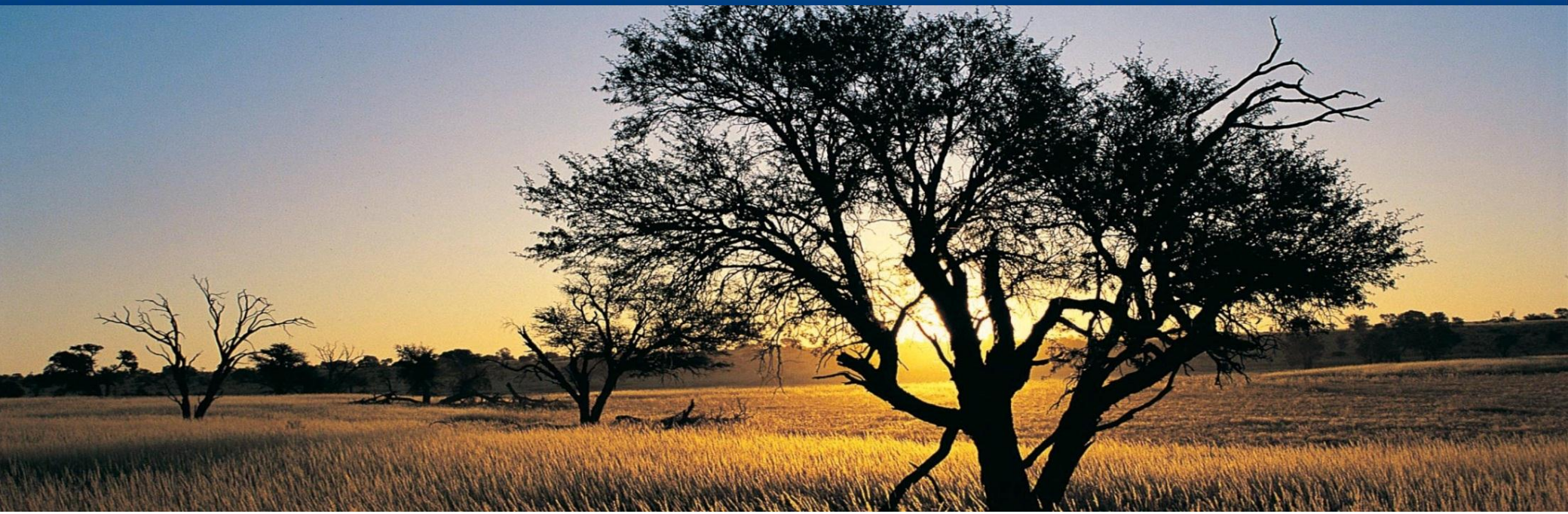

Accessing Finance to Accelerate Business Growth and Market Penetration

Sameer Sehgal

25th July 2014

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1. Africa Trade Flows – General Overview

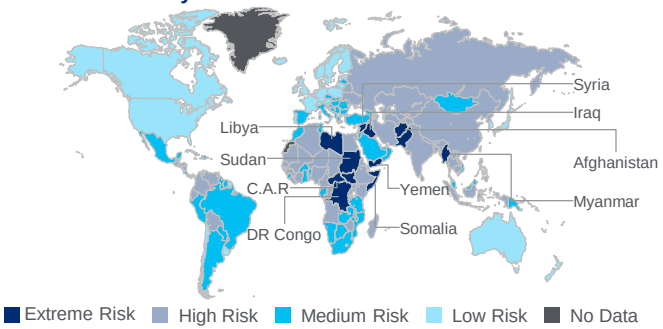
Environment

Abundant liquidity caused massive spread declines in 2013. Intense competition in world of two extremes (on liquidity and Trade Focus).

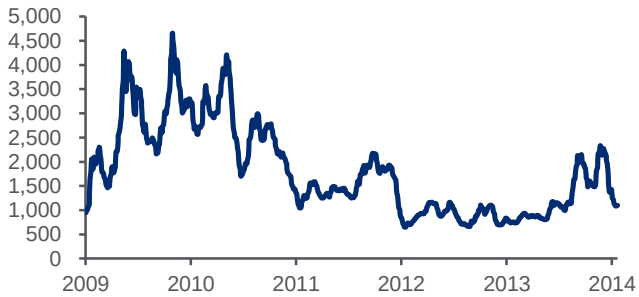
Globalisation vs. State Support	Urbanisation	Convergence and Digitalisation	Commodities	Regulation

- Easy Money: With accommodative monetary policies and asset purchase programs, the market has been flushed with liquidity for an extended period now. Even while the Fed has begun tapering, liquidity still remains abundant. ECB lowered interest rates. European Banks continue to focus on Trade as short-term lending driving spreads down in addition the UK government is supporting trade through bespoke programmes
- Interest Rate: On a global basis interest rates are the lowest they have ever been. There is talk of US and UK interest rates moving up but on the short-term trade front there is minimum impact expected, and has forced rapid portfolio changes
- Geopolitical Risks: Sovereign concerns around Russia, Ukraine, Syria and Iraq. Russia and Ukraine crisis has created enormous stress globally. Ghana is facing FX concerns
- Basel III Impact: Banks are seeing a flight to quality with non-investment grade credit being priced aggressively. Banks are focusing on revenues with asset spreads coming into sharper focus. New US Rules announced bringing the following two areas in-line with global standards – calculation of supplementary leverage ratio and one Year Floor on Maturity when calculating capital

Political Instability Index 2013[1]

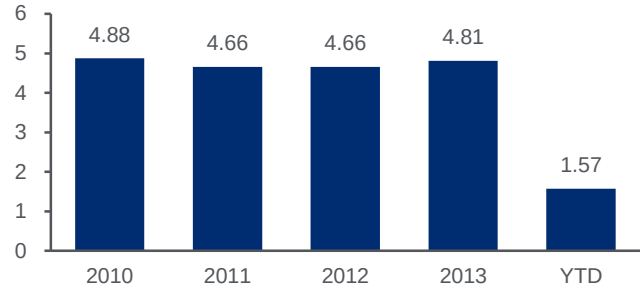


5-Year Baltic Dry Index 2009–2014



Total SWIFT Messages Sent

(In Millions)

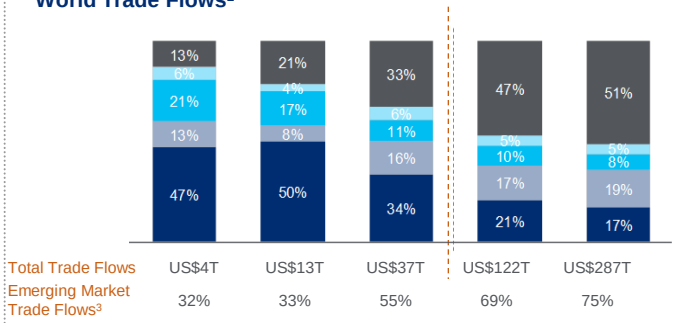


10-Year US Treasury Yield

Historical Daily WTI Spot Price

(US$ per Barrel)

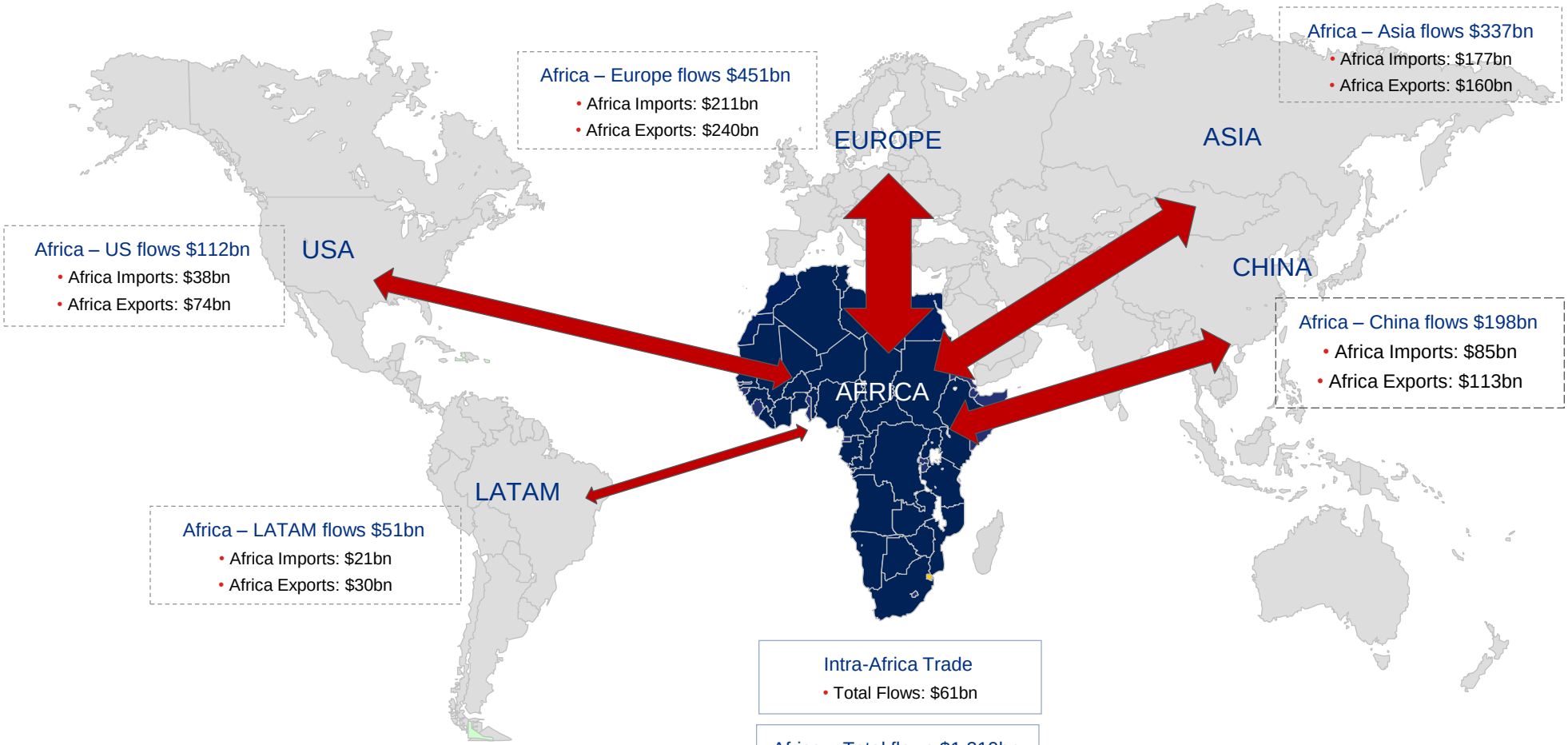
World Trade Flows[2]



1. Source: Maplecrof Global Risk Analytics; 2. Emerging Markets includes Asia, LatAm and CEEMA. World Bank, BEA, WTO, BIS, CIRA, Citi GPS Global Perspectives and Solutions; 3. [ ].

Overview of Trade in Africa

Africa has a positive trade balance with the rest of the world, with Europe maintaining it's position as Africa's largest regional partner. Growing South-South flows are also evident in Africa's trade with Latin America and Asia



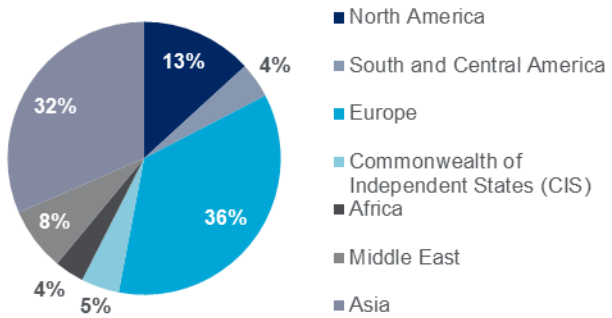
Intra-Africa Trade
- Total Flows: $61bn

Africa – Total flows $1,210bn
- Total Imports: $580bn
- Total Exports: $630bn

**Based on 2012 figures from WTO

Trends in Africa Trade

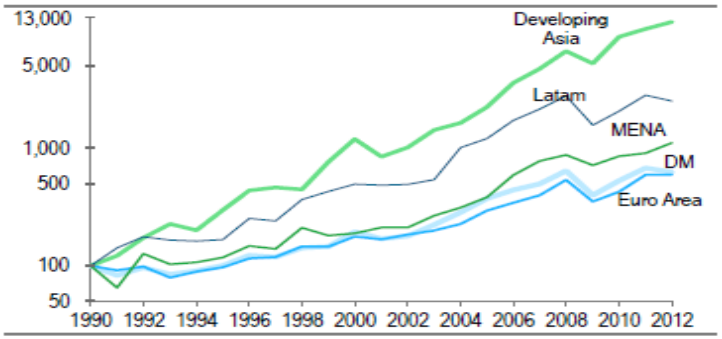
Regional Share of Global Trade



Share of Global Trade

- African trade as a share of global trade is still low at 3.5% however, in 2012, Africa experienced the highest regional growth in merchandise exports in volume terms, recording 6%.
- At 11.5%, Africa also recorded the highest growth in imports globally.
- Nigeria and South Africa account for almost 30% of total African trade flows

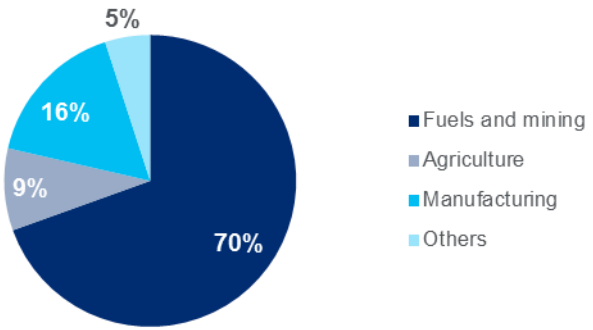
Growth in SSA exports by Region (1990 = 100)



South-South Trade Corridor

- African countries have reoriented the direction of their exports from OECD countries to emerging markets in the Global South.
- The three fastest-growing trade corridors globally are all South-South and include Asia. They are Asia-MENA, **Asia-SSA** and Asia-Latam .
- **From an SSA perspective, the SSA-developing Asia corridor has been the fastest growing regional trade corridor since 1990, followed by SSA-Latam.**

Share of African Exports by Product



Commodities

- Fuels and mining exports accounted for a 70% share of African exports in 2012 as Africa increased its exports of fuels and mining products by 9%.
- Driving this demand for African commodities is China which expanded its imports of fuels and mining products by 3.4% to US$ 533 billion, overtaking the USA as the largest importer of fuels and mining products

Trends in Africa Trade

Logistics Performance Index

Country	Score	Infrastructure	Logistics Competence
South Africa	3.46	3.42	3.59
Senegal	2.86	2.64	2.73
Uganda	2.82	2.35	2.59
Latin America	2.74	2.46	2.62
East Asia & Pacific	2.73	2.46	2.58
MENA	2.6	2.36	2.53
Nigeria	2.59	2.43	2.45
Sub-Saharan Africa	2.42	2.05	2.28
Angola	2.25	1.69	2.02

Source: World Bank Logistics Performance Index

Infrastructure

- **$93 billion** will be required between 2010 and 2020 to close the infrastructure gap between Africa and other regions. **About two-thirds** of this sum will be for **construction** and **rehabilitation** and **one-third will be used for maintenance**. This number represents just under 15% of Africa's GDP.
- Sub-Saharan Africa currently ranks lowest of the world's developing regions, and well below its peer regions such as MENA, LATAM and East Asia & Pacific regions.
- South Africa, Senegal and Uganda are notable outliers in terms of quality of logistics, however there is plenty of opportunity for West, Central and East Africa to perform significantly better

Trade Agreements/Intra Africa Trade

- According to the World Trade Organisation (WTO), the number of Preferential Trade Agreements (PTA) and Bilateral Investment Treaties (BIT) more than tripled between 1990 and 2010.
- Approximately 300 PTAs are currently in operation and many more under negotiation. Around half of these PTAs are bilateral and almost two-thirds are between developed and developing countries
- **Intra-Africa trade has grown from about 10% in 2001 to about 13% of total African exports** in 2012 but remains the 2nd smallest intra-regional trade corridor ahead of the Middle-East (8.6%). South Africa has the largest share of intra-African trade
- Cost of trade within the various sub-regional trade blocs is still high and prohibitive and thus, continues to stifle intra-African trade

2. Citi in Africa

citi at a Glance: Unrivalled African Footprint

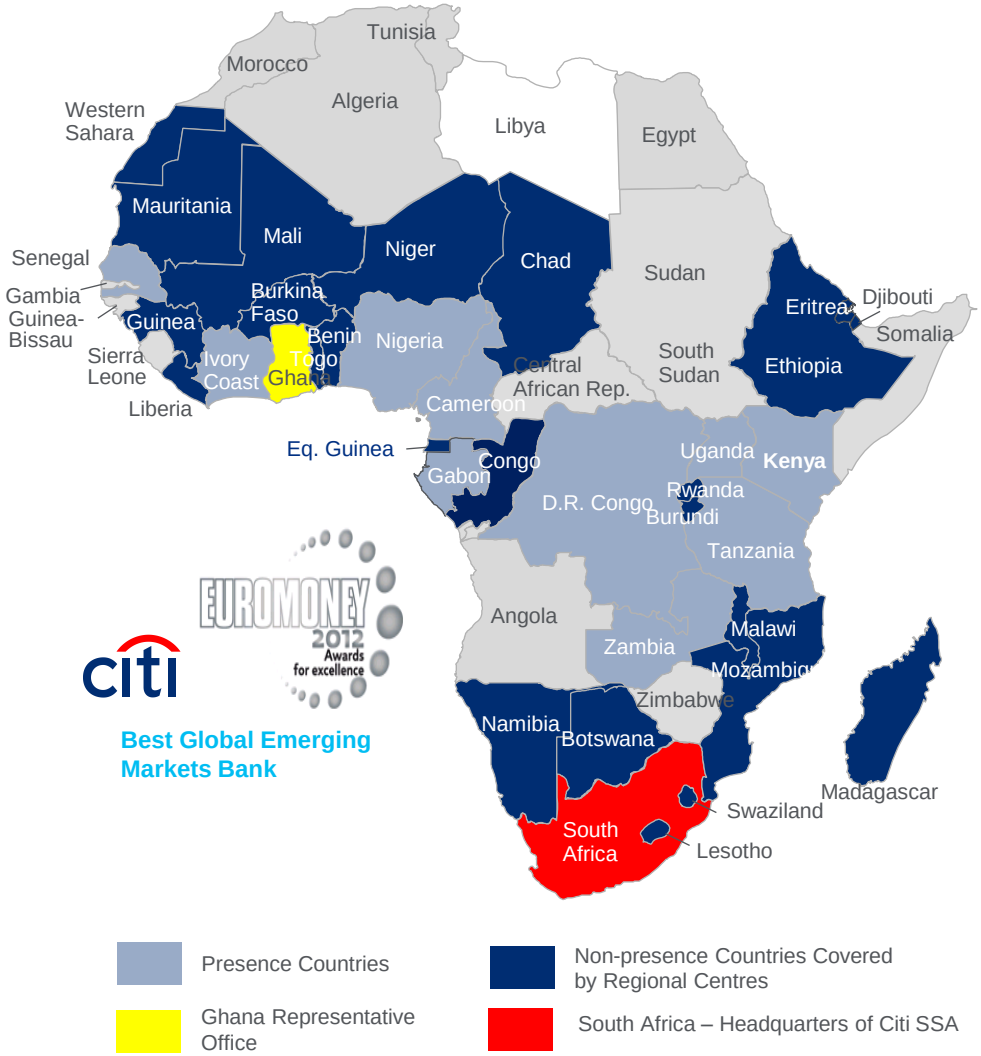
Citi enjoys a strong footprint in Africa with a presence in 16 countries and operations in another 26 (Non-presence Countries). Citi has had a regional presence in Africa for more than 40 years and has one of the broadest networks throughout the continent.

Presence in 16 Countries

- Algeria
- Cameroon
- Congo DRC
- Egypt
- Gabon
- Ghana (Representative Office)
- Ivory Coast
- Kenya
- Morocco
- Nigeria
- Senegal
- South Africa
- Tanzania
- Tunisia
- Uganda
- Zambia

Operating in 26 Non-presence Countries (NPC)

- Angola
- Benin
- Botswana
- Burkina Faso
- Burundi
- Cape Verde
- Chad
- Djibouti
- Equatorial Guinea
- Eritrea
- Ethiopia
- Guinea
- Lesotho
- Liberia
- Mauritania
- Malawi
- Madagascar
- Mali
- Mauritius
- Mozambique
- Namibia
- Niger
- Rwanda
- South Sudan
- Swaziland
- Togo



EUROMONEY 2012 Awards for excellence

citi

Best Global Emerging Markets Bank

Citi's Trade Offering: Overview

6 PILLARS OF TRADE

Asset Optimization / Distribution

Trade Services

- Import LCs and Bills (including bill discount)
- Import Collection
- Export Collection
- LC Reimbursement
- Open Account Solutions
- LC Reissuance
- Export LCs and Bills
- Insurance LCs

Trade Finance

- Pre-Shipment Finance
- Import/ Export Loans
- Global Accounts Receivable Finance
- Credit Insured Accounts Receivable

Export and Agency Finance

- Export Credit Agencies
- Multilaterals

Trade Working Capital Finance

- Supplier Finance
- Channel Finance
- Distribution or Distributor Finance

Commodity Trade Finance

- Transactional Financing
- Borrowing Base Financing
- Performance Risk Financing

Citi Commercial Bank CCB

- Commercial Customer Segment:
  - Trade Finance
  - Trade Services
  - EAF
  - Trade Working Capital Finance

Tenor

Trade Services	Trade Finance	Export and Agency Finance	Trade Working Capital Finance	Commodity Trade Finance	Citi Commercial Bank CCB
Short Term	Short Term	Longer Term	Short Term	Short to Medium Term	Short Term

3. Citi Trade Solutions for Exporters

Citi Trade Solutions

Supply → Purchase → Production → Delivery → Sales → Transport → Distribution → Retail → End User

Settlement
- Documentary Collections
- Import LCs
- Standby LCs

Financing
- Open Account
- Supplier Finance
- Commodity Finance
- Export Credit Agency

Information
- Electronic Delivery

Financing
- Inventory Finance
- Commodity Finance

Settlement
- Documentary Collections
- Export LCs

Financing
- Receivables Finance
- Import Finance
- Export Finance/ Discounting Bills
- Prepayment of Deferred Payment LCs
- Commodity Finance

Information
- Electronic Delivery

Settlement
- Documentary Collections

Financing
- Receivables Finance
- Distributor Finance

Financing
- Payables Finance
- Distributor Finance

Risk Mitigation
- Confirmations
- Export Credit Agency

Procurement | Sales

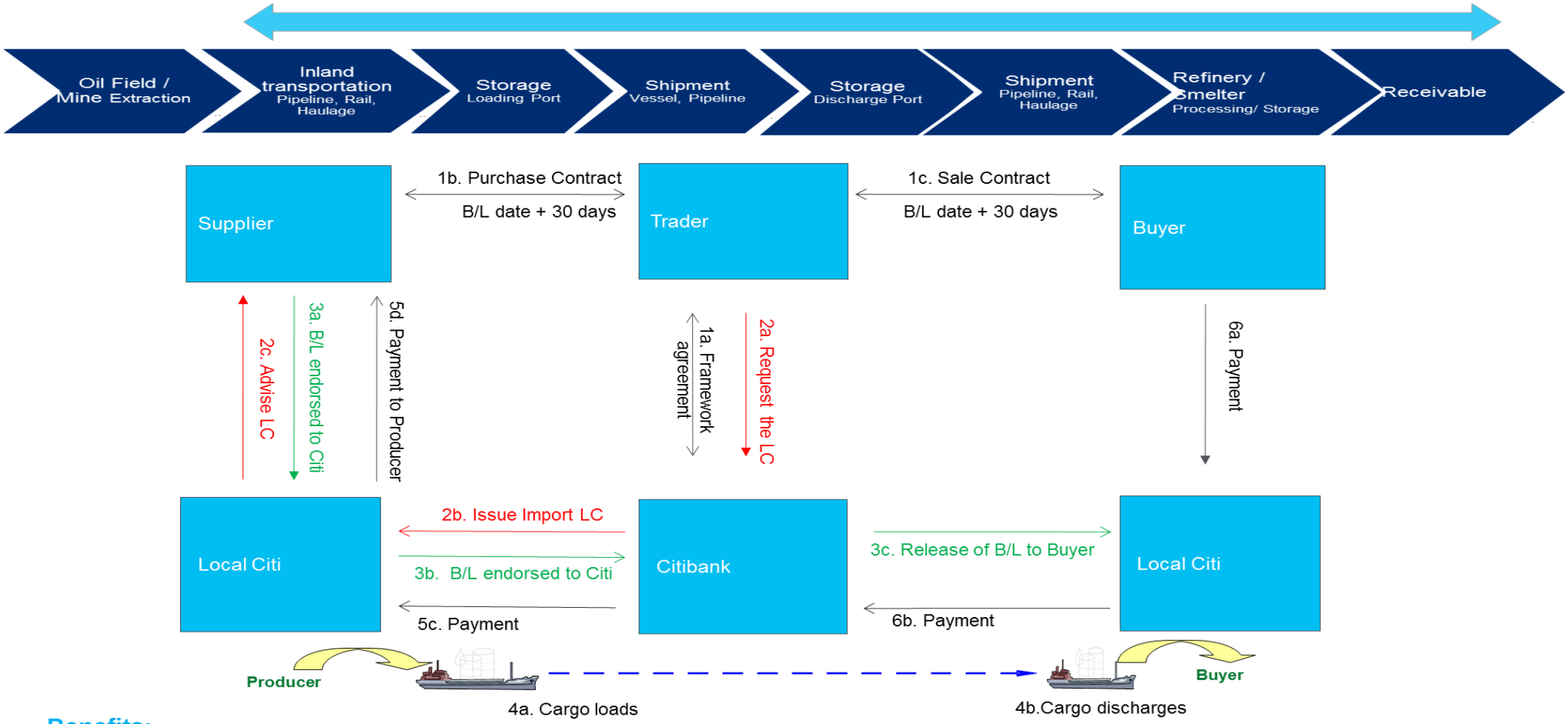
Commodity Trade Finance: Product Offering

Commodity Trade Finance is a broad set of financing solutions covering the commodities supply chain from producers through to the commodity traders, processors and end-buyers

- **Transactional financing** to commodity traders to finance flows supported by Import LCs, Bills of Lading, Letters of Indemnity, Undisclosed Payment Guarantees, Accounts Receivable and Export LCs
  - to finance their end to end commodity flows from the purchase of the commodity to the on-sale to their buyer:
    - Issuance and confirmation of letters of credit supported by bills of lading, letters of indemnity and other freight documents
    - Short-term, self-liquidating structures, secured through the associated trade receivable or export letter of credit, and by the underlying commodity and related offtake contracts
    - Trade advances, receivable discounting, account receivable programs and undisclosed or silent payment guarantees
    - Bid and Performance Bonds, Payment Guarantees
- **Borrowing base financing** to traders, distributors and processors to finance their working capital against security over commodity type inventories and associated trade receivables
  - to finance working capital against security over commodity inventories and associated trade receivables
    - Self-liquidating, secured, revolving facilities
    - With or without involvement of an independent collateral manager
- **Performance risk financing** for producers and processors
  - Performance risk financing for producers and processors (pre-export, pre-payment finance)
    - Pre-export finance: transforms payment risk on the producer into performance risk by capturing cash flows generated from the export of commodities offshore so that debt service takes place outside the country
    - Prepayment finance: an alternative to pre-export finance whereby funds are provided to the producer via the offtaker (e.g. trading companies and oil majors) on a limited recourse basis

Commodity Transactional Financing

Short term secured financing covering the complete transaction flow.



Benefits:

- Reliable, tested and predictable
- Financial protection for parties
- Tested source of working capital finance for Trader
- Capital relief for financing Bank

Export and Agency Financing Trends in Sub-Saharan Africa

Official Agencies have been a consistent and stable source of long-term financing and this trend is expected to continue for the foreseeable future. In 2011 the Structured Trade and Export Finance Team in Africa secured more than US$1 billion in financing for its clients with support from 7 different agencies across 8 industries.

Market Overview

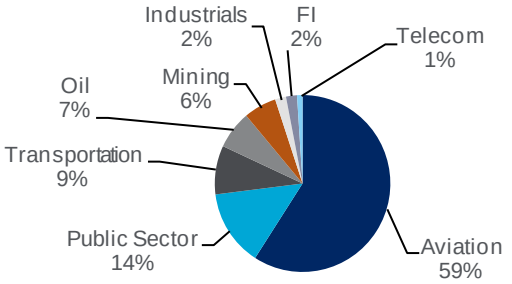
- Trade and investment patterns are evolving due to economic development, changes in consumption and production processes, and new global entrants (China, India and Brazil)
- Much of the long-term financing in Africa is being driven via ECA and multilateral support with the likes of the African Development Bank, Export-Import Bank of China, Industrial Development Corporation, and Agence Française de Développement; all very active in the infrastructure space
- Funding demand has been particularly strong for infrastructure projects in Africa: transmission lines, generators and turbines for public sector utilities and expansion of ports and airports
- China continues to pump money into Africa mainly via infrastructure investments and with the support of Export-Import Bank of China and China Export and Credit Insurance Corporation
- Given some of the challenging geographies across the region, we expect ECAs and DFIs to continue to play a major role supporting medium and long-term debt-raising efforts

Market Appetite

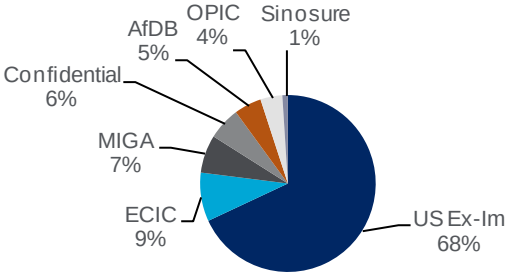
- Lenders have an appetite for ECA covered tranches as they are not capital intensive and given the negative effects of Basel III on long-term assets
  - OECD ECAs: zero risk weighting for regulatory purposes, providing improved pricing conditions for the borrower
  - Emerging markets ECAs: higher asset weighting but pricing mechanics that allow lenders to extend financing at competitive rates for borrowers

Citi EAF Africa: Mandated and Closed Deals in 2011

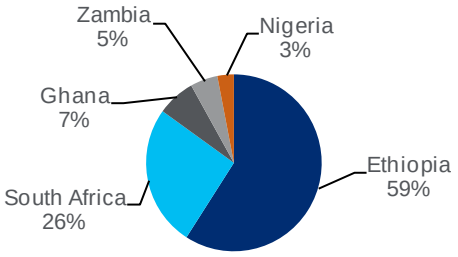
Financing Breakdown by Industry



Financing Breakdown by Agency



Financing Breakdown by Country



Export and Agency Financing – Key Sectors

Major Export Credit Agencies, Multilaterals and Development Finance Institutions are responding to Africa's infrastructure financing needs in the power, telecommunications, healthcare and transportation sectors.

"Leveraging Partnerships to Increase Access to Power in Sub-Saharan Africa"

USAID, March 26th 2014

"On June 30, 2013 in Cape Town, South Africa, President Obama announced Power Africa. Power Africa will start by working with African governments, the private sector, and other partners such as the World Bank and African Development Bank in six focus countries — Ethiopia, Ghana, Kenya, Liberia, Nigeria and Tanzania — to add more than 10,000 megawatts (MW) of clean, efficient electricity generation capacity.

"Telecommunications: From voice to data"

McKinsey, June 2010

"Telecom revenues have increased at a compound annual growth rate (CAGR) of 40 percent, and the number of subscribers rapidly exceeded 400 million. To meet the increased demand, investment in telecom infrastructure—about $15 billion a year—has also grown massively, with a 33 percent CAGR from 2003 to 2008.

"The future of healthcare in Africa"

Economist Intelligence Unit 2012

"The improvement and extension of healthcare delivery in Africa is also being constrained by gaps in financing. Sub-Saharan Africa makes up 11 % of the world's population but accounts for 24% of the global disease burden, according to the International Finance Corporation.24 More worrisome still, the region commands less than 1% of global health expenditure.

"Airlines Converge on Africa as Local Carriers Meet World"

Bloomberg, May 31st 2013

"Carriers from Addis Ababa to Cape Town are counting on new jets and discount fares to pile on passengers and win major-airline status while seeking to overcome the continent's reputation for graft, state meddling and poor safety. African passenger traffic grew 6.9 percent last year, ranking the region second only to the Middle East.

SSA Trade Credentials

SIR
Cote d'Ivoire

USD 50 million
Mandated Lead Arranger
Commodity Trade Financing

2014

SHT
Chad

USD 30 million
Mandated Lead Arranger
Commodity Trade Financing

2014

SONARA
Cameroon

USD 76 million
Mandated Lead Arranger
Commodity Trade Financing

2014

Government of Cote d'Ivoire

USD 60 million
World Bank – IDA
Sole Arranger and Issuing Bank

2013

Tunis Air
Tunisia

USD 92 million
COFACE
Mandated Lead Arranger

2013

Attijariwafa Bank
Morocco

USD 40 million
OPIC
Mandated Lead Arranger

2013

Ministry of Finance
Ghana

USD 192 million
ECGD
Co-Mandated Lead Arranger

2012

CHI Limited
Nigeria

USD 40 million
OPIC
Mandated Lead Arranger

2012

Kenya Power & Lighting Corporation Ltd.
Kenya

USD 45 million
World Bank – IDA
Sole Arranger and Issuing Bank

2012

FCMB
Nigeria

USD 20 million
OPIC
Mandated Lead Arranger

2012

Ministry of Finance
Ghana

USD 101.3 million
ECIC
Mandated Lead Arranger and Structuring Bank

2012

Exxaro Resources
South Africa

ZAR 560 million
DFI-backed Facility
Mandated Lead Arranger

2012

Ethiopian Airlines
Ethiopia

USD 635 million
US Ex-Im
Sole Mandated Lead Arranger

2010

Telkom SA
South Africa

USD 127 million
Sinosure
Mandated Lead Co-Arranger

2010

Precision Air
Tanzania

USD 129 million
SACE
Lead Arranger and Bookrunner

2008

citi®

emeafinance
Europe • Middle East • Africa
AFRICA BANKING AWARDS 2013

- Best foreign investment bank in Africa
- Best bank in Algeria
- Best foreign investment bank in Ghana
- Best foreign bank in Nigeria
- Best foreign investment bank in Nigeria
- Best investment bank in Rwanda
- Best foreign bank in South Africa
- Best investment bank in Zambia

"Citi's full service commitment to clients allows the bank to support customers in ways that the majority of banks operating in Africa are simply unable and unprepared to do."

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[TRADEMARK SIGNOFF: add the appropriate signoff for the relevant legal vehicle]

In January 2007, Citi released a Climate Change Position Statement, the first US financial institution to do so. As a sustainability leader in the financial sector, Citi has taken concrete steps to address this important issue of climate change by: (a) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of alternative energy, clean technology, and other carbon-emission reduction activities; (b) committing to reduce GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (c) purchasing more than 52,000 MWh of green (carbon neutral) power for our operations in 2006; (d) creating Sustainable Development Investments (SDI) that makes private equity investments in renewable energy and clean technologies; (e) providing lending and investing services to clients for renewable energy development and projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

Citi works with its clients in greenhouse gas intensive industries to evaluate emerging risks from climate change and, where appropriate, to mitigate those risks.