# AFRICAN EXPORT-IMPORT BANK
# BANQUE AFRICAINE D'IMPORT-EXPORT
# (AFREXIMBANK)

***INTERIM FINANCIAL STATEMENTS FOR THE THREE MONTHS ENDED 31 MARCH 2017***

CAIRO APRIL 2017

# AFRICAN EXPORT-IMPORT BANK (AFREXIMBANK)

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**AFRICAN EXPORT-IMPORT BANK**
**STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**
**FOR THE PERIOD ENDED 31 MARCH 2017**

| | Mar 17 US$000 | Mar 16 US$000 |
|---|---|---|
| Interest and similar income | 146,342 | 86,725 |
| Interest and similar expense | (60,910) | (42,156) |
| **Net interest and similar income** | **85,432** | **44,569** |
| Fee and commission income | 7,802 | 4,647 |
| Fee and commission expense | (2,114) | (1,152) |
| **Net fee and commission income** | **5,688** | **3,495** |
| Other operating income | 778 | 378 |
| **Operating income** | **91,898** | **48,442** |
| Personnel expenses | (8,167) | (6,276) |
| General and administrative expenses | (4,297) | (3,368) |
| Depreciation and amortisation expense | (814) | (1,100) |
| **Operating expense** | **(13,278)** | **(10,743)** |
| Exchange adjustments | 338 | 320 |
| **Operating profit before impairment and provisions** | **78,958** | **38,019** |
| Loan impairment charges | (2,989) | 4,756 |
| **PROFIT FOR THE PERIOD** | **75,969** | **42,775** |
| **OTHER COMPREHENSIVE INCOME** | | |
| **Other comprehensive income to be reclassified to profit or loss in subsequent periods** | | |
| Cashflow hedges | 637 | 2,352 |
| **Total other comprehensive income to be reclassified to profit or loss in subsequent periods** | **637** | **2,352** |
| **Total other comprehensive income** | **637** | **2,352** |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **76,606** | **45,127** |

*The accompanying notes to the financial statements form part of this statement*

**AFRICAN EXPORT-IMPORT BANK**
**STATEMENT OF FINANCIAL POSITION**
**AS AT 31 MARCH 2017**

| | Mar 17 US$000 | Dec 16 US$000 | Mar 16 US$000 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and cash equivalents | 1,282,294 | 1,269,080 | 957,804 |
| Loans and advances to customers | 10,843,128 | 10,148,202 | 8,197,516 |
| Hedging derivatives instruments | 4,138 | 8,792 | 22,080 |
| Prepayments and accrued income | 275,231 | 241,414 | 184,235 |
| Financial investments - held to maturity | 30,268 | 30,268 | - |
| Other assets | 2,378 | 3,069 | 159 |
| Property and equipment | 24,842 | 25,280 | 45,421 |
| **Total assets** | **12,462,279** | **11,726,105** | **9,407,215** |
| **LIABILITIES** | | | |
| Due to banks | 4,392,945 | 4,050,912 | 2,184,056 |
| Debt securities in issue | 2,091,822 | 2,090,972 | 1,694,704 |
| Deposits and customer accounts | 4,070,004 | 3,778,493 | 3,989,083 |
| Hedging derivatives instruments | 16,001 | 22,018 | 1,628 |
| Other liabilities | 186,508 | 157,342 | 121,108 |
| **Total liabilities** | **10,757,281** | **10,099,737** | **7,990,579** |
| **CAPITAL FUNDS** | | | |
| Share capital | 379,004 | 378,488 | 344,368 |
| Share premium | 355,674 | 355,310 | 271,444 |
| Warrants | 99,859 | 98,716 | 46,316 |
| Reserves | 365,045 | 364,406 | 356,586 |
| Retained earnings | 505,416 | 429,448 | 397,922 |
| **Total capital funds** | **1,704,998** | **1,626,368** | **1,416,636** |
| **Total liabilities and capital funds** | **12,462,279** | **11,726,105** | **9,407,215** |

*The accompanying notes to the financial statements form part of this statement*

**AFRICAN EXPORT-IMPORT BANK**
**STATEMENT OF CASH FLOWS**
**FOR THE PERIOD ENDED 31 MARCH 2017**

| | Mar 17 US$000 | Mar 16 US$000 |
|---|---|---|
| **CASHFLOW FROM OPERATING ACTIVITIES** | | |
| **Profit for the period** | **75,969** | **42,775** |
| **Adjustment for non-cash items:** | | |
| Depreciation of property and equipment | 814 | 1,100 |
| Allowance for impairment on loans and advances | 2,989 | (4,756) |
| Gain on disposal of property and equipment | - | (5) |
| | **79,772** | **39,114** |
| **Changes in :** | | |
| Prepayments and accrued income | (33,817) | (8,759) |
| Hedging derivatives instruments | (726) | 4,925 |
| Other assets | 691 | 2,901 |
| Other liabilities | 35,494 | (15,831) |
| Deposits and customer accounts | 291,511 | (29,610) |
| Loans and advances to customers | (697,915) | (2,131,444) |
| **Net cash outflows from operating activities** | **(324,990)** | **(2,138,704)** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchases and additions to property and equipment | (377) | (580) |
| Proceeds from sale of property and equipment | - | 5 |
| **Net cash outflows from investing activities** | **(377)** | **(575)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net cash from capital subscriptions and share premium | 2,023 | 104,799 |
| Dividends paid | (6,328) | (8,081) |
| Net increase in due to banks and debt securities | 342,883 | 2,176,273 |
| **Net cash inflows from financing activities** | **338,578** | **2,272,991** |
| **Net increase in cash and cash equivalents** | 13,214 | 133,712 |
| **Cash and cash equivalents at 1 January** | 1,269,080 | 824,092 |
| **CASH AND CASH EQUIVALENTS AT 31 MARCH** | **1,282,294** | **957,804** |

*The accompanying notes to the financial statements form part of this statement*

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS

## AS AT 31 MARCH 2017

### 1. STATUS AND ACTIVITIES

The African Export-Import Bank ("the Bank"), headquartered in Cairo, Egypt, is a supranational institution, established on 27 October 1993. The Bank started lending operations on 30 September 1994. The principal business of the Bank is the finance and facilitation of trade among African countries and between Africa and the rest of the world.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied by the Bank have been approved by the Board of Directors of the Bank and are consistent with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board. The major accounting policies adopted which are consistent with those used in the previous financial year and applied by the Bank are summarized below:

#### 2.1. Basis of preparation

The financial statements are prepared under the historical cost convention and are presented in US dollars in accordance with the Bank's Charter. The functional currency of the Bank is the US dollar based on the fact that most of the activities of the Bank are conducted in US dollar. The Bank has not applied any IFRS before their effective dates.

The preparation of financial statements complying with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 5 below.

#### 2.1. Interest and similar income and expense

For all financial instruments measured at amortized cost and interest bearing financial instruments classified as available-for-sale financial instruments, interest income or expense is recognized at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original effective interest rate and the change in carrying amount is recognized as interest income or expense.

Once the recorded value of a financial asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount.

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

### 2.2. Fees and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized 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 is recognized on completion of the underlying transaction. Loan syndication fees are recognized as revenue when the syndication has been completed and the Bank has retained no part of the loan package for itself or has retained a part at the same effective interest rate as the other participants.

### 2.3. Operating expenses

Operating expenses are recorded on accrual basis.

### 2.4. Foreign currencies

Transactions in foreign currencies are translated into US dollars at the prevailing exchange rate at the date of the transaction.

At the balance sheet date, balances of monetary assets and liabilities denominated in foreign currencies are translated at the exchange rates ruling at that date. Any gains or losses resulting from the translation are taken to the income statement.

### 2.5. Cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, due from banks, and deposits with other banks with less than three months' maturity from the date of acquisition. Due from banks and deposits with other banks are carried at amortized cost as these balances earn interest.

### 2.6. Loans and advances to customers

Loans and advances to customers are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and advances are carried at amortized cost using the effective interest rate method, and are recognized on the day on which they are drawn down by the borrower. They are initially recognized at fair value plus transaction costs and are de-recognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

**2.7. Impairment of loans and advances**

The Bank assesses at each balance sheet date whether there is objective evidence that a loan is impaired. A loan is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the loan (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the loan that can be reliably estimated.

The estimated period between a loss occurring and its identification is determined by management for each loan. In general, the periods used vary between three months and twelve months; in exceptional cases, longer periods are warranted.

The amount of loss is measured as the difference between the loan and advance carrying amount and the present value of estimated future cash flows discounted at the loan and advance effective interest rate determined under contract. The carrying amount of loans and advances are reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

In addition to specific provisions against individually significant loans and advances, the Bank also makes a collective impairment allowance against loans and advances which although not specifically identified as requiring specific provisions, have a greater risk of default than when originally granted. This collective impairment is based on any deterioration in the internal grade of the loan, since it was granted. The amount of impairment allowance is based on historical loss experience for loans within each grade and is adjusted to reflect current economic changes. These internal gradings take into consideration various factors such as any deterioration in country risk, industry, identified structural weaknesses or deterioration in cash flows.

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

When a loan is uncollectible, it is written off against the related provision for loan impairment. Such loans are written off after all the necessary procedures have been completed, including obtaining Board of Directors approval, and the amount of loss has been determined.

If, in a subsequent period the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the income statement.

## 2.8. Property and equipment

Motor vehicles, furniture and equipment, computers and leasehold improvements are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value.

Depreciation is calculated on the straight line basis at annual rates estimated to write off the carrying values of the assets over their expected useful lives, as follows:

- Buildings 20 years
- Motor vehicles 5 years
- Furniture and equipment 4 years
- Computers 3 years
- Leasehold improvements Over the remaining period of the lease

Motor vehicles, furniture and equipment, computers and leasehold improvements are periodically reviewed for impairment. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. The recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

Motor vehicles, furniture and equipment, computers and leasehold improvements are de-recognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is de-recognized.

The assets residual values, useful lives and methods of depreciation are reviewed at each reporting date, and adjusted prospectively if appropriate.

Given the need to enhance the relevance of information presented in the financial statements and to have more reliable presentation of events and transactions in the financial statements, the Bank changed the accounting policy of valuation of the Headquarters' land and building from cost model to revaluation model in the current year. This has in turn affected the book value of the Headquarters' building and land represented in the current year. Revaluation adjustments are recognized in other comprehensive income and accumulated in the asset revaluation reserve in equity, except to the extent they reverse a revaluation decrease of the same asset previously recognized in the profit or loss. A revaluation deficit is recognised in the profit or loss, except to the extent that it offsets an existing surplus on the same asset recognised in the asset revaluation reserve.

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

**2.8 Property and equipment(continued)**

Prior to 1 January 2012, the Bank was adopting the cost model in recording the Headquarters' building and land, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. The accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Upon adoption of the revaluation model on 1 January 2012, the Headquarters' land and building are valued at the fair value at the reporting date by an independent valuer.

The assets residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

**2.9. Staff provident fund scheme**

The Bank operates a defined contribution plan approved by the Board of Directors. Contributions are recognized in the income statement on an accrual basis. The Bank has no further payment obligations once the contributions have been paid.

**2.10. Provisions**

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of past events, for which it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

The estimated monetary liability for employees' accrued annual leave entitlement at the balance sheet date is recognized as an expense accrual.

**2.11. Operating leases**

The total payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

**2.12. Borrowing costs**

Borrowing costs are recognized as expenses and recorded on accrual basis.

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

**2.13. Impairment of non-financial assets**

The Bank assesses, at each reporting date or more frequently, whether there is an indication that an asset may be impaired. If such indication exists, the Bank makes an estimate of the asset's recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Impairment losses are recognized in the income statement.

**2.14. Debt securities in issue**

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

**2.15. Derivative financial instruments and hedge accounting**

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

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

At each hedge effectiveness assessment date, a hedge relationship must be expected to be highly effective on a prospective basis and demonstrate that it was effective (retrospective effectiveness) for the designated period in order to qualify for hedge accounting. A formal assessment is undertaken by comparing the hedging instrument's effectiveness in offsetting the changes in fair value or cash flows attributable to the hedged risk in the hedged item, both at inception and at each quarter end on an ongoing basis. A hedge is expected to be highly effective if the changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated were offset by the hedging instrument in a range of 80% to 125% and were expected to achieve such offset in future periods. Hedge ineffectiveness is recognized in the income statement in other income. For situations where the hedged item is a forecast transaction, the Bank also assesses whether the transaction is highly probable and presents an exposure to variations in cash flows that could ultimately affect the income statement.

### 2.15. Derivative financial instruments and hedge accounting(continued)

(i) Fair value hedges

For designated and qualifying fair value hedges, the cumulative change in the fair value of a hedging derivative is recognized in the income statement in other income. Meanwhile, the cumulative change in the fair value of the hedged item attributable to the risk hedged is recorded as part of the carrying value of the hedged item in the statement of financial position and is also recognized in the income statement in other income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is discontinued prospectively. For hedged items recorded at amortized cost, the difference between the carrying value of the hedged item on termination and the face value is amortized over the remaining term of the original hedge using the recalculated effective interest rate method. If the hedged item is derecognized, the unamortized fair value adjustment is recognized immediately in the income statement.

(ii) Cash flow hedges

For designated and qualifying cash flow hedges, the effective portion of the cumulative gain or loss on the hedging instrument is initially recognized directly in equity in the Cash flow hedge reserve. The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in other income in the income statement.

When the hedged cash flow affects the income statement, the gain or loss on the hedging instrument is recorded in the corresponding income or expense line of the income statement. When the forecast transaction subsequently results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognized in the other comprehensive income are removed from the reserve and included in the initial cost of the asset or liability.

When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss that has been recognized in other comprehensive income at that time remains in other comprehensive income and is recognized when the hedged forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in other comprehensive income is immediately transferred to the income statement.

### 2.16. Dividend on ordinary shares

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

### 2.17. Financial guarantee contracts

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

Financial guarantees are initially recognized in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of the initial measurement, less amortization calculated to recognize in the income statement the fee income earned on a straight line basis over the life of the guarantee and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by the judgment of management. Any increase in the liability relating to guarantees is taken to the income statement under operating expenses.

### 2.18. Warrants

Proceeds from the issuance of warrants, net of issue costs, are credited to share warrants account. Share warrants account is non-distributable and will be transferred to share capital and premium accounts upon the exercise of warrants. Balance of share warrants in relation to the unexercised warrants at the expiry of the warrants period will be transferred to accumulated profits.

### 2.19. Financial investments – held to maturity

Held-to-maturity financial investments are non–derivative financial assets with fixed or determinable payments and fixed maturities that the Bank has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial investments are subsequently measured at amortised cost using the EIR less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest and similar income in the income statement. The losses arising from impairment of such investments are recognised in the income statement within credit loss expense. If the Bank were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Bank would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

### 3. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

#### 3.1. Use of financial instruments

The Bank's financial instruments consist primarily of cash and deposits with banks, loans and advances to customers, amounts due to banks and customer deposits. The Bank borrows funds to meet disbursements in foreign currency as part of its matching of assets and liabilities in order to manage foreign currency risks. The proceeds from loans repayments are used to repay the borrowings. The Bank does not speculate in or engage in the trading of derivative financial instruments.

#### 3.2. Credit risk

Credit risk is the risk that a customer or counterparty of the Bank will be unable or unwilling to meet a commitment that it has entered into with the Bank. It arises from lending, trade finance, treasury and other activities undertaken by the Bank.

The carrying amounts of cash and deposits with banks and loans and advances to customers appearing on the balance sheet represent the maximum amount exposed to credit risk.

#### 3.3. Concentration of credit risk

The Bank deals with a variety of major banks and its loans and advances are structured and spread among a number of major industries, customers (dealing with sectors) and geographical areas (comprising group of countries). In addition, the Bank has procedures and policies in place to limit the amount of credit exposure to any counterparty and country. The Bank reviews, on a regular basis, the credit limits of counterparties and countries and takes action accordingly to ensure that exposure limits are not exceeded.

### 4. FAIR VALUE OF FINANCIAL INSTRUMENTS

Estimated fair value is the amount at which an instrument could be exchanged in a current transaction between willing parties other than enforced or liquidation sale. The fair value of on-balance sheet financial instruments approximate to their carrying amounts as they bear variable interest rates determined under market conditions. The fair values of off-balance sheet financial instruments are the same figures appearing as contingent liabilities and commitments.

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

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

The preparation of financial statements involves management estimates and assumptions that may affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.
The Bank reviews its loan portfolio regularly to assess whether a provision for impairment should be recorded in the income statement. In particular, considerable judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily subjective based on assumptions about several factors involving varying degrees of judgment and uncertainty. Consequently, actual results may differ resulting in future changes to such provisions.

### 6. CONTINGENT LIABILITIES AND COMMITMENTS

#### 6.1. Contingent liabilities

| | 2017 | 2016 |
|---|---|---|
| | US$000 | US$000 |
| Letters of credit | 248,625 | 15,073 |
| Guarantees | 519,959 | 504,141 |
| | **768,584** | **519,214** |

The above guarantees are unfunded. Also the credit risk associated with these transactions is considered minimal because the Bank receives a counter-guarantee from sound parties. To limit credit risk the Bank deals exclusively with creditworthy counterparties.

#### 6.2. Commitments

##### 6.2.1. Credit lines and other commitments to lend

The contractual amounts of the Bank’s off-balance sheet commitments as at are indicated below.

| | 2017 | 2016 |
|---|---|---|
| | US$000 | US$000 |
| Less than one year | 586 | 51,371 |
| More than one year | 221,405 | 142,189 |
| | **221,991** | **193,560** |

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

### 7. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank enters into interest rate swaps and foreign exchange forward contracts to hedge its exposure to changes in the fair value and cash flows attributable to changes in market interest and exchange rates on its assets and liabilities.

The table below shows the fair values of derivative financial instruments, recorded as assets or liabilities at year-end.

| | 2017 | 2016 |
|---|---|---|
| | US$000 | US$000 |
| **Assets** | | |
| **Derivatives used as cashflow hedges** | | |
| Interest rate swap | 3,163 | 22,080 |
| **Derivatives used as fair value hedges** | | |
| Foreign exchange forward contracts | 975 | - |
| | **4,138** | **22,080** |

| | 2017 | 2016 |
|---|---|---|
| | US$000 | US$000 |
| **Liabilities** | | |
| **Derivatives used as cashflow hedges** | | |
| Interest rate swap | 16,001 | 116 |
| **Derivatives used as fair value hedges** | | |
| Foreign exchange forward contracts | - | 1,512 |
| | **16,001** | **1,628** |

Swaps are contractual agreements between two parties to exchange streams of payments over time based on specified notional amounts, in relation to movements in a specified underlying index such as an interest rate, foreign currency rate or equity index.

Interest rate swaps relate to contracts taken out by the Bank with other financial institutions in which the Bank either receives or pays a floating rate of interest in return for paying or receiving, respectively, a fixed rate of interest. The payment flows are usually netted against each other, with the difference being paid by one party to the other.

# AFRICAN EXPORT-IMPORT BANK

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

## AS AT 31 MARCH 2017

In a foreign exchange swap, the Bank pays a specified amount in one currency and receives a specified amount in another currency. Foreign exchange swaps are settled gross.

The following shows the interest rate derivative contracts that the Bank held at 31 March.

**Interest rate derivative contracts:**

| | **2017** | **2016** |
|---|---|---|
| | **US$000** | **US$000** |
| Interest rate swap | **1,675,000** | **1,575,000** |