January 2018	63,198	-	-	-	63,198	-	41,862	41,862
Impact of adopting IFRS 9	(32,984)	34,760	-	-	1,776	-	-	-
Transfer to Stage 1	1,502	(1,502)	-	-	-	-	-	-
Transfer to Stage 2	(630)	630	-	-	-	-	-	-
Transfer to Stage 3	-	(4,590)	4,590	-	-	-	-	-
Net remeasurement of loss allowance	780	9,200	12,152	-	22,132	-	21,336	21,336
Financial assets that have								
been derecognised	-	(193)	-	-	(193)	-	-	-
Balance at 31 December	31,866	38,305	16,742	-	86,913	-	63,198	63,198

Loans and advances to		2018					2017			
customers at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Individual	Collective	Total		
Project finance loans	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		
Loss allowance as at 1 January 2018	56,648	-	-	-	56,648	-	38,242	38,242		
Impact of adopting IFRS 9	(36,072)	34,566	-	-	(1,506)	-	-	-		
Transfer to Stage 1	1,502	(1,502)	-	-	-	-	-	-		
Transfer to Stage 2	(630)	630	-	-	-	-	-	-		
Transfer to Stage 3	-	(4,590)	4,590	-	-	-	-	-		
Net remeasurement of loss allowance	1,038	9,201	12,152	-	22,391	-	18,406	18,406		
Balance at 31 December	22,486	38,305	16,742	-	77,533	-	56,648	56,648		

Loans and advances to		2018				2017		
customers at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Individual	Collective	Total
Trade finance loans	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	6,550	-	-	-	6,550	-	3,620	3,620
Impact of adopting IFRS 9	3,088	193	-	-	3,281	-	-	-
Net remeasurement of loss allowance	(258)	-	-	-	(258)	-	2,930	2,930
Financial assets that have bee								
derecognised	-	(193)	-	-	(193)	-	-	-
Balance at 31 December	9,380	-	-	-	9,380	-	6,550	6,550

		2018						
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Total		
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		
Loss allowance as at 1 January 2018	-	-	-	-	-	-		
Impact of adopting IFRS 9	11,146	-	-	-	11,146	-		
Net remeasurement of loss allowance	1,174	-	-	-	1,174	-		
Balance at 31 December	12,320	-	-	-	12,320	-		

		2018						
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Total		
Corporate debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000		
Loss allowance as at 1 January 2018	_	_	_		_	-		
Impact of adopting IFRS 9	8,260	-	-	-	8,260	-		
Net remeasurement of loss allowance	600	-	-	-	600	-		
Balance at 31 December	8,860	-	-	-	8,860	-		

			2017			
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Total
Government debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	-	-	-	-	-	-
Impact of adopting IFRS 9	2,886	-	-	-	2,886	-
Net remeasurement of loss allowance	574	-	-	-	574	-
Balance at 31 December	3,460	-	-	-	3,460	-

			2018			2017
Investment securities at FVOCI:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Total
Corporate debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	-	-	-	-	-	-
Impact of adopting IFRS 9	78	-	-	-	78	-
Net remeasurement of loss allowance	(18)	-	-	-	(18)	-
Balance at 31 December	60	-	-	-	60	-
			2018			2017
Pledged assets:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Total
Debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	_	_	_	_	_	_
Impact of adopting IFRS 9	4,275	-	-	-	4,275	
Net remeasurement of loss allowance	(1,698)	-	-	-	(1,698)	-
Balance at 31 December	2,577	-	-	-	2,577	-
			2018			2017
Pledged assets:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Total
Corporate debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	_	_	_	_	_	_
Impact of adopting IFRS 9	3,353	-	-	-	3,353	-
Net remeasurement of loss allowance	(1,608)	-	-	-	(1,608)	-
Balance at 31 December	1,745	-	-	-	1,745	-
			2018			2017
Pledged assets:	Stage 1	Stage 2	Stage 3	Purchased	Total	Total
				credit- impaired		
Government debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	-	-	_	-	_	_
Ilmpact of adopting IFRS 9	922	-	-	-	922	-
Net remeasurement of loss allowance	(90)	-	-	-	(90)	-
Balance at 31 December	832	-	-	-	832	-
			2018			2017
Commitments:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Total	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January 2018	-	-	-	-	-	-
Impact of adopting IFRS 9	678				678	-
Net remeasurement of loss allowance	473	-	-	-	473	-
Balance at 31 December	1,151	-	-	-	1,151	-

Credit-impaired financial assets (2017: impaired financial assets)

See accounting policy in Note 2.8. Credit-impaired loans and advances are graded 10 in the Corporation's internal credit risk grading system (see Note 3.1.6 above).

The following table sets out a reconciliation of changes in the net carrying amount of credit impaired (2017: impaired) loans and advances to customers.

	2018 Total US\$'000	2017 Total US\$'000
Credit-impaired (2017: impaired) loans and		
advances to customers at 1 January	-	-
Classified as credit-impaired during the year	52,567	-
Change in allowance for impairment	(16,742)	-
Balance at 31 December	35,825	-

Modified financial assets

The following table provides information on financial assets that were modified while they had a loss allowance measured at an amount equal to lifetime ECL.

2018 Total US\$'000
17,424 651

Write-off policy

In the normal course of business, financial assets (including loans, debt securities and receivables) may become unrecoverable when the likelihood of repayment by a counterparty is non-existent and the financial asset cannot be realized. Circumstances which may lead to financial assets becoming unrecoverable include but not limited to:

- insolvency of the counterparty / guarantor
- permanent diminution in the value of collateral
- unenforceable debt recovery actions; and
- debts that are uneconomical to pursue for recovery.

Management must demonstrate that appropriate and sufficient effort has been made to recover the financial assets. Financial assets will be recommended for write-off only after recovery efforts have proved unsuccessful and further action is either not cost effective or highly unlikely to succeed.

The Chief Risk Officer, together with the responsible division head will recommend the write-off to the Board Risk and Investment Committee for approval.

Concentration of risks of financial assets with credit risk exposure

Geographical sectors

The Corporation manages concentration risk using the Exposure Limits Framework (ELF) as part of its credit risk management policies. The ELF proposes a portfolio diversification strategy for the Corporation in order to avoid 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 ELF defines sector exposure limits, single obligor exposure limits and single country exposure limits. In line with best practices, the exposure limits are linked to AFC's total investable fund, that is the shareholders' funds plus retained earnings plus borrowings with a remaining maturity exceeding one year, and the pace at which these Board approved limits are consumed is dependent on the Corporation's risk appetite. The following table analyses the Corporation's main credit exposures at their carrying amounts, categorised by geographical region, as at 31 December 2018. The Corporation has allocated exposures to regions based on the country of domicile of its counterparties.

31 December 2018	West Africa	Rest of Africa	Outside Africa	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with banks:				
Balances with banks	7,250	-	18,804	26,054
Loans and advances to banks:				
- Placements with banks	46,068	50,467	1,501,866	1,598,401
Derivative financial instruments	568	2,774	1,980	5,322
Loans and advances to other customers:				
- Project finance	575,432	404,128	-	979,560
- Trade finance	182,312	177,897	-	360,209
Financial assets at fair value				
through profit or loss:				
- Hybrid instruments (convertible debt)	29,986	35,816	-	65,802
- Asset under management (debt securities)	-	-	19,829	19,829
Investment securities:				
- Corporate debt securities	208,025	70,591	75,051	353,727
- Government debt securities	175,201	121,790	-	296,991
Pledged assets:				
- Corporate debt securities	64,052	-	-	64,052
- Government debt securities	32,393	62,462	-	94,855
Other assets:				
- Account receivable	12,301	-	-	12,301
- Fee receivable	11,939	-	-	11,939
	1,345,527	925,925	1,617,530	3,889,042
Commitments	215,916	13,348	-	229,264

31 December 2017	West Africa	Rest of Africa	Outside Africa	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with banks: Balances with banks	13,425	-	15,750	29,175
Loans and advances to banks: - Placements with banks Derivative financial instruments	140,269 36	4,366	1,330,988 1,294	1,471,257 5,696
Loans and advances to other customers: - Project finance - Trade finance	431,919 308,949	365,792 55,762	-	797,711 364,711
Financial assets at fair value through profit or la - Hybrid instruments (convertible debt) - Asset under management (debts)	27,799	41,450	- 19,729	69,249 19,729
Investment securities: - Corporate debt securities - Government debt securities	210,864 152,445	20,233 51,054	-	231,097 203,499
Pledged assets: - Corporate debt securities - Government debt securities	114,249 46,742	62,845	-	114,249 109,587
Other assets: - Account receivable	2,835	31,089	-	33,924
	1,449,532	632,591	1,367,761	3,449,884
Commitments	45,171	53,874	-	99,045

31 December 2018	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:						
Balances with banks	-	-	-	-	26,054	26,054
Loans and advances to banks:						
- Placements with banks	-	-	-	-	1,598,401	1,598,401
Derivative financial assets	-	-	-	-	5,322	5,322
Loans and advances to other customers:						
- Project finance	295,961	291,834	250,850	140,915		979,560
- Trade finance	93,789	15,636	_	_	250,784	360,209
Financial assets at fair value						
through profit or loss:						
- Hybrid instruments (convertible debt)	29,986	35,816	-	-	-	65,802
- Asset under management (debts)	-	-	-	-	19,829	19,829
Investment securities:						
- Corporate debt securities	-	39,060	22,794	-	291,873	353,727
- Government debt securities					296,991	296,991
Pledged assets:						
- Corporate debt securities	-	-	-	-	64,052	64,052
- Government debt securities	-	-	-	-	94,855	94,855
Other assets:						
- Account receivable	-	-	-	-	12,301	12,301
- Fee receivable	-	-	-	-	11,939	11,939
	419,736	382,346	273,644	140,915	2,672,401	3,889,042
Commitments	20,000	-	175,325	14,431	19,508	229,264

31 December 2018	Natural Resources US\$'000	Heavy Industry & Telecoms US\$'000		Transport US\$'000	Financial Services & Others US\$'000	Total US\$'000
Cash and balances with banks:						
Balances with banks	-	_	_	-	29,175	29,175
Loans and advances to banks:						
- Placements with banks	-	-	-	-	1,471,257	1,471,257
Derivative financial assets	-	-	-	-	5,696	5,696
Loans and advances to other customers:						
- Project finance	388,263	71,914	246,693	90,841	-	797,711
- Trade finance	148,774	79,266	-	-	136,671	364,711
Financial assets at fair value						
through profit or loss:						
- Hybrid instruments (convertible debt)	27,799	41,450	-	-	-	69,249
- Asset under management (debts)	-	-	-	-	19,729	19,729
Investment securities:						
- Corporate debt securities	-	37,854	22,649	-	170,594	231,097
- Government debt securities	-	-	-	-	203,499	203,499
Pledged assets:						
- Corporate debt securities	-	-	-	-	114,249	114,249
- Government debt securities	-	-	-	-	109,587	109,587
Other assets:						
- Account receivable	-	-	-	-	33,924	33,924
	564,836	230,484	269,342	90,841	2,294,381	3,449,884
Commitments	11,574	-	66,492	-	20,979	99,045

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.

The Corporation's portfolio comprises majorly of non-trading portfolios. The principal risk to which nontrading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. ALCO is the monitoring body for compliance with these limits and is assisted by the Risk Management Unit in its day-today monitoring activities. These day-to-day activities include monitoring changes in the Corporation's interest rate exposures, which include the impact of the Corporation's outstanding or forecast debt obligations.

3.2.1 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 2018. Included in the table are the Corporation's financial instruments at carrying amounts, categorised by currency.

31 December 2018	US dollars US\$'000	Others US\$'000	Total US\$'000
Assets			
Cash and balances with banks	17,100	8,980	26,080
Loans and advances to banks	1,586,440	11,961	1,598,401
Derivative financial assets	5,322	-	5,322
Loans and advances to other customers	1,097,259	242,510	1,339,769
Financial assets at fair value			
through profit or loss	505,766	96,770	602,536
Investment securities	594,292	130,585	724,877
Pledged assets	158,907	-	158,907
Other assets	13,459	10,781	24,240
Total financial assets	3,978,545	501,587	4,480,132
Borrowings	2,715,413	186,528	2,901,941
Derivative financial liabilities	3,707	, -	3,707
Accrued expenses and other liabilities	18,695	8,310	27,005
Total financial liabilities	2,737,815	194,838	2,932,653
Net financial position	1,240,730	306,749	1,547,479
Commitments	229,264	17,696	246,960

The following analysis shows the Corporation's sensitivity to increases or decreases in exchange rates. The analysis assumes that all other variables, in particular interest rates, remain constant. The sensitivity of profit or loss to changes in the exchange rates arises mainly from monetary financial instruments and investments in equity securities carried at fair value through profit or loss and the impact on other components of equity arises from investments classified as fair value through OCI (2017: available for sale).

31 December 2018	US dollars US\$'000	Others US\$'000	Total US\$'000
Impact on Profit or loss			
Sensitivity at 200bp US dollar depreciation	-	6,135	6,135
Sensitivity at 400bp US dollar appreciation	-	(12,270)	(12,270)
Impact on Equity			
Sensitivity at 200bp US dollar depreciation	-	6,135	6,135
Sensitivity at 400bp US dollar appreciation	-	(12,270)	(12,270)
31 December 2017	US dollars US\$'000	Others US\$'000	Total US\$′000
Assets			
Cash and balances with banks	19,837	9,369	29,206
Loans and advances to banks	1,433,162	38,095	,
Derivative financial instruments	5,696	-	5,696
Loans and advances to other customers	1,158,531	3,891	1,162,422
Financial assets at fair value			
through profit or loss	610,220	45,955	656,175
Investment securities	371,271	197,796	569,067
Pledged assets	223,836	-	223,836
Other assets	29,016	4,908	33,924
Total financial assets	3,851,569	300,014	4,151,583

31 December 2018	US dollars	Others	Total
	US\$'000	US\$'000	US\$'000
Borrowings Derivative financial instruments Accrued expenses and other liabilities Promissory notes	2,303,925 10,444 26,396 131,919	179,467 - 1,777	2,483,392 10,444 28,173 131,919
Total financial liabilities	2,472,684	181,244	2,653,928
Net financial position Commitments	1,378,885	118,770	1,497,655
	113,066	-	113,066

The following analysis shows the Corporation's sensitivity to increases or decreases in exchange

Impact	on	Pr	0	fi	t	0	r	lo	oss	
_			_							

Sensitivity at 200bp US dollar depreciation Sensitivity at 400bp US dollar appreciation	-	91 <i>7</i> (1,834)	917 (1,834)
Impact on Equity			
Sensitivity at 200bp US dollar depreciation	-	2,375	2,375
Sensitivity at 400bp US dollar appreciation	-	(4,751)	(4,751)

Currency exposures emanating from AFC's investment portfolio are hedged in line with the Corporatio's policy on hedging. As at 31 December 2018, the net open FX position was US\$1,120,327 (December 2017: US\$30,474,009) representing 0.1% (December 2017: 2.0%) of shareholders' funds as of that date.

3.2.2 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 2018				
Repricing dates	Up to 3 months US\$'000	Above 3 months US\$'000	Non-Interest Bearing US\$'000	Total US\$′000
Assets				
Cash and balances with banks	-	-	26,080	26,080
Loans and advances to banks	1,489,046	109,355	-	1,598,401
Derivative financial instruments	-	-	5,322	5,322
Loans and advances to customers	658,411	681,358		1,339,769
Financial assets at fair value through profit or loss	35,815	49,815	516,906	602,536
Investment securities	75,050	575,667	74,160	724,877
Pledged assets Other assets	-	158,907	24,240	158,907 24,240
Total financial assets	2,258,322	1,575,102		4,480,132
			•	
Liabilities				
Borrowings	1,296,646	1,605,295	-	2,901,941
Derivative financial instruments	-	-	3,707	
Other liabilities	-	-	27,005	
Total financial liabilities	1,296,646	1,605,295	30,712	2,932,653
Total interest repricing gap	961,676	(30,193)	615,996	1,547,479
As at 31 December 2017				
Repricing dates	Up to 3 months US\$'000	Above 3 months US\$'000	Non-Interest Bearing US\$'000	Total US\$′000
	•			Total US\$'000
Assets	months	months	Bearing US\$'000	US\$'000
	months US\$'000	months	Bearing	US\$'000 29,206
Assets Cash and balances with banks	months	months	Bearing US\$'000	US\$'000
Assets Cash and balances with banks Loans and advances to banks	months US\$'000	months US\$'000	Bearing US\$'000	29,206 1,471,257
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss	months US\$'000	months US\$'000 - - 182,130 88,978	29,206 - 5,696 - 567,197	29,206 1,471,257 5,696 1,162,422 656,175
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities	months US\$'000	months US\$'000 - - 182,130 88,978 434,596	29,206 - 5,696	29,206 1,471,257 5,696 1,162,422 656,175 569,067
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets	months US\$'000	months US\$'000 - - 182,130 88,978	29,206 - 5,696 - 567,197 134,471	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets	months US\$'000 - 1,471,257 - 980,292 - - -	months US\$'000 - - 182,130 88,978 434,596 223,836	29,206 - 5,696 - 567,197 134,471 - 33,924	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets	months US\$'000	months US\$'000 - - 182,130 88,978 434,596	29,206 - 5,696 - 567,197 134,471 - 33,924	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets Total financial assets	months US\$'000 - 1,471,257 - 980,292 - - -	months US\$'000 - - 182,130 88,978 434,596 223,836	29,206 - 5,696 - 567,197 134,471 - 33,924	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets	months US\$'000 - 1,471,257 - 980,292 - - - - - 2,451,549	months US\$'000 - - 182,130 88,978 434,596 223,836 - 929,540	29,206 - 5,696 - 567,197 134,471 - 33,924	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets Total financial assets Liabilities	months US\$'000 - 1,471,257 - 980,292 - - - - - 2,451,549	months US\$'000 - - 182,130 88,978 434,596 223,836	29,206 - 5,696 - 567,197 134,471 - 33,924	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924 4,151,583
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets Total financial assets Liabilities Borrowings Derivative financial instruments Promissory notes	months US\$'000 - 1,471,257 - 980,292 - - - - - 2,451,549	months US\$'000 - - 182,130 88,978 434,596 223,836 - 929,540	8earing US\$'000 29,206 - 5,696 - 567,197 134,471 - 33,924 770,494	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924 4,151,583 2,483,392 10,444 131,919
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets Total financial assets Liabilities Borrowings Derivative financial instruments	months US\$'000 - 1,471,257 - 980,292 - - - - - 2,451,549	months US\$'000 - - 182,130 88,978 434,596 223,836 - 929,540	8earing US\$'000 29,206 - 5,696 - 567,197 134,471 - 33,924 770,494	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924 4,151,583 2,483,392 10,444
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets Total financial assets Liabilities Borrowings Derivative financial instruments Promissory notes	months US\$'000 - 1,471,257 - 980,292 - - - - - 2,451,549 - 819,414 - -	months US\$'000 - - 182,130 88,978 434,596 223,836 - 929,540	8earing US\$'000 29,206 - 5,696 - 567,197 134,471 - 33,924 770,494 - 10,444 - 28,173	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924 4,151,583 2,483,392 10,444 131,919
Assets Cash and balances with banks Loans and advances to banks Derivative financial instruments Loans and advances to customers Financial assets at fair value through profit or loss Investment securities Pledged assets Other assets Total financial assets Liabilities Borrowings Derivative financial instruments Promissory notes Other liabilities	months US\$'000 - 1,471,257 - 980,292 - - - - - 2,451,549 - 819,414 - -	months US\$'000 - - 182,130 88,978 434,596 223,836 - 929,540 1,663,978 - 131,919	8earing US\$'000 29,206 - 5,696 - 567,197 134,471 - 33,924 770,494 - 10,444 - 28,173	29,206 1,471,257 5,696 1,162,422 656,175 569,067 223,836 33,924 4,151,583 2,483,392 10,444 131,919 28,173 2,653,928

Interest rate sensitivities

The management of interest rate risk against interest rate gap limits is supplemented by the sensitivity of the Corporation's financial assets and liabilities to various standard interest rate scenarios. The table below shows an analysis of the sensitivity of the Corporation's Profit or Loss and Other Comprehensive Income to an increase or decrease in market interest rates, assuming no asymmetrical movement in yield curves and a constant balance sheet position. However, for the

purpose of sensitivity analysis, we have used a conservative assumption of 50 basis point (bp) parallel fall or rise in interest rates of the financial assets and liabilities.

In US\$'000	50 bp parallel increase	50 bp parallel decrease
Sensitivity of reported Profit or Loss for the year		
2017	8	25
2018	4,603	4,603
Sensitivity of reported Equity for the year		
2017	11	21
2018	4,603	4,603

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
- 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. HQLA generally include cash, inter-bank placements and certain marketable securities backed by sovereigns and central banks. These assets are typically of the highest quality and the most liquid, and there is no limit on the extent to which these assets are held to meet the LCR. Other HQLA assets include government securities and corporate debt securities. The assets held for managing liquidity risk are comprise:

	Carrying amount US\$'000	2018 Fair value US\$'000	2017 Carrying amount US\$'000	Fair value US\$'000
Cash and balances with banks	26,080	26,080	29,206	29,206
Loans and advances to banks	1,598,401	1,598,401	1,471,257	1,471,257
Investment securities	152,830	153,744	-	-
Total liquidity reserves	1,777,311	1,778,225	1,500,463	1,500,463

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 2018, the LCR was under stress scenario 354% (December 2017: 296%) and under normal circumstances 143% (December 2017: 303%).

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 which include estimated interest payments non-derivative financial liabilities and financial assets. Commitments are disclosed on the basis of the earliest possible contractual maturity while the contractual undiscounted cash flows are disclosed for derivative assets and liabilities. That is the gross nominal inflows and outflows for derivatives that have simultaneous gross settlement (e.g. forward exchange contracts and currency swaps) and the net amounts for derivatives that are net settled.

As at 31 December 2018

All figures in US\$'000	Carrying amount	Within 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2yrs	2 -5 yrs	Above 5 yrs	nominal amount
Cash and balances with banks	26,080	26,080	-	-	_	-	_	-	26,080
Loans and advances to banks	1,598,401	1,428,847	4,878	45,535	129,575	-	-	-	1,608,835
Derivative assets: - Forward contracts - Interest Rate Options - Interest Rate Swaps	850 1,158	-	173 -	677 183	- 447	- 359	-	-	850 989
Inflows - Outflows -	2,774	8 -	136 (137)	-	-	404 (423)	2,164 (2,976)	6,191 (2,969)	8,903 (6,505)
- Cross currency swaps Inflows - Outflows -	540	-	(308)	775 (261)	890 (598)	7,157 (7,386)	3,634 (3,677)	-	12,456 (12,230)
Financial assets at fair value through profit or loss	602,536	-	19,829	-	-	-	65,802	516,905	602,536
Loans and advances to other customers	1,339,769	78,833	178,502	208,891	129,976	167,421	431,599	743,561	1,938,783
Investment securities	724,877	675	87,850	163,549	32,918	20,247	364,926	166,279	836,444
Pledged assets	158,907	1,820	19,489	9,243	6,765	13,529	101,642	69,321	221,809
Other assets	24,240	24,240	-	-	-	-	-	-	24,240
Total financial assets	4,480,132	1,560,503	310,412	428,592	299,973	201,308	963,114	1,499,288	5,263,190

All figures in US\$'000	Carrying amount	Within 1 months	1 to 3 months			1 to 2yrs	2 -5 yrs	Above 5 yrs	Gross nominal amount
Other liabilities	27,005	-	-	27,005	-	-	-	-	27,005
Borrowings	2,901,941	8,524	35,982	79,986	227,832	1,120,452	1,121,695	661,316	3,255,787
Derivative liabilities:									
- Forward contracts	477	-	-	477	-	-	-	-	477
- Interest Rate Options	1,157	-	-	183	447	359			989
- Interest Rate Swaps								-	-
Inflows -	-		(1)	-	-	(19)	(813)	(5,673)	(6,506)
Outflows -	312	-	102	-	-	302	1,618	4,630	6,652
- Cross currency swaps									
Inflows -		-	(241)	(270)	(106,392)	(996)	(38,950)	-	(146,849)
Outflows -	1,761	-	805	3,474	105,835	3,002	35,339	-	148,455
Total financial liabilities	2,932,653	8,524	36,647	110,855	227,722	1,123,100	1,118,889	660,273	3,286,010
Commitments	246,960	-	-	21,808	-	-	20,000	205,152	246,960
Funding gap	-	1,551,979	273,765	295,929	72,251	(921,792)	(175,775)	633,863	1,730,220
Cumulative funding gap	-	1,551,979	1,825,744	2,121,673	2,193,924	1,272,132	1,096,357	1,730,220	-

As at 31 December 2017

All figures in US\$'000	Carrying amount	Within 1 months	1 to 3 months	3 to 6 months	6 to 12 months	1 to 2yrs	2 -5 yrs	Above 5 yrs	
Cash and balances with banks	29,206	29,206	-	-	-	-	-	-	29,206
Loans and advances to banks	1,471,257	996,556	197,492	135,278	152,998	-	-	-	1,482,324
Derivative financial instruments	5,696	-	-	-	224	1,232	4,240	-	5,696
Financial assets at fair value through profit or loss	656,175	-	19,729	-	-	-	69,249	567,197	656,175
Loans and advances to other customers	1,162,422	92,442	29,824	87,184	248,992	230,348	604,113	273,298	1,566,201
Investment securities	569,067	3,127	643	125,353	99,678	165,486	178,402	232,230	804,919
Pledged assets	223,836	-	-	-	40,461	23,366	81,113	78,896	223,836
Other assets	33,924	33,924	-	-	-	-	-	-	33,924
Total financial assets	4,151,583	1,155,255	247,688	347,815	542,353	420,432	937,117	1,151,621	4,802,281
Other liabilities	28,173	-	-	-	28,173	-	-	-	28,173
Borrowings	2,483,392	2,189	33,353	198,574	74,253	212,223	1,446,295	629,304	2,596,191
Promissory notes	131,919	-	-	-	-	9,234	141,153	-	150,387
Derivative liabilities: - Forward contracts - Cross currency swaps	1,784	-	-	641	1,143	-	-	-	1,784
Inflows - Outflows -	8,660	132 (924)	-	165 (912)	1,265 (6,210)	110,582 (109,931)	39,812 (42,333)	-	151,956 (160,310)
Total financial liabilities		1,397	33,353	198,468	98,624	222,108	1,584,927	629,304	2,768,181
Commitments	113,066	-	8,196	-	20,979	11,574	72,317	-	113,066
Funding gap	-	1,153,858	206,139	149,347	422,750	186,750	(720,127)	522,317	1,921,034
Cumulative funding gap	-	1,153,858	1,359,997	1,509,344	1,932,094	2,118,844	1,398,717	1,921,034	-

Financial assets available to support future funding

The following table sets out the availability of the Corporation's financial assets to support future funding.

		31 December 2018			
	Note	Encumbered US\$'000	Unemcumbered US\$'000	Total US\$′000	
Cash and balances with banks	15	-	26,080	26,080	
Loans and advances to banks	16	-	1,598,401	1,598,401	
Loans and advances to customers	18	-	1,339,769	1,339,769	
Financial assets at fair value through profit or loss		-	85,631	85,631	
Investment securities		-	650,718	650,718	
Pledged assets	21	158,907	-	158,907	
Other assets	22	-	24,240	24,240	
Total assets		158,907	3,724,839	3,883,746	

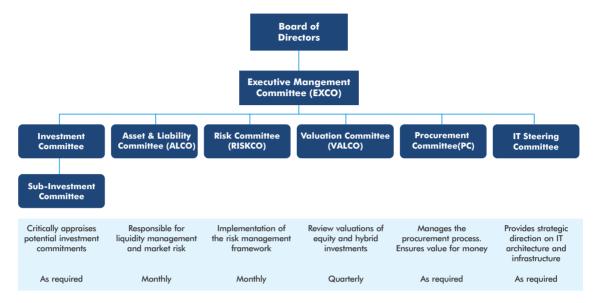
		31 December 2017				
	Note	Encumbered US\$'000	Unemcumbered US\$'000	Total US\$'000		
		034 000	034 000	034 000		
Cash and balances with banks	15		29,206	29,206		
Loans and advances to banks	16		1,471,257	1,471,257		
Loans and advances to customers	18		1,162,422	1,162,422		
Financial assets at fair value through profit or loss			88,978	88,978		
Investment securities			434,596	434,596		
Pledged assets	21	223,836	-	223,836		
Other assets	22		33,924	33,924		
Total assets		223,836	3,220,383	3,444,219		

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 represent the reporting structures of the various Board committees within the Corporation.



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.



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 Division and currently comprises of Tier 1 (93%) and Tier 2 (7%) capital as shown below:

- Tier 1: Comprises of share capital, retained earnings and reserves created by appropriations of retained earnings.
- Comprises of unrealised gains arising from 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 2018. The Corporation has no externally imposed capital requirements, but complied with its own internal capital adequacy requirements described above, during the year under review.

3	1 December 2018 US\$'000	31 December 2017 US\$'000	
Tier 1 capital			
Share capital	1,096,395	1,095,343	
Share premium	4,713	3,765	
Retained earnings	425,899	372,088	
Total qualifying Tier 1 capital	1,527,007	1,471,196	
Tier 2 capital			
Net fair valuation gain on FVOCI assets	25,652	36,111	
Expected credit loss impairment allowance	87,496	63,198	
Total qualifying capital	1,640,155	1,570,505	
Risk-weighted assets:			
On-balance sheet	4,122,332	3,782,643	
Off-balance sheet	66,288	56,533	
Total risk-weighted assets	4,188,620	3,839,176	
Basel ratio	39.2%	40.9%	

Fair value of financial assets and liabilities 3.5

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
- 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 2018, 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 2018

	Level 1	Level 2	Level 3
	US\$'000	US\$'000	US\$'000
Assets			
Derivatives assets			
- Forward contracts	-	851	-
- Cross currency swaps	-	1,157	-
- Interest rate options	-	540	-
Interest rate swaps	-	2,774	-
Financial assets at fair value through profit or loss:			
- Assets under management (debt)	19,829	-	-
- Hybrid instrument (convertible debt)	-	35,816	29,986
- Equity securities	-	-	516,905
Investment securities:			
- Equity securities (FVOCI)	-	-	74,159
- Corporate debt securities	4,195	-	-
Total	24,024	41,138	621,050
Liabilities			
Derivatives Liabilities:			
- Forward contracts	-	477	-
- Interest rate options		1,157	-
- Cross currency swaps	-	1,761	-
- Interest rate swaps	-	312	-
Borrowings at fair value	-	9,195	-
	-	12,902	_

31 December 2017

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
Assets			
Derivatives assets			
- Futures contracts	-	36	-
- Cross currency swaps	-	1,294	-
- Interest rate swaps	-	741	-
- Share warrants	-	-	4,240
- Options contracts	-	126	-
- Forward contracts			
Financial assets at fair value through profit or loss:			
- Assets under management	19,729	-	-
- Hybrid instrument (convertible debt)	-	27,799	41,450
- Equity securities	-	-	567,197
Investment securities:			
- Equity securities (FVOCI)	-	-	134,471
- Corporate debt securities	4,159	-	-
Total	23,888	29,996	747,358
Liabilities			
Derivatives Liabilities:			
- Forward contracts	-	1,784	-
- Cross currency swaps	-	8,660	-
Borrowings at fair value	-	10,793	-
	-	21,237	-

The Corporation's policy is to recognise transfers into and transfers out of fair value hierarchy levels as at the end of the reporting period. There were no transfers between levels 1 and 2 for recurring fair value measurements during the year.

Level 2 fair value measurements

The foreign exchange forward contracts and interest rate swaps were valued using widely recognised valuation models that use only observable market data and require little management judgement and estimation. The option contracts were valued using the Black Scholes option pricing model. Assumptions and inputs used include risk-free and benchmark interest rates, credit spreads and other premia used in estimating discount rates, foreign currency exchange rates, and expected price volatilities and correlations.

The hybrid instrument was valued using zero rate curve obtained from an observable financial market (2017: the price of a recent transaction was used to value the hybrid instrument).

Level 3 fair value measurements

There were no transfers out of level 3 measurements during the year, see reconciliation below:

Reconciliation of Level 3 items

	December 2018 US\$'000	31 December 2017 US\$'000
At beginning of year	747,358	423,690
Unrealised (losses)/gains:	747,330	423,070
- in OCI	(10,426)	8,535
- in Profit or loss	(11,913)	66,088
Cancellation of promissory note	(126,857)	-
Impairment loss	-	(26,485)
Repayment/disposal	(3,883)	(27,404)
Additions	28,844	292,507
Exchange gains	(2,073)	10,427
At end of year	621,050	747,358

Unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used as at 31 December 2018 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

Type of financial instrument	Fair value as at 31 Dec 2018 (US\$'000)	Valuation technique	Significant unobservable input	Range of estimates for unobservable input	Fair value measurement sensitivity to unobservable inputs
Unquoted equity securities	501.044	Discounted	Cost of equity	8.70% - 16.1%	Significant increases in the cost of equity, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
	591,064	cashflow	Terminal growth rate	0% - 2%	Significant increases in terminal growth rate, in isolation, would result in higher fair values. Significant reduction would result in lower fair values.
Hybrid instruments	29,986	Option Pricing Model	Credit Spread	5% – 9%	Significant increases in credit spread, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
Total	621,050	-	-	-	-

Type of financial instrument	Fair value as at 31 Dec 2017 (US\$'000)	Valuation technique	Significant unobservable input	Range of estimates for unobservable input	Fair value measurement sensitivity to unobservable inputs
Aguity /() 668 -		Discounted	Cost of equity	11.69% - 22%	Significant increases in the cost of equity, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
	cashflow	Terminal growth rate	0% - 2%	Significant increases in terminal growth rate, in isolation, would result in higher fair values. Significant reduction would result in lower fair values.	
		Option 41,450 Pricing Model	Volatility	30% – 40%	Significant increases in volatility, in isolation, would result in higher fair values. Significant reduction would result in lower fair values.
Hybrid instruments	41,450		Credit Spread	5% – 9%	Significant increases in credit spread, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
Shava	Share warrants 4,240	Option	Volatility	40% – 50%	Significant increases in volatility, in isolation, would result in higher fair values. Significant reduction would result in lower fair values.
l l		Pricing Model	Dividend Yield	12% - 18%	Significant increases in dividend yield, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
Total	747,358	-	-	-	-

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.
- The risk-free rate was determined using the yield on the US Government bond and Germany Government bond (for Euro-denominated assets) of the appropriate tenor and this was adjusted for

- country risk premium (for unquoted securities denominated in US Dollars and Euros)
- iii. Equity risk premium was determined based on data obtained from Damodaran Online and expert judgment.
- iv. Beta estimates were obtained from Damodaran Online and illiquidity and minority discounts applied in line with valuation best practices.

The effect of unobservable inputs on fair value measurement

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 - 2018		on Other sive Income			
Key Assumption	1% Increase	1% Decrease	1% Increase	1% Decrease	
Cost of equity	(19,089)	23,615	(17,363)	21,828	
Terminal growth rate	(6,900)	3,834	(6,900)	3,834	

US\$'000 - 2017		on Other sive Income	Effect on profit or loss		
Key Assumption	1% Increase	1% Decrease	1% Increase	1% Decrease	
Cost of equity	(5,127)	5,578	(23,963)	27,748	
Terminal growth rate	31	(31)	1,441	(3,905)	

For the Corporation's hybrid instruments, the following highlights the sensitivity of the fair value of these instruments to key input factors as at reporting date:

Key Assumption	US\$'000 - 2018 (Effect on Profit or Loss)
2% increase in Credit Spread	(2,947)
2% decrease in Credit Spread	3,125

Key Assumption	US\$'000 - 2017 (Effect on Profit or Loss)
5% increase in Volatility and 1% increase in Credit Spread	1,447
5% decrease in Volatility and 1% decrease in Credit Spread	(1,433)

Derivative credit (CVA) and debit valuation adjustments (DVA)

The effect of CVA/DVA adjustments is insignificant on the Corporation's portfolio.

Financial instruments not measured at fair value

Due to the short-term nature of certain financial assets and financial liabilities, the fair values are not significantly different from their carrying amounts. These financial assets and liabilities are as follows:

- Cash and bank balances: The carrying amount of cash and bank balances is a reasonable approximation of the fair value. Cash and bank balances are disclosed in note 15.
- ii. Loans and advances to bank: Loans to banks are short-term money market placements, therefore the fair values are not significantly different from the carrying amount.
- iii. Trade finance loans: Trade finance loans are receivable within 12 months from the end of the reporting period, therefore the fair values are not significantly different from the carrying amount.
- iv. Treasury bills are short-term securities, therefore the fair values are not significantly different from the carrying amount.
- Other assets and other liabilities: The carrying amounts of other assets and other liabilities are considered to be the same as their fair values due to their short-term nature.

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 2018

or becomber 2010	Level 1	Level 2	Level 3	Total fair values	Total carrying values
Assets	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loans and advances to other customers:					
- Project finance	-	-	979,560	979,560	979,560
Investment securities:					
- Corporate debt securities	200,888	-	148,623	349,511	353,727
- Government debt securities	213,823	-	30,118	243,941	269,991
Pledged assets:					
- Corporate debt securities	67,129	-	-	67,129	64,052
- Government debt securities	93,451	-	-	93,451	94,855
Total	575,291	-	1,158,301	1,733,592	1,762,185
Liabilities					
Borrowings	1,582,387	1,298,264	-	2,880,651	2,901,941
Total	1,582,387	1,298,264	-	2,880,651	2,901,941

31 December 2017

	Level 1	Level 2	Level 3	Total fair values	Total carrying values
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Assets					
Loans and advances to other customers:					
- Project finance	-	-	797,711	797,711	797,711
Investment securities:					
- Corporate debt securities	175,121	-	60,503	235,624	231,097
-Government debt securities	212,332	-	-	212,332	203,499
Pledged assets:					
- Corporate debt securities	111,315	-	-	111,315	114,249
-Government debt securities	107,978	-	-	107,978	109,587
Total	606,746	-	858,214	1,464,960	1,456,143
Liabilities					
Borrowings	1,682,984	824,153	_	2,507,137	2,472,599
Promissory notes	-	131,919	-	131,919	131,919
Total	1,682,984	956,072	-	2,639,056	2,604,518

Where available, the fair value of investment securities (corporate and government debt 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.

Financial instruments by category 3.6

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

Assets as per Statement of Financial Position

31 December 2018

	Mandatorily FVTPL	Designated at FVTPL	- debt	FVOCI - equity instruments	FVOCI Amortised cost	Carrying amount
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Assets						
Cash and balances with banks	-	-	-	-	26,080	26,080
Loans and advances to banks:						
- Placements with banks	-	-	-	-	1,598,401	1,598,401
Derivatives	5,322	-	-	-	-	5,322
Loan and advances to other						
Customers:						
- Project finance	-	-	-	-	979,560	979,560
- Trade finance	-	-	-	-	360,209	360,209
Financial assets at fair value						
through profit or loss:						
- Hybrid instruments	65,802	-	-	-	-	65,802
- Equity securities	516,905	-	-	-	-	516,905
- Assets under management	-	19,829	-	-	-	19,829
Investment securities:						
- Debt securities	-	-	4,195	-	646,523	650,718
- Equity securities	-	-	-	74,159	-	74,159
Pledged assets:						
- Debt securities	-	_	-	-	158,907	158,907
Other assets:						
- Account receivable	-	_	-	-	12,301	12,301
- Fee receivable	-	-	-	-	11,939	11,939
Total financial assets	588,029	19,829	4,195	74,159	3,793,920	4,480,132

	Mandatorily FVTPL	Designated at FVTPL	Amortised cost	Carrying amount
	US\$'000	US\$'000	US\$'000	US\$'000
Other liabilities	-	-	27,005	27,005
Derivatives	3,707	-	-	3,707
Borrowings	-	9,195	2,892,746	2,901,941
Total financial liabilities	3,707	9,195	2,919,751	2,932,653

31 December 2017

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
	20.207				20.207
Cash and balances with banks	29,206	-	-	-	29,206
Loans and advances to banks:					
- Placements with banks	1,471,257	-	-	-	1,471,257
Derivatives	-	5,696	-	-	5,696
Loan and advances to other customers:					
- Project finance	797,711	-	-	-	797,711
- Trade finance	364,711	-	-	-	364,711
Financial assets at fair value					
through profit or loss	-	656,175	-	-	656,175
Investment securities:					
- Debt securities	60,503	-	4,159	369,934	434,596
- Equity securities	-	-	134,471	-	134,471
Pledged assets:					
- Debt securities	-	-	-	223,836	223,836
Other assets:					
- Account receivable	33,924	-	-	-	33,924
Net book amount	2,757,312	661,871	138,630	593,770	4,151,583

Liabilities as per Statement of Financial position

	Fair value through Profit or loss US\$'000	Amortised Cost US\$'000	Total US\$′000
Other liabilities	-	28,173	28,173
Derivatives	10,444	-	10,444
Promissory notes	-	131,919	131,919
Borrowings	10,793	2,472,599	2,483,392
Net book amount	21,237	2,632,691	2,653,928

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 2018 is set out in note 3.5 (fair value of financial assets and liabilities) in relation to the fair value of financial instruments, and in the following notes in relation to other areas.

(b) Impairment losses on loans and advances

Applicable from 1 January 2018

The measurement of the expected credit loss allowance for financial assets measured at amortized cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation techniques used in measuring ECL which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Applicable before 1 January 2018

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 the 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 performance 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, across the Corporation's risk asset portfolio.

	31 Decemb	er 2018	31 Decen	nber 2017
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
Effect of a 1% increase:	(395)	(395)	(632)	(632)
Effect of a 1% decrease:	714	714	632	632

(c) Impairment of equity investments measured at FVOCI (2017: available-for-sale)

The Corporation determines that FVOCI (2017: 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 practicable 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 and Joint Ventures

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 and Joint Ventures, 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 IFRS 9 (2017: IAS 39), with changes in fair value recognizsed 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 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 the Executive Management Committee (EXCO) and Board of Directors. The EXCO is responsible for assessing the financial performance and position of the Corporation and makes strategic decisions. The EXCO, which has been identified as being the chief operating decision maker, consists of the (a) President and Chief Executive Officer, (b) Executive Director and Chief Investment Officer, (c) Executive Director, Financial Services, (d) Director and Chief Financial Officer, (e) Director and Chief Risk Officer and (f) Director and General Counsel (currently in acting capacity). The 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 units primarily based on unit 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 information provided to the Corporation's Board for the reportable units for the year ended 31 December 2018 is as follows:

31 December 2018

	Investment US\$'000	Financial Services	Total
		US\$'000	US\$'000
Interest income	128,512	131,516	260,028
Dividend	15,912	-	15,912
Fee and commission income	12,961	1,973	14,934
Gain/(loss) on disposal of financial assets	15,744	-	15,744
Net (loss)/gain on financial instruments at			
fair value through profit or loss	(4,920)	3,950	(970)
Impairment charge	(22,394)	1,551	(20,843)
Interest & administrative expenses	(114,116)	(42,105)	(156,221)
Operating profit	31,699	96,885	128,584
Total Assets	1,801,785	2,685,693	4,487,478
Total liabilities	24,904	2,909,915	2,934,819
Expenditure on reportable segment:			
Non-current assets	639	393	1,032
Depreciation and amortisation	745	459	1,204

31 December 2017

	Investment	Financial Services	Total
	US\$'000	US\$'000	US\$'000
Interest income	140,009	93,934	233,943
Dividend	10,460	, -	10,460
Fee and commission income	16,300	3,010	19,310
Net gain on financial instruments at			
fair value through profit or loss	58,198	(933)	57,265
Loss on disposal of financial assets	(23,247)	-	(23,247)
Impairment	(63,077)	-	(63,077)
Interest & administrative expenses	(104,572)	(29,534)	(134,106)
Discontinued operations	(235)	-	(235)
Operating profit	33,836	66,477	100,313
Total Assets	1,855,238	2,306,574	4,161,812
Total liabilities	160,669	2,493,836	2,654,505
Expenditure on reportable segment:			
Non-current assets	790	486	1,276
Depreciation and amortisation	817	502	1,319

6. Interest income

	2018 US\$'000	2017 US\$'000
Loans and advances to other customers	140,072	134,448
Loans and advances to banks	44,609	51,132
Financial assets at FVTPL	6,878	5,561
Investment securities:		
- Financial assets at amortised cost	68,219	42,552
- Financial assets at fair value through OCI	250	250
	260,028	233,943
Interest expense		
Borrowings from financial institutions	44,468	35,694
Corporate bonds	64,575	55,520
	109,043	91,214
Net interest income	150,985	142,729

⁽i) The amounts reported above include interest income and expense, calculated using the effective interest method, that relate to the following financial assets and financial liabilities:

7.

8.

	2018 US\$'000	2017 US\$'000
Financial assets measured at;		
amortised cost	252,900	228,132
– FVTPL	6,878	5,561
FVOCI (2017: Available for sale)	250	250
Total interest income	260,028	233,943
Financial liabilities measured at amortised cost	108,635	90,904
Financial liabilitiesd measured at FVTPL	408	310
Total interest expense	109,043	91,214
Dividend income Equity securities at; FVOCI (2017: Available-for-sale securities) FVTPL	4,334 11,578	296 10,164
	15,912	10,460
Fees, commissions and other income		
Risk participation and commitment fees	1,508	833
Advisory and structuring fees	11,649	11,750
Facility and other fees	1,216	3,267
Development fees	561	3,460

a) Disaggregation of fee, commission and other income

In the following table, fee and commission income from contracts with customers in the scope of IFRS 15 is disaggregated by major type of services. The table also includes a reconciliation of the disaggregated fee and commission income with the Corporation's reportable segments (see Note 5)

14,934

19,310

US\$'000

Major service lines	In	vestment	Finc	ıncial Se	vices	Total
	2018	2017	2018	2017	2018	2017
- Risk participation and commitment fees	1,369	463	139	370	1,508	833
- Advisory fees	1,429	-	1,834	2,640	3,263	2,640
- Structuring fees	8,386	9,110	-	-	8,386	9,110
- Facility and other fees	1,216	3,267	-	-	1,216	3,267
- Development fees	561	3,460	-	-	561	3,460
Fee and commission income (Note 5)	12,961	16,300	1,973	3,010	14,934	19,310

b) The fees and commission presented in this note include income of US\$10.9 million (2017: US\$15.9 million) relating to financial assets not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets.

- c) Performance obligations and revenue recognition policies
 - i. Risk participation and commitment fees: these are fees earned on various unfunded risk participation programs with financial institutions, to facilitate trade transactions. Commitment fees are fees earned on commitments to provide debt or equity financing to counterparties and are recognised over the commitment period.
 - ii. Advisory fees: these are fees earned on mandates in which the Corporation acts in an advisory capacity. Revenue related to advisory mandates are recognised on a milestone basis, and success fees are recognised once the service under a given mandate is rendered.
 - iii. Structuring fees: these are fees earned on project finance transactions in which the Corporation plays a mandated lead arranger role, in a loan syndication finance arrangement. These fees are recognised at a point in time when the loan syndication is finalised.
 - iv. Facility and other fees: these are fees earned on agency services rendered by the Corporation. Revenue from facility and other fees is recognised as the services are provided.
 - v. Development fees: these are fees earned for developing a project and it is often a multiple of the amount spent on development costs.

	2018 US\$'000	2017 US\$'000
Net (loss)/gain on financial instruments at fair value through profit or loss		
Mandatorily measured at FVTPL: Derivatives held for risk management purposes: - Interest rate - Cross currency swap - Share warrants - Foreign exchange Equity investments Hybrid instruments	2,664 3,208 (4,240) 2,168 3,791 (8,711)	- 4,240 (1,370) 44,860 9,098
Designated at FVTPL: Asset under management	150	437
	(970)	57,265

10. Impairment charge/(write-back) on financial assets

Loans and advances to customers (Note 18(a))	21,939	21,336
Loans and advances to banks (Note 16)	(1,027)	-
Investment securities at amortised cost (Note 20(a))	1,174	-
Pledged assets at amortised cost (Note 21(i))	(1,698)	-
Financial assets at fair value through OCI:		
- Write-back/(charged) during the year	-	26,485
- Transferred from equity (OCI)	-	13,371
Off-balance sheet commitments (Note 25(ii))	455	-
Investments written off	-	1,885
	20,843	63,077

	2018 US\$'000	2017 US\$'000
11. Gain/(loss) on disposal of financial assets		
Equity securities:		
- Gain on disposal (see note (i) below)	15,744	2,186
- Transferred from equity (OCI)	-	19,365
Debt securities (see note (ii))	-	(44,798)
	15,744	(23,247)

- (i) Amount represents income realised from the sale of the investments in certain equity securities during the year, in line with the Corporation's exit strategy.
- (ii) In 2017, the loss on debt securities arose from the disposal of a credit-impaired bond during the year.

	2018 US\$'000	2017 US\$'000
2. Operating expenses		
Staff cost:		
Wages and salaries	28,633	25,785
Post-employment benefits	1,195	1,164
Other employee benefits	2,367	1,915
Other operating expenses:		
- Rent, rates and utilities	1,093	1,150
- Insurance	91	121
- Advertising and business promotion	1,121	2,371
- Auditor's remuneration	220	226
- Communication	429	676
- Travel	927	732
- Board expenses, including Directors' fees	1,082	1,137
- Training, seminars and conferences	641	676
- Repairs and maintenance	49	70
- Project and other transaction expenses	2,315	1,091
- Loan insurance expense	2,857	2,070
- Consultancy fees	1,326	1,162
- Other expenses	1,744	1,227
- Depreciation and amortisation	1,088	1,319
	47,178	42,892

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.

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.

	2018	2017
Profit attributable to equity holders of the		
Corporation from continuing operations (US\$'000)	128,584	100,548
Loss attributable to equity holders of the		
Corporation from discontinued operations (US\$'000)	-	(235)
Weighted average number of ordinary shares in issue ('000)	1,096,225	1,089,590
Basic earnings per share from continuing operations		
(expressed in US cents per share)	11.73	9.23
Basic loss per share from discontinued operations		
(expressed in US cents per share)	-	(0.02)

15. Cash and balances with banks

	2018 US\$'000	2017 US\$'000
Cash in hand	26	31
Balances with banks	26,054	29,175
	26,080	29,206

All cash and balances with commercial banks are current.

16. Loans and advances to banks

	2018 US\$'000	2017 US\$'000
Placements with banks Less: Allowance for impairment (See (a) below)	1,599,619 (1,218)	1,471,257 -
	1,598,401	1,471,257

All loans and advances to banks are current.

(a) The movement in ECL allowance is shown below:

	US\$'000	US\$'000
Opening	-	-
Opening IFRS 9 ECL adjustment	2,245	-
Write back of impairment allowance (Note 10)	(1,027)	-
	1,218	-

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.

2018	Assets US\$'000	Liabilities US\$'000	Notional US\$'000
Forward contracts	851	477	152,322
Cross currency swaps	540	1,761	111,719
Interest rate options	1,157	1,157	270,000
Interest rate swaps	2,774	312	114,520
	5,322	3,707	648,561
Current	1,390	2,239	
Non-current	3,932	1,468	
2017			
Options contracts	126	-	5,580
Forward contracts	36	1,784	127,000
Cross currency swaps	1,294	8,660	178,590
Share warrants	4,240	-	
	5,696	10,444	311,170
Current	224	1,784	
Non-current	5,472	8,660	

The Corporation uses derivatives to manage its exposure to market risks.

18. Loans and advances to other customers

	2018 US\$'000	2017 US\$'000
Project finance loans	1,057,093	854,359
Advances under trade finance	369,589	371,261
	1,426,682	1,225,620
Impairment allowance:		
- Project finance	(77,533)	(56,648)
- Trade finance	(9,380)	(6,550)
	(86,913)	(63,198)
	1,339,769	1,162,422
Current	497,476	361,125
Non-current	842,293	801,297

(a) The movement in impairment allowance is shown below:

	2018 US\$'000	2017 US\$'000
Balance as at 1 January	63,198	41,862
Opening IFRS 9 ECL adjustment	1,776	-
Net measurement of impairment allowance (Note 10)		
(2017: Collective impairment)	21,939	21,336
Closing balance	86,913	63,198

See Note 3.1.6 for a detailed analysis.

19. Financial assets at fair value through profit or loss

Designated at initial recognition		
- Hybrid instruments (convertible debt) (a)	65,802	69,249
- Equity securities (b)	516,905	567,197
- Assets under management (debt securities) (c)	19,829	19,729
	602,536	656,175
Current	19,829	19,729
Non-current	582,707	636,446

- (a) The hybrid instruments include a conversion option which results in no closely related risks inherent in the host contract. The Corporation therefore designated the instrument as financial asset at fair value through profit or loss.
- (b) Equity securities at fair value through profit or loss include:

	2018 US\$'000	2017 US\$'000	% 2018	shareholding 2017
MainOne Cable Company (i)	15,140	21,611	23%	23%
Vigeo Power Limited (ii)	1,010	7,834	20%	20%
Cenpower Operations Company	74	74	25%	25%
Ncondezi (iii)	10	10	23%	23%
Société concessionaire du pont riviera-Marcory (iv)	47,290	45,954	26%	26%
Singrobro (v)	10,103	2,877	40%	22%
Gabon Special Economic Zone (vi)	220,180	204,687	21%	21%
Anergi Holdings Limited (vii)	170,900	284,150	38%	50%
Bakwena Platinum Concession Company (viii)	49,480	-	22%	5.5%
Infrastructure Credit Guarantee				
Company Limited (ix)	2,718	-	50%	Nil
	516,905	567,197		

Details of the nature and operations of equity investments and the summarised financial information for those entities, which, in the opinion of the directors, are material to the Corporation are shown below.

(i) MainOne Cable Company: is a telecommunications company incorporated in Nigeria 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 2018. The summarized financial information for MainOne is presented below:

	2018 US\$'000	2017 US\$'000
Current assets	42,462	47,684
Non-current assets	181,527	186,380
Current liabilities	41,348	58,818
Non-current liabilities	55,237	61,733
Revenue	58,685	46,039
Loss after tax	(7,262)	(9,845)
Total comprehensive loss	(7,598)	(11,627)

- (ii) Vigeo Power Limited: is incorporated in Nigeria and is a power distribution company in the south-west part of the host country Nigeria.
- (iii) 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.
- (iv) Socoprim: Société concessionaire du pont riviera-Marcory (Socoprim), a concessionaire company is responsible for the operation and management of the Henri Konan Bedie Bridge in Cote d'Ivoire. The Henri Konan Bedie Bridge consists of a 6.4km highway and 1.9km bridge with three lanes in each direction.

	2018 US\$'000	2017 US\$'000
Current assets	44,884	40,383
Non-current assets	338,050	365,672
Current liabilities	19,230	11,643
Non-current liabilities	338,050	255,600
Revenue	30,378	57,198
Profit after tax	33	19,355

- (v) Singrobro: a 44MW hydroelectric power plant development project in Côte d'Ivoire.
- (vi) Gabon Special Economic Zone (GSEZ): The GSEZ was created to accelerate Gabon's economic diversification and development. The zone has a portfolio of infrastructure projects spanning a variety of sectors which include: a mineral terminal, a cargo port, a general logistics terminal, an airport as well as other special infrastructure projects. GSEZ also owns and operates the Nkok Special Economic Zone and the Port Gentil Special Economic zone, which is in early development. The summarized financial information for GSEZ is presented below:

	2018 US\$'000	2017 US\$'000
Current assets	591,588	442,080
Non-current assets	863,778	658,980
Current liabilities	127,327	77,910
Non-current liabilities	847,178	-
Revenue	265,226	238,410
Profit after tax	95,325	112,600

(vii) Anergi Holdings Limited: is a holding company, incorporated in Mauritius, owning equity interests in seven (7) generation assets with a total of 1,786MW (gross) and 554MW (net) generation capacity across five (5) African countries. Anergi also holds near-term investment rights from its founding shareholders, to invest or acquire interests in new projects under development with a further 500MW capacity. Anergi owns long-term economic interests in a portfolio of assets diversified by geography and fuel type. The company was formed through the merger of the electricity generation assets of the Corporation and Harith General Partners.

The summarized financial information for Anergi Holdings Limited is presented below:

	2018 US\$'000	2017 US\$'000
Current assets	1	2
Current liabilities	-	19
Non-current assets	572,877	567,342
Non-current liabilities	3,441	9
Loss after tax	(2,501)	(36)

During the year, the Corporation reduced its interest in the company through the cancellation of the promissory note which was issused to the Company in 2017 (see Note 26).

(viii) Bakwena Platinum Concession Company: Consists of a 95 km section of the N1 highway running from Pretoria northwards, and a 290 km section for the N4 highway running from Pretoria westwards to the Botswana border. Route designed as part of intercontinental axis to stimulate agriculture, manufacturing, mining and tourism traffic, with combined urban and intercity tolling. The project led to significant reductions in travel times and vehicle operating costs through improved road surfaces.

	2018 US\$'000	2017 US\$'000
Current assets	142,293	144,502
Non-current assets	250,408	305,167
Current liabilities	145,349	189,507
Non-current liabilities	161,566	157,151
Revenue	152,457	158,929
Profit after tax	32,609	44,472

The Corporation obtained significant influence in the investee entity during the year and the investment was reclassified from FVOCI (2017: available for sale) in accordance with the Corporation's policy (see Note 20(c)(i).

(ix) Infrastructure Credit Guarantee Company Limited: This is a company established as a commercial institution with the specific objective of providing guarantees to enhance the credit guality of local currency debt instruments issued by creditworthy entities to finance eligible infrastructure projects in Nigeria, in order to attract a pool of long-term capital such as the pension funds and insurance companies.

The Corporation acquired stakes in these companies with the intention to exit at a future date. As of 31 December 2018, the Corporation had no commitments to these entities nor did it have a contingent liability arising from its association with these investments. There are no restrictions on the ability of these entities to pay cash dividends and repay outstanding obligations to the Corporation.

(c) Assets under management represent funds managed by a third-party investment company on a discretionary basis. The portfolio comprises of marketable debt securities with observable prices and is managed on a fair value basis.

20. Investment securities

	2018 US\$'000	2017 US\$'000
Debt securities:		
- Corporate debt securities - at amortised cost	358,391	226,938
- Sovereign debt securities - at amortised cost	300,452	203,499
- Corporate debt securities – at FVOCI		
(2017: Available for sale)	4,195	4,159
	663,038	434,596
Less: Allowance for impairment (see note (a) below)	(12,320)	-
	650,718	434,596
Equity securities – unlisted at FVOCI (see note (c) below)	74,159	134,471
	724,877	569,067
Current	262,495	165,402
Non-current	462,382	403,665

(a) The movement in ECL allowance is shown below:

	2018 US\$'000	2017 US\$'000
Opening	-	-
Opening IFRS 9 ECL adjustment	11,146	-
Allowance for impairment (Note 10)	1,174	-
	12,320	-

(b) As at 31 December 2018, 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 2017: Nil).

(c) Equity securities at FVOCI (2017: Available for sale)

	2018 US\$'000	2017 US\$'000
Equity securities – unlisted (see note (i) below)	74,159	134,471

As at 1 January 2018, the Corporation designated certain equity investments shown above as equity securities at FVOCI. In 2017, these investments were initially classified as Available for Sale. The fair value through OCI designation was made because the Corporation does not have significant influence over these investee entities.

(i) The movement in equity securities from the preceding financial year is as follows:

	2018 US\$'000	2017 US\$'000
At beginning of the year	134,471	234,493
Additions	-	4,905
Disposal	-	(27,404)
Net (loss)/gain on fair valuation through		
other comprehensive income	(9,899)	8,535
Reclassified to FVTPL investments (See note (a) below)	(49,886)	(70,000)
Impairment loss on financial assets (Note 10)	-	(26,485)
Foreign exchange gain	(527)	10,427
At end of the year	74,159	134,471

⁽a) In current year, the Corporation, having acquired additional stake in the Bakwena Toll Road Project, reclassified the investment from equity investments at FVOCI to equity investments at FVTPL, in line with its business model of carrying all investments in which the Corporation has significant influence at FVTPL.

21. Pledged assets

	2018 US\$'000	2017 US\$'000
- Corporate debt securities	65,797	114,249
- Sovereign debt securities	95,687	109,587
	161,484	223,836
Less: Allowance for impairment (see note (i) below)	(2,577)	-
	158,907	223,836
Current	23,017	40,461
Non-current	135,890	183,375

(i) The movement in ECL allowance is shown below:

	2018 US\$'000	2017 US\$'000
Opening	-	-
Opening IFRS 9 ECL adjustment	4,275	-
Impairment writeback (Note 10)	(1,698)	-
	2,577	-

(ii) Pledged assets comprise debt securities used to secure the Corporation's borrowings but were not derecognised in the consolidated financial statement. These are transactions in which the Corporation uses its investment securities to collaterise some of its bilateral borrowings. 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 Corporation does not have the ability to use the transferred assets during the term of the arrangement. These transactions were conducted under terms that are usual and customary to standard lending and repurchase activities. Details are as below:

	2018 US\$'000	2017 US\$'000
Carrying amount of the assets	158,907	223,836
Carrying amount of the associated liabilities (See note 27(iii))	114,245	159,762
Fair value of the assets Fair value of the liabilities	160,580 (114,245)	214,911 (159,762)
Net fair value	46,335	55,149

22. Other assets

	2018 US\$'000	2017 US\$'000
Account receivable	12,301	19,802
Fee receivable	11,939	14,122
Prepayments	4,864	7,519
	29,104	41,443
Current	28,774	39,133
Non-current	330	2,310

23. Property and equipment

	Motor Vehicles US\$'000	Leasehold improvement US\$'000	Furniture & equipment US\$'000	Total US\$'000
At 1 January 2017				
Cost	2,761	1,611	3,968	8,340
Accumulated depreciation	(1,151)	(1,588)	(3,003)	(5,742)
Net book amount	1,610	23	965	2,598
Year ended December 2017				
Opening net book value	1,610	23	965	2,598
Additions	962	4	85	1,051
Disposal – cost	(552)	-	(13)	(565)
Disposals – accumulated depreciation	452	-	13	465
Depreciation charge	(701)	(9)	(388)	(1,098)
Closing net book amount	1,771	18	662	2,451
At 1 January 2018				
Cost	3,171	1,615	4,040	8,826
Accumulated depreciation	(1,400)	(1,597)	(3,378)	(6,375)
Net book amount	1,771	18	662	2,451
Year ended 31 December 2018				
Opening net book value	1,771	18	662	2,451
Additions	780	1	177	958
Disposal – cost	(728)	-	(30)	(758)
Disposals – accumulated depreciation	555	-	30	585
Depreciation charge	(716)	(7)	(259)	(982)
Closing net book amount	1,662	12	580	2,254
At 31 December 2018				
Cost	3,223	1,616	4,187	9,026
Accumulated depreciation	(1,561)	(1,604)	(3,607)	(6,772)
Net book amount	1,662	12	580	2,254

There were no impairment losses on any class of property and equipment during the year (2017: Nil).

ii. There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2017: Nil).

iii. There were no restrictions to the title held by the Corporation, in respect of its property and equipment during the year (2017: Nil).

24. Intangible assets

	2018	2017
	US\$'000	US\$'000
Software cost	228	259

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:

	2018 US\$'000	2017 US\$'000
At 1 January	259	255
Additions	75	225
Amortisation	(106)	(221)
At 31 December	228	259

25. Accrued expenses and other liabilities

	2018 US\$'000	2017 US\$'000
Unearned fees	1,033	577
Accruals	14,303	13,739
Accounts payable	11,702	13,434
Margin deposit	1,000	1,000
Provision for loan commitments (See note (ii) below)	1,133	-
	29,171	28,750

All liabilities above are current.

- (i) Amount relates to the provision set aside for expected credit losses on the Corporation's equity and debt commitments (see note 28).
- (ii) The movement in provisions for loan commitments during the year is as follows:

	2018 US\$'000	2017 US\$'000
Balance as at 1 January	-	-
Opening IFRS 9 ECL adjustment	678	-
Net measurement of impairment allowance (Note 10)	455	-
Closing balance	1,133	-

26. Promissory note

During the year, the promissory note issued to Anergi Holdings Limited (AHL) as part of the consideration for the acquisition of a 50% stake in the entity was cancelled. The cancellation reduced the Corporation's interest to 38.2% (see note 19b).

27 Borrowings

	2018 US\$'000	2017 US\$'000
At amortised cost: Corporate bonds issued (note (i)) Other borrowings (note (ii))	1,605,465 1,287,281	1,648,446 824,153
At fair value: Corporate bonds issued (note (i))	9,195	10,793
	2,901,941	2,483,392
Current Non-current	259,044 2,642,897	280,340 2,203,052

(i) Amount represents outstanding balance on issuances made under the Corporation's Eurobond program. The Corporation had its maiden Eurobond issue in 2015 and established a US\$3billion Global Medium Term Notes (GMTN) program. The terms and conditions of the notes issued under the Corporation's GMTN program are as follows:

Bond issued	Year of Maturity	YTM/Coupon (%)	Rate Type
US\$ 750 million GMTN	2020	4.375	Fixed
US\$ 10 million GMTN	2019	4.286	Floating
US\$ 500 million GMTN	2024	3.875	Fixed
US\$ 150 million GMTN	2020	4.524	Floating
US\$ 45 million GMTN	2021	4.086	Floating
US\$ 50 million GMTN	2020	4.136	Floating
CHF 100 million GMTN	2019	0.85	Fixed

Funds raised from the Corporate bond issued in Swiss Francs was swapped to US Dollars, the functional currency of the Corporation. Corporate bonds issued which include an embedded derivative are designated at fair value with fair value changes recognised in the income statement. The difference between the carrying amount of corporate bonds measured at fair value through profit or loss as at 31 December 2018 and the amount the Corporation expects to settle at maturity is a loss of US\$894,000 (2017: a gain of US\$835,000).

- (ii) Other borrowings comprise of loans from commercial 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\$114.2 million (2017: US\$159.8 million) which has been secured using Corporate and Sovereign securities with a carrying value of US\$158.9 million (2017: US\$223.8 million). See note 21(i).
- (iv) The Corporation has not had any defaults of principal, interest or other covenant breaches with respect to its borrowings.

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

	2018 US\$'000	2017 US\$'000
Less than 1 year	259,044	280,340
1 – 3 years	1,707,416	1,295,700
Over 3 years	935,481	907,352
	2,901,941	2,483,392

vi) Reconciliation of movement in borrowings to cashflows from financing activities

	2018 US\$'000	2017 US\$'000
At beginning of the year	2,483,392	1,907,793
Proceeds from corporate bonds	-	795,000
Proceeds from other borrowings	766,678	50,000
Transaction costs related to borrowings	(6,948)	(2,432)
Fair value changes	(100)	(167)
Interest expense	109,043	91,214
Interest paid	(103,996)	(82,308)
Repayment of borrowings	(339,673)	(284,101)
Effects of changes in foreign exchange rates	(6,455)	8,393
At end of the year	2,901,941	2,483,392

Currency exposures arising from borrowing transactions are hedged in line with the Corporation's policy on hedging (see Note 3.2.1).

28. Contingent liabilities and commitments

A) Legal proceedings

As at 31 December 2018, there was one legal proceeding against the Corporation. The Directors believe that, based on currently available information and advice of the Corporation's legal counsel, the outcome from the proceeding will not have a material adverse effect on the financial position of the Corporation. No provision has been made in respect of this legal proceeding, for the period ended 31 December 2018.

B) Equity commitments

These commitments relate to equity financing commitments to third parties.

C) Debt commitments

These commitments relate to unfunded risk participation arrangements and loan commitments on transactions.

Commitments details as at 31 December 2018 are as follows:

	2018 US\$'000	2017 US\$'000
Equity commitments Debt commitments (note (i))	17,696 229,264	14,021 99,045
	246,960	113,066
Debt commitments	2018 US\$'000	2017 US\$'000
Unfunded risk participation arrangements Loan commitments	21,808 207,456	20,979 78,066
	229,264	99,045

29. Share capital

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

Issued and fully paid capital

		2017 No. of shares In thousands
At 1 January	1,095,343	1,089,067
Addition during the year	1,052	6,276
At 31 December	1,096,395	1,095,343
	2018 US\$'000	2017 US\$'000
At 1 January	1,095,343	1,089,067
Addition during the year (Note (i))	1,052	6,276
At 31 December	1,096,395	1,095,343
Share Premium		
At 1 January	3,765	-
Addition during the year (Note (i))	948	3,765
At 31 December	4,713	3,765

⁽i) During the year, Africa Reinsurance Corporation became a shareholder of the Corporation, investing a total of US\$2 million dollars in the Corporation's equity capital.

30. Retained earnings

	2018 US\$'000	2017 US\$'000
At beginning of the year	372,088	329,495
Dividend declared and paid during the year	(54,575)	(57,720)
Initial application of IFRS 9	(20,198)	-
Profit for the year	128,584	100,313
At end of the year	425,899	372,088

31. Fair value reserves

	2018 US\$'000	2017 US\$'000
At 1 January Initial application of IFRS 9	36,111 78	27,265 -
	36,189	27,265
Net (loss)/gain on FVOCI (2017: available-for-sale) financial assets: - Transferred to the income statement - Foreign exchange gain - Fair value gain/(loss)	- (527) (10,010)	(5,995) 6,196 8,645
	(10,537)	8,846
At end of the year	25,652	36,111

The fair value reserves comprise:

- a) the cumulative net change in the fair value of equity securities measured at FVOCI (2017: available for sale financial assets); and
- b) the cumulative net change in the fair value of debt securities measured at FVOCI (2017: available-forsale financial assets) until the assets are derecognised or reclassified. This amount is increased/(decreased) by the amount of impairment allowance/(writeback).

32. 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 5.383 US cents per share (2017: 4.98 US cents per share), amounting to approximately US\$59,018,960 (2017: US\$54,600,487). The resolution on payment of dividend will be tabled before the annual general meeting scheduled for 28 March 2019 and if approved, the dividend will be paid to all qualifying shareholders who are on the register of members as of that date.

33. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise the following balances:

	2018 US\$'000	2017 US\$'000
Cash in hand and balances with		
banks (Note 15)	26,080	29,206
Placements with other banks (Note 16)	1,599,619	1,471,257
At end of the year	1,625,699	1,500,463

34. Group entities and related party transactions

Group entities

The Group consists of the Africa Finance Corporation as the Parent. Other group entities are:

Subsidiaries

i. AFC Equity Investments Limited: a wholly owned entity incorporated in Mauritius, which was set up to hold equity investments on behalf of the Corporation (2017: 100%).

Associates and joint venture operations

Associated entities comprise of equity investments that result in the Corporation having significant influence by being able to participate in the financial and operating policy decisions of the investee companies. These investments are carried in the statement of financial position at fair value through profit or loss rather than accounted for using the equity method. See Note 19 for details of these investments.

During the year, the Corporation reduced it's stake in Anergi Holdings Limited from 50% to 38.2%. This investment is carried in the statement of financial position at fair value through profit or loss. See Note 19 for details of this investment.

During the year, the Corporation acquired a 50% stake in Infrastructure Credit Guarantee Company Limited (Infracredit).

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, joint venture entities, 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 and associated entities. The outstanding related party transactions at year end and the related income for the year are as follows:

b)

a) Loans to related parties:

	2018 US\$'000	2017 US\$'000
Shareholders	149,934	108,546
Associate companies	82,171	60,503
Placements/investments in debt securities:		
Shareholders	138,979	290,641
Interest income/(loss) earned:	2018 US\$′000	2017 US\$'000
Shareholders	46,687	22,897
Associate companies	4,319	8,188
Subsidiaries	-	(235)

These loans were issued in the normal course of business, under commercial terms. The terms and conditions of loans to related parties are as follows:

		Average Tenor	Coupon/Ro	ate R	ate Type
	ans and advance rporate debt securities	1 month 3 years	8.5% - 12 6.3% - 10.5		/floating /floating
c)	Key management compensation		2018 US\$'000	2017 US\$′000	
	Salaries and other short-term benefits		3,965	3,682	
	Post-employment benefits		518	547	

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) Director & Chief Risk Officer.

35. 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

KPMG Professional Services

KPMG Tower Bishop Aboyade Cole Street, Victoria Island, Lagos Nigeria

Principal Bankers

Access Bank plc Oyin Jolayemi Street Victoria Island Lagos State Nigeria	Standard Chartered Bank Head Office 1 Basinghall Avenue London EC2V 5DD UK
Ecobank plc Plot 21 Ahmadu Bello Way Victoria Island Lagos State Nigeria	United Bank for Africa UBA House, 57 Marina P.O. Box 2406 Lagos State Nigeria
Guaranty Trust Bank plc Plot 635, Akin Adesola Victoria Island Lagos State Nigeria	Zenith Bank plc Plot 84 Ajose Adeogun Street Victoria Island Lagos State Nigeria
JP Morgan Chase & Co. 270 Park Avenue New York, NY 10017-2070 USA	

Africa Finance Corporation

3A Osborne Road, Ikoyi, Lagos Nigeria

+234 1 279 9600

★ contact@africafc.org

www.africafc.org

@africa_finance

