

BUILDING PARTNERSHIPS FOR A RESILIENT RECOVERY



#### CHAIRMAN'S STATEMENT

# BUILDING PARTNERSHIPS FOR AFRICA'S POST COVID-19 RECOVERY

#### Dear Stakeholders,

write to you at a moment of significant anxiety for the African continent and indeed the world at large. More than a year since the COVID-19 pandemic began, the global economy has suffered unprecedented difficulties, with dual public health and economic crises, the speed and magnitude of which are without comparison in modern times. Although a rapid vaccine-driven recovery is now on the horizon, many countries, particularly in Africa, risk falling behind with their recovery hindered by a lack of access to COVID-19 vaccines for their populations.

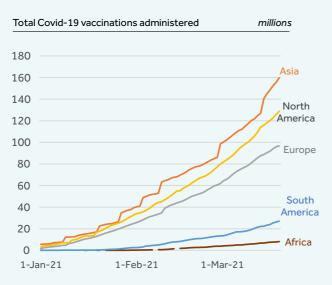
At the moment, inoculation rates in advanced and some emerging economies are far outpacing those in developing countries. Globally, some 421 million COVID-19 vaccine doses have been administered, with North America and Europe accounting for 54% of the total, while Asia, South America and Africa account for 38%, 6.4% and 1.9%, respectively. Excluding China, Asia accounts for 23% of the global vaccination total, but this low vaccine

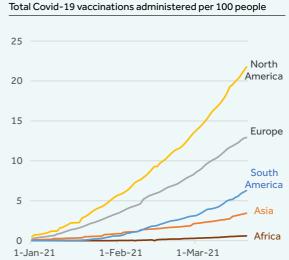
rate is countered by the fact that many Asian countries already largely contained the virus without mass vaccination programmes, and their economies have since experienced rapid growth. With the threat of a third wave of the pandemic now looming globally, this could accelerate the scramble for limited vaccine supplies, further delaying the implementation of inoculation programmes across the developing world.

The stage is therefore set for both a multispeed global growth normalisation and an unbalanced global economic recovery. It goes without saying that countries where vaccination rates are continuing to pick up rapidly will also see a rapid economic recovery in the second half of 2021. Such a scenario is likely to favour the likes of the US, where President Biden's recent \$1.9 trillion stimulus package could act as a further boost to US economic growth, and China, which has been delivering strong real GDP growth since the second quarter of 2020.



Figure: Vaccine Inequality leads to multispeed global economic recovery





Source: Our World in Data

With the US decoupling from other developed countries despite pleas by US officials to other G-20 policymakers for additional policy stimulus, so far only the UK has announced such measures in 2021 – there is an increasing risk of falling back into the macroeconomic imbalances that characterised the global economy pre-pandemic, with the attendant geopolitical tensions and threats to the global trade order that this engendered. A US consumption-based recovery will widen the alreadygrowing US current account deficit, whilst increasing surpluses in several Asian export-geared economies, particularly China. The perception that other countries may be 'free riding' on the US role as consumer of last resort without contributing equally to the recovery in global demand could fuel trade conflicts, as it did between the US and China under President Donald Trump.

# COVID-19 AND AFRICA – AN OPPORTUNITY FOR A GREAT RESET

Expert predictions of a COVID-19 health catastrophe across Africa did not materialise. Except for North African countries and South Africa, the rest of the continent has largely averted disaster. This is partly due to the proactive response by governments in enacting strict measures (such as travel restrictions, school closures and homebased work) early in the pandemic to slow transmissions of the virus within communities. Nevertheless, these drastic lockdowns (implemented by many African governments) came at a great cost to the economy.

Preliminary economic data for 2020 appears to confirm Africa's deepest recession on record. Most of the continent's economies experienced larger-than-usual growth contractions, with tourism- and crude oildependent countries especially hard hit. A collapse in fixed investment and remittances, as well as domestic economic activity, tax revenues and remittances led to a sharp contraction in domestic demand. Disruptions in domestic food supply chains increased inflationary pressures. A slowdown in exports widened current

# THE AFRICAN CONTINENT FACES A DIFFICULT BUT NOT IMPOSSIBLE PATH AHEAD, IN REPAIRING THE DAMAGE CAUSED BY THE PANDEMIC.

account deficits and strained foreign currency reserve positions.

On the macroeconomic policy front, the pandemic has exacerbated the public debt and financing challenges that African countries were already facing. The collapse in domestic revenue generation and export receipts, and the increased pressure on government spending to counter the attendant shock, triggered fiscal and external financing challenges. As an indication of these pressures as well as weak buffers, a total of 40 African sovereigns approached the IMF for emergency crisis loans in 2020, and roughly 50% of the total emergency loans given out by the IMF were to African countries, the highest uptake of any region in the world.

Of paramount concern are the setbacks in the progress of socioeconomic developments witnessed across Africa over the past year. School closures threaten to undercut Africa's achievements of nearly full enrolment in primary education, as the lack of access to electricity and broadband connectivity has limited the feasibility of distance learning solutions. Indeed, the World Bank has warned of a 'lost generation' across Africa, as students forced out of schools may not return after the pandemic, in turn leading to a cascade of socioeconomic challenges. Surveys by statistical agencies across Africa confirm the disproportionate impact of the pandemic on the poorest and most vulnerable households in society, with losses in food and household income security. It is no wonder that several assessments now confirm that COVID-19 is indeed a tipping point that has made meeting the 17 Sustainable Development Goals by 2030 - an objective that was already strained - unattainable.

Clearly, the onset of the COVID-19 crisis has amplified the existing development challenges considerably. These challenges include the lack of adequate employment opportunities for Africa's growing population, as well the lack of manufacturing capacity and reliance on imports of the most basic nature. In this global pandemic, with each country and region fending for itself, African countries have faced the risk of not being able to source the critical equipment needed to manage the crisis. The pandemic has also exposed other areas where there is a critical need for investment, notably Africa's social infrastructure and digital infrastructure, both of which have emerged as necessary mitigants to help countries weather future pandemic-driven shocks.

Weaknesses in health infrastructure are not unique to Africa, as countries across the world have grappled with the healthcare implications of the pandemic. But for Africa, the deficit in its social infrastructure comes on top of a physical infrastructure deficit that is among the largest of any region in the world. Africa's infrastructure deficit amounts to circa US\$170 billion annually and the continent needs investment in both new projects and the maintenance of existing infrastructure. The World Bank estimates that the infrastructure gap reduces Africa's productivity by 40% and cuts its economic growth by 2% a year. The infrastructure deficit also hinders intra- and inter-regional integration, limits competitiveness and economic development, and stands in the way of social progress. Without this infrastructure, Africa will not achieve its growth and development potential.

The African continent faces a difficult but not impossible path ahead, in repairing the damage caused by the pandemic. If anything, I am confident that Africa has a myriad of opportunities to 'build back better' and achieve stronger and more resilient economies, re-engineered towards more sustainable sources of growth. To do this will require pooling of resources and expertise.

Governments and their relevant partners will need to prioritise bringing countries out of the pandemic sooner rather than later, while providing short-term relief for the parts of the economy and the population that are bearing the brunt of the shocks. At the same time, policymakers must continue creating the enabling conditions to attract private investments.

As Africa's dedicated infrastructure solutions provider established to find innovative solutions to the continent's development challenges, the Africa Finance Corporation must reimagine its role in a post COVID-19 world to address not only the existing challenges, but also the new ones which have been brought to the fore by the pandemic.

To meet this moment will also require the Corporation to leverage on its partnerships. Deeper cooperation with African states and other African agencies which have a shared purpose and objective, will ensure that the scarce resources available for development are well targeted to deliver the maximum impact. Partnerships with external official and private sectors will also be critical in channelling much-needed capital that seeks returns and impact. By collaborating with external partners to secure additional resources, develop new initiatives and invest in key sectors, African countries can mitigate the virus's immediate impact and hasten economic recovery, while building resilient systems for long-term growth and success.

# AFC'S EXPERIENCE WITH THE PANDEMIC

Amidst the strained macroeconomic environment, the Corporation has continued its investment and value creation efforts, maintaining a laser sharp focus on its mandate to reduce Africa's infrastructure deficit and improve the challenging business environment. It does this by investing in assets in targeted sectors with high development impact across Africa, while providing competitive returns for its shareholders. AFC's conservative financial policies, continued application of rigorous risk methodologies using strong structuring expertise, established research and credit processes, and distinctly prudent approach to investing, have all positioned the Corporation to be resilient in times like these. The Corporation continued its focus on the development of pipeline transactions with the potential for sustainable impact, particularly in this new environment. It is ramping up on its continued proactive stance in engaging borrowers and portfolio companies about the impact of COVID-19 on business performance, providing support in weathering the difficult times, while finding solutions to optimise business operations.

AFC continues to leverage on its unique ability to invest across the capital structure, providing early-stage project development, equity and quasi-equity, along with debt to private sector-led projects supported by our syndications and advisory services, and sovereign lending solutions to governments. Despite the difficult macroeconomic environment, the Corporation grew its balance sheet from US\$6.1 billion in 2019 to US\$7.4 billion in 2020, a 20% year-on-year growth, and expanded its footprint to 35 countries. This has been achieved by working with strong partners across multiple industries. In 2020, the Corporation co-invested alongside several partners including AP Moller Capital, FMO (the Dutch Development Bank), Climate Investor One, African Export-Import Bank, Arab Bank for Economic Development in Africa (BADEA) an existing AFC shareholder - along with Olam International, Shell, Standard Chartered Bank and Trade Development Bank, to mention just a few. AFC will continue to partner with strong developers, development finance institutions, other financial institutions, private equity firms and blue-chip corporates, to do more.

The Corporation continues to leverage its deep market and sector knowledge and expertise to provide investors with exposure to Africa's infrastructure opportunities. Partnerships are its key to closing Africa's significant infrastructure gap. Africa needs circa US\$170 billion to fill the deficit driven by increasing intra-regional trade, high levels of urbanisation and growing populations. With the need to drive beneficiation, manufacturing and other high value economic activities, the demand for enabling and resilient infrastructure is heightened, particularly for robust power, transport and logistics infrastructure. AFC is well-positioned to continue to add value through derisking investments, its ecosystem approach to origination and execution, ability to play across the capital structure, developmental impact and ability to structure, execute and manage transactions. This is underpinned by its strong liquidity, access to markets, access to unique partnerships and its home-grown talent.

The Corporation sustained its strong liquidity buffers thanks to a solid position at the start of the shock, adherence to its robust liquidity policy, and continued stable and diverse sources of funding over the mediumterm. The Corporation raised liquidity in debt markets several times, delivering its maiden CHF150 million Green bond and a US\$700 million Eurobond raise as part of the Corporation's Board-approved US\$5 billion Global Medium-Term Note Programme. This included the lowest coupon in AFC's fundraising history at 3.125%, with demand three times oversubscribed, driven by investors in the Middle East, Africa, Europe and Asia.

#### SHIFTING ECONOMIC LANDSCAPE AND EMERGING OPPORTUNITIES IN THE WAKE OF COVID-19

One of the lasting effects of the COVID-19 pandemic is the desire for greater diversification of manufacturing supply chains, moving away from the established consensus around reliance on centralisation of inputs from individual countries. This trend presents a unique opportunity for Africa to add value to its raw materials, build out a manufacturing base that produces final products for export to other neighbouring African countries and beyond, and scale up the beneficiation on the continent, thereby enhancing domestic value addition to Africa's primary commodities. This will also increase Africa's bargaining power in the sale of its commodities and enable producers to better manage commodity price shocks by considering integrated plays on the continent.

In this context, the Corporation explored value accretive opportunities from existing robust assets. An example is the Corporation's ARISE investment, where it has successfully focused on value addition and continues to do so through its platform and ecosystem investing approach, creating an oasis of excellence with integrated infrastructure to address the entire value chain for delivery of projects. In 2020, the Corporation supported ARISE with a US\$150 million convertible debt investment to expand the wood-based special economic zone in Gabon, adding cashew and cotton based industrial zones in Benin and Togo. This trend is also increasingly evident in the mining space. As countries and companies become more accountable for their carbon footprints, it will make both business and environmental sense to produce locally.

Investors need to follow AFC's example in taking the lead on projects and early-stage risk by providing project development capital and structuring expertise - in other words handling the project through to bankability and financial close. There is a well-known dearth of bankable projects in Africa. To solve this problem, AFC has continued to show leadership with its project

development portfolio as the key to unlocking an investable project pipeline, and in 2020, AFC cemented this role through its many 'firsts' in the mining sector: a 10million mtpa bauxite mine in Guinea; and a refinery and storage terminal in West Africa in the heavy industry sector.

Partnerships with governments are also key in supporting their national development plans and ambitions. Several governments accessed IMF emergency assistance under the Rapid Credit Facility including Nigeria, Gabon and Ghana, which are the countries that represent the largest credit exposure for AFC. However, prudent measures have been instituted by these governments to position their economies on the path to recovery. COVID-19 has meant that government reserves and balance sheets have been stretched, shifting focus to priority sectors such as healthcare that have become constrained. This leaves little for governments to invest in infrastructure and industry, which are core to supporting the economic recovery. As such, the private sector must look to increasingly support governments through innovative sovereign lending solutions and public-private partnerships. AFC is leading this through its product solutions desk, focusing on sovereign lending and offbalance sheet structures, recently including sovereign loans to the Government of Côte d'Ivoire to support its road infrastructure roll out programme.

The partnership with the Nigerian government on its infrastructure vehicle, the Infrastructure Corporation of Nigeria (InfraCorp), is another such important initiative co-sponsored alongside the Central Bank of Nigeria (a major shareholder in AFC) and the Nigeria Sovereign Investment Authority. With initial seed capital of N1trillion (\$2.5 billion) from the promoters, it is envisaged to grow to N15 trillion within a few years. InfraCorp will focus on delivering public and private sector projects, from origination through to portfolio management and exits. Nigeria is the largest economy in Africa and has the largest population, but it has a significant infrastructure deficit. This requires capital and expertise to bridge, which InfraCorp can provide.

In terms of the COVID-19 response, AFC worked with partners to construct a 100-bed critical care isolation

facility in Lagos State, Nigeria, and with other private sector coalition partners to construct a 500-bed facility in Abuja, among other initiatives. AFC procured critical medical supplies needed for frontline health workers in 16 African countries.

#### **PERFORMANCE**

Despite the challenging economic environment on the continent, the Corporation delivered a strong financial performance in 2020, producing total comprehensive income of US\$156.5 million in 2020. The balance sheet expanded by US\$1.24 billion, bringing total assets to US\$7.36 billion, whilst managing existing assets and ensuring appropriate performance management of investee companies.

Shareholders' total equity grew by US\$0.37 billion to US\$2.076 billion based on equity investments from CDC Gabon, BADEA, and augmented by an equity warrant subscription by the Central Bank of Nigeria (AFC's biggest shareholder). Furthermore, shareholders unanimously approved the introduction of callable capital to the Corporation's capital structure. The Corporation completed its maiden US\$250 million tier-2 capital injection from the US International Development Finance Corporation (DFC). AFC has partnered with the US on several infrastructure initiatives, including the Power Africa initiative, and regularly receives investments from US-based investors in its Eurobond issuances. The funding will ensure that the Corporation is able to continue fulfilling its objectives in the wake of the ongoing COVID-19 pandemic, which has placed a greater responsibility on development finance institutions in helping to drive a sustainable recovery across Africa. The Corporation also achieved a return on average equity of 9.2%.

#### **MEMBERSHIP**

The Corporation welcomed the Republic of Congo and Mali as its newest member countries, increasing its membership base from 26 to 28 countries. AFC also welcomed the Arab Bank for Economic Development in Africa (BADEA) and CDC Gabon (the state pension fund of the Republic of Gabon) as shareholders, further

diversifying its shareholder base, and enhancing the average credit rating of its current shareholders, in line with its strategic objectives.

#### DIVIDEND

In line with AFC's dividend policy, the Board of Directors recommended a final ordinary dividend of 4.057 US cents per share. The resolution on the payment of dividend will be tabled before the Annual General Meeting scheduled for 9 April 2021 and, if approved, the dividend will be paid to all qualifying shareholders who are on the register of members on 9 April 2021. This translates to a dividend pay-out ratio of 30% of Total Comprehensive Income.

#### **BOARD CHANGES**

As all our stakeholders are aware, the year saw key changes to the Board of Directors. Mr. Oliver Andrews, the Executive Director and Chief Investment Officer, completed his tenure after 13 years of important service to the Corporation. On behalf of the entire Board of Directors and the Executive Management of the AFC, I must pay immense tribute to Mr. Andrews for his exemplary leadership, innovation, deal origination, execution and management at the AFC. Oliver was the pioneer of the project development asset class at AFC, having led the closure of several signature project development transactions including Cenpower, as the pioneer project director, Dynamic bauxite mine, Cabeolica and Diibouti wind. He is the pioneer Chairman of the Africa Infrastructure Development Association with members drawn from the IFC, DEG, InfraCo of DFID/PIDG, AFC and a host of private developers. He led AFC's accreditation with the Green Climate Fund and delivered many AFC firsts, including the Republic of Gabon's ratification and US\$50 million subscription as a shareholder of AFC.

We also welcomed a new Chief Investment Officer and Executive Director, Mr Sameh Shenouda, who has had a distinguished career in investments and fundraising in international capital markets, with a focus on infrastructure development, setting up new platforms and supporting management teams. As a highly successful financier in Africa's infrastructure space, Mr

Shenouda brings a deep knowledge and innovative thinking to the core sectors in which AFC operates, having worked across AFC's priority sectors including power, transport and logistics, heavy industries and natural resources.

The Board of Directors approved the appointment of Dr. Kevin Amugo as a Non-Executive Director in June 2020. Dr Amugo is Director of the Financial Policy and Regulation Department of the Central Bank of Nigeria. I would like to take this opportunity to thank AFC's partners, shareholders, the management team and the entire staff, for their immense contributions to AFC's success in 2020, despite the challenges, and to urge them to continue their great work in supporting Africa's journey back to recovery, rebuilding for better and choosing to challenge themselves to help seize the opportunities that have emerged due to COVID-19. I wish to commend all for their diligence, hard work, dedication and commitment to the continent's repositioning for better.

#### **OUTLOOK**

The impact of COVID-19 and the collapse of some commodities will add to the risk premium associated with the continent, whether justified or not. The pandemic created market conditions that led to the collapse of certain industries and constraints in the financial performance of companies in other sectors. Close interaction with clients in such industries has been critical in supporting them to reposition, take advantage of new opportunities and set them on the path to recovery.

The continuing effect of climate change on the environment and sustainability of projects is a further challenge that needs to be managed.

AFC continues to explore ways of achieving value accretion on its portfolio assets, to position them for exits to recycle capital and achieve more. Economic hardship in countries will continue to put pressure on the sociopolitical dynamic, which needs to be managed by better and more rigorous sustainability principles in investing. Investing in the green revolution will be key. Governments also need to be supported to invest in social and hard infrastructure to underpin economic

recovery in their countries. Integrated plays through beneficiation and ecosystem investing in the mining space will be critical.

This is an exciting time for AFC as it is well positioned to transform infrastructure investment in Africa because of its track record, its innovative approach, its deep market knowledge, its global and local relationships, and, importantly, the diversity of solutions that it can offer clients: project development, debt, equity and everything in between.

AFC is poised to continue its path to becoming a US\$10 billion institution by 2024, up from US\$7.3 billion today, being the leading infrastructure solutions provider on the continent and playing a key role in catalysing the sustainable economic development of African nations.

Dr. Kingsley Obiora

Chairman, Africa Finance Corporation

#### PRESIDENT & CEO'S STATEMENT

# BRIDGING AFRICA'S INFRASTRUCTURE GAP FOR A RESILIENT RECOVERY

The COVID-19 pandemic has set back Africa's growth trajectory and compounded its development challenges. With scarce public resources diverted to the immediate health and socioeconomic crises, the Corporation and its partners must play a bigger role in shaping a resilient and sustainable recovery.

Africa faces urgent and significant development challenges. The COVID-19 pandemic has triggered the continent's first recession in 25 years, devastating livelihoods, and reversing decades of consistent development gains. For many countries, it will take years for per capita incomes to grow above their pre-crisis levels. With policy priorities shifting to the immediate health and economic crises, the investment focus on Africa's long-term development has understandably been diverted. And new areas where investment is critically needed have been exposed, notably critical gaps in Africa's digital and social infrastructure, further widening the continent's already-substantial infrastructure financing needs of an estimated US\$130 to US\$170 billion per year.

Within these harsh realities exist the catalysts for solutions that will long outlive this current pandemic and – if managed wisely – will sow the seeds for Africa to fulfill its potential as a powerhouse of sustained and resilient long-term economic growth.

There are three key priorities for the Corporation and its partners in shaping a resilient and sustainable development path across Africa.

First, AFC must intensify its support for African countries in pursuing a bolder more pragmatic approach to managing the region's vast natural resources, one that is focused on maximum value capture and domestic job creation.

Second, AFC's investments should enhance the climate resilience of Africa's infrastructure, recognizing the region's elevated vulnerability pre-pandemic, to climate change-related floods, droughts, rising sea levels and rising food insecurity.



Third, is the urgent need to adapt AFC's operations to the ongoing global energy transition which has been accelerated by the COVID-19 pandemic. Africa's fossil fuel producers will need the Corporation's support in navigating any short- to medium-term challenges related to the transition by shifting their focus to natural gas production, minimizing their exposure to international crude oil price fluctuations, and increasing economic diversification. The energy transition to renewables is also expected to lead to a mining boom across several African countries due to the abundance of critical minerals for the renewables sector. While the energy transition is likely to provide investment, job creation and ultimately growth opportunities through the expansion of mining, the Corporation must ensure that beneficiary countries derive the maximum value from their resources.

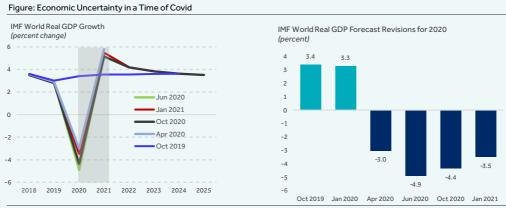
A otable consequence of the COVID-19 pandemic is in how it has galvanized key partnerships and coalitions across Africa's public and private sectors in response to the crisis. I believe that such partnerships will be an important driver of the work ahead to rebuild the continent's economies. For example, as part of the its ongoing COVID response, the Corporation and other African partners are mobilizing efforts in support of vaccine provision across Africa, with the latter a necessary precursor for economic recovery. Equally important, I believe, will be the role of external partnerships in helping to drive Africa's post-COVID recovery, and in this regard, AFC's expertise and proven track record in investing in Africa's infrastructure continue to offer a unique value proposition for external partners seeking impact and returns.

## NAVIGATING AN UNCERTAIN OPERATING ENVIRONMENT IN 2020

2020 was marked by extreme volatility in global financial and commodity markets due to the COVID-19 pandemic. Oil futures prices dipped below zero for the first time in history, and many other commodities faced a similar rout as the unprecedented standstill in economic activity from widespread national lockdowns caused a collapse in global demand.

Apart from financial and commodity markets, the pandemic introduced extreme uncertainty into many other aspects of life, complicating decision making by policy makers and business leaders alike. The difficulty of forecasting during the pandemic was reflected in sudden changes and massive divergence in economic projections. For example, the IMF's real GDP growth forecasts saw significant downward, as well as upward revisions within the space of a year. In January 2020, the IMF projected global growth of 3.3% for 2020. By April 2020, that figure had been revised down by more than 6 percentage points to -3.0%; by October, perhaps reflecting the record contractions experienced in Q1-Q2, the IMF once again downgraded its 2020 growth forecast to -4.9%.

Equally challenging were efforts to quantify the impact of COVID-19 on African economies where AFC's operations are based. Indeed, growth projections for the Africa region fluctuated throughout, and have ranged from - 1.7% (AFDB) to -3.3% (World Bank) and -3.1% (IMF).



Source: IMF World Economic Outlook

Nevertheless, on balance, Africa's economies appear to have largely been more resilient than expected. The significant growth contractions predicted by forecasters did not materialize, for the most part. Even through real GDP growth did in fact contract, especially in tourism- and crude oil-dependent economies, the contractions were smaller than predicted. Countries such as Tanzania, Egypt, and Ghana even recorded robust real GDP growth on a full-year basis in 2020.

Furthermore, there are signs that a post-COVID recovery has been underway in some countries since the last quarter of 2020, supported by buoyant commodity prices and recovering domestic demand. And while Africa continues to lag other regions in terms of COVID-19 vaccination rates, there are early signs that COVID-19 vaccines are beginning to reach African countries. Before March, few African countries had received a single shipment of shots, however as of April 7, 2021, 26 African countries had begun rolling out vaccination programs, despite overall innoculation rates remaining low.

#### AFC'S 2020 PERFORMANCE: RESILIENCE IN ADAPTING TO TURBULENT TIMES

The Corporation adapted its way of working, continuing to find innovative ways to move the business forward.

Throughout, AFC's priorities have been in three areas:

To protect the health and wellbeing of the Corporation's staff and their families, quickly transitioning to a full remote working policy which remains in place today. Through a program offered by one of AFC's partners DEG, a team of public and occupational health professionals from Management for Health (m4h) were commissioned to develop and implement detailed and relevant pandemic policies and procedures for the Corporation.

The Corporation has gone to extraordinary lengths to support its clients, recognizing the challenges particularly facing the commodity-related and transport sectors because of the COVID-19 pandemic. AFC took significant steps to help clients navigate the difficult economic environment, strengthening both their COVID response and their financial resilience.

The Corporation played its role in Africa's pandemic response, by contributing to the private sector coalition against COVID-19 in its host country (Nigeria) as well as helping to build COVID-19 isolation centers in Lagos and Abuja. AFC also distributed pandemic medical supplies to several West African countries hosting its operations. Through its sovereign lending facility, AFC provided direct funding to African governments grappling with liquidity constraints from the slump in domestic revenues and their limited options for raising external financing. Furthermore, AFC provided additional support through its Central Bank Swap Facility, targeted at helping African central banks access hard currency.

From a financial perspective, the Corporation entered this crisis in a position of strength. 2019 was the strongest year for AFC since its inception, with the Corporation achieving key milestones across the business, along with impressive asset growth and strong revenue and net income.

Despite the difficult operating environment in 2020, I am pleased to report that the Corporation produced steadfast results, maintaining its growth and profitability, albeit below the 2019 record. Consequently, the Corporation remains well on course to achieving the goals set out in its five-year plan. AFC's ability to weather the storms of 2020 comes down to its adaptability, its pragmatic and solutions-oriented approach to providing infrastructure solutions, and, most important of all, the resilience of its greatest assets – its people.

The strong performance in 2020 built on gains from the Corporation's push in previous years to grow market share in a manner that ensures revenue and income stability. In the context of AFC's 5-year plan the Corporation has made a concerted effort to increase the share of assets that generate annuity income in its portfolio, and this strategy is beginning to pay off, as AFC was able to grow its interest income by 9.5% from 2019 levels despite a combination of a reduced pace of asset creation and the low-interest-rate environment.

The Corporation recorded a 4.9% decline in Total Comprehensive Income (TCI) from 2019 levels with a TCI of US\$156.5 million. This drop was due to an increase in AFC's portfolio insurance costs, an increase in fair value

losses on certain financial assets, and diminished gains on sales of assets, all of which were directly attributable to the deterioration in the Corporation's operating environment because of the pandemic.

Furthermore, despite the challenges, AFC succeeded in expanding its asset base, ending the year with US\$7.3 billion in Total Assets, up 20% from US\$6.1 billion in 2019. AFC achieved progress with respect to critical projects such as the Djibouti Wind Farm, Singrobo Hydro power dam in Cote d'Ivoire and Dynamic Mine in Guinea; continued to support African states through its sovereign lending facility; advanced its industrialization strategy through the ARISE platform; achieved financial close and began disbursement on the Kekeli Efficient Power Plant in Togo and the Thor (Segilola) Gold project (the Corporation's first structured gold mine project in Nigeria), as well as supported the growth of digital infrastructure through facilities to EMTS, MTN and Airtel. All in all, the Corporation is now more than halfway to its goal of expanding the asset base to \$10 billion by 2023.

AFC continues to adopt strong risk management practices, a proactive risk-centric approach, and portfolio insurance as a risk mitigation tool in managing its risk assets. As the Corporation continues to grow its top-line figures, there is a need to also manage its operating expenses. AFC continues to invest in technology as a means of streamlining its processes and ensuring cost efficiency. Despite a slight reduction, (9.2% in 2020 from 11.2% in 2019) Return on Equity remains above the historical average performance before the inception of the Corporation's 5-year plan.

AFC therefore ended the year well-capitalized, with a capital adequacy ratio of 34% and high Liquidity coverage ratio of 178% at end-2020 up from 137% in year-end 2019, with US\$2.3 billion in money market placements at the end of the year, which will allow the Corporation to take advantage of new investment opportunities in the year ahead.

On the funding side, the Corporation recorded relatively strong success in the implementation of its 2020 funding plan despite the significant headwinds facing African issuers during the year, raising \$1.4 billion in total from its various funding sources. In June 2020, AFC successfully

issued a US\$700 million Eurobond at 3.125% as part of its GMTN programme, securing its lowest ever coupon rate on a Eurobond. In addition to this, the Corporation successfully launched its inaugural 5-year Green bond of CHF 150 million at a coupon of 1.205%.

## A PIVOTAL MID-POINT IN AFC'S 5-YEAR STRATEGY

The 2020 financial performance achieved is the result of a deliberate Corporate strategy and its persistent implementation by management and staff, while adapting to the unforeseen circumstances of the COVID-19 pandemic

As the Corporation embarks on the third year of implementing this strategy, it is important to not only take stock of its progress with this strategy but also consider the monumental changes to the operating landscape caused by the COVID pandemic, notably the clean energy transition, and how these impact on the remainder of the strategy implementation period.

A key lesson from the pandemic is the need to support African economies and labor markets to become more resilient and sustainable. Indeed, the pandemic offers the region an opportunity to redirect its future growth and facilitate an economic recovery that builds in greater resilience to global commodity shocks through local value addition and beneficiation (and therefore job creation), with a greater focus on sustainability in the development process.

During 2020, the Corporation was already taking steps to learn the right lessons from the pandemic. Amidst the COVID-19-driven decline in global oil demand and the global focus on energy transition, AFC recognized the need to adapt its natural resources strategy. This included the creation of project development facilities for the critical minerals needed to feed the increased global demand for renewable energy, improving governance and controls for existing mining companies as prerequisites for doing business, and providing the necessary infrastructure to support reduced Co2 emissions and safety enhancements of mining operations.

# AFRICA'S SUCCESS IN A POST-COVID WORLD WILL DEPEND FUNDAMENTALLY ON ITS ABILITY TO DEVELOP, CONSTRUCT, AND EFFICIENTLY MANAGE THE CRITICAL INFRASTRUCTURE REQUIRED TO ENABLE COMPETITIVE VALUE ADDITION OF ITS VAST RESOURCES

Alongside, the Corporation continued to provide support in the oil and gas sector on a selective and strategic basis, mindful of the continued importance of the sector for developing countries' energy base load. However, to better support countries with significant exposure to international crude oil prices, as well as to capitalize on the African continent's significant mineral resources, the Corporation envisaged a greater focus on projects in the mining sector. For example, AFC's financing of the Thor Gold/Segilola Gold Project, located in Osun State Nigeria, from greenfield stage to construction, contributed to Nigeria's first successful venture in the mining industry in many years, providing a template for further development of the sector. And with the Corporation taking a share of offtake in Thor, Dynamic and NGM, this forms the basis to achieve its aspiration to develop a trading desk for natural resources to ensure a consistent supply of the critical minerals needed for the global energy transition.

In my 2019 statement, I highlighted how AFC had honed its investment strategy to better enable a roll out of its full suite of infrastructure solutions, with the objective of building out resources beneficiating infrastructure ecosystems across the continent. With the benefit of hindsight, I could not be more confident that AFC has chosen the right investment approach. Having witnessed the disruptions to global production and supply chains brought about by the COVID-19 pandemic, the need for the African continent to build up its regional and intracontinental production and supply value chains has never been more apparent than it is today.

I firmly believe that Africa's success in a post-COVID world will depend fundamentally on its ability to develop, construct, and efficiently manage the critical infrastructure required to enable competitive value addition of its vast resources while also facilitating the efficient movement of people, goods and services within and beyond Africa's borders. Simply put, the continent

must seize the opportunity to change its standing in the existing global trade system from one of being a price taker for raw commodities to being a significant player in the production and trade of higher value inputs.

As an organization, the AFC will continue to play its role as your partner of choice in developing value accretive beneficiation projects, which will support import substitution on the continent while creating much need jobs. The Corporation's early successes with its industrial platforms and ecosystem investment approach will continue to provide the foundational infrastructure for building out the regional value chains required to unlock Africa's latent industrial capacity and economic potential.

While there are reasons to remain optimistic about the opportunities that exist in a post-COVID world, it is equally important to remain cautious about the factors that could have a significant impact on the Corporation's business in the year ahead, notably:

Evolution of the Covid-19 pandemic: Although available data suggests that the pace of new infections is slowing globally, the risk of new COVID strains emerging and a renewed surge in cases continues to be a source of uncertainty for the global economy.

Faster than expected tightening in global liquidity conditions: Interest rates are still at historic low levels around the world. However, the possibility of faster economic recoveries on the back of successful vaccine rollout in advanced and emerging market countries is already causing long term interest rates to increase. To the extent that a global recovery is more rapid than policy makers currently envisage, and inflation risks begin to materialize, this could in turn lead to a sooner- and faster-than-expected withdrawal of the extraordinary global monetary stimulus.

#### **PEOPLE & ORGANISATION**

I am immensely proud of AFC's staff who, amidst significant challenges and uncertainty, have worked so hard over the past year to ensure that the Corporation continues to deliver for its stakeholders. Across the Corporation, staff have all had to make personal sacrifices to slow the spread of the pandemic. With staff working remotely across several countries and continents, we have learned an enormous amount about the character of the Corporation and the fortitude and adaptability of its people. I have been particularly encouraged by the staff's shared drive and commitment in supporting Africa's infrastructure development, and their determination in finding solutions for the immediate challenges faced by the Corporation's clients and member countries because of the pandemic.

During the year, AFC maintained its focus on building a diverse and inclusive workforce, recognizing that diversity strengthens us an organization. The Corporation implemented innovative virtual hiring and onboarding processes focused on its goal of building a diverse, talented, multinational, multicultural and gender-balanced workforce that reflects its Pan-African mandate. As at year end, AFC had a staff strength of 112, made up of 19 nationalities with a 62:38 male-to-female ratio.

The pandemic presented an opportunity for AFC to demonstrate its resilience and ability to navigate a volatile, uncertain, complex, and ambiguous environment. Work-from-home surveys showed that staff collaborated and worked effectively supported by a solid technology infrastructure, despite working remotely for nearly 10 of the 12 months in 2020, to achieve business results. AFC teams navigated the complexities of moving sometimesdelicate transaction negotiations that benefit from inperson discussions to a virtual setting, ensuring that the objectives of the Corporation were still met. Travel and other restrictions imposed by the pandemic instigated a paradigm shift in learning delivery. At a time when human interactions were disrupted, the Corporation adapted its learning development programme to a virtual setting, successfully delivering an online training series for its staff.

The People's Consultative Forum continues to play a key role in strengthening employee engagement by partnering with the Human Resource Function and Executive Management in employee consultation. HR policy review and development is actively fostering staff communication and entrenching an open and inclusive workplace culture where every employee has a voice.

In closing, I would like to take this opportunity to thank the Board of Directors for their steadfast support and perseverance in what has undoubtedly been a challenging year, as well as our various clients who have provided us the opportunity to serve them.

Africa stands at a foundational moment having experienced the upheaval wreaked by the COVID-19 pandemic. But I remain optimistic 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.



President & CEO Africa Finance Corporation

#### **CORPORATE GOVERNANCE**



#### **WHO WE ARE**

Africa Finance Corporation is a multilateral development financial institution established in 2007 by an agreement amongst sovereign African states with the critical mission of fostering economic growth and industrial development of African countries, while delivering a competitive return on investment to its shareholders. Its vision is to be the leading developer and financier of African infrastructure, natural resources and industrial assets.

Since its inception in 2007, AFC has been actively involved as an investor, lead developer and financier of various strategic infrastructure projects across Africa with a range of tailor-made product offerings including debt, equity and mezzanine instruments within the project finance, trade and structured finance and equity investment space. In addition, it offers its valued clients and stakeholders, financial advisory, project development and technical advisory services across its five core focus sectors: power, natural resources (oil, gas and mining), heavy industries, transport and telecommunication infrastructure. In furtherance of its mandate, AFC acts as a catalyst to create and foster conditions conducive to the greater inflow of investment funds into the African continent for increased infrastructure development and export-oriented industrialisation. In the fourteen years of its existence, the Corporation has gained recognition as the benchmark institution for financing the development of Infrastructure projects in Africa.

As of 31 December 2020, the Corporation has invested circa US\$8.7 billion in infrastructure projects across thirty-five African countries.

The Corporation has a wholly owned subsidiary, AFC Equity Investments Limited ("AFC Equity"), established in Mauritius in 2013, as an investment vehicle for the purpose of holding AFC's equity investments. The Board of AFC Equity comprises four foreign directors and three resident directors. The Board of AFC Equity is responsible for promoting the success of the entity by directing and supervising its affairs in accordance with objectives as approved by the sole shareholder and in compliance with applicable laws and regulations in Mauritius.

In executing their mandates, AFC and AFC Equity (collectively, the "Group") operate within a corporate governance structure developed on high standards and in line with international best practices. The Group's governance culture is pivotal in driving performance and ensuring ethical conduct in all the Group's affairs. Hence it is a key enabler and the foundation of the successes achieved by the Group to date.

# CORPORATE & GOVERNANCE STRUCTURE OF AFC

AFC's corporate structure is comprised of AFC's Member States, shareholders, Board of Directors, board committees, executive management, management committees and AFC staff and employees.

AFC was established by twin constitutive documents: (i). the Agreement for the Establishment of Africa Finance Corporation (the "AFC Establishment Agreement"); and (ii). the Charter of AFC (the "AFC Charter"). The AFC Establishment Agreement is the treaty concluded by and between sovereign states ("Member States"). The AFC Charter is appended to the AFC Establishment Agreement and derives its legal force from the AFC Establishment Agreement. The AFC Charter is operative among the shareholders of the Corporation ("Shareholders").

The AFC Establishment Agreement and the AFC Charter provide the basis for the corporate governance of the Corporation. The AFC Charter provides guidelines for the governance and management of the Corporation and defines the roles of the shareholders, Board of Directors and executive management.

The Corporation is headquartered in Lagos, Nigeria, by virtue of a Host Country Agreement with the Federal Republic of Nigeria.

As a multilateral development financial institution, AFC enjoys supranational status and is not subject to the domestic legislation of its Member States, but to international law and conventions applicable to similar institutions generally.

AFC is self-regulated and adheres to international best practices in respect of its operations.



#### **AFC'S MEMBER STATES**

AFC currently has the following 28 Member States: Nigeria, Ghana, Guinea-Bissau, Guinea, Cape Verde, Rwanda, Uganda, Liberia, Sierra Leone, The Gambia, Gabon, Kenya, Côte d'Ivoire, Djibouti, Chad, Benin, Zimbabwe, Zambia, Malawi, Mauritania, Mauritius, Madagascar, Namibia, the Republic of Senegal, Eritrea, Togo, Mali and the Republic of Congo. In 2020, AFC's membership increased with the addition of Mali and the Republic of Congo.

AFC's Member States, by entering into the AFC Establishment Agreement, grant the Corporation the requisite diplomatic immunities, privileges and exemptions to facilitate its operations in their respective territories. These include AFC's immunity from every form of legal action except in respect of the Corporation's operations; the immunity of AFC's property and assets from search, requisition, expropriation, nationalisation and all forms of seizure by executive or legislative action; Member States' agreement, to the extent necessary to implement the purpose of the Corporation, to waive and refrain from imposing any administrative, financial or other regulatory restrictions that are likely to hinder in any manner, the smooth functioning of the Corporation or impair its obligations; Member States' agreement to also provide tax exemptions in respect of the Corporations' operations in their territories. AFC is conferred with preferred creditor status in its Member States.

#### **SHAREHOLDERS**

AFC's current authorised share capital is US\$2.0 billion with a paid in capital of US\$1.2 billion, and as at 31 December 2020, total shareholder funds were US\$2.1 billion. As at 31st December 2020, AFC had 28 shareholders, comprised mainly of African Member States, major financial institutions and development financial institutions. In 2020, AFC welcomed Caisse des Dépôts et Consignations du Gabon (CDC Gabon), the investment vehicle of the Republic of Gabon and the Arab Bank for Economic Development in Africa (BADEA), which both subscribed for shares in AFC, thereby increasing and diversifying the Corporation's shareholder base, which is a key strategic objective of the Corporation.

The shareholders exercise their oversight responsibilities over the affairs of the Corporation, through the Annual General Meeting and any other General Meetings as provided under the Charter of AFC. Shareholders with shareholdings above a set threshold, have the right to nominate representatives to the Board of Directors. Thus, members of the Board are mainly representatives of shareholder institutions, excluding the independent directors and executive directors.

#### **SHARE WARRANTS**

To augment the Corporation's share capital, upon the recommendation of the Board, the shareholders approved the creation of equity warrants: financial instruments which are eligible to be treated as equity. Equity warrants give a holder the right to buy equity in AFC at a predetermined price at a particular date in the future, for example, five to seven years from the date of issuance of the warrants by AFC. To gain this right, the investor is expected to make funds available to AFC upon the issuance of the warrants. The equity warrant structure can be helpful in mitigating the occasionally unpredictable process of raising equity by providing a support structure from existing shareholders. During the tenor of the warrants, AFC will have the option but not the obligation to redeem the warrants by returning the amount invested in the warrants to the investors at any time up to the end of the term. Holders of the share warrants will be entitled to a return on the warrants, which is similar to a dividend payout when declared by the shareholders. The Corporation issued share warrants to the Central Bank of Nigeria in 2020.

#### Shareholder and warrant-holder returns

The Board has recommended a dividend payout of US\$4.057cents per share (US\$46,955,151 in aggregate) as payment to shareholders, and a return on share warrants of US\$4,270,526 to warrant holders at 4.057 US cents per share warrant, subject to the approval of the 2021 Annual General Meeting.

#### CALLABLE CAPITAL

The introduction of callable capital was a significant milestone for the Corporation. It was approved by shareholders during the year under review, as part of the objective to diversify and strengthen the Corporation's share capital. The share capital of many international financial institutions is divided into 'paid-in capital' and 'callable capital.' Paid-in capital is the portion to be paid based on a prescribed schedule, whereas callable capital is the portion shareholders may be called upon by the institution to pay upon the occurrence of certain contingencies, for example, in a situation where the institution finds itself in extreme difficulty and is unable to meet its financial obligations.

#### **BOARD OF DIRECTORS**

The Corporation's 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 the day-to-day operations.

#### **Board Composition**

During 2020 the Board of Directors consisted of 11 nonexecutive directors and 3 executive directors. The nonexecutive directors included one independent director.

AFC's Board of Directors comprises experienced professionals with in-depth finance, project finance, banking, and industry knowledge. No individual or group dominates the Board's decision-making processes.

#### **Changes in the Board of Directors**

The Board of Directors, through its Nomination and Corporate Governance Committee, evaluates the balance of skills, knowledge, and experience on the Board. The Board of Directors, on the recommendation of the Board Nomination and Governance Committee (BNGC), elected Dr Kevin Amugo as a non-executive Director of the Corporation, completing a competitive process launched in 2019. Mr Oliver Andrews retired from his position as executive Director and Chief Investment Officer of the Corporation with effect from 31 December 2020 after a meritorious career serving the Corporation from its inception. The Board appointed Sameh Shenouda, a seasoned investment professional, as the new executive Director and Chief Investment Officer.

#### **Duties of the Board of Directors**

The Board of Directors is responsible for providing overall leadership and setting strategic objectives and guidelines for the long-term success of the Group in meeting the Corporation's mandate.

The Board of Directors remains committed to setting and maintaining superior standards of corporate governance. To this end, the Corporation has in place well defined corporate policies, business practices and internal controls to help safeguard the Corporation's interest whilst pursuing the Corporation's developmental mandate. The Board of Directors has three subcommittees: the Board Nominations and Governance Committee (BNGC), the Board Risk and Investment Committee (BRIC) and the Board Audit and Compliance Committee (BACC).

The Board and its sub-committees are responsible for ensuring that the Group's operations, processes and activities are supported by a strong system of governance that is fully integrated into all aspects of its business, while empowering executive management to execute and deliver against the strategy. The Board remains accountable for the ongoing sustainability of the Group.

There is a clear separation of the roles of the Chairperson and the President and Chief Executive Officer. The Chairperson of the Board is responsible for the overarching management of the Board and the Corporation in setting and monitoring the strategic direction, whilst the President and CEO is responsible for the day-to-day leadership and management of the business, as well as the implementation of the Corporation's mandate in accordance with the agreed strategic framework.



#### **Activities of the Board of Directors**

The Board of Directors meets at least once every quarter, or as the business of the Corporation may require. During Board of Directors meetings, directors actively participate, discuss, deliberate and appraise matters requiring attention and decision. If required, the directors go into closed sessions for discussions amongst themselves without the presence of the executive management, as is necessary to facilitate more effective oversight of the executive management. All directors have access to the advice and services of the General Counsel, the Chief Risk Officer and the Head of Internal Audit as well as the external auditors. Board members can seek independent professional advice at the Corporation's expense as part of the performance of their duties.

The Board of Directors has a schedule of matters reserved for its approval and all other items are delegated to Board committees or executive management. The Chairperson of each Board committee and the Chief Executive Officer present a report of their activities for the quarter at each Board meeting for consideration and ratification of decisions, as appropriate.

In 2020, the Board considered and approved the budget and financing plan for the year. The Board of Directors considered investment proposals above specified thresholds, on the endorsement and recommendation of the Board Risk and Investment Committee, as well as investment proposals with related parties of the Corporation in accordance with the Corporation's Related Party and Associates Policy. The Board of Directors approved the Policy on Related Parties and Associates,

which was revised inter alia to align the definition of Related Party to the International Accounting Standards definition and to ensure that, in the event of any conflict of interest, appropriate disclosures are made, and armslength and objective measures are applied. Various other corporate policies reviewed and endorsed by the relevant Board committees were approved by the Board. The Board of Directors also assessed the financial performance of the Group. The Board of Directors maintained its oversight of the processes in order to evaluate the adequacy of internal controls, risk management, financial reporting and compliance.

## Board Nominations and Corporate Governance Committee (BNGC)

The BNGC considers and reviews policies on the Corporation's governance structure and framework, shareholder matters, human resources matters and the appointment and re-appointment of non-executive and executive directors. In 2020, the BNGC extensively reviewed the Staff Handbook to enhance employee engagement and increase staff productivity. The Corporation's retirement age was revised downwards to reflect Africa's demographics, with the world's youngest population. Employees on permanent contracts were migrated to three-year renewable contracts to create equal treatment of all employees. With the assistance of an executive search firm, Russell Reynolds and Associates, the Committee concluded the selection of a second independent director and made its recommendation to the Board of Directors. The Committee also engaged in the process of the appointment of the new Executive Director and Chief Investment Officer.

The BNGC considered and approved the Corporation's equity raise strategy and endorsed the creation of callable capital and share warrants to augment the Corporation's equity capital. The BNGC also reviewed and endorsed amendments to the Charter of AFC to cater for callable capital, share warrants and other ancillary matters. The BNGC reviewed the Corporation's strategic direction with respect to engaging prospective Member Countries.

The BNGC is made up of nine members and met four times in the year. Sub-committees of the BNGC, set up for the in-depth review of the Staff Handbook and the appointment of the independent director, met on a further four occasions.

#### **Board Risk and Investment Committee (BRIC)**

The BRIC reviews and approves the Corporation's investment decisions. The BRIC sets guidelines and policies on the adequacy of the Corporation's capital, exposure limits, risk profile, liquidity and funding. In addition, the BRIC approves the various borrowings embarked on by the Corporation under its delegated authority from the Board of Directors and monitors the Corporation's financial performance through periodic reports from the Chief Executive Officer. The BRIC meets as often as the business of the Corporation may require, or at least once every quarter.

In 2020, the BRIC considered twenty-seven investment proposals spanning across the Corporation's five key sectors. At each meeting of the BRIC, the Committee rigorously reviewed the risk profile of the Corporation's portfolio of assets in the light of the impact of the COVID-19 pandemic, monitored the various sector limits and reviewed and approved the Corporation's investment decisions. All geographic regions in Africa were covered including the following countries: Cameroon, Côte d'Ivoire, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Gabon, Ghana, Kenya, Mauritania, Morocco, Nigeria, Republic of Guinea, Senegal, Sierra Leone, Tanzania, Togo, Tunisia, and Uganda.

In terms of the Corporation's capital raising, during the year, the BRIC approved the Corporation's fifth Eurobond issuance, the Corporation's first Green Bond, borrowings from the OPEC Fund for International Development, the United States International Development Finance Corporation and various other treasury transactions.

The BRIC also approved the revisions to the various policies on asset and liability management, risk assurance and operation and risk management.

The Committee was made up of seven members during the year and met eight times.

#### **Board Audit and Compliance Committee (BACC)**

The BACC derives its authority from Article 28 of the AFC Charter. The BACC members possess relevant business knowledge, skills and familiarity with banking and accounting practices. The chairperson of the BACC is required to be an independent director. The Committee meets with the external auditors and management of the Corporation in joint sessions to review the Audited Financial Statements of the Corporation. The Committee also reviews the Corporation's financial performance and policies relating to financial matters. The Corporation's budget is reviewed and endorsed by the Committee and recommended to the Board for approval. The BACC also reviews internal audit's reports and recommendations.

In 2020, in line with its oversight responsibility and compliance monitoring, the BACC met the external auditors to review and approve the External Audit Plan and Strategy as well as the Audited Financial Statements for the year ending 31 December 2020. The BACC reviewed the internal audit reports on the Corporation's operations including the activities of all departments of the Corporation during the year. The BACC also approved the implementation of the Internal Audit Plan as proposed by the head of internal audit and the external quality assurance assessment of the internal audit function. The BACC assessed the Corporation's performance and business planning, compliance with prudential requirements as well as compliance management in line with its compliance function. Certain procurements made by the Corporation above a specified threshold were also approved by the BACC. The BACC considered and approved a cloud computing policy and a health and safety policy for the Corporation. The Committee also considered the transition from the London Interbank Offer Rate benchmark to a new reference point.

During the year, the Committee was made up of five members and met four times.

#### Remuneration

The remuneration of Board of Directors was determined by the shareholders at the 2016 Annual General Meeting, in line with the Corporation's vision to attract experienced professionals with vast experience across the Corporation's sectors. The Board of Directors remuneration remains unchanged.

#### **Board Performance Evaluation**

The evaluation of the performance of the Board of Directors is conducted every two years. In 2020 the Board of Directors engaged the Sirdar Global Group (SIRDAR) to conduct a performance assessment of directors, individually and collectively. SIRDAR also assessed the corporate governance practices, procedures and policies of the Board of Directors. SIRDAR is expected to issue its report in 2021.

### Responsibilities of Directors (Financial Statements and Annual Report)

The directors are responsible for the preparation of the financial statements, which give a true and fair view of the state of affairs of the Corporation at the end of the

financial year. These responsibilities include instituting adequate internal control procedures to safeguard assets, prevent and detect fraud or other irregularities; maintenance of proper accounting records; adherence to applicable accounting standards (IFRS in AFC's instance); ensuring relevant accounting policies are used and consistently applied; and the financial statements are prepared on a going concern basis.

The directors consider that the accounts and abridged form Annual Report, are fair, balanced and understandable and provides the information necessary for shareholders to assess the Corporation's financial performance, business model and strategy.

#### Independence

The Board considers all its 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. All Board members exercise their responsibilities on the basis that they owe their fiduciary duties to the Corporation.

#### Attendance at Board of Directors and Board Committee Meetings

	Board of Directors	ВАСС	BNGC	BRIC	Comments
Number of meetings in 2020	4	4	5	8	
Non-Executive Directors					
Joseph Nnanna	1	х	1	х	Retired March 2020
Kingsley Obiora	4	х	5	х	
Adesola Adeduntan	4	3	5	7	
Ahmad Abdullahi	4	4	5	7	
Batchi Baldeh	4	х	х	х	
Emeka Emuwa	4	х	5	8	
Henry Oroh	4	4	х	8	
Kevin Amugo	4	4	х	8	Appointed August 2020
Patrick Akinwuntan	4	4	5	х	
Roosevelt Ogbonna	4	х	5	8	
Soula Proxenos	4	х	5	8	
Victor Osadolor	4	х	5	8	
<b>Executive Directors</b>					
Samalia Zubairu	4	х	х	х	
Oliver Andrews	4	х	х	х	Retired December 2020
Sanjeev Gupta	4	х	х	х	

#### **EXECUTIVE MANAGEMENT**

As President and Chief Executive Officer ("CEO"), Samaila D. Zubairu has responsibility for implementing the strategy agreed by the Board and for the day-to-day management and running of the Group. He is supported in this role by the other members of the executive management committee.

In accordance with the AFC Charter, executive management led by the CEO oversaw the day-to-day management of the Group. Executive management ensured compliance with all Board and board committee policies, monitored the financial performance of the Corporation, maintained compliance of the Corporation's financial ratios, drove the investment decisions of the BRIC and engaged with various stakeholders to ensure an increase in partnerships and membership of the Corporation.

As part of executive management's commitment to enhancing the performance of the Corporation, a Management Performance Review Committee was set up, in which members of executive management, in conjunction with business and sector heads, strategise on the Corporation's investment objectives and monitor the execution of approved investments and the performance of the Corporation's portfolio of assets.

In line with best practices and in furtherance of the Corporation's five-year strategy, the transformation office led by the Chief Transformation Officer continues to develop and improve processes and expand the Corporation's product offerings.

#### **Management committees**

Executive management is supported by various management committees.

#### Independent external auditors

The Board of Directors, on the confirmation of the General Meeting of Shareholders, approved KPMG Professional Services (KPMG), as the Corporation's external auditors.



#### **PEOPLE**

The AFC core values lie at the heart of its business operations and remains the basis of how it interacts and does business. The work and impact of AFC staff continues to be recognised both in Africa and globally. The Corporation currently has one hundred and twelve staff, comprising nineteen different nationalities with a gender split of 62:38. In the recruitment of staff, management continues to embed diversity in the recruitment and selection processes. There is no gender pay disparity at AFC.

To promote employee voice and strengthen employee engagement, the Peoples' Consultative Forum, an employee managed forum, continues to assist management in the way people matters are identified and managed.

#### **CODE OF ETHICS**

AFC's Code of Ethics, which is attested to by all employees clearly states the expectations for staff in the way AFC's business is conducted and managed. The Code of Ethics is applied to all business relationships, contractual agreements and internal operations. Acting consistently and with a strong ethical compass is of great importance to the Board and management because the Corporation operates across different markets that have different challenges and where the laws, environmental requirements and social conditions differ. The directors and management adhere to the highest standards of ethics.

#### WHISTLE BLOWING POLICY

The Corporation's whistleblowing policy encourages staff of the Corporation to speak up and constructively provide guidance on ways to improve AFC's processes. The policy articulates how the Corporation will respond to and investigate reports of misconduct including the protections available to any whistleblower. The Corporation maintains ethics hotlines with Deloitte & Touche. This independent, confidential, toll free hotline operates to enable employees to anonymously report issues, including any breach of the Code of Business Conduct. The BACC also receives reports on any material incidents reported under the internal audit report. There was no reported incident of unethical conduct, harassment or intimidation in 2020. The Corporation

continues to hold an annual anti-harassment, discrimination and intimidation workshop, and continues to train staff on whistleblowing and reporting.

#### ANTI-MONEY LAUNDERING

In 2020, management ensured that all staff underwent training on detecting and combatting anti–money laundering transactions.

The Corporation continues to maintain a gift register. The Board approved gift policy requires that all employees declare to their line managers, with a copy to Human Resources and the Chief Risk Officer in his capacity as the Chief Compliance Officer, all gifts received in connection with the business of the Corporation.

## INDEPENDENT EXTERNAL AUDITORS

The Board, on the confirmation of the General Meeting of Shareholders, approved KPMG Professional Services (KPMG), as the Corporation's external auditors.

#### CHANGES MADE TO AFC'S GOVERNANCE PROCESS AS A RESULT OF THE COVID-19 PANDEMIC

National lockdowns and the remote working policies activated by the Corporation in response to the COVID-19 pandemic, necessitated a re-evaluation of aspects of the Corporation's governance structures. The Corporation needed to adapt some of its policies to ensure that it continues to execute its mandate and remains effective in its operations, processes and activities.

Virtual meetings replaced face-to-face meetings, with the Corporation making the best use of technology to ensure a smooth transition to remote working arrangements. The AFC Charter was also amended to allow for virtual meetings of shareholders, the Board and management. A hybrid Annual General Meeting was held with a few shareholder representatives located physically at the AFC headquarters, whilst most shareholders and staff participated remotely.

Staff were required to work from home from March 2020 and all meetings were held virtually with the support of technology solutions. At each requisite meeting the Corporation was able to provide:

- A secure means for attendees: (shareholders, Board members, management, staff and the external auditors) to remotely connect and actively participate at the meeting; and
- II. Access for shareholders to vote electronically on a secure and verifiable platform with the results of votes immediately displayed for shareholders to view at the General Meetings.

The COVID-19 pandemic did not affect the ability of the various governance functions to execute their respective mandates as the Corporation ensured that innovative solutions were effectively utilised to minimise disruptions to AFC's governance systems.

#### **Extraordinary General Meeting**

An Extraordinary General Meeting was held on 30 December 2020 to approve several amendments to the AFC Charter to enable the implementation of the Corporation's plan to raise additional equity capital to facilitate its capital structure, broaden and diversify its shareholder base, and retain AFC's rating whilst positioning for a second rating. The amendments include: (i) authorising the Corporation to create and issue callable capital; (ii) enabling the Corporation to procure capital in alternative forms other than shares; (iii) creation of different classes of shares; and (iv) authorising the conduct of virtual meetings of shareholders, the Board of Directors, and the executive management. In view of the COVID-19 pandemic, the need to enable virtual meetings of the Corporation's organs became of utmost importance as virtual meetings had become a necessary part of the Corporation's governance and decision-making functions.

#### **Annual General Meeting**

Pursuant to the provisions of the AFC Charter, an Annual General Meeting will be held in April 2021. A copy of the Notice is available on AFC's website.

#### **LEADERSHIP PROFILES**

A summary of the skills and experience of the Board of Directors and Executive Management are set out below.

#### **CHAIRMAN**

#### **Dr. Kingsley Obiora**

Dr Obiora is Deputy Governor (Economic Policy) in the Central Bank of Nigeria. Prior to this, he was an Alternate Executive Director in the International Monetary Fund (IMF) in Washington DC, USA. In this capacity, he was a member of the Executive Board, collectively responsible for conducting the daily operations of the IMF. He also assisted in representing the interests of 23 African countries, including Nigeria, at the Board.

He first joined the IMF through the globally competitive 'Economist Programme' in 2007 and worked in both the European Department as well as the Strategy, Policy and Review Department, whilst carrying out extensive work on exchange rate assessment, debt sustainability analyses, decoupling and spillovers, real sector analyses, as well as several reviews of Financial Sector Assessments. Before the IMF, Dr Obiora had stints at the West African Monetary Institute in Accra, Ghana, and the Centre for Econometric and Allied Research at the University of Ibadan, Nigeria.

From October 2011 to May 2014, Dr Obiora simultaneously served as Technical Adviser to Nigeria's National Economic Management Team as well as Special Assistant to President Jonathan's Chief Economic Adviser. During this time, he played key roles in helping shape the country's economic policies on several fronts, including on energy subsidies, power sector reform, measurement of job creation, architecture of development financing, regulatory framework for doing business, and asset-based economic mapping and modelling.

Dr Obiora also served as Special Adviser on Economic Matters to the Governor of the Central Bank of Nigeria (CBN) from June 2014 until July 2018. In this role, he contributed to the overall analytical and policy work of the CBN, bringing his extensive international and national economic experiences to bear in helping the Bank understand the ramifications of, and deal with spillovers

from, the external shocks emanating from the significant drop in global oil prices. Dr Obiora has a first degree from the University of Benin, as well as Master's and Doctorate degrees in Economics from the University of Ibadan.

#### NON EXECUTIVE DIRECTORS

#### **Emeka Emuwa**

Emeka Emuwa is currently the Chairman of the Board Risk and Investment Committee and a non-executive Director of the Corporation. He is the Group Managing Director and Chief Executive Officer of Union Bank of Nigeria (Union Bank). He joined the Bank in 2012 to lead its transformation following the Bank's recapitalisation by Union Global Partners Limited, an international consortium of private equity investors.

An accomplished banker with 30 years' experience across Africa, Mr Emuwa joined Union Bank after a distinguished 25-year career with Citibank. Following several senior roles in Cameroon, Gabon, Congo, Tanzania, Ghana, Niger and the Democratic Republic of Congo, Emeka became the first Nigerian to be appointed Country Officer and Managing Director of Citibank in Nigeria, a position he held until he was appointed the Chief Executive Officer of Union Bank.

Mr Emuwa is the Chairman of the Financial Literacy and Public Enlightenment (FLPE) sub-committee of the Nigerian Bankers' Committee. He is the Chairman of the Nigeria Portugal Friendship and Business Association and a former Chairman of Junior Achievement Nigeria. He is a former Director of Accion Microfinance Bank and the American Business Council.

Mr Emuwa graduated from the University of Lagos with a degree in Finance and holds an MSc. in Management from Purdue University's Krannert School of Management. Outside his professional career, he is deeply committed to causes affecting the underprivileged and children with disabilities.

#### **Ahmad Abdullahi**

Ahmad Abdullahi is the new Interim Chairman of the Board Audit and Compliance Committee. He was the Director and Head of Banking Supervision Department at the Central Bank of Nigeria and retired from the Central Bank of Nigeria in February 2020. Mr Abdullahi joined the services of the Central Bank of Nigeria in 1990 as a Manager and rose to the position of Director. He was a Manager in charge of Retail Banking Services in the Central Bank of Nigeria branches of the Ibadan, Kano and Katsina States of Nigeria, before serving as a Relationship Manager, Team Lead and Group Head in off-site supervision of some pan-African banks in the Banking Supervision Department of the Central Bank of Nigeria. He was promoted to the position of Director Governor's Department in 2012 and thereafter moved to the Other Financial Institutions Supervision Department as Director in 2014. Mr Abdullahi oversaw the on-site and off-site supervision of commercial banks, merchant banks, specialised institutions and discount houses to ensure the safety and soundness of the financial system.

Before joining the Central Bank of Nigeria in 1990, Ahmad Abdullahi was a lecturer with Usman Danfodiyo University, Sokoto, Nigeria, between 1985 and 1990. During his career, Mr Abdullahi developed competencies in the areas of financial regulations, banking services, business reengineering and performance improvement, teaching and research, corporate governance, as well as ethics and compliance.

He is a Member of the Society of Corporate Compliance and Ethics and a certified Compliance and Ethics Professional. He holds a Bachelor of Science degree in Agricultural Economics from the Ahmadu Bello University Zaria, Nigeria, a Master's in Agricultural Economics from the University of Ibadan, Nigeria and a Master's in Banking and Finance from Bayero University Kano, Nigeria.

He is also a member of professional bodies such as the Nigerian Institute of Management, the Chartered institute of Bankers of Nigeria and the Institute of Directors.

#### Dr Adesola Kazeem Adeduntan, FCA

Dr Adesola Adeduntan is an accomplished professional with extensive experience in commercial and investment banking, development finance, audit and consulting. He is a philanthropist and leader with keen interest in providing platforms for the development of young leaders.

He is the Chief Executive Officer of FirstBank Group, the commercial banking arm of FBN Holdings Plc in Nigeria with presence in the United Kingdom, six African countries as well as representative offices in France and China. He is overseeing one of the most extensive transformation programmes in the sub-Saharan African financial services industry, with the goal of repositioning FirstBank Group to market pre-eminence. He is leading FirstBank on the journey to win the most significant emerging business opportunities in the financial services industry through the development and execution of a digital-led strategy that has established FirstBank as the clear leader in digital banking propositions. FirstBank Group's transformation programme, under the leadership of Adesola, has enabled FirstBank to grow customer accounts from about 10 million in 2015 to over 30 million; become the second largest issuer of cards in Africa with over 11 million issued cards; onboard over 11 million active customers on FirstBank's USSD platform and over 4 million users on FirstBank's Mobile Banking App; and initiate and grow the most expansive bank-led agent banking network in Africa with over 86,000 agents.

Adesola is currently on the Boards of the Africa Finance Corporation (AFC), FBN Holdings Plc, FBN Bank UK, Shared Agent Network Expansion Facilities Ltd (SANEF), and Nigeria Interbank Settlement System (NIBSS). He is a past executive Director and Chief Financial Officer of FirstBank. Prior to FirstBank, he was a Director and pioneer CFO/Business Manager of the Africa Finance Corporation (AFC). At AFC, he led the team that designed and executed the Corporation's 'International Credit Rating Strategy,' which culminated in the Corporation being assigned an A3 international credit rating by Moody's, making it the second highest rated lending entity in Africa. Adesola also served as a Senior Vice-President and CFO at Citibank Nigeria Limited; a Senior Manager in the Financial Services Group of KPMG Professional Services; and a Manager at Arthur Andersen.

His career in banking and finance spans almost three decades and has earned him various recognitions and awards including Forbes Best of Africa – Outstanding Leader in Africa; Distinguished Alumnus Award from the School of Management Cranfield University, UK; Distinguished Alumnus Award from the University of Ibadan; African Banking Personality of the Year from African Leadership Magazine; Bank CEO of the Year from the AES Excellence Club and several other awards.

He holds an MBA from Cranfield University Business School, United Kingdom, which he attended as a Chevening Scholar and a Doctor of Veterinary Medicine (DVM) awarded by University of Ibadan. He has attended various executive and leadership programmes at Harvard Business School (USA), Wharton School (USA), London Business School (UK), IESE (Spain), University of Oxford (UK), University of Cambridge (UK), CEIBS (China) and INSEAD (France). He is a Fellow of both the Institute of Chartered Accountants of Nigeria (ICAN) and the Chartered Institute of Bankers of Nigeria (CIBN).

A philanthropist par excellence, Adesola is a member of the Bretton Woods Committee, the non-partisan network of prominent global citizens that works to demonstrate the value of international economic cooperation and foster strong, effective Bretton Woods institutions as forces for global well-being. He is also a member of Sigma Educational Foundation which is focused on enhancing the quality of tertiary education system in Nigeria, a member of the Steering Committee of the Private Sector Coalition Against COVID-19 (CACOVID) in Nigeria, a member of the Governing Council of CIBN, the Chairman of CIBN's Committee on Establishment of The Banking Museum, the Vice Chairman of CIBN's Body of Banks' Chief Executive Officers, and a member of the Board of Lagos State Security Trust Fund.

Adesola is an adept lover of music, especially African folk music.

#### **Patrick Akinwuntan**

Patrick Akinwuntan is Managing Director and Regional Executive at Ecobank Nigeria. Until his appointment in July 2018, Patrick was Group Executive, Consumer Bank at the Ecobank Group, leading the business across 33 countries in Africa. The Consumer Bank covers the retail, microfinance, cards, e-banking and remittances businesses of the Ecobank Group.

Under his leadership, Ecobank has launched several digital innovations that are revolutionising banking, creating an unrivalled payments ecosystem such as Ecobank's unified Mobile app, \*326#, EcobankPay Merchant QR, Ecobank Xpress Account, Ecobank Xpress Cash (cardless ATM withdrawal), Ecobank Rapidtransfer remittances, the Ecobank Pan-African Card and Rapidtransfer (instant funds transfer) across 33 African countries in 18 currencies.

Prior to his role as Group Executive, Consumer Bank, he has held various Group responsibilities, including Group Executive, Director, Domestic Bank; Group Executive, Director, Operations, Technology, Transaction and Retail Banking; and Managing Director of eProcess International. Mr Akinwuntan is an Honorary Fellow of the Chartered Institute of Bankers of Nigeria. He also holds an MBA in Finance, is a Fellow of the Institute of Chartered Accountants of Nigeria, an Associate of the Chartered Institute of Taxation of Nigeria and alumnus of the Harvard Business School executive programme.

#### Roosevelt Ogbonna, FCA

Roosevelt Ogbonna is the Group Deputy Managing Director of Access Bank PLC. He has over 20 years of experience in banking cutting across treasury, commercial, corporate and investment banking. Prior to his appointment, he was the Executive Director, Wholesale Banking Division of Access Bank PLC.

He is a Fellow of the Institute of Chartered Accountants of Nigeria, a Senior Executive Fellow of Harvard Kennedy School, an alumnus of Harvard Business School and a CFA charter holder. He holds a Master's degree in Business Administration from IMD Business School, an Executive Master's degree in Business Administration from Cheung Kong Graduate School of Business and a Bachelor's degree in Banking and Finance from the University of Nigeria, Nsukka. In 2015, he was selected as one of the Institute of International Finance (IIF) Future Global Leaders.

Mr Ogbonna sits on the boards of several institutions including Access Bank UK Limited, Access Bank (Zambia) Ltd and Central Securities Clearing System PLC.

#### **Victor Osadolor**

Victor Osadolor was the immediate past Deputy Group Managing Director, United Bank for Africa (UBA) Plc, Group and Managing Director of UBA Africa; a Director on the Board of UBA Capital Europe and the Chairman of UBA Pensions Custodians Limited. Mr Osadolor holds a Bachelor of Science with Honours in Accounting from the University of Benin. He is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN); an alumnus of Harvard Business School's Advanced Management Programme; and an honorary life member of the Chartered Institute of Bankers of Nigeria (CIBN).

Prior to his appointment as the Deputy Group Managing Director of UBA Plc, Victor served as Group Director, Heirs Holdings (HH) Limited between 2014 and 2015. At different times between 2012 and 2014 he was the Chief Operating Officer for Corporate and Investment Banking as well as the Chief Strategist for Ecobank Transnational Incorporated (ETI). In these capacities, he worked out of Johannesburg, South Africa and Lomé, Togo.

During his career spanning about three decades, he has also served as Managing Director, UBA Capital; Deputy Managing Director, UBA (South Bank); Executive Director, Risk and Finance, UBA; Group Chief Finance Officer, UBA; Executive Director, Risk and Compliance, Standard Trust Bank; Deputy Managing Director, CTB; Chief Finance Officer, Ecobank Nigeria; Chief Finance Officer, Guaranty Trust Bank; and Auditor, Coopers & Lybrand (now PriceWaterhouseCoopers).

#### **Henry Oroh**

Henry Oroh is an executive Director at Zenith Bank International Plc. Prior to his current appointment, he was the Managing Director and CEO of Zenith Bank Ghana. Mr Oroh has almost two decades of experience in the banking industry. He is a chartered accountant and an honorary member of the Chartered Institute of Bankers, Nigeria. He also holds an LLB from the University of London. He holds a Bachelor's degree in Accounting from the University of Benin, Edo State, and an MBA from the Lagos State University, as well as an LLB Degree from the University of Lagos.

Mr Oroh is a Fellow of the Institute of Chartered Accountants of Nigeria (ICAN) and an honorary member of the Chartered Institute of Bankers (CIBN), Nigeria. He began his banking career in 1992 at Citibank where he served for seven years in operations, treasury and marketing. His expertise spans operations, information technology, treasury, marketing, including the manufacturing, food and beverages, pharmaceuticals, oil and gas, public sector, consumer, as well as in corporate banking and business development.

#### **Anastasia I. Proxenos**

Anastasia Soula Proxenos was appointed as an Independent Director of the Corporation during the year. Ms Proxenos has more than 30 years of financial services experience and a deep understanding of the capital markets, fundraising, brand-building and real estate. Ms Proxenos is an adjunct Professor at Johns Hopkins Carey School of Business and School for Advanced International Studies (SAIS). She is an independent non-executive director, consultant, and advisor of several organisations. She has extensive experience as board chair, committee chair (nominations, and compensation committees), committee member (audit and credit) for not-for-profit and commercial boards.

Ms Proxenos was formerly Managing Director of International Housing Solutions (January 2017). She led the efforts in founding South African Workforce Housing Fund. As Founder, she developed the concept, was responsible for staffing, raising the capital, strategy and government relations. She was co-chair of the investment committee and was with the group for eleven years. She remains on the group's advisory board. Prior to this, she was Managing Director of Fannie Mae's International Housing Financial Services for seven years. She had responsibility for the P+L of Fannie Mae's international consulting services and training programmes, assisting in the development of market-based housing finance systems in over 35 countries.

Ms Proxenos holds a Bachelor of Arts from Wits University and an MBA from the University of Stellenbosch.

#### **Henry Paul Batchi Baldeh**

Mr Batchi Baldeh is an investment banker, infrastructure developer and utility management specialist, with over 33 years of professional experience across the power value chain and financing capital structure. Mr Baldeh is currently the Director, Power Systems Development, at the African Development Bank (AfDB), which he joined in May 2017. He is also responsible for the management of the AfDB's private sector energy loan portfolio.

Prior to joining AfDB, Mr Baldeh was the Director, Power Business, Investments Division, at the Africa Finance Corporation. He has also been a consultant to the World Bank, European Union / BizClim and Government of Lesotho; and was the pioneer Managing Director of Gambia's National Water and Electricity Company, from 1995 – 1999.

He is currently a non-executive Director of the Development Bank of Nigeria; and served as the Chairman of the Board of Directors of Cabeolica S.A. and Cenpower Operations and Services Limited. He was an Alternate Director and Technical Committee member of the Benin Electricity Distribution Company.

Mr Baldeh holds an MBA from Boston University, USA, and BSc Honours in Electrical and Electronic Engineering from Newcastle-upon-Tyne University, UK. He is a member of the Institute of Engineering and Technology (UK) and a Fellow of the Institute of Directors, Southern Africa.

#### **Dr Kevin Amugo**

Kevin Amugo joined the Central Bank of Nigeria as a Senior Supervisor in 1990. He excelled across various departments including the Accounts, Banking and Treasury Offices of Enugu Branch; Banking Supervision Department; and the Financial Policy and Regulation Department.

An inspirational leader with an exceptional track record, he has delivered outstanding results in all his work experiences. He joined the Banking Supervision Department in 1995 as an Assistant Manager and rose to the position of Assistant Director. With ease, he formulated and reviewed the Banking Supervision Policy. Working in the Surveillance Division for over eight years imbued him with extensive knowledge in bank restructuring and management of distressed financial institutions. His deft knowledge in banking policy formulation, combined with the overall supervision of the Nigerian Banking System were evident in his services at the Committee of Bank Supervisors of West and Central Africa's Technical Committee on the Harmonisation of Prudential Standards. He was a member of the Banking Sector Consolidation Committee that midwifed the seamless restructuring of the banking sector in 2005 and supported the expansion of Nigerian banks into international frontiers between 2006 and 2009. He was involved in several other strategic assignments.

He moved to the Financial Policy and Regulation
Department and was promoted to Deputy Director in
August 2010. He was the Project Manager that
meticulously coordinated the implementation of
IFRS/Basel II in the Nigerian Banking systems in 2012. He
was appointed Director on July 18, 2013. Many guidelines,
circulars and frameworks that facilitate the orderly
supervision of the banking system in Nigeria have been
issued under his guidance. Dr Amugo is passionate about
his work and strives to provide outstanding results which
are accentuated through the structured financial policy
and regulation plans he facilitates.

From his studies and work experiences over the years, Dr Amugo has developed robust analytical and effective communication skills and progressively moved up the corporate ladder through sheer diligence and perseverance.

He has attended many national and international courses in leadership, corporate governance, banking supervision and regulation, accounting, finance and risk management.

Dr Amugo was appointed to the Board of AFC on June 26, 2020. He is married with children.

Kevin Amugo holds a PhD in Management from Nasarawa State University, Keffi; a MSc Finance, University of Calabar; and a BSc Accountancy, University of Nigeria, Nsukka. He passed the Professional Examination of the Institute of Chartered Accountants of Nigeria (ICAN) and has risen to Fellowship of the Institute (FCA).

#### **EXECUTIVE DIRECTORS**

#### Samaila Zubairu

Samaila Zubairu is Africa Finance Corporation's President and Chief Executive Officer. Under Mr Zubairu's entrepreneurial leadership an ecosystem strategy is being deployed to address the urgent mandate of developing and financing infrastructure, natural resources and industrial assets across Africa.

In 2019, AFC achieved a series of firsts in its diversification of funding sources: two Eurobonds, the largest debut Samurai loan by an African issuer, and closure of the inaugural US\$140 million Kimchi term loan facility.

Prior to his appointment, Samaila was the CEO of Africapital Management Limited, where he established a joint venture with Old Mutual's African Infrastructure Investment Managers to develop the Nigerian Infrastructure Investment Fund for infrastructure private equity across West Africa.

As Chief Financial Officer for Dangote Cement Plc, he launched Africa's largest syndicated project finance facility for the Obajana Cement project and managed the unbundling of Dangote Industries Limited to listed subsidiaries on the Nigerian Stock Exchange. Prior to that, he was the Treasurer for the Dangote Group during its transformation from a trading company to an industrial conglomerate.

Samaila sits on the Eisenhower Fellowship's Global Network Council and the President's Advisory Council. He holds several non-executive board positions. He is a Fellow of the Institute of Chartered Accountants, Nigeria (FCA) and holds a BSc in Accounting from Ahmadu Bello University, Nigeria.

#### Sanjeev Gupta

Sanjeev Gupta is AFC's Executive Director and Head of the Financial Services Division. He is responsible for treasury, trade finance and syndications, country relations and corporate advisory lines of business within AFC. Mr Gupta has over 25 years' experience in investment management, private equity and corporate advisory services. Sanjeev's forte is blending together global and indigenous corporates, financial investors and governments to develop commercially viable business and development models that leave a sustainable impact on emerging market economies.

Prior to joining AFC, Mr Gupta was the Managing Partner of Emerging Markets M&A Centre of Excellence at Ernst Young (EY). He was also the Chief Executive Officer of Sanlam Investment Management Emerging Markets operations and a Founder and erstwhile Managing Partner of Emerging Opportunity Consulting, a boutique advisory firm specialising in SME financing. He holds a Bachelor's degree from the University of Calcutta, India, and is an alumnus of the Said Business School, University of Oxford, England. He is also a Fellow of the Institute of Chartered Accountants of India (FCA).

#### Oliver Andrews (Retired 31 December 2020)

Oliver Andrews is AFC's Executive Director and Chief Investment Officer. In this capacity, he leads the Corporation's origination, technical/industry and project development teams. He is also a member of the Corporation's executive committee. An entrepreneurial engineer and transport economist with an extensive background in engineering, transport and project finance, Oliver has over 30 years' experience in the various infrastructure sectors and 20 years as an infrastructure project developer, financier and strategic adviser.

He was the project director for Cenpower leading a multidisciplinary project team drawn from several institutions that successfully achieved financial close for a US\$900 million landmark project in Ghana, which won the 2014 Africa Power Deal of the year.

Mr Andrews is a former CEO of TCI Infrastructure Limited (TCII) and the Gambia Ports Authority. He has extensive international experience in infrastructure development and financing both from a public and private sector perspective, within and outside the African continent. He has successfully directed numerous infrastructure deals in Africa leading project development teams providing strategic, policy, programme and commercial advice on infrastructure development issues to development financial institutions, international blue-chip corporations and Governments in Africa and Europe. Mr Andrews holds an MBA from the University of Wales, is an Electrical and Electronic Engineer and Chartered Marketer and also a member of the Chartered Institute of Transport and Logistics.

He is a non-executive director of several companies and the Chairman of the Board of Trustees of the Africa Centre, a UK registered charitable organisation that exists to promote Africa's culture diversity outside of the continent and serves as a hub to promote creativity and innovation in African art, culture, business and entrepreneurship in London.

#### **EXECUTIVE MANAGEMENT**

#### **Ayotunde Anjorin**

Ayotunde Anjorin is a senior Director and the Chief Financial Officer of the Corporation. Prior to this, he was AFC's Senior Vice President and Head of Finance and Operations with strategic leadership responsibilities for all finance related activities, comprising banking operations, financial reporting and control, product control and settlement. Mr Anjorin joined the Corporation as the Vice President and Financial Controller. Prior to AFC, he worked at Standard Chartered Bank Nigeria, where he held several positions within the finance group and internal audit at national and regional levels. He was the regional Head of Wholesale Banking Finance at Standard Chartered Bank responsible for managing wholesale banking finance activities across West Africa. He has also worked as a consultant for KPMG.

Mr Anjorin holds a Bachelor of Science degree in Accounting from Obafemi Awolowo University, Ile-Ife. Ayotunde is a chartered accountant with more than 15 years post qualification experience encompassing financial accounting, reporting and control, management accounting, financial risk management, process reengineering and reviews. He has also attended Harvard Business School, IMD and Wharton School of the University of Pennsylvania Executive Management programmes.

#### **David Johnson**

David Johnson is the Corporation's Director and Chief Risk Officer and Chief Compliance Officer. Until his appointment, Mr Johnson was the Vice President, Market Risk Management. Prior to joining AFC, he spent fifteen years working as a risk manager, trader and structurer at various international banks including Stanbic IBTC Bank, where he was Regional Head of Market Risk for West Africa; Risk Manager for the Credit Derivatives Group at WestLB AG; and the Asset Backed Commercial Paper (ABCP) conduit at Abbey National Treasury Services (ANTS).

His academic studies included mechanical engineering, computing, mathematical trading and finance.

#### **Nana Eshun**

Nana Eshun is the General Counsel and Corporate Secretary of the Corporation. Ms Eshun is a finance and infrastructure lawyer with several years' experience. While at AFC she has led the Legal Department on investments and borrowings. Prior to joining AFC in 2008, Ms Eshun worked for the African Development Bank where she led on the legal aspects of financing of several projects including infrastructure (power, roads, heavy industries etc.) and other projects for economic development. She also represented the Ministry of Finance/Government of Ghana as lead finance lawyer, primarily on the West African Gas Pipeline Project. Before that, she worked as a solicitor with city commercial law firms in the United Kingdom - Denton Wilde Sapte Solicitors and Eversheds Solicitors - on private finance initiative projects.

Ms Eshun is a Barrister at Law, admitted to the Ghana Bar in 1987 and a Solicitor of the Supreme Court of England and Wales, admitted in 1994. She holds a BA (Law & Sociology) from the University of Ghana, BL (Barristers Law Practicing Certificate) from the Ghana School of Law, Law Society Finals (UK Solicitors Qualifying Course) from the College of Law, Guildford, United Kingdom, and an LLM in International Business Law from the University of London.

#### **Anthony Arabome**

Anthony Arabome is the Director, Corporate Services, with oversight responsibility for human resources, administration, information technology and procurement. He has over 35 years' experience at both technical and managerial levels, in human resources management, across the oil, gas and financial services sectors, having worked for leading global and multilateral institutions throughout his career. Prior to joining the Corporation in 2009, he was Human Resources Executive and Board Director of Royal Dutch Shell Nigeria's Deepwater Exploration and Production business (SNEPCo), and the Talent, Resourcing and Development Manager for Royal Dutch Shell Africa Exploration and Production regional business.

He holds an BSc (Hons) degree in Economics from the University of Ife, Nigeria (1982), a Master of Science degree in Human Resource Management from Birkbeck College, University of London, UK (2018); in addition to postgraduate diplomas (PGDs) in Human Resource Management from the Kingston Regional Management Centre, UK (1988), and Theology and Leadership, RILA, Lagos (2009). He is also a certified occupational testing and psychometrics professional (SHL, UK 1993).

Anthony is an alumnus of several executive education programmes in HR leadership, strategy and business management at the University of Michigan, USA (2002), IMD Switzerland (2004), Cornell University USA (2008), INSEAD (2008) and London Business School (2014, 2015 and 2017). Anthony is a distinguished Fellow of the Chartered Institute of Personnel Management of Nigeria and is the Institute's immediate past President. He is a member of the Society for Human Resource Management (SHRM), the International Society for Performance Improvement (ISPI) and the Association for Talent Development (ATD).

## **BOARD MEMBERS - NON EXECUTIVE DIRECTORS**



**Dr. Okwu Joseph Nnanna**(Chairman until
6th March, 2020)



**Dr. Kingsley Obiora** (Chairman from 6th March, 2020)

## NON EXECUTIVE DIRECTORS



Dr. Adesola Kazeem
Adeduntan, FCA
Non-Executive
Director



Patrick Akinwuntan, FCA Non-Executive Director



Ahmad Abdullahi Non-Executive Director



Emeka Emuwa Non-Executive Director

### NON EXECUTIVE DIRECTORS



Roosevelt
Ogbonna, FCA
Non-Executive
Director



Victor Osadolor, FCA Non-Executive Director



Henry Oroh, FCA Non-Executive Director



Soula I. Proxenos
Independent
Non-Executive
Director

## NON EXECUTIVE DIRECTORS



**Kevin Amugo** Non-Executive Director



Henry Paul Batchi Baldeh Non-Executive Director

## **BOARD MEMBERS - EXECUTIVE DIRECTORS**



Samaila Zubairu CEO & President



Oliver Andrews
Executive Director
& Chief Investment
Officer



**Sanjeev Gupta**Executive Director,
Financial Services

### **EXECUTIVE MANAGEMENT**



Ayotunde Anjorin Senior Director & Chief Financial Officer



David Johnson
Director, Chief Risk
Officer & Chief
Compliance Officer



Nana Eshun General Counsel & Secretary of the Corporation



Anthony Arabome
Director, Corporate
Services

#### 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 safe-quarding the assets of the Corporation.

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

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

#### **Approval of Annual Financial Statements**

The annual financial statements, presented on pages 47 to 127 were approved by the Board of Directors on 2 March 2021 and were signed on its behalf by:

and Care

Chairman

President & CFO

# REPORT OF THE AUDIT AND COMPLIANCE COMMITTEE TO THE BOARD OF DIRECTORS AND GENERAL MEETING OF THE AFRICA FINANCE CORPORATION

In compliance with the provisions of Article 28 of the Charter of the Africa Finance Corporation and pursuant to the terms of the Audit and Compliance Committee (the "Committee") statute concerning the establishment, membership, functions and powers of the Audit Committee of the Africa Finance Corporation, the Committee considered the audited financial statements for the year ended 31 December 2020, at its meeting held on 19 February 2021.

In our opinion, the scope and planning of the audit for the year ended 31 December 2020 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 2020.

The Committee, therefore, recommended that the audited financial statements of the Corporation for the financial year ended 31 December 2020 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 2021 financial year.

Mr. Ahmad Abdullahi

Chairman

Audit & Compliance Committee

Members of the Committee Mr. Henry Oroh Mr. Patrick Akinwuntan Dr. Kevin Amugo



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#### INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Africa Finance Corporation

#### Opinion

We have audited the consolidated financial statements of Africa Finance Corporation and its subsidiary (together, "the Corporation"), which comprise:

- the consolidated statement of financial position as at 31 December 2020;
- the consolidated statement of comprehensive income;
- the consolidated statement of changes in equity;
- the consolidated statement of cash flows for the year then ended; and
- the notes, comprising significant accounting policies and other explanatory information.

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, 2020, 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 International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (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.

#### Expected Credit Loss on Loans and Advances to Customers

The determination of Expected Credit Loss (ECL) allowance 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.



The approach used in estimating the ECL allowance on loans and advances to customers is based on whether there is a significant increase in credit risk on the loan portfolio. Where there is evidence of a significant increase in credit risk on loans and advances to customers, the ECL allowance is estimated from losses expected to result from default events over the life of the loans. Where there is no evidence of significant increase in credit risk for loans and advances to customers, the ECL allowance 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 the model, with the key judgements and assumptions such as the:

- Probability of a loan becoming past due and subsequently defaulting;
- Criteria for assessing significant increase in credit risk (SICR);
- Incorporation of forward-looking information, which includes consideration of the impact of changes in the economic environment; and
- Identification of impaired loans and advances and the estimation of the loss allowances.

The ECL allowance on loans and advances to customers is considered to be of most significance in the audit due to the high level of subjectivity, judgments and assumptions applied by management in determining the 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;
  - Management review of the model assumptions and inputs; and the resultant ECL allowance arising from the model
  - Management review and approval of the expected credit losses arising from the model.
- We examined the staging of loans and advances to customers by assessing whether the staging analysis used in the ECL allowance measurement are consistent with the Corporation's credit risk management policy and is accurate and complete. We assessed the appropriateness of the Corporation's determination of significant increase in credit risk and the resultant classification of loans into the various stages by examining the performance of loans and advances to customers as at 31 December 2020. For loans and advances to customers which have shown a significant increase in credit risk, we evaluated the level of past due obligations and qualitative factors such as available industry information about the obligors to determine whether the Corporation should make an estimate based on the losses expected to result from default events within a year or defined default events over the life of the facilities. We also agreed significant loans and advances to customers to relevant documentation such as loan agreements, repayment schedules and the bank statements.
- With the assistance of our financial risk management specialists, we tested the key data and assumptions for the data input into the ECL models used by the Corporation and the accuracy of the expected credit loss charged by:
  - Challenging the reasonableness of the Corporation's ECL methodology, considering whether it reflects unbiased and probability-weighted amounts that is determined by evaluating a range of possible outcomes, the time value of money and reasonableness and supportable information at the reporting date about past events, current conditions and forecasts of future economic condition;



- Assessing the appropriateness of the Corporation's forward-looking assumptions comprising the Standard and Poor's Goldman Sach's Commodity Index (S&P GCSI), by corroborating management's assumptions with publicly available information from external sources;
- 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 aligned with the generally available data and assessing whether the Corporation's methodology is in line with IFRS 9 requirements; and
- Re-performing the calculations of impairment allowance for loans and advances as at 31 December 2020 using the Corporation's ECL allowance models on loans and advances to customers.

The Corporation's accounting policy on impairment and related disclosures on credit risk are shown in notes 2.8, 3.1.5 and 3.1.6 of these financial statements.

#### Fair valuation of investments in unquoted equities

Owing to the nature of the unquoted equity 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 and methodology, estimation of future cashflows, use of market 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.

#### How the matter was addressed in our audit

Our audit procedures to assess the reasonableness of the valuation of unquoted equity instruments as at 31 December 2020 included the following:

- Involved our valuation specialists to assist in:
  - Reviewed the valuation methodology and supporting documentation used by management to assess the fair values of the investments;
  - Challenging the key assumptions underlying the operational forecasts by comparison with externally available information, investee company accounts and management information as applicable;
  - Assessing the reasonableness of key input in determining the cost of equity, Beta factor and weighted average cost of capital (WACC) and other discount factors applied in estimating the fair values of the unquoted equities
  - Reperforming 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. The other information comprises the statement of Directors' responsibilities and Report of the Audit and Compliance Committee. Other information also includes the Corporate information, Chairman's statement, Chief Executive Officer's (CEO) Letter to Shareholders, Financial highlights, Corporate Governance Summary, Risk management Report,



Environmental & Social Risk Management, People & Organisation and Operating Review (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 the Board Audit and Compliance Committee.

#### 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 IFRSs 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Corporation 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.

We also provide the Board Audit and Compliance Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

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 year 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.

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Oluwafemi O. Awotoye, FCA FRC/2013/ICAN/00000001182 For: KPMG Professional Services Chartered Accountants 5 March 2021 Lagos, Nigeria



## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020

	Note*	2020 US\$'000	2019 US\$'000
Interest income	6	339,571	310,166
Interest expense	6	(172,466)	(147,546)
Net interest income		167,105	162,620
Credit risk insurance	12(b)	(15,687)	(2,935)
Dividend income	7	2,331	2,311
Fees, commissions and other income	8	65,557	68,790
Operating income		219,306	230,786
Net gain on financial instruments at fair value through profit or loss	9	35,012	71,501
Impairment charge on financial assets	10	(38,631)	(77,468)
Gain on disposal of financial assets	11	9,531	12,779
Operating expenses	12(a)	(60,128)	(54,296)
Profit for the year from continuing operations		165,090	183,302
Profit for the year, from discontinued operations	25(a)	464	-
Profit for the year		165,554	183,302
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Net loss on FVOCI financial assets (equity instruments)	33	(9,022)	(18,512)
Items that are or may be reclassified to profit or loss:			
Net gain on FVOCI financial assets (debt instruments)		-	(265)
Other comprehensive income	33	(9,022)	(18,777)
Total comprehensive income for the year		156,532	164,525
Profit for the year is attributable to:			
Parent		165,526	183,302
Non-controlling interests	25(a)	28	-
Profit for the year		165,554	183,302
Total comprehensive income for the year is attributable to:			
Parent		156,504	164,525
Non-controlling interests	25(a)	28	-
Total comprehensive income for the year		156,532	164,525
Earnings per share			
- Basic/diluted (United States cents)	14	14.37	16.64
Earnings per share - Continuing operations			
- Basic/diluted (United States cents)	14	14.33	_

<sup>\*</sup> The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2020

	Note*	2020 US\$'000	2019 US\$'000
ASSETS			
Cash and balances with banks	15	53,128	49,437
Loans and advances to banks	16	2,345,361	2,083,436
Derivative financial instruments	17	50,279	22,548
Loans and advances to other customers	18	2,310,884	2,010,023
Financial assets at fair value through profit or loss	19	1,274,801	1,002,974
Investment securities	20	781,808	718,845
Pledged assets	21	433,484	172,413
Other assets	22	38,947	51,424
Property and equipment	23	5,612	7,223
Intangible assets	24	1,582	489
		7,295,886	6,118,812
Non-current assets held for sale	25	67,273	-
Total assets		7,363,159	6,118,812
LIABILITIES:			
Accrued expenses and other liabilities	26	102,077	52.238
Derivative financial instruments	17	66,060	11,067
Borrowings	27	5,091,854	4,347,342
		5,259,991	4,410,647
Liabilities directly associated with the assets held for sale	25	27,137	-
Total liabilities		5,287,128	4,410,647
EQUITY			
Share capital	29	1,157,386	1,125,807
Share premium	30	53,722	25,301
Share warrants	31	200,000	-
Retained earnings	32	666,345	550,182
Fair value reserves	33	(2,147)	6,875
		2,075,306	1.708.165
Non-controlling interests		725	-
Total equity		2,076,031	1,708,165
Total liabilities and equity		7,363,159	6,118,812

<sup>\*</sup> The accompanying notes are an integral part of these financial statements

## **CONSOLIDATED STATEMENT OF CHANGES IN EQUITY** FOR THE YEAR ENDED 31 DECEMBER 2020

		Share Capital	Share Premium	Share Warrants	Retained Earnings	Fair Value Reserves	Total	Non- Controlling interests	Total
	Note*	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
As at 1 January 2019		1,096,395	4,713	-	425,899	25,652	1,552,659	-	1,552,659
Profit for the year		-	-	-	183,302	-	183,302	-	183,302
Other comprehensive income	33	-	-	-	-	(18,777)	(18,777)	-	(18,777)
Total comprehensive income		-	-	-	183,302	(18,777)	164,525	-	164,525
Transactions with owners:									
Issued during the year	29-30	29,412	20,588	-	-	-	50,000	-	50,000
Dividends paid during the year	32	-	-	-	(59,019)	-	(59,019)	-	(59,019)
As at 31 December 2019		1,125,807	25,301	-	550,182	6,875	1,708,165	-	1,708,165
As at 1 January 2020		1,125,807	25,301	-	550,182	6,875	1,708,165	-	1,708,165
Profit for the year		-	-	-	165,526	-	165,526	28	165,554
Other comprehensive income	33	-	-	-	-	(9,022)	(9,022)	-	(9,022)
Total comprehensive income		-	-	-	165,526	(9,022)	156,504	28	156,532
Transactions with owners:									
Acquired during the year		-	-	-	-	-	-	697	697
Issued during the year	29-31	31,579	28,421	200,000	-	-	260,000	-	260,000
Dividends paid during the year	32	-	-	-	(49,363)	-	(49,363)	-	(49,363)
As at 31 December 2020		1,157,386	53,722	200,000	666,345	(2,147)	2,075,306	725	2,076,031

 $<sup>\</sup>ensuremath{^*}$  The accompanying notes are an integral part of these financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020

Note*	2020 US\$'000	2019 US\$'000
Cash flows from operating activities		
Interest and similar income received	351,712	311,852
Interest paid 27	(156,322)	(127,850
Fee and commission receipts	71,222	60,893
Dividend received 7	2,331	2,311
Cash payments to employees and suppliers	(32,110)	(34,363
Loans and advances disbursed to customers	(340,102)	(732,441
Net cash (used in)/generated from operating activities	(103,269)	(519,598)
Cash flows from investing activities		
Purchase of debt securities	(617,123)	(1,412,636
Capital repayments of debt securities	404,165	1,366,189
Purchase of financial assets at fair value through profit or loss (FVTPL)	(411,131)	(328,534
Purchase of financial assets at fair value through other comprehensive income (FVOCI)	(21,750)	(6,750
Proceeds on disposal/repayments of equity securities	50,000	279
Proceeds on disposal of property and equipment	71	26
Purchase of property and equipment 23	(1,450)	(4,234
Purchase of software/Intangibles 24	(1,406)	(399
Net cash used in investment activities	(598,624)	(386,059)
Cash flows from financing activities		
Proceeds from corporate bonds 27	957,280	1,343,188
Proceeds from other borrowings 27	764,620	701,610
Transaction costs related to borrowings 27	(7,777)	(7,983
Repayment of borrowings 27	(955,788)	(612,610
Proceed from issue of share warrants 31	200,000	
Payment of dividend 32	(49,363)	(59,019
Proceeds from share issue 29,30	60,000	50,000
Net cash generated from financing activities	968,972	1,415,186
Net increase in cash and cash equivalents	267,079	509,529
Cash and cash equivalents, beginning of the year	2,135,228	1,625,699
Cash and cash equivalents, end of the year 35	2,402,307	2,135,228

<sup>\*</sup> The accompanying notes are an integral part of these financial statements.

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

#### 1. GENERAL INFORMATION

Africa Finance Corporation ("AFC") 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 eight (2019: twenty six) member states comprising Benin, Cape Verde, Chad, Congo, Cote d'Ivoire, Djibouti, Eritrea, Gabon, Ghana, Guinea-Bissau, Guinea-Conakry, Kenya, Liberia, Madagascar, Malawi, Mali, Mauritania, Mauritius, Namibia, Nigeria, Rwanda, Senegal, Sierra-Leone, The Gambia, Togo, Uganda, Zambia and Zimbabwe; and three multilateral financial institution members: the Africa Reinsurance Corporation, the African Development Bank Group and the Arab Bank for Economic Development in Africa (BADEA). Other prospective member states are going through the process of acceding to membership of the Corporation in accordance with their respective internal procedures.

Twenty-eight (28) shareholders have subscribed and paid for shares in AFC in accordance with the terms of the AFC Charter. As at 31 December 2020, 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	42.4
United Bank of Africa Plc	10.1
Access Bank Plc	9.6
First Bank of Nigeria Plc	8.7
Zenith Bank Plc	8.6

The Corporation's primary objective is to finance infrastructure (power, transportation, telecommunications), heavy industry and natural resource (oil, 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.

These consolidated financial statements comprise the financial statements of Africa Finance Corporation ("AFC"), its wholly owned subsidiary; AFC Equity Investments Limited ("AFC Equity") and Cabeolica S.A ("Cabeolica") - together, the "Corporation" or "Group". AFC Equity, which is domiciled in the Republic of Mauritius, was set up to hold equity investments on behalf of the Corporation as a Special Purpose Vehicle (SPV). The operations of AFC and AFC Equity are managed solely by AFC's management team as AFC Equity does not have a separate management team. The Corporation acquired a 94% interest in Cabeolica during the year following the dissolution of the joint venture in Anergi Holdings and plans to reduce it's interest in the near term. Cabeolica, an electricity generation company owns, developed and operates the 25.5 megawatts Cabeolica wind farm domiciled in Cape Verde.

Accordingly the group is referred to as "the Corporation" for financial reporting purposes.

The financial statements for the year ended 31 December, 2020 were authorised and approved for issue by the Board of Directors on 2 March 2020.

## 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements are presented in United States dollars (US\$) rounded to the nearest thousand.

The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, financial assets at fair value through other comprehensive income, financial assets 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 35 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 beyond 12 months are disclosed as "non-current" in the notes to the financial statements.

On 11 March 2020, the World Health Organisation declared the coronavirus (COVID-19) outbreak a pandemic resulting in a significant impact on the global economy. However, the Corporation

continues to have reasonable expectations about its adequate resources to continue operations in the next 12 months. Hence, the going concern basis of accounting remains appropriate.

#### 2.1.1 Changes in accounting policy and disclosures

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.

#### Amendments to IAS 1 and IAS 8 (Definition of Material)

The IASB clarified the definition of 'material' and aligned the definition of material used in the Conceptual Framework and in other IFRS standards. The amendments clarify that materiality will depend on the nature or magnitude of information. Under the amended definition of materiality, an entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Corporation's definition and application of materiality is in line with the definition in the amendments.

#### **Revised Conceptual Framework for Financial Reporting**

This framework seeks to help preparers of financial statements develop consistent accounting policies if there is no applicable standard in place and to assist all parties to understand and interpret the standards. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

#### **Amendments to IFRS 3 Business Combinations**

The Corporation applied Definition of a Business (Amendments to IFRS 3) to business combinations whose dates of acquisition are on or after 1 January 2020 in assessing whether it had acquired a business or a group of assets.

During the year, the Corporation acquired a total interest of 94% in Cabeolica S.A., the Corporation assessed that the acquisition is a business and not acquisition of a group of assets.

The Corporation has amended its accounting policies for acquisitions on or after 1 January 2020. The details of accounting policies are set out in note 2.2(ii).

The amendments listed above, adopted on 1 January 2020 did not have a significant impact on the consolidated financial statements.

## 2.1.2 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 2020 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:

## (a) Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)

The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 relating to:

#### (i) Change in basis for determining cash flows

The amendments will require an entity to account for a change in the basis for determining the contractual cash flows of a financial asset or financial liability that is required by interest rate benchmark reform by updating the effective interest rate of the financial asset or financial liability.

Under the detailed rules of IFRS 9 Financial Instruments, modifying a financial contract can require recognition of a significant gain or loss in the income statement. However, the amendments introduce a practical expedient if a change results directly from IBOR reform and occurs on an 'economically equivalent' basis. In these cases, changes will be accounted for by updating the effective interest rate.

At 31 December 2020, the Corporation has US\$935.9 million loans to other customers and US\$327.4 million borrowings that will be subject to IBOR reform. The Corporation does not expect a significant modification gain or loss from applying the amendments to these changes.

The following new and amended standards are not expected to have a significant impact on the Corporation's consolidated financial statements.

Those Standards and Interpretations which may be relevant to the Corporation are set out below:

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).
- Reference to Conceptual Framework (Amendments to IFRS 3).
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1).
- COVID-19 Related Rent Concessions (Amendment to IFRS 16)

In May 2020 the IASB also issued amendments to IFRS 16 'Leases': 'COVID-19 Related Rent Concessions' to provide lessees with an exemption from assessing whether a COVID-19-related rent concession is a lease modification. The amendments are effective for annual reporting periods beginning on or after 1 June 2020, with early application permitted (including financial statements not yet authorised for issue at 28 May 2020) and are also available for interim reports. The amendments will not have material impact on the Corporation's accounting policies, results or financial position.

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

The Corporation accounts for business combinations using the acquisition method when the acquired set of activities and assets meets the definition of a business and control is transferred to the Corporation.

From 1 January 2020, in determining whether a particular set of activities and assets is a business, the Corporation assesses whether the set of assets and activities acquired includes, at a minimum, an input and substantive process and whether the acquired set has the ability to produce outputs. The Corporation has an option to apply a 'concentration test' that permits a simplified assessment of whether an acquired set of activities and assets is not a business. The optional concentration test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognised in profit or loss.

If share-based payment awards (replacement awards) are required to be exchanged for awards held by the acquiree's employees (acquiree's awards), then all or a portion of the amount of the acquirer's replacement awards is included in measuring the consideration transferred in the business combination. This determination is based on the market-based measure of the replacement awards compared with the market-based measure of the acquiree's awards and the extent to which the replacement awards relate to pre-combination service.

#### (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

Intra-Group balances and any unrealised gains or losses or incomes and expenses arising from intra-group 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 using the equity method. This treatment is permitted under IAS 28 on Investment in Associates and Joint Ventures, which allows 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 profit or loss in the period of the change.

#### 2.3 FOREIGN CURRENCY

#### i) Functional and presentation currency

Items in the consolidated financial statements are presented in the Corporation's functional currency (United States dollars) and amounts are stated in thousands of dollars, except otherwise stated.

#### ii) 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 measured at fair value, with fair value changes recognised in other comprehensive income, 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 measured at fair value, with fair value changes recognised in other comprehensive income, are included in the other comprehensive income.

#### iii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated into US dollars at the exchange rates at the reporting date. The income and expenses of foreign operations are translated into US dollars at the exchange rates at the dates of the transactions.

Foreign currency differences are recognised in OCI and accumulated in the translation reserve, except to the extent that the translation difference is allocated to non controlling interests.

When a foreign operation is disposed of in its entirety or partially such that control is lost, the cumulative amount in the translation

reserve related to that foreign operation is reclassified to profit or loss as part of the gain or loss on disposal. If the Corporation disposes of only part of its interest in a subsidiary that includes a foreign operation while retaining control, then the relevant proportion of the cumulative amount is reattributed to non controlling interests.

#### 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.

#### Initial recognition and measurement

Financial assets and financial liabilities are recognised when the Corporation 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. 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.

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

The Corporation applies IFRS 9 and classifies its financial assets in the following measurement categories:

- Fair value through profit or loss (FVTPL);
- · 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;
- (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 2.8. Interest income from these financial assets is included in interest income using the effective interest rate method over the 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.

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.

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.

#### **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.

#### Reclassifications

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. 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.

#### 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 2.8); 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:

- 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.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Corporation determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Corporation measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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

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

The output of a model is always an estimate or approximation of a value that cannot be determined with certainty.

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

Nothing has changed in the Corporation's fair value determination policies in current year and prior year.

#### 2.5 INTEREST INCOME AND EXPENSE

#### 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. 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 commencing from the subsequent annual reporting period 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.

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 credit impaired) 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
- financial liabilities measured at FVTPL.
- interest expense on lease liabilities

#### 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

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.

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 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 loans".

#### 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.

#### 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 comprehensive income.

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 assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- 'where a financial instrument includes both a drawn and an undrawn component, and the 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 in OCI.

#### 2.9 IMPAIRMENT OF NON-FINANCIAL ASSETS

Intangible assets not available for use and those that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Other non-financial 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 (cashgenerating 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

Cash and cash equivalents include notes and coins on hand and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in fair value, and are used by the Corporation in the management of its short-term commitments.

#### 2.11 PROPERTY AND EQUIPMENT

All property and equipment are stated at historical cost less accumulated 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. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

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

Right of use assets	25 years or over the
	period of the lease.
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 accrued 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.

#### Other long-term employee benefits

The Corporation's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognised in profit or loss in the period in which they arise.

#### 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 into a separate entity. The Corporation has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employee benefit expense in the statement of comprehensive income when 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 are shown in equity as a deduction from the proceeds.

#### b) Share premium

Premiums from the issue of shares are reported in share premium that is where the price paid for acquiring shares of the Corporation is higher than the nominal amount of each share.

#### 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.

#### e) Share warrants

Share warrants issued by the Corporation are only redeemable at the option of the issuer and bear an entitlement to returns at the discretion of the Corporation. Accordingly, they are presented within equity. Distributions thereon are recognised in 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 financial assets measured at fair value with fair value changes recognised in other comprehensive income.

#### 2.18 DIVIDEND PAYMENT

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 DIVIDEND INCOME

Dividend income is recognised when the right to receive income is established. Usually, this is the ex-dividend date for quoted equity securities. Dividends are presented in "dividend income" in the statement of profit and loss

## 2.21 NET (LOSS)/GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Net gain/(loss) from financial instruments at FVTPL relates to non-trading derivatives held for risk management purposes that do not form part of qualifying hedging relationships, financial assets and financial liabilities designated as at FVTPL and also non-trading assets mandatorily measured at FVTPL. The line item includes fair value changes, foreign exchange differences and income earned from other transactions with investee entities.

#### 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

measure 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.

#### 2.23 EARNINGS PER SHARE (EPS)

The Corporation presents basic and diluted EPS data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary shareholders of the Corporation by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Corporation by the weighted average number of shares outstanding during the year plus the weighted average number of shares that would be issued on the conversion of the share warrants outstanding, during the period.

#### 2.24 LEASES

At inception of a contract, the Corporation assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### Corporation acting as a lessee

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

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

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Corporation's incremental borrowing rate. Generally, the Corporation uses its incremental borrowing rate as the discount rate.

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

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

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

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

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

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

#### Corporation acting as a lessor

At inception or on modification of a contract that contains a lease component, the Corporation allocates the consideration in the contract to each lease component on the basis of their relative stand-alone selling prices.

When the Corporation acts as a lessor, it determines at lease inception whether the lease is a finance lease or an operating lease.

To classify each lease, the Corporation makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Corporation considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

The Corporation applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease. The Corporation further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

#### 2.25 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 resell, 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.

#### 2.26 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 Corporation 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 resell.

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.

#### 2.27 ASSET UNDER MANAGEMENT

These are portfolio investments managed by a designated Asset Management Company on a fair value basis. Changes in fair value are recognised in profit or loss net of management fees of the portfolio manager

#### 3. FINANCIAL RISK MANAGEMENT

The Corporation'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. The Corporation believes that a strong risk management function is key to its successful long-term operations.

The Corporation 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.

The Corporation manages its financial risks through policies approved by the BRIC, and these are reviewed annually. The policies also provide parameters and guidelines as to the Corporation'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 the Corporation'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, the Corporation can lend unsecured, almost all of the Corporation's loans, which are largely project and corporate financing and asset-backed structured trade are secured by collateral. Because many of the Corporation'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, the Corporation 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 CREDITRISK

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 the Corporation 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.

The Corporation'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.

The Corporation uses the Exposure Limits Framework to manage its exposures to individual and group credit risks. The objective is to ensure that the Corporation 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 the Corporation's portfolio. These include specific industry, financial, managerial and competitive benchmarks that proposed investments must meet before they are considered for the Corporation's 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 the Corporation's rating, and eclipsed by the Corporation's capital.

The credit risk management includes a governance structure for the management of credit risk at the Corporation. 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

The Corporation 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 Assessing Credit Risk

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

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

#### 3.1.4 Risk Limit Control and Mitigation Policies

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

#### 3.1.5 Maximum exposure to credit risk

	Maximu	m Exposure
	2020 US\$'000	2019 US\$'000
Balances with banks	53,107	49,420
Loan and advances to banks:		
- Placements with banks	2,345,361	2,083,436
Derivative financial assets	50,279	22,548
Loan and advances to other customers:		
- Project finance loans	1,870,673	1,657,264
- Trade finance loans	440,211	352,759
Financial assets at fair value through		
profit or loss:		
- Hybrid instruments (convertible debt)	408,044	174,106
- Asset under management (debt securities)	21,422	20,003
Investment Securities:		
- Corporate debt securities	316,273	220,547
- Government debt securities	390,409	435,901
Pledged Assets:		
- Corporate debt securities	151,731	121,811
- Government debt securities	281,753	50,602
Other assets:		
- Account receivable	19,539	26,208
- Fee receivable	15,461	20,924
Total	6,364,263	5,235,529
Off-balance sheet commitments		
Debt commitments	548,692	419,342

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.

#### 3.1.6 Credit quality analysis

#### **General Risk Rating Process**

Investment risk rating and acceptance criteria represent a vital aspect of the Corporation's risk appetite definition process. Before credit risk can be managed, it must first be identified and measured. A 10-point credit risk rating methodology 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, Portfolio Management 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.

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.

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 BBB-	1.70 – 1.90	Strong
Low to Moderate Risk	BB+ to BB-	2.00 - 2.60	Good
Moderate Risk	BB to B-	2.90 - 4.00	Fair
High Risk	CCC+ to CCC	5.00 – 6.00	Marginal
Very High Risk	CCC- to D	7.00 - 10.00	Special attention

The credit quality of the Corporation's financial assets with exposure to credit risk that are neither past due nor impaired is detailed below:

	31 December 2020 US\$'000	31 December 2019 US\$'000
Counterparties with international credit rating		
(S&P, Fitch, Moody's)		
Investment grade (AAA to BBB-)	2,186,957	1,871,171
Others (BB+, BB, BB-, B+, B, B-)	1,473,668	1,250,963
	3,660,625	3,122,134
Counterparties without international credit ratings		
Group 1	3,750	712,394
Group 2	2,677,283	1,377,693
	2,681,033	2,090,087
Total unimpaired nor past due loans, advances and debt securities	6,341,658	5,212,221
Past due but not impaired	-	-
Total unimpaired nor past due financial assets	6,341,658	5,212,221

**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:

U\$\$'000		20	020	
	Stage 1	Stage 2	Stage 3	Total
- Excellent	8,746	-	-	8,746
- Strong	15,400	-	-	15,400
- Good	28,961	-	-	28,961
Gross carrying amount	53,107	-	-	53,107
Loss allowance	-	-	-	-
Carrying amount	53,107	-	-	53,107

US\$'000		2019			
	Stage 1	Stage 2	Stage 3	Total	
- Excellent	6,139	-	-	6,139	
- Strong	1,821	-	-	1,821	
- Good	41,460	-	-	41,460	
Gross carrying amount	49,420	-	-	49,420	
Loss allowance	-	-	-	-	
Carrying amount	49,420	-	-	49,420	

#### Loans and advances to banks at amortised cost:

U\$\$'000		20	020	
	Stage 1	Stage 2	Stage 3	Total
- Excellent	1,574,959	-	-	1,574,959
- Strong	462,718	-	-	462,718
- Good	311,502	-	-	311,502
Gross carrying amount	2,349,179	-	-	2,349,179
Loss allowance	(3,818)	-	-	(3,818)
Carrying amount	2,345,361	-	-	2,345,361
US\$'000		20	019	
	Stage 1	Stage 2	Stage 7	Total

U\$\$'000		20	)19	
	Stage 1	Stage 2	Stage 3	Total
- Excellent	1,597,868	-	-	1,597,868
- Strong	313,784	-	-	313,784
- Good	174,139	-	-	174,139
Gross carrying amount	2,085,791	-	-	2,085,791
Loss allowance	(2,355)	-	-	(2,355)
Carrying amount	2,083,436	-	-	2,083,436

#### Loans and advances to customers at amortised cost:

US\$'000			2020				
	Stage 1	Stage 2	Stage 3	Total			
Project finance							
- Excellent	-	-	-	-			
- Good	895,407	15,829	-	911,236			
- Strong	158,181	-	-	158,181			
- Fair	211,372	40,630	-	252,002			
- Marginal	144,390	332,913	-	477,303			
- Special attention	-	168,912	-	168,912			
- Default	-	-	38,944	38,944			
Gross carrying amount	1,409,350	558,284	38,944	2,006,578			
Loss allowance	(33,826)	(85,740)	(16,339)	(135,905)			
	1,375,524	472,544	22,605	1,870,673			
Trade finance							
- Good	406,353	-	-	406,353			
- Fair	3,998	-	-	3,998			
- Marginal	-	46,045	-	46,045			
	410,351	46,045	-	456,396			
Loss allowance	(14,578)	(1,607)	-	(16,185)			
	395,773	44,438	-	440,211			
Gross loans to other customers	1,819,701	604,329	38,944	2,462,974			
Carrying amount	1,771,297	516,982	22,605	2,310,884			

#### Loans and advances to customers at amortised cost (cont'd):

US\$'000		20	19	
	Stage 1	Stage 2	Stage 3	Total
Project finance				
- Excellent	426,107	-	-	
- Good	598,375	16,200	-	614,575
- Fair	94,265	-	-	94,265
- Marginal	452,752	-	-	452,752
- Special attention	-	147,789	-	147,789
- Default	-	-	39,903	39,903
Gross carrying amount	1,571,499	163,989	39,903	1,775,391
Loss allowance	(68,417)	(33,115)	(16,595)	(118,127)
	1,503,082	130,874	23,308	1,657,264
Trade finance				
- Good	317,114	-	-	317,114
- Fair	-	-	-	-
- Marginal	-	45,685	-	45,685
	317,114	45,685	-	362,799
Loss allowance	(8,002)	(2,038)	-	(10,040)
	309,112	43,647	-	352,759
Gross loans to other customers	1,888,613	209,674	39,903	2,138,190
Carrying amount	1,812,194	174,521	23,308	2,010,023

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

US\$'000		20	020	
	Stage 1	Stage 2	Stage 3	Total
Current	1,819,701	604,329	-	2,424,030
Overdue 30 - 90 days	-	-	-	-
Overdue 90 - 180 days	-	-	-	-
Overdue > 180 days	-	-	38,944	38,944
Total	1,819,701	604,329	38,944	2,462,974
US\$'000		2	010	
05\$ 000			019	
	Stage 1	Stage 2	Stage 3	Total
Current	1,888,613	209,674	-	2,098,287
Overdue 30 - 90 days	-	-	-	-
Overdue 90 - 180 days	-	-	-	-
Overdue > 180 days	-	-	39,903	39,903

#### Investment securities at amortised cost:

US\$'000		202	20	
	Stage 1	Stage 2	Stage 3	Total
Corporate debt securities				
- Excellent	-	-	-	-
- Strong	23,052	-	-	23,052
- Good	80,609	-	-	80,609
- Fair	78,216	-	-	78,216
- Marginal	148,429	-	-	148,429
- Special attention	-	-	-	-
	330,306	-	-	330,306
Loss allowance	(14,033)	-	-	(14,033)
	316,273	-	-	316,273
Government debt securities				
- Strong	-	-	-	-
- Good	394,782	-	-	394,782
	394,782	-	-	394,782
Loss allowance	(4,373)	-	-	(4,373)
	390,409	-	-	390,409
Carrying amount	706,682	-	-	706,682
US\$'000	Stage 1	20:		Total
Corporate debt securities	Stage 1	Stage 2	Stage 3	Iotai
- Excellent			-	
- Strong	45,507			45,507
- Strong - Good				
- Good - Fair	57,594	-	-	57,594
	40,782		-	40,782
- Marginal	61,235	23,926		85,161
- Special attention			-	
	205,118	23,926	-	229,044
Loss allowance	(6,788)	(1,709)	-	(8,497)
	198,330	22,217	-	220,547
Government debt securities	440.405			440.405
- Strong	440,405	-	-	440,405
- Good	- 440 405	-	-	440.40=
L II	<b>440,405</b> (4,504)	-	-	440,405
Loss allowance	[4 5()4)			(4,504)
Carrying amount	435,901 634,231	-	-	435,901 656,448

### Pledged assets:

US\$'000		20	20	
	Stage 1	Stage 2	Stage 3	Total
Corporate debt securities				
- Strong	47,802	-	-	47,802
- Good	106,337	-	-	106,337
	154,139	-	-	154,139
Loss allowance	(2,408)			(2,408)
	151,731	-	-	151,731
Government debt securities				
- Strong	50,696	-	-	50,696
- Good	233,480	-	-	233,480
	284,176	-	-	284,176
Loss allowance	(2,423)	-	-	(2,423)
	281,753	-	-	281,753
Carrying amount	433,484	-	-	433,484

US\$'000		20	19	
	Stage 1	Stage 2	Stage 3	Total
Corporate debt securities				
- Good	124,239	-	-	124,239
	124,239	-	-	124,239
Loss allowance	(2,428)	-	-	(2,428)
	121,811	-	-	121,811
Government debt securities				
- Strong	50,727	-	-	50,727
- Good	-	-	-	-
	50,727	-	-	50,727
Loss allowance	(125)	-	-	(125)
	50,602	-	-	50,602
Carrying amount	172,413	-	-	172,413

#### Other assets:

US\$'000		202	20			
	Stage 1	Stage 2	Stage 3	Total		
Account receivable						
- Good	19,539	-	-	19,539		
Fee receivable						
- Good	15,461	-	-	15,461		
	35,000	-	-	35,000		
Loss allowance	-	-	-	-		
Carrying amount	35,000	-	-	35,000		

#### Other assets (cont'd):

US\$'000		20:	19	Total
	Stage 1	Stage 2	Stage 3	Total
Account receivable				
- Good	26,208	-	-	26,208
Fee receivable				
- Good	20,924	-	-	20,924
	47,132	-	-	47,132
Loss allowance	-	-	-	-
Carrying amount	47,132	-	-	47,132

#### **Debt Commitments:**

US\$'000		2020	)	
	Stage 1	Stage 2	Stage 3	Total
Debt				
- Good	171,788			171,788
- Fair	210,579			210,579
- Marginal	166,325			166,325
Carrying amount	548,692	-	-	548,692
Loss allowance on commitments	6,959			6,959

US\$'000		20:	19			
	Stage 1	Stage 2	Stage 3	Total		
Debt						
- Good	44,313	-	-	44,313		
- Fair	157,080	-	-	157,080		
- Marginal	217,949	-	-	217,949		
Carrying amount	419,342	-	-	419,342		
Loss allowance on commitments	1,397	-	-	1,397		

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

	2020	2019
	US\$'000	US\$'000
Derivative financial assets:		
- Good	50,279	22,548
Financial assets at fair value through profit or loss		
Hybrid instruments (convertible debt)		
- Good	38,533	-
- Fair	-	36,376
- Marginal	369,511	137,730
Asset under management (debt securities)		
- Good	21,422	20,003
	429,466	194,109

#### 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 2020, as a result of the enforcement of collateral (2019: 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. The Corporation has portfolio insurance cover over the loans and advances to other customers and investment securities portfolios.

Percentage of exposure secured by collateral and other credit enhancements:

	2020	2019	
Type of credit exposure	%	%	Type of collateral held
Loans and advances to			
other customers			
- Project finance	91	96	charge on securities/
			company assets
- Trade finance	60	46	charge on commodities
			financed
Hybrid instruments	33	50	charge on company
			assets/insurance
Investment debt securities	-	-	Portfolio 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 quality 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 occurred.
- 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):

#### Change in credit quality since initial recognition

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

#### Impact of COVID-19 on Expected Credit Loss ('ECL')

In response to the COVID-19 coronavirus pandemic, the Corporation temporarily extended credit terms for specific customers, disaggregated groups when calculating expected credit losses (ECL) on a collective basis and increased scalar factors for individual customers.

#### 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.

#### Impact of COVID-19 Significant increase in credit risk

The Corporation restructured some of its exposures due to the impact of the COVID-19 pandemic, by granting moratoriums and payment holidays on these exposures. This restructuring of the Corporation's assets could under normal circumstances be taken as a qualitative indicator of a Significant Increase in Credit Risk (SICR) and therefore trigger a stage migration on such facilities. As such, the Corporation also assessed the expected impact of COVID-19 on the future business operations of these obligors in the medium and long-term, and on the ability of these obligors to meet up with their loan obligations. The Corporation assessed whether their business operations and abilities to meet up with their loan obligations, were expected to be severely impacted in the medium to long-term, and therefore whether downgrades in their stage allocations were required. Staging was based on the Corporation's expectation of the recovery patterns of the exposures in the aftermath of the COVID-19 pandemic.

The Corporation will continue to monitor the performance of its exposures classified under our focus economic sectors, as these sectors are expected to recover from the effects of the pandemic at different times

#### 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 change;
- 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 above.

#### 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 Organisation for Economic Co-operation and Development 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.

#### Impact of COVID-19 on Economic Scenarios

Following the onset of the COVID-19 pandemic, the Corporation generated a baseline scenario that reflected the most recent economic forecasts available in the market (combined with internal assumptions) and estimated impacts from significant support measures taken by the Corporation across key markets. This scenario was based broadly on the latest economic forecasts which recognise some impacts from the various support measures still in place across the Corporation's key markets. Upside and downside scenarios were also regenerated (together with the revised baseline scenario, the "COVID-19 scenarios"). The downside scenarios reflect slower economic growth than the baseline with social distancing measures. The upside scenarios reflect a faster rebound in economic growth than the baseline with a sharp decrease in infection rates and an almost fully reopened economy.

The economic environment remains uncertain and future impairment charges may be subject to further volatility (including from changes to macroeconomic variable forecasts) depending on the longevity of the COVID -19 pandemic and related containment measures, as well as the longer-term effectiveness of support measures.

#### 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 12month 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; and
- Financial assets derecognised during the period and writeoffs 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 at amortised cost:	2020					
	Stage 1	Stage 2	Stage 3	Purchased		
				credit-impaired	Total	
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	
Loss allowance as at 1 January	2,355	-	-	-	2,355	
Net remeasurement of loss allowance	1,463	-	-	-	1,463	
Balance at 31 December	3,818	-	-	-	3,818	

Loans and advances to banks at amortised cost:					
	Stage 1	Stage 2	Stage 3	Purchased	
			c	credit-impaired	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	1,218	-	-	-	1,218
Net remeasurement of loss allowance	1,137	-	-	-	1,137
Balance at 31 December	2,355	-	-	-	2,355

Loans and advances to customers at amortised cost:			2020		
	Stage 1	Stage 2	Stage 3	Purchased	
			•	credit-impaired	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	76,419	35,153	16,595	-	128,167
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(13,267)	13,267	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	22,759	38,927	(256)	-	61,430
Financial assets that have been derecognised	(37,507)	-	-	-	(37,507)
Balance at 31 December	48,404	87,347	16,339	-	152,090

Loans and advances to customers at amortised cost:			2019		
	Stage 1	Stage 2	Stage 3	Purchased	
				credit-impaired	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	31,866	38,305	16,742	-	86,913
Transfer to Stage 1	12,179	(12,179)	-	-	-
Transfer to Stage 2	(280)	280	-	-	-
Transfer to Stage 3	(2,602)	-	2,602	-	-
Net remeasurement of loss allowance	35,256	8,747	31,485	-	75,488
Financial assets that have been derecognised	-	-	(34,234)	-	(34,234)
Balance at 31 December	76,419	35,153	16,595	-	128,167

Loans and advances to customers at amortised cost:			2020		
	Stage 1	Stage 2	Stage 3	Purchased	
				credit-impaired	Total
Project finance loans	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	68,417	33,115	16,595	-	118,127
Transfer to Stage 1	-	-	-	-	-
Transfer to Stage 2	(13,267)	13,267	-	-	-
Transfer to Stage 3	-	-	-	-	-
Net remeasurement of loss allowance	13,045	39,358	(256)	-	52,147
Financial assets that have been derecognised	(34,369)	-	-	-	(34,369)
Balance at 31 December	33,826	85,740	16,339	-	135,905

Loans and advances to customers at amortised cost:			2019		
	Stage 1	Stage 2	Stage 3	Purchased	
			(	redit-impaired	Total
Project finance loans	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	22,486	38,305	16,742	-	77,533
Transfer to Stage 1	12,179	(12,179)	-	-	-
Transfer to Stage 2	-	-	-	-	-
Transfer to Stage 3	(2,602)	-	2,602	-	-
Net remeasurement of loss allowance	36,354	6,989	31,485	-	74,828
Financial assets that have been derecognised	-	-	(34,234)	-	(34,234)
Balance at 31 December	68,417	33,115	16,595	-	118,127

Loans and advances to customers at amortised cost:			2020		
	Stage 1	Stage 2	Stage 3	Purchased	
				credit-impaired	Tota
Trade finance loans	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	8,002	2,038	-	-	10,040
Transfer to Stage 2	-	-	-	-	
Net remeasurement of loss allowance	9,714	(431)	-	-	9,283
Financial assets that have been derecognised	(3,138)	-	-	-	(3,138
Balance at 31 December	14,578	1,607	-	-	16,185
Loans and advances to customers at amortised cost:			2019		
	Stage 1	Stage 2	Stage 3	Purchased	
				credit-impaired	Tota
Trade finance loans	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	9,380	-	-	-	9,380
Transfer to Stage 2	(280)	280	-	-	-
Net remeasurement of loss allowance	(1,098)	1,758			660
Financial assets that have been derecognised	-	-	-	-	-
Balance at 31 December	8,002	2,038	-	-	10,040
			2020		
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased	
				credit- impaired	Tota
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	11,292	1,709	-	-	13,001
Transfer to Stage 1	1,709	(1,709)		-	
Net remeasurement of loss allowance	5,405	-	-	-	5,405
Balance at 31 December	18,406	-	-	-	18,406
			2019		
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased	
	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Total
Loca allowance as at 1 January	12,320	035 000	035 000	035,000	12,320
Loss allowance as at 1 January  Net remeasurement of loss allowance	(1,028)	1,709			681
Balance at 31 December	11,292	1,709		-	13,001
balance at 31 December	11,292	1,709			13,001
			2020		
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased	Total
Corporate debt securities	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Total
Loss allowance as at 1 January	6,788	1,709	-	-	8,497
Transfer to Stage 1	1,709	(1,709)		_	0,437
Net remeasurement of loss allowance	5,536	(1,703)			5,536
Balance at 31 December	14,033				14,033
Balance at 31 December	14,033	-		-	14,033
			2019		
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased	
Corporate debt securities	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Tota US\$'000
	8,860	033 000	03\$ 000	035 000	
Loss allowance as at 1 January	<u> </u>	1 700		-	8,860
Net remeasurement of loss allowance	(2,072)	1,709		-	(363)
Balance at 31 December	6,788	1,709		-	8,497

			2020		
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased	
Government debt securities	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Tota US\$'000
Loss allowance as at 1 January	4,504	-	-	-	4,504
Net remeasurement of loss allowance	(131)	-	-	-	(131)
Balance at 31 December	4,373	-	-	-	4,373
			2019		
Investment securities at amortised cost:	Stage 1	Stage 2	Stage 3	Purchased	
Government debt securities	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Total US\$'000
Loss allowance as at 1 January	3,460	-			3,460
Net remeasurement of loss allowance	1,044			_	1,044
Balance at 31 December	4,504				4,504
butunee de 52 beeember	4,304				4,304
I I I I I I I I I I I I I I I I I I I	6: 4	6:	2020		
Investment securities at FVOCI:	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
Corporate debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	-	-	-	-	_
Financial assets that have been derecognised	-	-	-	-	_
Balance at 31 December	-	-	-	-	-
Balance at 31 December	-	-	-	-	-
Balance at 31 December	-	-	2019	-	-
Investment securities at FVOCI:	- Stage 1	Stage 2	2019 Stage 3	- Purchased	-
Investment securities at FVOCI:			Stage 3	credit-impaired	
Investment securities at FVOCI:  Corporate debt securities	US\$'000	Stage 2			US\$'000
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January	<b>US\$'000</b> 78		Stage 3	credit-impaired	<b>US\$'000</b>
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised	US\$'000		Stage 3	credit-impaired	<b>US\$'000</b>
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January	<b>US\$'000</b> 78		Stage 3	credit-impaired	<b>US\$'000</b>
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised	<b>US\$'000</b> 78		Stage 3 US\$'000	credit-impaired	<b>US\$'000</b>
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December	<b>US\$'000</b> 78	US\$'000 - - -	Stage 3	credit-impaired	<b>US\$'000</b>
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised	U\$\$'000 78 (78)		Stage 3  US\$'000  2020	credit-impaired US\$'000	US\$'000 78 (78)
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December	U\$\$'000 78 (78)	US\$'000 - - -	Stage 3  US\$'000  2020	credit-impaired US\$'000  Purchased	US\$'000 78 (78) -
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities  Loss allowance as at 1 January	U\$\$'000 78 (78) -	US\$'000 - - - - Stage 2	Stage 3  US\$'000  2020 Stage 3	credit-impaired US\$'000  Purchased credit-impaired	US\$'000 78 (78) 
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities	U\$\$'000 78 (78) - Stage 1 U\$\$'000	US\$'000 - - - - Stage 2	Stage 3  US\$'000  2020 Stage 3	credit-impaired US\$'000  Purchased credit-impaired	US\$'000 78 (78)
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities  Loss allowance as at 1 January	US\$'000 78 (78) - Stage 1 US\$'000 2,553	US\$'000 Stage 2 US\$'000	Stage 3  U\$\$'000  2020 Stage 3  U\$\$'000	credit-impaired US\$'000  Purchased credit-impaired	Total US\$'000 78 (78)
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities  Loss allowance as at 1 January  Net remeasurement of loss allowance  Balance at 31 December	U\$\$'000 78 (78) - Stage 1 U\$\$'000 2,553 2,278 4,831	U\$\$'000 - - - - Stage 2 U\$\$'000 - -	Stage 3  US\$'000  2020 Stage 3  US\$'000  2019	Purchased credit-impaired US\$'000	U\$\$'000 78 (78)
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities  Loss allowance as at 1 January  Net remeasurement of loss allowance	U\$\$'000 78 (78) - Stage 1 U\$\$'000 2,553 2,278	US\$'000  Stage 2 US\$'000 -	Stage 3  US\$'000  2020 Stage 3  US\$'000	Purchased Credit-impaired US\$'000  Purchased Credit-impaired US\$'000 Purchased	US\$'000 78 (78) Tota US\$'000 2,553 2,278 4,831
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities  Loss allowance as at 1 January  Net remeasurement of loss allowance  Balance at 31 December	U\$\$'000 78 (78) - Stage 1 U\$\$'000 2,553 2,278 4,831	U\$\$'000	Stage 3  US\$'000  2020 Stage 3  US\$'000  2019 Stage 3	Purchased credit-impaired US\$'000  Purchased credit-impaired US\$'000 Purchased credit-impaired	US\$'000 78 (78) Tota US\$'000 2,553 2,278 4,831
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities  Loss allowance as at 1 January  Net remeasurement of loss allowance  Balance at 31 December  Pledged assets:  Debt securities	U\$\$'000 78 (78) - Stage 1 U\$\$'000 2,553 2,278 4,831 Stage 1 U\$\$'000	U\$\$'000 - - - - Stage 2 U\$\$'000 - -	Stage 3  US\$'000  2020 Stage 3  US\$'000  2019	Purchased Credit-impaired US\$'000  Purchased Credit-impaired US\$'000 Purchased	US\$'000 78 (78) Total US\$'000 2,553 2,278 4,831 Total US\$'000
Investment securities at FVOCI:  Corporate debt securities  Loss allowance as at 1 January  Financial assets that have been derecognised  Balance at 31 December  Pledged assets:  Debt securities  Loss allowance as at 1 January  Net remeasurement of loss allowance  Balance at 31 December  Pledged assets:	U\$\$'000 78 (78) - Stage 1 U\$\$'000 2,553 2,278 4,831	U\$\$'000	Stage 3  US\$'000  2020 Stage 3  US\$'000  2019 Stage 3	Purchased credit-impaired US\$'000  Purchased credit-impaired US\$'000 Purchased credit-impaired	US\$'000 78 (78)

			2020		
Pledged assets:	Stage 1	Stage 2	Stage 3	Purchased credit- impaired	Tota
Corporate debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Loss allowance as at 1 January	2,428	-	-	-	2,428
Net remeasurement of loss allowance	(20)				(20
Balance at 31 December	2,408	-	-	-	2,408
			2010		
Pledged assets:	Stage 1	Stage 2	2019 Stage 3	Purchased	
. Icagea assets.	otage 1	otage 2	Juges	credit- impaired	Tota
Corporate debt securities	US\$'000	US\$'000	US\$'000	US\$'000	US\$'00
Loss allowance as at 1 January	1,745	-	-	-	1,745
Net remeasurement of loss allowance	683	-	-	-	683
Balance at 31 December	2,428	-	-	-	2,428
			2020		
Pledged assets:	Stage 1	Stage 2	Stage 3	Purchased	
Government debt securities	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Tota US\$'000
Loss allowance as at 1 January	125	-	-	-	125
Net remeasurement of loss allowance	2,298	-	-	-	2,298
Balance at 31 December	2,423	-	-	-	2,423
			2019		
Pledged assets:	Stage 1	Stage 2	Stage 3	Purchased	
Government debt securities	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Tota US\$'000
Loss allowance as at 1 January	832	-	-	-	832
Net remeasurement of loss allowance	(707)	-	-	-	(707
Balance at 31 December	125	-	-	-	125
			2020		
Commitments:	Stage 1	Stage 2	Stage 3	Purchased	
	US\$'000	US\$'000	US\$'000	credit-impaired US\$'000	Tota US\$'000
Loss allowance as at 1 January	1,397	-	-	-	1,397
Net remeasurement of loss allowance	5,562				5,562
Balance at 31 December	6,959	-	-	-	6,959
			2019		
Commitments:	Stage 1	Stage 2	Stage 3	Purchased	
				credit- impaired US\$'000	Tota US\$'000
	US\$'000	US\$'000	US\$'000	05\$ 000	033 00
Loss allowance as at 1 January	US\$'000 1,133	US\$'000 -	US\$'000 -	-	
Loss allowance as at 1 January Net remeasurement of loss allowance		US\$'000 -	US\$'000 -	-	1,133 264

#### Credit-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 loans and advances to customers.

	2020	2019
	Total	Total
	US\$'000	US\$'000
Credit-impaired loans and advances to customers at 1 January	23,308	35,825
Classified as credit-impaired during the year	-	39,903
Derecognised during the year	-	(36,367)
Transferred to not credit-impaired during the year	-	(16,200)
Interest income	2,012	-
Net repayments	(2,459)	-
Change in allowance for impairment	(256)	147
Balance at 31 December	22,605	23,308

#### 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.

	2020	2019
Financial assets modified during the period	Total	Total
	US\$'000	US\$'000
Amortised cost before modification	-	115,167
Net modification gain/(loss)	-	(8,271)

#### 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.

# 3.1.7 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 the Corporation'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 2020. The Corporation has allocated exposures to regions based on the country of domicile of its counterparties.

31 December 2020	West Africa US\$'000	Rest of Africa US\$'000	Outside Africa US\$'000	Total US\$'000
Cash and balances with banks:				
Balances with banks	28,961	15,400	8,746	53,107
Loans and advances to banks:				
- Placements with banks	308,676	206,519	1,830,166	2,345,361
Derivative financial assets	14,324	10,883	25,072	50,279
Loans and advances to other customers:				
- Project finance	1,281,518	589,155	-	1,870,673
- Trade finance	245,400	194,811	-	440,211
Financial assets at fair value through profit or loss:				
- Hybrid instruments (convertible debt)	221,426	186,618	-	408,044
- Asset under management (debt securities)	-	-	21,422	21,422
Investment securities:				
- Corporate debt securities	266,002	50,271	-	316,273
- Government debt securities	368,558	21,851	-	390,409
Pledged assets:				
- Corporate debt securities	104,046	47,685	-	151,731
- Government debt securities	63,953	217,800	-	281,753
Other assets:				
- Account receivable	19,539	-	-	19,539
- Fee receivable	15,461	-	-	15,461
	2,937,864	1,540,993	1,885,406	6,364,263
Commitments	396,789	151,903	-	548,692

31 December 2019	West Africa US\$'000	Rest of Africa US\$'000	Outside Africa US\$'000	Total US\$'000
Cash and balances with banks:	03\$ 000	03\$ 000	03\$ 000	033 000
Balances with banks	41,460	1,821	6,139	49,420
Loans and advances to banks:		<u> </u>	<u> </u>	·
- Placements with banks	61,318	236,776	1,785,342	2,083,436
Derivative financial assets	4,688	7,998	9,862	22,548
Loans and advances to other customers:				
- Project finance	1,161,596	495,668	-	1,657,264
- Trade finance	160,290	192,469	-	352,759
Financial assets at fair value through profit or loss:				
- Hybrid instruments (convertible debt)	137,730	36,376	-	174,106
- Asset under management (debt securities)	-	-	20,003	20,003
Investment securities:				
- Corporate debt securities	160,872	59,675	-	220,547
- Government debt securities	246,565	189,336	-	435,901
Pledged assets:				
- Corporate debt securities	96,578	25,233	-	121,811
- Government debt securities	-	50,602	-	50,602
Other assets:				
- Account receivable	1,208	-	25,000	26,208
- Fee receivable	7,903	13,021	-	20,924
	2,080,208	1,308,975	1,846,346	5,235,529
Commitments	333,971	85,371	-	419,342

#### **Credit Concentration by Industry**

31 December 2020	Natural	Heavy Industry &			Financial Services	
	Resources	Telecoms	Power	Transport	& Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with banks:						
Balances with banks	-	-	-	-	53,107	53,107
Loans and advances to banks:						
- Placements with banks					2,345,361	2,345,361
Derivative financial assets	-	484	12,619	-	37,176	50,279
Loans and advances to other customers:						
- Project finance	377,304	593,352	287,396	448,320	164,301	1,870,673
- Trade finance	81,986	44,437	-	-	313,788	440,211
Financial assets at fair value through profit or loss:						
- Hybrid instruments (convertible debt)	208,888	4,000	10,537	184,619	-	408,044
- Asset under management (debt securities)	-	-	-	-	21,422	21,422
Investment securities:						
- Corporate debt securities	-	39,160	116,772	35,149	125,192	316,273
- Government debt securities	-	-	-	-	390,409	390,409
Pledged assets:						
- Corporate debt securities	-	-	-	-	151,731	151,731
- Government debt securities	-	-	-	-	281,753	281,753
Other assets:						
- Account receivable	-	16,436	388	-	2,715	19,539
- Fee receivable	5,545	-	-	7,525	2,391	15,461
	673,723	697,869	427,712	675,613	3,889,346	6,364,263
Commitments	52,500	30,000	211,278	124,914	130,000	548,692

#### Credit Concentration by Industry cont'd

31 December 2019		Heavy			Financial	
	Natural	Industry &			Services	
	Resources	Telecoms	Power	Transport	& Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with banks:						
Balances with banks	-	-	-	-	49,420	49,420
Loans and advances to banks:						
- Placements with banks	-	-	-	-	2,083,436	2,083,436
Derivative financial assets	-	725	7,363	2,800	11,660	22,548
Loans and advances to other customers:						
- Project finance	369,686	726,184	247,558	202,547	111,289	1,657,264
- Trade finance	79,897	43,648	-	-	229,214	352,759
Financial assets at fair value through profit or loss:						
- Hybrid instruments (convertible debt)	135,730	37,876	500	-	-	174,106
- Asset under management (debt securities)	-	-	-	-	20,003	20,003
Investment securities:						
- Corporate debt securities	-	38,951	36,493	21,571	123,532	220,547
- Government debt securities	-	-	-	-	435,901	435,901
Pledged assets:						
- Corporate debt securities	-	-	-	-	121,811	121,811
- Government debt securities	-	-	-	-	50,602	50,602
Other assets:						
- Account receivable	25,000	-	-	-	1,208	26,208
- Fee receivable	3,633	-	1,483	15,521	287	20,924
	613,946	847,384	293,397	242,439	3,238,363	5,235,529
Commitments	26,000	1,500	245,231	146,611	_	419,342

#### 3.2 MARKET RISK

The Corporation 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 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 preapproved 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.

#### Impact of COVID-19 on Market risk

The abrupt market movements and the increased market volatility triggered by the outbreak of COVID-19 resulted in a general increase in risk measurement metrics. Market volatility reached extreme levels across most asset classes and equity prices fell sharply from the previous historical peak levels. In credit markets, spreads and yields reached multi-year highs. The commodity market including agricultural and extractive minerals experienced COVID-19-related disruption in production and transportation, oil prices collapsed due to rising oversupply as demand reduced materially as a result of the economic slowdown arising from the lockdowns.

We managed market risk prudently in the year and sensitivity exposures remain within our risk appetite. Market risk continues to be managed using a complementary set of exposure measures and limits, including stress and scenario analysis. The overall risk profile remained relatively stable in the year.

The evolution of the crisis and the related risk metrics development is under strict monitoring by both risk and business functions.

#### 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 Corporation has

exposure to currencies other than the United States Dollars, its functional currency, which include the Nigerian Naira (NGN), Euro, South African Rand (ZAR), Japanese Yen (JPY) and Swiss Francs (CHF).

These exposures, which are hedged in accordance with the Corporation's hedging policy, are insignificant when considered individually and collectively. No individual exposure exceeds 10% (2019: 8%) of total assets and 8% (2019: 5%) of total liabilities while in aggregate they amount to 21% (2019: 14%) of financial assets and 12% (2019: 12%) of financial liabilities. 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 2020. Included in the table are the Corporation's financial instruments at carrying amounts, categorised by currency.

#### Concentrations of currency risk - financial instruments

	US dollars	Others	Total
	US\$'000	US\$'000	US\$'000
Assets			
Cash and balances with banks	18,499	34,629	53,128
Loans and advances to banks	2,163,071	182,290	2,345,361
Derivative financial assets	50,279	-	50,279
Loans and advances to other customers	1,624,691	686,193	2,310,884
Financial assets at fair value			
through profit or loss	1,097,270	177,531	1,274,801
Investment securities	341,337	440,471	781,808
Pledged assets	433,484	-	433,484
Other assets	8,651	26,349	35,000
Total financial assets	5,737,282	1,547,463	7,284,745
Borrowings	4,493,099	598,755	5,091,854
Derivative financial liabilities	65,574	486	66,060
Accrued expenses and other liabilities	52,365	42,053	94,418
Total financial liabilities	4,611,038	641,294	5,252,332
Net financial position	1,126,244	906,169	2,032,413
Commitments	391,722	156,970	548,692

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.

#### **31 December 2020**

	US dollars	Others	Total
Impact on Profit or loss	US\$'000	US\$'000	US\$'000
Sensitivity at 200bp depreciation	-	15,237	15,237
Sensitivity at 400bp appreciation	-	(28,717)	(28,717)
Impact on Equity			
Sensitivity at 200bp depreciation	-	254	254
Sensitivity at 400bp appreciation	-	(479)	(479)

#### **31 December 2019**

	US dollars	Others	Total US\$'000
	US\$'000	US\$'000	
Assets			
Cash and balances with banks	9,031	40,406	49,437
Loans and advances to banks	2,019,958	63,478	2,083,436
Derivative financial instruments	22,548	-	22,548
Loans and advances to other customers	1,496,455	513,568	2,010,023
Financial assets at fair value			
through profit or loss	954,005	48,969	1,002,974
Investment securities	511,207	207,638	718,845
Pledged assets	172,413	-	172,413
Other assets	42,935	4,197	47,132
Total financial assets	5,228,552	878,256	6,106,808
Borrowings	3,828,872	518,470	4,347,342
Derivative financial instruments	11,067	-	11,067
Accrued expenses and other liabilities	32,126	18,282	50,408
Total financial liabilities	3,872,065	536,752	4,408,817
Net financial position	1,356,487	341,504	1,697,991
Commitments	240,622	178,720	419,342

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

	US dollars	Others	Total
Impact on Profit or loss	US\$'000	US\$'000	US\$'000
Sensitivity at 200bp US depreciation	-	6,718	6,718
Sensitivity at 400bp US appreciation	-	(12,660)	(12,660)
Impact on Equity			
Sensitivity at 200bp US depreciation	-	252	252
Sensitivity at 400bp US appreciation	-	(475)	(475)

Currency exposures emanating from the investment portfolio are hedged in line with the Corporation's policy on hedging. As at 31 December 2020, the net open FX position was US\$104.8 million (2019: US\$1.6 million) representing 5% (2019: 0.1%) of shareholders' funds as of that date. The FX position was as a result of matured derivative contracts which had not been rolled over at the year end.

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.

#### 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 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.

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	Up to 3	Above 3	Non-Interest	
	months	months	Bearing	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Assets				
Cash and balances with banks	-	-	53,128	53,128
Loans and advances to banks	2,345,361	-	-	2,345,361
Derivative financial instruments	-	-	50,279	50,279
Loans and advances to customers	1,902,604	408,280	-	2,310,884
Financial assets at fair value through profit or loss	-	380,796	894,005	1,274,801
Investment securities	145,665	561,017	75,126	781,808
Pledged assets	-	433,484	-	433,484
Other assets	-	-	35,000	35,000
Total financial assets	4,393,630	1,783,577	1,107,538	7,284,745
Liabilities				
Borrowings	1,739,839	3,352,015	-	5,091,854
Derivative financial instruments	-	-	66,060	66,060
Other liabilities	-	-	94,418	94,418
Total financial liabilities	1,739,839	3,352,015	160,478	5,252,332
Total interest repricing gap	2,653,791	(1,568,438)	947,060	2,032,413

#### 31 December 2019

Repricing dates	Up to 3	Above 3	Non-Interest	
	months	months	Bearing	Total US\$'000
	US\$'000	US\$'000	US\$'000	
Assets				
Cash and balances with banks	400	-	49,037	49,437
Loans and advances to banks	2,083,436	-	-	2,083,436
Derivative financial instruments	-	-	22,548	22,548
Loans and advances to customers	1,409,672	600,351	-	2,010,023
Financial assets at fair value through profit or loss	-	188,109	814,865	1,002,974
Investment securities	123,303	533,144	62,398	718,845
Pledged assets	-	172,413	-	172,413
Other assets	-	-	47,132	47,132
Total financial assets	3,616,811	1,494,017	995,980	6,106,808
Liabilities				
Borrowings	1,662,482	2,684,860	-	4,347,342
Derivative financial instruments	-	-	11,067	11,067
Other liabilities	-	-	50,408	50,408
Total financial liabilities	1,662,482	2,684,860	61,475	4,408,817
Total interest repricing gap	1,954,329	(1,190,843)	934,505	1,697,991

#### 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		
2019	9,352	(9,352)
2020	997	(997)
Sensitivity of reported Equity for the year		
2019	-	-
2020	-	-

There were no interest-bearing financial asset measured at FVOCI during the period (2019: Nil).

#### 3.3 LIQUIDITY RISK

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

The Corporation's liquidity management process includes:

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

The Corporation holds a diversified portfolio of cash and High-Quality Liquid Assets ("HQLA") to support financial obligations and contingent funding in a stressed market environment. 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 Liquidity Coverage Ratio ("LCR"). Other HQLA assets include government securities and corporate debt securities.

The assets held for managing liquidity risk are comprise:

	2020	
	Carrying Amount	Fair Value
	US\$'000	US\$'000
Cash and balances with banks	53,128	53,128
Loans and advances to banks	2,345,361	2,345,361
Investment securities	491,847	518,750
Total liquidity reserves	2,890,336	2,917,239

	2019		
	Carrying	Fair	
	Amount	Value	
	US\$'000	US\$'000	
Cash and balances with banks	49,437	49,437	
Loans and advances to banks	2,083,436	2,083,436	
Investment securities	143,631	144,727	
Total liquidity reserves	2,276,504	2,277,600	

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 cover 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 - principal plus interest accruals, 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 2020, the LCR was under stress scenario 178% (December 2019: 180%) and under normal circumstances 178% (December 2019: 137%).

#### Impact of COVID-19 on Liquidity risk

The Corporation's liquidity management and contingency plan has always been robust and designed to ensure the Corporation anticipated, monitored and responded to the impacts such as the COVID-19 outbreak. The pandemic has led to a significant weakening in many of our markets with impacts varying by sectors. The longer-term effects of the outbreak on businesses are uncertain and may lead to significant ECL charges in the worst affected sectors. However, the Corporation's financial position remains strong, allowing us to continue to support the African economy.

Proactive liquidity management in line with the Corporation's liquidity standards ensured that, despite volatile and constrained liquidity environments mainly attributable to the COVID-19 pandemic, adequate liquidity was maintained to fully support balance sheet strategies. This has been achieved through frequent engagements between Treasury, Risk Management and Finance teams in which the liquidity risk with respect to on- and off-balance sheet positions was carefully monitored. At the same time consideration has been provided to the adequacy of contingent funding, ensuring sufficiency to accommodate unexpected liquidity demands.

We conducted a range of internal stress tests during the year. These included stress tests to assess the potential future impacts of the COVID-19 crisis and assess the resilience of key balance sheet metrics including our capital adequacy. To date, we have conducted stress tests covering several potential COVID-19-related outcomes. We are regularly reviewing the economic impacts for key economies and markets to understand potential vulnerabilities in our balance sheet and to identify appropriate mitigating actions. We continue to monitor emerging geopolitical, economic and environmental risks impacting the Corporation's capital adequacy and liquidity. Our balance sheet and capital adequacy remain resilient based on internal stress test outcomes.

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 2020

All figures in US\$'000	Carrying Amount	Within 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	1 to 2 Years	2 -5 Years	Above 5 Years	Gross Nominal Amount
Cash and balances with banks	53,128	53,128	-	-	-	-	-	-	53,128
Loans and advances to banks	2,345,361	2,348,989	19,507	-	575	614	10,588	-	2,380,273
Derivative assets:		-	-	-	-	-	-	-	
- Forward contracts	1,346	-	1,326	-	-	-	-	-	1,326
- Interest Rate Options	2,961	-	-	67	76	171	645	1,656	2,615
- Interest Rate Swaps		-	-	-	-	-	-	-	
Inflows -	10,883	-	-	276	312	723	2,541	4,503	8,355
Outflows -		-	-	(80)	(93)	(210)	(610)	-	(993)
- Cross currency swaps		-	-	-	-	-	-	-	
Inflows -	35,089	-	34	-	271,091	13,897	462,238	-	747,260
Outflows -		-	(81)	-	(266,403)	(20,784)	(445,889)	-	(733,157)
Financial assets at fair value through profit or loss	1,274,801	1,375	22,797	2,750	28,888	177,510	263,544	845,335	1,342,199
Loans and advances to other customers	2,310,884	24,707	125,663	156,123	280,498	478,888	950,288	1,237,930	3,254,097
Investment securities	781,808	45,861	65,369	15,189	300,758	107,061	191,888	459,688	1,185,814
Pledged assets	433,484	1,020	4,479	9,777	38,960	105,958	270,075	132,013	562,282
Other assets	35,000	35,000	-	-	-	-	-	-	35,000
Total financial assets	7,284,745	2,510,080	239,094	184,102	654,662	863,828	1,705,308	2,681,125	8,838,199
Other liabilities	94,418	94,418	-	-	-	-	-	-	94,418
Borrowings	5,091,854	205,227	78,960	69,499	449,335	727,804	2,441,238	1,842,274	5,814,337
Derivative liabilities:		-	-	-	-	-	-	-	
- Forward contracts	56,195	398	55,019	8,250	-	-	-	-	63,667
- Interest Rate Options	9,464	-	-	(20)	(23)	(26)	(316)	(1,108)	(1,493)
- Interest Rate Swaps		-	-	-	-	-	-	-	
Inflows -	-	-	-	-	-	-	(49)	(364)	(413)
Outflows -	334	-	-	20	23	26	247	365	681
- Cross currency swaps		-	-	-	-	-	-	-	
Inflows -	-	(7)	-	(8)	(13,908)	-	-	-	(13,923)
Outflows -	67	288	-	282	13,739	-	-	-	14,309
Total financial liabilities	5,252,332	300,324	133,979	78,023	449,166	727,804	2,441,120	1,841,167	5,971,583
Commitments	633,169	125,418	-	-	300,595	47,018	93,701	66,436	633,168
Funding gap		2,084,338	105,115	106,079	(95,099)	89,006	(829,513)	773,522	2,233,448
Cumulative funding gap		2,084,338	2,189,453	2,295,532	2,200,433	2,289,439	1,459,926	2,233,448	-

#### As at 31 December 2019

	Carrying	Within 1	1 to 3	3 to 6	6 to 12	1 to 2	2 -5	Above 5	Gross Nomina
All figures in US\$'000	Amount	Month	Months	Months	Months	Years	Years	Years	Amount
Cash and balances with banks	49,437	49,437	_	_	_	_	_	_	49,437
Loans and advances to banks	2,083,436	1,958,361	128,922	_	_	_	_	_	2,087,283
Derivative assets:									
- Forward contracts	5,448	_	3,130	2,318	_	_	_	_	5,448
- Interest Rate Options	3,735	_	_	784	_	1,177	_	1,961	3,922
- Interest Rate Swaps									
Inflows -	7,324	-	52	70	180	440	1,833	3,975	6,550
Outflows -		-	-	-	-	(8)	(249)	(2,013)	(2,270)
- Cross currency swaps									
Inflows -	6,041	-	-	-	1,105	1,099	209,137	-	211,341
Outflows -	-	-	-	-	(6,075)	(6,041)	(213,765)	-	(225,881)
Financial assets at fair value through profit or loss	1,002,974	1,375	2,424	32,066	2,750	25,503	156,920	808,865	1,029,903
Loans and advances to other customers	2,010,023	60,643	192,653	179,352	213,043	406,577	855,896	1,462,358	3,370,522
Investment securities	718,845	1,695	93,934	71,725	59,031	86,650	374,730	581,165	1,268,930
Pledged assets	172,413	-	1,219	2,813	4,032	31,748	126,111	53,656	219,579
Other assets	47,132	47,132	-	-	-	-	-	-	47,132
Total financial assets	6,106,808	2,118,643	422,334	289,128	274,066	547,145	1,510,613	2,909,967	8,071,896
Other liabilities	50,408	50,408							50,408
Borrowings	4,347,342	164,884	36,643	423,417	350,581	558,445	2,002,124	1,953,014	5,489,108
Derivative liabilities:									
- Forward contracts	176	-	-	176	-				176
- Interest Rate Options	3,735	-	-	784	-	1,177	-	1,961	3,922
- Interest Rate Swaps									
Inflows -	-	-	-	-	-	(8)	(249)	(2,013)	(2,270)
Outflows -	4,840	-	70	94	240	588	2,452	5,315	8,759
- Cross currency swaps									
Inflows -	-	(192)	(214)	(163)	(197)	(38,779)	(9,282)	-	(48,827)
Outflows -	2,316	829	985	820	985	41,466	9,640	-	54,725
Total financial liabilities	4,408,817	215,929	37,484	425,128	351,609	562,889	2,004,685	1,958,277	5,556,001
Commitments	477,428	-	-	-	165,722	115,000	123,948	72,758	477,428
Funding gap	-	1,902,714	384,850	(136,000)	(243,265)	(130,744)	(618,020)	878,932	2,038,467
Cumulative funding gap	-	1,902,714	2,287,564	2,151,564	1,908,299	1,777,555	1,159,535	2,038,467	

#### Financial assets available to support future funding

The following table sets out the availability of the Corporation's financial assets (excluding equity securities) to support future funding.

#### 31 December 2020

		Encumbered	Unencumbered	Total
	Note	US\$'000	US\$'000	US\$'000
Cash and balances with banks	15	-	53,128	53,128
Loans and advances to banks	16	-	2,345,361	2,345,361
Loans and advances to customers	18	-	2,310,884	2,310,884
Financial assets at fair value through profit or loss		-	429,466	429,466
Investment securities		-	706,682	706,682
Pledged assets	21	433,484	-	433,484
Other assets	22	-	35,000	35,000
Total assets		433,484	5,880,521	6,314,005

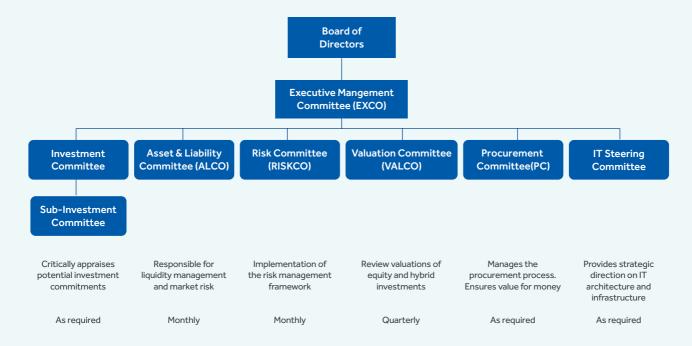
		<b>Encumbered</b>	Unencumbered	Total	
	Note	US\$'000	US\$'000	US\$'000	
Cash and balances with banks	15	-	49,437	49,437	
Loans and advances to banks	16	-	2,083,436	2,083,436	
Loans and advances to customers	18	-	2,010,023	2,010,023	
Financial assets at fair value through profit or loss		-	194,109	194,109	
Investment securities		-	656,448	656,448	
Pledged assets	21	172,413	-	172,413	
Other assets	22	-	47,132	47,132	
Total assets		172,413	5,040,585	5,212,998	

#### 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.

During the year, the Corporation secured Tier II capital of US\$250 million and US\$260 million of Tier 1 capital in addition to retained profits. Accordingly, the capital adequacy ratio stood at 34.1% (2019: 32.9%) and 30.6% excluding the Tier II capital of US\$250 million.

The Corporation's capital is managed by the Finance Division and currently comprises of Tier 1-86% (2019: 93%) and Tier 2 - 14% (2019: 7%) capital as shown below:

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

**Tier 2:** Comprises of unrealised gains arising from the fair valuation of equity instruments held at fair value through other comprehensive income, collective impairment allowance made on debt instruments and borrowings which meet the criteria for inclusion as tier 2 capital under Basel requirements.

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 2020. The Corporation has no externally imposed capital requirements, but complied with its own internal capital adequacy requirements described above, during the year under review.

	31 December 2020	31 December 2019
	US\$'000	US\$'000
Tier 1 capital		
Share capital	1,157,386	1,125,807
Share premium	53,722	25,301
Share warrants	200,000	-
Retained earnings	666,345	550,182
Total qualifying Tier 1 capital	2,077,453	1,701,290
Tier 2 capital		
Net fair valuation gain on FVOCI assets	(2,147)	6,875
Impairment allowance	88,413	130,878
Borrowings	250,000	-
Total qualifying capital	2,413,719	1,839,043
Risk-weighted assets:		
On-balance sheet	6,756,431	5,347,838
Off-balance sheet	316,584	238,714
Total risk-weighted assets	7,073,015	5,586,552
Basel ratio	34.1%	32.9%

#### 3.5 FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

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

Current year valuation and sensitivity methodologies are consistent with those described within note 3.5, fair value of financial instruments in the Corporation's 2019 annual report.

#### (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 reperformance and validation of model-based valuations;
- a review and approval process for new models and changes to models analysis and investigation of significant daily valuation movements; and

 review of unobservable inputs, valuation adjustments and changes to the fair value measurement of Level 3 instruments compared with the previous period, by the valuation committee (a committee which includes the Chief Financial Officer and the Chief Risk Officer)

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

The following table analyses financial instruments measured at fair value as at 31 December 2020, 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.

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
Assets			
Derivatives assets			
- Forward contracts	-	1,346	-
- Cross currency swaps	-	35,089	-
- Interest rate options	-	2,961	-
- Interest rate swaps	-	10,883	-
Financial assets at fair value through profit or loss:			
- Assets under management (debt securities)	21,422	-	-
- Hybrid instrument (convertible debt)	44,784	222,052	141,208
- Equity securities	12,903	-	832,432
Investment securities:			
- Equity securities (FVOCI)	15,051	-	60,075
Total	94,160	272,331	1,033,715
Liabilities			
Derivatives liabilities:			
- Forward contracts	-	56,195	-
- Interest rate options	-	9,464	-
- Cross currency swaps	-	67	-
- Interest rate swaps	-	334	-
Total	-	66,060	-

#### **31 December 2019**

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000
Assets			
Derivatives assets			
- Forward contracts	-	5,448	-
- Cross currency swaps	-	6,041	-
- Interest rate options	-	3,735	-
- Interest rate swaps	-	7,324	-
Financial assets at fair value through profit or loss:			
- Assets under management (debt)	20,003	-	-
- Hybrid instrument (convertible debt)	-	33,182	140,924
- Equity securities	-	-	808,865
Investment securities:			
- Equity securities (FVOCI)	-	-	62,397
Total	20,003	55,730	1,012,186
Liabilities			
Derivatives liabilities:			
- Forward contracts	-	176	-
- Interest rate options	-	3,735	-
- Cross currency swaps	-	2,316	-
- Interest rate swaps	-	4,840	-
	-	11,067	-

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 instruments were valued using the binomial tree model. The zero rate curve used in the model was obtained from an observable financial market (2019: the zero rate curve obtained from an observable financial market was used to value the hybrid instruments).

#### Level 3 fair value measurements

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

#### **Reconciliation of Level 3 items**

	31 December 2020	31 December 2019
	US\$'000	US\$'000
At beginning of year	1,012,186	621,050
Unrealised (losses)/gains:		
- in OCI	(13,073)	(18,367)
- in Profit or loss	26,629	78,673
Repayment/disposal	(57,255)	(12,500)
Additions	246,143	343,475
Exchange gain/(loss)	(2,899)	(145)
Reclassifications	(149,738)	-
Transferred to level 1	(28,278)	-
At end of year	1,033,715	1,012,186

#### Transfer out of level 3

The Corporation holds investment in equity shares of 2 entities which are traded on an exchange. The fair value of these investments were categorised as Level 3 at 31 December 2019 as the Corporation invested close to the year end and the investments were marketed to model.

During 2020, the fair value measurement was transferred from Level 3 to Level 1 of the fair value hierarchy at 31 December 2020 as the fair values were determined on the basis of the listed price.

#### Unobservable inputs used in measuring fair value

The table below sets out information about significant unobservable inputs used as at 31 December 2020 in measuring financial instruments categorised as Level 3 in the fair value hierarchy:

#### 31 December 2020

Type of financial instrument	Fair value as at 31 Dec 2020 (US\$'000	Valuation technique	Significant unobservable input	Range of estimates for unobservable input	Fair value measurement sensitivity to unobservable inputs
Unquoted equity	202.507	Discounted	Cost of equity	11.4% - 21.7%	Significant increases in the cost of equity, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
securities	892,507	cashflow	Terminal growth rate	1.0% - 2.3%	Significant increases in terminal growth rate, in isolation, would result in higher fair values. Significant reduction would result in lower fair values.
Hybrid instruments	141,208	Option Pricing Model	Credit Spread	5% – 7%	Significant increases in credit spread, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
Total	1,033,715				

Type of financial instrument	Fair value as at 31 Dec 2019 (US\$'000)	Valuation technique	Significant unobservable input		Fair value measurement sensitivity to unobservable inputs
Unquoted equity	074.262	Discounted	Cost of equity	7.3% - 16.4%	Significant increases in the cost of equity, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
securities	871,262	cashflow	Terminal growth rate	0% - 2.6%	Significant increases in terminal growth rate, in isolation, would result in higher fair values. Significant reduction would result in lower fair values.
Hybrid instruments	140,924	Option Pricing Model	Credit Spread	3.7%-7.9%	Significant increases in credit spread, in isolation, would result in lower fair values. Significant reduction would result in higher fair values.
Total	1,012,186				

The valuation techniques and significant unobservable inputs for assets and liabilities recognised at fair value and classified as level 3 are consistent with note 3.5, fair value of financial instruments in the Corporation's 2019 annual report.

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

- 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 - 2020		Other	
	Comprehen	sive Income	
	1%		
Key Assumption	Increase	Decrease	
Cost of equity	(1,933)	2,113	
Terminal growth rate	-	-	
US\$'000 - 2020	Profit	or Loss	
	1%	1%	
Key Assumption	Increase	Decrease	
Cost of equity	(34,094)	77,704	
Terminal growth rate	4,438	(8,830)	

US\$'000 - 2019	Other			
	Comprehensive Income			
	1%	1%		
Key Assumption	Increase	Decrease		
Cost of equity	(1,900)	1,994		
Terminal growth rate	-	-		

US\$'000 - 2019	Pro	fit or Loss
	1%	1%
Key Assumption	Increase	Decrease
Cost of equity	(46,315)	52,495
Terminal growth rate	7,969	(6,203)

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:

	Effect on Profit o	r Loss (US\$'000)
Key Assumption	2020	2019
2% increase in Credit Spread	(8,238)	(11,968)
2% decrease in Credit Spread	8,860	7,097

#### 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: 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 35.
- 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. Treasury bills are short-term securities, therefore the fair values are not significantly different from the carrying amount.
- iv. 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 2020

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total fair values US\$'000	Total carrying values US\$'000
Assets	033 000	033 000	032 000	033,000	033 000
Loans and advances to other customers:					
- Project finance	-	-	1,870,673	1,870,673	1,870,673
- Trade finance	-	-	440,211	440,211	440,211
Investment securities:					
- Corporate debt securities	108,330	-	187,887	296,217	316,273
- Government debt securities	410,420	-	-	410,420	390,409
Pledged assets:				-	-
- Corporate debt securities	163,925	-	-	163,925	151,731
- Government debt securities	309,653	-	-	309,653	281,753
Total	992,328	-	2,498,771	3,491,099	3,451,050
Liabilities					
Borrowings	2,758,298	2,420,961	-	5,179,259	5,091,854
Total	2,758,298	2,420,961	-	5,179,259	5,091,854

#### **31 December 2019**

	Level 1 US\$'000	Level 2 US\$'000	Level 3 US\$'000	Total fair values US\$'000	Total carrying values US\$'000
Loans and advances to other customers:					
- Project finance	-	-	1,657,264	1,657,264	1,657,264
- Trade finance	-	-	352,759	352,759	352,759
Investment securities:					
- Corporate debt securities	114,071	-	119,200	233,271	220,547
- Government debt securities	453,886	-	-	453,886	435,901
Pledged assets:					
- Corporate debt securities	135,701	-	-	135,701	121,811
- Government debt securities	52,654	-	-	52,654	50,602
Total	756,312	-	2,129,223	2,885,535	2,838,884
Liabilities					
Borrowings	2,560,911	1,872,903	-	4,433,814	4,347,342
Total	2,560,911	1,872,903	-	4,433,814	4,347,342

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.

#### **3.6 FINANCIAL INSTRUMENTS BY CATEGORY**

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

#### **31 December 2020**

#### Assets as per Statement of Financial Position

	Mandatorily FVTPL	Designated at FVTPL	FVOCI - Debt Instruments	FVOCI - Equity Instruments	Amortised Cost	Carrying Amount
Assets	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Cash and balances with banks					53,128	53,128
Loans and advances to banks:					33,120	33,110
- Placements with banks	_	_	_	_	2,345,361	2,345,361
Derivatives	50,279	_	_	_	-	50,279
Loan and advances to other Customers:						
- Project finance	_	-	_	_	1,870,673	1,870,673
- Trade finance	-	-	_	_	440,211	440,211
Financial assets at fair value through profit or loss:						
- Hybrid instruments	408,044	-	-	-	-	408,044
- Equity securities	845,335	-	-	-	-	845,335
- Assets under management	-	21,422	-	-	-	21,422
Investment securities:						
- Debt securities	-	-	-	-	706,682	706,682
- Equity securities	-	-	-	75,126	-	75,126
Pledged assets:						
- Debt securities	-	-	-	-	433,484	433,484
Other assets:						
- Account receivable	-	-	-	-	19,539	19,539
- Fee receivable	-	-	-	-	15,461	15,461
Total financial assets	1,303,658	21,422	-	75,126	5,884,539	7,284,745

	FVOCI Mandatorily FVTPL US\$'000	FVOCI Designated at FVTPL US\$'000	Amortised Cost US\$'000	Carrying Amount US\$'000
Other liabilities	-	-	94,418	94,418
Derivatives	66,060	-	-	66,060
Borrowings	-	-	5,091,854	5,091,854
Total financial liabilities	66,060	-	5,186,272	5,252,332

	FVOCI Mandatorily FVTPL	FVOCI Designated at FVTPL	- Debt	- Equity Instruments	Amortised Cost	Carrying Amount
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	USS'000
Assets						
Cash and balances with banks	-	-	-	-	49,437	49,437
Loans and advances to banks:						
- Placements with banks	-	-	-	-	2,083,436	2,083,436
Derivatives	22,548	-	-	-	-	22,548
Loan and advances to other Customers:						
- Project finance	-	-	-	-	1,657,264	1,657,264
- Trade finance	-	_	-	-	352,759	352,759
Financial assets at fair value through profit or loss:  - Hybrid instruments	174,106	-	-			
- Equity securities	808,865				_	174,106
		-	_	-		174,106 808,865
- Assets under management		20,003	-	-	-	
- Assets under management Investment securities:	000,000	20,003	-	-	-	808,865
	-	20,003	-	-	656,448	808,865
Investment securities:	,	· · ·	-	- 62,397	-	808,865 20,003
Investment securities: - Debt securities	,	· · ·	-		-	808,865 20,003 656,448
Investment securities: - Debt securities - Equity securities	,	· · ·			-	808,865 20,003 656,448
Investment securities: - Debt securities - Equity securities Pledged assets:	,	· · ·	-	62,397	- 656,448 -	808,865 20,003 656,448 62,397
Investment securities: - Debt securities - Equity securities Pledged assets: - Debt securities	,	· · ·	-	62,397	- 656,448 -	808,865 20,003 656,448 62,397
Investment securities: - Debt securities - Equity securities Pledged assets: - Debt securities Other assets:	,	· · ·	-	62,397	656,448	808,865 20,003 656,448 62,397 172,413

		FVOCI	FVOCI	
	Mandatorily	Designated	Amortised	Carrying
	FVTPL	at FVTPL	Cost	Amount
	US\$'000	US\$'000	US\$'000	US\$'000
Liabilities				
Other liabilities	-	-	50,408	50,408
Derivatives	11,067	-	-	11,067
Borrowings	-	-	4,347,342	4,347,342
Total financial liabilities	11,067	-	4,397,750	4,408,817

# 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Corporation'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 as at the end of the 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.

#### (1) Assumption and estimation uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment in the year ended 31 December 2020 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.

#### (a) Impairment losses on loans and advances

The measurement of the expected credit loss allowance for financial assets measured at amortised 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.

#### (b) Fair value of financial instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments 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.

## (c) 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 permits 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, with changes in fair value recognised in the income statement in the period of the change. The Corporation's operational activities typically entail provision of equity finance to unquoted companies and taking an active role in helping to build and develop such companies by having a representation on the Board of the investee companies. The equity business of the Corporation is managed and appraised 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).

#### 2. Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the consolidated financial statements are set out below.

#### (a) Measurement of ECL

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;

- Establishing groups of similar financial assets for the purposes of measuring ECL; and
- Assumptions used in estimating recoverable cashflows.

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 December 2020

	Probability of Default US\$'000	Loss given Default US\$'000
Increase/(decrease)		
Effect of a 1% increase:	1,148	1,861
Effect of a 1% decrease:	(1,149)	(1,861)
31 December 2019		
	Probability	Loss given
	Probability of Default US\$'000	Loss given Default US\$'000
Increase/(decrease)	of Default	Default
Increase/(decrease) Effect of a 1% increase:	of Default	Default

#### (b) Classification of financial assets

Information about assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding are set out in note 2.4.

(c) Consolidation: whether the Corporation has control over an investee

The Corporation has exercised judgement in determining whether it has control over investee entities where the Corporation holds over 50% of the issued ordinary equity of the investee.

#### Arise Special Economic Zone

Although the Corporation holds 50.5% of the issued ordinary equity in Arise Special Economic Zone, management has determined that the Corporation does not have control over the entity. The entity has two (2) shareholders, but based on the terms of agreements under which the entity was established, each shareholder has equal voting rights. This implies that both shareholders have substantive rights in the entity. Therefore, the entity has been carried at fair value through profit or loss (FVTPL) in accordance with the requirements of IAS 28.

#### Djibouti Wind Company Limited

Djibouti Wind Company Limited ("DWCL") is the general partner of the Djibouti Wind Limited Partnership ("DWLP"), a special purpose vehicle set up by the limited partners to hold a 90% interest in Red Sea Power Limited SAS. The Corporation has 56.67% interest in DWCL and DWLP. The partners have similar interests in DWCL and DWLP. Management has determined that the Corporation does not control DWCL because under the terms of agreements establishing the entity, the Corporation has 33.3% of the voting rights in the entity. Therefore, the entity has been carried at fair value through profit or loss (FVTPL) in accordance with the requirements of IAS 28.

#### 5. REPORTING SEGMENTS

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, (c) Senior Director & Chief Financial Officer, (d) Director & Chief Risk Officer and (e) Director & General Counsel, (f) Director & Head of Corporate Services. 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 2020 is as follows:

		Financial	
31 December 2020	Investment	Services	Total
	US\$'000	US\$'000	US\$'000
Interest income	214,632	124,939	339,571
Dividend	2,331	-	2,331
Fee and commission income	50,627	14,930	65,557
Gain on disposal of financial assets	-	9,531	9,531
Net gain/(loss) on financial instruments at fair value through profit or loss	49,955	(14,943)	35,012
Impairment charge	(34,611)	(4,020)	(38,631)
Interest & administrative expenses	(225,208)	(23,073)	(248,281)
Operating profit	57,726	107,364	165,090
Total assets	3,921,252	3,441,907	7,363,159
Total liabilities	27,137	5,259,991	5,287,128
Expenditure on reportable segment:			
Non-current assets	1,856	1,000	2,856
Depreciation and amortisation	2,191	1,180	3,370

31 December 2019		Financial	
	Investment	Services	Total
	US\$'000	US\$'000	US\$'000
Interest income	136,888	173,278	310,166
Dividend	2,311	-	2,311
Fee and commission income	58,597	10,193	68,790
Gain on disposal of financial assets	12,779	-	12,779
Net gain/(loss) on financial instruments at fair value through profit or loss	78,176	(6,675)	71,501
Impairment charge	(77,090)	(378)	(77,468)
Interest & administrative expenses	(137,947)	(66,830)	(204,777)
Operating profit	73,714	109,588	183,302
Total assets	3,445,480	2,673,332	6,118,812
Total liabilities	18,452	4,392,195	4,410,647
Expenditure on reportable segment:			
Non-current assets	3,011	1,622	4,633
Depreciation and amortisation	1,661	895	2,556
Depreciation and amortisation	1,661	895	2

**Geographic information:** The geographic information analyses the Corporation's revenue and non-current assets by the Corporation's country of domicile and other countries. In presenting the geographic information below, segment revenue is based on the geographic location of customers and segment assets are based on the geographic location of the assets.

31 December 2020	West Africa	Rest of Africa	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Interest income	197,608	94,488	47,475	339,571
Dividend	763	1,568	-	2,331
Fee and commission income	51,863	13,100	594	65,557
Gain on disposal of financial assets	-	-	9,531	9,531
Net gain/(loss) on financial instruments at fair value through profit or loss	32,861	17,094	(14,943)	35,012
Loan insurance expenses	-	-	(15,687)	(15,687)
Interest Expenses	(33,986)	(3,888)	(134,592)	(172,466)
External Revenue	249,109	122,362	(107,622)	263,849
Total Assets	3,157,827	2,319,783	1,885,550	7,363,159
31 December 2019	West Africa	Rest of Africa	Others	Total

31 December 2019	West Africa	Rest of Africa	Others	Total
	US\$'000	US\$'000	US\$'000	US\$'000
Interest income	209,287	87,028	13,851	310,166
Dividend	838	1,473	-	2,311
Fee and commission income	42,249	26,249	292	68,790
Gain on disposal of financial assets	279	12,500	-	12,779
Net (loss)/gain on financial instruments at fair value through profit or loss	(6,589)	85,399	(7,309)	71,501
Loan insurance expenses	(109)	(2,826)		(2,935)
Interest Expenses	(7,228)	(4,566)	(135,752)	(147,546)
External Revenue	238,727	205,257	(128,918)	315,066
Total Assets	2,424,298	1,848,150	1,846,364	6,118,812

#### 6. INTEREST INCOME AND INTEREST EXPENSE

	2020 US\$'000	2019 US\$'000
Interest income		
Loans and advances to other customers	215,558	139,108
Loans and advances to banks	47,088	45,578
Financial assets at FVTPL	14,231	9,814
Investment securities:		
- Financial assets at amortised cost	62,694	115,620
- Financial assets at fair value through OCI	-	46
	339,571	310,166
Interest expense		
Borrowings from financial institutions	81,515	63,885
Corporate bonds	90,879	83,588
Interest expense on borrowings	172,394	147,473
Lease liability (see note 26 (a))	72	73
	172,466	147,546
		162,620

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:

	2020 US\$'000	2019 US\$'000
Financial assets measured at:		
- amortised cost	325,340	300,306
- FVTPL	14,231	9,814
- FVOCI	-	46
Total interest income	339,571	310,166
Financial liabilities measured		
at amortised cost	172,466	147,298
Financial liabilities measured at FVTPL	-	248
Total interest expense	172,466	147,546

#### 7. DIVIDEND INCOME

	2020 US\$'000	2019 US\$'000
Equity securities at:		
- FVOCI	1,082	1,473
- FVTPL	1,249	838
	2,331	2,311

### 8. FEES, COMMISSIONS AND OTHER INCOME

	2020 US\$'000	2019 US\$'000
Risk participation and commitment fees	10,646	7,996
Advisory and structuring fees	37,944	50,253
Facility and other fees	11,544	5,644
Development fees	5,423	4,897
	65,557	68,790

- a) Disaggregation of fee, commission and other income In the following table, fees, commissions and other 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 fees, commissions and other income with the Corporation's reporting segments (see Note 5).
- b) The fees and commission presented in this note include income of US\$20.4 million (2019: US\$25.7 million) relating to financial assets not measured at FVTPL. These figures exclude amounts incorporated in determining the effective interest rate on such financial assets.

U\$\$'000						
Major service lines	Investment Financial Services		Total			
	2020	2019	2020	2019	2020	2019
- Risk participation and commitment fees	9,941	7,927	705	69	10,646	7,996
- Advisory fees	295	15,180	4,583	8,695	4,878	23,875
- Structuring fees	31,416	26,059	1,650	319	33,066	26,378
- Facility and other fees	3,552	4,534	7,992	1,110	11,544	5,644
- Development fees	5,423	4,897	-	-	5,423	4,897
Fees, commission and other income (Note 5)	50,627	58,597	14,930	10,193	65,557	68,790

- c) Performance obligations and revenue recognition policies
- i. Risk participation and commitment fees: Risk participation fee are 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 advisory capacities. 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 as agreed with project sponsors. The fees are recognised when the development phase of the project is completed.

## 9. NET GAIN ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 US\$'000	2019 US\$'000
Mandatorily measured at FVTPL:		
Derivatives held for risk management purposes:		
- Interest rate	1,410	73
- Cross currency swap	26,542	(7,396)
- Foreign exchange	(43,419)	(164)
Equity investments	12,208	81,588
Hybrid instruments	37,747	(3,412)
Designated at FVTPL:		
Asset under management	524	812
	35,012	71,501

## 10. IMPAIRMENT CHARGE ON FINANCIAL ASSETS

	2020 US\$'000	2019 US\$'000
Loans and advances to customers (Note 18(a))	23,923	75,488
Loans and advances to banks (Note 16(a))	1,463	1,137
Investment securities at amortised cost		
(Note 20(b))	5,405	681
Pledged assets at amortised cost (Note 21(a))	2,278	(24)
Off-balance sheet commitments (Note 26(b))	5,562	264
Write back of impairment on FVOCI bonds	-	(78)
	38,631	77,468

#### 11.GAIN ON DISPOSAL OF FINANCIAL ASSETS

	2020 US\$'000	2019 US\$'000
- Equity securities	-	12,779
- Debt securities	9,531	-
	9,531	12,779

Amounts represent income realised from the sale of the investments in certain securities during the year, in line with the Corporation's strategy.

#### 12. OPERATING EXPENSES

	2020 US\$'000	2019 US\$'000
a) Operating expenses		
Staff cost:		
Wages and salaries	39,903	36,812
Post-employment benefits	1,424	1,138
Other employee benefits	2,096	1,160
Other operating expenses:		
- Rent, rates and utilities	169	146
- Insurance	94	78
- Advertising and business promotion	1,336	2,149
- Auditor's remuneration	220	220
- Communication	1,252	835
- Travel	213	1,326
- Board expenses, including Directors' fees	1,313	1,007
- Training, seminars and conferences	633	706
- Repairs and maintenance	74	76
- Project and other transaction expenses	2,285	3,035
- Consultancy fees	1,713	1,811
- Other expenses (I)	4,033	1,241
- Depreciation and amortisation	3,370	2,556
	60.128	54.296

 During the year, as part of COVID-19 support initiatives, the Corporation incurred US\$ 2.5 million which is included in other expenses.

	2020 US\$'000	2019 US\$'000
b) Credit risk insurance		
- Credit risk insurance premium	15,687	2,935

The Corporation uses credit risk insurance as a risk mitigation tool to protect the Corporation against borrower defaults.

#### 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 the host country

#### 14. EARNINGS PER SHARE

#### (I) 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. Basic and diluted earnings per share are the same as the Corporation has no potentially dilutive ordinary shares.

	2020	2019
Profit attributable to equity holders of the Corporation		
Profit attributable to equity holders of the Corporation from continuing operations (US\$'000)  Profit attributable to equity holders of the Corporation from discontinued	165,090	183,302
operations (US\$'000) - see note 25(a)	165,526	183,302
Weighted average number of ordinary shares in issue		
Weighted average number of ordinary shares at 1 January ('000) Effect of shares issued during the year ('000)	1,101,633 50,145	1,096,225 5,408
Weighted-average number of ordinary shares at 31 December ('000)	1,151,778	1,101,633

#### Earnings per share

Total for the year	14.37	16.64
US cents per share)	0.04	-
discontinued operations (expressed in		
Basic/diluted earnings per share from		
US cents per share)	14.33	16.64
continuing operations (expressed in		
Basic/diluted earnings per share from		

#### 15. CASH AND BALANCES WITH BANKS

	2020 US\$'000	2019 US\$'000
Cash in hand	21	17
Balances with banks	53,107	49,420
	53,128	49,437

All cash and balances with commercial banks are current.

#### 16. LOANS AND ADVANCES TO BANKS

	2020 US\$'000	2019 US\$'000
Placements with banks	2,349,179	2,085,791
Less: Allowance for impairment		
(See (a) below)	(3,818)	(2,355)
	2,345,361	2,083,436

All loans and advances to banks are current.

a) The movement in ECL allowance is shown below:

	2020 US\$'000	2019 US\$'000
Opening	2,355	1,218
Net remeasurement of ECL allowance		
(Note 10)	1,463	1,137
	3,818	2,355

#### 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.

31 December 2020	Assets US\$'000	Liabilities US\$'000	Notional US\$'000
Forward contracts	1,346	56,195	725,258
Cross currency swaps	35,089	67	663,985
Interest rate options	2,961	9,464	483,733
Interest rate swaps	10,883	334	54,704
	50,279	66,060	1,927,680
Current	13,934	56,262	
Non-current	36,345	9,798	

Assets US\$'000	Liabilities US\$'000	Notional US\$'000
5,448	176	460,176
6,041	2,316	263,945
3,735	3,735	532,000
7,324	4,840	112,180
22,548	11,067	1,368,301
5,487	215	
17,061	10,852	
	US\$'000 5,448 6,041 3,735 7,324 22,548	US\$'000         US\$'000           5,448         176           6,041         2,316           3,735         3,735           7,324         4,840           22,548         11,067           5,487         215

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

## 18. LOANS AND ADVANCES TO OTHER CUSTOMERS

	2020 US\$'000	2019 US\$'000
Project finance loans	2,006,578	1,775,391
Advances under trade finance	456,396	362,799
	2,462,974	2,138,190
Impairment allowance (see note (a) below):		
- Project finance	(135,905)	(118,127)
- Trade finance	(16,185)	(10,040)
	(152,090)	(128,167)
	2,310,884	2,010,023
Current	283,162	267,451
Non-current	2,027,722	1,742,572

a) The movement in impairment allowance is shown below:

	2020	2019
	US\$'000	US\$'000
Balance as at 1 January	128,167	86,913
Write off	-	(34,234)
Net measurement of impairment		
allowance (Note 10)	23,923	75,488
Closing balance	152,090	128,167

See Note 3.1.6 for a detailed analysis.

## 19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2020 US\$'000	2019 US\$'000
Hybrid instruments (convertible debt) (a)	408,044	174,106
Equity securities (b)	845,335	808,865
Assets under management		
(debt securities) (c)	21,422	20,003
	1,274,801	1,002,974
Current	21,422	56,380
Non-current	1,253,379	946,594

 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:

	2020	2019	2020	2019
	US\$'000	US\$'000	% Share	holding
Arise Mauritania S.A. (i)	1,549	-	13%	0%
Gabon Special Economic Zone (ii)	-	269,963	0%	21%
Arise Infrastructure Services (iii)	22,583	-	34%	0%
Arise Ports and Logistics Limited (iv)	141,442	-	26%	0%
Arise Special Economic Zone (v)	209,450	-	51%	0%
Bakwena Platinum Concession				
Limited (vi)	44,228	50,948	22%	22%
Cenpower Generation Company (vii)	63,761	-	32%	0%
Cenpower Operations Company (vii)	74	74	25%	25%
Danakali Limited (viii)	12,903	21,528	17%	17%
Djibouti Wind Company Limited (ix)	63	-	57%	0%
Djibouti Wind Limited Partnership (ix)	6,237	1,739	57%	57%
Infrastructure Credit Guarantee				
Company Limited (x)	5,431	2,718	32%	50%
International Gulf Mining Limited (xi)	223	-	4%	0%
MainOne Cable Company (xii)	12,438	11,442	23%	23%
Ncondezi (xiii)	10	10	23%	23%
Nouvelle Gabon Mining SA (xiv)	254,767	172,333	43%	28%
Singrobro (xv)	12,381	10,823	49%	49%
Société Concessionaire du Pont				
Riviera-Marcory (xvi)	56,785	44,727	26%	26%
Vigeo Power Limited (xvii)	1,010	1,010	20%	20%
Anergi Holdings Limited (xviii)	-	221,550	0%	44%
	845,335	808,865		

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) Arise Mauritania S.A. is a 30-year concession by the Government of Mauritania to design, build, finance and operate a new container terminal with initial capacity of 250,000 Twenty-foot Equivalent Units (TEUs) and flexibility to expand capacity to 600,000 TEUs at a later stage; and an oil jetty able to accommodate oil & gas vessels with capacity of 50,000 DWT. The scope of the project comprises the construction of a new wharf with capacity for two 4,200 TEU vessels at the same time, a storage area for exports & imports, a container freight station, and an administrative area including a one-stop shop of 1,000m for port authority and government entities.
- (ii) 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 its early stage of development.

During the year, Gabon Special Economic Zone implemented a reorganisation of its group structure and rebranded as Arise. As a result, three (3) separate entities and business verticals emerged: Arise Ports & Logistics, Arise Special Economic Zone (Arise Integrated Industrial Platform – Arise IIP) and Arise Infrastructure Services. The Arise group focuses on originating, building and executing large scale infrastructure and logistics assets to address the infrastructure gap in Africa. (See notes iii, iv, and v).

(iii) Arise Infrastructure Services comprises of the Libreville Airport and GSEZ Infrastructure – the water and electricity line infrastructure in Gabon. The summarized financial information for Arise Infrastructure Services is presented below:

	2020	2019
	US\$'000	US\$'000
Current assets	8,135	-
Non-current assets	89,367	-
Current liabilities	20,148	-
Non-current liabilities	303	-
Revenue	9,140	-
Loss after tax	(1,452)	-

(iv) Arise Ports and Logistics Limited is a pan-african operator of integrated and multimodal ports & logistics ecosystems and infrastructures comprising: Gabon General Cargo Port, Gabon Mineral Port, which are both operational, and the San Pedro Port, Cote D'Ivoire which is under construction. The summarized financial information for Arise Ports And Logistics Limited is presented below:

	2020	2019
	US\$'000	US\$'000
Current assets	75,045	-
Non-current assets	954,009	-
Current liabilities	110,634	-
Non-current liabilities	209,849	_
Revenue	152,446	-
Profit after tax	8,242	-

(v) Arise Special Economic Zone comprises of the Nkok Special Economic Zone in Gabon, the Port Gentil Special Economic Zone, Benin Special Economic Zone and Togo Special Economic Zone (collectively, the "SEZ Assets"). The summarized financial information for Arise Special Economic Zone is presented below:

	2020	2020 2019	
	US\$'000	US\$'000	
Current assets	307,976	-	
Non-current assets	392,652	-	
Current liabilities	82,480	_	
Non-current liabilities	243,160	_	
Revenue	101,165	_	
Profit after tax	24,187	_	

(vi) 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. The summarized financial information for Bakwena Platinum Concession Company is presented below:

2020	2019
US\$'000	US\$'000
8,128	5,207
146,350	215,966
12,845	10,275
3,756	23,210
(41,605)	10,630
(31,909)	11,364
	US\$'000 8,128 146,350 12,845 3,756 (41,605)

(vii) Cenpower Generation Company Limited (Cenpower or CGC) is a special purpose vehicle created to develop the Cenpower Kpone Independent Power Plant (KIPP) in the Tema industrial zone, close to Accra, Ghana's capital. The Kpone Independent Power Plant, which achieved commercial operations in June 2019, is amongst the largest IPPs in the country accounting for approximately 10% of Ghana's total installed capacity and approximately 15% of its available thermal generation capacity. The summarized financial information for Cenpower Generation Company Limited is presented below:

	2020	2019
	US\$'000	US\$'000
Current assets	206,429	178,071
Non-current assets	707,037	720,895
Current liabilities	25,730	67,732
Non-current liabilities	817,351	800,023
Revenue	157,021	115,243
Profit/(loss) after tax	37,975	(81,069)

(viii) Danakali Limited is a potash company focused on the development of the Colluli Sulphate of Potash Project (the Project). The Project is 100% owned by the Colluli Mining Share Company (CMSC), a 50:50 joint venture between Danakali and the Eritrean National Mining Corporation (ENAMCO). The project is located in the Danakil Depression region of Eritrea, East Africa, and is approximately 75km from the Red Sea coast, making it one of the most accessible potash deposits globally. Danakali Limited is listed on the Australian Securities Exchange and the London Stock Exchange.

(ix) Djibouti Wind Limited Partnership (DWLP) is a special purpose vehicle, which was set up by the limited partners, to construct and operate a 60 megawatts windfarm in the Ghoubet area, near Lake Assal, Djibouti (the Project). Djibouti Wind Company Limited (DWCL) is the general partner of DWLP. DWLP and DWCL have the same partners and shareholding structure. The Corporation holds 56.67% interest in DWCL and DWLP. DWLP owns 90% of the project company which gives the Corporation an effective stake of about 51% in Red Sea Power Limited SAS (the project company). The project consists of a 60-megawatt (MW) wind farm in Ghoubet, along with interconnection facilities located in the Arta Region (between Lake Assal and Djibouti City). See Note 4 for information about judgements made in assessing whether the Corporation controls the entities.

(x) 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 quality 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 summarized financial information for Infrastructure Credit Guarantee Company Limited is presented below:

	2020	2019
	US\$'000	US\$'000
Current assets	161,412	112,438
Non-current assets	1,402	1,340
Current liabilities	2,478	1,164
Non-current liabilities	80,220	65,805
Revenue	10,644	7,423
Profit after tax	6,897	2,584

(xi) International Gulf Mining Limited is a mining and exploration company established in in Boke district of north-western Guinea, approximately 150 km north-northwest of Conakry and 20 km

south of the provincial town of Boke. The project has been designed for rapid construction; bringing the mine into production in less than 13 months.

(xii) 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. The summarized financial information for MainOne is presented below:

	2020	2019
	US\$'000	<b>US\$'00</b> 0
Current assets	71,439	43,996
Non-current assets	171,889	184,555
Current liabilities	55,042	61,223
Non-current liabilities	85,861	52,690
Revenue	61,352	43,976
Loss after tax	(88)	(7,080)
Total comprehensive loss	(225)	(6,370)

(xiii) Ncondezi a power development company with an integrated thermal coal mine and power plant project located near Tete Province, Northern Mozambique.

(xiv) Nouvelle Gabon Mining SA holds the rights to two producing manganese mine assets in Gabon ("Franceville" and "Okondja"). The two mines are expected to have a combined nameplate production capacity of 2.4 million tons per annum when fully implemented. The summarized financial information for Nouvelle Gabon Mining SA is presented below:

	2020	2019
	US\$'000	US\$'000
Current assets	44,626	24,323
Non-current assets	393,949	320,380
Current liabilities	53,270	23,870
Non-current liabilities	85,716	76,686
Revenue	121,393	93,450
Profit after tax	7,491	6,260

(xv) Singrobro: a 44MW hydroelectric power plant development project in Côte d'Ivoire.

(xvi) Société Concessionaire du Pont Riviera-Marcory (Socoprim) is 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.

The summarized financial information for Socoprim is presented below:

	2020	2019
	US\$'000	US\$'000
Current assets	10,075	37,802
Non-current assets	507,091	420,548
Current liabilities	115,250	111,590
Non-current liabilities	182,043	186,006
Revenue	352	194
Profit after tax	46,032	62,960

(xvii) Vigeo Power Limited is incorporated in Nigeria and is a power distribution company in the south-west part of the host country Nigeria.

(xviii) 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 Corporation exited its investment in Anergi Holdings Limited during the year and no longer has an interest in the entity. In return, the Corporation obtained a 94% and 31.9% interest in Cabeolica S.A. and Cenpower Generation Company respectively investments initially seeded to Anergi Holdings Limited. See Note 25 and 36.

The Corporation acquired stakes in these companies with the intention to exit at a future date. As of 31 December 2020, 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.

 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**

	2020	2019
	US\$'000	US\$'000
At amortised cost:		
- Corporate debt securities	330,306	229,044
- Sovereign debt securities	394,782	440,405
	725,088	669,449
Less: Allowance for impairment		
(see note (b) below)	(18,406)	(13,001)
	706,682	656,448
At FVOCI:		
- Corporate debt securities	-	_
- Equity securities – (see note (c) below)	75,126	62,397
	781,808	718,845
Current	448,212	181,437
Non-current	333,596	537,408

- a) As at 31 December 2020, the Corporation held no collateral, which it was permitted to sell or repledge in the event of default by the owner of the collateral (31 December 2019: Nil).
- b) The movement in impairment allowance is shown below:

	2020	2019
	US\$'000	US\$'000
Opening	13,001	12,320
Net remeasurement of ECL allowance		
(Note 10)	5,405	681
	18,406	<b>13,00</b> 1

#### c) Equity securities at FVOCI

	2020 US\$'000	2019 US\$'000
Equity securities – (see note (i) below)	75,126	62,397

(i) The movement in equity securities from the preceding financial year is as follows:

	2020	2019
	US\$'000	US\$'000
At beginning of the year	62,397	74,159
Additions	21,751	6,750
Net loss on fair valuation through		
other comprehensive income	(9,404)	(18,367)
Foreign exchange gain/(loss)	382	(145)
At end of the year	75,126	62,397

#### **21. PLEDGED ASSETS**

	2020 US\$'000	2019 US\$'000
Corporate debt securities	154,139	124,239
Sovereign debt securities	284,176	50,727
	438,315	174,966
Less: Allowance for impairment		
(see note (a) below)	(4,831)	(2,553)
	433,484	172,413
Current	23,690	-
Non-current	409,794	172,413

a) The movement in ECL allowance is shown below:

	2020	2019
	US\$'000	US\$'000
Opening	2,553	2,577
Net remeasurement of ECL allowance		
(Note 10)	2,278	(24)
	4,831	2,553

(b) Pledged assets comprise debt securities used to secure the Corporation's borrowings but were not derecognised in the consolidated financial statements. 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:

	2020 US\$'000	2019 US\$'000
Carrying amount of the assets	433,484	172,413
Carrying amount of the associated		
liabilities (see note 27(iii))	348,189	100,226
Fair value of the assets	473,578	188,355
Fair value of the liabilities	(348,189)	(100,226)
Net fair value	125,389	88,129

#### 22. OTHER ASSETS

	2020	2019
	US\$'000	US\$'000
Financial assets		
Account receivable	19,539	26,208
Fee receivable	15,461	20,924
	35,000	47,132
Non-financial assets		
Prepayments	3,947	4,292
	38,947	51,424
Current	38,947	51,424

### 23. PROPERTY AND EQUIPMENT

	Right- of- Use Asset US\$'000	Motor Vehicles US\$'000	Leasehold improvement US\$'000	Furniture & Equipment US\$'000	Total US\$'000
As at 1 January 2019					
Cost	-	3,223	1,616	4,187	9,026
Accumulated depreciation	-	(1,561)	(1,604)	(3,607)	(6,772)
Reclassification of Right-of-Use assets	3,154	-	-	-	3,154
Net book amount	3,154	1,662	12	580	5,408
Year ended 31 December 2019					
Opening net book value	3,154	1,662	12	580	5,408
Additions	1,875	1,031	69	1,259	4,234
Disposals – cost	-	(380)	-	(24)	(404)
Disposals – accumulated depreciation	-	380	-	21	401
Depreciation charge	(1,303)	(823)	(10)	(280)	(2,416)
Closing net book amount	3,726	1,870	71	1,556	7,223
As at 1 January 2020					
Cost	5,029	3,874	1,685	5,422	16,010
Accumulated depreciation	(1,303)	(2,004)	(1,614)	(3,866)	(8,787)
Net book amount	3,726	1,870	71	1,556	7,223
Year ended 31 December 2020					
Opening net book value	3,726	1,870	71	1,556	7,223
Additions	-	902	519	29	1,450
Disposals – cost	-	(899)	-	(69)	(968)
Disposals – accumulated depreciation	-	899	-	65	964
Depreciation charge	(1,615)	(910)	(121)	(411)	(3,057)
Closing net book amount	2,111	1,862	469	1,170	5,612
As at 31 December 2020					
Cost	5,029	3,877	2,204	5,382	16,492
Accumulated depreciation	(2,918)	(2,015)	(1,735)	(4,212)	(10,880)
Net book amount	2,111	1,862	469	1,170	5,612

- There were no impairment losses on any class of property and equipment during the year (2019: Nil).
- There were no capitalised borrowing costs related to the acquisition of property and equipment during the year (2019: Nil)
- iii. There were no restrictions to the title held by the Corporation, in respect of its property and equipment during the year (2019: Nil).
- iv. The depreciation charge and interest on lease liabilities (included in interest expense) on right-of-use assets for the year was US\$1.6 million (2019: US\$1.3 million) and US\$72,000 (2019: US\$73,000) respectively.
- v. All items of property and equipment are non-current.

#### **24. INTANGIBLE ASSETS**

	2020 US\$'000	2019 US\$'000
Software cost	1,582	489

Software costs are expenses incurred in the purchase and implementation of the Corporation's software. The movement in intangible assets from the preceding financial year is as follows:

	2020 US\$'000	2019 US\$'000
At 1 January	489	228
Additions	1,406	399
Amortisation	(313)	(138)
At 31 December	1,582	489

- There were no impairment losses on any class of intangible assets during the year (2019: Nil).
- ii. There were no capitalised borrowing costs related to the acquisition of intangible assets during the year (2019: Nil).
- iii. There were no restrictions to the title held by the Corporation, in respect of its intangible assets during the year (2019: Nil).
- iv All items of intangible assets are non-current.

## 25. NON-CURRENT ASSETS HELD FOR SALE AND DISCONTINUED OPERATION

The asset held for sale relates to the Corporation's investment in Cabeolica S. A. which was acquired during the year as part of the exit from Anergi Holdings Limited. The investment was classified as held-for-sale following the commitment of the Corporation to sell down its interest in the entity at the date of acquisition. This decision was made in line with the Corporation's business strategy. The sale transaction is at an advanced stage of completion with the transfer of assets expected to occur within the next one year.

The results of the entity have been consolidated into the Corporation as required by the relevant accounting standards. The entity contributed a profit of US\$ 464,000 to the Corporation for the year ended 31 December 2020.

#### (a) Financial information of discontinued operations

	2020 US\$'000	2019 US\$'000
Profit for the year is attributable to:	23, 232	33,733
Parent	436	-
Non-controlling interests	28	-
Profit for the year from discontinued operations	464	_
Assets classified as held for sale	67,273	-
Liabilities directly associated with the assets held for sale	27,137	_

## 26. ACCRUED EXPENSES AND OTHER LIABILITIES

	2020 US\$'000	2019 US\$'000
Accruals	35,891	25,772
Accounts payable	46,248	21,741
Lease liability (see note (a) below)	-	1,908
Margin deposit	12,279	987
	94,418	50,408
Unearned fees	700	433
Allowance for debt commitments		
(See note (b) below)	6,959	1,397
	102,077	52,238
Current	102,077	51,688
Non-current	-	550

a) The movement in lease liability during the year is as follows:

	2020 US\$'000	2019 US\$'000
Balance as at 1	1,908	-
Opening IFRS 16 adjustment	-	1,835
Payments	(1,980)	-
Interest on lease liabilities (see note 6)	72	73
Closing balance	-	1,908

b) This is the amount set aside for expected credit losses on the Corporation's debt commitments (see note 28 (c)).

The movement in allowance for debt commitments during the year is as follows:

	2020	2019
	US\$'000	US\$'000
Balance as at 1	1,397	1,133
Net measurement of impairment		
allowance (See note 10)	5,562	264
Closing balance	6,959	1,397

#### **27. BORROWINGS**

	2020 US\$'000	2019 US\$'000
At amortised cost:		
Corporate bonds issued (note (I))	2,897,537	2,474,439
Other borrowings (note (ii))	2,194,317	1,872,903
	5,091,854	4,347,342
Current	597,462	810,870
Non-current	4,494,392	3,536,472

(i) Amount represents outstanding balance on issuances made under the Corporation's Eurobond program. In June 2020, the Corporation issued a US\$700 million Reg S bond. This issuance is the Eurobond under the Corporation's US\$5 billion Global Medium-Term Note ("GMTN") programme, which was recently upsized from US\$3 billion in line with the Corporation's corporate strategy. The terms and conditions of the notes issued under the Corporation's GMTN program are as follows:

Bond issued	Year of Issued	Year of (Maturity	Coupon (%)	Coupon Type
US\$ 45 million GMTN	2017	2021	1.9193	Floating
US\$ 25 million GMTN	2020	2022	1.1995	Floating
CHF 200 million GMTN	2019	2023	0.5225	Fixed
US\$ 500 million GMTN	2017	2024	3.8750	Fixed

Bond issued	Year of Issued	Year of (Maturity	Coupon (%)	Coupon Type
CHF150 Million GMTN				
(See (a) below)	2020	2025	1.2050	Fixed
US\$ 700 Million GMTN	2020	2025	3.1250	Fixed
US\$ 650 million GMTN	2019	2026	4.3750	Fixed
US\$ 500 million GMTN	2019	2029	3.7500	Fixed
EUR 15 million GMTN	2020	2038	1.6250	Fixed
EUR 35 million GMTN	2020	2041	1.7500	Fixed
EUR 15 million GMTN	2020	2047	1.6250	Fixed

- a) In September 2020, the Corporation issued its inaugural CHF150 Million Reg S senior unsecured benchmark Green Bond. The issuance underscores the Corporation's commitment to sustainable investing principles, and builds on past successful green financing initiatives pursued by the Corporation. The proceeds of the Swiss Franc bond issued was swapped to US Dollars, the functional currency of the Corporation.
- (ii) Other borrowings comprise loans from commercial banks and development financial institutions within Africa, Europe and the United States. These are floating rate liabilities and repricing of these borrowings are between 3 months and 6 months. During the year, the Corporation secured a US\$250 million tier-2 capital loan from the United States International Development Finance Corporation (DFC).
- (iii) Included in other borrowings is an amount of US\$ 348.2 million (2019: US\$100.2 million) which has been secured using corporate and sovereign securities with a carrying value of US\$433.5 million (2019: US\$172.4 million). See note 21(b).
- (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:

	2020 US\$'000	2019 US\$'000
Less than 1 year	597,462	810,870
1 – 3 years	959,687	1,051,125
Over 3 years	3,534,705	2,485,347
	5,091,854	4,347,342

## (vi) Reconciliation of movement in borrowings to cashflows from financing activities

	2020 US\$'000	2019 US\$'000
At beginning of the year	4,347,342	2,901,941
Proceeds from corporate bonds (issued)	957,280	1,343,188
Proceeds from other borrowings	764,620	701,610
Transaction costs related to borrowings	(7,777)	(7,983)
Fair value changes	-	894
Interest expense (see note 6)	172,394	147,473
Interest paid	(156,322)	(127,850)
Repayment of borrowings	(955,788)	(612,610)
Reclassifications	(29,419)	-
Effects of changes in foreign		
exchange rates	(476)	679
At end of the year	5,091,854	4,347,342

Currency exposures arising from borrowing transactions are hedged in line with the Corporation's policy on hedging (see Note 3.2.1 Foreign exchange risk).

## 28. CONTINGENT LIABILITIES AND COMMITMENTS

#### a) Legal proceedings

As at 31 December 2020, 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 year ended 31 December 2020 (2019: Nil).

#### b) Equity commitments

These commitments relate to equity financing commitments to third parties (See (c) below).

#### c) Debt commitments

These commitments relate to unfunded risk participation arrangements and loan commitments on transactions.

Commitments details as at 31 December 2020 are as follows:

	2020 US\$'000	2019 US\$'000
Equity commitments	84,477	58,086
Debt commitments (note (i) below)	548,692	419,342
	633,169	477,428
(i) Debt commitments	2020 US\$'000	2019 US\$'000
Unfunded risk participation	032 000	050,000
arrangements	154,192	24,192
Loan commitments	394,500	395,150
	548,692	419,342

In line with the provisions of International Financial Reporting Standards (IFRS 9), the Corporation has set aside an amount for expected credit losses on its debt commitments (see note 26(b)).

#### 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

	No. of shares In thousands	2019 No. of shares In thousands
At 1 January	1,125,807	1,096,395
Addition during the year		
(note 30(I) below)	31,579	29,412
At 31 December	1,157,386	1,125,807

	2020	2019
	US\$'000	US\$'000
At 1 January	1,125,807	1,096,395
Addition during the year (note 30(I) below)	31,579	29,412
At 31 December	1.157.386	1.125.807

#### **30. SHARE PREMIUM**

EZ 722	25,301
28,421	20,588
25,301	4,713
	- /

(I) During the year, Caisse des Depots et Consignanons du. Gabon (CDC) representing the Republic of Gabon and Arab Bank for Economic Development in Africa (BADEA) became shareholders of the Corporation, investing US\$50 million and US\$10 million respectively in the Corporation.

#### **31. SHARE WARRANTS**

	2020	2019
	No. of	No. of
	warrants	warrants
	In thousands	In thousands
At 1 January	-	-
Addition during the year		
(note 31(I) below)	105,263	-
At 31 December	105,263	-
	2020	2019
	US\$'000	US\$'000
At 1 January	-	-
Addition during the year		
(note 31(I) below)	200,000	-
At 31 December	200,000	-

(i) During the year, the Corporation issued 105,263,158 warrants for an aggregate amount of US\$200 million and credited the proceeds to the share warrant account. Share warrants are convertible into ordinary shares of the Corporation, if the warrants are not redeemed before maturity at the option of the Corporation. Returns on warrants are at the sole discretion of the Corporation.

#### **32. RETAINED EARNINGS**

	2020	2019
	US\$'000	US\$'000
At beginning of the year	550,182	425,899
Dividend declared and paid during the year	(49,363)	(59,019)
Profit for the year	165,526	183,302
At end of the year	666,345	550,182

#### 33. FAIR VALUE RESERVES

	2020 US\$'000	2019 US\$'000
At 1 January	6,875	25,652
Net loss on FVOCI financial assets:		
- Foreign exchange loss	382	(145)
- Fair value loss - equity securities	(9,404)	(18,367)
	(9,022)	(18,512)
- Fair value loss - debt securities	-	(265)
	(9,022)	(18,777)
At end of the year	(2,147)	6,875

The fair value reserves comprise:

- a) the cumulative net change in the fair value of equity securities measured at FVOCI; and
- b) the cumulative net change in the fair value of debt securities measured at FVOCI until the assets are derecognised or reclassified.

#### 34. 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 4.057 US cents per share (2019: 4.265 US cents per share), amounting to approximately US\$46,975,436 (2019: US\$49,362,514). The resolution on payment of dividend will be tabled before the annual general meeting scheduled for 9 April 2021 and if approved, the dividend will be paid to all qualifying shareholders who are on the register of members as of that date. The Board of Directors is also proposing a payment of 4.057 US cents per share warrant. The resolution on payment of dividend to share warrant holders will be tabled before the annual general meeting.

#### **35. CASH AND CASH EQUIVALENTS**

For the purposes of the statement of cash flows, cash and cash equivalents comprise the following balances:

	2020 US\$'000	2019 US\$'000
Cash in hand and balances with banks		
(Note 15)	53,128	49,437
Placements with other banks (Note 16)	2,349,179	2,085,791
At end of the year	2,402,307	2,135,228

## 36. GROUP ENTITIES AND RELATED PARTY TRANSACTIONS

#### **Group entities**

The Group consists of the Africa Finance Corporation as the Parent. Other group entities are:

#### Subsidiaries

**AFC Equity Investments Limited:** a wholly owned entity incorporated in Mauritius, which was set up to hold equity investments on behalf of the Corporation (2019: 100%).

Cabeolica S.A: a power company domiciled in Cape Verde, was acquired as part of the Corporation's exit from the investment in Anergi Holdings Limited. The Corporation obtained a 94% interest in the entity (2019: Nil). Upon acquisition, management commenced the process to reduce the Corporation's interest in the entity in line with the Corporation's strategy. The entity has been consolidated into the Corporation's financial statements in accordance with the requirements of IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations, as a discontinued operation. See Note 25.

#### 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.

See Note 4 for information about judgements made in applying accounting policies that have the most significant effects on the amounts recognised in the financial statements in relation to group entities.

#### 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:

#### a) Balances with related parties:

		2020 US\$'000	2019 US\$'000
i.	Loans:		
	Shareholders	24,895	130,089
	Associate companies and subsidiary	240,270	125,944
ii.	Placements/investments in debt		
	securities:		
	Shareholders	331,723	127,246
iii.	Cash and bank balances:		
	Operating account balances	4,346	24,992

#### b) Interest income earned:

	2020 US\$'000	2019 US\$'000
Shareholders	50,159	47,304
Associate companies and subsidiary	15,881	6,513

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 /Rate	Rate Type
Loans and advances	5 month	0.5% - 4%	Fixed
Corporate debt securities	6 years	5% – 15%	Fixed/floating

		2020 US\$'000	2019 US\$'000
(c)	Cross currency swap		
	Notional amount	250,000	-
(d)	Key management compensation		
	Salaries and other short-term benefits	4,680	4,326
	Post-employment benefits	483	448

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

## 37. 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.

