FINANCIAL REPORT 2018

African Development Bank Group

Financial Management and Financial Statements Year Ended 31 December 2018

BANQUE AFRICAINE DE DEVELOPPEMENT
AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND
FONDS AFRICAIN DE DEVELOPPEMENT

AFRICAN DEVELOPMENT BANK GROUP

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Letter of Transmittal

In conformity with Article 32 of the Agreement Establishing the African Development Bank, and Articles 8, 11, and 12 of the General Regulations adopted thereunder, and pursuant to Article 26 of the Agreement Establishing the African Development Fund and Articles 8, 11, and 12 of the General Regulations adopted thereunder, the Boards of Directors of the Bank and of the Fund, hereby submit to the Boards of Governors the Annual Report and the Financial Report of the African Development Bank and the African Development Fund for the financial year ended 31 December 2018. This Annual Report includes a review of developments in the operational activities of the Bank Group during 2018. The Financial Report contains the full set of audited financial statements of the Bank and the special purpose financial statements of the Fund, together with the approved administrative budget for 2019. Electronic versions of the two Reports are available on the Bank Group's website at www.afdb.org/annualreport.

AFRICAN DEVELOPMENT BANK GROUP

Management's Report Regarding the Effectiveness of Internal Controls over External Financial Reporting

March 27, 2019

The Management of the African Development Bank Group is responsible for the preparation, fair presentation and overall integrity of the published financial statements of the African Development Bank, the African Development Fund and the Nigeria Trust Fund (The Bank Group). The financial statements for the African Development Bank and the Nigeria Trust Fund have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board, while those of the African Development Fund were prepared on a special purpose basis.

The financial statements have been audited by the independent audit firm Deloitte & Associés, who were given unrestricted access to all financial records and related data, including minutes of all meetings of the Boards of Directors and committees of the Boards. Management believes that all representations made to the external auditors during their audit were valid and appropriate. The external auditors' reports accompany the audited financial statements.

Management is responsible for establishing and maintaining effective internal controls over external financial reporting in conformity with the basis of accounting. The system of internal control contains monitoring mechanisms and actions that are taken to correct deficiencies identified. Internal controls for external financial reporting are subject to ongoing scrutiny and testing by Management and internal audit and are revised as considered necessary. Management believes that such controls support the integrity and reliability of the financial statements.

There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, an effective internal control system can provide only reasonable, as opposed to absolute, assurance with respect to financial statements' preparation and presentation. Furthermore, the effectiveness of an internal control system can change over time.

The Boards of Directors of the Bank Group have established an Audit and Finance Committee (AUFI) to assist the Boards, among other things, in their oversight responsibility for the soundness of the Bank Group's accounting policies and practices and the effectiveness of internal controls. AUFI, which is comprised entirely of selected members of the Board of Directors, oversees the process for the selection of external auditors and makes a recommendation for such selection to the Board of Directors, which in turn makes a recommendation for the approval of the Board of Governors. AUFI meets periodically with Management to review and monitor matters of financial, accounting or auditing significance. The external auditors and the internal auditors regularly meet with AUFI to discuss the adequacy of internal controls over financial reporting and any other matter that may require AUFI's attention.

The Bank's assessment of the effectiveness of internal controls was based on criteria established in "Internal Control - Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this assessment, Management asserts that the Bank Group maintained effective internal controls over its financial reporting as contained in the financial statements as of 31 December 2018. Management is not aware of any material control weakness that could affect the reliability of the 2018 financial statements.

In addition to providing an audit opinion on the fairness of the financial statements for 2018, the external auditors of the Bank Group conducted an independent assessment of the effectiveness of the Bank Group's internal control over financial reporting as of 31 December 2018 and their opinion thereon is presented separately in this annual report.

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President

Bajabulile Swazi Tshabalala
Vice President Finance

Omobola Hollist
Controller

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Independent Auditor's Report regarding the Effectiveness of Internal Control over Financial Reporting

Year ended December 31, 2018

To the Board of Governors of the African Development Bank Group

Scope
We have examined the internal control over financial reporting of the African Development Bank (ADB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF) (together the "African Development Bank Group") as of December 31, 2018, based on criteria established in "Internal Control – Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibilities
The management of the African Development Bank Group is responsible for implementing and maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of such internal controls. Management has asserted the effectiveness of internal controls over financial reporting as of December 31, 2018.

Independent Auditor's responsibilities
Our responsibility is to express an opinion on the African Development Bank Group's internal control over financial reporting based on our procedures.

We conducted our engagement in accordance with International Standard on Assurance Engagements (ISAE) 3000, issued by the International Auditing and Assurance Standards Board. That standard requires that we plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, effective internal control was maintained over financial reporting.

An assurance engagement includes obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control, based on the assessed risk. It also includes performing such other procedures as considered necessary in the circumstances. We believe that the evidence we have obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Société anonyme au capital de 1 723 040 €
Société d'Expertise Compatable inscrite au Tableau de l'Ordre de Paris Ile-de-France
Société de Commissariat aux Comptes inscrite à la Compagnie Régionale de Versailles
572 028 041 RCS Nanterre
TVA : FR 02 572 028 041

Une entité du réseau Deloitte

Inherent limitation

An entity's system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. An entity's system of internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and disposals of the assets of the entity; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposal of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, a system of internal control over financial reporting may not prevent or detect misstatements. Further, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinion

In our opinion, the African Development Bank Group, in all material respects, maintained effective internal control over financial reporting as of December 31, 2018, based on criteria established in *"Internal Control – Integrated Framework (2013)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have audited the financial statements of the African Development Bank, the African Development Fund and the Nigeria Trust Fund as of and for the year ended December 31, 2018, in accordance with the International Standards on Auditing, and we have expressed unqualified opinions on those financial statements.

Paris – La Défense, March 27th, 2019

The independent auditor
Deloitte & Associés

Pascal COLIN

THE AFRICAN DEVELOPMENT BANK

FINANCIAL MANAGEMENT

Capital Subscription

The capital stock of the Bank is composed of paid-up and callable capital. The paid-up capital is the amount of capital payable over a period determined by the Board of Governors' resolution approving the relevant General Capital Increase. The Bank's callable capital is subject to payment as and when required by the Bank, to meet its obligations arising from borrowing of funds for inclusion in its ordinary capital resources, or guarantees chargeable to such resources. Thus, the callable capital of the Bank acts as protection for holders of bonds or guarantees issued by the Bank, in the unlikely event that the Bank is not able to meet its financial obligations. There has never been a call on the callable capital of the Bank. A member country's payment of the first installment of a capital subscription triggers the issuance of the shares corresponding to the entire callable capital portion, and the shares representing the paid-up portion of subscriptions are issued only as and when the Bank receives the actual payments for such shares.

Following the Board of Governors' approval of a 200 percent increase of the Bank's capital base in 2010, the authorized capital of the African Development Bank increased to UA 67.69 billion. Six percent of the shares created under this Sixth General Capital Increase (GCI-VI), (UA 2.62 billion) are paid-up, while 94 percent (UA 41.12 billion) are callable. In accordance with the resolution governing this capital increase, the GCI-VI shares were allocated to regional and non-regional members in such proportions that, when fully subscribed, the regional group holds 60 percent of the total capital stock and the non-regional group 40 percent. The level of authorized capital stands at UA 66.98 billion at end December 2018 due to the net effect of various Board resolutions and decisions aimed at admitting new members.

The paid-up portion of GCI-VI subscription is payable in eight equal annual installments for Non-Regional Member Countries as well as for Regional Member Countries eligible to borrow from the ADB, and in twelve equal annual installments for Regional Member Countries eligible to borrow only from the ADF. Some member countries have elected to pay their subscription in fewer installments, opting for the advance payment scheme, and have received a commensurate discount on their GCI-VI subscription.

As at 31 December 2018, the paid-up portion of the capital of the Bank amounted to UA 4.96 billion, with a paid-in capital (i.e. the portion of the paid-up capital that has actually been paid) level of UA 4.54 billion, compared with UA 4.98 billion and UA 4.27 billion of paid-up and paid-in capital, respectively, at the end of 2017. The Bank's callable capital at 31 December 2018, stood at UA 60.15 billion, including UA 21.83 billion from non-borrowing member countries rated A- and higher, compared with UA 60.52 billion and UA 21.82 billion, respectively, as at the end of the previous year. The evolution of the Bank's capital over the past five years is shown in Table 1.1.

In accordance with the Bank's Share Transfer Rules, shares for which payment has become due and remains unpaid are forfeited after a prescribed period and offered for subscription to member countries within the same membership group (i.e. regional or non-regional).

Details of the Bank's capital subscriptions as at 31 December 2018 are shown in the Statement of Subscriptions to the Capital Stock and Voting Powers, which forms part of the Financial Statements included in this Report.

The Bank's Credit Rating

The Bank monitors and manages its key financial strength metrics in a stringent manner in order to sustain its high credit ratings. The four leading international rating agencies - Standard and Poor's, Fitch, Moody's, and Japan Credit Rating Agency – have all reaffirmed their AAA/Aaa rating of the Bank's senior loans and AA+/Aa1 rating of its subordinated debt, with stable outlooks. The Bank's high quality credit ratings underline its very strong financial position, solid capital adequacy, high level of liquidity, prudent financial management and support from shareholders. In 2018, the Bank's risk management function continued to reinforce the Bank's AAA credit rating by focusing on ensuring sound Group-wide risk management decisions consistent with the institutional change and transformation undertaken, aimed at delivering on the High 5s. The Bank's risk management policies and procedures are detailed in Note D to the Financial Statements.

Borrowings

The Bank raises funds from the capital markets in order to provide cost-effective resources to finance development projects and programs in Africa. The triple-A credit ratings enjoyed by the institution enables it to issue securities at attractive interest rates, even in times of market distress.

The 2018 borrowing program was approved by the Board of Directors for a maximum amount of up to UA 5.62 billion to

Table 1.1

Bank Authorized and Subscribed Capital, 2014–2018
(in UA millions)

	2014	2015	2016	2017	2018
Authorized Capital	**66,975**	**66,975**	**66,975**	**66,975**	**66,975**
Paid-up Capital	4,865	4,884	4,897	4,980	4,957
Callable Capital	60,268	60,598	60,589	60,517	60,151
Total Subscribed Capital	**65,133**	**65,482**	**65,486**	**65,497**	**65,108**

be raised from the debt markets plus an additional envelope of USD 500 million (UA 356 million equivalent) under the Enhanced Private Sector Assistance (EPSA) facility. As of 31 December 2018, a total amount of UA 5.57 billion had been raised, representing 99% of the 2018 borrowing program, with a weighted average maturity of 5.92 years.

Throughout the year a strong focus on introducing new investors to the Bank's credit was maintained which, combined with a broad range of currencies and markets, enabled the Bank to extend its network of buyers. The Bank's Global Benchmark program continued to perform strongly with institutional investors providing healthy consistent demand for the Bank's bond issues. The main highlights of the program were the successful launches of two large global benchmark issuances in the dollar market of USD 2 billion each and a EUR 1.25 billion 10-year bond, with which the Bank continued to establish itself as a regular EUR benchmark issuer.

As of 31 December 2018, the Bank's outstanding borrowing portfolio stood at UA 23.99 billion, compared to UA 23.18 billion as of 31 December 2017.

For the 2019 borrowing program, the Board of Directors approved a maximum amount of UA 5.24 billion to be raised from the debt capital markets, plus an additional envelope of up to the Japanese Yen (JPY) equivalent of USD 300 million (UA 215 million equivalent) under the Enhanced Private Sector Assistance (EPSA) facility. A US Commercial Paper program for a maximum amount of USD 2 billion was also approved.

Social Bonds

The Bank established its Social Bond program in September 2017 and issued an inaugural EUR 500 million 7-year Social Bond in the same year targeting socially responsible investors (SRI) across the globe. In May 2018, the Bank issued a EUR 1.25 billion 10-year Social Bond. The Bank's Social Bond program is focused on meeting the critical development challenges of Africa, with proceeds aimed at financing projects with strong social impact on the continent, targeting affordable basic infrastructure, access to essential services, affordable housing, education and vocational training, employment generation, health and healthcare services, food security and socio-economic advancement and empowerment. The targeted African populations include those living below the poverty line, excluded or marginalized populations, vulnerable groups, people with disabilities, migrants, undereducated and the unemployed. For further information on the Bank's social bonds program please visit the Bank's webpage: https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/social-bonds-program/

Green Bonds

Following the publication of Secured Overnight Financing Rates (SOFR) as a possible alternative to the London Interbank Rates (LIBOR), in 2018, the Bank issued a dual tranche USD 500 million 3-year fixed and USD 100 million 2-year SOFR-linked Green Bond, becoming the first issuer to bring to the Green Bond market a SOFR-linked transaction. This innovative transaction, the 7th Green Bond issued under the Bank's Green Bond framework established in 2013, highlights its continued commitment to support climate-smart and low carbon investments on the continent, in sectors such as renewable energy, energy efficiency, clean transportation, biosphere conservation and sustainable water and wastewater management.

The total amount of Green Bonds outstanding (including private placement and Uridashi issues) was USD 1.1 billion (UA 803 million) at the end of 2018. More details on the eligible green projects financed by the Bank's Green Bonds are available on the Bank's dedicated Green Bond webpage: https://www.afdb.org/en/topics-and-sectors/initiatives-partnerships/green-bonds-program/

Themed Bonds

The Bank continued to meet increased demand from Japanese investors for themed bonds. This demand reflects investors' preferences for investing in bonds that support social projects and that meet their investment risk/return objectives. In 2018, the Bank issued 42 theme bonds aligned with the High 5

Table 1.2

Overview of Themed Bond Activity by Sector
(Amounts in UA millions)

	Total Bonds Issued	Cumulative Disbursements	Total Bonds Outstanding	Maturity Range of Bonds Issued
Food Security	134.3	182.6	55.6	3 to 5 years
Infrastructure	143.6	1,024.9	143.6	7 to 10 years
Sub-total	**277.9**	**1,207.5**	**199.2**	
Improve the quality of life for the people of Africa	205.1	330.0	205.1	3 to 10 years
Feed Africa	83.3	143.5	83.3	10 years
Light Up and Power Africa	116.2	677.0	116.2	10 years
Integrate Africa	31.6	215.7	31.6	10 years
Industrialize Africa	77.2	107.9	77.2	10 years
Sub-total*	**513.4**	**1,474.1**	**513.4**	
Total	**791.3**	**2,681.6**	**712.6**	

**Disbursements for selected list of projects under AfDB High 5s* operational priorities, including 38 "Improve the Quality of Life for the People of Africa" theme bonds and an inaugural "Integrate Africa" theme bond, for a combined total of UA 256 million. Proceeds of these bond issues were included in the ordinary capital resources of the Bank. Under the terms of the bonds, an amount equal to the net proceeds will be directed, on a 'best-efforts' basis, towards projects related to the relevant theme, subject to and in accordance with the Bank's lending standards and guidelines.

A snapshot of the Bank's activity in each of the sectoral themes financed and the maturity of the related bonds is provided in table 1.2.

Syndication and Co-financing

The Syndications, Co-financing, and Client Solutions Department was created in 2017 to lead the Bank's balance sheet optimization initiatives and to enhance the Bank's renewed thrust in promoting use of innovative financial products, including guarantees, local currency financing, co-financing, blended finance, and syndicated loan structures in financing sovereign and non-sovereign operations.

In 2018, the Bank secured seven Mandated Lead Arranger roles to support various private sector projects including but not limited to Air Cote d'Ivoire, Ghana Cocobod, SA Taxi (South Africa) and Sahofika Hydro power plant project in Madagascar. From its own resources, the Bank will deploy USD 540 million to leverage USD 1.9 billion from international commercial banks through private sector syndication to achieve a 1:3.5 leverage ratio.

On the public sector co-financing front, USD 182 million was approved through Accelerated Co-financing Facility for Africa (ACFA) and Euro 181 million under the European Commission - Africa Investment Platform (AIP). The EC has also approved Euro 66 million in equity grants to support SME financing (Boost Africa, Africa Guarantee Fund) as well as the Fund for Energy Inclusion in Africa. An additional pipeline of Euro 284 million in Guarantees have been approved by the EC and agreements are under negotiation. Together with an additional Euro 47 million in trust funds supporting the Africa Legal Support Facility and Somalia Infrastructure Fund, the total EC contributions to scaling up transformative programmes in Africa amounts to approximately USD 1 billion.

Under the Africa Growing Together Fund (AGTF), UA 262 million was approved in 2018 to enable the Bank to scale up its operations in agriculture, energy, transport, and water and sanitation, bringing total financing from the AGTF to UA 495 million. Among other significant initiatives, the Bank approved a EUR 470 million Partial Credit Guarantee to cover the payment obligations of the Republic of Senegal under currency risk hedging arrangements with commercial banks to hedge its USD 1.4 billion exposure in respect of its two Eurobonds maturing in 2021 and 2033.

Through the Room-to-Run initiative and in response to G20 calls to MDBs to optimize their balance sheets while mobilizing additional financial resources, the Bank approved, in 2018, two landmark transactions. A "first-of-its-kind" USD 1 billion synthetic securitization of a Multilateral Development Bank (MDB) non-sovereign loan portfolio consisting of project finance and loans to financial institutions was executed with a group of investors composed of Mariner, Africa 50 and the European Commission. Mariner and Africa 50 are providing credit risk protection to cover losses between 2% to 17.25%, while the European Commission (EC) is providing a third loss tranche from 17.25% to 27.25%. The Bank retains the first loss tranche of up to 2% and the residual risk above 27.25%. The Bank is discussing with the European Commission to redeploy the equivalent amount of the headroom released in renewable energy projects targeting investment in Africa. Additionally, the Bank also closed a USD 500 million credit insurance transaction structured to cover a portion of its portfolio of non-sovereign operations. The African Trade Insurance Agency (ATI) will be the direct insurer facing the Bank though the transaction involves a number of Lloyd's and Company private reinsurers who will share the risk on African financial institutions. These transactions will release some risk capital and are expected to create around USD 1.16 billion in additional lending headroom.

To further support local currency lending in Africa, the European Fund for Sustainable Development (EFSD) approved, in 2018, EUR 12.5 million in the form of an unfunded guarantee to cover a portion of the risks associated with local currency projects. Alongside, the EFSD also approved EUR 1 million of technical assistance to cover local currency transaction costs, support capacity building and provide market development support for selected countries in Sub-Saharan Africa. The Bank also co-guaranteed a EUR 24 million project financed in CFA francs to back a receivables-based financing structure to scale-up the rollout of pay-as-you-go off-grid solar home systems in Côte d'Ivoire.

Financial Products

The Bank offers an attractive and diversified menu of financial product options that allows borrowers to tailor their financing requirements to their circumstances. The Bank's financial products comprise loans (including those denominated in local currency, and syndicated loans), lines of credit, agency lines, guarantees, equity and quasi-equity, trade finance, and risk management products. In addition to the aforementioned financial products, the Bank provides technical assistance to its clients through grant funds. Each of these products is discussed briefly below.

Loans

The Bank provides loans to its clients on non-concessional terms. The Bank's standard loans are categorized either as Sovereign-Guaranteed Loans (SGLs) or Non-Sovereign Guaranteed Loans (NSGLs). SGLs are loans made to Regional Member Countries (RMCs) or to public sector enterprises from RMCs supported by the full faith and credit of the RMC in whose territory the borrower is domiciled. Multinational institutions are eligible for SGLs if they are guaranteed by an RMC or by the RMCs in whose territory or territories the projects will be executed.

NSGLs are loans made either to public sector enterprises, without the requirement of a sovereign guarantee, or to private sector enterprises.

The Bank's loan products have evolved over time, with terms that are increasingly more responsive to client needs.

Effective 3 March 2016, the Bank formally operationalized the Fully Flexible Loan (FFL) product, (originally approved by the Board of Directors in December 2013), thereby replacing the Enhanced Variable Spread Loan (EVSL) as the Bank's only standard loan product offered to sovereign and sovereign-guaranteed borrowers in respect of all loans signed on or after that date. The FFL product introduced additional flexibility to manage client interest rate and currency risks by embedding risk management features currently offered through the Bank's risk management products into SGLs. With this product, FFL borrowers are able to, at any time after loan signature (i) convert the lending currency for disbursed and/or undisbursed loan balances into another Bank-approved lending currency (ii) convert the base interest rate (fix, unfix and re-fix the base rate) for disbursed and outstanding loan balances and, (iii) establish interest rate caps or collars for disbursed and outstanding loan balances.

The FFL also introduces a maturity-based pricing structure due to the lengthening of the maximum tenor, grace period and average loan maturity (i.e., the weighted average time to repay a loan which considers, both, repayment dates and amounts in order to provide a better estimation of how quickly a loan is repaid) of SGLs from 20 years (tenor), 5 years (grace period) and 12.75 years (average maturity) to 25 years, 8 years and 17 years, respectively to allow borrowers to select loan profiles that match their funding needs and debt management capacities.

The lending rate of the FFL comprises a floating base rate (6-month LIBOR for USD and JPY, 6-month EURIBOR for EUR and 3-month JIBAR for ZAR), a funding margin that is a function of the Bank's cost of funding relative to LIBOR, EURIBOR or JIBAR, which is computed every six months, and a contractual spread that was set at 80 basis points with effect from 1 September 2016, plus a maturity premium based on the average loan maturity, if applicable. The maturity premium was set to 10 bps for loans with an average maturity greater than 12.75 years but less than or equal to 15 years. Loans with an average maturity greater than 15 years will attract a 20 bps maturity premium.

In May 2016, the Board of Directors of the Bank approved a revision to the pricing of SGLs effective 1 September 2016. The revision included a commitment fee of twenty-five (25) basis points to be charged on the undisbursed balance of new loans, the introduction of a front end fee of twenty-five (25) bps on new loans, and an increase in the contractual spread from sixty (60) to eighty (80) basis points.

For non-sovereign-guaranteed borrowers the loan product that the Bank offers is the Fixed Spread Loan (FSL). The lending rate on the FSL comprises a floating base rate (6-month LIBOR for USD and YEN, 6-month EURIBOR for Euro and 3-month JIBAR for ZAR) which remains floating until the maturity date plus a risk-based credit spread. The borrower has a free option to convert the floating base rate into a fixed base rate. NGSLs have a maximum tenor of 15 years including a grace period not exceeding 5 years. For NSGL denominated in ZAR, an additional funding cost margin is added to take into account the Bank funding costs over 3M JIBAR in current market conditions.

Other loan structures offered by the Bank include parallel and A/B loan syndications, and local currency loans. The Bank can provide local currency loans in the following RMC currencies: Botswana pula, Egyptian pounds, Franc CFA (XOF and XAF), Ghanaian cedis, Kenyan shillings, Nigerian naira, Tanzanian shillings, Ugandan shillings and Zambian kwacha. Lending in these currencies is only offered if the Bank is able to fund itself efficiently in the relevant local currency market on a best efforts basis. Other currencies can be added depending on the demand and the ability of the Bank to fund through the local market. These local of loans are offered under the FSL pricing framework with a cost-pass-through principle for the loans to ensure that the overall cost of funds is fully covered.

Lines of Credit

The development of a dynamic private sector, particularly small and medium-size enterprises (SMEs) on the continent is an important objective of the Bank, as is the development of private financial institutions (PFIs). To this end the Bank offers lines of credit for loans to PFIs for on-lending to SMEs and other targeted sectors. The terms of the lines of credit specify the conditions under which Bank funds will be provided to the PFI for on-lending. The credit risks of the sub-loans are borne by the PFIs.

Agency Lines

The Bank makes resources available for SMEs under agency arrangements with local financial intermediaries. The selection of individual projects for Bank support is largely delegated to the intermediaries, which draw on Bank resources to make loan or equity investments on the Bank's account in projects meeting pre-agreed criteria. As part of an agency agreement, financial intermediaries are required to commit their own funds in each investment in parallel with the Bank and to supervise the investee companies. The financial intermediary acts only in an agency capacity for the Bank when investing the latter's funds and assumes no risk in this regard. The credit risk of the borrower is borne by the Bank.

Guarantees

The Bank's guarantee instruments are effective tools to protect investors and lenders against specific risks, enabling optimal allocation of risks. Through the guarantee product, the Bank seeks to attract new sources of financing from third party local and international lenders/investors, including via the capital markets potentially resulting in better financing terms and a reduction of effective financing costs. The Bank's guarantees can generally be classified into two categories: Partial Credit Guarantees (PCGs) and Partial Risk Guarantees (PRGs). PCGs cover a portion of scheduled payments of commercial debt instruments against all risks or specific events of defaults by borrowers from both public and private sectors. PRGs cover private projects against the risk of a government, or a government owned agency, failing to perform its obligations vis-à-vis the project.

Risk Management Products

The Bank offers Risk Management Products (RMPs) to its borrowers only in respect of obligations outstanding to the Bank or new Bank loans to enable them to hedge their exposure to market risks including interest rate, currency exchange and commodity price risks, thus allowing them to optimize their debt management strategies. RMPs offered by the Bank include interest rate swaps, currency swaps, commodity swaps and interest rate caps and collars. These products are available to borrowers at any time during the life of the loan.

Equity and Quasi-Equity Participations

In addition to its participation in ADF, the Bank takes equity positions in qualifying business enterprises in its RMCs as part of its strategic development financing mandate. The Bank's ability to provide risk capital through equity and quasi-equity is a key element of its resource mobilization role. The use by the Bank of equity and quasi-equity participation as instruments of investment has the objectives of promoting the efficient use of resources, promoting African participation, playing a catalytic role in attracting other investors and lenders to financially viable projects as well as promoting new activities and investment ideas. The Bank may invest in equities either directly or indirectly, through appropriate funds and other investment vehicles. Additionally, it may choose to invest via quasi-equity instruments including redeemable preference shares, preferred stock, subordinated loans or convertible loans.

Trade Finance Program

In February 2013, the Board approved a USD 1 billion Trade Finance Program (TFP) for a four-year initial phase to address the shortage of trade finance in Regional Member Countries (RMCs). The TFP provides liquidity and risk mitigation solutions to financial institutions actively involved in trade finance in Africa through the following funded and unfunded instruments: (a) Risk Participation Agreement (RPA), (b) Trade Finance Line of Credit (TFLOC), and (c) Soft Commodity Finance Facility (SCFF). In addition to these, the TFP makes selective use of equity and technical assistance instruments to enhance the risk-bearing and operational capacities of local financial institutions (FIs).

a) Risk Participation Agreement

The Risk Participation Agreement (RPA) is both a funded and non-funded trade finance product that enables the Bank to share risk with a select group of international and regional confirming banks who provide documentary credit confirmation services to African issuing banks with the objective of supporting and expanding trade in Africa. Under this product the Bank shares trade finance credit risk (generally no more than 50 percent of a trade transaction exposure) on a portfolio of eligible issuing bank trade transactions of partner confirming banks. RPAs operate on a portfolio basis and do not require the Bank to sign direct agreements with the local issuing banks.

b) Trade Finance Lines of Credit

The Trade Finance Line of Credit (TFLOC) is similar to the conventional line of credit offered by the Bank to local financial institutions except that the TFLOC is used to finance exclusively trade-related transactions in RMCs. Trade transactions financed by the TFLOC include, among others, pre-shipment and post-shipment financing, capital expenditure, letters of credit discounting, factoring/forfaiting, import and export trade finance.

Since most trade transactions have maturities of less than one year, the intermediary financial institutions are permitted to utilize the line of credit as a revolving credit facility to trade finance clients until the final maturity of the TFLOC itself, which in any case will not exceed 3.5 years. The facility is available to local banks engaged in trade finance in Africa.

c) Soft Commodity Finance Facility

The Soft Commodity Finance Facility (SCFF) is a funded trade finance product that is used to support mainly the import and export of agricultural commodities and inputs across RMCs. This includes, for instance, the provision of pre-export financing to commodity aggregators for the purchase and export of soft commodities. Commodity finance is usually structured and has credit protection in such forms as pledges of underlying commodity, assignment of proceeds, letters of credit, and private or state guarantees. SCFF is provided directly to entities such as commodity aggregators, which are not necessarily financial institutions. These entities could include state-owned commodity boards or agricultural cooperatives that meet the eligibility criteria for Bank private sector borrowing. Intermediaries such as commodity traders would not be direct counterparties of the Bank.

Scaling up the Trade Finance Program

The demand for trade finance interventions from RMCs remains strong. Accordingly, in 2016 the Bank consolidated and mainstreamed the TFP as a core activity rather than as a program with an expiry date. In this regard, USD 1 billion limit is reserved for guarantee products only while the funded TFLOC and SCFF instruments are to be treated like the other lending instruments of the Bank in terms of allocation of funds for non-sovereign operations.

The Bank is also considering the introduction of the following new products to meet the ever evolving needs of its clients: (i) Transaction guarantee instrument that provides up to 100 percent risk cover for single transactions; (ii) Supply and value chain finance facility; and (iii) Risk insurance/distribution facility to create more headroom by catalysing other sources of financing and increasing the capacity of the Bank to support more trade.

Other Financial Services

In addition to the products described above, the Bank may occasionally offer technical assistance and project preparation facilities through Trust or Special funds to supplement its financial products for both the public and private sector windows. The Bank's technical assistance is primarily focused on increasing the development outcomes of its operations by raising the effectiveness of project preparation which is vital in ensuring the best developmental and poverty-reducing outcomes for projects that receive Bank financing. In addition, technical assistance may aim to foster and sustain efforts in creating enabling business environments in order to promote private sector investment and growth.

Risk Management Policies and Processes

The Bank's development operations are undertaken within a risk management framework of a clearly defined risk appetite statement, a capital adequacy and exposure management policy, a credit policy with guidelines, a risk management governance framework, an asset and liability management authority with guidelines, and an end-to-end credit process.

The Bank seeks to minimize its exposure to risks that are not essential to its core business of providing development finance and related assistance. Accordingly, the Bank's risk management policies, guidelines, and practices are designed to reduce exposure to interest rate, currency, liquidity, counterparty, legal and other operational risks, while maximizing the Bank's capacity to assume credit risks in its exposures to public and private sector clients, within approved risk limits.

Over the past few years, the Bank has enhanced its risk management framework and end-to-end credit processes. Some of these enhancements include establishing an independent office responsible for risk across the Bank, reporting directly to the President of the Bank; creating a strong Credit Risk Committee; enhancing the training of Bank staff on credit risk assessment, recruiting experienced and competent credit officers, and implementing optimized credit risk assessment models. The Bank has also strengthened the monitoring of the current portfolio and continues to proactively undertake portfolio restructuring measures including cancellation of long-standing "signed but not disbursed" loans to free up capital for new lending. Meanwhile, efforts to fully implement the operational risk management framework, as approved by the Board, is ongoing. Also in progress is the implementation of an integrated workflow-driven software platform that is expected to allow all stakeholders involved in the credit risk assessment process to streamline their work and enhance efficiency.

As part of its balance sheet optimization (BSO) strategy, the Bank undertakes significant risk transfer transactions aimed at managing risks in its loan portfolio, reducing sovereign and non-sovereign concentration risk and increasing lending headroom, so as to optimize its balance sheet. In this regard, the Bank entered Exposure Exchange Agreements (EEAs), the first BSO transaction, with other multilateral development banks (MDBs) in 2015 to optimize its balance sheet, manage risks in its loan portfolio, reduce sovereign-concentration risk, and increase lending headroom. The EEAs involve a simultaneous exchange of equivalent credit risk on defined reference portfolios of sovereign exposures, subject to each participating MDB retaining a minimum of 50 percent of the total exposure to each country that is part of an EEA. The participating MDBs have paid no credit protection fee (guarantee premium) since the amount of exposure exchanged—purchased and sold—is notionally the same at inception.

Under the EEA, the MDB that originates the sovereign loans and buys protection continues to be the lender of record. An exposure exchange does not affect the application of the normal sovereign sanctions policies by the buyer of protection. The EEA has final maturities in 2030 with linear annual reduction of the notional amounts starting from 2025. On 31 December 2018, the total outstanding notional EEA amount of credit protection purchased or sold on the relevant underlying single reference entities, which remains unchanged from the previous year, is USD 4.47 billion (UA 3.21 billion). It is noteworthy that Standard and Poor's in the course of their 2018 annual rating exercise confirmed, the efficacy of the MDB exposure exchange in improving the Bank's risk-adjusted capital adequacy ratio.

Apart from the EEA, in 2018 the Bank entered into two landmark BSO transactions: 1) a USD 1 billion involving synthetic securitization of a portfolio of non-sovereign assets which will also benefit from a USD 100 million guarantee from the European Fund for Sustainable Development (EFSD); and 2) a USD 500 million credit insurance on its non-sovereign portfolio of financial sector loans. Both transactions are expected to release risk capital and create around USD 1.2 billion in additional lending headroom. Like the EEAs, these transactions are accounted for as financial guarantees. The BSO initiatives undertaken during 2018 are discussed in detail under Syndication and Co-financing, earlier in the report.

No default events have occurred on any of the exposures covered under the above BSO transactions and the Bank continues to expect its sovereign, sovereign-guaranteed and non-sovereign exposures to be serviced in accordance with loan agreements.

The Bank continues to be well capitalized. The stress testing of its capital adequacy shows that the Bank can adequately withstand a number of extreme shock scenarios. The risks to the Bank's balance sheet are actively monitored on a risk dashboard, which is regularly updated based on the evolving risk profile of the Bank's operations.

The policies and practices deployed by the Bank to manage the risks to which it is exposed are described in more detail in note D to the financial statements in the Financial Report 2018.

Financial Reporting

Corporate governance within the Bank is supported by appropriate financial and management reporting. The Executive Board of Directors makes strategic decisions and monitors the Bank's progress toward achievement of set goals. While senior management manages the Bank's day-to-day operations and activities, the Board provides oversight, advice and counsel on issues as wide-ranging as long-term strategy, budgets, human resources, benefits management and new product development.

Based on the COSO internal control framework, senior management has put in place a robust and functioning mechanism to be able to certify the effectiveness of the Bank's internal controls over external financial reporting. This annual certification statement is signed by the President and Vice President – Finance, as well as the Financial Controller. A separate attestation is also provided by the Bank's external auditors. The Bank has a comprehensive system of reporting to the Board of Directors and its committees which includes periodic reporting by the Office of the Auditor General to the Audit and Finance (AUFI) Committee of the Board of Directors.

Internal Audit

The Office of the Auditor General is responsible for planning, organizing, directing and controlling a broad, comprehensive program of auditing both internally and externally including without limitation all projects and programs of the Bank Group. The Office provides all levels of management with periodic, independent and objective appraisals and audits of financial, accounting, operational, administrative and other activities, including identifying possible means of improving accountability, efficiency of operations and economy in the use of resources. The activities of the Office of the Auditor General are governed by the Institute of Internal Auditors (IIA) standards, Code of Ethics and International Professional Practices Framework. The IIA defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Office utilizes its resources effectively and efficiently by concentrating them on high business risks and significant areas of the Bank. This approach is consistent with the IIA Standards and the COSO Internal Control Framework. These standards require the internal audit function to methodologically assess the pertinent risks to the Bank Group and focus its efforts based on the anticipated business risks. Such risks are continually calibrated as a result of audits, continuous risk assessments and input from the Board's Audit and Finance Committee and Management. The Annual Internal Audit work programme is derived from the Office's Long-Term Coverage Plan, which is rolled-over and updated annually. The President and the Board of Directors approve the Annual Internal Audit Work Programme.

The Auditor General meets and reports regularly to the President, the Audit and Finance Committee and the Board on the activities of the Office and on the sufficiency of resources. The Auditor General, and members of his/her staff, have unrestricted access to all Bank records, documents, properties and persons relevant to the subject matter under review. The Auditor General reports directly to the President and carries out his/her duties in total independence without any direct or indirect influence. The President appoints and removes the Auditor General in consultation with the Board of Directors. The appointment of the Auditor General is for a period of five years renewable once and he/she shall not be eligible for staff appointment thereafter.

In line with the IIA Standards, the Office has developed a quality assurance and improvement programme that assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. The programme entails, among other things, conducting an internal assessment every two years and an independent external assessment every five years. The last external assessment was carried out in 2016 by the IIA who concluded that the Bank's Office of the Auditor General "Generally Conforms" with the Standards. This rating is the highest rating among three possible ratings of "Generally Conforms", "Partially Conforms" and "Does Not Conform".

External Auditors

The Bank's external auditors are appointed by the Board of Governors, on the recommendation of the Board of Directors, for a five-year term. Under the Bank rules, no firm of auditors can serve for more than two consecutive five-year terms. In this regard the incumbent auditors for the Bank Group are serving the second year of their first term following the completion of the recruitment process and subsequent formal approval of their appointment during the 2017 Annual Meetings.

The external audit function is statutory and is regulated by the International Standards on Auditing (ISA), issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board. The external auditors perform an annual audit to enable them to express an opinion on whether the financial statements of the Bank present fairly the financial position and the results of the operations of the Bank. They also examine whether the statements have been presented in accordance with International Financial Reporting Standards. In addition, as described above, the external auditors also carry out a comprehensive review and provide opinion on the effectiveness of the Bank's internal controls over financial reporting. This attestation is provided by the external auditors as a report separate from the audit opinion. At the conclusion of their annual audit, the external auditors prepare a management letter for Senior Management and the Board of Directors, which is reviewed in detail and discussed with the Audit and Finance Committee of the Board. The management letter sets out the external auditors' observations and recommendations for improvement on internal controls and other matters, and it includes management's responses and actions for implementation of the auditors' recommendations.

The performance and independence of the external auditors is subject to periodic review by the AUFI Committee of the Board. There are key provisions in the Bank's policy regarding the independence of the external auditors including a requirement for the mandatory rotation of the Engagement Partner, in cases where the term of the audit firm is renewed for a second and final five-year period. The incumbent external auditors are prohibited from providing non-audit related services, subject to certain exceptions if it is judged to be in the interest of the Bank and if such services do not compromise the external auditors' independence. In any case, the provision of such services requires the specific approval by the Audit and Finance Committee.

A significant development in the external audit space is the adoption of an expanded audit opinion following the publication of new and revised auditor reporting standards by IFAC which, among other benefits, enhances auditor reporting by explaining the basis of the audit opinion and provides more relevant information to users of financial statements.

Anti-Corruption Regime within the Bank

The Bank has a robust regime for discouraging corruption. The prohibited practices under the Bank's anti-corruption regime include not only bribery but also receiving bribes, fraud, coercive practices and collusion.

The Bank has three main anti-corruption legal instruments – its Procurement Rules, the Guidelines for Preventing and Combating Corruption and Fraud in Bank's Operations, and the International Financial Institutions' Uniform Framework for Preventing and Combating Fraud and Corruption. Each of these instruments defines the prohibited practices and prescribes mechanisms for implementing anti-corruption measures. The Procurement Rules prohibit the use of Bank funds to finance corruption and the financing by the Bank of contracts corruptly procured. The Guidelines prescribe preventive measures to be taken throughout the lending cycle. The Uniform Framework also prescribes preventive measures and investigation procedures.

The Bank's anti-corruption implementation mechanisms include the Integrity and Anti-Corruption Department which has an investigative and a preventive role, a Whistleblower and Complaints Handling mechanism including a hotline administered by the Integrity and Anti-Corruption Department, and protection for whistleblowers.

The Bank has implemented the International Financial Institutions' cross-debarment agreement by which it will apply the sanctions of the other institutions and have its sanctions applied by these institutions. A key step in this process has been the appointment of a Sanctions Commissioner, an Alternate Sanctions Commissioner and the members of the Sanctions Appeals Board.

Finally, the Bank is collaborating with the OECD in an ongoing initiative to support business integrity and anti-bribery efforts in its regional member countries.

Performance Management and Monitoring

In managing its operations the Bank uses quantified performance measures and indicators that reflect the critical success factors in its business. These are monitored on a continuous basis and results achieved are used to assess progress attained against stated objectives and to inform required action in order to improve future performance. Management uses a wide array of measures both at the corporate and business unit level to monitor and manage performance. Some of the key financial measures and indicators used by management are discussed in Table 1.3, together with their relevance to the operations of the Bank.

Table 1.3

Key Financial Performance Indicators: 2018 and 2017

Definition	Importance to the business and management	Achievement 2018	Achievement 2017
Average Return on Liquid Funds	This is a measure of the average return generated or lost due to the investment of liquid funds. In other words, it is a measure of how profitable the liquid assets are in generating revenue to the Bank, pending disbursement for project financing.	1.85%	1.50%
Total Debt to Usable Capital	This is a measure of the Bank's financial leverage calculated by dividing its total debt by usable capital. It indicates what proportion of equity and debt the Bank is using to finance its operations.	83.14%	80.66%
Settlement Failure Rate	This measures the efficiency of the funds' transfer process. Timely settlement of financial obligations is important as a measure of the efficiency of the Bank's processes.	0.12%	0.09%
Timeliness of Preparation of Financial Highlights	Reporting of key financial performance metrics in a timely manner aids decision making by management and facilitates the required corrective action to improve performance.	Within one month of period end	Within one month of period end
Impairment Loss Ratio (Non-Sovereign Portfolio only)	This KPI represents the impairment on loans as a proportion of the period-end balances. The granting of credit is the main purpose of the Bank and is also one of the Bank's principal sources of income and risk. The loan loss ratio is an indicator of the quality and recoverability of loans granted to non-sovereign borrowers.	2.20%	2.60%

FINANCIAL RESULTS

The Bank's earned income in 2018 before allocation and distributions approved by the Board of Governors was UA 124.68 million, compared with UA 258.43 million in 2017. This decrease was primarily due to higher impairment provisions on loan principal and charges under IFRS 9 and the impact of unfavorable market valuation effects of borrowings.

Adjusted for the effects of the fair valuation of borrowings and derivatives, income before allocation and distributions amounted to UA 159.83 million for 2018, compared to UA 210.30 million in 2017.

The net interest margin stood at 1.24% both in December 2017 and 2018, largely due to the replacement of maturing high yielding investments held at amortized cost with lower yielding investments and an increase in the absolute size of the trading portfolio. Interest income from loans increased by 29.96 percent due to a higher average volume of outstanding loans resulting from increased disbursements to UA 596.90 million in 2018 from UA 459.29 million in 2017. The treasury portfolio continued to perform above its set benchmarks. Overall, net interest income increased by 2.26 percent during the year driven largely by the higher level of average gross interest earning assets.

Total Bank Group administrative expenses increased by 6.73 percent from UA 376.81 million in 2017 to UA 402.16 million in 2018, primarily due to higher operational expenses arising from additional deployment of consultants and mission travel. Total manpower expenses, excluding actuarial valuation effects of benefit plans, increased by UA 15.16 million (5.77 percent) - from UA 262.90 million in 2017 to UA 278.06 million in 2018. The Bank's share of the total Bank Group's administrative expenses amounted to UA 165.71 million for 2018, compared with UA 147.77 million in the previous year. Bank Group administrative expenses are shared between the Bank, the ADF, and the NTF, based on a predetermined cost-sharing formula driven primarily by the relative levels of certain operational volume indicators and relative balance sheet size.

The Bank continues to maintain a strong capital position. Despite the ongoing challenges in its operating environment, the Bank continues to generate sufficient levels of income to facilitate contributions on behalf of its shareholders to other development initiatives in Africa. The Bank's reserves, plus accumulated loan loss provisions on outstanding loan principal and charges, increased to UA 3.49 billion at the end of 2018, up from UA 3.42 billion at the end of 2017, an increase of 2.05 percent.

Distributions Approved by the Board of Governors

In 2018, the Board of Governors approved distributions of UA 83.00 million from 2017 net income to various development initiatives in Africa compared to UA 82 million approved in 2017. The beneficiaries of these distributions are listed in Note M to the financial statements. In accordance with the Bank's accounting policies, such distributions are reported as expenses in the year the Board of Governors approves them. The Boards of Directors have also agreed to recommend to the Board of Governors, at its Annual Meeting in June 2019, distributions totaling UA 74 million from 2018 net income towards the funding of various development initiatives in the RMCs. If approved by the Board of Governors, such distributions, and any others that may be approved by the Board of Governors during 2019 will be reported as expenses in the 2019 financial statements, in line with the prevailing accounting practice.

Control of Administrative Expenses

To maximize the resources available for development financing and technical assistance activities in its member countries, the Bank continues to focus on a high level of budgetary discipline, effective cost controls, and proactive cost-recovery programs in managing its administrative and capital expenses. For the year ended 31 December 2018, the Bank Group's general administrative expenses, excluding charges for depreciation and amortization, were UA 402.16 million, up from UA 376.81 million in 2017. For 2019 the Bank Group's administrative expenditure is budgeted at UA 383.59 million. Management will continue to explore and implement effective and transparent cost management strategies in order to ensure that cost outcomes are effectively tracked against the Bank's long-term strategic objectives.

Investments

The ADB's liquid assets are tranched into 3 portfolios, namely, operational portfolio, prudential portfolio which are held for trading (fair value) and an equity-backed portfolio, which is held at amortized cost. Each has a different benchmark that reflects the cash flow and risk profile of its assets and funding sources. These benchmarks are 1-month LIBID for the operational portfolio, and 6-month marked-to-market LIBOR, resetting on February 1 and August 1 for the prudential portfolio. The operational and prudential portfolios are held for trading and fair valued. The equity-backed portfolio is managed against a repricing profile benchmark with 10 percent of the Bank's net assets repricing uniformly over a period of 10 years.

The Bank maintained a robust investment strategy in 2018, consistent with a return to volatility in the global financial markets. The Bank continues to adopt a prudent investment strategy, prioritizing capital preservation and liquidity over attempting to generate higher income by taking on additional risks. As such, the Bank continues to target high-quality liquid assets with short maturities for its trading portfolio, with a focus on secured investments. The credit quality and liquidity profile of the Bank's investments remains very strong.

The Bank's cash and treasury investments (net of repurchase agreements) as of 31 December 2018 totaled UA 12.54 billion, compared to UA 12.69 billion at the end of 2017. Investment income for 2018 amounted to UA 240.07 million representing a return of 1.85 percent on an average liquidity of UA 12.96 billion (compared to an income of UA 195.04 million, representing a return of 1.50 percent, on the an average liquidity of UA 12.97 billion in 2017). Overall, the portfolios at fair value outperformed their average benchmarks in the key currencies during the year despite difficult market conditions.

The bulk of the ADB's liquid assets is denominated in currencies of the Special Drawing Rights' basket. The ADB Asset and Liability Guidelines requires mitigation of foreign exchange risk, and as such the currency composition of the Bank's net assets and the Special Drawing Right's basket are aligned. Since the Renminbi inclusion in the Special Drawing Rights' basket in October 2016, the Bank holds treasury assets in Renminbi. It is noteworthy that the Bank also holds assets in non-SDR currencies such as Swiss Franc, Canadian Dollar and South African Rand.

Managing Investment Performance amidst Turmoil in Financial Markets

In 2018, financial markets were marked by considerable market volatility arising from monetary policy realignment, geopolitical tensions, trade frictions and global growth concerns.

In the area of monetary policy, major central banks embarked on a path of policy normalization, with the US Federal Reserve leading the way, raising policy rates from 1.25% in December 2017 to 2.25% a year later, in addition to shrinking its balance sheet. Similarly, the European Central Bank (ECB) ended its bond purchase programme in December despite the slowdown in growth. The normalization of monetary policies has steadily increased pressure on assets prices which had thus far been supported by the abundance of liquidity supplied by central banks. As a result, fears over an oncoming recession have come to the fore in the broad strands of thinking in the financial markets.

The year featured a host of geopolitical events that unsettled markets. The reciprocal trade measures imposed between the US and China alongside market fears over the disruption that might come from a disorderly Brexit have heightened uncertainties and remained unresolved at the end of the year. In addition, the unfolding of budget disputes between the new Italian government and the EU Commission created a temporary bout of volatility in the markets but was ultimately resolved.

The year ended with a sharp drop in equity indices and a high level of volatility across all asset classes. Large daily swings in assets prices were observed, further amplified by the limited transaction volume towards year-end. Despite the treasury investment portfolios' conservative investment strategy, the significant year-end volatility temporarily impacted its performance until markets recovered in early 2019.

Table 1.4

Lending Status, 2014-2018
(UA millions)

	2014	2015	2016	2017	2018
Loans Approved*	3,052.29	4,373.44	6,108.04	4,419.33	5,115.56
Disbursements	1,938.53	1,619.17	3,221.75	3,678.53	2,922.56
Undisbursed Balances	3,751.22	4,640.60	6,804.44	7,180.55	6,957.62

** Excludes approvals of special funds and equity participation but includes guarantees.*

Loan Portfolio

The Bank makes loans to its regional member countries and public sector enterprises guaranteed by the government. Loans are also extended to private sector enterprises without government guarantee.

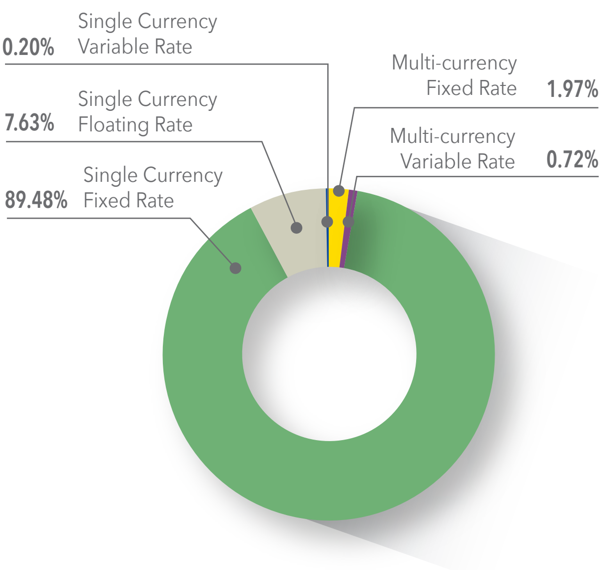
Cumulative loans signed, net of cancellations, as at 31 December 2018 amounted to UA 47.39 billion. This represents an increase of UA 2.75 billion over the balance at 31 December 2017 which stood at UA 44.63 billion. Table 1.4 presents the evolution of loans approved, disbursed and undisbursed balances from 2014 to 2018.

Total disbursed and outstanding loans as at 31 December 2018 was UA 19.28 billion, representing an increase of UA 1.46 billion over the UA 17.82 billion outstanding as at the end of 2017. Undisbursed balances of signed loans at 31 December 2018 totaled UA 6.96 billion, which is a decrease of UA 0.22 billion over the UA 7.18 billion undisbursed loans at 31 December 2017.

The number of active loans as at December 2018 was 473 while 761 loans amounting to UA 15.51 billion had been fully repaid. A breakdown of the outstanding loan portfolio by product type is presented in Figure 1.1.

Figure 1.1

Outstanding Loan Portfolio by Product Type at 31 December 2018 (Percentages)



Disbursements

Loan disbursements during 2018 amounted to UA 2.92 billion, compared to UA 3.68 billion in 2017. At 31 December 2018, cumulative disbursements (including non-sovereign loans) amounted to UA 40.25 billion. A total of 1,021 loans were fully disbursed amounting to UA 35.71 billion, representing 88.72 percent of cumulative disbursements. Loan disbursements in 2018 by country are shown in Table 1.5.

Table 1.5

Loan Disbursements by Country in 2018 (UA millions)

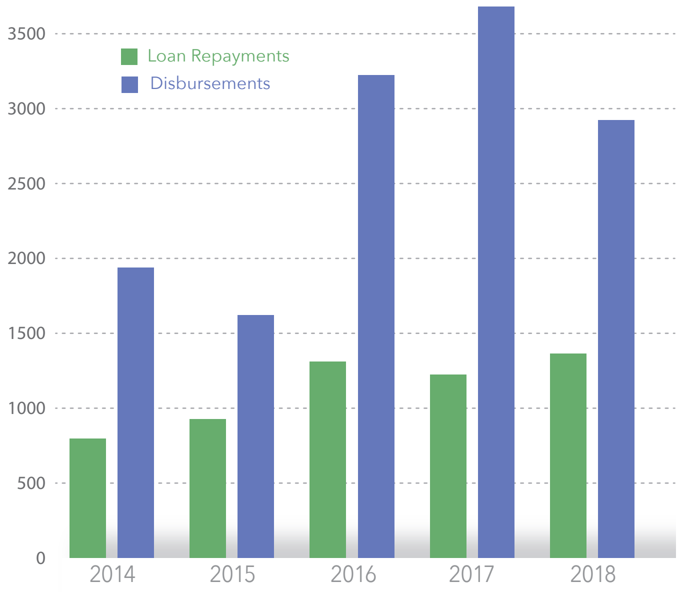
Country	Amount disbursed
Angola	5.02
Botswana	3.82
Burkina Faso	16.19
Cabo Verde	27.70
Cameroon	327.47
Congo CG	23.15
Côte D'Ivoire	56.05
Egypt	401.39
Equatorial Guinea	0.24
Eswatini	18.28
Ethiopia	5.16
Gabon	0.49
Ghana	31.53
Kenya	144.05
Mauritius	27.85
Morocco	231.41
Namibia	174.28
Nigeria	315.68
Rwanda	59.81
Senegal	66.99
Seychelles	1.78
South Africa	66.55
Tanzania	35.43
Tunisia	175.37
Uganda	84.07
Zambia	38.46
Zimbabwe	17.86
Multinational	566.48
TOTAL	**2,922.56**

Repayments

In 2018, principal loan repayments amounted to UA 1,364.20 million compared to UA 1,221.75 million realized in 2017, representing an increase of 11.66 percent over the previous year. Cumulative repayments as of 31 December 2018, were UA 21.40 billion compared to UA 19.86 billion at 31 December 2017. Figure 1.2 shows the evolution of loan disbursements and repayments for the period, 2014-2018.

Figure 1.2

Loan Disbursements and Repayments, 2014-2018 (UA millions)



Outlook for 2019

With the continuing improvement in the global growth prospects, coupled with the strengthening of economic fundamentals and higher yields on investments, the Bank is expected to continue to perform well in 2019. However, disruptions related to geopolitical and monetary policy developments globally can be expected to lead to occasional spikes in market volatility. The diligent monitoring and management of the impacts of these factors on the volume of the Bank's lending and the timing of repayment of its loans in 2019 and beyond, is critical if the Bank is to ensure that it continues to effectively deliver on its development mandate. The Bank's ten-year strategy continues to shape the Bank's interventions and operations over the planning horizon to 2022. The strategic focus on the five key operational priorities, dubbed the High 5s, including infrastructure development, regional integration, private sector development, governance and accountability, and skills and technology continues to provide the Bank with a unifying framework under the High 5s for the effective and accelerated delivery of its mandate and operational activities in the coming year and beyond.

The completion of the institutional change and transformation initiative aimed at accelerating delivery of development financing and assistance has restored the much-needed stability and the resultant efficiency in the Bank's operational environment in the short term. In the long term, the completion of the institutional change and transformation, including in the refinement of the Bank's business model and processes, is expected to result in the stabilization of the level of administrative expenses which spiked somewhat at the peak of the activities related to the institutional change. A positive consequence of this is that the Bank is expected to achieve the targeted key performance delivery metrics in the medium term.

African Development Bank

Financial Statements
Year ended 31 December 2018

Balance sheet
as at 31 December 2018

(UA thousands – Note B)

ASSETS		2018	2017
CASH		2,063,742	1,173,096
DEMAND OBLIGATIONS		3,801	3,801
TREASURY INVESTMENTS (Note F)		10,478,798	11,521,065
DERIVATIVE ASSETS (Note G)		655,432	717,022
NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL (Note H)		24	76
ACCOUNTS RECEIVABLE			
Accrued income and charges receivable on loans (Note I)	338,082		280,070
Other accounts receivable	342,286		314,904
		680,368	594,974
DEVELOPMENT FINANCING ACTIVITIES			
Loans, net (Notes D & I)	18,891,534		17,633,653
Hedged loans – Fair value adjustment (Note G)	53,418		54,448
Equity participations (Note J)	848,701		781,217
		19,793,653	18,469,318
OTHER ASSETS			
Property, equipment and intangible assets (Note K)	94,139		95,808
Miscellaneous	630		578
		94,769	96,386
TOTAL ASSETS		**33,770,587**	**32,575,738**

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

LIABILITIES & EQUITY		2018	2017
ACCOUNTS PAYABLE			
Accrued financial charges	415,118		285,577
Other accounts payable	687,252		593,685
Employees Benefits Liabilities (Note Q)	448,293		376,325
		1,550,663	1,255,587
DERIVATIVE LIABILITIES (Note G)		1,044,288	1,051,631
BORROWINGS (Note L)			
Borrowings at fair value	23,389,010		22,566,653
Borrowings at amortized cost	600,849		609,037
		23,989,859	23,175,690
EQUITY (Note M)			
Capital			
Subscriptions paid	4,535,263		4,268,811
Cumulative Exchange Adjustment on Subscriptions (CEAS)	(156,135)		(158,035)
Subscriptions paid (net of CEAS)	4,379,128		4,110,776
Reserves	2,806,649		2,982,054
Total equity		7,185,777	7,092,830
TOTAL LIABILITIES & EQUITY		**33,770,587**	**32,575,738**

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

Income statement
for the year ended 31 December 2018
(UA thousands – Note B)

	2018	2017
OPERATIONAL INCOME & EXPENSES		
Income from:		
Loans and related derivatives (Note N)	596,891	459,287
Investments and related derivatives (Note N)	240,071	195,043
Equity investments (Dividends)	10,566	9,276
Other securities	41	2,154
Total income from loans and investments	847,569	665,760
Gain on sale of investment at amortized cost	-	2,289
Borrowing expenses (Note O)		
Interest and amortized issuance costs	(489,950)	(428,915)
Net interest on borrowing-related derivatives	56,882	154,021
(Losses)/ Gains on borrowings, related derivatives and others	(35,143)	48,127
Net impairment charge (Note I)		
Loan principal	(48,398)	(2,997)
Loan charges	(28,443)	(13,971)
Provision for impairment on equity investments (Note J)	394	(21)
Provision for impairment on investments	(35)	-
Provision for impairment Financial on guarantees (Reversal)	344	-
Translation gains/(losses)	6,405	(1,446)
Other income	6,903	3,608
Net operational income	316,528	426,455
OTHER EXPENSES		
Administrative expenses (Note P)	(165,712)	(147,767)
Depreciation – Property, equipment and intangible assets	(17,925)	(15,220)
Sundry expenses	(8,209)	(5,040)
Total other expenses	(191,846)	(168,027)
Income before distributions approved by the Board of Governors	124,682	258,428
Distributions of income approved by the Board of Governors (Note M)	(83,000)	(82,000)
NET INCOME FOR THE YEAR	**41,682**	**176,428**

The accompanying notes to the financial statements form part of this statement.
The effect of IFRS 9 on Expected Credit Loss on January 1, 2018 has been included in equity and is disclosed in Note C.

Statement of comprehensive income
for the year ended 31 December 2018
(UA thousands – Note B)

	2018	2017
NET INCOME FOR THE YEAR	41,682	176,428
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Net (losses)/ gains on financial assets at fair value through "other comprehensive income"	(27,381)	56,098
Unrealized gains/(losses) on fair-valued borrowings arising from "own credit"	14,850	(59,137)
Re-measurements of defined benefit liability	(32,577)	61,828
Total items that will not be reclassified to profit or loss	(45,108)	58,789
Total other comprehensive income	(45,108)	58,789
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(3,426)**	**235,217**

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

Statement of changes in equity for the year ended 31 December 2018

(UA thousands – Note B)

	Capital Subscriptions Paid	Cumulative Exchange Adjustment on Subscriptions	Reserves: Retained Earnings	Reserves: Remeasurement of Defined Benefit Plan	Reserves: Net Gains/(losses) on Financial Assets at Fair Value through Other Comprehensive Income	Reserves: Unrealized Gains/ (Losses) on Fair-Valued Borrowings Arising from "Own Credit"	Total Equity
BALANCE AT 1 JANUARY 2017	**4,019,875**	**(161,044)**	**2,990,665**	**(423,827)**	**89,624**	**90,375**	**6,605,668**
Net income for the year	-	-	176,428	-	-	-	176,428
Other comprehensive income							
Net gains on financial assets at fair value through "other comprehensive income"	-	-	-	-	56,098	-	56,098
Unrealized losses on fair-valued borrowings arising from "own credit"	-	-	-	-	-	(59,137)	(59,137)
Remeasurement of defined benefit liability	-	-	-	61,828	-	-	61,828
Total other comprehensive income	-	-	-	61,828	56,098	(59,137)	58,789
Net increase in paid-up capital	248,936	-	-	-	-	-	248,936
Net conversion gains on new subscriptions	-	3,009	-	-	-	-	3,009
BALANCE AT 31 DECEMBER 2017	**4,268,811**	**(158,035)**	**3,167,093**	**(361,999)**	**145,722**	**31,238**	**7,092,830**
Effects of changes in accounting policies (IFRS 9) (Note C)	-	-	(171,979)	-	-	-	(171,979)
BALANCE AT 1 JANUARY 2018	**4,268,811**	**(158,035)**	**2,995,114**	**(361,999)**	**145,722**	**31,238**	**6,920,851**
Net income for the year	-	-	41,682	-	-	-	41,682
Other comprehensive income							
Net losses on financial assets at fair value through "other comprehensive income"	-	-	-	-	(27,381)	-	(27,381)
Unrealized gains on fair-valued borrowings arising from "own credit"	-	-	-	-	-	14,850	14,850
Remeasurements of defined benefit liability	-	-	-	(32,577)	-	-	(32,577)
Total other comprehensive income	-	-	-	(32,577)	(27,381)	14,850	(45,108)
Net increase in paid-up capital	266,452	-	-	-	-	-	266,452
Net conversion gains on new subscriptions	-	1,900	-	-	-	-	1,900
BALANCE AT 31 DECEMBER 2018	**4,535,263**	**(156,135)**	**3,036,796**	**(394,576)**	**118,341**	**46,088**	**7,185,777**

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

Statement of cash flows
for the year ended 31 December 2018

(UA thousands – Note B)

	2018	2017
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	41,682	176,428
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	17,925	15,220
Provision for impairment on loan principal and charges	76,841	16,969
Unrealized gains on investments and related derivatives	(19,797)	(653)
Amortization of discount or premium on treasury investments at amortized cost	21,874	10,222
Provision for impairment on investments	35	-
Provision for impairment on financial guarantee (Reversal)	(344)	-
Provision for impairment on equity investments	(394)	21
Amortization of borrowing issuance costs	3,296	40,813
Unrealized losses/(gains) on fair-valued borrowings and derivatives	31,782	(84,536)
Translation (gains)/losses	(6,405)	1,446
Share of losses/(profit) in associate	295	476
Net movements in derivatives	(5,586)	203,740
Changes in accrued income on loans	(98,371)	(37,445)
Changes in accrued financial charges	129,541	69,147
Changes in other receivables and payables	(224,413)	(709,374)
Net cash used by operating activities	(32,039)	(297,526)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(2,922,565)	(3,678,527)
Repayments of loans	1,364,197	1,221,748
Investments maturing after 3 months of acquisition:		
Investments at amortized cost	175,181	(180,302)
Investments at fair value through profit and loss	901,959	(1,123,970)
Acquisition of fixed assets	(16,296)	(14,029)
Disposal of fixed assets	41	70
Disbursements on equity participations	(97,061)	(63,578)
Repayments on equity participations	23,650	27,524
Net cash used in investing, lending and development activities	(570,894)	(3,811,064)
FINANCING ACTIVITIES:		
New borrowings	5,559,980	8,068,780
Repayments on borrowings	(4,784,442)	(4,557,972)
Cash from capital subscriptions	268,351	251,945
Net cash provided by financing activities	1,043,889	3,762,753
Effect of exchange rate changes on cash and cash equivalents	18,910	29,745
Increase/(decrease) in cash and cash equivalents	459,866	(316,092)
Cash and cash equivalents at the beginning of the year	1,719,776	2,035,868
Cash and cash equivalents at the end of the year	**2,179,642**	**1,719,776**
COMPOSED OF:		
Investments maturing within 3 months from acquisition:		
Investments at fair value through profit and loss	115,900	546,680
Cash	2,063,742	1,173,096
Cash and cash equivalents at the end of the year	**2,179,642**	**1,719,776**
SUPPLEMENTARY DISCLOSURE:		
1. Operational cash flows from interest and dividends:		
Interest paid	(303,527)	(205,747)
Interest received	261,836	403,222
Dividend received	10,566	9,276
2. Movement resulting from exchange rate fluctuations:		
Loans	147,581	(86,924)
Borrowings	(93,659)	(703,558)
Currency swaps	93,394	563,553

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

Notes to the financial statements
year ended 31 December 2018

Note A – Operations and affiliated organizations

The African Development Bank (ADB or the Bank) is a multilateral development finance institution dedicated to the economic and social progress of its regional member states. The Bank's Headquarters is located in Abidjan, Côte d'Ivoire. The Bank finances development projects and programs in its regional member states, typically in cooperation with other national or international development institutions. In furtherance of this objective, the Bank participates in the selection, study and preparation of projects contributing to such development and, where necessary, provides technical assistance. The Bank also promotes investments of public and private capital in projects and programs designed to contribute to the economic and social progress of the regional member states. The activities of the Bank are complemented by those of the African Development Fund (ADF or the Fund), which was established by the Bank and certain countries; and the Nigeria Trust Fund (NTF), which is a special fund administered by the Bank. The ADB, ADF, and NTF each have separate and distinct assets and liabilities. There is no recourse to the ADB for obligations in respect of any of the ADF or NTF liabilities. The ADF was established to assist the Bank in contributing to the economic and social development of the Bank's regional members, to promote cooperation and increased international trade particularly among the Bank's members, and to provide financing on concessional terms for such purposes.

In accordance with Article 57 of the Agreement establishing the Bank, the Bank, its property, other assets, income and its operations and transactions shall be exempt from all taxation and customs duties. The Bank is also exempt from any obligation to pay, withhold or collect any tax or duty.

Note B – Summary of significant accounting policies

The Bank's individual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board. The financial statements have been prepared under the historical cost convention except for certain financial assets and financial liabilities that are carried at fair value.

The significant accounting policies applied by the Bank in the preparation of the financial statements are summarized below.

Revenue Recognition

Interest income is accrued and recognized based on the effective interest rate for the time such instrument is outstanding and held by the Bank. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial asset to the asset's net carrying amount.

Income from investments includes realized and unrealized gains and losses on financial instruments measured at fair value through profit or loss.

Dividends are recognized in income statement when the Bank's right to receive the dividends is established in accordance with IAS 18 – Revenue.

Functional and Presentation Currencies

The Bank conducts its operations in the currencies of its member countries. As a result of the application of IAS 21 revised, "The Effects of Changes in Foreign Exchange Rates", the Bank prospectively changed its functional currency from the currencies of all its member countries to the Unit of Account (UA) effective 1 January 2005, as it was concluded that the UA most faithfully represented the aggregation of economic effects of events, conditions and the underlying transactions of the Bank conducted in different currencies. The UA is also the currency in which the financial statements are presented. The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement establishing the Bank (the Agreement) as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF.

The International Monetary Fund (IMF) formally approved the inclusion of the Chinese Renminbi Yuan (CNY) in the IMF's Special Drawing Rights (SDR) basket with effect from 1st October 2016 with a weight of 10.92%. In line with the Bank's policy, Management approved the execution of currency exchange transactions to align the net assets composition of the Bank to the SDR.

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated into UA at rates prevailing at the balance sheet date. The rates used for translating currencies into UA at 31 December 2018 and 2017 are reported in Note U _ 1. Non-monetary assets and liabilities are translated into UA at historical rates. Translation differences are included in the determination of net income. Capital subscriptions are recorded in UA at the rates prevailing at the time of receipt. The translation difference relating to payments of capital subscriptions is reported in the financial statements as the Cumulative Exchange Adjustment on Subscriptions (CEAS). This is composed of the difference between the UA amount at the predetermined rate and the UA amount using the rate at the time of receipt. When currencies are converted into other currencies, the resulting gains or losses are included in the determination of net income.

Member Countries' Subscriptions

The Bank classifies financial instruments as financial liabilities or equity instruments in accordance with the substance of the contractual arrangements of the instruments and the definition under IAS 32. Issued financial instruments or their components are classified as liabilities if the contractual arrangements result in the Bank having a present obligation to either deliver cash or another financial asset to the holder of the instrument. If this is not the case, the instrument is generally classified as an equity instrument and the proceeds included in equity, net of transaction costs.

The Bank's member countries' subscriptions meet the conditions for classification as equity specified for puttable financial instruments that include contractual obligations for repurchase or redemption for cash or another financial asset.

Although the Agreement establishing the ADB allows for a member country to withdraw from the Bank, no member has ever withdrawn its membership voluntarily, nor has any member indicated to the Bank that it intends to do so. The stability in the membership reflects the fact that the members, who constitute both African and non-African countries, are committed to the purpose of the Bank to contribute to the sustainable economic development and social progress of its Regional Member Countries individually and jointly. Accordingly, as of 31 December 2018, the Bank did not expect to distribute any portion of its net assets due to member country withdrawals.

In the unlikely event of a withdrawal by a member, the Bank shall arrange for the repurchase of the former member's shares. The repurchase price of the shares is the value shown by the books of the Bank on the date the country ceases to be a member, hereafter referred to as "the termination date". The Bank may partially or fully offset amounts due for shares purchased against the member's liabilities on loans and guarantees due to the Bank. The former member would remain liable for direct obligations and contingent liabilities to the Bank for so long as any parts of the loans or guarantees contracted before the termination date are outstanding. If at a date subsequent to the termination date, it becomes evident that losses may not have been sufficiently taken into account when the repurchase price was determined, the former member may be required to pay, on demand, the amount by which the repurchase price of the shares would have been reduced had the losses been taken into account when the repurchase price was determined. In addition, the former member remains liable on any call, subsequent to the termination date, for unpaid subscriptions, to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

In the event a member were to withdraw, the Bank may set the dates in respect of payments for shares repurchased. If, for example, paying a former member would have adverse consequences for the Bank's financial position, the Bank could defer payment until the risk had passed, and indefinitely if appropriate. Furthermore, shares that become unsubscribed for any reason may be offered by the Bank for purchase by eligible member countries, based on the share transfer rules approved by the Board of Governors. In any event, no payments shall be made until six months after the termination date.

If the Bank were to terminate its operations, all liabilities of the Bank would first be settled out of the assets of the Bank and then, if necessary, out of members' callable capital, before any distribution could be made to any member country. Such distribution is subject to the prior decision of the Board of Governors of the Bank and would be based on the pro-rata share of each member country.

Employee Benefits

1) Pension Obligations

The Bank operates a contributory defined benefit pension plan for its employees. The Staff Retirement Plan (SRP) provides benefit payments to participants upon retirement. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as accrual rate, age, contribution years of service and average remuneration. An actuarial valuation of the cost of providing benefits for the SRP is determined using the Projected Unit Credit Method. Upon reaching retirement age, pension is calculated based on the average remuneration for the final three years of pensionable service and the pension is subject to annual inflationary adjustments.

Actuarial gains and losses as well as the differences between expected and real returns on assets are recognized immediately in other comprehensive income in the year they occur. When benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The pension liability is recognized as part of other accounts payable in the balance sheet. The liability represents the present value of the Bank's defined benefit obligations, net of the fair value of plan assets.

2) Post-Employment Medical Benefits

The Bank operates a contributory defined Medical Benefit Plan (MBP), which provides post-employment healthcare benefits to eligible former staff, including retirees. Membership of the MBP includes both staff and retirees of the Bank. The entitlement to the post-retirement healthcare benefit is usually conditional on the employee contributing to the Plan up to retirement age and the completion of a minimum service period. The expected costs of these benefits derive from contributions from plan members as well as the Bank and are accrued over the period of employment and during retirement. Contributions by the Bank to the MBP are charged to expenses and included in the income statement. The MBP Board, an independent body created by the Bank, determines the adequacy of the contributions and is authorized to recommend changes to the contribution rates of both the Bank and plan members. Actuarial gains and losses as well as the difference between expected and real return on assets are recognized immediately in other comprehensive income in the year they occur. The medical plan liability is recognized as part of other accounts payable in the balance sheet. The liability represents the present value of the Bank's post-employment medical benefit obligations, net of the fair value of plan assets.

Further details and analysis of the Bank's employee benefits are included in Note Q – Employee Benefits.

Financial Instruments

Financial assets and financial liabilities are recognized on the Bank's balance sheet when the Bank assumes related contractual rights or obligations.

1) Financial Assets

In accordance with IFRS 9, the Bank manages its financial assets in line with the applicable business model and accordingly, classifies its financial assets into the following categories: financial assets at amortized cost; financial assets at fair value through profit or loss (FVTPL); and financial assets at fair value through other comprehensive income (FVTOCI). In line with the Bank's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. The Bank's investments in the equity of enterprises, whether in the private or public sector is for the promotion of economic development of its member countries and not for trading to realize fair value changes. Management determines the classification of its financial assets at initial recognition.

i) Financial Assets at Amortized Cost

A financial asset is classified as at 'amortized cost' only if the asset meets two criteria: the objective of the Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in debt investments are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

Financial assets other than those classified at amortized cost are classified as measured at fair value through profit or loss or other comprehensive income, as appropriate, if either of the two criteria above is not met.

Financial assets at amortized cost include, cash and cash equivalents, some loans and receivables on amounts advanced to borrowers and certain debt investments that meet the criteria of financial assets at amortized cost. Receivables comprise demand obligations, accrued income and receivables from loans and investments and other amounts receivable. Loans and receivables meeting the two criteria above are carried at amortized cost using the effective interest method.

Loan origination and similar fees are deferred and recognized over the life of the related loan or financial product as an adjustment of the yield. The amortization of origination fee for loans and related financial products is included in income under the relevant category, as appropriate.

Loans that have a conversion option that could potentially change the future cash flows to no longer represent solely payments of principal and interest are measured at FVTPL as required by IFRS 9. The fair value is determined using the expected cash flows model with inputs including interest rates and the borrower's credit spread estimated based on the Bank's internal rating methodology for non-sovereign loans.

Investments classified as financial assets at amortized cost include investments that are non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method.

ii) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes as well as certain loans for which either of the criteria for recognition at amortized cost is not met. Gains and losses on these financial assets are reported in the income statement in the period in which they arise. Derivatives are also categorized as financial assets at fair value through profit or loss.

In addition, financial assets that meet amortized cost criteria can be designated and measured at FVTPL. A debt instrument may be designated as at FVTPL upon initial recognition if such designation eliminates or significantly reduces a measurement or recognition inconsistency that would arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

iii) Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)

On initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments not held for trading as financial assets measured at FVTOCI.

Equity investments are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in other comprehensive income. The cumulative gains or losses are not reclassified to profit or loss on disposal of the investments and no impairments are recognized in the profit or loss. Dividends earned from such investments are recognized in profit and loss unless the dividends clearly represent a repayment of part of the cost of the investment.

iv) Financial Guarantee Contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for an incurred loss because a specified debtor fails to make payments when due in accordance with the terms of a specified debt instrument. The Bank issues such financial guarantees - which are not managed on a fair value basis - to its clients including banks, financial institutions and other parties. IFRS 9 requires written financial guarantees that are managed on a fair value basis to be designated at fair value through profit or loss. However, financial guarantees that are not managed on a fair value basis are initially recognized in the financial statements at fair value. Subsequent to initial recognition, these financial guarantees are measured at the higher of the amount initially recognized less cumulative amortization, and to the extent a payment under the guarantee has become probable, the present value of the expected payment. Any change in the liability relating to probable expected payments resulting from guarantees is recorded in the income statement as an expense or a recovery, in line with IAS 37.

Recognition and Derecognition of Financial Assets

Purchases and sales of financial assets are recognized or derecognized on a trade-date basis, which is the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets are derecognized 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.

Securities Purchased Under Resale Agreements, Securities Lent Under Securities Lending Agreements and Securities Sold Under Repurchase Agreements and Payable for Cash Collateral Received

Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are recorded at market rates. The Bank receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to counterparties under the repurchase and security lending arrangements and the securities transferred to the Bank under the resale agreements do not meet the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on the Bank balance sheet, and securities received under resale agreements are not recorded on the Bank's balance sheet. In cases where the Bank enters into a "reverse repo" – that is, purchases an asset and simultaneously enters into an agreement to resell the same at a fixed price on a future date – a receivable from reverse repurchase agreement is recognized in the statement of financial position and the underlying asset is not recognized in the financial statements.

Cash and Cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash, are subject to insignificant risk of changes in value and have a time to maturity upon acquisition of three months or less.

2) Financial Liabilities

i) Borrowings

In the ordinary course of its business, the Bank borrows funds in the major capital markets for lending and liquidity management purposes. The Bank issues debt instruments denominated in various currencies, with differing maturities at fixed or variable interest rates. The Bank's borrowing strategy is driven by three major factors, namely: timeliness in meeting cash flow requirements, optimizing asset and liability management with the objective of mitigating exposure to financial risks, and providing cost-effective funding.

In addition to long and medium-term borrowings, the Bank also undertakes short-term borrowing for cash and liquidity management purposes only. Borrowings not designated at fair value through profit or loss are carried on the balance sheet at amortized cost with interest expense determined using the effective interest method. Borrowing expenses are recognized in profit or loss and include the amortization of issuance costs, discounts and premiums, which is determined using the effective interest method. Borrowing activities may create exposure to market risk, most notably interest rate and currency risks.

The Bank uses derivatives and other risk management approaches to mitigate such risks. Details of the Bank's risk management policies and practices are contained in Note D to these financial statements. Certain of the Bank's borrowings obtained prior to 1990, from the governments of certain member countries of the Bank, are interest-free loans. In accordance with the exemption provided in the provisions of IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, such borrowings are carried at the amounts at which they are repayable on their due dates.

ii) Financial Liabilities at Fair Value through Profit or Loss

This category has two sub-categories: financial liabilities held for trading, and those designated at fair value through profit or loss at inception. Derivatives are categorized as held-for-trading. The Bank applies fair value designation primarily to borrowings that have been swapped into floating-rate debt using derivative contracts. In these cases, the designation of the borrowing at fair value through profit or loss is made in order to significantly reduce accounting mismatches that otherwise would have arisen if the borrowings were carried on the balance sheet at amortized cost while the related swaps are carried on the balance sheet at fair value.

In accordance with IFRS 9, fair value changes for financial liabilities that are designated as at fair value through profit or loss, that is attributable to changes in the Bank's "own credit" risk is recognized in other comprehensive income. Changes in fair value attributable to the Bank's credit risk are not subsequently reclassified to profit or loss.

iii) Other Liabilities

All financial liabilities that are not derivatives or designated at fair value through profit or loss are recorded at amortized cost. The amounts include certain borrowings, accrued finance charges on borrowings and other accounts payable.

Financial liabilities are derecognized when they are discharged or canceled or when they expire.

Derivatives

The Bank uses derivative instruments in its portfolios for asset/liability management, cost reduction, risk management and hedging purposes. These instruments are mainly cross-currency swaps and interest rate swaps. The derivatives on borrowings are used to modify the interest rate or currency characteristics of the debt the Bank issues. This economic relationship is established on the date the debt is issued and maintained throughout the terms of the contracts. The interest component of these derivatives is reported as part of borrowing expenses.

The Bank classifies all derivatives at fair value, with all changes in fair value recognized in the income statement. When the criteria for the application of the fair value option are met, then the related debt is also carried at fair value with changes in fair value recognized in the income statement.

The Bank assesses its hybrid financial assets (i.e. the combined financial asset host and embedded derivative) in its entirety to determine their classification. A hybrid financial asset is measured at amortized cost if the combined cash flows represent solely principal and interest on the outstanding principal; otherwise it is measured at fair value. As at 31 December 2018, the Bank had hybrid financial assets that were measured at fair value in accordance with IFRS 9.

Derivatives embedded in financial liabilities or other non-financial host contracts are treated as separate derivatives when their risks and characteristics were not closely related to those of the host contract and the host contract was not carried at fair value with unrealized gains or losses reported in profit or loss. Such derivatives are stripped from the host contract and measured at fair value with unrealized gains and losses reported in profit or loss.

Derivative Credit Valuation (CVA) and Funding Valuation Adjustment (FVA)

Valuation adjustment for counterparty and funding risk (CVA/FVA) is recognized on derivative financial instruments to reflect the impact on fair value of counterparty credit risk and the Bank's own credit quality. This adjustment takes into account the existing compensating agreements for each of the counterparties. The CVA is determined on the basis of the expected positive exposure of the Bank vis-à-vis the counterparty, the FVA is calculated on the basis of the expected negative exposure of the Bank vis-à-vis the counterparty, and the funding spreads, on a counterparty basis. These calculations are recognized on the life of the potential exposure, and concentrates on the use of observable and relevant market data.

Hedge Accounting

The Bank applies fair value hedge accounting to interest rate swaps contracted to hedge the interest rate risk exposure associated with its fixed rate loans. Under fair value hedge accounting, the change in the fair value of the hedging instrument and the change in the fair value of the hedged item attributable to the hedged risk are recognized in the income statement.

At inception of the hedge, the Bank documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking the hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Bank documents whether the hedging instrument is highly effective in offsetting changes in fair values of the hedged item attributable to the hedged risk. Hedge accounting is discontinued when the Bank's risk management objective for the hedging relationship has changed, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The cumulative fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Impairment of Financial Assets

The Bank applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets: Debt instruments measured at amortized cost, Loan commitments, Financial guarantee contracts and Treasury investments held at amortized cost.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

i) Stage 1: 12-months ECL

Stage 1 includes financial assets that have not had a significant increase in credit risk (SICR) since initial recognition. The Bank recognizes 12 months of ECL for stage 1 financial assets. In assessing whether credit risk has increased significantly, the Bank compares the risk of a default occurring on the financial asset as at the reporting date, with the risk of a default occurring on the financial asset as at the date of its initial recognition.

ii) Stage 2: Lifetime ECL – not credit impaired

Stage 2 comprises financial assets that have had a significant increase in credit risk since initial recognition, but for which there is no objective evidence of impairment. The Bank recognizes lifetime ECL for stage 2 financial assets. For these exposures, the Bank recognizes an allowance amount based on lifetime ECL (i.e. an allowance amount reflecting the remaining lifetime of the financial asset). A significant increase in credit risk is considered to have occurred when contractual payments are more than 180 days past due for sovereign loans and more than 90 days past due for non-sovereign loans.

iii) Stage 3: Lifetime ECL – credit impaired

Included in stage 3 are assets that have been categorized as credit impaired. The Bank recognizes lifetime ECL for all stage 3 financial assets, as a specific provision. A financial asset is classified as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition. Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. A default occurs with regard to an obligor when either or both of the following have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligations in full, without recourse by the Bank to actions such as realizing security; or
- The obligor is past due by more than 180 days for sovereign loans and more than 90 days for non-sovereign loans.

Interest revenue is calculated by applying the effective interest rate to the amortized cost (net of the applicable impairment loss provision) for impaired financial assets falling under stage 3. For assets falling within stage 1 and 2 interest revenue is recognized on the gross carrying amount.

A financial asset is no longer considered impaired when all past due amounts, including interest, have been recovered, and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument with all criteria for the impaired classification having been remedied.

Determining the stage for impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. Refer to Note D Risk management.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and any previously assessed significant increase in credit risk since origination is reversed, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 90 days past due, are considered to have a low credit risk.

When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Bank in accordance with the contract and the cash flows that the Bank 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 discounted by the effective interest rate.

Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive.

Financial guarantee contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For further details on how the Bank calculates ECLs including the use of forward looking information, refer to the Credit quality of financial assets section in Note D Risk management.

ECLs are recognized using a provision for doubtful debts account in profit and loss.

Offsetting of Financial Instruments

Financial assets and liabilities are offset and reported on a net basis when there is a current legally enforceable right to off-set the recognized amount. A current legally enforceable right exists if the right is not contingent on a future event and is enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties and there is an intention on the part of the Bank to settle on a net basis, or realize the asset and settle the liability simultaneously. The Bank discloses all recognized financial instruments that are set off and those subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset. Information relating to financial assets and liabilities that are subject to offsetting, enforceable master netting arrangement is provided in Note D.

Fair Value Disclosure

In liquid or active markets, the most reliable indicators of fair value are quoted market prices. A financial instrument is regarded as quoted in an active market if quoted prices are regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market might be inactive include when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few or no recent transactions observed in the market. When markets become illiquid or less active, market quotations may not represent the prices at which orderly transactions would take place between willing buyers and sellers and therefore may require adjustment in the valuation process. Consequently, in an inactive market, price quotations are not necessarily determinative of fair values. Considerable judgment is required to distinguish between active and inactive markets.

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. 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 Bank measures fair values using other valuation techniques that incorporate the maximum use of market data inputs.

The objective of the valuation techniques applied by the Bank is to arrive at a reliable fair value measurement.

Other valuation techniques include net present value, discounted cash flow analysis, option pricing models, comparison to similar instruments for which market observable prices exists and other valuation models commonly used by market participants. Assumptions and inputs used in valuation techniques include risk free and benchmark interest rates, credit spreads and other premiums used in estimating discount rates, bond and equity prices, foreign currency exchange rates and expected price volatilities and correlations.

The Bank uses widely recognized valuation models for measuring the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require minimum management judgment and estimation. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with the measurement of fair value. Observable market prices and inputs available vary depending on the products and markets and are subject to changes based on specific events and general conditions in the financial markets.

Where the Bank measures portfolios of financial assets and financial liabilities on the basis of net exposures, it applies judgment in determining appropriate portfolio level adjustments such as bid-ask spread. Such judgments are derived from observable bid-ask spreads for similar instruments and adjusted for factors specific to the portfolio.

The following three hierarchical levels are used for the measurement of fair value:

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging).

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. Included in this category are 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 where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques for which significant input is not based on observable market data and the unobservable inputs have a significant effect on the instrument's valuation. Instruments that are valued based on quoted market prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments are included in this category.

The level in the fair value hierarchy within which the fair value measurement is categorized in its entirety is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. For this purpose, the significance of an input is assessed against the fair value measurement in its entirety. If a fair value measurement uses observable inputs that require significant adjustment based on unobservable inputs, that measurement is a Level 3 measurement. A valuation input is considered observable if it can be directly observed from transactions in an active market, or if there is compelling external evidence demonstrating an executable exit price.

The methods and assumptions used by the Bank in measuring the fair values of financial instruments are as follows:

Cash: The carrying amount is the fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments

Borrowings: The fair values of the Bank's borrowings are based on market quotations when possible or valuation techniques based on discounted cash flow models using London Interbank Offered Rate (LIBOR) market-determined discount curves adjusted by the Bank's credit spread. Credit spreads are obtained from market data as well as indicative quotations received from certain counterparties for the Bank's new public bond issues. The Bank also uses systems based on industry standard pricing models and valuation techniques to value borrowings and their associated derivatives. The models use market-sourced inputs such as interest rates, yield curves, exchange rates and option volatilities. Valuation models are subject to internal and periodic external reviews. When a determination is made that the market for an existing borrowing is inactive or illiquid, appropriate adjustments are made to the relevant observable market data to arrive at the Bank's best measure of the price at which the Bank could have sold the borrowing at the balance sheet date.

For borrowings on which the Bank has elected fair value option, the portion of fair value changes on the valuation of borrowings relating to the credit risk of the Bank is reported in Other Comprehensive Income in accordance with IFRS 9.

Equity Investments: The Bank holds direct equity in various enterprises and private funds which may be listed or unlisted. All equity investments held by the Bank are measured at fair value in line with IFRS 9. Where, as in the case of private funds, the underlying assets are periodically valued by fund managers or independent valuation experts using market practices, Management has concluded that these valuations are representative of fair value. Where such valuations are unavailable, the percentage of the Bank's ownership of the net asset value of such funds is deemed to approximate the fair value of the Bank's equity participation. The fair value of investments in listed enterprises is based on the latest available quoted bid prices.

Derivative Financial Instruments: The fair values of derivative financial instruments are based on market quotations where possible or valuation techniques that use market estimates of cash flows and discount rates. The Bank also uses valuation tools based on industry standard pricing models and valuation techniques to value derivative financial instruments. The models use market-sourced inputs such as interest rates, yield curves, exchange rates and option volatilities. All financial models used for valuing the Bank's financial instruments are subject to both internal and periodic external reviews.

Loans: The Bank does not sell its sovereign loans, nor does it believe there is a comparable market for these loans. The Bank's loan assets, except for those at fair value, are carried on the balance sheet at amortized cost. The fair value of loans carried at amortized cost are deemed to approximate their carrying value net of the impairment losses based on the expected credit loss model and represents Management's best measures of the present value of the expected cash flows of these loans. The fair valuation of loans has been measured using a discounted cash flow model based on year-end market lending rates in the relevant currency including impairment, when applicable, and credit spreads for non-sovereign loans. In arriving at its best estimate Management makes certain assumptions about the unobservable inputs to the model, the significant ones of which are the expected cash flows and the discount rate. These are regularly assessed for reasonableness and impact on the fair value of loans. An increase in the level of forecast cash flows in subsequent periods would lead to an increase in the fair value and an increase in the discount rate used to discount the forecast cash flows would lead to a decrease in the fair value of loans. Changes in fair value of loans carried at fair value through profit and loss are reported in the income statement.

Valuation Processes Applied by the Bank

The fair value measurements of all qualifying treasury investments, borrowings, loans and equity investments are reported to and reviewed by the Assets & Liabilities Management Committee (ALCO) in line with the Bank's financial reporting policies.

Where third-party information from brokers or pricing experts are used to measure fair value, documents are independently assessed and evidence obtained from the third parties to support the conclusions.

The assessment and documentation involves ensuring that (i) the broker or pricing service provider is duly approved for use in pricing the relevant type of financial instrument; (ii) the fair value arrived at reasonably represents actual market transactions; (iii) where prices for similar instruments have been adopted, that the same have been, where necessary, adjusted to reflect the characteristics of the instrument subject to measurement and where a number of quotes for the same financial instrument have been obtained, fair value has been properly determined using those quotes.

Day One Profit and Loss

The fair value of a financial instrument at initial recognition is based on fair value as defined under IFRS 13. A gain or loss may only be recognized on initial recognition of a financial instrument if the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. On initial recognition, a gain or loss may not be recognized when using a fair value which is not defined under IFRS 13. The Bank only recognizes gains or losses after initial recognition to the extent that they arise from a change in a factor (including time) that market participants would consider in setting a price.

The Bank holds financial instruments, some maturing after more than ten years, where fair value is not based on quoted prices in an active market at the measurement date. Such financial instruments are initially recognized at the transaction price, although the value obtained from the relevant market participants may differ. The difference between the transaction price and the fair value measurement that is not evidenced by a quoted price in an active market or by a valuation technique that uses only observable market data, commonly referred to as "day one profit and loss", is either: (a) amortized over the life of the transaction; or (b) deferred until the instrument's fair value can be measured using market observable inputs or is realized through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognized immediately in the income statement without immediate reversal of deferred day one profits and losses.

Investment in Associate

Under IAS 28, "Investments in Associates and Joint Ventures", the ADF and any other entity in which the Bank has significant influence are considered associates of the Bank. An associate is an entity over which the Bank has significant influence, but not control, over the entity's financial and operating policy decisions. The relationship between the Bank and the ADF is described in more detail in Note J. IAS 28 requires that the equity method be used to account for investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's income statement. The subscriptions by the Bank to the capital of the ADF occurred between 1974 and 1990. At 31 December 2018, such subscriptions cumulatively represented less than 1 percent of the economic interest in the capital of the ADF.

Although ADF is a not-for-profit entity and has never distributed any dividend to its subscribers since its creation in 1972, IAS 28 require that the equity method be used to account for the Bank's investment in the ADF. Furthermore, in accordance with IAS 36, the net investment in the ADF is assessed for impairment. Cumulative losses as measured under the equity method are limited to the investment's original cost as the ADB has not guaranteed any potential losses of the ADF.

Property and Equipment

Property and equipment is measured at historical cost less depreciation. Historical cost includes expenditure directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. Repairs and maintenance are charged to the income statement when they are incurred.

Land is not depreciated. Depreciation on other assets is calculated using the straight-line method to amortize the difference between cost and estimated residual values over estimated useful lives. The estimated useful lives are as follows:

- Buildings: 15-20 years
- Fixtures and fittings: 6-10 years
- Furniture and equipment: 3-7 years
- Motor vehicles: 5 years

The residual values and useful lives of assets are reviewed periodically and adjusted if appropriate. Assets that are subject to amortization are reviewed annually for impairment. 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 disposal and its value in use. Gains and losses on disposal are determined as the difference between proceeds and the asset's carrying amount and are included in the income statement in the period of disposal.

Intangible Assets

Intangible assets include computer systems software and are stated at historical cost less amortization. An intangible asset is recognized only when its cost can be measured reliably, and it is probable that the expected future economic benefits attributable to it will flow to the Bank. Amortization of intangible assets is calculated using the straight-line method to write down the cost of intangible assets to their residual values over their estimated useful lives of 3-5 years.

Leases

The Bank has entered into several operating lease agreements, including those for its offices in certain member countries. Under such agreements, all the risks and benefits of ownership are effectively retained by the lessor. Payments made under operating leases are charged to the income statement on a straight-line basis over the period of the lease. Benefits received and receivable as an incentive to enter into an operating lease are also recognized on a straight-line basis over the lease term. 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 the termination takes place.

Allocations and Distributions of Income Approved by the Board of Governors

In accordance with the Agreement establishing the Bank, the Board of Governors is the sole authority for approving allocations from income to surplus account or distributions to other entities for development purposes. Surplus consists of earnings from prior years which are retained by the Bank until further decision is made on their disposition or the conditions of distribution for specified uses have been met. Distributions of income for development purposes are reported as expenses on the Income Statement in the year of approval. Distributions of income for development purposes are deemed as made on behalf of shareholders and may be funded from amounts previously transferred to surplus account or from the current year's income.

Allocable Income

The Bank uses allocable income for making distributions out of its net income. Allocable income excludes unrealized mark-to-market gains and losses associated with instruments not held for trading and adjusted for translation gains and losses.

Retained Earnings

Retained earnings of the Bank consist of amounts allocated to reserves from prior years' income, balance of amounts allocated to surplus after deducting distributions approved by the Board of Governors, unallocated current year's net income, and expenses recognized directly in equity as required by IFRS.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the preparation of financial statements in conformity with IFRS, Management makes certain estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgments 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.

The most significant judgments and estimates are summarized below:

1) Significant Judgments

The Bank's accounting policies require that assets and liabilities be designated at inception into different accounting categories. Such decisions require significant judgment and relate to the following circumstances:

Fair Value through Profit and Loss – In designating financial assets or liabilities at fair value through profit or loss, the Bank has determined that such assets or liabilities meet the criteria for this classification.

Amortized Cost and Embedded Derivatives – The Bank follows the guidance of IFRS 9 on classifying financial assets and those with embedded derivatives in their entirety as at amortized cost or fair value through profit or loss. In making this judgment, the Bank considers whether the cash flows of the financial asset are solely payment of principal and interest on the principal outstanding and classifies the qualifying asset accordingly without separating the derivative.

Consolidation – The Bank follows the guidance of IFRS 10 in ascertaining if there are any entities that it controls, and that may require consolidation.

Impairment losses on financial assets – The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- i) The Bank's internal credit grading model, which assigns PDs to the individual grades
- ii) The Bank's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12 month or life time ECL basis and the applicable qualitative assessment
- iii) Development of ECL models, including the various formulas and the choice of inputs
- iv) Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- v) Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

2) Significant Estimates

The Bank also uses estimates for its financial statements in the following circumstances:

Fair Value of Financial Instruments – The fair value of financial instruments that are not quoted in active markets is measured by using valuation techniques. Where valuation techniques (for example, models) are used to measure fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All valuation models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require Management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes 'observable' requires significant judgment by the Bank.

Post-employment Benefits – The present value of retirement benefit obligations is sensitive to the actuarial and financial assumptions used, including the discount rate. At the end of each year, the Bank determines the appropriate discount rate and other variables to be used to determine the present value of estimated future pension obligations. The discount rate is based on market yields of high-quality corporate bonds in the currencies comprising the Bank's UA at the end of the year, and the estimates for the other variables are based on the Bank's best judgment.

Events after the Reporting Period

The financial statements are adjusted to reflect events that occurred between the balance sheet date and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the balance sheet date.

Events that are indicative of conditions that arose after the balance sheet date, but do not result in an adjustment of the financial statements themselves, are disclosed.

Reclassification and Restatement

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current year. These reclassifications did not affect prior year's reported result.

Note C - The effect of new and revised international financial reporting standards

There is only one new standard which is not yet effective that is expected to be relevant to the Bank as discussed briefly below:

IFRS 16: Leases

On 13 January 2016, the IASB published IFRS 16 "Leases", which replaces the current guidance on lease accounting in IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The new standard requires far-reaching changes in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting its obligation to make future lease payments and a 'right-of-use asset' reflecting its right to use the underlying leased asset, for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The work to assess the impact of the standard is ongoing and it is not yet practicable to quantify the effect of IFRS 16 on the financial position and performance. Preliminary indications are that the new standard will affect the Bank with a balance sheet increase in liabilities and right of use assets, on adoption. The work to assess the impact and the implementation process commenced in 2018. The Bank will disclose the estimates of the financial impact when the implementation programme is sufficiently advanced to provide a reasonable assessment.

New accounting standards applicable in 2018

In these financial statements, the Bank has applied IFRS 9 Financial Instruments effective for annual periods beginning on or after 1 January 2018, for the first time.

The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and measurement, for annual periods beginning on or after 1 January 2018. However, in the year ended 31 December 2011 the Bank early adopted the classification and measurement requirements for financial instruments.

The Bank elected an accounting policy choice under IFRS 9 to continue to apply the hedge accounting requirements under IAS 39. As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Therefore, the comparative information for financial instrument impairment in 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period. The consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the notes of prior year.

Detailed qualitative and quantitative information about the ECL calculations including the assumptions and inputs used are set out in Note D. Differences arising from the adoption of IFRS 9 have been recognized directly in retained earning as of 1 January 2018 and are disclosed below.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt instruments not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination when a lifetime ECL applies.

The table below, reconciles the closing impairment allowances for financial assets as at 31 December 2017 under IAS 39 and the opening impairment allowances determined in accordance with IFRS 9 as at 1 January 2018.

(UA thousands)	As at 31 December 2017		As at 1 January 2018
	Impairment allowance under IAS 39	Additional IFRS 9 impairment allowance	Impairment allowance under IFRS 9
Loans at amortized cost	184,593	155,791	340,384
Interest receivables	250,326	14,978	265,304
Treasury investments	-	177	177
Guarantees	-	1,033	1,033
Balance at 1 January 2018	**434,919**	**171,979**	**606,898**

The introduction of IFRS 9 increased the total impairment allowance held by the Bank by approximately UA 171.98 million from UA 434.92 million as at 31 December 2017 to UA 606.90 million as at 1 January 2018. The determination of impairment allowance under IFRS 9 considers both the disbursed and the undisbursed counterparty exposure.

IFRS 15: Revenues from Contracts with Customers

IFRS 15 Revenues from Contracts with Customers specifies how and when entities should recognize revenue from contracts with customers is applicable from 1 January 2018. However, the standard has no impact on the operations of the Bank as the Bank's contracts with customers primarily constitute loans and similar debt instruments and are accounted for under IFRS 9.

Note D – Risk management policies and procedures

In carrying out its development mandate, the Bank seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless unavoidable in the execution of its mandate.

Risk Governance and Risk Appetite

The highest level of risk management oversight in the Bank is assured by the Board of Executive Directors, which is chaired by the President. The Board of Directors is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the Board of Directors regularly reviews trends in the Bank's risk profile and performance to ensure compliance with the underlying policies.

Three management level committees perform monitoring and oversight roles: The Asset and Liability Management Committee (ALCO), the Credit Risk Committee (CRC) and the Operations Committee (OPSCOM). The ALCO is the oversight and control organ of the Bank's finance and treasury risk management activities. It is the Bank's most senior management forum on finance and treasury risk management issues and is chaired by the Vice President for Finance. The Credit Risk Committee (CRC) which is chaired by the Chief Risk Officer ensures effective implementation of the Bank's credit policies and oversees all credit risk issues related to sovereign and non-sovereign operations, prior to their submission to OPSCOM. OPSCOM is chaired by the Senior Vice President and reviews all operational activities before they are submitted to the Board of Directors for approval.

The ALCO, CRC and OPSCOM meet on a regular basis to perform their respective oversight roles. Among other functions, the ALCO reviews regular and ad-hoc finance and treasury risk management reports and financial projections and approves proposed strategies to manage the Bank's balance sheet. The Credit Risk Committee is responsible for end-to-end credit risk governance, credit assessments, portfolio monitoring and rating change approval amongst other responsibilities. ALCO and CRC are supported by several standing working groups that report on specific issues including country risk, non-sovereign credit risk, interest rate risk, currency risk, financial projections, and financial products and services.

The Group Chief Risk Officer, who reports directly to the President of the Bank is charged with oversight over all enterprise risk issues. However, the day-to-day operational responsibility for implementing the Bank's financial and risk management policies and guidelines are delegated to the appropriate business units. The Financial Management Department and the office of the Group Chief Risk Officer are responsible for monitoring the day to-day compliance with those policies and guidelines.

The degree of risk the Bank is willing to assume to achieve its development mandate is limited by its risk-bearing capacity. This institutional risk appetite is embodied in the Bank's risk appetite statement, which articulates its commitment to maintain a prudent risk profile consistent with the highest credit rating. The Bank allocates its risk capital between non-core risks (up to 10 percent), with sovereign and non-sovereign lending and investing operations sharing equally the remaining balance (45 percent each).

Policy Framework

The policies, processes and procedures by which the Bank manages its risk profile continually evolve in response to market, credit, product, and other developments. The guiding principles by which the Bank manages its risks are governed by the Bank's Risk Appetite Statement, the Capital Adequacy Policy, the General Authority on Asset and Liability Management (the ALM Authority), the General Authority on the Bank's Financial Products and Services (the FPS Authority) and the Bank's Credit Policy and associated Credit Risk Management Guidelines.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Bank's financial assets and liabilities within defined parameters. The ALM Authority sets out the guiding principles for managing the Bank's interest rate risk, currency exchange rate risk, liquidity risk, counterparty credit risk and operational risk. The ALM Authority covers the Bank's entire array of ALM activities such as debt-funding operations and investment of liquid resources, including the interest rate and currency risk management aspects of the Bank's lending and equity investment instruments.

The FPS Authority provides the framework under which the Bank develops and implements financial products and services for its borrowers and separate guidelines prescribe the rules governing the management of credit and operational risk for the Bank's sovereign and non-sovereign loan, guarantee and equity investment portfolios.

Under the umbrella of the FPS Authority and the ALM Authority, the President is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO), the Credit Risk Committee (CRC) and the Operations Committee (OPSCOM).

The following sections describe in detail the manner in which the different sources of risk are managed by the Bank.

Credit Risk

Credit risk arises from the inability or unwillingness of counterparties to discharge their financial obligations. It is the potential for financial loss due to default of one or more debtors/obligors. Credit risk is by far the largest source of risk for the Bank arising essentially from its development lending and treasury operations.

The Bank manages three principal sources of credit risk: (i) sovereign credit risk in its public sector portfolio; (ii) non-sovereign credit risk in its portfolio of non-sovereign portfolio; and (iii) counterparty credit risk in its portfolio of treasury investments and derivative transactions used for asset and liability management purposes. These risks are managed within an integrated framework of credit policies, guidelines and processes, which are described in more detail in the sections that follow.

The Bank's maximum exposure to credit risk before collateral received in equity or other credit enhancements for 2018 and 2017 is as follows:

(UA thousands)

Assets	2018	2017
Cash	2,063,742	1,173,096
Demand obligations	3,801	3,801
Treasury investments at amortized cost	4,756,718	4,825,856
Treasury investments at fair value	5,722,293	6,695,209
Derivative assets	655,432	717,022
Non-negotiable instruments on account of capital	24	76
Net Accrued income and charges receivable on loans	628,767	530,396
Other accounts receivable	342,286	314,904
Loans	18,891,534	17,633,653
Equity participations	848,701	781,217

1) Sovereign Credit Risk

When the Bank lends to the borrowers from its public sector window, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. In extending credit to sovereign entities, the Bank is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk through its policies related to the quality at entry of project proposals, exposure management, including individual country exposures and overall creditworthiness of the concerned country. These include the assessment of the country's risk profile as determined by its macroeconomic performance, debt sustainability, socio-political conditions, the conduciveness of its business environment and its payment track record with the Bank. The Bank also applies a sanctions policy that imposes severe restrictions on countries that fail to honor their obligation to the Bank.

Country Exposure in Borrowing Member Countries

The Bank's exposures as at 31 December 2018 from its lending activities to borrowing member countries as well as the private sector projects in those countries are summarized below:

(Amounts in UA thousands)

Country	N° of active loans	Active Loans*	Unsigned Loans	Undisbursed Balance	Outstanding Balance	% of Outstanding Total Loans
Algeria	1	741,204	-	-	741,204	3.84
Angola	6	1,196,940	-	383,735	813,204	4.22
Benin	1	98,770	98,770	-	-	-
Botswana	3	788,732	-	6,231	782,502	4.06
Burkina Faso	1	34,606	-	34,606	-	-
Cameroon	11	907,976	83,970	485,294	338,712	1.76
Cabo Verde	11	171,618	-	40,381	131,237	0.68
Congo	3	159,123	-	115,108	44,015	0.23
Côte D'Ivoire	7	751,848	306,183	345,481	100,184	0.52
Democratic Republic of Congo	6	264,256	-	-	264,256	1.37
Egypt	15	2,230,302	-	150,173	2,080,130	10.79
Equitorial Guinea	3	43,814	-	23,250	20,565	0.11
Eswatini	10	172,538	57,540	68,013	46,984	0.24
Ethiopia	2	129,941	-	124,357	5,583	0.03
Gabon	11	953,348	96,686	284,197	572,464	2.97
Kenya	9	948,533	211,804	649,897	86,832	0.45
Mauritius	9	431,094	71,902	17,546	341,646	1.77
Morocco	63	3,893,626	369,121	510,900	3,013,604	15.63
Namibia	10	882,904	-	240,896	642,008	3.33
Nigeria	8	1,361,113	107,852	343,801	909,459	4.72
Rwanda	5	392,693	94,105	243,563	55,026	0.29
Senegal	8	597,386	29,912	467,645	99,829	0.52
Seychelles	4	45,441	-	12,203	33,239	0.17
Somalia**	3	4,352	-	-	4,352	0.02
South Africa	8	1,665,881	-	243,062	1,422,820	7.38
Sudan***+	4	54,660	-	-	54,660	0.28
Tanzania	4	456,868	-	417,849	39,019	0.20
Tunisia	40	2,715,486	61,767	533,198	2,120,521	11.00
Uganda	7	456,408	175,776	247,369	33,263	0.17
Zambia	11	416,757	-	366,201	50,556	0.26
Zimbabwe**	12	196,829	-	-	196,829	1.02
Multinational	3	294,910	294,910	-	-	-
Total Public Sector	**299**	**23,459,957**	**2,060,298**	**6,354,956**	**15,044,703**	**78.03**
Total Private Sector	**174**	**6,381,776**	**1,540,332**	**602,661**	**4,238,783**	**21.97**
Total	**473**	**29,841,733**	**3,600,630**	**6,957,617**	**19,283,486**	**100.00**

* *Excludes fully repaid loans and canceled loans. Trade finance and repayment guarantee related exposures are also excluded.*

** *Countries in non-accrual status as at 31 December 2018.*

\+ *The outcome of the referendum conducted in South Sudan in January 2011 supported the creation of an independent state of South Sudan. After the split of the state of Sudan into two separate nations became effective in July 2011, the number and amounts of loans shown against Sudan in this statement would be split between the emerging states, on a basis agreed upon following the ongoing negotiations between Sudan and South Sudan. At the end of December 2018, no decision has been taken by the states of Sudan and South Sudan regarding the terms and conditions of such exchange.*

Slight differences may occur in totals due to rounding.

The Bank is also exposed to some of its borrowers on account of trade finance and repayment guarantees for an amount of UA 344.40 million of which UA 32.86 million related to trade finance as at 31 December 2018.

Exposure Exchange Agreement

As part of ongoing efforts to reduce sovereign concentration risk and increase lending headroom, the African Development Bank in 2015 entered into Exposure Exchange Agreements (EEAs) with the Inter-American Development Bank (IADB) and the World Bank (IBRD), both AAA-rated entities.

An EEA involves a simultaneous exchange of equivalent credit risk on defined reference portfolios of sovereign exposures, subject to each participating Multilateral Development Bank (MDB) retaining a minimum of 50 percent of the total exposure to each country that is part of the EEA.

Under the EEA, the MDB that originates the sovereign loans and buys protection continues to be the lender of record. An exposure exchange in no way affects the application of the normal sovereign sanctions policies by the buyer of protection. Purchased or sold credit protection pays out only upon the occurrence of certain credit events with respect to any sovereign borrower in the reference portfolio.

When the default event is resolved, payments made under an exposure exchange are returned to the seller of protection.

The EEAs have final maturities in 2030 with linear annual reduction of the notional amounts starting from 2025. As at 31 December 2018, the total notional amount of credit protection purchased or sold on the relevant underlying single reference entities is USD 4.47 billion (UA 3.21 billion).

The table below presents the countries and notional amounts of credit protection contracted under the EEA.

(USD millions)

Protection Purchased				Protection Sold			
World Bank		Inter-American Development Bank		World Bank		Inter-American Development Bank	
Angola	213.71	Angola	85.00	Albania	126.00	Argentina	750.00
Botswana	225.00	Egypt	720.00	China	128.18	Brazil	820.00
Gabon	150.00	Morocco	990.00	India	450.00	Ecuador	303.20
Namibia	49.00	Nigeria	95.00	Indonesia	475.32	Mexico	800.00
Nigeria	100.00	Tunisia	990.00	Jordan	13.00	Panama	206.80
South Africa	850.00			Pakistan	10.21		
				Romania	185.00		
				Turkey	200.00		
TOTAL	**1,587.71**	**TOTAL**	**2,880.00**	**TOTAL**	**1,587.71**	**TOTAL**	**2,880.00**

The Bank accounts for exposures arising from EEAs and similar transactions as financial guarantee contracts, in accordance with IFRS 9 and IAS 37, as described in Note B.

As of 31 December 2018, no default events have occurred on any exposures covered (either for the counterparties for which protection was purchased or sold) under these Exposure Exchanges and the Bank continues to expect full recovery of its sovereign and sovereign-guaranteed exposures covered.

The counterparty credit exposure that can arise from the purchase or sale of protection, under the MDB exposure exchange, is limited given the AAA credit ratings of the Bank's counterparties.

Systematic Credit Risk Assessment

The foundation of the Bank's credit risk management is a systematic credit risk assessment framework that builds on scoring, models and their associated risk factors that have been optimized for the predictive power of the rating parameters and to better align with widely-used rating scales. The Bank measures credit risk using a 22-grade rating scale that is calibrated against probabilities of default using the master rating scale developed for the Global Emerging Markets (GEMs) consortium.

The credit ratings at the sovereign level are derived from an assessment of five risk indices covering macroeconomic performance, debt sustainability, socio-political factors, business environment and the Bank's portfolio performance. These five risk indices are combined to derive a composite country risk index for both sovereign and non-sovereign portfolios. The country risk ratings are validated against the average country risk ratings from different international rating agencies and other specialized international organizations. The CRC reviews the country ratings on a quarterly basis to ensure that they reflect the expected risk profiles of the countries. The CRC also assesses whether the countries are in compliance with their country exposure limits and approves changes in loss provisioning, if required.

The following table presents the Bank's internal measurement scales compared with the international rating scales:

<table>
<tr><th rowspan="2">Risk Class</th><th rowspan="2">Revised Rating Scale</th><th colspan="2">International Ratings</th><th rowspan="2">Assessment</th></tr>
<tr><th>S&P – Fitch</th><th>Moody's</th></tr>
<tr><td rowspan="6">Very Low Risk</td><td>1+</td><td>A+ and above</td><td>A1 and above</td><td rowspan="3">Excellent</td></tr>
<tr><td>1</td><td>A</td><td>A2</td></tr>
<tr><td>1-</td><td>A-</td><td>A3</td></tr>
<tr><td>2+</td><td>BBB+</td><td>Baa1</td><td rowspan="3">Strong</td></tr>
<tr><td>2</td><td>BBB</td><td>Baa2</td></tr>
<tr><td>2-</td><td>BBB-</td><td>Baa3</td></tr>
<tr><td rowspan="3">Low Risk</td><td>3+</td><td>BB+</td><td>Ba1</td><td rowspan="3">Good</td></tr>
<tr><td>3</td><td>BB</td><td>Ba2</td></tr>
<tr><td>3-</td><td>BB-</td><td>Ba3</td></tr>
<tr><td rowspan="5">Moderate Risk</td><td>4+</td><td>B+</td><td>B1</td><td rowspan="3">Satisfactory</td></tr>
<tr><td>4</td><td rowspan="2">B</td><td rowspan="2">B2</td></tr>
<tr><td>4-</td></tr>
<tr><td>5+</td><td rowspan="2">B-</td><td rowspan="2">B3</td><td rowspan="2">Acceptable</td></tr>
<tr><td>5</td></tr>
<tr><td rowspan="4">High Risk</td><td>5-</td><td rowspan="2">CCC+</td><td rowspan="2">Caa1</td><td rowspan="2">Marginal</td></tr>
<tr><td>6+</td></tr>
<tr><td>6</td><td rowspan="2">CCC</td><td rowspan="2">Caa2</td><td rowspan="2">Special attention</td></tr>
<tr><td>6-</td></tr>
<tr><td rowspan="4">Very High Risk</td><td>7</td><td rowspan="2">CCC-</td><td rowspan="2">Caa3</td><td rowspan="2">Substandard</td></tr>
<tr><td>8</td></tr>
<tr><td>9</td><td>CC</td><td>Ca</td><td>Doubtful</td></tr>
<tr><td>10</td><td>C</td><td>C</td><td>Loss</td></tr>
</table>

Portfolio Risk Monitoring

The weighted average risk rating of the Bank's sovereign and sovereign-guaranteed portfolio was 2.81 at the end of December 2018, compared to 2.74 as of 31 December 2017.

	Risk Profile of Outstanding Sovereign-Guaranteed Loan Portfolio				
	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2018	51%	26%	20%	3%	-
2017	55%	23%	19%	3%	-
2016	59%	15%	22%	4%	-
2015	61%	15%	19%	5%	-
2014	54%	27%	12%	7%	-

It is the Bank's policy that if the payment of principal, interest or other charges with respect to any Bank Group sovereign guaranteed credit becomes 30 days overdue, no new loans to that member country, or to any public sector borrower in that country, will be presented to the Board of Directors for approval, nor will any previously approved loan be signed, until all arrears are cleared. Furthermore, for such countries, disbursements on all loans to or guaranteed by that member country are suspended until all overdue amounts have been paid. These countries also become ineligible in the subsequent billing period for a waiver of 0.5 percent on the commitment fees charged on qualifying undisbursed loans.

Although the Bank benefits from the advantages of its preferred creditor status and rigorously monitors the exposure on non-performing sovereign borrowers, some countries have experienced difficulties in servicing their debts to the Bank on a timely basis. As previously described, the Bank makes provisions for impairment on its sovereign loan portfolio commensurate with the assessment of the new IFRS-9 provisioning standards in such portfolio.

To cover potential Losses related to credit, the Bank maintains a prudent risk capital cushion for credit risks. The Bank's capital adequacy policy articulates differentiated risk capital requirements for public sector and private sector credit-sensitive assets (loans and equity investments), as well as for contingent liabilities (guarantees and client risk management products) in each risk class. Risk capital requirements are generally higher for private sector operations which have a higher probability of default and loss-given default than public sector operations. At the end of December 2018, the Bank's public sector loan portfolio used up to 48 percent of the Bank's total risk capital based on the Bank's capital adequacy framework. The Bank defines risk capital as the sum of paid-in capital net of exchange adjustments, plus accumulated reserves adjusted by gain on financial assets at fair value through Other Comprehensive Income and unrealized loss/gain on fair-valued borrowings arising from "own credit". Any shortfall of the stock of provisions to expected losses is deducted. Callable capital is not included in the computation of risk capital.

2) Non-Sovereign Credit Risk

When the Bank lends to its borrowers from the private sector, it does not benefit from full sovereign guarantees. The Bank may also provide financing to creditworthy commercially oriented entities that are publicly owned, without a sovereign guarantee.

To measure the credit risk of non-sovereign projects or facilities, the Bank uses several models to score the risk of every project at entry. These models are tailored to the specific characteristics and nature of the transactions and the outputs are mapped to the Bank's credit risk rating scale.

Non-sovereign transactions are grouped into the following four main categories: a) project finance; b) corporate finance; c) financial institutions; and d) private equity funds.

Since 2006, the Bank has been increasing its non-sovereign loan and equity exposures. The weighted-average risk rating was 3.76 at the end of 2018 compared to 3.94 at the end of 2017. The distribution of the non-sovereign portfolio across the Bank's five credit risk classes is shown in the table below:

Risk Profile of Outstanding Non-Sovereign Loan and Equity Portfolio

	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2018	21%	22%	38%	15%	4%
2017	18%	23%	43%	14%	2%
2016	18%	23%	39%	14%	6%
2015	21%	24%	33%	16%	6%
2014	31%	21%	31%	14%	3%

With effect from January 1, 2018 under the new IFRS 9 impairment requirements provisions are based on an expected credit loss (ECL) model that replaced the incurred loss model. Under the new standard, the Bank recognizes either a 12-month or lifetime ECL depending on whether there is significant increase in credit risk since initial recognition.

To cover potential unexpected credit-related losses due to extreme and unpredictable events, the Bank maintains a risk capital cushion for non-sovereign credit risks derived from the Bank's Economic Capital Policy (Internal Rating Based - (IRB)).

At the end of December 2018, the Bank's non-sovereign portfolio required as risk capital approximately 21 percent of the Bank's total on-balance sheet risk capital sources. This level is still below the limit of 45 percent for total non-sovereign operations. Out of the Bank's non-sovereign portfolio, equity participations required as risk capital approximately 12 percent of the Bank's total on-balance sheet risk capital sources. This is still below the statutory limit of 15 percent established by the Board of Governors for equity participations.

Credit Exposure Limits

The Bank operates a system of exposure limits to ensure an adequately diversified portfolio at any given point in time. The Bank manages credit risk at the global country exposure limit (combined sovereign-guaranteed and non-sovereign portfolios) by ensuring that in aggregate, the total exposure to any country does not exceed 15 percent of the Bank's total risk capital. This threshold and other determinants of country limit are articulated in the Bank's capital adequacy framework.
The credit exposure on the non-sovereign portfolio is further managed by regularly monitoring the exposure limit with regard to the specific industry/sectors, equity investments and single obligor. In addition, the Bank generally requires a range of collateral (security and/or guarantees) from project sponsors to partially mitigate the credit risk for direct private sector loans.

The Private Sector Credit Enhancement Facility (PSF)

The Bank enters into credit enhancement facilities for the primary purpose of promoting Private Sector Operations (PSOs) in certain countries by inviting other entities to participate in the risks of such PSOs.

The Private Sector Credit Enhancement Facility (PSF) was established in 2015 to absorb risk on selected non-sovereign loans issued by the African Development Bank in low-income countries. The PSF is operated to maintain a risk profile equivalent to an investment-grade rating and absorbs risk using a partial credit guarantee instrument.

Balance Sheet Optimization Initiatives

In 2018, the Bank implemented a balance sheet optimization initiative aimed at reducing concentration risk on its non-sovereign portfolio and increasing lending headroom. The initiative involves the purchase of credit protection on defined non-sovereign exposures, through a credit insurance and synthetic securitization transaction.

Under the credit protection purchased, the Bank will be compensated for losses arising from credit default by any of the borrowers in the reference non-sovereign portfolio covered by the transactions. As the originator of the qualifying non-sovereign loans and protection buyer, the Bank remains the lender of record. As at 31 December 2018 the total notional amount of credit protection purchased was USD 1.50 billion (UA 1.08 billion). In line with the substance, the transactions are accounted for as financial guarantee contracts.

3) Counterparty Credit Risk

In the normal course of business, and beyond its development related exposures, the Bank utilizes various financial instruments to meet the needs of its borrowers, manage its exposure to fluctuations in market interest and currency rates, and to temporarily invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Bank. Given the nature of the Bank's business, it is not possible to completely eliminate counterparty credit risk. However, the Bank minimizes this risk by executing hedging transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures.

Counterparties must meet the Bank's minimum credit rating requirements and are approved by the Bank's Vice President for Finance. For local currency operations, less stringent minimum credit rating limits are permitted in order to provide adequate availability of investment opportunities and derivative counterparties for implementing appropriate risk management strategies. The ALCO approves counterparties that are rated below the minimum rating requirements.

Counterparties are classified as investment counterparties, derivative counterparties, and trading counterparties. Their ratings are closely monitored for compliance with established criteria.

For trading counterparties, the Bank requires a minimum short-term credit rating of A-2/P-2/F-2 for trades settled under delivery versus payment (DVP) terms and a minimum long-term credit rating of A/A2 for non DVP-based transactions.

The following table details the minimum credit ratings for authorized investment counterparties:

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30years
Government		A/A2			AA-/Aa3	AAA/Aaa
	Maximum remaining maturity of 5 years in the trading portfolios and 10 years in the held at amortized cost portfolio for SDR denominated securities rated A+/A1 or below					
Government agencies and supranational		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
Mortgage Backed Securities (MBS)/ Asset Backed Securities (ABS)				AAA		
	Maximum legal maturity of 50 years. Also, the maximum weighted average life for all ABS/MBS at the time of acquisition shall not exceed 5 years.					

The Bank may also invest in money market mutual funds with a minimum rating of AA-/Aa3 and enters into collateralized securities repurchase agreements.

The Bank uses derivatives in the management of its borrowing portfolio and for asset and liability management purposes. As a rule, the Bank executes an International Swaps and Derivatives Association (ISDA) master agreement and netting agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated AA-/Aa3 or above by at least two approved rating agencies or at least A-/A3 for counterparties with whom the Bank has entered into a collateral exchange agreement. Lower rated counterparties may be used exceptionally for local currency transactions. These counterparties require the approval of ALCO. Approved transactions with derivative counterparties include swaps, forwards, options and other over-the-counter derivatives.

Daily collateral exchanges enable the Bank to maintain net exposures to acceptable levels. The Bank's derivative exposures and their credit rating profiles are shown in the tables below:

(Amounts in UA millions)

	Derivatives			Credit Risk Profile of Net Exposure		
	Notional Amount	Fair Value*	Net Exposure**	AAA	AA+ to AA-	A+ and lower
2018	27,399	213	52	-	16%	84%
2017	12,018	198	27	-	48%	52%
2016	12,607	503	32	-	25%	75%
2015	12,408	663	68	-	70%	30%
2014	16,882	565	132	-	90%	10%

** Fair value before collateral.*
*** After collateral received in cash or securities.*

The financial assets and liabilities that are subject to offsetting, enforceable master netting arrangement are summarized below:

Financial Assets Subject to Offsetting, Enforceable Master Netting Arrangements and Similar Agreements

(UA millions)

				Related Amounts not Set Off in the Statement of Financial Position		
	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Financial Instruments	Collateral Received	Net Amount
2018	390	(177)	213	-	-	213
2017	402	(204)	198		(191)	7
2016	935	(432)	503	-	(520)	(17)
2015	1,362	(699)	663	-	(627)	36
2014	902	(337)	565	-	(455)	110

Financial Liabilities Subject to Offsetting, Enforceable Master Netting Arrangements and Similar Agreements

(UA millions)

				Related Amounts not Set Off in the Statement of Financial Position		
	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Statement of Financial Position	Net Amounts of Financial Liabilities Presented in the Statement of Financial Position	Financial Instruments	Cash Collateral Pledged	Net Amount
2018	941	(384)	557	-	-	557
2017	1,027	(477)	550	-	-	550
2016	538	(396)	142	-	-	142
2015	526	(228)	298	-	-	298
2014	704	(419)	285	-	-	285

In addition to the minimum rating requirements for derivative counterparties, the Bank operates within a framework of exposure limits to different counterparties based on their credit rating and size, subject to a maximum of 12 percent of the Bank's total risk capital (equity and reserves) for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the Bank's credit limits after considering the benefits of any collateral.

The credit exposure of the investment and related derivative portfolio continues to be dominated by highly rated counterparties as shown in the table below.

	Credit Risk Profile of the Investment Portfolio		
	AAA	AA+ to AA-	A+ and lower
2018	49%	41%	10%
2017	53%	39%	8%
2016	45%	38%	17%
2015	44%	45%	11%
2014	48%	50%	2%

To cover potential unexpected credit losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for counterparty credit risk. At the end of December 2018, the Bank's counterparty credit portfolio including all investments and derivative instruments required as risk capital 2.8 % percent of the Bank's total on-balance sheet risk capital sources.

Expected Credit risk

Definition of default

The definition of default for the purpose of determining ECLs considers indicators that the debtor is unlikely to pay its material credit obligation to the Bank which is past due for more than 90 days for non-sovereign counterparties and 180 days for sovereign counterparties.

The Bank rebuts the IFRS 9 90 days past due rebuttable presumption in the Bank's sovereign loan portfolio because the Sanction policy of the Bank defines a non-accrual loan or non-performing loan as a loan that is at least 180 days past due. This is also the current practice in other Multilateral Development Banks. The recovery rate for loans that are less than 180 days past due is much higher than loans that are at least 180 days past due.

The Bank considers default from the standpoint that the obligor is unlikely to pay its credit obligations to the Bank without recourse by the Bank to actions such as realizing security.

Credit risk

The Bank 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 judgment. 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.

Each exposure is allocated to a credit risk grade at 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 of the respective exposures involves the use of the following:

- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.
- Data from credit reference agencies, press articles, and changes in external credit ratings.

Modifications of financial assets and financial liabilities

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the Bank's accounting policy. When the terms of a financial asset are modified, and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with
- the remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

If the terms of a financial asset are modified, the Bank considers whether the cash flows arising from the modified asset are substantially different. If substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, a new financial asset is recognized at fair value while the original financial asset is derecognized. If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Bank recognizes a modification gain/loss in the statement of profit or loss as the difference between the gross carrying amount prior to the modification and the gross carrying amount.

Measurement and recognition of expected credit losses

ECLs are calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), discounted at the original EIR.

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.

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 internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings 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. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios to reflect possible changes in relevant prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. 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 financial assets for which credit risk has not significantly increased, the Bank 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 risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank 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 grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- 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. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Bank considers both quantitative and qualitative information and analysis based on the Bank's historical experience and expert credit risk assessment, including forward looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Bank presumes that the credit risk on its sovereign and non-sovereign loan has increased significantly since initial recognition when contractual payments are more than 180 days past due for sovereign loans and more than 90 days past due for non-sovereign loans. The reason for rebutting the IFRS rebuttable presumption is explained in the definition of default above.

Despite the foregoing, the Bank assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Bank considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

For financial guarantee contracts, the date that the Bank becomes a party to the irrevocable commitment is considered to be the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Bank considers the changes in the risk that the specified debtor will default on the contract.

The Bank regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Incorporation of forward-looking information

The Bank's Credit Risk Committee considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. The Committee consists of senior executives from risk, finance and economics functions. Relevant regional and industry specific adjustments are applied to capture variations from general industry scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, unemployment rates, interest rates, gross domestic product, inflations, and commodity prices and these require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Calculation of expected credit losses

The Bank calculates ECLs based on three probability-weighted scenarios. The three scenarios are: base case, optimistic and pessimistic. Each of these is associated with different PD, EAD and LGD parameters.

These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data.

For accounting purposes, the 12-month and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk. The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility. The 12-month ECL is equal to the discounted sum over the next 12 months of the monthly PD multiplied by the LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the full remaining life multiplied by the LGD and EAD.

Expected Credit Losses

IFRS 9 requires the recognition of 12-month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

Impairment of Financial Instruments by Stage

The table below presents a break down of impairment allowance based on stage allocation and asset classification as at 31 December 2018 and 1 January 2018.

As at 31 December 2018

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Loans at amortized cost	154,961	58,626	178,365	391,952
Interest receivables	8,991	2,385	279,274	290,650
Treasury investments	213	-	-	213
Guarantees	612	-	3	615
Total impairment as at 31 December 2018	**164,777**	**61,011**	**457,642**	**683,430**

As at 1 January 2018

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Loans at amortized cost	130,657	70,545	139,182	340,384
Interest receivables	7,709	3,364	254,231	265,304
Treasury investments	177	-	-	177
Guarantees	1,016	-	17	1,033
Total impairment as at 1 January 2018	**139,559**	**73,909**	**393,430**	**606,898**

The tables below present an analysis of loans – sovereign and non-sovereign – at amortized cost by gross exposure, impairment allowance and coverage ratio based on stage allocation and business segment as at 31 December 2018 and 1 January 2018.

As at 31 December 2018

(UA million)

	Gross exposure				Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	14,789	-	256	15,045	105.76	-	85.24	191.00
Non-Sovereign	3,540	421	253	4,215	49.20	58.63	93.12	200.95
Total December 2018	**18,329**	**421**	**509**	**19,260**	**154.96**	**58.63**	**178.36**	**391.95**

	Coverage ratio (impairment allowance/gross exposure)			
	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Sovereign	0.72	-	33.32	1.27
Non-Sovereign	1.39	13.90	36.69	4.77
Total coverage ratio	**0.85**	**13.90**	**35.00**	**2.04**

As at 1 January 2018

(UA million)

	Gross exposure				Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	13,662	-	250	13,912	79.47	-	83.04	162.51
Non-Sovereign	3,467	307	113	3,887	51.18	70.55	56.14	177.87
Total January 2018	**17,129**	**307**	**363**	**17,799**	**130.65**	**70.55**	**139.18**	**340.38**

	Coverage ratio (impairment allowance/gross exposure)			
	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Sovereign	0.58	-	33.22	1.17
Non-Sovereign	1.48	22.98	49.68	4.58
Total coverage ratio	**0.76**	**22.98**	**38.34**	**1.91**

Stage 1 assets: impairments are calculated based on a 12-month expected loss. Coverage for these performing, non-deteriorated assets is 0.72 % for sovereign loans and 1.39 % in non-sovereign loans as at 31 December 2018.

Stage 2 assets: have seen a significant increase in credit risk but are not defaulted and are largely performing. Under IFRS 9, these assets require a lifetime expected loss to be held. There were no loans grouped as stage 2 in the sovereign portfolio while the coverage ratio for non-sovereign loans decreased to 13.90 % as at 31 December 2018 from 22.98 % as 1 January 2018.

Stage 3 assets: coverage ratio for sovereign and non-sovereign loans increased to 33.32 % for sovereign loans and decreased to 36.69 % for non-sovereign loans from 33.22 % and 49.68 % respectively as at 1 January 2018.

Some of these assets remain subject to collections activities and this, along with collateral holdings, reduces expected loss levels for these assets.

An analysis of changes in ECL allowances in relation to the Banks financial assets carried at amortized cost were as follows:

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2018	139,559	73,910	393,429	606,898
New assets originated or purchased	19,294	-	-	19,294
Assets derecognized or repaid (excluding write offs)	(3,832)	-	-	(3,832)
Transfer from stage 1 to Stage 2	(282)	282	-	-
Transfer from stage 2 to Stage 3	-	(10,732)	10,732	-
Transfer from stage 1 to Stage 3	(5,484)	-	5,484	-
New and increased provision (net of releases)	15,522	(2,449)	47,997	61,070
Total ECL allowance as at 31 December 2018	**164,777**	**61,011**	**457,642**	**683,430**

The increase in ECLs was driven by an increase in the size of the portfolio and movements between stages as a result of increases in credit risk and changes to the model and inputs used for ECL calculations.

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. Liquidity risk arises when there is a maturity mismatch between assets and liabilities. The Bank's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for a rolling 1-year horizon without additional financing from the capital markets for an extended period. In order to minimize this risk, the Bank maintains a Prudential Minimum level of Liquidity (PML) based on the projected net cash requirement for a rolling one-year period. The PML is updated quarterly and computed as the sum of four components: 1) 1-year debt service payments; 2) 1-year projected net loan disbursements (loans disbursed less repayments) if greater than zero; 3) loan equivalent value of committed guarantees; and 4) undisbursed equity investments.

To strike a balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Bank divides its investment portfolio into tranches with different liquidity objectives and benchmarks. The Bank's core liquidity portfolio (operational portfolio) is invested in highly liquid securities that can be readily liquidated if required to meet the Bank's short-term liquidity needs. Probable redemptions of swaps and borrowings with embedded options are included in the computation of the size of the operational tranche of liquidity. In addition to the core liquidity portfolio, the Bank maintains a second tranche of liquidity (the prudential portfolio) that is also invested in relatively liquid securities to cover its expected medium-term operational cash flow needs. A third tranche of liquidity, which is funded by the Bank's equity resources, is held in a portfolio of fixed income securities intended to collect contractual cash flows with the objective of stabilizing the Bank's net income. In determining its level of liquidity for compliance with the PML, the Bank includes cash, deposits and securities in all the treasury investments, with appropriate haircuts based on asset class and credit rating.

The contractual maturities of financial liabilities and future interest payments at 31 December 2018 and 2017 were as follows:

Contractual Maturities of Financial Liabilities and Future Interest Payments at 31 December 2018

(UA thousands)

	Carrying Amount	Contractual Cash Flow	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years
Financial liabilities with derivatives								
Derivative liabilities	396,764	(883,191)	(129,688)	(45,520)	(90)	(186,757)	13,085	(534,221)
Borrowings at fair value	23,389,010	26,253,571	4,179,131	4,268,331	4,361,336	3,211,302	2,384,209	7,849,262
	23,785,774	**25,370,380**	**4,049,443**	**4,222,811**	**4,361,246**	**3,024,545**	**2,397,294**	**7,315,041**
Financial liabilities without derivatives								
Accounts payable	1,550,663	1,550,663	1,550,663	-	-	-	-	-
Borrowings at amortized cost	600,849	783,893	208,602	48,172	147,497	127,661	178,181	73,780
	2,151,512	2,334,556	1,759,265	48,172	147,497	127,661	178,181	73,780
Total financial liabilities	**25,937,286**	**27,704,936**	**5,808,708**	**4,270,983**	**4,508,743**	**3,152,206**	**2,575,475**	**7,388,821**
Represented by:								
Derivative liabilities	396,764	(883,191)	(129,688)	(45,520)	(90)	(186,757)	13,085	(534,221)
Accounts payable	1,550,663	1,550,663	1,550,663	-	-	-	-	-
Borrowings	23,989,859	27,037,464	4,387,733	4,316,503	4,508,833	3,338,963	2,562,390	7,923,042

Contractual Maturities of Financial Liabilities and Future Interest Payments at 31 December 2017

(UA thousands)

	Carrying Amount	Contractual Cash Flow	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years
Financial liabilities with derivatives								
Derivative liabilities	340,894	289,893	2,731	(45,175)	64,111	43,116	(15,720)	240,830
Borrowings at fair value	22,566,653	25,008,815	5,543,353	3,471,246	3,915,707	2,245,495	3,113,456	6,719,558
	22,907,547	**25,298,708**	**5,546,084**	**3,426,071**	**3,979,818**	**2,288,611**	**3,097,736**	**6,960,388**
Financial liabilities without derivatives								
Accounts payable	1,255,587	1,255,587	1,255,587	-	-	-	-	-
Borrowings at amortized cost	609,037	834,505	68,385	205,028	44,870	145,368	125,475	245,379
	1,864,624	2,090,092	1,323,972	205,028	44,870	145,368	125,475	245,379
Total financial liabilities	**24,772,171**	**27,388,800**	**6,870,056**	**3,631,099**	**4,024,688**	**2,433,979**	**3,223,211**	**7,205,767**
Represented by:								
Derivative liabilities	340,894	289,893	2,731	(45,175)	64,111	43,116	(15,720)	240,830
Accounts payable	1,255,587	1,255,587	1,255,587	-	-	-	-	-
Borrowings	23,175,690	25,843,320	5,611,738	3,676,274	3,960,577	2,390,863	3,238,931	6,964,937

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in its risk-bearing capacity, the Bank's principal currency risk management objective is to protect its risk capital from translation risk due to fluctuations in foreign currency exchange rates by matching the currency composition of its net assets to the currency composition of the SDR (UA). The agreement establishing the Bank explicitly prohibits it from taking direct currency exchange exposures by requiring liabilities in any one currency to be matched with assets in the same currency. This is achieved primarily by holding or lending the proceeds of its borrowings (after swap activities) in the same currencies in which they were borrowed (after swap activities). To avoid creating new currency mismatches, the Bank requires its borrowers to service their loans in the currencies disbursed.

Because a large part of its balance sheet is funded by equity resources, which are reported in Units of Account (equivalent to the SDR), the Bank has a net asset position that is potentially exposed to translation risk when currency exchange rates fluctuate. The Bank's policy is to minimize the potential fluctuation of the value of its net worth measured in Units of Account by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR (the Unit of Account). In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a misalignment or when there is a revision to the SDR currency composition.

The Bank also hedges its exposure to adverse movements on currency exchange rates on its administrative expenses. The distribution of the currencies of the Bank's recurring administrative expenditures shows a high concentration of expenses in Euros, US Dollars and CFA Francs.

Net Currency Position at 31 December 2018

(Amounts in UA thousands)

	Euro	United States Dollar	Japanese Yen	Pound Sterling	Chinese Yuan	Other	Subtotal	Units of Account	Total
Assets									
Cash	164,534	53,551	600,584	5,138	-	1,251,969	2,075,776	(12,034)	2,063,742
Demand obligations	-	-	-	-	-	3,801	3,801	-	3,801
Investments measured at fair value [(a)]	873,896	4,662,154	419	105,640	976	87,116	5,730,201	-	5,730,201
Investments at amortized cost	1,412,274	1,752,098	384,616	550,147	657,370	-	4,756,505	-	4,756,505
Non-negotiable instruments on account of capital	-	24	-	-	-	-	24	-	24
Accounts receivable	112,410	340,871	37,082	10,566	6,541	172,172	679,642	726	680,368
Loans	7,595,392	9,787,241	(162,068)	1,302		1,723,085	18,944,952	-	18,944,952
Equity participations	72,474	694,598	-	-	-	19,922	786,994	61,707	848,701
Other assets	-	-	-	-	-	-	-	94,769	94,769
	10,230,980	17,290,537	860,633	672,793	664,887	3,258,065	32,977,895	145,168	33,123,063
Liabilities									
Accounts payable	(182,403)	883,570	(540,815)	64,985	154,235	(1,930,235)	(1,550,663)	-	(1,550,663)
Borrowings	(3,706,864)	(13,395,604)	(1,585,252)	(450,254)	-	(4,851,885)	(23,989,859)	-	(23,989,859)
Currency swaps on borrowings and related derivatives (b)	(4,148,968)	(1,176,343)	1,834,254	360,477		2,733,816	(396,764)	-	(396,764)
	(8,038,235)	(13,688,377)	(291,813)	(24,792)	154,235	(4,048,304)	(25,937,286)	-	(25,937,286)
Currency position of equity as at 31 December 2018	**2,192,745**	**3,602,160**	**568,820**	**648,001**	**819,122**	**(790,239)**	**7,040,609**	**145,168**	**7,185,777**
% of subtotal	**31.14**	**51.16**	**8.08**	**9.20**	**11.63**	**(11.22)**	**100.00**	**-**	**100.00**
SDR composition at 31 December 2018	**31.86**	**41.90**	**7.72**	**7.85**	**10.68**	**-**	**100.00**	**-**	**100.00**

(a) Investments measured at fair value comprise:	
Investments measured at fair value	5,722,293
Derivative assets	8,186
Derivative liabilities	(278)
Amount per statement of net currency position	5,730,201

(b) Currency swaps on borrowings comprise:	
Derivative assets	647,246
Derivative liabilities	(1,044,010)
Net swaps on borrowings per statement of net currency position	(396,764)

Net Currency Position at 31 December 2017

(Amounts in UA thousands)

	Euro	United States Dollar	Japanese Yen	Pound Sterling	Chinese Yuan	Other	Subtotal	Units of Account	Total
Assets									
Cash	531,519	40,781	6,426	16,799	5,228	572,525	1,173,278	(182)	1,173,096
Demand obligations	-	-	-	-	-	3,801	3,801	-	3,,801
Investments – measured at fair value [(a)]	2,218,413	4,066,874	59,667	53,352	-	303,188	6,701,494	-	6,701,494
Investments at amortized cost	1,419,499	1,728,819	372,660	579,400	725,478	-	4,825,856	-	4,825,856
Non-negotiable instruments on account of capital	-	76	-	-	-	-	76	-	76
Accounts receivable	113,924	275,489	30,255	11,211	7,554	82,386	520,819	74,155	594,974
Loans	7,326,959	8,386, 218	155,810	1,622	-	1, 817,491	17,688,100	-	17,688,100
Equity participations	66,233	631,873	-	-	-	21,502	719,608	61,609	781,217
Other assets	-	-	-	-	-	-	-	96,386	96,386
	11,676,547	15,130,130	624,818	662,384	738,260	2,800,893	31,633,032	231,968	31,865,000
Liabilities									
Accounts payable	(1,073,091)	1,206,995	(119,928)	64,879	67,877	(1,402,319)	(1,255,587)	-	(1,255,587)
Borrowings	(2,589,189)	(13,626,970)	(1,510,765)	(708,236)	-	(4,740,530)	(23,175,690)	-	(23,175,690)
Currency swaps on borrowings and related derivatives [(b)]	(5,830,097)	618,463	1,715,387	616,373	-	2,538,980	(340,894)	-	(340,894)
	(9,492,377)	(11,801,512)	84,694	(26,984)	67,877	(3,603,869)	(24,772,171)	-	(24,772,171)
Currency position of equity as at 31 December 2017	**2,184,170**	**3,328,618**	**709,512**	**635,400**	**806,137**	**(802,976)**	**6,860,861**	**231,968**	**7,092,829**
% of subtotal	**31.84**	**48.52**	**10.34**	**9.26**	**11.75**	**(11.70)**	**100.00**	**-**	**100.00**
SDR composition at 31 December 2017	**32.57**	**40.91**	**7.40**	**8.15**	**10.97**	**-**	**100.00**	**-**	**100.00**

(a) Investments measured at fair value comprise:

Investments measured at fair value	6,695,209
Derivative assets	7,786
Derivative liabilities	(1,501)
Amount per statement of net currency position	6,701,494

(b) Currency swaps on borrowings comprise:

Derivative assets	709,236
Derivative liabilities	(1,050,130)
Net swaps on borrowings per statement of net currency position	(340,894)

Currency Risk Sensitivity Analysis

As described in the previous section, the Bank manages its currency risk exposure by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR. The SDR is composed of a basket of five currencies, namely the US Dollar, Euro, Japanese Yen, Pound Sterling and Chinese Yuan Renminbi. The weight of each currency in the basket is determined and reviewed by the International Monetary Fund (IMF) every five years. With effect from 1 October 2017, the IMF formally approved the inclusion of the Chinese Yuan Renminbi (CNY) in Special Drawing Rights (SDR) with a weight of 10.92 percent. The SDR rate represents the sum of specific amounts of the five basket currencies valued in US Dollars, on the basis of the exchange rates quoted at noon each day in the London market.

Currency risks arise with the uncertainty about the potential future movement of the exchange rates between these currencies on the one hand, and between the exchange rates of the SDR currencies and the other non-SDR currencies (mainly African currencies) used by the Bank on the other hand. In this regard, the Bank carries out an annual sensitivity analysis of the translation results of its net assets with regard to the movement of the different exchange rates. The analysis consists of a set of scenarios where the exchange rates between the US Dollar and the other SDR and African currencies are stretched out by large margins (10 percent appreciation/depreciation).

The following tables illustrate the sensitivity of the Bank's net assets to currency fluctuations due to movements in the exchange rate of the currencies in the SDR basket as of 31 December 2018 and 2017, respectively. The sensitivity analysis shown assumes a separate 10 percent appreciation/depreciation for each currency in the basket against the US dollar. Due to a moderate change in the African currency holdings, the table also includes the effect of a 10 percent appreciation/depreciation of each African currency against the SDR. Under the different scenarios, the currency risk management strategy of the Bank shows a minimal change in net assets as a result of currency mismatches.

Sensitivity of the Bank's Net Assets to Currency Fluctuations as at 31 December 2018

(Amounts in UA thousands)

	US Dollar	Euro	Japanese Yen	Pound Sterling	Chinese Yuan	Other Currencies	Net Assets	Change in Net Assets Gain/(Loss)	Basis Point Change of Total Net Assets
Net assets resulting from a 10% appreciation against the USD									
EUR	2,902.99	2,452.01	528.65	598.86	764.91	27.29	7,274.71	(1.04)	1bps
GBP	2,972.22	2,282.26	541.26	674.46	783.15	27.29	7,280.64	4.90	7bps
JPY	2,972.47	2,282.46	595.43	613.20	783.22	27.29	7,274.07	(1.67)	2bps
CNY	2,964.03	2,275.97	539.76	611.45	859.09	27.29	7,277.59	1.86	3bps
Net assets resulting from 10% appreciation from each African currency against the SDR	2,995.54	2,300.17	545.50	617.95	789.30	30.02	7,278.48	2.73	4bps
Net assets resulting from a 10% depreciation against the USD									
EUR	3,084.95	2,153.47	561.78	636.40	812.86	27.29	7,276.75	1.00	1bps
GBP	3,017.05	2,316.69	549.42	565.81	794.97	27.29	7,271.23	(4.52)	6bps
JPY	3,016.81	2,316.51	499.43	622.34	794.90	27.29	7,277.30	1.55	2bps
CNY	3,024.77	2,322.61	550.83	623.98	724.55	27.29	7,274.03	(1.72)	2bps
Net assets resulting from a 10% depreciation of each African currency against the SDR	2,995.54	2,300.17	545.50	617.95	789.30	24.81	7,273.27	(2.48)	3bps
Assumptions									
Base net assets	2,995.54	2,300.17	545.50	617.95	789.30	27.29	7,275.75	-	-
Add: Fair valuation effects on borrowings & derivatives	220.40	(123.71)	97.25	-	-	(283.91)	(89.97)	-	-
Base net assets (including fair valuation of borrowings and derivatives)	3,215.94	2,176.46	642.75	617.95	789.30	(256.62)	7,185.78	-	-
Currency weight	0.58	0.39	11.90	0.09	1.02	-	-	-	-
Base exchange rate	1.39	1.21	153.38	1.10	9.57	-	-	-	-

Sensitivity of the Bank's net Assets to Currency Fluctuations as at 31 December 2017

(Amounts in UA thousands)

	US Dollar	Euro	Japanese Yen	Pound Sterling	Chinese Yuan	Other Currencies	Net Assets	Change in Net Assets Gain/(Loss)	Basis Point Change of Total Net Assets
Net assets resulting from a 10% appreciation against the USD									
EUR	2,901.05	2,430.60	485.55	561.60	753.76	25.65	7,158.21	(4.02)	6bps
GBP	2,971.26	2,263.11	497.30	632.71	772.00	25.65	7,162.04	(0.19)	0bps
JPY	2,973.40	2,264.74	547.42	575.60	772.56	25.65	7,159.38	(2.85)	4bps
CNY	2,963.00	2,256.82	495.92	573.59	846.84	25.65	7,161.82	(0.41)	1bps
Net assets resulting from 10% appreciation from each African currency against the SDR	2,995.49	2,281.56	501.35	579.88	778.29	28.22	7,164.79	2.57	4bps
Net assets resulting from a 10% depreciation against the USD									
EUR	3,086.83	2,137.40	516.64	597.56	802.03	25.65	7,166.11	3.89	5bps
GBP	3,017.85	2,298.60	505.10	531.10	784.10	25.65	7,162.40	0.18	0bps
JPY	3,015.85	2,297.07	458.88	583.82	783.58	25.65	7,164.85	2.63	4bps
CNY	3,025.64	2,304.53	506.40	585.72	714.66	25.65	7,162.60	0.38	1bps
Net assets resulting from a 10% depreciation of each African currency against the SDR	2,995.49	2,281.56	501.35	579.88	778.29	23.32	7,159.89	(2.33)	3bps
Assumptions									
Base net assets	2,995.49	2,281.56	501.35	579.88	778.29	25.65	7,162.23		
Currency weight	0.58	0.39	11.90	0.09	1.02				
Base exchange rate	1.42	1.19	160.22	1.05	9.28				

Interest Rate Risk

The Bank's interest rate risk sensitivity is comprised of the following two elements:

1. the sensitivity of the interest margin between the rate the Bank earns on its assets and the cost of the borrowings funding such assets; and

2. the sensitivity of the income on assets funded by equity resources to changes in interest rates.

The Bank's principal interest rate risk management objective is to generate a stable overall net interest margin that is not overly sensitive to sharp changes in market interest rates, but yet adequately responsive to general market trends.

Interest rate risk position as at 31 December 2018 and 2017 was as follows:

Interest Rate Risk Position as at 31 December 2018

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non interest bearing funds	Total
Assets								
Cash	2,063,742	-	-	-	-	-	-	2,063,742
Demand obligations	3,801	-	-	-	-	-	-	3,801
Treasury investments (a)	6,077,582	348,840	426,550	534,420	596,530	2,463,360	39,424	10,486,706
Non-negotiable instruments on account of capital	24	-	-	-	-	-	-	24
Accounts receivable	680,368	-	-	-	-	-	-	680,368
Loans – disbursed and outstanding	16,067,415	502,979	368,857	349,004	281,605	1,714,156	(530)	19,283,486
Hedged loans – fair value adjustment	-	-	-	-	-	-	53,418	53,418
Accumulated impairment for loan losses	-	-	-	-	-	-	(391,952)	(391,952)
Equity participations	-	-	-	-	-	-	848,701	848,701
Other assets	-	-	-	-	-	-	94,769	94,769
	24,892,932	851,819	795,407	883,424	878,135	4,177,516	643,830	33,123,063
Liabilities								
Accounts payable	(1,550,663)	-	-	-	-	-	-	(1,550,663)
Borrowings [(b)]	(24,185,653)	(141,653)	(210)	(2,240)	(72,029)	(150,464)	165,626	(24,386,623)
Macro-hedge swaps	(20,111)	-	4,541	15,570	-	-	-	-
	(25,756,427)	(141,653)	4,331	13,330	(72,029)	(150,464)	165,626	(25,937,286)
Interest rate risk position as at 31 December 2018*	**(863,495)**	**710,166**	**799,738**	**896,754**	**806,106**	**4,027,052**	**809,456**	**7,185,777**

** Interest rate risk position represents equity.*

(a) Treasury investments comprise:	
Treasury investments	10,478,798
Derivative assets – investments	8,186
Derivative liabilities – investments	(278)
Amount per statement of interest rate risk	10,486,706

(b) Borrowings comprise:	
Borrowings	23,989,859
Derivative assets – borrowings	(647,246)
Derivative liabilities – borrowings	1,044,010
Net borrowings per statement of interest rate risk	24,386,623

Interest Rate Risk Position as at 31 December 2017

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non interest bearing funds	Total
Assets								
Cash	1,173,096	-	-	-	-	-	-	1,173,096
Demand obligations	3, 801	-	-	-	-	-	-	3,801
Treasury investments [(a)]	7,184,526	348,000	350,190	400,400	516, 530	2,670,390	57,314	11,527, 350
Non-negotiable instruments on account of capital	52	24	-	-	-	-	-	76
Accounts receivable	845,300	-	-	-	-	-	(250,326)	594,974
Loans – disbursed and outstanding	14,406,297	331,801	473,262	350,192	331,315	1,928,895	(3,517)	17,818,245
Hedged loans – fair value adjustment	-	-	-	-	-	-	54, 448	54, 448
Accumulated impairment for loan losses	-	-	-	-	-	-	(184,593)	(184, 593)
Equity participations	-	-	-	-	-	-	781, 217	781, 217
Other assets	-	-	-	-	-	-	96, 386	96, 386
	23,613,072	679,825	823,452	750,592	847,845	4,599,285	550,929	31,865,000
Liabilities								
Accounts payable	(1, 255 587)	-	-	-	-	-	-	(1,255 587)
Borrowings [(b)]	(23,348,055)	(144,880)	(223)	(2,880)	(70,355)	(147,919)	197, 728	(23,516,584)
Macro-hedge swaps	(19, 280)	-	4, 353	14, 927	-	-	-	-
	(24,622,922)	(144,880)	4,130	12,047	(70,355)	(147,919)	197,728	(24,772,171)
Interest rate risk position as at 31 December 2017*	**(1,009,850)**	**534,945**	**827,582**	**762,639**	**777,490**	**4,451,366**	**748,657**	**7,092,829**

** Interest rate risk position represents equity.*

(a) Treasury investments comprise:	
Treasury investments	11,521,065
Derivative assets – investments	7,786
Derivative liabilities – investments	(1,501)
Amount per statement of interest rate risk	11,527,350
(b) Borrowings comprise:	
Borrowings	23,175,690
Derivative assets – borrowings	(709,236)
Derivative liabilities – borrowings	1,050,130
Net borrowings per statement of interest rate risk	23,516,584

Interest Rate Risk on Assets Funded by Debt

Two thirds of the Bank's interest-rate-sensitive assets are funded by debt. The Bank seeks to generate a stable net interest margin on assets funded by debt by matching the interest rate characteristics of each class of assets with those of the corresponding liabilities.

In 1990, the Bank began offering "variable rate" loans. The interest rate on these loans resets semi-annually based on the average cost of a dedicated pool of the Bank's borrowings. These pools are funded with a mix of fixed rate and floating rate borrowings to provide borrowers with broadly stable interest rates that gradually track changes in market interest rates. The cost of funds pass-through formulation incorporated in the lending rates charged on the Bank's pool-based loans has traditionally helped to minimize the interest rate sensitivity of the net interest margin on this part of its loan portfolio. In view of declining demand for this product in favor of market-based loans, the Bank is carefully managing the gradual winding down of the designated funding pools.

Since 1997, the Bank offers fixed and floating rate loans whose interest rate is directly linked to market interest rates (market-based loans). For the market-based loan products, the Bank's net interest margin is preserved by using swaps to align the interest rate sensitivity of the loans with that of the Bank's underlying funding reference (six-month LIBOR floating rate). The Bank may also provide borrowers with risk management products such as swaps to modify the currency and interest rate terms of its market-based loan products. Although it retains the credit risks of the borrower, the Bank eliminates the associated market risk on these risk management products by simultaneously laying off market risks with an approved derivative counterparty.

For the portfolio of liquid assets funded by borrowings, the Bank protects its net interest margin by managing its investments within limits around benchmarks that replicate the interest rate characteristics of the underlying funding for each portfolio tranche. The portfolio of liquid assets funded by borrowings is currently divided into two tranches to reflect the different business purposes and underlying funding. The core part of the investment portfolio is held to comply with the Bank's liquidity policy and uses a six-month LIBOR floating rate benchmark. The operational liquidity portfolio is managed to meet projected operational cash flow needs and uses a one-month LIBOR floating rate benchmark.

The Bank diversifies the sources of its funding by issuing debt in a variety of markets and instruments. Unless fixed rate funding is required for one of its pool-based loan products, the Bank protects its net interest margin by simultaneously swapping all new borrowings into floating rate in one of the Bank's active currencies on a standard nine-month LIBOR rate reference. Where the Bank issues structured debt, the Bank simultaneously enters into a swap with matching terms to synthetically create the desired six-month LIBOR-based floating rate funding. For risk management purposes, callable funding is considered as one alternative to issuing short-term debt such as Euro commercial paper. The Bank manages refinancing risk by: (i) limiting the amount of debt that will mature or is potentially callable within one year to 25 percent of the outstanding debt portfolio, and (ii) trying to match the average maturity of loans priced with a fixed spread with borrowing with similar lifetime.

Interest Rate Risk on Assets Funded by Equity

The second principal source of interest rate risk is the interest rate sensitivity of the income earned from funding a significant portion of the Bank's assets with equity resources. These assets are mostly made up of fixed rate loans and investments with an average duration of 5 years. Changes in market interest rates in the currencies of the Bank's equity resources (the SDR) affect the net interest margin earned on assets funded by equity. In general, lower nominal market interest rates result in lower lending and investment rates, which in the long term reduce the nominal earnings on the Bank's equity resources.

The Bank manages the interest rate profile of the assets funded by equity resources with the objective of reducing the sensitivity of the net interest margin to fluctuations in market interest rates. This is achieved by continuously adjusting the repricing profile of the assets funded by the Bank's equity resources (fixed rate loans and investments) to match a repricing profile benchmark. The Bank's repricing profile benchmark is a 10-year ladder whereby a uniform 10 percent of the Bank's assets is funded by equity and repriced in each year. Using this benchmark, the Bank's net interest margin on assets funded by equity tends to track a 10-year moving average of 10-year maturity SDR interest rates.

At the end of 2018 and 2017, the Bank's overall repricing profile was closely aligned to the benchmark in almost all annual buckets.

Net Interest Margin Sensitivity

A parallel upward shift in the SDR curve of 100 bps would have generated a maximum gain in income statement of UA 4.96 million and UA 6.56 million as of 31 December 2018 and 2017, respectively.

Fair Value Sensitivity

Movements in interest rates also have an impact on the values of assets and liabilities that are reported in the financial statements at fair value through profit or loss. The table below shows the effect of a parallel yield curve movement of +/- 100 bps of each of the currencies in the investment portfolio and the borrowings and derivative portfolios as of 31 December 2018 and 2017, respectively. However, due to the low level of interest rates across the Japanese Yen yield curve, the sensitivity analysis in 2018 and 2017 for assets and liabilities denominated in Japanese Yen reflect a parallel movement in the yield curve of +/- 10 bps.

(UA thousands)

	Upward Parallel Shift		Downward Parallel Shift	
	2018 Gain/(Loss)	2017 Gain/(Loss)	2018 Gain/(Loss)	2017 Gain/(Loss)
Investments at fair value through profit or loss	(12,265)	(12,671)	14,481	15,207
Fair-valued borrowings and derivative portfolio	(470,561)	(258,626)	412,344	232,330

Prepayment Risk

In addition to the two principal sources of interest rate risk described above, the Bank is exposed to prepayment risk on loans committed before 1997 on which the Bank is unable to charge a prepayment penalty. In practice the level of prepayments on such loans has generally been within acceptable levels. For all market-based loans issued since 1997, the Bank protects itself from prepayment risk by linking the prepayment penalty to the cost of redeploying the funds at current market rates. Since 2006, total annual prepayments on loans particularly those committed prior to 1997 have been declining over the years. Prepayments in the year ended 31 December 2018 amounted to UA 63.49 million, compared to prepayments of UA 103.78 million realized in 2017, none of which related to loans committed prior to 1997.

Operational Risk

Like all financial institutions, the Bank is exposed to operational risks arising from its systems and processes.

Operational risks include the risks of losses resulting from inadequate or failed internal processes, people, and/or systems, and from external events which could have a negative financial or adverse reputational impact. Operational risk is present in virtually all the Bank's transactions and includes losses attributable to failures of internal processes in credit and market operations.

The office of the Group Chief Risk Officer has oversight on operational risk activities across the Bank. This includes the implementation of an Integrated Internal Control Framework (IICF), an Internal Control over Financial Reporting (ICFR) based on the COSO Framework and an Operational Risk Management Framework (ORMF). The ICFR serves as a means of regularly evaluating the effectiveness and efficiency of the Bank's internal controls in all significant business processes with financial statement impact. As part of this process, Management's attestation on the adequacy of internal controls over financial reporting is published in the Bank's Annual Report.

The ORMF ensures a structured and well-coordinated approach to risk identification and assessment, risk mitigation and control as well as risk reporting across the Bank. It also provides the basis for applying an advanced standard in measuring operational risk capital. Currently, the Bank's Capital Adequacy and Exposure Management Framework provides for an operational risk capital charge of 15 percent of the average operating income for the preceding 3 years, in line with Basel II recommendations for operational risk.

It is the primary responsibility of the management of each business unit to implement adequate controls in their respective business processes based on the prevailing institutional standards. Management is required to sign attestation of compliance annually.

Compliance with institutional standards is verified through periodic reviews undertaken by the Office of the Auditor General of the Bank. The results of internal audit reviews are discussed with the Management of the relevant business unit(s), with summaries submitted to Senior Management of the Bank and the Audit and Finance Committee of the Board of Directors.

The Bank also has a contingency and business continuity plan which aims to ensure the continuity of its operations and protect the interests of all the key stakeholders of the Bank Group, namely, the member countries (borrowing and non-borrowing), bondholders and other creditors as well as employees and their families, in the event of any disturbance in its office locations. Three key organs in the Bank ensure the oversight and implementation of the plan: (i) the Executive Crisis Committee, chaired by the President of the Bank, makes the key decisions based on recommendations from the Operations Crisis Committee (OCC); (ii) the OCC, chaired by the Corporate Vice President, closely monitors all developments affecting the Bank and advises on measures necessary to mitigate the relevant risks; and (iii) the Business Continuity Unit (BCPU) follows up on the implementation of decisions made and is also responsible for periodic tests of the overall business continuity preparedness of the Bank and staff.

Other elements of the Bank's operational risk management practices include compliance with the Code of conduct and staff rules, the work of the Integrity and Anti-Corruption Department (IACD) and the existence of a whistleblower protection policy.

Note E – Financial assets and liabilities

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values as at 31 December 2018 and 2017:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss					
31 December 2018	Mandatorily at Fair value	Designated at Fair Value	Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	2,063,742	2,063,742	2,063,742
Demand obligations	-	-	-	3,801	3,801	3,801
Treasury investments	5,722,293	-	-	4,756,505	10,478,798	10,524,556
Derivative assets	655,432	-	-	-	655,432	655,432
Non-negotiable instruments on account of capital	-	-	-	24	24	24
Accounts receivable	-	-	-	680,369	680,369	680,369
Loans*	23,543	-	-	18,867,991	18,891,534	18,891,534
Equity participations	-	-	848,701	-	848,701	848,701
Total financial assets	**6,401,268**	**-**	**848,701**	**26,372,432**	**33,622,401**	**33,668,159**
Accounts payable	-	-	-	1,550,663	1,550,663	1,550,663
Derivative liabilities	1,044,288	-	-	-	1,044,288	1,044,288
Borrowings	-	23,389,010	-	600,849	23,989,859	24,036,680
Total financial liabilities	**1,044,288**	**23,389,010**	**-**	**2,151,512**	**26,584,810**	**26,631,631**

** At 31 December 2018 the fair value of loans measured at amortized cost are deemed to approximate their carrying value net of impairment loss.*

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss					
31 December 2017	Mandatorily at Fair value	Designated at Fair Value	Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	1,173,096	1,173,096	1,173,096
Demand obligations	-	-	-	3,801	3,801	3,801
Treasury investments	6,695,209	-	-	4,825,856	11,521,065	11,492,300
Derivative assets	717,022	-	-	-	717,022	717,022
Non-negotiable instruments on account of capital	-	-	-	76	76	76
Accounts receivable	-	-	-	594,974	594,974	594,974
Loans	18,380	-	-	17,615,273	17,633,653	17,742,765
Equity participations	-	-	781,217	-	781,217	781,217
Total financial assets	**7,430,611**	**-**	**781,217**	**24,213,076**	**32,424,904**	**32,505,251**
Accounts payable	-	-	-	1,255,587	1,255,587	1,255,587
Derivative liabilities	1,051,631	-	-	-	1,051,631	1,051,631
Borrowings	-	22,566,653	-	609,037	23,175,690	23,241,646
Total financial liabilities	**1,051,631**	**22,566,653**	**-**	**1,864,624**	**25,482,908**	**25,548,864**

The table below classifies the Bank's financial instruments that were carried at fair value at 31 December 2018 and 2017 into three levels reflecting the relative reliability of the measurement basis, with level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument		Valuation techniques for which all significant inputs are based on observable market data		Valuation techniques for which any significant input is not based on observable market data			
	(Level 1)		(Level 2)		(Level 3)		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Treasury investments	3,948,788	4,863,084	1,765,498	1,822,370	8,007	9,755	5,722,293	6,695,209
Derivative assets	6,340	7,178	643,124	698,435	5,96 8	11,409	655,432	717,022
Loans	-	-	23,543	18,380	-	-	23,543	18,380
Equity participation	9,936	13,025	-	-	838,765	768,192	848,701	781,217
Total financial assets	**3,965,064**	**4,883,287**	**2,432,165**	**2,539,185**	**852,740**	**789,356**	**7,249,969**	**8,211,828**
Derivative liabilities	-	-	1,001,541	1,011,772	42,747	39,859	1,044,288	1,051,631
Borrowings	14,748,631	14,063,369	8,364,354	8,258,453	276,025	244,831	23,389,010	22,566,653
Total financial liabilities	**14,748,631**	**14,063,369**	**9,365,895**	**9,270,225**	**318,772**	**284,690**	**24,433,298**	**23,618,284**

The Bank's policy is to recognize transfers out of level 3 as of the date of the event or change in circumstances that caused the transfer.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, exchange-traded derivatives, US government treasury bills and certain non-US sovereign obligations. The Bank does not adjust the quoted price for these instruments.

Financial instruments that trade in markets that are not considered to be active but are valued based on quoted market prices, dealer quotations or alternative pricing sources supported by observable inputs are classified within Level 2. These include investment-grade corporate bonds and certain non-US sovereign obligations, listed equities, over-the-counter derivatives and a convertible loan. As Level 2 investments include positions that are not traded in active markets and/or are subject to transfer restrictions, valuations may be adjusted to reflect illiquidity and/or non-transferability, which are generally based on available market information.

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or do not trade at all. Instruments in Level 3 include loans to regional member countries, private equity and corporate debt securities including some structured asset and mortgage-backed instruments. As observable prices are not available for these securities, the Bank has used valuation techniques to derive the fair value.

However as noted earlier following the adoption of the expected credit loss model the fair value of loans measured at amortized cost are deemed to approximate their carry value net of impairment loss while the fair values of some securities are derived merely for disclosure purposes rather than for reporting on the balance sheet.

The primary products classified at Level 3 are as follows:

Debt Securities - Asset and Mortgage-Backed Securities

Due to the lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. These securities are also classified as Level 3.

Equity Shares - Private Equity

The fair value of investments in unlisted entities is assessed using appropriate methods, for example, discounted cash flows or Net Asset Value (NAV). The fair value of the Bank's equity participations is estimated as the Bank's percentage ownership of the net asset value of the investments.

Derivatives

Trading derivatives are classified at Level 3 if there are parameters which are unobservable in the market, such as products where the performance is linked to more than one underlying. Examples are derivative transactions and derivatives attached to local currency transactions. These unobservable correlation parameters could only be implied from the market, through methods such as historical analysis and comparison to historical levels or benchmark data.

Reconciliation of Level 3 Fair Value Balances

Reconciliation of fair value balances measured using valuation techniques with no significant input from observable market data (level 3 hierarchy) at 31 December 2018 and 2017 is as follows:

(UA thousands)

	Investments at Fair Value through Profit and Loss	Investments at Fair Value through Other Comprehensive Income	Derivative Assets	Derivative Liabilities	Borrowings
2017					
Balance at 1 January 2017	35,024	713,106	7,424	(43,739)	(164,359)
Unrealized (losses)/gains recognized in income statement	(838)	-	(3,625)	(56)	(2,046)
Gains recognized in the statement of comprehensive income	-	48,572	-	-	-
Purchases, issues and settlements (net)	(23,825)	36,054	7,837	683	(82,277)
Translation effects	(606)	(29,539)	(226)	3,253	3,851
Balance at 31 December 2017	**9,755**	**768,193**	**11,410**	**(39,859)**	**(244,831)**
2018					
Balance at January 1, 2018	9,755	768,193	11,410	(39,859)	(244,831)
(Losses) recognized in income statement	(1,502)		(429)	(12,466)	(1,839)
Gains/(losses) recognized in statement of comprehensive income		24,024	-	-	(21,066)
Purchases, issues and settlements (net)	(469)	73,411	510	4,194	-
Reclassification	-	-	-	-	(8,287)
Translation effects	223	(26,862)	479	(618)	-
Transfer between assets and liabilities	-	-	(6,002)	6,002	-
Balance at 31 December 2018	**8,007**	**838,766**	**5,968**	**(42,747)**	**(276,023)**

Fair Value of Financial Assets and Liabilities at Amortized Cost Based on Three-Level Hierarchy

The table below classifies the fair value of the Bank's financial instruments that were carried at amortized cost at 31 December 2018 and 2017 into three levels reflecting the relative reliability of the measurement bases, with level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument (Level 1)		Valuation techniques for which all significant inputs are based on observable market data (Level 2)		Valuation techniques for which any significant input is not based on observable market data (Level 3)		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Treasury investments	4,802,289	4,783,003	-	-	-	-	4,802,289	4,783,003
Loans	-	-	-	-	18,891,534	17,724,385	18,891,534	17,724,385
Total financial assets	**4,802,289**	**4,783,003**	**-**	**-**	**18,891,534**	**17,724,385**	**23,693,823**	**22,507,388**
Borrowings	-	-	551,214	556,831	94,045	115,549	645,259	672,380
Total financial liabilities	**-**	**-**	**551,214**	**556,831**	**94,045**	**115,549**	**645,259**	**672,380**

Quantitative Information about Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

The table below shows the valuation techniques used in the determination of fair values for financial assets within level 3 of the measurement hierarchy as well as the key unobservable inputs used in the valuation models. The Bank has determined that market participants would use the same inputs in pricing the financial instruments. Management considers that changing the unobservable inputs described below to reflect other reasonably possible alternative assumptions would not result in a significant change in the estimated fair value.

Type of Financial Instrument	Valuation Approach	Key Unobservable Input	Inter-relationship between Key Unobservable Inputs and Fair Value Measurement
Treasury investments Time deposits Asset-backed securities Government and agency obligations Corporate bonds Financial institutions Supranational	Discounted cash flow Comparable pricing	Credit spread Conditional prepayment rate Constant default rate Expected payments profile following default Loss-given default yield	Increase in rate reduces fair value
Loans Fixed rate Floating rate	Discounted cash flow	Average cost of capital Probability of default, loss given default	A high probability of default results in lower fair value
Derivative assets	Options model	Volatility of credit Counterparty credit risk Own credit risk	-
Equity participations	Net asset value	NA	NA
Derivative liabilities	Discounted cash flow	Volatility of credit Credit spreads	-
Borrowings	Consensus pricing	Offered quotes Own credit	-

Significant Unobservable Inputs

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different fair value results.

The valuation techniques applied with significant unobservable inputs are described briefly below:

Comparable pricing

Comparable pricing refers to the method where valuation is done by calculating an implied yield from the price of a similar comparable observable instrument. The comparable instrument for a private equity investment is a comparable listed company. The comparable instrument in case of bonds is a similar comparable but observable bond. This may involve adjusting the yield to derive a value for the unobservable instrument.

Yield

Yield is the interest rate that is used to discount the future cash-flows in a discounted cash-flow model.

Correlation

Correlation is the measure of how movement in one variable influences the movement in another variable. Credit correlation generally refers to the factor that describes the relationship between the probability of individual entities to default on obligations and the joint probability of multiple entities to default on obligations. Similarly, equity correlation is the correlation between two equity instruments. An interest rate correlation refers to the correlation between two swap rates. Foreign Exchange (FX) correlation represents the correlation between two different exchange rates.

Liquidity Discount

A liquidity discount is primarily applied to unlisted firms to reflect the fact that these stocks are not actively traded. An increase in liquidity discount in isolation will result in unfavourable movement in the fair value of the unlisted firm.

Volatility

Volatility represents an estimate of how much a particular instrument, parameter or Index will change in value over time. Volatilities are generally implied from the observed option prices. For certain instruments, volatility may change with strike and maturity profile of the option.

Credit Spreads

Credit spreads represent the additional yield that a market participant would demand for accepting an exposure to the credit risk of an instrument. A change in the assumptions could lead to different fair value results.

Sensitivity Analysis of Valuations of Level 3 Assets and Liabilities Using Unobservable Inputs

For fair value measurements in level 3, changing one or more of the assumptions used would have the following effects:

Investments

The fair value of level 3 investments is sensitive to sources of pricing used. The fair value variance arising from using other sources of prices amounted to almost nil. (2017: almost nil).

Borrowings and Derivatives

The table below shows the effect of a parallel yield curve movement of +/- 100 bps of each of the currencies in the level 3 borrowings and derivative portfolios as of December 31, 2018 and 2017:

(UA thousands)

	Upward Parallel Shift		Downward Parallel Shift	
	Gain/(Loss)		Gain/(Loss	
	2018	2017	2018	2017
Fair-valued level 3 borrowings and derivative portfolios	(24,659)	(25,150)	19,960	29,584

Day One Profit and Loss - Unrecognized Gains/Losses as a Result of the Use of Valuation Models Using Unobservable Inputs

The unamortized balances of day one profit and loss at 31 December 2018 and 2017 were made up as follows:

(UA thousands)

	2018	2017
Balance at 1 January	201,048	162,752
New transactions	23,679	58,150
Amounts recognized in income statement during the year	(16,463)	(16,325)
Translation effects	(2,263)	(3,529)
Balance at 31 December	**206,001**	**201,048**

Note F – Treasury investments

As part of its overall portfolio management strategy, the Bank invests in government, agency, supranational, bank and corporate obligations, time deposits, mortgage and asset-backed securities, funded risk participation program, secured lending transactions, resale agreements and related derivative instruments including futures, forward contracts, cross-currency swaps, interest rate swaps, options and short sales.

For government, agency and supranational obligations with final maturity longer than 1 year and less than 15 years, the Bank may only invest in obligations with counterparties having a minimum credit rating of AA- or unconditionally guaranteed by governments of member countries or other official entities with the same rating criteria. For maturities beyond 15 years and up to 30 years, a AAA rating is required. For mortgage and asset-backed securities, the Bank may only invest in securities with a AAA credit rating. For bank and corporate obligations with final maturity longer than 6 months and less than 5 years, the Bank may only invest with counterparties having a minimum credit rating of AA-. AAA rating is required for debt obligations beyond 5 years and up to 10 years. The purchases of currency or interest rate options are permitted only if the life of the option contract does not exceed 1 year. Such transactions are only executed with counterparties with credit ratings of AA- or above. All derivative transactions, including options, cross-currency and interest rate swaps including asset swap transactions, are only permitted with approved counterparties or guaranteed by entities with which the Bank has entered into Master Derivative Agreements and a Collateral Support Agreement with minimum credit ratings of A-/A3 at the time of the transaction.
As at December 31, 2018, the Bank held collateral with a fair value of UA 196.25 million in connection with swap agreements. This was in the form of cash and has been recorded on the balance sheet with a corresponding liability included in "Other accounts payable". There was no collateral held in the form of liquid financial assets and kept in custody by the Bank.

The composition of treasury investments as at 31 December 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Treasury investments mandatorily measured at fair value through profit or loss	5,722,293	6,695,209
Treasury investments at amortized cost	4,756,718	4,825,856
Total treasury investments	10,479,011	11,521,065
Provision for impairment on investments	(213)	-
Total after impairment	**10,478,798**	**11,521,065**

Treasury Investments Mandatorily Measured at Fair Value through Profit or Loss (FVTPL)

A summary of the Bank's treasury investments mandatorily measured at FVTPL as at 31 December 2018 and 2017 was as follows:

(UA millions)

	US Dollar		Euro		CNY		Other Currencies		All Currencies	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Time deposits	115.90	126.58	-	-	-	-	-	60.28	115.90	186.86
Asset-backed securities	8.00	9.62	-	0.13	-	-	-	-	8.00	9.75
Government and agency obligations	2,995.19	2,896.32	312.32	934.97	-	-	79.54	74.39	3,387.05	3,905.68
Corporate bonds	451.40	202.84	26.88	75.09	-	-	-	-	478.28	277.93
Financial institutions	835.79	490.88	433.76	786.00	-	-	25.10	267.57	1,294.65	1,544.45
Supranational	250.59	336.12	100.45	420.40	0.97	-	86.40	14.02	438.41	770.54
Total	**4,656.87**	**4,062.36**	**873.41**	**2,216.59**	**0.97**	**-**	**191.04**	**416.26**	**5,722.29**	**6,695.21**

The nominal value of treasury investments mandatorily measured at FVTPL as at December 31, 2018 was UA 5,742.47 million (2017: UA 6,698.50 million). The average yield of treasury investments mandatorily measured at FVTPL for the year ended at December 31, 2018 was 1.82% (2017: 0.89%).

The contractual maturity structure of treasury investments mandatorily measured at FVTPL as at 31 December 2018 and 2017 was as follows:

(UA millions)

	2018	2017
One year or less	2,556.77	-
More than one year but less than two years	1,082.94	2867.46
More than two years but less than three years	1,292.40	2017.53
More than three years but less than four years	523.13	1119.37
More than four years but less than five years	259.07	214.08
More than five years	7.98	476.77
Total	**5,722.29**	**6,695.21**

Treasury Investments at Amortized Cost

A summary of the Bank's treasury investments at amortized cost at 31 December 2018 and 2017 was as follows:

(UA millions)

	US Dollar		Euro		CNY		Other Currencies		All Currencies	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Government and agency obligations	837.69	777.65	794.36	804.26	562.66	653.96	636.26	708.77	2,830.97	2,944.64
Supranational	914.40	951.16	617.94	615.25	94.58	71.50	298.83	243.31	1,925.75	1,881.22
Total	**1,752.09**	**1,728.81**	**1,412.30**	**1,419.51**	**657.24**	**725.46**	**935.09**	**952.08**	**4,756.72**	**4,825.86**

The nominal value of treasury investments at amortized cost as at December 31, 2018 is UA 4,717.29 million (2017: UA 4,768.51). The average yield of treasury investments at amortized cost for the year ended December 31, 2018 was 1.57 % (2017: 2.02%).

The contractual maturity structure of treasury investments at amortized cost as at 31 December 2018 and 2017 was as follows:

(UA millions)

	2018	2017
One year or less	346.03	-
More than one year but less than two years	347.49	481.63
More than two years but less than three years	435.18	345.89
More than three years but less than four years	538.79	348.76
More than four years but less than five years	580.08	411.27
More than five years	2,509.15	3,238.31
Total	**4,756.72**	**4,825.86**

The fair value of treasury investments at amortized cost as at December 31, 2018 was UA 4,802.52 million (2017: UA 4,797.09 million).

Note G – Derivative assets and liabilities

The fair values of derivative financial assets and financial liabilities at 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Borrowings-related:				
Cross-currency swaps	557,454	783,426	654,626	779,599
Interest rate swaps	77,319	176,685	39,005	179,111
Loan swaps	12,473	83,899	15,605	91,420
	647,246	1,044,010	709,236	1,050,130
Investments-related:				
Asset swaps	1,428	278	106	1,501
Macro-hedge swaps and others	6,758	-	7,680	-
	8,186	278	7,786	1,501
Total	**655,432**	**1,044,288**	**717,022**	**1,051,631**

The notional amounts of derivative financial assets and financial liabilities at 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Borrowings-related:		
Cross-currency swaps	10,453,686	11,579,194
Interest rate swaps	16,790,263	13,842,938
Loan swaps	2,514,714	2,601,761
	29,758,663	28,023,893
Investments-related:		
Asset swaps	132,931	2,811
Macro-hedge swaps	20,111	119,236
	153,042	122,047
Total	**29,911,705**	**28,145,940**

Loan Swaps

The Bank has entered into interest rate swaps to effectively convert fixed rate income on loans in certain currencies into variable rate income.

Futures Contracts

The Bank has entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at 31 December 2018, the Bank had futures with a notional value of Euro 7,672 million, GBP 1,294 million and USD 44,133 million. The carrying value of Euro and US dollars futures was a positive market value of UA 2.52 million (in the money) and UA 8.05 million (in the money) while the GBP futures was a negative market value of UA 0.01 million (out of the money).

Forward Exchange Transactions to Hedge Administrative Expenses

To insulate the Bank from possible significant increases in administrative expenses that could arise from an appreciation of the principal currencies of administrative expenditure i.e. EUR, GBP, CFA Franc and USD vis-à-vis the UA, the Bank executes forward exchange transactions to economically hedge its administrative expenses. As at 31 December 2018, there were no open positions with respect to forward exchange transactions.

Hedge Accounting

The Bank applies fair value hedge accounting to interest rate swaps contracted to hedge its interest rate risk exposure associated to fixed rate loans. Changes in the fair value of the derivative hedging instruments are recognized in profit or loss. The hedged item is adjusted to reflect changes in its fair value in respect of the risk being hedged with the gain or loss attributable to the hedged risk being recognized in profit or loss.

The fair value of the loan swaps designated and effective as hedging instruments as at 31 December 2018 was a liability of UA 72.5 million. The fair value gain on these loan swaps for the year ended 31 December 2018 was UA 3.57 million. The fair value loss on the hedged loans attributable to the hedged risk was UA 3.89 million. Therefore, the hedge effectiveness recognized in profit or loss was a loss of UA 0.32 million.

Hedge accounting treatment for swaps at the designation date requires the amortization of the difference between the net carrying amount of loans and their fair value from inception. For the year ended December 2018, the amortization of fair value adjustment on the hedged risk amounted to UA 3.87 million.

Note H – Non-negotiable instruments on account of capital

Prior to May 1981, all payments in respect of paid-up capital had been made in convertible currencies. However, for the capital increases authorized in May 1979 (but effective December 1982) and May 1981, regional members had the following two options for making their payments:

1. Five (5) equal annual installments, of which at least 50 percent is payable in convertible currency and the remainder in local currency; or

2. Five (5) equal annual installments, of which 20 percent is payable in convertible currency and 80 percent in non-negotiable, non-interest-bearing notes. Such notes are redeemable by the Bank solely in convertible currency in installments commencing on the fifth anniversary of the first subscription payment date.

Non-regional members were required to make their payments solely in convertible currencies.

The paid-up portion of subscriptions, authorized in accordance with Board of Governors' Resolution B/BG/87/11 relating to the Fourth General Capital Increase (GCI-IV), is to be paid as follows:

1) **Regional Members** – 50 percent in five (5) equal annual installments in cash in freely convertible currency or freely convertible currencies selected by the member state, and 50 percent by the deposit of five non-negotiable, non-interest-bearing notes of equal value denominated in Units of Account. Such notes are redeemable by the Bank solely in convertible currency in five (5) equal annual installments commencing on the fifth anniversary of the first subscription payment date.

2) **Non-Regional Members** – five (5) equal annual installments in their national currencies, where such currencies are freely convertible or in notes denominated in freely convertible currencies encashable on demand.

Under the Fifth General Capital Increase (GCI-V), there is no distinction in the payment arrangements between regional and non-regional members. Each member is required to pay for the paid-up portion of its subscribed shares in eight (8) equal and consecutive annual installments. The first installments shall be paid in cash and in a freely convertible currency. The second to the eighth installments shall be paid in cash or notes encashable on demand in a freely convertible currency.

Under the Sixth General Capital Increase (GCI-VI), approved in accordance with the Board of Governors' Resolution B/BG/2010/08 of 27 May 2010 each member eligible to receive financing exclusively from the African Development Fund only shall pay for the paid-up portion of its subscribed shares in twelve (12) equal and consecutive annual installments; while Middle Income Countries, Blend countries and Non-Regional Member Countries shall pay for the paid-up portion of their respective subscribed shares in eight (8) equal and consecutive annual installments.

Payments for shares under GCI-VI are to be made in freely convertible currencies in cash or promissory notes encashable on or before the due date for payment.

At 31 December 2018 and 2017, the non-negotiable notes' balances were as follows:

(UA thousands)

	2018	2017
Balance at 1 January	76	159
Net movement for the year	(52)	(83)
Balance at 31 December	**24**	**76**

Note I – Loans and guarantees

Loans

The Bank's loan portfolio comprises loans granted to, or guaranteed by borrowing member countries as well as certain other non-sovereign-guaranteed loans. Amounts disbursed on loans are repayable in the currency or currencies disbursed by the Bank or in other freely convertible currency or currencies approved by the Bank. The amount repayable in each of these currencies shall be equal to the amount disbursed in the original currency. Loans are granted for a maximum period of twenty years, including a grace period, which is typically the period of project implementation. Loans are for the purpose of financing development projects and programs, and are not intended for sale. Furthermore, management does not believe there is a comparable secondary market for the type of loans made by the Bank.

The types of loans currently held by the Bank and the terms applicable are described below:

Loan Portfolio: The Bank's loan portfolio is currently made up of three primary types of loans based on the financial terms: fixed rate, floating rate and variable rate loans. Fixed rate and variable rate loans have both multicurrency and single currency terms – that is, they are offered in multi-currencies or in a single currency. While floating rate loans only bear single currency terms.

Other Loans: The Bank also offers parallel co-financing and A/B loan syndications. Through syndications the Bank is able to mobilize co-financing by transferring some or all of the risks associated with its loans and guarantees to other financing partners. Thus, syndications decrease and diversify the risk profile of the Bank's financing portfolio. Syndications may be on a funded or unfunded basis and may be arranged on an individual, portfolio, or any other basis consistent with industry practices.

The Bank also offers its RMCs local currency loans if the Bank is able to fund efficiently in the local currency market. The local currency loans are offered under the fixed spread loan pricing framework with a "cost-pass-through" principle to ensure that the overall cost of funds is compensated.

At 31 December 2018 and 2017, outstanding loans were as follows:

(UA thousands)

	2018	2017
Outstanding balance of loans - amortized cost	19,259,943	17,799,866
Outstanding balance of loans - fair value	23,543	18,380
	19,283,486	17,818,246
Less: accumulated provision for impairment	(391,952)	(184,593)
Balance at 31 December	**18,891,534**	**17,633,653**

Fair Value of Loans

At 31 December 2018 the fair value of loans measured at amortized cost are deemed to approximate their net carrying value following the adoption of the expected credit loss model. The carrying and estimated fair value of outstanding loans as at 31 December 2017 are also presented below.

(UA thousands)

	2018	2017	
	Carrying Value/ Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans at amortized cost			
Fixed rate loans	17,611,969	16,127,433	16,019,325
Floating rate loans	1,471,931	1,500,247	1,521,227
Variable rate loans	176,043	172,186	183,833
Subtotal	19,259,943	17,799,866	17,724,385
Loans at fair value	23,543	18,380	18,380
Total	19,283,486	17,818,246	17,742,765
Accumulated provision for impairment on loans at amortized cost	(391,952)	(184,593)	-
Net loans	**18,891,534**	**17,633,653**	**17,742,765**

The Bank is also exposed to a loan that is measured at FVTPL due to the existence of a conversion option in the loan that could potentially change the future cash flows to no longer represent solely payments of principal and interest as required by IFRS 9. Accordingly, the fair value of this loan, and similar loans, is determined using the expected cash flows model with inputs including interest rates and the borrower's credit spread estimated based on the Bank's internal rating methodology for non-sovereign loans.

Maturity and Currency Composition of Outstanding Loans

The contractual maturity structure of outstanding loans as at 31 December 2018 and 2017 was as follows:

(UA millions)

	2018				2017
Periods	Fixed Rate	Floating Rate	Variable Rate	Total	Total
One year or less	1,232.58	195.12	176.03	1,603.73	1,560.56
More than one year but less than two years	1,733.93	233.38	-	1,967.31	1,328.73
More than two years but less than three years	1,594.72	151.30	-	1,746.02	1,671.65
More than three years but less than four years	1,442.46	149.17	-	1,591.63	1,465.50
More than four years but less than five years	1,390.97	154.80	-	1,545.77	1,437.76
More than five years	10,240.86	588.16	-	10,829.02	10,354.05
Total	**17,635.52**	**1,471.93**	**176.03**	**19,283.48**	**17,818.25**

Borrowers may repay loans before their contractual maturity, subject to the terms specified in the loan agreements. The currency composition and types of outstanding loans as at 31 December 2018 and 2017 were as follows:

(Amounts in UA millions)

			2018		2017	
			Amount	%	Amount	%
Fixed Rate:	Multi-Currency	Euro	70.50		92.08	
		Japanese Yen	130.01		143.95	
		Pound Sterling	1.30		1.64	
		Swiss Franc	2.25		2.21	
		US Dollar	176.62		193.70	
			380.68	1.97	433.58	2.43
	Single Currency	Euro	4,994.00		5,259.00	
		South African Rand	1,299.82		1,505.91	
		US Dollar	6,737.83		5,954.00	
		Others	36.94		46.83	
			13,068.59	67.77	12,765.74	71.64
	Structured Products	Euro	2,292.20		1,646.65	
		US Dollar	1,579.80		1,123.84	
		South African Rand	314.23		176.02	
			4,186.23	21.71	2,946.51	16.54
Floating Rate:	Single Currency	Euro	252.44		306.62	
		Japanese Yen	4.45		5.97	
		South African Rand	71.63		91.08	
		US Dollar	1,143.41		1,096.58	
			1,471.93	7.63	1,500.25	8.42
		US Dollar	137.93		134.69	
			137.93	0.72	134.69	0.76
	Single Currency	Euro	6.85		7.08	
		Japanese Yen	15.66		15.01	
		Swiss Franc	0.98		0.97	
		US Dollar	14.63		14.42	
			38.12	0.20	37.48	0.21
Total			**19,283.48**	**100.00**	**17,818.25**	**100.00**

The weighted average yield on outstanding loans for the year ended 31 December 2018 was 3.38 % (2017: 2.94 %).

A comparative summary of the currency composition of outstanding loans at 31 December 2018 and 2017 was as follows:

(Amounts in UA millions)

	2018		2017	
	Amount	%	Amount	%
Euro	7,616.00	39.49	7,311.44	41.03
Japanese Yen	150.12	0.78	164.93	0.93
Pound Sterling	1.30	0.01	1.64	0.01
South African Rand	1,685.68	8.74	1,773.00	9.95
Swiss Franc	3.23	0.02	3.18	0.02
US Dollar	9,790.21	50.77	8,517.23	47.80
Others	36.94	0.19	46.83	0.26
Total	**19,283.48**	**100.00**	**17,818.25**	**100.00**

Accrued Income and Charges Receivable on Loans

The accrued income and charges receivable on loans as at 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Accrued income and charges receivable on loans	628,767	530,396
Less: accumulated provision for impairment	(290,685)	(250,326)
Balance at 31 December	**338,082**	**280,070**

Provision for Impairment on Loan Principal and Charges Receivable

At 31 December 2018, outstanding loans with an aggregate principal balance of UA 509.63 million (2017: UA 476.51 million), of which UA 284.01 million (2017: UA 285.05 million) was overdue, were considered to be impaired.

The gross amounts of loans and charges receivable that were impaired and their cumulative impairment at 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Outstanding balance on impaired loans	509,630	476,515
Less: accumulated provision for impairment (Stage 3 only)	(178,365)	(184,593)
Net balance on impaired loans	**331,265**	**291,922**

The movements in the accumulated provision for impairment on outstanding loan principal for the year ended 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Balance as at 1 January 2018	184,593	251,423
Additional provision on adoption of new IFRS 9 impairment rule	155,791	-
Adjusted balance as at 1 January 2018	340,384	251,423
Provision for impairment on loan principal for the year (net)	48,398	2,997
Reversal of Provision for impairment for the year	-	(59,742)
Translation effects	3,170	(10,085)
Balance at 31 December	**391,952**	**184,593**

Accumulated provisions for impairment on outstanding loan principal included the provisions relating to public and private sector loans. During the year ended 31 December 2018, provision for impairment made on private sector loan amounted to UA 46.79 million (2017: net reversal of UA 4.42 million). The accumulated provisions on private sector loans at 31 December 2018 amounted to UA 93.13 million (2017: UA 101.54 million).

The movements in the accumulated provision for impairment on loan interest and charges receivable for the year ended 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Balance at 1 January	250,326	259,458
Additional provision on adoption of new IFRS 9 impairment rule	14,978	-
Adjusted balance as at 1 January 2018	265,304	259,458
Provision for impairment on loan charges for the year (net)	28,443	13,971
Provision of charges write-back	-	(16,731)
Translation effects	(3,097)	(6,372)
Balance at 31 December	**290,650**	**250,326**

Accumulated provisions for impairment on loan interest and charges receivable included the provisions relating to public and private sector loans. During the year ended 31 December 2018, a provision for impairment was made on interest and charges receivable on private sector loans in the amount of UA 8.88 million (2017: UA 4.68 million). The accumulated provision on interest and charges receivable on private sector loans at 31 December 2018 amounted to UA 16.96 million (2017: UA 4.83 million).

Guarantees

The Bank may enter into special irrevocable commitments to pay amounts to borrowers or other parties for goods and services to be financed under loan agreements. At 31 December 2018, outstanding irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 16.69 million (2017: UA 1.01 million).

Also, the Bank provides trade finance and repayment guarantees to entities within its regional member countries for development loans granted to such entities by third parties. Guarantees represent potential risk to the Bank if the payments guaranteed for an entity are not made. Trade finance and repayment guarantees provided by the Bank outstanding at 31 December 2018 amounted to UA 344.40 million (2017: UA 392.11 million).

Other than the guarantees above issued to other entities, the Bank in 2015 entered into guarantee contracts referred to as Exposure Exchange Agreements (EEAs), covering certain of its loans whereby it gives as well as receives compensation in case there is a default in any of the specified loans. The details are in Note in D. Apart from the EEA, in 2018 the Bank entered into two landmark BSO transactions: 1) a USD 1 billion involving synthetic securitization of a portfolio of non-sovereign assets which will also benefit from a USD 100 million guarantee from the European Fund for Sustainable Development (EFSD); and 2) a USD 500 million credit insurance on its non-sovereign portfolio of financial sector loans. Both transactions are expected to release risk capital and create around USD 1.2 billion in additional lending headroom. Like the EEAs, these transactions are accounted for as financial guarantees. As at 31 December 2018, the nominal amounts of these three contracts were USD 5.97 billion (UA 4.29 billion).

Similarly, the Bank purchases credit enhancement facilities from the Private Sector Enhancement Facility (PSF) for some of its loans. As at 31 December 2018, the covered amounts of non-sovereign loans by PSF amounted to UA 357.22 million and the cost of this coverage for the year ended 31 December 2018 was UA 14.09 million.

The expected credit loss (ECL) calculated on the Bank's financial guarantee as at December 2018 amounts to UA 0.62 million.

Note J – Equity participations

Investment in ADF

The ADF was established in 1972 as an international institution to assist the Bank in contributing to the economic and social development of African countries, to promote cooperation and increase international trade particularly among the African countries, and to provide financing on highly concessional terms for such purposes. The Fund's original subscriptions were provided by the Bank and the original State Participants to the ADF Agreement, and State Participants acceding to the Agreement since the original signing date. Thereafter, further subscriptions were received from participants in the form of Special General Increases and General Replenishments.

The ADF has a 14-member Board of Directors, made up of 7 members selected by the African Development Bank and 7 members selected by State Participants. The Fund's Board of Directors reports to the Board of Governors made up of representatives of the State Participants and the ADB. The President of the Bank is the ex-officio President of the Fund.

To carry out its functions, the Fund utilizes the offices, staff, organization, services and facilities of the Bank, for which it pays a share of the administrative expenses. The share of administrative expenses paid by the Fund to the Bank is calculated annually on the basis of a cost-sharing formula, approved by the Board of Directors, which is driven in large part by the number of programs and projects executed during the year. Based on the cost-sharing formula, the share of administrative expenses incurred by ADF for the year ended 31 December 2018 amounted to UA 235.75 million (2017: UA 228.50 million), representing 58.38 percent (2017: 60.95 percent) of the shareable administrative expenses incurred by the Bank. The accounts of the ADF are kept separate and distinct from those of the Bank.

Although the ADB by agreement exercises 50 percent of the voting powers in the ADF, the Agreement establishing the ADF also provides that in the event of termination of the ADF's operations, the assets of the Fund shall be distributed pro-rata to its participants in proportion to the amounts paid-in by them on account of their subscriptions, after settlement of any outstanding claims against the participants. At 31 December 2018, the Bank's pro-rata or economic share in ADF was 0.41 percent (2017: 0.43 percent).

Notwithstanding the exercise of 50 percent voting power in the Fund by the Bank, the conditions for control under IFRS 10 Consolidated Financial Statements are not met since the Bank does not have absolute voting interest to control ADF, rights to variable returns from its relationship with ADF and its economic interest in the Fund is less than 1 percent. Consequently, the Fund cannot be consolidated in the Bank's Financial Statements.

As a result of the implementation in 2006 of the Multilateral Debt Relief Initiative (MDRI), the net asset value of ADF which is the basis for determining the value of the Bank's investment in the Fund declined, resulting in impairment loss on the Bank's investment. The net assets of ADF is made up of its net development resources less outstanding demand obligations plus disbursed and outstanding loans excluding balances due from countries that have reached their Heavily Indebted Poor Countries (HIPC) completion points and, are therefore due for MDRI loan cancelation at the balance sheet date.

Other Equity Participations

The Bank may take equity positions in privately owned productive enterprises and financial intermediaries, public sector companies that are in the process of being privatized or regional and sub-regional institutions. The Bank's objective in such equity investments is to promote the economic development of its Regional Member Countries and, in particular, the development of their private sectors. The Bank's equity participation is also intended to promote efficient use of resources, promoting African participation, playing a catalytic role in attracting other investors and lenders and mobilizing the flow of domestic and external resources to financially viable projects, which also have significant economic merit.

Unless otherwise approved by the Board of Directors, the Bank's equity participation shall not exceed 25 percent of the equity capital of the entity in which it invests. The Bank does not seek a controlling interest in the companies in which it invests, but closely monitors its equity investments through Board representation. In accordance with the Board of Governors' Resolution B/BG/2009/10 of 13 May 2009, total equity investment by the Bank shall not at any time exceed 15 percent of the aggregate amount of the Bank's paid-in capital and reserves and surplus (risk capital) included in its ordinary capital resources.

Under IFRS 9, equity investments must be measured at fair value through profit or loss. However, where the equity investment is not held for trading, an entity has the option to take fair value changes into Other Comprehensive Income (OCI), with no recycling of the change in fair value to profit or loss if the investment is subsequently derecognized. As the Bank's equity investments are currently held for strategic purposes of enhancing development in Regional Member Countries rather than for trading, the Bank has opted to designate all its equity investments as at fair value through other comprehensive income.

The Bank's equity interests at the end of 2018 and 2017 are summarized below:

(Amounts in UA thousands)

Institutions	Year Established	Callable capital	Carrying Value 2018	2017
African Development Fund	1972		111,741	111,741
Accumulated share of profit/ (loss) & impairment on January 1			(50,133)	(49,636)
Share of loss for the year			(295)	(476)
Impairment for the year			394	(21)
		-	61,707	61,608
DIRECT INVESTMENTS				
Development Finance Institutions				
Africa Prudential plc	2015	-	145	149
Africa50 Project Development	2016	-	3,703	2,730
Africa50 Project Finance	2015	53,926	17,668	19,371
African Export and Import Bank	1993	19,506	73,254	78,711
African Guarantee Fund	2011	-	8,280	8,107
Afriland Properties plc	2015	-	85	83
Central African Development Bank (BDEAC)	1975	2,260	2,401	1,686
Development Bank of Nigeria		-	35,951	
East African Development Bank	1967	10,066	16,575	15,928
Eastern and Southern African Trade and Development Bank	1985	39,114	60,200	63,689
Great Lakes Development Bank(BDEGL)*	-	-	-	-
Shelter Afrique	1982	-	6,794	6,635
TCX Investment Company Mauritius Limited	2007	160	20,877	19,122
United Capital plc	2015	-	418	510
West African Development Bank (BOAD)	1973	1,829	4,656	5,098
		126,861	251,007	221,819
Commercial Banks				
United Bank for Africa	1961	-	9,288	12,283
		-	9,288	12,283
Microfinance Institutions				
AB Microfinance Bank Nigeria Limited	2007	-	1,014	1,014
Access Bank Liberia Limited	2008	-	1,071	1,136
Access Bank Tanzania Limited	2007	-	484	612
Advans Banque Congo	2008	-	795	991
MicroCred Côte d'Ivoire S.A.	2013	-	2,083	730
		-	5,447	4,483
Insurance				
Africa Trade Insurance Agency	2013	-	11,562	11,139
Africa-Re	1977	-	54,610	47,443
Eastern and Southern African Reinsurance Company (ZEP-RE)	2011	-	20,901	20,131
		-	87,073	78,713
TOTAL DIRECT INVESTMENTS		**126,861**	**352,815**	**317,298**
FUNDS				
AFIG Fund II LP	2016	9,229	5,777	4,608
Africa Capital Works Holdings	2018	10,383	394	-
Africa Capitalization Fund	2010	155	10,065	12,129
Africa Health Fund LLC	2009	2,984	5,287	8,446
Africa Joint Investment Fund	2010	258	6,033	5,733
Africa Renewable Energy Fund L.P	2014	1,053	15,969	10,875
African Agriculture Fund LLC	2010	-	36,436	32,238
African Domestic Bond Fund	2018	15,099	2,876	-
African Infrastructure Investment Fund 2	2009	0	25,900	20,317
AfricInvest Fund II LLC	2008	260	4,000	7,996
AfricInvest Fund III LLC	2016	1,365	13,858	7,839
AFS LP	2018	10,539	246	-
Agri-Vie Fund PCC	2008	514	4,773	6,799
APIS Growth Fund I Africa LP	2017	10,641	2,553	1,955
Argan Infrastructure Fund	2010	5,570	2,749	3,483
ARM-HarithInfrastructure Fund	2015	9,242	6,325	4,885
Atlantic Coast Regional Fund LLC	2008	-	11,420	14,735
Aureos Africa Fund LLC	2007	985	5,499	11,413
Business Partner Internat. South Africa	2014	1,093	3,144	2,697
Carlyle Sub-Saharan Africa Fund (CSSAF)	2012	3,947	23,473	11,262
Catalyst Fund I LLC	2010	-	4,632	5,643
Catalyst II	2018	7,307	3,206	-
Cauris Croissance II Fund	2012	1,056	2,306	2,457
ECP Africa Fund 4 (ECP4)	2017	7,384	8,370	9,945
ECP Africa Fund II PCC	2005	-	17,313	18,870
ECP Africa Fund III PCC	2008	805	42,321	44,212
Eight Miles LLP	2012	2,000	13,451	16,593
Enko Africa Private Equity Fund	2014	3,332	6,311	4,415
Evolution Fund II (Mauritius) LP	2018	11,514	2,155	-
Evolution One Fund	2010	668	301	313
Fund for Agricultural Finance in Nigeria (FAFIN)	2017	3,798	2,600	1,759
GEF Africa Sustainable Forestry Fund	2011	0	12,200	13,088
GroFin Africa Fund	2008	2,321	935	1,406
Helios Investors II (Mauritius) Limited	2011	601	30,945	31,877
I & P Afrique Entrepreneurs	2012	795	3,887	3,867
Investment Fund for Health in Africa	2010	630	6,593	5,506
IPDEV II	2018	2,383	1,734	-
KIBO Fund II	2014	2,434	5,511	3,434
Kukuza Project Development Company	2017	3,236	-	351
Maghreb Private Equity Fund II (Mauritius) PCC	2008	3,845	5,648	8,630
Maghreb Private Equity Fund III (Mauritius) PCC	2012	1,475	15,196	14,541
Mediterrania Capital Fund III	2017	4,989	7,062	3,991
Moringa Mauritius Africa	2016	3,872	3,036	1,264
New Africa Mining Fund II	2010	-	-	(117)
Pan African Housing Fund (PAHF)	2013	1,598	2,954	2,605
Pan African Infrastructure Development Fund	2007	234	39,063	32,719
Pan African Infrastructure Development Fund II	2014	5,607	771	1,287
Pan-African Investment Partners II Limited	2008	-	-	3
PHATISA	2018	-	224	-
Shore Capital Fund III	2018	9,816	731	-
Tide Africal LLP Fund	2017	4,404	2,494	559
West Africa Emerging Market Fund	2011	634	5,452	5,683
TOTAL FUNDS		**170,055**	**434,179**	**402,311**
TOTAL DIRECT INVESTMENT AND FUNDS		**296,916**	**786,994**	**719,609**
GRAND TOTAL		**296,916**	**848,701**	**781,217**

* *Amounts fully disbursed, but the value is less than UA 100, at the current exchange rate.*

** *The cost of equity investments (excluding ADF) carried at fair value at 31 December 2018 amounted to UA 658.40 million (2017: UA 575.08 million).*

Note K – Property, equipment and intangible assets

(UA thousands)

2018	Property and Equipment						Intangible Assets	Grand Total
	Land	Capital Work in Progress	Building and Improve-ments	Furniture, Fixtures & Fittings	Equipment & Motor Vehicles	Total Property & Equipment	Computer Software	Property, Equipment & Intangible Assets
Cost:								
Balance at 1 January	480	21,852	66,738	18,313	86,398	193,781	26,571	220,352
Transfer	-	(11,196)	8,291	-	2,622	(283)	283	-
Additions during the year	-	302	5,955	604	4,175	11,036	5,260	16,296
Disposals during the year	-	-	-	(186)	(1,176)	(1,362)	-	(1,362)
Balance at 31 December	480	10,958	80,984	18,731	92,019	203,172	32,114	235,286
Accumulated Depreciation:								
Balance at 1 January	-	-	28,180	13,473	58,513	100,166	24,378	124,544
Depreciation during the year	-	-	6,039	2,345	7,599	15,983	1,942	17,925
Disposals during the year	-	-	-	(176)	(1,146)	(1,322)	-	(1,322)
Balance at 31 December	-	-	34,219	15,642	64,966	114,827	26,320	141,147
Net Book Value: 31 December 2018	**480**	**10,958**	**46,765**	**3,089**	**27,053**	**88,345**	**5,794**	**94,139**

(UA thousands)

2017	Property and Equipment						Intangible Assets	Grand Total
	Land	Capital Work in Progress	Building and Improve-ments	Furniture, Fixtures & Fittings	Equipment & Motor Vehicles	Total Property & Equipment	Computer Software	Property, Equipment & Intangible Assets
Cost:								
Balance at 1 January	480	17,410	65,923	17,752	80,706	182,271	24,597	206,868
Transfer	-	(238)	-	-	238	-	-	-
Put into use	-	(3,405)	759	74	2,265	(307)	307	-
Additions during the year	-	8,085	56	510	3,711	12,362	1,667	14,029
Disposals during the year	-	-	-	(23)	(522)	(545)	-	(545)
Balance at 31 December	480	21,852	66,738	18,313	86,398	193,781	26,571	220,352
Accumulated Depreciation:								
Balance at 1 January	-	-	23,544	10,937	51,807	86,288	23,538	109,826
Depreciation during the year	-	-	4,636	2,559	7,185	14,380	840	15,220
Disposals during the year	-	-	-	(23)	(479)	(502)	-	(502)
Balance at 31 December	-	-	28,180	13,473	58,513	100,166	24,378	124,544
Net Book Value: 31 December 2017	**480**	**21,852**	**38,558**	**4,840**	**27,885**	**93,615**	**2,193**	**95,808**

The land on which the HQ building stands was originally granted for the unlimited use by the Bank, but with ownership retained by the Government of Côte d'Ivoire. However, in 2013, the Government of Côte d'Ivoire agreed to transfer the title to the land to the Bank and the relevant processes to finalize the transfer of title to the Bank are underway and are almost at completion.

Note L – Borrowings

As at 31 December 2018 and 2017, the Bank's borrowings were as follows:

(UA millions)

	2018	2017
Borrowings at fair value	23,389.01	22,566.65
Borrowings at amortized cost	600.85	609.04
Total	**23,989.86**	**23,175.69**

The Bank's borrowings as at 31 December 2018 included subordinated borrowings in the amount of UA 220.15 million (2017: UA 220.76 million).

The capital adequacy framework approved by the Board of Directors adopted the use of a single debt to usable capital ratio to monitor the Bank's leverage. The ratio caps the Bank's total outstanding debt at 100 percent of usable capital. Usable capital comprises the equity of the Bank and the callable capital of its non-borrowing members rated A- or better. The Bank's usable capital at 31 December 2018 was UA 28.83 billion (2017: UA 28.74 billion).

The Bank uses derivatives in its borrowing and liability management activities to take advantage of cost-saving opportunities and to lower its funding costs. Certain long-term borrowing agreements contain provisions that allow redemption at the option of the holder at specified dates prior to maturity.

Such borrowings are reflected in the tables on the maturity structure of borrowings using the put dates, rather than the contractual maturities. Management believes, however, that a portion of such borrowings may remain outstanding beyond their earliest indicated redemption dates.

The Bank has entered into cross-currency swap agreements with major international banks through which proceeds from borrowings are converted into a different currency and include a forward exchange contract providing for the future exchange of the two currencies in order to recover the currency converted. The Bank has also entered into interest rate swaps, which transform a floating rate payment obligation in a particular currency into a fixed rate payment obligation or vice-versa.

A summary of the Bank's borrowings portfolio at 31 December 2018 and 2017 was as follows:

Borrowings and Swaps at 31 December 2018

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements (a)			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Weighted. Average Cost[b] (%)	Weighted Average Maturity (Years)	Amount Payable/ (Receivable)	Wgtd. Average Cost[b] (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Weighted Average Cost(b) (%)	Average Maturity (Years)
Euro	Fixed	3,706.86	-	0.41	6.96	140.54	8.71	0.67			
		-	-	-	-	(162.68)	1.35	13.07	(3,522.10)	0.42	6.45
	Adjustable	-	-	-	-	4,191.31	(0.37)	3.80	3,522.10	(0.36)	6.45
		-	-	-	-	(123.53)	(0.38)	5.92	-	-	-
GBP	Fixed	450.25	-	0.71	2.34	-	-	-	-	-	-
		-	-	-	-	(136.92)	0.53	2.08	(319.49)	0.78	2.45
	Adjustable	-	-	-	-	-	-	-	319.49	0.89	2.45
		-	-	-	-	(228.21)	1.01	3.00	-	-	-
Japanese Yen	Fixed	1,063.15	132.77	0.79	17.55	-	-	-	-	-	-
		-	-	-	-	(1,182.16)	0.91	17.70	-	-	-
	Adjustable	389.33	-	3.64	4.01	28.86	(0.71)	5.93	16.22	(0.42)	5.67
		-	-	-	-	(356.49)	3.58	8.54	(16.22)	1.88	5.67
US Dollar	Fixed	12,461.64	366.70	2.25	2.39	-	-	-	-	-	-
		-	-	-	-	(1,042.57)	3.36	2.09	(11,638.98)	2.03	2.38
	Adjustable	567.61	-	2.92	1.74	4,862.85	2.39	11.57	12,192.82	2.53	2.35
		-	-	-	-	(2,485.64)	1.97	2.53	(568.02)	2.65	1.73
Others[d]	Fixed	4,296.20	20.17	4.04	4.98	-	-	-	-	-	-
			-	-	-	(3,781.71)	4.06	5.35	(725.45)	1.38	8.47
	Adjustable	453.97	83.96	4.12	3.79	1,425.28	7.11	1.60	540.94	3.47	3.52
		-	-	-	-	(953.77)	2.23	4.53	-	-	-
Total	Fixed	21,978.10	519.64	2.18	4.41	140.54	8.71	0.67	-	-	-
		-	-	-	-	(6,306.04)	3.20	7.25	(15,886.53)	1.64	3.56
	Adjustable	1,410.91	83.96	3.54	3.16	10,508.30	1.92	7.10	16,272.08	1.93	3.28
		-	-	-	-	(4,147.64)	2.04	3.64	(584.24)	2.63	1.84
Principal at face value		23,389.01	603.60	2.06	4.01	195.15	-	-	(198.70)	-	-
Net unamortized premium/Discount		-	(2.75)	-	-	(1,043.02)	-	-	233.60	-	-
		23,389.01	600.85	2.06	4.01	(847.87)	-	-	34.90	-	-
Fair valuation adjustment		-	-	-	-	621.90[c]			(134.27)[c]	-	-
Total		**23,389.01**	**600.85**	**2.06**	**4.01**	**(225.97)**	**-**	**-**	**(99.37)**	**-**	**-**

Supplementary disclosure (direct borrowings):

The carrying amount of borrowings at 31 December 2018 was UA 23,989.86 million and the estimated fair value was UA 24,034.27 million.

(a) Currency swap agreements include cross-currency interest rate swaps.

(b) The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at 31 December 2018.

(c) These amounts are included in derivative assets and liabilities on the balance sheet.

(d) These amounts relate mainly to borrowings and derivatives in AUD, CHF, NZD, TRY and ZAR.

Slight differences may occur in totals due to rounding.

Borrowings and Swaps at 31 December 2017

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements (a)			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Weighted. Average Cost[b] (%)	Weighted Average Maturity (Years)	Amount Payable/ (Receivable)	Wgtd. Average Cost[b] (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Weighted Average Cost(b) (%)	Average Maturity (Years)
Euro	Fixed	2,505.93	-	0.32	7.01	143.71	8.71	1.67			
		-	-	-	-	(155.99)	1.49	13.09	(2,464.35)	0.22	6.47
	Adjustable	83.26	-	0.16	0.04	5,963.45	(0.41)	3.33	2,464.35	(0.37)	6.47
		-	-	-	-	(298.24)	(0.56)	3.06	-	-	-
GBP	Fixed	708.24	-	0.76	1.92	-	-	-	-	-	-
		-	-	-	-	(379.50)	0.75	0.60	(332.06)	0.78	3.45
	Adjustable	-	-	-	-	-	-	-	322.06	0.41	3.45
		-	-	-	-	(237.19)	0.53	4.0	-	-	-
Japanese Yen	Fixed	1,020.12	127.50	0.80	18.74	-	-	-	-	-	-
		-	-	-	-	(1,138.92)	0.91	18.75	-	-	-
	Adjustable	378.87	-	4.86	4.86	60.26	(0.68)	3.26	15.55	(0.42)	6.68
		-	-	-	-	(327.21)	3.58	9.40	(15.55)	1.60	6.68
US Dollar	Fixed	12,468.19	358.11	1.88	2.35	6.60	1.39	2.75	-	-	-
			-	-	-	(2,808.73)	1.94	1.44	(9,866.75)	1.73	2.55
	Adjustable	801.13	-	1.65	1.57	4,178.09	1.32	12.09	10,231.31	1.45	2.47
		-	-	-	-	(1,792.94)	1.08	2.77	(379.18)	1.54	0.62
Others[d]	Fixed	3,998.00	89.91	3.76	4.70	-	-	-	-	-	-
			-	-	-	(3,454.89)	3.80	4.84	(785.05)	4.16	9.96
	Adjustable	602.92	36.59	4.54	0.89	1,495.99	7.04	2.10	557.07	3.62	4.69
		-	-	-	-	(985.58)	5.72	4.53	-	-	-
Total	Fixed	20,700.47	575.53	1.96	4.19	150.31	8.39	1.71	-	-	-
		-	-	-	-	(7,938.03)	2.54	5.60	(13,448.21)	1.55	3.64
	Adjustable	1,866.18	36.59	3.19	1.96	11,697.79	1.16	6.30	13,600.34	1.17	3.24
		-	-	-	-	(3,641.16)	2.39	3.72	(394.73)	1.54	0.86
Principal at face value		22,566.65	612.12	2.06	4.01	268.91	-	-	(242.60)	-	-
Net unamortized premium/Discount			(3.08)			(947.58)			283.16	-	-
		22,566.65	609.04	2.06	4.01	(678.67)			40.56	-	-
Fair valuation adjustment		-	-	-	-	553.70[c]			(180.66)[c]	-	-
Total		**22,566.65**	**609.04**	**2.06**	**4.01**	**(124.97)**	**-**	**-**	**(140.10)**	**-**	**-**

Supplementary disclosure (direct borrowings):

The carrying amount of borrowings at 31 December 2017 was UA 23,175.69 million and the estimated fair value was UA 23,241.65 million.

(a) Currency swap agreements include cross-currency interest rate swaps.

(b) The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at 31 December 2017.

(c) These amounts are included in derivative assets and liabilities on the balance sheet.

d) These amounts relate mainly to borrowings and derivatives in AUD, CHF, NZD, TRY and ZAR.

Slight differences may occur in totals due to rounding.

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at 31 December 2018 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	3,198.69	494.92	3,693.61
More than one year but less than two years	3,721.29	120.30	3,841.59
More than two years but less than three years	2,255.53	135.84	2,391.37
More than three years but less than four years	5,014.45	9.46	5,023.91
More than four years but less than five years	237.22	3.47	240.69
More than five years	7,877.11	320.73	8,197.84
Total	**22,304.29**	**1,084.72**	**23,389.01**

ii) Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	160.95	-	160.95
More than one year but less than two years	13.18	-	13.18
More than two years but less than three years	47.63	64.88	112.51
More than three years but less than four years	96.89	-	96.89
More than four years but less than five years	151.01	(0.01)	151.00
More than five years	69.07	-	69.07
Subtotal	**538.73**	**64.87**	**603.60**
Net unamortized premium and discount	(2.75)	-	(2.75)
Total	**535.98**	**64.87**	**600.85**

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at 31 December 2017 was as follows:

iii) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	4,618.36	534.54	5,152.90
More than one year but less than two years	3,132.58	18.22	3,150.80
More than two years but less than three years	2,947.40	126.10	3,073.50
More than three years but less than four years	4,145.32	-	4,145.32
More than four years but less than five years	200.20	9.49	209.69
More than five years	6,533.15	301.29	6,834.44
Total	**21,577.01**	**989.64**	**22,566.65**

iv) Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	21.88	-	21.88
More than one year but less than two years	158.63	-	158.63
More than two years but less than three years	10.74	-	10.74
More than three years but less than four years	48.94	62.19	111.13
More than four years but less than five years	95.43	(0.01)	95.42
More than five years	214.32	-	214.32
Subtotal	**549.94**	**62.18**	**612.12**
Net unamortized premium and discount	(3.08)	-	(3.08)
Total	**546.86**	**62.18**	**609.04**

The fair value of borrowings carried at fair value through profit or loss at 31 December 2018 was UA 23,389.01 million (2017: UA 22,566.65 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at 31 December 2018 was UA 24,046.61 million (2017: UA 23,180.44 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per Note O, there was a net loss of UA 35.14 million on borrowings, related derivatives and others for the year ended 31 December 2018 (2017: net gain of UA 48.13 million). The fair value movement attributable to changes in the Bank's credit risk included in the other comprehensive income for the year ended 31 December 2018 was a gain of UA 14.85 million (2017: a loss of UA 59.14 million).

Fair value movements attributable to changes in the Bank's credit risk are determined by comparing the discounted cash flows for the borrowings designated at fair value through profit or loss using the Bank's credit spread on the relevant liquid markets for ADB quoted bonds versus LIBOR both at the beginning and end of the relevant period. The Bank's credit spread was not applied for fair value changes on callable borrowings with less than one-year call date.

For borrowings designated at fair value through profit or loss at 31 December 2018, the cumulative unrealized fair value losses to date were UA 757.01 million (2017: losses of UA 700.36 million).

Note M – Equity

Equity is composed of capital and reserves. These are further detailed as follows:

Capital

Capital includes subscriptions paid-in by member countries and Cumulative Exchange Adjustments on Subscriptions (CEAS). The Bank is not exposed to any externally imposed capital requirements.

Subscriptions Paid In

Subscriptions to the capital stock of the Bank are made up of the subscription to the initial capital, a voluntary capital increase and the nine General Capital Increases (GCI) made so far. The Fifth General Capital Increase (GCI-V) was approved by the Board of Governors of the Bank on 29 May 1998 and became effective on 30 September 1999 upon ratification by member states and entry into force of the related amendments to the Agreements establishing the Bank. The GCI-V increased the authorized capital of the Bank by 35 percent from 1.62 million shares to 2.187 million shares with a par value of UA 10,000 per share. The GCI-V shares, a total of 567,000 shares, are divided into paid-up and callable shares in proportion of 6 percent paid-up and 94 percent callable. The GCI-V shares were allocated to the regional and non-regional members such that, when fully subscribed, the regional members shall hold 60 percent of the total stock of the Bank and non-regional members shall hold the balance of 40 percent.

Prior to the GCI-V, subscribed capital was divided into paid-up capital and callable capital in the proportion of 1 to 7. With the GCI-V, the authorized capital stock of the Bank consists of 10.81 percent paid-up shares and 89.19 percent callable shares.

Prior to the sixth General Capital Increase (GCI-VI) and by its resolutions B/BG/2008/07 and B/BG/2009/05, the Board of Governors authorized two capital increases bringing the Authorized Capital of the Bank from UA 21,870 million to UA 22,120 million to allow the Republic of Turkey and the Grand Duchy of Luxembourg to become members of the Bank. The membership of these two countries became effective upon completion of the formalities specified in the Agreement establishing the Bank and in the General Rules Governing Admission of Non-Regional Countries to Membership of the Bank. Consequently, on 29 October 2013 and 29 May 2014, the Republic Turkey and The Grand Duchy Luxembourg respectively were formally admitted as the 78th and 79th member countries of the Bank.

In 2009, the Board of Directors endorsed a proposal made by Canada and Republic of Korea offering to subscribe, temporarily, to additional non-voting callable capital of the Bank in the amounts of UA 1.63 billion and UA 0.19 billion, respectively. This proposal was adopted by the Board of Governors on 22 February 2010. Accordingly, the authorized capital stock of the Bank increased from UA 22,120 million to UA 23,947 million by the creation of additional 182,710 non-voting shares. These non-voting callable shares were to be absorbed by the subscriptions of Canada and the Republic of Korea to GCI-VI when they become effective.

The GCI-VI was approved by the Board of Governors of the Bank on 27 May 2010. GCI-VI increased the authorized capital stock of the Bank from UA 23,947 million to UA 67,687 million with the creation of 4,374,000 new shares. The new shares created are to be allocated to the regional and non-regional groups in such proportions that, when fully subscribed, the regional group shall hold 60 percent of the total capital stock of the Bank, and the non-regional group 40 percent. The new shares and the previous ones described above shall be divided into paid-up and callable shares in the proportion of 6 percent paid-up shares and 94 percent callable shares.

Upon conclusion of the GCI VI capital increase and following the Board of Governors' resolutions, the temporary non-voting callable shares of Canada and Korea described above were effectively retired in 2011 and 2012, respectively thereby reducing the authorized capital of the Bank for each of these periods by 163,296 shares and 19,414 shares.

Following its Resolution B/BG/2012/04 of 31 May 2012, the Board of Governors authorized a Special Capital Increase of the authorized share capital of the Bank to allow for: (i) subscription by a new regional member country (the Republic of South Sudan) of the minimum number of shares required for it to become a member; and (ii) the resulting subscription by non-regional members of the number of shares necessary to comply with the 60/40 ratio requirement between the shareholding of regional and non-regional members. Accordingly, the Board of Governors, decided to increase the authorized capital of the Bank by the creation of 111,469 new shares, out of which 66,881 shares shall be available for subscription by the Republic of South Sudan, and 44,588 shares, shall be available for subscription by non-regional members. In 2014, by Resolution B/BG/2014/02, the Board of Governors revised down to 33,895 shares the initial subscription of South Sudan's, in line with its IMF quota. The additional shares are subject to the same terms and conditions as the shares authorized in the GCI-VI. On 30 April 2015, having completed the membership process to join the African Development Bank, South Sudan was admitted as member.

The Bank's capital as at 31 December 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Capital Authorized (in shares of UA 10 000 each)	66,975,050	66,975,050
Less: Unsubscribed	(1,867,142)	(1,477,093)
Subscribed Capital	65,107,908	65,497,957
Less: Callable Capital	(60,150,985)	(60,517,525)
Paid-up Capital	4,956,923	4,980,432
Shares to be issued upon payment of future installments	(422,110)	(712,220)
Add: Amounts paid in advance	467	616
	4,535,280	4,268,828
Less: Amounts in arrears	(17)	(17)
Capital at 31 December	**4,535,263**	**4,268,811**

Included in the total unsubscribed shares of UA 1,867 million at 31 December 2018 was an amount of UA 38.83 million representing the balance of the shareholding of the former Socialist Federal Republic of Yugoslavia (former Yugoslavia).

Since the former Yugoslavia has ceased to exist as a state under international law, its shares (composed of UA 38.83 million callable, and UA 4.86 million paid-up shares) have been held by the Bank in accordance with Article 6 (6) of the Bank Agreement. In 2002, the Board of Directors of the Bank approved the proposal to invite each of the successor states of the former Yugoslavia to apply for membership in the Bank, though such membership would be subject to their fulfilling certain conditions including the assumption pro-rata of the contingent liabilities of the former Yugoslavia to the Bank, as of 31 December 1992. In the event that a successor state declines or otherwise does not become a member of the Bank, the pro-rata portion of the shares of former Yugoslavia, which could have been reallocated to such successor state, would be reallocated to other interested non-regional members of the Bank in accordance with the terms of the Share Transfer Rules. The proceeds of such reallocation will however be transferable to such successor state. Furthermore, pending the response from the successor states, the Bank may, under its Share Transfer Rules, reallocate the shares of former Yugoslavia to interested non-regional member states and credit the proceeds on a pro-rata basis to the successor states. In 2003, one of the successor states declined the invitation to apply for membership and instead offered to the Bank, as part of the state's Official Development Assistance, its pro-rata interest in the proceeds of any reallocation of the shares of former Yugoslavia. The Bank accepted the offer.

Subscriptions by member countries and their voting power at 31 December 2018 were as follows:
(Amounts in UA thousands)

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
1	Algeria	276,315	4.272	196,601	2,566,550	276,940	4.250
2	Angola	75,963	1.174	46,866	712,772	76,588	1.175
3	Benin	12,532	0.194	7,791	117,533	13,157	0.202
4	Botswana	69,978	1.082	66,935	632,845	70,603	1.083
5	Burkina Faso	25,927	0.401	16,512	242,775	26,552	0.407
6	Burundi	15,420	0.238	10,233	143,966	15,246	0.234
7	Cabo Verde	4,578	0.071	3,598	42,190	5,203	0.080
8	Cameroon	70,336	1.087	43,095	660,281	70,961	1.089
9	Central African Republic	2,720	0.042	1,802	25,412	3,189	0.049
10	Chad	4,061	0.063	2,881	37,740	4,686	0.072
11	Comoros	527	0.008	605	4,676	1,152	0.018
12	Congo	27,873	0.431	17,747	261,000	28,498	0.437
13	Cote D'ivoire	242,986	3.756	160,209	2,269,670	243,611	3.738
14	Democratic Republic of Congo	84,007	1.299	56,679	783,395	84,632	1.299
15	Djibouti	1,213	0.019	1,517	10,618	1,838	0.028
16	Egypt	366,232	5.662	260,567	3,401,760	366,857	5.629
17	Equatorial Guinea	9,536	0.147	7,447	87,917	10,161	0.156
18	Eritrea	2,003	0.031	2,506	17,522	2,628	0.040
19	Eswatini	7,388	0.114	8,350	65,530	8,013	0.123
20	Ethiopia	102,678	1.587	63,842	962,940	103,303	1.585
21	Gabon	65,009	1.005	52,331	597,778	65,634	1.007
22	Gambia	9,346	0.144	6,239	87,243	9,971	0.153
23	Ghana	139,123	2.151	85,325	1,305,881	139,748	2.144
24	Guinea	26,183	0.405	16,870	244,961	26,808	0.411
25	Guinea Bissau	1,254	0.019	870	11,680	1,879	0.029
26	Kenya	93,610	1.447	58,208	877,900	94,235	1.446
27	Lesotho	3,711	0.057	4,063	33,060	4,336	0.067
28	Liberia	12,488	0.193	8,251	116,637	12,455	0.191
29	Libya	150,513	2.327	120,463	1,384,668	151,138	2.319
30	Madagascar	42,234	0.653	26,304	396,040	42,859	0.658
31	Malawi	14,776	0.228	10,043	137,720	15,401	0.236
32	Mali	28,150	0.435	17,622	263,881	28,775	0.442
33	Mauritania	3,680	0.057	4,196	32,606	4,305	0.066
34	Mauritius	42,316	0.654	32,865	390,230	42,941	0.659
35	Morocco	234,936	3.632	178,360	2,171,000	235,561	3.615
36	Mozambique	40,474	0.626	25,176	379,588	41,099	0.631
37	Namibia	22,459	0.347	17,440	207,150	23,084	0.354
38	Niger	14,481	0.224	9,674	135,143	15,106	0.232
39	Nigeria	607,691	9.394	441,562	5,635,383	608,316	9.334
40	Rwanda	8,567	0.132	5,369	80,303	9,192	0.141
41	Sao Tome & Principe	4,395	0.068	2,908	41,054	5,020	0.077
42	Senegal	68,024	1.052	42,008	638,241	68,649	1.053
43	Seychelles	1,837	0.028	1,871	16,499	2,462	0.038
44	Sierra Leone	17,857	0.276	11,648	166,931	18,482	0.284
45	Somalia	1,941	0.030	2,427	16,986	2,566	0.039
46	South Africa	329,126	5.088	209,656	3,081,600	329,751	5.060
47	South Sudan	24,073	0.372	1,695	239,040	24,698	0.379
48	Sudan	18,930	0.293	13,791	175,507	19,555	0.300
49	Tanzania	49,563	0.766	31,300	464,337	50,187	0.770
50	Togo	10,361	0.160	8,441	95,171	10,986	0.169
51	Tunisia	91,550	1.415	71,234	844,260	92,175	1.414
52	Uganda	28,241	0.437	18,480	263,947	28,866	0.443
53	Zambia	76,508	1.183	48,186	716,865	77,125	1.183
54	Zimbabwe	120,129	1.857	78,015	1,123,278	120,754	1.853
	Total Regionals	**3,805,808**	**58.835**	**2,638,674**	**35,419,656**	**3,837,937**	**58.891**

Slight differences may occur in totals due to rounding

(Amounts in UA thousands)

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
	Total Regionals	**3,805,808**	**58.835**	**2,638,674**	**35,419,656**	**3,837,937**	**58.891**
55	Argentina	5,847	0.090	6,108	52,364	6,472	0.099
56	Austria	29,208	0.452	21,420	270,660	29,833	0.458
57	Belgium	41,787	0.646	28,698	389,180	42,412	0.651
58	Brazil	21,645	0.335	15,512	200,936	22,270	0.342
59	Canada	251,150	3.883	183,363	2,328,140	251,775	3.863
60	China	77,024	1.191	55,226	715,020	77,649	1.191
61	Denmark	76,622	1.185	55,846	710,380	77,247	1.185
62	Finland	31,976	0.494	23,450	296,310	32,601	0.500
63	France	245,672	3.798	180,160	2,276,560	246,297	3.779
64	Germany	270,641	4.184	185,655	2,520,760	271,266	4.162
65	India	16,779	0.259	11,878	155,920	17,404	0.267
66	Italy	158,754	2.454	116,370	1,471,170	159,379	2.446
67	Japan	359,265	5.554	263,470	3,329,180	359,890	5.522
68	Korea	31,452	0.486	22,468	292,060	32,077	0.492
69	Kuwait	29,208	0.452	21,420	270,660	29,833	0.458
70	Luxembourg	13,215	0.204	5,029	127,130	13,840	0.212
71	Netherlands	57,237	0.885	41,209	531,180	57,862	0.888
72	Norway	76,911	1.189	55,914	713,200	77,536	1.190
73	Portugal	15,657	0.242	10,833	145,740	16,282	0.250
74	Saudi Arabia	12,610	0.195	8,665	117,440	13,235	0.203
75	Spain	69,307	1.071	49,630	643,440	69,932	1.073
76	Sweden	102,766	1.589	74,744	952,920	103,391	1.586
77	Switzerland	95,930	1.483	70,350	888,950	96,555	1.482
78	Turkey	23,471	0.363	7,589	227,130	24,096	0.370
79	U.K.	117,374	1.815	85,065	1,088,680	117,999	1.811
80	U.S.A.	431,273	6.667	296,520	4,016,219	431,898	6.627
	Total Non-Regionals	**2,662,781**	**41.165**	**1,896,589**	**24,731,329**	**2,679,031**	**41.109**
	Grand Total	**6,468,589**	**100.000**	**4,535,263**	**60,150,985**	**6,516,968**	**100.000**

The subscription position including the distribution of voting rights at 31 December 2018 reflects the differences in the timing of subscription payments by member countries during the allowed subscription payment period for GCI-VI. After the shares have been fully subscribed, the regional and non-regional groups are expected to hold 60 percent and 40 percent voting rights, respectively.

Slight differences may occur in totals due to rounding.

Cumulative Exchange Adjustment on Subscriptions (CEAS)

Prior to the fourth General Capital Increase (GCI-IV), payments on the share capital subscribed by the non-regional member countries were fixed in terms of their national currencies. Under GCI-IV, and subsequent capital increases payments by regional and non-regional members in US Dollars were fixed at an exchange rate of 1 UA = US$ 1.20635. This rate represented the value of the US Dollar to the SDR immediately before the introduction of the basket method of valuing the SDR on 1 July 1974 (1974 SDR). As a result of these practices, losses or gains could arise from converting these currencies to UA when received. Such conversion differences are reported in the Cumulative Exchange Adjustment on Subscriptions account.

At 31 December 2018 and 2017, the Cumulative Exchange Adjustment on Subscriptions was as follows:

(UA thousands)

	2018	2017
Balance at 1 January	158,035	161,044
Net conversion gains on new subscriptions	(1,900)	(3,009)
Balance at 31 December	**156,135**	**158,035**

Reserves

Reserves consist of retained earnings, fair value gains/losses on investments designated at fair value through Other Comprehensive Income, gains/losses on fair-valued borrowings arising from "own credit" and re-measurements of defined liability.

Retained Earnings

Retained earnings include the net income for the year after taking into account transfers approved by the Board of Governors, and net charges recognized directly in equity. Retained earnings also include the transition adjustments resulting from the adoption of new or revised financial reporting standards, where applicable.

The movements in retained earnings during 2018 and 2017 were as follows:

(UA thousands)

Balance at 1 January 2017	2,990,665
Net income for the year	176,428
Balance at 31 December 2017	**3,167,093**
Effects of changes in accounting policies (IFRS 9)	(171,979)
Balance at January 1, 2018	2,995,114
Net income for the current year	41,682
Balance at 31 December 2018	**3,036,796**

Allocable Income

The Bank uses allocable income for making distributions out of its net income. Allocable income excludes unrealized mark-to-market gains and losses associated with instruments not held for trading and adjusted for translation gains and losses.
At 31 December 2018 and 2017, the allocable income was as follows:

(UA thousands)

	2018	2017
Income before Board of Governors' approved distribution	124,682	258,428
Unrealized losses/(gains) on borrowings and derivatives	35,143	(43,713)
Translation (gains)/losses	(6,405)	1,446
Unrealized losses on macro hedge swaps	100	2,200
Allocable income	**153,520**	**218,361**

During the year, the Board of Governors approved the distribution of UA 83.00 million (2017: UA 82.00 million) from income and the surplus account to certain entities for development purposes.

With effect from 2006, Board of Governors approved distributions to entities for development purposes are reported as expenses in the Income Statement in the year such distributions are approved.

Movement in the surplus account during 2018 and 2017 is as follows:

(UA thousands)

Balance at 1 January 2017	7,442
Allocation from 2016 net income	14,000
Distribution to Special Relief Fund	(8,000)
Balance at 31 December 2017	**13,442**
Balance at 1 January 2018	13,442
Allocation from 2017 net income	18,000
Distribution to MIC Technical Assistance Fund	(10,000)
Distribution to Special Relief Fund	(6,000)
Balance at December 31, 2018	**15,442**

Distributions to entities for development purposes, including those made from the surplus account, for the years ended 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
African Development Fund (ADF)	35,000	35,000
Post Conflict Assistance — DRC	32,000	39,000
Special Relief Fund	6,000	8,000
MIC Technical Assistance Fund	10,000	-
Total	**83,000**	**82,000**

Note N – Income from loans and investments and related derivatives

Income from Loans and Related Derivatives

Income from loans and related derivatives for the year ended 31 December 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest income on loans not impaired	518,707	460,045
Interest income on impaired loans	101,937	27,294
Interest on loan swaps	(36,714)	(43,137)
Commitment charges	25,814	21,130
Trade finance guarantee fees	966	974
Statutory commission	275	279
	610,985	466,585
Charges on finance guarantee contracts	(14,094)	(7,298)
Total	**596,891**	**459,287**

Income from Investments and Related Derivatives

Income from investments and related derivatives for the year ended 31 December 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest income	249,722	209,250
Realized fair value losses on investments	(14,966)	(7,744)
Unrealized fair value gains/(losses) on investments	5,315	(6,463)
Total	**240,071**	**195,043**

Total interest income on investments at amortized cost for the year ended 31 December 2018 was UA 96.45 million (2017: UA 103.71 million).

Note O – Borrowing expenses

Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the year ended 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Charges to bond issuers	490,014	428,925
Amortization of issuance costs	(64)	(10)
Total	**489,950**	**428,915**

Total interest expense for financial liabilities not at fair value through profit or loss for the year ended 31 December 2018 was UA 27.80 million (2017: UA 23.47 million).

Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the year ended 31 December 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest on derivatives payable	488,049	312,192
Interest on derivatives receivable	(544,931)	(466,213)
Total	**(56,882)**	**(154,021)**

Gains/losses on Borrowings, Related Derivatives and Others:

Gains/losses on borrowings, related derivatives and others for the year ended 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
(Losses)/gains borrowings, related derivatives and others	(35,143)	48,127

The (losses)/gains on borrowings, related derivatives and others include the income statement effects of the hedge accounting, consisting of unrealized loss of UA 0,32 million, representing hedge effectiveness and UA 3.87 millions of amortization of fair value adjustments on the hedged risk (See Note G).

Valuation adjustment loss in respect of counterparty risk of derivative financial assets (CVA) for the year ended 31 December 2018 amounted to UA 13.75 million (2017: gain UA 7.32 million), whilst valuation adjustment gain relating to credit risk in derivative financial liabilities (DVA) for the year ended 31 December 2018 was UA 29.02 million (2017: loss UA 2.29 million).

Note P – Administrative expenses

Total administrative expenses relate to expenses incurred for the operations of the Bank and those incurred on behalf of the ADF and the NTF. The ADF and NTF reimburse the Bank for their share of the total administrative expenses, based on an agreed-upon cost-sharing formula, which is driven by certain selected indicators of operational activity for operational expenses and relative balance sheet size for non-operational expenses. However, the expenses allocated to the NTF shall not exceed 20 percent of the NTF's gross income.

Administrative expenses comprised the following:

(UA thousands)

	2018	2017
Manpower expenses	317,452	309,563
Other general expenses	84,709	67,248
Total	**402,161**	**376,811**
Reimbursable by ADF	(235,746)	(228,496)
Reimbursable by NTF	(703)	(548)
Net	**165,712**	**147,767**

** Share of ADB manpower expenses amount — UA 127.21 million (2017: UA 122.19 million)*

Included in general administrative expenses is an amount of UA 9.64 million (2017: UA 9.88 million) incurred under operating lease agreements for offices in Côte d'Ivoire and in certain member countries, where the Bank has offices.

At the balance sheet date, the Bank had outstanding commitments under operating leases which fall due were as follows:

	2018	2017
Within one year	7,980	6,857
In the second to fifth years inclusive	5,904	3,916
Total	**13,884**	**10,773**

Leases are generally negotiated for an average term of one (1) to five (5) years and rentals are fixed for an average of one (1) year. Leases may be extended for periods that are not longer than the original term of the leases.

Note Q – Employee benefits

Staff Retirement Plan

The Staff Retirement Plan (SRP), a defined benefit plan established under Board of Governors' Resolution 05-89 of 30 May 1989, became effective on 31 December 1989, following the termination of the Staff Provident Fund. Every person employed by the Bank on a full-time basis, as defined in the Bank's employment policies, is eligible to participate in the SRP, upon completion of 6 months service without interruption of more than 30 days.

The SRP is administered as a separate fund by a committee of trustees appointed by the Bank on behalf of its employees. In November 2004, the Board of Directors of the Bank approved certain revisions to the SRP, including simplification of the calculation of the employee contribution rate, more explicit reference to the Bank's residual responsibility and rights as the SRP sponsor, changes in survivor child benefits and an increase in the pension accumulation rate from 2 percent to 2.5 percent for each year of service. Also, new members from the Field Offices of the Bank joined the Plan in 2007. Accordingly, the associated past service costs associated with these changes were reported in the financial statements of respective years.

In 2008, the early retirement provisions and the death benefits to spouses were modified, resulting in a net negative prior service cost of UA 8.12 million, which was immediately recognized. Under the revised SRP, employees contribute at a rate of 9 percent of regular salary. A tax factor included in the basis for the determination of contribution in the previous SRP has been eliminated. The Bank typically contributes twice the employee contribution, but may vary such contribution based on the results of annual actuarial valuations.

In 2011, the Board of Directors approved the extension of the mandatory staff retirement age in the Bank from 60 to 62 years effective 1 January 2012. Participants of the Plan as of 11 May 2011 were given up to 31 December 2012 to make the election on either to retire at 60 years with no penalty for early retirement or accept the extension and retire at age 62. The option to retire at age 60 is not available to staff joining the Bank from 1 January 2012, the date of effectiveness of the change. Most of the existing participants opted for the revised retirement age. The impact of the change on the actuarial valuation of SRP was a curtailment of UA 10.90 million and was reported in the financial statements for the year ended 31 December 2011.

During 2015, the Board of Directors approved changes to enhance financial sustainability of the Plan. These changes primarily included review of the commutation of pension as well as benefits applicable for death in retirement.

On 19th September 2018, the Board of Directors approved changes to the Staff Retirement Plan (SRP or the Plan) introducing an alternative pension structure combining the features of a defined benefit (DB) and a defined contribution (DC) scheme to strengthen the Plan's long-term sustainability, while giving flexibility to members. The hybrid scheme which is effective from 01 January 2019 aims at reducing pension cost volatility; grants plan participants the flexibility to decide where to invest their contributions with options to make additional voluntary contributions to their DC accounts. Participants in the service of the Bank before the effective date will have the option to join the new hybrid scheme or remain in the current DB scheme. These changes will not affect the acquired pension rights of current plan participants or retirees' pension benefits. However, participants joining the plan from the effective date will automatically be enrolled in the new hybrid scheme.

Under the hybrid scheme, contribution to the DB component is capped at the Bank's median salary to be reset every three years. Contribution in excess of median salary will go to the DC component. An External Manager will be engaged to manage the DC component on behalf of members with related administrative costs charged to members' accounts. The administration of DB benefits will remain within the Bank's Staff Retirement Plan Unit.

All contributions to the SRP are irrevocable and are held by the Bank separately in a retirement fund to be used in accordance with the provisions of the SRP. Neither the contributions nor any income thereon shall be used for or diverted to purposes other than the exclusive benefit of active and retired participants or their beneficiaries or estates, or for the satisfaction of the SRP's liabilities. At 31 December 2018, virtually all of the SRP's investments were under external management and these were invested in indexed funds, with the following objectives: a) Equity portfolio – to track as closely as possible, the returns of the Morgan Stanley Capital International World Index as well as hedging the currency exposure of the SRP's anticipated future liabilities; b) Bond portfolio – to track as closely as possible, the returns of the Citigroup World Government Bond Index as well as hedge the currency exposure of the SRP's anticipated future liabilities.

Post-Employment Medical Benefit Plan

The Medical Benefit Plan (MBP) was created under the Board of Directors' resolution B/BD/2002/17 and F/BD/2002/18 of 17 July 2002 and became effective on 1 January 2003. Under the MBP, all plan members including existing staff or retirees contribute a percentage of their salary or pension while the Bank typically contributes twice the employee contribution, but may vary such contribution based on the results of annual actuarial valuations.

Contribution rates by staff members and retirees are based on marital status and number of eligible children. An MBP board, composed of selected officers of the Bank and representatives of retirees and the staff association, oversees the management and activities of the MBP. The contributions from the Bank, staff and retirees are deposited in a trust account. In accordance with the directive establishing the Plan, all Plan members including staff and retirees are eligible as beneficiaries for making claims for medical services provided to them and their recognized dependents.

On 7 January 2015, the Board of Directors approved a new set contribution rates to the MBP for the Bank, active staff and retirees. The new set of rates were with effect from 1 September 2015 and aim at enhancing the long-term financial sustainability of the Plan.

The following table summarizes the employee benefit liabilities on the balance sheet relating to SRP and MBP as at December 31, 2018.

(UA millions)

	Staff Retirement Plan		Medical Benefit Plan		Total	
	2018	2017	2018	2017	2018	2017
Define Benefit Obligation	994.27	952.53	226.66	213.73	1,220.93	1,166.26
Present value/Plan assets	(711.03)	(736.17)	(61.60)	(53.77)	(772.63)	(789.94)
Liability on Balance sheet	**283.24**	**216.36**	**165.06**	**159.96**	**448.30**	**376.32**

The pension and post-employment medical benefit expenses for 2018 and 2017 for the Bank, the ADF and the NTF combined (the Bank Group) comprised the following:

(UA millions)

	Staff Retirement Plan		Medical Benefit Plan	
	2018	2017	2018	2017
Current service cost – gross	59.73	60.06	14.01	15.83
Less: employee contributions	(11.25)	(10.62)	(3.74)	(3.41)
Net current service cost	48.48	49.44	10.27	12.42
Interest cost	27.25	26.26	4.84	6.09
Expected return on plan assets	(21.46)	(19.49)	-	-
Expense for the year	**54.27**	**56.21**	**15.11**	**18.51**

At 31 December 2018, the Bank had a liability to the SRP amounting to UA 283.24 million (2017: UA 216.36 million) while the Bank's liability to the post-employment aspect of the MBP amounted to UA 165.06 million (2017: UA 159.96 million).

At 31 December 2018 and 2017 the determination of these liabilities is set out below:

(UA millions)

	Staff Retirement Plan		Medical Benefit Plan	
	2018	2017	2018	2017
Fair value of plan assets:				
Market value of plan assets at beginning of year	736.17	604.60	53.77	45.54
Actual return on assets	(33.00)	50.31	0.78	0.64
Employer's contribution	22.50	104.91	7.48	6.81
Plan participants' contribution during the year	11.25	10.62	3.74	3.40
Benefits paid	(25.89)	(34.27)	(4.16)	(2.62)
Market value of plan assets at end of year	**711.03**	**736.17**	**61.61**	**53.77**
Present value of defined benefit obligation:				
Benefit obligation at beginning of year	952.53	886.64	213.73	238.65
Current service cost	48.49	49.44	10.27	12.42
Employee contributions	11.25	10.62	3.74	3.41
Interest cost	27.25	26.26	6.51	7.59
Actual loss/(gain)	(19.36)	13.84	(3.42)	(45.71)
Benefits paid	(25.89)	(34.27)	(4.16)	(2.63)
Benefit obligation at end of year	**994.27**	**952.53**	**226.67**	**213.73**
Funded status:				
Liability recognized on the balance sheet at 31 December, representing excess of benefit over plan asset	**(283.24)**	**(216.36)**	**(165.06)**	**(159.96)**

There were no unrecognized past service costs at 31 December 2018 and 2017. At 31 December 2018, the cumulative net actuarial losses recognized directly in equity through other comprehensive income for the SRP were UA 353.35 million (2017: losses of UA 318.24 million). The cumulative net actuarial losses recognized directly in equity through other comprehensive income for MBP were UA 41.23 million (2017: losses of UA 43.75 million).

The following summarizes the funding status of the SRP at the end of the last five fiscal years:

(UA millions)

	2018	2017	2016	2015	2014
Staff Retirement Plan:					
Fair value of Plan assets	711.03	736.17	604.60	550.50	508.93
Present value of defined benefit obligation	(994.27)	(952.53)	(886.64)	(679.40)	(689.48)
Deficit funding	**(283.24)**	**(216.36)**	**(282.04)**	**(128.90)**	**(180.55)**
Experience adjustments on plan assets	(19.90)	34.56	3.74	(23.97)	0.89
Experience adjustments on plan liabilities	(333.45)	(352.80)	(338.96)	(175.29)	(235.93)
Net	**(353.35)**	**(318.24)**	**(335.22)**	**(199.26)**	**(235.04)**

The funding status of the Medical Benefit Plan at the end of the last five fiscal years was as follows:

(UA millions)

	2018	2017	2016	2015	2014
Medical Benefit Plan:					
Fair value of Plan assets	61.61	53.77	45.54	39.13	34.55
Present value of defined benefit obligation	(226.67)	(213.73)	(238.65)	(184.77)	(175.36)
Deficit funding	**(165.06)**	**(159.96)**	**(193.11)**	**(145.64)**	**(140.81)**
Experience adjustments on plan assets	(8.24)	(7.35)	(6.49)	(5.01)	(3.96)
Experience adjustments on plan liabilities	(32.99)	(36.40)	(82.11)	(45.09)	(35.86)
Net	(41.23)	(43.75)	(88.60)	(50.10)	(39.82)

Assumptions used in the latest available actuarial valuations at 31 December 2018 and 2017 were as follows:

(Percentages)

	Staff Retirement Plan		Medical Benefit Plan	
	2018	2017	2018	2017
Discount rate	2.95	2.90	3.10	2.90
Rate of salary increase	4.00	4.00	4.00	4.00
Future pension increase	2.20	2.00	-	-
Health care cost growth rate	-	-	5.25	5.00

The SRP mortality assumptions are based on the Self-Administered Pension Schemes 2008 (SAPS08) tables, specifically referenced from the experience of United Kingdom self-administered pension schemes. Similarly, the MBP mortality assumptions are also based on the Self-Administered Pension Schemes (SAPS) tables, specifically referenced from the experience of United Kingdom occupational schemes. These SAPS tables assume normal health participants, and have been updated using Continuous Mortality Investigations (CMI) 2009 projections to factor in future longevity improvements.

The discount rate used in determining the benefit obligation is selected by reference to the long-term year-end rates on AA corporate bonds from the different markets of the five currencies of the SDR.

The medical cost inflation assumption is the rate of increase in the cost of providing medical benefits. This is influenced by a wide variety of factors, such as economic trends, medical developments, and patient utilization. For the purposes of these calculations, the medical cost inflation rate was assumed at 5 percent per annum.

The Bank's obligation and costs for post-retirement medical benefits are highly sensitive to assumptions regarding medical cost inflation.

The average duration of SRP and MBP is 16.0 years and 25.0 years, respectively.

The following table shows projected benefit cash flow outgo:

(UA millions)

	2019	2020	2021	2022	2023	2024 to 2028
Cash flow from MBP	4.38	4.84	5.13	5.45	5.78	34.65
Cash flow from SRP	34.47	36.59	36.96	39.39	42.27	241.16

The following table shows the effects of a one-percentage-point change in the assumed health care cost growth rate:

(UA thousands)

	1% Increase		1% Decrease	
	2018	2017	2018	2017
Effect on total service and interest cost	6,800	8,300	(4,870)	(5,869)
Effect on post-retirement benefit obligation	66,793	68,645	(51,086)	(51,521)

The following table shows the effect of a one percent point change in the discount rate for the SRP:

(UA thousands)

	1% Increase		1% Decrease	
	2018	2017	2018	2017
Effect on total service and interest cost	12,436	11,518	(16,960)	(14,161)
Effect on post-retirement benefit obligation	151,865	151,311	(197,474)	(198,765)

No SRP assets are invested in any of the Bank's own financial instruments, nor any property occupied by, or other assets used by the Bank. All investments are held in active markets.

The following table presents the weighted-average asset allocation at 31 December 2018 and 2017 for the Staff Retirement Plan:

(UA thousands)

	2018	2017
Debt securities	341,440	338,873
Equity securities	254,302	281,350
Property	101,287	109,237
Total	**697,029**	**729,460**

At 31 December 2018 and 2017, the assets of the MBP were invested primarily in short-term deposits and bonds.

The Bank's estimate of contributions it expects to make to the SRP and the MBP for the year ending 31 December 2019, are UA 61.94 million and UA 20.74 million, respectively.

Note R – Related parties

The following related parties have been identified:

The Bank makes or guarantees loans to some of its members who are also its shareholders, and borrows funds from the capital markets in the territories of some of its shareholders. As a multilateral development institution with membership comprising 54 African states and 26 non-African states (the "regional members" and "non-regional members", respectively), subscriptions to the capital of the Bank are made by all its members. All the powers of the Bank are vested in the Board of Governors, which consists of the Governors appointed by each member country of the Bank, who exercise the voting power of the appointing member country. Member country subscriptions and voting powers are disclosed in Note M. The Board of Directors, which is composed of twenty (20) Directors elected by the member countries, is responsible for the conduct of the general operations of the Bank, and for this purpose, exercises all the powers delegated to it by the Board of Governors. The Bank also makes or guarantees loans to certain of the agencies of its Regional Member Countries and to public and private enterprises operating within such countries. Such loans are approved by the Board of Directors.

In addition to its ordinary resources, the Bank administers the resources of other entities under special arrangements. In this regard, the Bank administers the resources of the ADF. Furthermore, the Bank administers various special funds and trust funds, which have purposes that are consistent with its objectives of promoting the economic development and social progress of its Regional Member Countries. In this connection, the Bank administers the NTF as well as certain multilateral and bilateral donor funds created in the form of grants.

The ADF was established pursuant to an agreement between the Bank and certain countries. The general operation of the ADF is conducted by a 14-member Board of Directors of which 7 members are selected by the Bank. The Bank exercises 50 percent of the voting power in the ADF and the President of the Bank is the ex-officio President of the Fund. To carry out its functions, the ADF utilizes the officers, staff, organization, services and facilities of the Bank, for which it reimburses the Bank based on an agreed cost-sharing formula, driven in large part by the number of programs and projects executed during the year.

The Bank's investment in the ADF is included in Equity Participations and disclosed in Note J. In addition to the amount reported as equity participation, the Bank periodically makes allocations from its income to the Fund, to further its objectives. Net income allocation to the Fund in 2018 amounted to UA 35 million (2017: UA 35 million). Net income allocations by the Bank to ADF are reported as Other Resources in the Fund's financial statements.

The NTF is a special fund administered by the Bank with resources contributed by the Government of Nigeria. The ADB Board of Directors conducts the general operations of NTF on the basis of the terms of the NTF Agreement and in this regard, the Bank consults with the Government of Nigeria. The NTF also utilizes the offices, staff, organization, services and facilities of the Bank for which it reimburses to the Bank its share of administrative expenses for such utilization. The share of administrative expenses reimbursed to the Bank by both the ADF and NTF is disclosed in Note P.

Grant resources administered by the Bank on behalf of other donors, including its member countries, agencies and other entities are generally restricted for specific uses, which include the co-financing of Bank's lending projects, debt reduction operations and technical assistance for borrowers including feasibility studies. Details of the outstanding balance on such grant funds at 31 December 2018 and 2017 are disclosed in Note U-5.

The Bank charges fees for managing some of these funds. Management fees received by the Bank for the year ended 31 December 2018 amounted to UA 3.97 million (2017: UA 1.47 million)

The Bank also administers the SRP and MBP. The activities of the SRP and MBP are disclosed in Note Q.

Management Personnel Compensation

Compensation paid to the Bank's management personnel and executive directors during the year ended 31 December 2018, and 2017 was made up as follows:

(UA thousands)

	2018	2017
Salaries	28,208	23,722
Termination and other benefits	9,461	10,377
Contribution to retirement and medical plan	6,095	5,165
Total	**43,764**	**39,264**

The Bank may also provide personal loans and advances to its staff, including those in management. Such loans and advances, guaranteed by the terminal benefits payable at the time of departure from the Bank, are granted in accordance with the Bank's rules and regulations. At 31 December 2018, outstanding balances on loans and advances to management staff amounted to UA 8.13 million (2017: UA 5.60 million).

Note S – Segment reporting

The Bank is a multilateral development finance institution dedicated to the economic and social progress of its regional member states.

The Bank's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers. Based on the evaluation of the Bank's operations, management has determined that ADB has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers.

The products and services from which the Bank derives its revenue are mainly loans, treasury and equity investments.

External revenue for the years ended 31 December 2018 and 2017 is detailed as follows:

(UA thousands)

	2018	2017
Interest income from loans		
Fixed rate loans	534,450	418,759
Variable rate loans	13,251	13,625
Floating rate loans	72,943	54,955
	620,644	487,339
Commitment charges and commissions	12,961	15,085
Interest on loan swaps	(36,714)	(43,137)
Total income from loans	**596,891**	**459,287**
Income from investments	240,071	195,452
Income from other debt securities	41	2,154
Other income	17,469	14,763
Total external revenue	**854,472**	**671,656**

Revenues earned from transactions with a single borrower country of the Bank and exceeding 10 percent of the Bank's revenue for one country amounted to UA 202.5 million for the year ended 31 December 2018 (2017: UA 155.36 million).

The Bank's development activities are divided into five sub-regions of the continent of Africa for internal management purposes, namely: Central Africa, Eastern Africa, Northern Africa, Southern Africa, and Western Africa. Activities involving more than one single country from the continent of Africa are described as multinational activities. Treasury investment activities are carried out mainly outside the continent of Africa, and are therefore not included in the table below. In presenting information on the basis of the above geographical areas, revenue is based on the location of customers.

Geographical information about income from loans for the years ended 31 December 2018 and 2017 is detailed as follows:

(UA thousands)

	Central Africa	Eastern Africa	Northern Africa	Southern Africa	Western Africa	Multinational	Total
2018							
Income from sovereign loans	33,270	9,485	96,827	183,592	28,692	51	351,917
Income from non-sovereign loans	4,653	32,698	19,215	71,195	79,524	37,689	244,974
	37,923	**42,183**	**116,042**	**254,787**	**108,216**	**37,740**	**596,891**
2017							
Income from sovereign loans	35,493	5,926	72,837	132,255	16,933	118	263,562
Income from non-sovereign loans	3,709	21,609	17,263	57,736	55,758	39,650	195,725
	39,202	**27,535**	**90,100**	**189,991**	**72,691**	**39,768**	**459,287**

As of 31 December 2018, land and buildings owned by the Bank were located primarily at the Bank's headquarters in Abidjan, Côte d'Ivoire. More than 90 percent of other fixed and intangible assets were located at the regional resource centers in Nairobi, Pretoria and Tunis.

Note T – Approval of financial statements

On March 27 2019, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors at its annual meeting in June 2019.

Note U – Supplementary disclosures

Note U – 1: Exchange rates

The rates used for translating currencies into Units of Account at 31 December 2018 and 2017 were as follows:

		2018	2017
1 UA = 1 SDR =	Algerian Dinar	164.60500	163.58300
	Angolan Kwanza	429.20800	236.29700
	Australian Dollar	1.97248	1.82581
	Botswana Pula	14.89070	14.01710
	Brazilian Real	5.38819	4.71018
	Canadian Dollar	1.89153	1.78837
	Chinese Yuan Renminbi	9.53107	9.27343
	CFA Franc	796.48900	778.92900
	Danish Kroner	9.06709	8.84060
	Egyptian Pound	24.91410	25.24650
	Ethiopian Birr	38.88280	38.65140
	Euro	1.21424	1.18750
	Gambian Dalasi	68.52000	67.90000
	Ghanaian Cedi	6.70361	6.18882
	Guinean Franc	12,635.10000	12,795.30000
	Indian Rupee	97.32550	91.04070
	Japanese Yen	154.14100	160.78500
	Kenyan Shilling	141.64700	145.85700
	Korean Won	1,559.50000	1,525.82000
	Kuwaiti Dinar	0.42217	0.42973
	Libyan Dinar	1.93240	1.93240
	Mauritian Rupee	47.64850	47.68540
	Moroccan Dirham	13.30360	13.28640
	New Zambian Kwacha	16.58350	14.30220
	New Zealand Dollar	2.07241	2.00670
	Nigerian Naira	426.28000	434.02400
	Norwegian Krone	12.11060	11.68500
	Pound Sterling	1.09550	1.05402
	Sao Tomé Dobra	29.74890	29,456.10000
	Saudi Arabian Riyal	5.21548	5.34051
	South African Rand	20.01680	17.52430
	Swedish Krona	12.47680	11.72380
	Swiss Franc	1.36451	1.38967
	Tanzanian Shilling	3,163.27000	3,162.05000
	Tunisian Dinar	4.16698	3.53568
	Turkish Lira	7.45268	5.37380
	Ugandan Shilling	5,177.70000	5,124.52000
	United States Dollar	1.39079	1.42413
	Vietnamese Dong	32,099.40000	32,596.20000

No representation is made that any currency held by the Bank can be or could have been converted into any other currency at the cross rates resulting from the rates indicated above.

Note U – 2: Other development assistance activities

i) Democratic Republic of Congo (DRC)

In connection with an internationally coordinated effort between the Banks, the International Monetary Fund (the IMF), the World Bank and other bilateral and multilateral donors to assist the Democratic Republic of Congo (DRC) in its reconstruction efforts, the Board of Directors on 26 June 2002, approved an arrears clearance plan for the DRC. Under the arrears clearance plan, contributions received from the donor community were used immediately for partial clearance of the arrears owed by the DRC. The residual amount of DRC's arrears to the Bank and loan amounts not yet due were consolidated into new contractual receivables, such that the present value of the new loans was equal to the present value of the amounts that were owed under the previous contractual terms. The new loans carry the weighted average interest rate of the old loans. In approving the arrears clearance plan, the Board of Directors considered the following factors: a) the arrears clearance plan is part of an internationally coordinated arrangement for the DRC; b) the magnitude of DRC's arrears to the Bank ruled out conventional solutions; c) the prolonged armed conflict in the DRC created extensive destruction of physical assets, such that the DRC had almost no capacity for servicing its debt; and d) the proposed package would result in a significant improvement in its repayment capacity, if appropriate supporting measures are taken. Furthermore, there was no automatic linkage between the arrears clearance mechanism and the debt relief that may be subsequently provided on the consolidated facility. In June 2004, the DRC reached its decision point under the Heavily Indebted Poor Countries (HIPC) initiative. Consequently, the consolidated facility has since that date benefited from partial debt service relief under HIPC.

A special account, separate from the assets of the Bank, was established for all contributions towards the DRC arrears clearance plan. Such contributions may include allocations of the net income of the Bank that the Board of Governors may from time to time make to the special account, representing the Bank's contribution to the arrears clearance plan. The amount of such net income allocation is subject to the approval of the Boards of Governors of the Bank, typically occurring during the annual general meeting of the Bank. Consequently, income recognized on the consolidated DRC loans in current earnings is transferred out of reserves to the special account only after the formal approval of such transfer, in whole or in part, by the Board of Governors of the Bank.

ii) Post-Conflict Countries Assistance/Transition States Facility

The Post Conflict Countries' Fund was established as a framework to assist countries emerging from conflict in their efforts towards re-engagement with the donor community in order to reactivate development assistance and help these countries reach the Heavily Indebted Poor Countries (HIPC) decision point to qualify for debt relief after clearing their loan arrears to the Bank Group. The framework entails the setting aside of a pool of resources through a separate facility with allocations from the ADB's net income, and contributions from the ADF and other private donors.

Resources from the facility are provided on a case-by-case basis to genuine post-conflict countries not yet receiving debt relief to fill financing gaps after maximum effort by the post-conflict country to clear its arrears to the Bank Group. In this connection, the Board of Governors by its Resolution B/BG/2004/07 of 25 May 2004, established the Post-Conflict Countries Facility (PCCF) under the administration of the ADF and approved an allocation of UA 45 million from the 2003 net income of the Bank. The Board of Governors also, by its resolution B/BG/2005/05 of 18 May 2005, approved an additional allocation of UA 30 million from the 2004 net income as the second installment of the Bank's contribution to the facility and by its resolution B/BG/2006/04 of 17 May 2006, the Board of Governors also approved the third and final installment of the Bank's allocation of UA 25 million from the 2005 net income. In March 2008, the Board of Directors approved the establishment of the Fragile States Facility (FSF) to take over the activities of the PCCF and in addition provide broader and integrated framework for assistance to eligible states. The purposes of the FSF are to consolidate peace, stabilize economies and lay the foundation for sustainable poverty-reduction and long-term economic growth of the eligible countries. By policy, contributions made by ADB to the PCCF/FSF are not used to clear the debt owed to the Bank by beneficiary countries.

iii) Heavily Indebted Poor Countries (HIPC) Initiative

The Bank participates in a multilateral initiative for addressing the debt problems of countries identified as HIPCs. Under this initiative, creditors provide debt relief for eligible countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. Under the original HIPC framework, selected loans to eligible beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the lower of the net present value of the loans or their nominal values, as calculated using the methodology agreed under the initiatives.

Following the signature of a HIPC debt relief agreement, the relevant loans were paid off at the lower of their net present value or their carrying value. On average, loans in the ADB's portfolio carry higher interest rates than the present value discount rates applied and therefore the net present value of the loans exceeds the book value. Consequently, affected ADB loans were paid off by the HIPC Trust Fund at book values.

The HIPC initiative was enhanced in 1999 to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 33 African countries are eligible, the debt relief is delivered through annual debt service reductions, as well as the release of up to 80 percent of annual debt service obligations as they come due until the total debt relief is provided. In addition, interim financing between the decision and completion points of up to 40 percent of total debt relief is provided whenever possible within a 15-year horizon.

As at end December 2018, the implementation of the HIPC initiative shows that out of the 33 eligible countries, 30 RMCs have reached their completion points while Chad is still in interim period. Three countries, Somalia, Sudan and Eritrea (pre-point decision) are yet to reach the decision point.

iv) Multilateral Debt Relief Initiative (MDRI)

At the Gleneagles Summit on 8 July 2005, the Group of 8 major industrial countries agreed on a proposal for the ADF, the International Development Association (IDA), and the International Monetary Fund (IMF) to cancel 100 percent of their claims on countries that have reached, or will reach, the completion point under the enhanced HIPC Initiative.

The main objective of the MDRI is to complete the process of debt relief for HIPCs by providing additional resources to help 38 countries worldwide, 33 of which are in Africa, to make progress towards achieving the Millennium Development Goals (MDGs), while simultaneously safeguarding the long-term financing capacity of the ADF and the IDA. The debt cancelation would be delivered by relieving post-completion-point HIPCs' repayment obligations and adjusting their gross assistance flows downward by the same amount. To maintain the financial integrity of the ADF, donors have committed to make additional contributions to the ADF to match "dollar-for-dollar" the foregone principal and service charge payments.

The MDRI became effective for the ADF on 1 September 2006. As of that date, the ADF wrote down its balance of disbursed and outstanding loans net of HIPC relief by an amount of UA 3.84 billion, with a corresponding decrease as of that date in the ADF's net assets. Reduction in ADF net assets results in a decrease in the value of the Bank's investment in the Fund. Subsequent write-down of loan balances is effected as and when other countries reach their HIPC completion point and are declared beneficiaries of MDRI loan cancelation. The reduction in the net asset value of the ADF does not include loans outstanding to MDRI countries that have not reached their HIPC completion points at the end of the year.

Note U – 3: Special funds

Under Article 8 of the Agreement establishing the Bank, the Bank may establish or be entrusted with the administration of special funds.

At 31 December 2018 and 2017, the following funds were held separately from those of the ordinary capital resources of the Bank:

i) The NTF was established under an agreement signed on 26 February 1976 (the Agreement) between the African Development Bank and the Federal Republic of Nigeria. The Agreement stipulates that the NTF shall be in effect for a period of 30 years from the date the Agreement became effective and that the resources of the NTF shall be transferred to the Government of Nigeria upon termination. However, the 30-year sunset period may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. At the expiry of the initial 30-year period on 25 April 2006, the Bank and the Federal Republic of Nigeria agreed to 2 interim extensions (each for 12 months) to allow for further consultations and an independent evaluation of the NTF.

Following the positive result of the independent evaluation, the NTF Agreement was renewed for a period of ten years starting from 26 April 2008. The initial capital of the NTF was Naira 50 million payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to US$ 39.90 million, was received by the Bank on 14 July 1976, and payment of the second installment, equivalent to US$ 39.61 million, was made on 1 February 1977.

During May 1981, the Federal Republic of Nigeria announced the replenishment of the NTF with Naira 50 million. The first installment of Naira 35 million (US$ 52.29 million) was paid on 7 October 1981. The second installment of Naira 8 million (US$ 10.87 million) was received on 4 May 1984. The payment of the third installment of Naira 7 million (US$ 7.38 million) was made on 13 September 1985.

During the year ended 31 December 2014, the Government of the Federal Republic of Nigeria authorized the withdrawal of an amount of US$13 million (UA 8.41 million) from reserves to settle its commitment on the arrears clearance of debt owed by Liberia under the internationally coordinated arrears clearance mechanism for Post Conflict Countries.

During the year ended 31 December 2015, following a request by the Government of Nigeria, on 13 May 2015, a withdrawal of US$ 10 million (UA 7.14 million) was made from the resources of the Fund and paid to the Government of Nigeria.

The resources of the NTF at 31 December 2018 and 2017 are summarized below:

(UA thousands)

	2018	2017
Contribution received	128,586	128,586
Funds generated (net)	145,435	144,200
Adjustment for translation of currencies	(99,726)	(103,735)
	174,295	**169,051**
Represented by:		
Due from banks	5,728	7,508
Investments	101,994	102,950
Accrued income and charges receivable on loans	809	1,034
Accrued interest on investments	318	132
Other amounts receivable	1.133	3
Loans outstanding	65,897	57,734
	175,879	**169,361**
Less: Current accounts payable	(1,584)	(310)
	174.295	**169,051**

ii) The Special Relief Fund (for African countries affected by drought) was established by Board of Governors' Resolution 20-74 to assist African countries affected by unpredictable disasters. The purpose of this fund was subsequently expanded in 1991 to include the provision of assistance, on a grant basis, to research institutions whose research objectives in specified fields are likely to facilitate the Bank's objective of meeting the needs of Regional Member Countries in those fields. The resources of this Fund consist of contributions by the Bank, the ADF and various member states.

The summary statement of the resources and assets of the Special Relief Fund (for African countries affected by drought) as at 31 December 2018 and 2017 follows:

(UA thousands)

	2018	2017
Fund balance	117,460	111,467
Funds generated	6,304	5,890
Funds allocated to Social Dimensions of Structural Adjustment (SDA)	2	2
Less: Relief disbursed	(114,979)	(109,608)
	8,787	**7,751**
Represented by:		
Due from bank	641	477
Investments	8,153	8,658
Accounts payable	(7)	(1,384)
	8,787	**7,751**

At 31 December 2018, a total of UA 5.01 million (2017: UA 1.40 million) had been committed but not yet disbursed under the Special Relief Fund.

iii) Africa Growing Together Fund (AGTF): Pursuant to the Board of Governors resolution B/BG/2014/06 of 22 May 2014, the agreement establishing the Africa Growing Together Fund was signed between the Bank and the Peoples Bank of China on 22 May 2014 to co-finance alongside the AfDB eligible sovereign and non-sovereign operations. Following the entry into force of the AGTF agreement, an initial contribution of USD 50 million towards the Fund was received by the Bank on 28 November 2014. The summary statement of the resources and assets of the Africa Growing Together Fund as at 31 December 2018 and 2017 follows:

(UA thousands)

	2018	2017
Contribution received	48,281	41,914
Funds generated (net)	(631)	(137)
	47,650	**41,777**
Represented by:		
Due from bank	1,672	1,025
Investments	18,449	33,157
Loans outstanding	28,009	7,827
Accrued income and charges receivable on loans and investments	150	53
Less: Current accounts payable	(630)	(285)
	47,650	**41,777**

Note U – 4: Trust funds

The Bank has been entrusted, under Resolutions 11-70, 19-74 and 10-85 of the Board of Governors, with the administration of the Mamoun Beheiry Fund, the Arab Oil Fund, and the Special Emergency Assistance Fund for Drought and Famine in Africa. These funds, held separately from those of the ordinary capital resources of the Bank, are maintained and accounted for in specific currencies, which are translated into Units of Account at exchange rates prevailing at the end of the year.

i) The Mamoun Beheiry Fund was established under Board of Governors' Resolution 11-70 of 31 October 1970, whereby Mr. Mamoun Beheiry, former President of the Bank, agreed to set up a fund, which could be used by the Bank to reward staff members who had demonstrated outstanding performance in fostering the objectives of the Bank.

ii) The Special Emergency Assistance Fund for Drought and Famine in Africa (SEAF) was established by the 20th Meeting of Heads of State and Governments of member countries of the African Union formerly Organization of African Unity (OAU) held in Addis Ababa, Ethiopia, from 12 to 15 November 1984, under Resolution AHG/Res. 133 (XX), with the objective of giving assistance to African member countries affected by drought and famine.

The financial highlights of these Trust Funds at 31 December 2018 and 2017 are summarized below:

(UA thousands)

	2018	2017
i) Mamoun Beheiry Fund		
Contribution	152	152
Income from investments	158	168
	310	320
Less: Prize awarded	(46)	(46)
Gift	(25)	(25)
	239	249
Represented by:		
Due from banks	239	249
	239	249
ii) Special Emergency Assistance Fund for Drought and Famine in Africa		
Contributions	23,722	23,167
Funds generated	6,222	6,038
	29,944	29,205
Less: Relief disbursed	(26,417)	(25,798)
	3,527	3,407
Represented by:		
Due from banks	1,394	1,356
Investments	2,133	2,051
	3,527	3,407
Total Resources & Assets of Trust Funds	**3,766**	**3,656**

NOTE U – 5: Grants (donor funds)

The Bank administers grants on behalf of donors, including member countries, agencies and other entities. Resources for Grants are restricted for specific uses, which include the co-financing of the Bank's lending projects, debt reduction operations, technical assistance for borrowers including feasibility studies and project preparation, global and regional programs and research and training programs. These funds are placed in trust and are not included in the assets of the Bank. In accordance with Article 11 of the Agreement establishing the Bank, the accounts of these grants are kept separate from those of the Bank.

The undisbursed balances of the grant resources at 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Africa Climate Change Fund	8,970	9,300
Africa Growing Together Fund	24,499	34,399
Africa Renewable Energy Initiative	4,544	5,860
Africa trade Fund	3,980	5,107
Africa Water Facility Fund	33,486	40,669
African Community of practice	1,218	1,166
African Economic Outlook	62	64
African Energy Leaders Group	369	358
African Legal Support Facility	19,561	26,694
Agriculture fast track fund	12,324	11,680
AMINA	1,592	1,565
Bill and Melinda Gate Foundation TCA	5,706	6,540
Canadian Grant for Technical Assistance	217	235
Chinese Government Fund	205	270
Clean Technology Fund	27,303	50,838
Climate Development Fund	20,306	18,692
Congo Basin Forest Fund	30,760	32,735
EU Africa Infrastructure Trust Fund	2,674	4,854
Fertilizer Financing Mechanism	9,580	10,086
Finland	2,556	2,653
France	564	575
Fund For African Private Sector Assistance (FAPA)	37,090	33,486
Global Agriculture And Food Security Programme (GAFSP)	32,169	54,879
Global Environment Facility	33,208	43,785
Global Strategy to improve Agriculture and Rural Statistics (GARS)	407	915
Governance Trust Fund	672	668
Improving Statistics Food Security Trust Fund (ISFS)	886	2,312
India	1,913	2,336
Infrastructure Consortium For Africa (ICA)	673	870
Initiative Migration and Development (IMDE)	3,527	4,167
Investment Climate Facility for Africa	1,261	1,241
Korea Trust Fund	28,892	26,926
Making Finance Work For Africa (MFW4A)	1,671	1,145
MENA Transition Fund	15,466	18,425
Microfinance Trust Fund	3,350	3,611
Multi-Donor Water Partnership Programme	381	613
Nepad Infrastructure	30,142	28,017
Nigeria Technical Cooperation Fund (NTCF)	3,860	4,887
Norway	47	49
Portuguese Technical Cooperation Trust Fund	554	570
Private Sector Credit Enhancement Facility	171,666	102,126
Programme for Infrastructure Development in Africa (Pida)	116	118
Rockefeller Foundation	1,594	-
Rural Water Supply and Sanitation Initiative	50,078	59,391
SFRD (Great Lakes)	425	411
South South cooperation Trust Fund	688	1,097
Statistical Capacity Building (SCB)	2,965	6,787
Strategic Climate Fund	49,120	24,801
Sustainable Energy Fund for Africa	40,241	41,557
Swedish Trust Fund for Consultancy Services	81	109
Switzerland Technical Assistance Grant	2,327	1,626
Trust Fund for Countries in Transition	5,546	2,244
Uganda Road Sector Project	858	7,591
United Kingdom	70	438
Value for Money Sustainability and Accountability Trust Fund	1,110	1,178
Youth Entrepreneurship Innovation Trust Fund	10,550	-
Zimbabwe Multi-Donor Trust Fund	17,460	31,442
Others	80	114
Total	**761,620**	**774,272**

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African Development Bank

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Independent Auditor's Report Financial Statements

Year ended December 31st, 2018

To the Board of Governors of the African Development Bank

Opinion

We have audited the accompanying financial statements of the African Development Bank which comprise the balance sheet as at December 31, 2018, and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out in notes A to U.

In our opinion, the accompanying financial statements present fairly, in all material respects, and give a true and fair view of the assets and liabilities and of the financial position of the Bank as at December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

Audit Framework

We conducted our audit in accordance with International Standards on Auditing (ISAs). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *"Auditor's Responsibilities for the Audit of the Financial Statements"* section of our report.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Key Audit Matters

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

Impairment based on expected credit losses - First time application of the IFRS 9 impairment rules

Risk identified	The application of the IFRS 9 impairment rules as from January 1, 2018 has introduced significant changes, which have financial and operational impacts for the Bank. In addition to the impairment methodology for incurred credit risk (stage 3), the new expected losses rules require the recording of impairments calculated as follows: • stage 1 representing an expected loss within 1 year from initial recognition of the financial asset; • stage 2 which represents an expected loss at maturity, in the event of a significant increase in credit risk since initial recognition. The estimate of expected credit losses requires the exercise of judgment to determine in particular: • the rating procedures for loans covered by this impairment model; • the rules for mapping loans to their appropriate staging; • criteria for the increase in credit risk; • certain parameters for calculating expected credit losses, such as the probability of default (PD) and the loss rate in the event of default (LGD). • the methodology for taking into account macroeconomic projections for both increase in credit risk and measurement of expected losses. • These parameters are integrated into the model used by the Bank for each type of loan portfolio (sovereign loans and non-sovereign loans) to determine the amount of expected credit losses. The impact of IFRS 9 impairment rules and the accounting principles applied are detailed in notes C, D and I. Thus, the impact related to the implementation of the new impairment model is: • an amount of UA 171,979 thousand on opening shareholders' equity on first application of the IFRS 9 impairment rules; • an impairment charge on loans classified in categories 1 and 2 of UA 12,321 thousand for the year 2018 (out of a total amount of impairment charge for the year 2018 of UA 76,532 thousand). As at 31 December 2018, the accumulated impairment for expected losses on loans classified in categories 1 and 2 amounted to UA 225,789 thousand for a total impairment amount of UA 683,430 thousand. Given the scope of this standard, the complexity of its implementation and the importance of the accounting estimates, we considered that the application of this standard from January 1, 2018 is a key audit matter for the year 2018.
Our response	Our work consisted mainly, with the assistance of our experts, in: • analyzing compliance of calculation and calibration methods with the IFRS 9 standards, in particular on: - the loans rating process, the significant increase in credit risk criteria and the rules for mapping loans to their appropriate staging; - calculation of expected losses (review of the model, calibration of PDs, LGDs, forward looking assumptions, backtesting methods, etc.); • carrying out independent calculations with our own tools. Finally, our audit work also included the review of the impact of expected credit losses as at January 1, 2018 and as at December 31, 2018 and the review of the relevant explanatory information provided in the related notes to the financial statements.

Incurred Credit Risk - Impairment for non-sovereign loans classified in stage 3

Risk identified	The African Development Bank is exposed to credit and counterparty risks on sovereign and non-sovereign loans that it grants. These risks result from the inability of its clients and counterparties to meet their financial commitments. In accordance with the IFRS 9 impairment rules, the African Development Bank records impairments to cover expected credit losses (loans classified in stages 1 and 2 - see key audit matter mentioned above) and incurred losses (loans classified in stage 3). Impairment on incurred losses for loans classified in stage 3 are determined on an individual basis. These individual impairments are determined by the management based on the estimated future recoverable cash flow estimated on each of the concerned loans. As indicated in notes C, D and I to the financial statements, the outstanding sovereign loans classified in stage 3 are relatively stable (UA 256 million at the end of 2018 compared to UA 250 million as at January 1, 2018). The Bank's total non-sovereign loans outstanding amounted to UA 4,238 million, including UA 253 million outstanding loans classified in stage 3 with an impaired amount of UA 93 million as at December 31, 2018 compared to UA 3,909 total outstanding non-sovereign loans of which UA 113 million classified in stage 3 are impaired at UA 56 million as at January 1, 2018. Given that the assessment of impairment requires a significant accounting estimate and use of management's judgement, we consider that the identification and evaluation of incurred credit risk on non-sovereign loans (which represents an increased risk compared to sovereign risks) is a key audit matter.
Our response	As part of our audit procedures, we reviewed the control framework for identifying exposures, monitoring credit and counterparty risks, assessing non-recovery risks and determining related impairment and provisions. Our work consisted of assessing the quality of the monitoring system for watchlisted and impaired loans and the credit review process (particularly by the Credit Risk Committee (CRC)). In addition, based on a sample selected on materiality and risk criteria, we performed an independent analysis of the amounts of provisions.

Valuation of level 2 and 3 financial assets, financial liabilities and derivatives under IFRS 13.

Risk identified

The African Development Bank holds on its balance sheet a significant amount of financial assets and liabilities (including derivatives) valued at fair value: UA 7.2 billion of financial assets and UA 24.4 billion of financial liabilities at 31 December 2018.

For the purposes of this measurement, and in accordance with IFRS 13, financial instruments are grouped into three different levels depending on the fair value determination method. Levels 2 and 3 include financial instruments valued on the basis of valuation models whose significant parameters are or are not observable on the market, as the case may be (UA 3.3 billion of financial assets and UA 9.7 billion of financial liabilities valued at levels 2 and 3 as at 31 December 2018 - see note E to the financial statements). The measurement of the fair value of Level 2 and Level 3 financial instruments is therefore based on valuation techniques that involve a significant amount of judgment as to the choice of methodologies and data used:

- determination of unobservable market valuation parameters;
- use of internal valuation models;
- estimation of additional valuation adjustments to take into account certain market, counterparty or liquidity risks.

We considered that financial instruments classified as Level 2 and 3 in the fair value hierarchy were a key element of the audit because of the materiality of the exposures and the use of judgment in determining fair value.

Our response

We have reviewed the internal control systems governing the identification, measurement and recognition of Level 2 and Level 3 fair value financial instruments. We have taken note of relevant reports and minutes of committees (particularly ALCO) that could take a position on this subject.

We tested the controls (notably those by the back and the middle office) that we considered relevant for our audit, in particular those relating to:

- independent verification of the valuation parameters,
- determination of the main valuation adjustments and corrections made.

We have performed these procedures with the assistance of our valuation experts, with whom we have also carried out independent valuation work involving the examination, based on samples, the assumptions, methodologies and models used to estimate the main valuation adjustments.

We also examined the main existing margin call spreads and the losses and/or gains on sales of instruments to determine the appropriateness of the Bank's valuations.

Finally, we examined the disclosures relating to the valuation of financial instruments published in the notes to the financial statements.

Assessment of Employee Benefits

Risk identified	The African Development Bank offers its employees a defined benefit pension plan and a defined contribution medical plan that provides medical benefits to eligible former employees, including retirees. For the pension plan, an actuarial valuation of the cost of the plan is performed using the projected unit credit method. Liabilities represent the present value of the defined benefits that the Bank must pay, less the fair value of plan assets. For the medical plan, the liability represents the present value of the defined post-employment benefits to be paid by the Bank less the fair value of plan assets. As disclosed in note Q to the financial statements, the Bank's liability to the pension and medical plan amount to UA 283 million and UA 165 million respectively as at 31 December 2018. The valuation of the present value of the liabilities arising from the pension and medical plan is based on various parameters (discount rate, rate of salary increase, mortality table, future rate of pension increase, rate of increase in cost of medical care, etc.). We considered that the assessment of these social commitments was a key audit matter, given the use of judgment in determining these parameters.
Our response	With the support of our experts, we assessed the process for monitoring and determining the valuation of these social commitments. In particular, we carried out the following work: • reviewing the terms and conditions of these plans (retirement and medical plans) and any changes that may have occurred during the 2018 financial year; • comparison with external sources and examination of the reasonableness of assumptions for determining the various parameters used; • carrying out independent valuations of these benefits by verifying the data on the basis of a sample of individuals who are beneficiaries of this pension scheme and medical plan and then recalculating the overall commitment on the basis of the data and parameters retained by the Bank. Finally, we examined the appropriateness of the information on employee benefits disclosed in the notes to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the African Development Bank Group Annual Report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank'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 it is expected to liquidate the Bank or to cease operations.

The Audit & Finance Committee of the Board, and more generally those charged with governance, are responsible for overseeing the Bank's financial reporting process and to monitor the effectiveness of the internal control and risk management systems, as well as the internal audit, as regards the procedures relating to the preparation and processing of accounting and financial information.

The financial statements were approved by the Board for transmission to the Board of Governors.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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.

In accordance with International Standards on Auditing (ISAs), our role as external auditor does not consist in guaranteeing the viability or quality of management of the audited entity.

As part of an audit conducted in accordance with ISAs, the auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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;

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;

- Assesses the appropriateness of management's 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 Bank's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

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

Paris – La Défense, March 27th, 2019

The independent auditor
Deloitte & Associés

Pascal COLIN

ADB Administrative Budget for Financial Year 2019

(UA thousands)

Description	
Personnel Expenses	
Salaries	158,743
Benefits	72,357
Other Employee Expenses	13,379
Short-Term and Technical Assistance Staff	3,401
Consultants	34,232
Staff Training	5,507
	287,619
General Expenses	
Official Missions	26,760
Accommodation	18,254
Equipment Rental, Repairs and Maintenance	13,250
Communication Expenses	7,162
Printing, Publishing and Reproduction	1,474
Office Supplies and Stationery	634
Library	175
Other Institutional Expenses	28,261
	95,970
Total Administrative Expenses	**383,589**
Depreciation	14 850
Total	**398,439**
Less: Management Fees*	(236 980)
Net Administrative Budget	**161,459**

* *The amount represents the African Development Fund and the Nigeria Trust Fund's share of the fair value of the Bank's expenses in respect of officers, staff, organization, services and facilities based on formula approved by the Boards.*

THE AFRICAN DEVELOPMENT FUND

FINANCIAL MANAGEMENT

Subscriptions

ADF Replenishments

The resources of the African Development Fund (the ADF or the Fund) primarily consist of subscriptions by the Bank, subscriptions and contributions made by State Participants and Donors, together with other resources received by the Fund. Cumulative subscriptions to the ADF amounted to UA 30.06 billion at 31 December 2018.

Subsequent to the initial subscriptions, additional resources have been provided to the ADF in the form of periodic general replenishments, typically on a three-year cycle.

The Fourteenth Replenishment of the ADF (ADF-14) became effective on 20 June 2017 following its adoption by the Board of Governors on 27 April 2017. State participants agreed on an ADF-14 resource level of UA 4,224.05 million comprised of: (i) Donor subscriptions of UA 3,362.94 million[1]; (ii) Concessional Donor Loans of UA 116.05 million (net of grant element[1]); (iii) Advanced Commitment Capacity of UA 743.81 million; and (iv) supplementary contribution of UA 1.25 million from Luxembourg. As of 31 December 2018, State Participants had subscribed a total amount of UA 3.34 billion, representing 99.21 percent of the ADF-14 pledged amount.

Financial Products

The ADF is the concessional financing window of the Bank Group that provides low-income regional member countries with concessional loans as well as grants for projects and programs, risk guarantees and support through technical assistance for studies and capacity building.

Loans

Prior to the ADF-13 replenishment, the ADF was operating under differentiated lending terms for ADF-eligible countries classified as blend, gap and graduating versus ADF-only countries. Accordingly, loans extended to blend, gap and graduating countries had a maturity period of 30 years, including an 8-year grace period with an interest rate of 1 percent per annum. For ADF-only countries, their loans had a maturity period of 50 years, including a grace period of 10 years, with no interest rate. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum on outstanding balances, were still applicable for all ADF loans.

With a view to preserving the long-term financial sustainability and capacity of the ADF, the ADF-13 replenishment introduced (i) hardened and differentiated lending terms, and (ii) two sub-groups of ADF-only countries: the "regular" and the "advance" group. The financing terms for regular and advance ADF-only countries, as well as for blend, gap and graduating countries, were hardened. An accelerated repayment clause and a voluntary prepayment framework were also introduced.

Accordingly, new loans extended under ADF-13 to regular ADF countries have a maturity of 40 years, including a grace period of 10 years; and loans extended to advance ADF countries have a maturity of 40 years, including a grace period of 5 years. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum in outstanding balances remain applicable. Loans to blend, gap and graduating countries have a maturity of 30 years including a 5-year grace period, and an interest rate charge of 1 percent per annum in addition to the standard commitment and service fees.

Guarantees

As a means of stimulating additional private sector investments in Low-Income Countries (LICs), the ADF Partial Risk Guarantee (ADF-PRG) instrument was introduced as part of ADF-12 to leverage resources from the private sector and other co-financiers for ADF countries, including fragile states. The ADF-PRG protects private lenders against well-defined political risks related to the failure of a government or a government-related entity to honor certain specified commitments. The PRG is aimed at incentivizing governments to undertake policy and fiscal reforms necessary to mitigate performance-related risks.

Starting with the ADF-13 replenishment, the Partial Credit Guarantee (ADF-PCG) was added to the suite of ADF instruments. The ADF-PCG is an instrument designed to address the challenges faced by well-performing ADF-only countries and State Owned Enterprises (SOEs), in their quest to mobilize both domestic and external commercial financing for developmental purposes. The product serves to partially guarantee debt-service obligations of LICs and well performing SOEs in LICs. The ADF PCG is available only to; (1) ADF countries with low risk and moderate risk of debt distress (green light and yellow light countries, respectively) and adequate debt management capacity; and (2) SOEs in ADF countries with low risk and moderate risk of debt distress, subject to meeting certain defined eligibility criteria. Similar to the ADF-PRG, the ADF-PCG enables well performing LICs and SOEs to catalyze larger volumes of development financing at more attractive terms.

Investments

ADF cash and treasury investments amounted to UA 3.18 billion at 31 December 2018, compared to UA 2.90 billion at the end of 2017. Investment income for the year amounted to UA 73.31 million, representing a return of 2.26% percent, on an average liquidity level of UA 3.25 billion, compared with an income of UA 44.07 million, representing a return of 1.47 percent, on an average liquidity of UA 3.01 billion in 2017.

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[1] *Includes the grant element of the Concessional Donor Loan and Bridge Loans, amounting to UA 135.22 million.*

[2] *The grant element of a CDL is defined as the present value of the financial benefit that the Fund derives when contracting the CDL, between the interest rate paid on the CDL and a discount rate (set at 2.65% in SDR terms for this replenishment).*

Table 1.6
Lending Status, 2014-2018
(UA millions)

	2014	2015	2016	2017	2018
Loans Approved*	1,338.23	1,259.58	1,267.91	959.48	1,088.20
Disbursements*	1,215.30	1,398.36	1,447.41	1,692.46	1,358.32
Undisbursed Balances*	6,558.66	6,762.39	6,413.75	5,669.29	5,329.53

** Excludes approvals of special funds but includes guarantees and grants.*

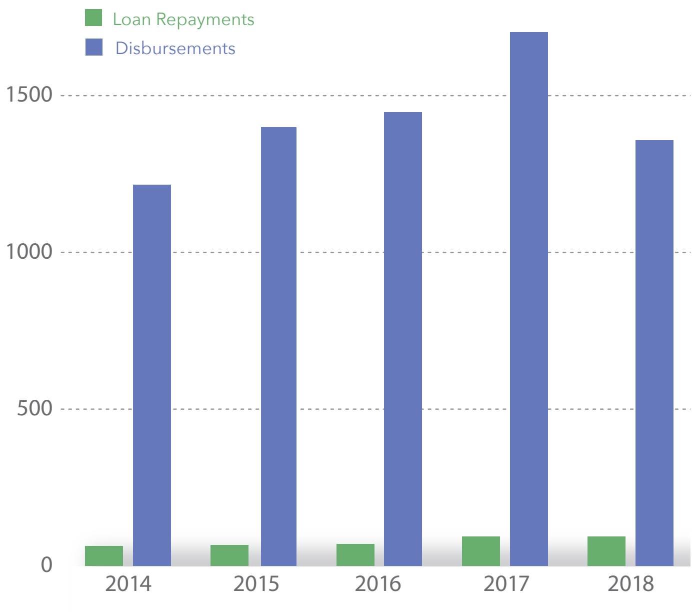
Development Activities
Cumulative loans and grants signed, net of cancellations, at 31 December 2018, amounted to UA 31.35 billion, compared to UA 30.33 billion at the end of 2017. Table 1.6 presents loans approved, disbursed and undisbursed balances from 2014 to 2018.

Total outstanding loans, as at 31 December 2018, was UA 12.52 billion, which is UA 0.88 billion higher than the UA 11.64 billion outstanding at the end of 2017.

The number of active loans and grants as at December 2018 was 1,336 while 732 loans amounting to UA 5.78 billion had been fully repaid or canceled through MDRI.

Disbursements
Loans and grants disbursed by the Fund decreased by 20.59 percent to stand at UA 1.35 billion in 2018 from UA 1.70 billion in 2017. As at 31 December 2018, cumulative disbursements on loans and grants amounted to UA 26.02 billion compared to UA 24.66 billion at the end of the previous year. A total of 2,344 loans and grants were fully disbursed amounting to UA 20.23 billion, which represents 77.73 percent of cumulative disbursements. Figure 1.3 tracks the evolution of loan disbursements and repayments over the past five years.

Figure 1.3 Loan Disbursements and Repayments, 2014-2018
(UA Millions)



Repayments
Principal loan repayments for the Fund amounted to UA 92.77 million in 2018 compared to UA 92.65 million in 2017, representing an increase of 0.13 percent over the previous year. Cumulative repayments as of 31 December 2018, stood at UA 7.60 billion.

Risk Management Policies and Processes
As in the case of the Bank, the Fund employs stringent risk management procedures in order to prudently reduce its exposure to risks, such as liquidity, currency and interest rate risks, that are not essential to its core business of providing development-related assistance to its clients. The details of the risk management policies and practices employed by the Fund to manage these risks are provided in Note C to the Financial Statements.

FINANCIAL RESULTS

The Fund reported a deficit of UA 74.07 million in 2018, compared with a deficit of UA 118.78 million in 2017, the decreased deficit is explained primarily by the increase in both investment income and loan income. Investment income increased from UA 44.07 million in 2017 to UA 73.31 million earned in 2018, an increase of 66.37 percent, which is largely attributable to the high yield on the Chinese Yuan Renminbi (CNY) portfolio. Loan income increased from UA 103.52 million in 2017 to UA 109.94 in 2018, reflecting increased lending activities.

Persistent losses over recent years are mainly due to structural changes to the Fund, including the cancellation of loans to certain beneficiaries under the Multilateral Debt Relief Initiative (MDRI, described in Note F to the financial statements), the increased grant element included in the recent ADF resource allocations and the impact of the prevailing low interest rates on investment of subscriptions encashed early, leaving the Fund with a negative income gap. Although these structural changes affect the reported income in the Fund's financial statements, their impact does not adversely affect the commitment capacity or the financial sustainability of the Fund because the Fund is expected to be compensated through additional donor subscriptions, payable over the life of the canceled loans.

Discounts on the accelerated encashment of promissory notes deposited towards the payment of the subscriptions to the Fund amounted to UA 17.78 million in 2018, a reduction of UA 10.71 million from UA 28.49 million recorded in 2017

The Fund's share of the total shareable administrative expenses of the Bank Group increased marginally, from UA 228.50 million in 2017 to UA 235.75 million in 2018. The Fund's share of these expenses reduced marginally to stand at 58.38 percent for 2018, compared with 60.95 percent for 2017. As noted earlier, the Fund's share of administrative expenses is based on a predetermined cost-sharing formula, which is driven by the relative levels of certain operational volume indicators and relative balance sheet size.

The Fund continues to cancel qualifying debts under MDRI for countries that reached the HIPC completion point. No new country reached the completion point during 2018. A summary of the cumulative loan cancellations under the MDRI and HIPC is presented in Note F to these Special Purpose Financial Statements.

According to the Fund's non-accrual policy, service charges on loans made to or guaranteed by borrowers are excluded from loan income, if principal installments or service charges on any such loans are in arrears for six months or more, until such time that payment is received. As a result of this policy, UA 2.14 million of non-accrued loan income was excluded from 2018 income compared to UA 2.09 million in 2017. The number of borrowers in non-accrual status at 31 December 2018, remained unchanged at three (3); for the fourth year in a row.

Performance Management and Monitoring

As with the African Development Bank (the Bank) management monitors performance measures and indicators which reflect the critical success factors in the ADF's business. To the extent that the ADF extends grants in addition to lending at highly concessional rates, the conventional profitability and financial ratios are not deemed to be an appropriate means of determining its effectiveness in delivering development resources to its regional member countries. One proxy that the Fund applies for measuring effective delivery of development resources is the level of disbursements made to RMCs from one period to another. As already noted previously, during the year under review a total of UA 1.35 billion was disbursed for loans and grants as compared to UA 1.70 billion made in 2017, representing a 20.59 percent decrease over the previous year.

African Development Fund

Special Purpose Financial Statements
For the year ended 31 December 2018

Statement of net development resources as at 31 December 2018

(UA thousands – Note B)

		2018		2017
DEVELOPMENT RESOURCES				
DUE FROM BANKS		1,297,505		199,311
INVESTMENTS (Note D)				
Treasury Investments, mandatorily at fair value	1,009,439		1,872,193	
Treasury Investments at amortized cost	876,518		828,682	
Total investments		1,885,957		2,700,875
DEMAND OBLIGATIONS (Note E)		2,294,453		2,521,576
RECEIVABLES				
Accrued income on loans and investments	41,401		65,706	
Other receivables	20,804		8,211	
		62,205		73,917
OTHER LIABILITIES		(76,046)		(86,387)
BORROWINGS (Note J)		(510,491)		(189,478)
NET DEVELOPMENT RESOURCES		**4,953,583**		**5,219,814**
FUNDING OF DEVELOPMENT RESOURCES				
SUBSCRIPTIONS AND CONTRIBUTIONS (Notes G & N)				
Amount subscribed including contributions through accelerated encashment of subscriptions	30,062,450		29,601,095	
Less: Portion of accelerated encashment not yet effected	(12,231)		(5,570)	
	30,050,219		29,595,525	
Less: Installments not yet payable	(1,457,331)		(2,075,260)	
	28,592,888		27,520,265	
Less: Installments due	(7,018)		(7,018)	
	28,585,870		27,513,247	
Contributions paid on Multilateral Debt Relief Initiative	1,199,482		1,087,976	
	29,785,352		28,601,223	
Less: Unamortized discounts on subscriptions and contributions (Note B)	(62,150)		(62,114)	
Less: Unamortized grant element on borrowings (Notes B & J)	(109,070)		(64,096)	
	29,614,132		28,475,013	
Cumulative exchange adjustment on subscriptions and contributions (Note B)	(340,247)		(351,152)	
Total subscriptions and contributions		29,273,885		28,123,861
OTHER RESOURCES (Note H)		715,961		680,961
RESERVES (Note I)		(600,627)		(526,556)
CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B)		(407,230)		(374,572)
		28,981,989		27,903,694
ALLOCATION OF DEVELOPMENT RESOURCES				
GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note F)		(6,368,431)		(5,907,320)
HIPC GRANTS DISBURSED (Note F)		(184,000)		(184,000)
NET DEBT RELIEF (Note F)		(4,955,072)		(4,955,072)
LOANS DISBURSED AND OUTSTANDING (Note F)		(12,520,903)		(11,637,488)
NET DEVELOPMENT RESOURCES		**4,953,583**		**5,219,814**

The accompanying notes to the special purpose financial statements form part of this statement.

Statement of income and expenses and other changes in development resources for the year ended 31 December 2018

(UA thousands - Note B)

	2018	2017
INCOME AND EXPENSES		
Service charges on loans	90,499	83,043
Commitment charges on loans	19,440	20,478
Income on investments	73,311	44,065
Administrative expenses (Note L)	(235,746)	(228,496)
Discount on accelerated encashment of participants' demand obligations	(17,775)	(28,485)
Grant element on concessional loans	(2,468)	-
Interest charges on borrowings	(335)	-
Financial charges	(343)	(418)
Loss on exchange	(654)	(8,966)
Deficit	**(74,071)**	**(118,779)**
CHANGE IN DEVELOPMENT RESOURCES FUNDING		
Increase in paid-up subscriptions	1,136,719	1,150,576
Contributions received on account of Multilateral Debt Relief Initiative	111,506	159,613
Increase in other resources	35,000	35,000
Changes in accumulated exchange adjustment on subscriptions and contributions	10,905	17,491
Changes in unamortized discounts on subscriptions and contributions	(36)	26,158
Changes in unamortized grant element on concessional loans	(109,070)	-
Changes in accumulated translation adjustment	(32,660)	(16,176)
	1,152,364	**1,372,662**
CHANGE IN DEVELOPMENT RESOURCES ALLOCATION		
Disbursement of grants	(461,111)	(585,509)
Disbursement of loans	(895,788)	(1,106,954)
Repayment of loans	92,765	92,652
Translation adjustment on loans	(80,390)	107,900
	(1,344,524)	**(1,491,911)**
Change in Net Development Resources	(266,231)	(238,028)
Net Development Resources at the beginning of the year	5,219,814	5,457,842
NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR	**4,953,583**	**5,219,814**

The accompanying notes to the special purpose financial statements form part of this statement.

Statement of comprehensive income for the year ended 31 December 2018

(UA thousands – Note B)

	2018	2017
DEFICIT	(74,071)	(118,779)
OTHER COMPREHENSIVE INCOME		
Changes in accumulated translation adjustment	(32,660)	(16,176)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(106,731)**	**(134,955)**

The accompanying notes to the special purpose financial statements form part of this statement.

Statement of cash flows
for the year ended 31 December 2018

(UA thousands – Note B)

	2018	2017
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Deficit	(74,071)	(118,779)
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized losses on investments	1,719	11,206
Discount on accelerated encashment of participants' demand obligations	17,775	28,485
Grant element on concessional loans	2,468	-
Changes in accrued income on loans and investments	24,305	(5,789)
Changes in net current assets	(21,237)	(113,233)
Net cash used in operating activities	(49,041)	(198,110)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursement of grants	(461,111)	(585,509)
Disbursement of loans	(895,788)	(1,106,954)
Repayment of loans	92,765	92,652
Investments maturing after 3 months of acquisition:		
Treasury investments, mandatorily at fair value	573,510	(199,740)
Treasury investments at amortized cost	(28,840)	222,779
Net cash used in investment, lending and development activities	(719,464)	(1,576,772)
FINANCING ACTIVITIES:		
Subscriptions and contributions received in cash	517,904	441,031
Participants' demand obligations encashed	799,681	799,783
Borrowings	321,012	189,478
Increase in other resources	35,000	35,000
Net cash provided by financing activities	1,673,597	1,465,292
Effect of exchange rate changes on cash and cash equivalents	(96,142)	(1,021)
Net increase/(decrease) in cash and cash equivalents	808,950	(310,611)
Cash and cash equivalents at the beginning of the year	564,189	874,800
Cash and cash equivalents at the end of the year	**1,373,139**	**564,189**
COMPOSED OF:		
Cash	1,297,505	199,311
Investments maturing within 3 months of acquisition:		-
Treasury investments, mandatorily at fair value	75,634	364,878
Cash and cash equivalents at the end of the year	**1,373,139**	**564,189**
SUPPLEMENTARY DISCLOSURE:		
Movements resulting from exchange rate fluctuations on:		
Loans	80,390	(107,900)
Subscriptions and contributions	10,905	17,491

The accompanying notes to the special purpose financial statements form part of this statement.

Notes to the special purpose financial statements
Year ended 31 December 2018

Note A – Purpose, organization and resources

Purpose and Organization

The African Development Fund (ADF or the Fund) was established in 1972 as an international institution to assist the African Development Bank (ADB or the Bank) in contributing to the economic and social development of the Bank's regional members, promote cooperation and increased international trade, particularly among the Bank's members, and to provide financing on concessional terms for such purposes.

By its resolution F/BG/2010/03 of May 27, 2010, the Board of Governors increased the membership of the Board of Directors of ADF from twelve (12) to fourteen (14), made up of seven (7) members selected by the Bank and seven (7) members selected by State Participants. The Board of Directors reports to the Board of Governors, which is made up of representatives of the State Participants and the ADB. The ADB exercises 50 percent of the voting powers in the ADF and the President of the Bank is the ex-officio President of the Fund.

The ADB, the ADF and, the Nigeria Trust Fund (NTF), which is a special fund administered by the ADB, are collectively referred to as the Bank Group. The principal purpose of the ADB is to promote economic and social development in its Regional Member Countries. The ADB finances development projects and programs in its regional member states. The ADB also participates in the selection, study and preparation of projects contributing to the development of its member countries and where necessary provides technical assistance. The NTF was established under an agreement between the Bank and the Federal Republic of Nigeria to further support the development efforts of ADB Regional Member Countries, particularly the lesser-developed countries. The assets and liabilities of the ADB and of the NTF are separate and independent of those of the ADF. Furthermore, the ADF is not liable for their respective obligations. Transactions with these affiliates, where there are, are disclosed in the notes as appropriate.

Resources

The resources of the Fund primarily consist of subscriptions by the Bank, subscriptions and contributions made by State Participants and Donors, other resources received by the Fund and funds derived from operations or otherwise accruing to the Fund. The initial resources of the Fund consisted of subscriptions by the Bank and the original State Participants to the Agreement Establishing the Fund (the Agreement). Thereafter, the resources have been replenished through Special and General increases of subscriptions and contributions.

Note B – Basis of preparation and significant accounting policies

Due to its nature and organization, the Fund presents its financial statements on a special purpose basis. The Special Purpose Financial Statements are prepared for the specific purpose of reflecting the net development resources of the Fund and are not intended to be a presentation in accordance with International Financial Reporting Standards. Net development resources represent resources available to fund loan and grant commitments and comprise primarily cash, marketable investments and demand obligations of State Participants. These special purpose financial statements have been prepared to comply with Article 35(1) of the Agreement establishing the Fund, which requires that the Fund circulates, at appropriate intervals, a summary of its financial position and an income and expenditure statement showing the results of its operations.

The significant accounting policies used in the preparation of the Fund's special purpose financial statements are as follows:

Monetary Basis of the Special Purpose Financial Statements

The special purpose financial statements are expressed in Units of Account (UA). Article 1 of the Agreement defined a Unit of Account as having a value of 0.81851265 grams of fine gold.

On 1 April 1978, when the second amendment to the Articles of the Agreement of the International Monetary Fund (IMF) came into effect, gold was abolished as a common denominator of the international monetary system. Computations relating to the currencies of IMF members were thereafter made on the basis of the Special Drawing Right (SDR) for purposes of applying the provisions of the Articles of the IMF. The Fund's Unit of Account was therefore reset based on its relationship to the SDR at the time of establishment of the Fund. This was 1 Unit of Account equal to SDR 0.921052.

Subsequently, on 16 November 1992, the Board of Governors decided by Resolution F/BG/92/10 to redefine the Fund's Unit of Account to be equivalent to the UA of the ADB, which is defined as equivalent to the Special Drawing Right of the IMF. In compliance with this Resolution, the Board of Directors, on 22 June 1993, adopted 1 January 1993, as the date for the entry into effect of the Resolution, and the Fund's UA has since then been defined as equal to the Bank's UA.

The International Monetary Fund (IMF) formally approved the inclusion of the Chinese Yuan Renminbi (CNY) in the IMF's Special Drawing Rights (SDR) Basket with effect from 1 October 2016 with a weight of 10.92%. In line with the Fund's policy, Management approved the execution of currency exchange transactions to align, to the extent possible, the net assets composition of the Fund to the SDR. The related transactions were executed in October 2016 using a combination of spot currency exchange and foreign exchange forwards. The gain on the foreign exchange forwards was recognized in the 2016 income statement.

The Fund conducts its operations in the currencies of its State Participants. Income and expenses are converted into UA at the rate prevailing on the date of the transaction. Assets and liabilities are translated into UA at rates prevailing at the date of the Statement of Net Development Resources. Translation differences are debited or credited to the Cumulative Currency Translation Adjustment. Translation gains and losses on subscriptions received are credited or debited to the Cumulative Exchange Adjustment on Subscriptions and contributions. Where currencies are converted into any other currency, the resulting gains or losses are included in income.

The rates used for translating currencies into UA at 31 December 2018 and 2017 are as follows:

	2018	2017
1 Unit of Account equals:		
Argentinian Peso	51.402100	26.558600
Brazilian Real	5.388190	4.710180
Canadian Dollar	1.891530	1.788370
Chinese Renminbi Yuan	9.531070	9.273430
Danish Krone	9.067090	8.840560
Euro	1.214240	1.187470
Indian Rupee	97.325500	91.040700
Japanese Yen	154.141000	160.785000
Korean Won	1,559.500000	1,525.820000
Kuwaiti Dinar	0.422174	0.429732
Norwegian Krone	12.110600	11.685000
Pound Sterling	1.095500	1.054020
South African Rand	20.016800	17.524300
Swedish Krona	12.476800	11.723800
Swiss Franc	1.364510	1.389670
Turkish Lira	7.452680	5.373800
United States Dollar	1.390790	1.424130

No representation is made that any currency held by the Fund can be or could be converted into any other currency at the cross-rates resulting from the rates indicated above.

Participants' Subscriptions and Contributions

Subscriptions committed by State Participants for each replenishment are recorded in full as subscriptions receivable from participants upon submission of an instrument of subscription by the participants. A replenishment becomes effective when the ADF receives instruments of subscription from participants for a portion of the intended replenishment level as specified in the replenishment resolution. The portion of subscribed amounts for which payments are not yet due from State Participants are recorded as installments on subscriptions not yet payable, and are not included in the net development resources of the Fund. The subscriptions not yet payable become due throughout the replenishment period (generally three years) in accordance with an agreed payment schedule. The actual payment of subscriptions when they become due from certain participants is conditional upon the respective participant's budgetary appropriation process.

The subscriptions receivable are settled through payment of cash or deposit of non-negotiable, non-interest-bearing demand notes. The notes are encashed by the Fund as provided in an encashment program agreed to at the time of the replenishment.

Starting with the ADF-9 replenishment, participants were given the option of an early payment of cash in an amount equivalent to the net present value of their entire subscriptions and contributions. Upon receipt of such cash payments, participants are credited with the full face value of their entire subscriptions, and in agreement with the Fund, such cash amounts received are invested and the income generated thereon is retained by the Fund. A discount, calculated as the difference between the face value of the subscriptions and the cash amount received, is initially recorded to represent the interest expected to be earned on the cash received from State Participants who opted for the accelerated encashment program. Such discount is amortized over the projected encashment period, to recognize the effective contributions to equity by the relevant participant over and above the initial cash advanced.

By its resolutions, F/BG/2006/12 and F/BG/2006/13 of 18 May 2006 and 31 August 2006 respectively, the Board of Governors of the Fund authorized the Board of Directors to approve the participation of the ADF in the Multilateral Debt Relief Initiative (MDRI) and in that regard the Board of Governors also authorized an increase in the resources of the ADF to provide full and timely compensation for the debt cancelation under the MDRI subject to the attainment of the following effectiveness thresholds:

1) Receipt of Instruments of Commitment from donors covering an aggregate amount equivalent to at least 70 percent of the total cost of debt relief for the first group of 14 post-completion point Heavily Indebted Poor Countries (HIPCs); and

2) Receipt of unqualified Instruments of Commitments from donors for an amount not less than the equivalent of at least seventy five percent (75%) of the total cost of debt relief incurred during the remainder of ADF-10 period.

Upon satisfaction of the above two thresholds, the Board of Directors of the Fund approved the effectiveness of the MDRI with effect from 1 September 2006. To ensure full compensation for foregone reflows as a result of the upfront debt cancelation, the ADF governing bodies endorsed Management's proposal for a compensation scheme over the 50-year period of the Initiative. Donors will contribute additional resources to ADF, equivalent to the foregone debt service (service charges and principal) for each replenishment period, by submitting pledges over the life of the initiative. The compensatory financing arrangements will take the form of a general increase in the contribution of State Participants pursuant to Article 7 of the Agreement Establishing ADF. The contributions received from State Participants under the compensatory financing arrangements shall not be counted as part of the burden share for the replenishment period in which such resources are received, but shall carry voting rights in the same manner as normal subscriptions. Such contributions are separately disclosed within the total of subscriptions and contributions in the Statement of Net Development Resources.

Maintenance of Value of Currency Holdings

Prior to the second general replenishment, subscriptions were denominated in UA and were subject to Article 13 of the Agreement which provided that, whenever the par value in the IMF of the currency of a State Participant is reduced in terms of the UA or its foreign exchange value has, in the opinion of the Fund, depreciated to a significant extent within that participant's territory, that participant shall pay to the Fund within a reasonable time an amount of its currency required to maintain the value, as of the time of subscription, of the amount of such currency paid into the Fund by that participant and which has not been disbursed or exchanged for another currency.

Conversely, if the currency of a State Participant has increased in par value or appreciated in its foreign exchange value within that participant's territory, the Fund shall return to that participant an amount of such currency equal to the increase in the value of the Fund's holding of that currency which was received by it in payment of subscriptions, to the extent that these amounts have not been disbursed or exchanged for another currency.

In accordance with Board of Governors' successive Resolutions governing the second through to the fourteenth general replenishments of the Fund, which stipulated that Article 13 shall not apply to these general replenishments, subscribers to these replenishments fixed the amount of their subscriptions payable in national currencies in terms of agreed parities ruling at the date these replenishments came into force. Gains or losses arising on translating these subscriptions, when received, into UA are applied against subscriptions, with the offsetting debits or credits recorded as Cumulative Exchange Adjustment on Subscriptions (CEAS).

Financial Assets

The Fund's financial assets are classified into the following categories: financial assets at amortized cost and financial assets at fair value through profit or loss (FVTPL). These classifications are determined based on the Fund's business model and the characteristics of the contractual cash flows. In accordance with the Fund's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. Management determines the classification of its financial assets at initial recognition.

i) Financial Assets at Amortized cost

A financial asset is classified at 'amortized cost' only if the asset meets the objective of the Fund's business model to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in financial assets are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

If either of the two criteria above is not met, the financial asset is classified at 'fair value through profit or loss'.

Financial assets at amortized cost include mainly demand obligations and accrued income on loans and receivables and certain investments that meet the criteria of financial assets at amortized cost. Demand obligations are non-negotiable, non-interest-bearing notes payable on demand deposited for subscription payment.

The Fund also classifies at amortized cost, investments of the proceeds of accelerated encashment of notes. This is consistent with the business model of the Fund of collecting contractual cash flows. The primary objective of such financial assets is to recoup the discount granted to State Participants on the accelerated encashment program.

ii) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes. Gains and losses on these financial assets are reported in the income statement in the period in which they arise. Derivatives are also categorized as financial assets at fair value through profit or loss.

Cash and cash equivalents include amounts due from banks, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value and have a time to maturity upon acquisition of three months or less.

Purchases and sales of financial assets are recognized on a trade-date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Income on investments includes interest earned and unrealized gains and losses on financial assets at FVTPL.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

Investments

The Fund's investment securities are classified either as financial assets at amortized cost or as at fair value. Investments classified as financial assets at amortized cost include non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method. All other investment securities are classified as investments at fair value through profit or loss and measured at market value.

Income on investments includes interest earned and unrealized gains and losses on the portfolio held at fair value through profit or loss. Purchases and sales of investments are recognized on a trade-date basis, which is the date on which the Fund commits to purchase or sell the investments.

Loans

The Fund provides concessional funding for development purposes to the least developed countries in Africa. Country eligibility is determined by assessing gross national income per capita, creditworthiness and performance. Annual Debt Sustainability Analysis is used to determine the risk of debt distress of each beneficiary country and set appropriate financing terms.

The following categories of countries are eligible for ADF loans:

- Category A: Countries that are not deemed creditworthy for non-concessional financing and whose income levels are below the operational cut-off.

- Category A: Countries that are not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off (blend countries). These have access to ADF funds with modified financing terms at par with those of blend countries.

- Category B: Countries that are deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off. These have access to a blend of ADB and ADF resources.

Graduating countries are those that are graduating from the category of ADF borrowing countries to the category of ADB borrowing countries. The applicable graduating policies are determined for each new ADF replenishment.

Disbursed and outstanding loans are reported at amortized cost and not included in Net Development Resources in the special purpose financial statements as they represent an allocation of development resources. Accordingly, no provision for possible loan losses is required.

Loan income arising from interest, service and commitment charges is recognized on an accrual basis. The Fund places all loans to a borrower country in non-accrual status if the principal installments, interest or service charges on any of the loans to such member country are overdue by 6 months or more, unless the Fund's management determines that the overdue amount will be collected in the immediate future. Further, management may place a loan in non-accrual status even if it is not yet overdue by 6 months, if the facts and circumstances, including consideration of events occurring subsequent to the balance sheet date, warrant such action. On the date, a borrower's loans are placed in non-accrual status, unpaid interests and charges that had previously been accrued on loans to the borrower are deducted from income on loans for that period. Interests and charges on loans in non-accrual status are included in income only to the extent that payment of such charges has been received by the Fund.

Partial Risk Guarantee

The Fund's Partial Risk Guarantees (PRGs) program provides guarantees to cover private sector projects against a government or government owned entity's failure to meet its specified contractual obligations to the project. The PRGs cover projects against well-defined political risks related to the failure of a government or government related entity to honor certain specified commitments such as political force majeure, currency inconvertibility and non-transferability, confiscation, expropriation, nationalization and deprivation, regulatory risks and various forms of breach of contract including non-honoring of financial obligations.

Under the PRGs framework, the Fund executes the payment obligations if the government (or its entity whose obligations are covered) defaults and the guarantee is called. Any amount paid by the Fund under the guarantee is immediately (or as otherwise decided by the Fund) due from the host government under the counter-indemnity agreement signed between the Fund and the host government.

Guarantee fee income received upfront is deferred and amortized over the life of the guarantee.

Partial Credit Guarantee

The Partial Credit Guarantee (PCGs) is another credit enhancement instrument provided by the Fund. Like the PRG, it is a risk mitigation instrument designed to better leverage resources by crowding-in private capital.

Serving as a partial guarantee towards debt service obligations the PCGs help to: (i) extend debt maturities; (ii) improve access to capital markets for public sector investment projects, especially in infrastructure; (iii) reduce effective borrowing costs; (iv) support mobilization of long-term resources from international and domestic capital markets; and (v) support sovereign mobilization of commercial financing for policy or sectoral reforms.

Guarantee fee income received upfront under the PCGs is deferred and amortized over the life of the guarantee.

Grants

In addition to loans, the Fund is authorized to provide development financing in the form of grants. Prior to the ninth replenishment of the resources of the Fund, grant funds were granted for technical assistance activities only. With effect from the ninth replenishment, grants may be used for technical assistance as well as project financing. Grants, like loans, represent allocations of development resources and are accordingly treated as such in the Statement of Net Development Resources of the Fund.

Heavily Indebted Poor Countries (HIPC Debt Initiative)

The Fund participates in a multilateral debt relief initiative for addressing the debt problems of countries identified as heavily indebted poor countries (HIPCs) to help ensure that their reform efforts are not compromised by unsustainable external debt burdens. Under this initiative, creditors provide debt relief for those countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. As a part of this process, the HIPC Debt Initiative Trust Fund, (the Trust Fund) constituted by funds from donors, including the Bank Group, was established to help beneficiaries reduce their overall debt, including those debts owing to the Fund.

Under the original framework of the debt relief initiative, upon signature of a HIPC Debt Relief Agreement by the Fund, the beneficiary country and the Trust Fund, loans or repayment installments identified for sale to the Trust Fund are written down to their estimated net present value. On the settlement date, the estimated write-down is adjusted to reflect the actual difference between the cash received and the carrying value of the loans sold.

Under the enhanced HIPC framework, the implementation mechanism comprises a partial payment of ADF debt service as it falls due with funds received from the Trust Fund.

Multilateral Debt Relief Initiative (MDRI)

Under the MDRI, loans due from eligible HIPCs are canceled when the countries attain the completion point under the HIPC framework. The Fund is expected to be fully compensated for loans canceled under MDRI by additional contributions to be made by donors over the previously scheduled repayment periods of the canceled loans. When MDRI becomes effective for a country, certain amounts previously disbursed to that country as loans are no longer repayable by the country and effectively take on the character of grants made by the Fund. Accordingly, loans canceled under the MDRI are included in "Net Debt Relief" and reported in the Statement of Net Development Resources as allocation of development resources, with a corresponding offset to loans outstanding.

Financial Liabilities

Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancelation or expiration.

Derivatives

The Fund uses foreign exchange forwards to mitigate its exposure to potential loss due to adverse movements in market foreign exchange rates. The Fund's policy is to minimize the potential fluctuation of the value of its net worth measured in Units of Account by matching, to the extent possible, the currency composition of its Net Development Resources (NDR) and outstanding loans, with the currency basket of the SDR (the Unit of Account). In keeping with the Fund's currency risk management policy, the Fund uses a combination of spot currency exchange transactions and foreign exchange forwards to realign any misalignment.

All foreign exchange forwards transactions are fair valued, with all realized and unrealized gains or losses recognized in income statement.

Impairment of Financial Assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets included in its Net Development Resources is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss has been incurred on its receivable or treasury investments held at amortized cost (described in prior years as held to maturity investment), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The estimated impairment loss may arise from delays that may be experienced in receiving amounts due, and the impairment calculations reflect management's best estimate of the effect of such delays.

The impairment loss is reported as a reduction to the carrying amount of the asset through the use of an allowance account and recognized in the income statement. If a treasury investment at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Loans are not included in Net Development Resources and are therefore not subject to impairment.

Fair Value Disclosure

The fair values of quoted financial assets in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets, the Fund establishes fair value by using valuation techniques that incorporate the maximum use of market data inputs. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realizable in a sale might be different from the fair values disclosed.

The following three hierarchical levels are used for the determination of fair value:

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging).

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The methods and assumptions used by the Fund in estimating the fair values of financial instruments are as follows:

Investments: Fair values for investment securities are based on quoted market prices, where available, using the bid prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Government and agency obligations include marketable bonds or notes and other government obligations issued or unconditionally guaranteed by governments of member countries or other official entities with a minimum credit rating of AA-. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Money market instruments include time deposits, certificates of deposit and other obligations with a maturity period of less than 1 year, issued or unconditionally guaranteed by banks and other financial institutions with a minimum rating of A.

Derivative Financial Instruments: The fair values of derivative financial instruments are based on market quotations when possible or valuation techniques that use market estimates of cash flows and discount rates. The Fund also uses valuation tools based on industry standard pricing models and valuation techniques to value derivative financial instruments. The models use market-sourced inputs such as interest rates, yield curves, exchange rates and option volatilities. All financial models used for valuing the Fund's financial instruments are subject to both internal and periodic external reviews.

Borrowings: Borrowings are carried at amortized cost. These borrowings are concessional, unsecured and unsubordinated. The Fund retains the option to prepay, in part or in whole, the outstanding amounts without penalty. The providers of the concessional loans are allocated voting rights based on the cash paid, computed as the derived grant element of the loan that is a function of an agreed discount rate. The grant element is recorded as equity.

Events after the reporting period

The financial statements are adjusted to reflect events that occurred between the date of the Statement of Net Development Resources and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the date of the Statement of Net Development Resources.

Events that are indicative of conditions that arose after the date of the Statement of Net Development resources are disclosed, but do not result in an adjustment of the financial statements themselves.

Reclassification

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current year. These reclassifications did not affect the prior year's reported result.

Note C – Risk management policies and procedures

In carrying out its development mandate, the Fund seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless critical to the execution of its mandate.

The degree of risk the Fund is willing to assume to achieve its development mandate is limited by its commitment capacity. The Fund's overall risk management strategy is to minimize the exposure of its replenishment resources (the Commitment Capacity) to the risk of over-commitment and also to protect its Net Development Resources from currency translation losses that could negatively affect the Fund's long-term capacity to meet its development needs.

The policies, processes and procedures which the Fund uses to manage its risk profile continually evolve in response to market, credit, product, and other developments. The highest level of risk management oversight is assured by the Fund's Board of Executive Directors, which is chaired by the President. The Board of Directors is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the Board of Directors regularly reviews trends in the Fund's risk profiles and performance to ensure compliance with the underlying policies.

The guiding principles by which the Fund manages its core and non-core risks are governed by the General Authority on Asset Liability Management (the ALM Authority) approved by the Board of Directors of the Fund.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Fund's liquid assets and liabilities within defined parameters. The ALM Authority sets out the guiding principles for managing the Fund's interest rate risk, currency exchange rate risk, liquidity risk, counterparty credit risk and operational risk. The ALM Authority covers the Fund's entire array of ALM activities.

Under the umbrella of the ALM Authority, the President is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO). The ALCO, chaired by the Vice President for Finance, is the oversight and control organ of the Fund's finance and treasury risk management activities.

The ALCO meets on a regular basis to perform its oversight role. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency risk, operational risk, financial projections, and financial products and services. In June 2012 the Bank Group also created the Credit Risk Committee (CRC), to ensure effective implementation of the Fund's credit policies and oversee all credit risk issues related to loan operations.

Day-to-day operational responsibility for implementing the Fund's financial and risk management policies and guidelines are delegated to the appropriate business units. The Financial Management Department is responsible for monitoring the day-to-day compliance with those policies and guidelines.

The following sections describe in detail the manner in which the individual sources of risk are managed by the Fund.

Credit Risk

Credit risk arises from the inability or unwillingness of counterparties to discharge their financial obligations. It is the potential financial loss due to default of one or more debtors/obligors. Credit risk is the largest source of risk for the Fund arising essentially from its lending and treasury operations.

The Fund's credit risk arises from two principal sources: (i) sovereign credit risk arising from lending to its qualifying RMCs and (ii) counterparty credit risk on its portfolio of treasury investments and derivative transactions.

Sovereign Credit Risk

The Fund provides concessional loans in order to fund economic and social development of its member countries which generally have a lower credit quality than ADB borrowers. Although loans are included in the financial statements as resources already allocated for development and therefore not included in the Net Development Resources, the Fund still manages sovereign credit risks to ensure equitable allocation of resources to eligible beneficiaries and ensure that expected reflows from loan repayments are properly monitored and managed. Country eligibility for loans is determined by assessing among other things, gross national income per capita, credit worthiness and performance. The Fund uses the International Monetary Fund/World Bank Debt Sustainability Framework (DSF) for Low-Income Countries, to make performance-based allocation (PBA) of ADF resources among the many competing needs in the continent and to ensure the funds are directed to areas they will be used most effectively. The PBA process, which is reviewed regularly, is also used to determine the proportion of ADF resources that is allocated in the form of grants to each qualifying borrower. On the basis of the debt sustainability analysis, certain countries are allocated grants-only resources, while others may receive a combination of loan and grant resources or loan resources only.

Country Exposure in Borrowing Member Countries

The Fund's exposures as at 31 December 2018 from its lending activities are summarized below:

(UA thousands)

Country	N° of Loans *	Total Loans*	Unsigned Loan Amounts	Undisbursed Balance	Outstanding Balance	% of Total Outstanding Loans
Angola	14	74,692	-	18,395	56,297	0.45
Benin	69	384,420	4,830	69,735	309,855	2.47
Botswana	14	38,422	-	-	38,422	0.31
Burkina Faso	63	503,135	-	109,820	393,315	3.14
Burundi	34	22,593	-	-	22,593	0.18
Cabo Verde	30	90,050	-	410	89,640	0.72
Cameroon	51	601,400	4,361	160,481	436,558	3.49
Central African Republic	21	3,819	-	53	3,766	0.03
Chad	45	108,826	-	16,670	92,156	0.74
Comoros	9	2,693	-	2,169	524	0.00
Congo	6	54,665	-	37,597	17,068	0.14
Côte D'Ivoire	27	228,509	5,000	114,858	108,651	0.87
Democratic Republic of Congo	38	197,586	-	109,437	88,149	0.70
Djibouti	22	106,028	-	34,153	71,875	0.57
Egypt	17	112,895	-	-	112,895	0.90
Equatorial Guinea	11	20,801	-	-	20,801	0.17
Eritrea	8	78,807	-	12,427	66,380	0.53
Eswatini	9	26,239	-	-	26,239	0.21
Ethiopia	73	1,678,531	-	282,163	1,396,368	11.15
Gabon	3	977	-	-	977	0.01
Gambia	34	40,911	-	8,778	32,133	0.26
Ghana	67	950,491	15,000	149,526	785,965	6.28
Guinea	45	212,545	-	122,263	90,282	0.72
Guinea-Bissau	31	37,208	-	17,557	19,651	0.16
Kenya	66	1,888,670	32,600	348,852	1,507,218	12.04
Lesotho	40	139,287	-	19,868	119,419	0.95
Liberia	11	147,418	-	69,912	77,506	0.62
Madagascar	65	345,495	-	46,865	298,630	2.39
Malawi	64	302,040	20,000	56,170	225,870	1.80
Mali	97	624,247	2,200	127,878	494,169	3.95
Mauritania	52	103,914	7,000	31,680	65,234	0.52
Mauritius	3	1,430	-	-	1,430	0.01
Morocco	6	25,039	-	-	25,039	0.20
Mozambique	69	770,366	-	150,505	619,861	4.95
Namibia	2	9,894	-	-	9,894	0.08
Niger	51	349,730	-	135,452	214,278	1.71
Nigeria	34	887,829	36,960	241,306	609,563	4.87
Rwanda	62	528,822	-	159,242	369,580	2.95
Sao Tome & Principe	23	18,477	-	8,798	9,679	0.08
Senegal	71	604,561	-	129,941	474,620	3.79
Seychelles	3	3,873	-	-	3,873	0.03
Sierra Leone	31	125,704	6,270	26,826	92,608	0.74
Somalia**	18	65,784	-	-	65,784	0.53
South Sudan	1	8,385	-	-	8,385	0.07
Sudan**+	15	177,814	-	-	177,814	1.42
Tanzania	90	1,832,550	-	335,978	1,496,572	11.95
Togo	17	38,785	-	20,271	18,514	0.15
Uganda	73	1,295,382	44,000	350,597	900,785	7.19
Zambia	49	426,771	-	119,449	307,322	2.45
Zimbabwe**	10	35,658	-	-	35,658	0.28
Multinational	19	160,238	134,800	14,400	11,038	0.09
Total	**1,783**	**16,494,406**	**313,021**	**3,660,482**	**12,520,903**	**100.00**

\+ *The outcome of the referendum conducted in South Sudan in January 2011 supported the creation of an independent state of South Sudan. After the split of the current state of Sudan into two separate nations became effective in July 2011, the number and amounts of loans shown against Sudan in this statement would be split between the emerging states, on a basis agreed upon following the ongoing negotiations between Sudan and South Sudan. At end of December 2018, no decision has been taken by the states of Sudan and South Sudan regarding the terms and conditions of such exchange.*

* *Excludes fully repaid loans and canceled loans.*

** *Countries in non-accrual status as at 31 December 2018.*

Slight differences may occur in totals due to rounding.

Counterparty Credit Risk

In the normal course of business, the Fund utilizes various financial instruments to meet the needs of its borrowers, manage its exposure to fluctuations in market interest and currency rates, and to temporarily invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Fund. Given the nature of the Fund's business, it is not possible to completely eliminate counterparty credit risk, however, the Fund minimizes this risk by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures.

Counterparties must meet the Fund's minimum credit rating requirements and are approved by the Bank Group's Vice President for Finance. ALCO approves counterparties that are rated below the minimum rating requirements.

Counterparties are classified as investment counterparties, derivative counterparties, and trading counterparties. Their ratings are closely monitored by the Financial Management Department.

For trading counterparties, the Fund requires a minimum short-term credit rating of A-2/P-2/F-2 for trades settled under delivery versus payment (DVP) terms and a minimum long-term credit rating of A/A2 for non-DVP-based transactions.

The following table details the minimum credit ratings for authorized investment counterparties:

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2			AA-/Aa3	AAA/Aaa
	Maximum remaining maturity of 5 years in the trading portfolios and 10 years in the held at amortized cost portfolio for SDR denominated securities rated A+/a1 or below.					
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
Mortgage Backed Securities (MBS) / Asset Backed Securities (ABS)	AAA Maximum legal maturity of 50 years. Also, the maximum weighted average life for all ABS/MBS at the time of acquisition shall not exceed 5 years.					

The Fund uses derivatives in the management of its assets and liabilities. As a rule, the Fund executes an International Swaps and Derivatives Association (ISDA) master agreement and collateral exchange agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated AA-/Aa3 by at least two approved rating agencies or A-/A3 for counterparties with whom the Fund has entered into a collateral exchange agreement. These counterparties require the approval of ALCO. Approved transactions with derivative counterparties include swaps, forwards, options and other over-the-counter derivatives.

In addition to these minimum rating requirements, the Fund operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a stipulated maximum for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the Fund's credit limits after considering the benefits of any collateral.

	Credit Risk Profile of the Investment and Derivative Portfolios		
	AAA	AA+ to AA-	A+ and lower
2018	31%	15%	54%
2017	16%	15%	69%
2016	26%	31%	43%
2015	38%	54%	8%
2014	40%	49%	11%

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. The Fund's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for between 50 and 75 percent of the three years' moving average of expected disbursements.

To strike a balance between generating adequate investment returns and holding securities that can be easily sold for cash if the need arises, the Fund divides its investment portfolio into two tranches with different liquidity objectives and benchmarks. The Fund's core liquidity portfolio, which is fair valued, is invested in highly liquid securities that can be readily liquidated if the need arises to meet the Fund's short-term liquidity needs. In addition to the trading portfolio, the Fund maintains a second tranche of liquidity under the broad category of amortized cost portfolio, which is held in a portfolio of fixed income securities intended to earn contractual cash flows.

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in the Fund's Net Assets, including its Net Development Resources (NDR) and outstanding loans, the Fund's principal currency risk management objective is to ensure that it is able to provide the disbursement currencies requested by borrowers while minimizing the exposure of its net development resources to adverse exchange rate movements. To the extent possible, the Fund shall maintain the alignment of the currency composition of its Net Assets with the UA as the primary benchmark of its currency composition. The Fund may conduct currency exchange transactions for the following two reasons: (1) to align the currency composition of its Net Assets (loan and investment portfolios) with the UA, (2) for the purpose of providing ADF borrowers with the disbursement currencies requested.

Interest Rate Risk

Interest rate risk is the potential for loss due to adverse movements in market interest rates. In seeking to earn a stable and reasonable return on invested liquidity, the Fund's principal interest rate risk management is to reduce the sensitivity of the Fund's investment returns to changes in market interest rates. To achieve this objective, the Fund's investments are managed in two portfolios: (1) an actively managed portfolio (the "Operational" Portfolio); and (2) a passively managed portfolio (the "Investment" Portfolio).

The Operational Portfolio provides a readily available source of liquidity to cover both expected and unexpected disbursements as well as any other probable cash outflows. The Operational Portfolio is managed against a 3-month LIBOR reference benchmark in each currency. Generally, investments in the Operational Portfolio are held for trading and are regularly marked to market.

The Investment Portfolio consists of funds that are not immediately required for loan disbursements and therefore may be invested for a longer horizon. Generally, investments in the Investment Portfolio are purchased with the intention to hold them until their maturity and are not marked to market. The Investment Portfolio comprises two sub-portfolios, (1) an investment portfolio for income stabilization for the purpose of generating a stable income for the Fund and reducing the Fund's investment income sensitivity to interest rates. This portfolio is managed against a ten-year uniform re-pricing profile for each invested currency, and (2) an investment portfolio for accelerated encashments for the purpose of investing proceeds from accelerated encashments to recoup the discount granted to State Participants, minimizing or eliminating interest rate risk on accelerated encashments. This portfolio is managed against a target rate, which is the discount rate agreed with State Participants.

In October 2016, the International Monetary Fund (IMF) formally approved the inclusion of the Chinese Renminbi Yuan (CNY) in the IMF's Special Drawing Rights (SDR) basket with a weight of 10.92%. In line with the Fund's policy to align, to the extent possible, its net assets to SDR, Management approved the disposal of certain financial assets held at amortized cost (denominated in USD, Euro and GBP) to fund the acquisition of Chinese Yuan Renminbi financial assets. The nominal value of the disposed financial assets was UA 515.88 million while the proceeds amounted to UA 547.54 million. The gain on disposal of UA 31.66 million was included in the 2016 income statement.

Interest Rate Risk Position as at 31 December 2018

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	1,297,505	-	-	-	-	-	1,297,505
Investments	1,138,467	103,054	54,010	54,680	53,720	482,026	1,885,957
Demand obligations	716,429	625,600	420,311	300,972	101,929	129,212	2,294,453
Accounts receivable	62,205	-	-	-	-	-	62,205
	3,214,606	728,654	474,321	355,652	155,649	611,238	5,540,120
Liabilities							
Other liabilities	(76,046)	-	-	-	-	-	(76,046)
Borrowings	-	-	-	-	-	(510,491)	(510,491)
	(76,046)	-	-	-	-	(510,491)	(586,537)
Net Development Resources at 31 December 2018	**3,138,560**	**728,654**	**474,321**	**355,652**	**155,649**	**100,747**	**4,953,583**

Interest Rate Risk Position as at 31 December 2017

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	199,311	-	-	-	-	-	199,311
Investments	1,931,175	364,640	121,480	56,520	55,270	171,790	2,700,875
Demand obligations	813,854	659,638	403,529	249,588	191,955	203,012	2,521,576
Accounts receivable	73,917	-	-	-	-	-	73,917
	3,018,257	1,024,278	525,009	306,108	247,225	374,802	5,495,679
Liabilities							
Other liabilities	(86,387)	-	-	-	-	-	(86,387)
Borrowings	(189,478)	-	-	-	-	-	(189,478)
	(275,865)	-	-	-	-	-	(275,865)
Net Development Resources at 31 December 2017	**2,742,392**	**1,024,278**	**525,009**	**306,108**	**247,225**	**374,802**	**5,219,814**

Note D – Financial assets and liabilities

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss					
31 December 2018	Mandatorily at Fair value	Designated at Fair Value	Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	1,297,505	1,297,505	1,297,505
Treasury investments	1,009,439	-	-	876,518	1,885,957	1,885,982
Demand obligations	-	-	-	2,294,453	2,294,453	2,294,453
Accounts receivable	-	-	-	62,205	62,205	62,205
Total financial assets	**1,009,439**	**-**	**-**	**4,530,681**	**5,540,120**	**5,540,145**
Other Liabilities	-	-	-	76,046	76,046	76,046
Borrowings	-	-	-	510,491	510,491	510,491
Total financial liabilities	**-**	**-**	**-**	**586,537**	**586,537**	**586,537**

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss					
31 December 2017	Mandatorily at Fair value	Designated at Fair Value	Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	199,311	199,311	199,311
Treasury investments	1,872,193	-	-	828,682	2,700,875	2,987,824
Demand obligations	-	-	-	2,521,576	2,521,576	2,521,576
Accounts receivable	-	-	-	73,917	73,917	73,917
Total financial assets	**1,872,193**	**-**	**-**	**3,623,486**	**5,495,679**	**5,782,628**
Other Liabilities	-	-	-	86,387	86,387	86,387
Borrowings	-	-	-	189,478	189,478	189,478
Total financial liabilities	**-**	**-**	**-**	**275,865**	**275,865**	**275,865**

The composition of investments as at 31 December 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Treasury investments mandatorily measured at fair value through profit or loss	1,009,439	1,872,193
Treasury investments at amortized cost	876,518	828,682
Total	**1,885,957**	**2,700,875**

Treasury Investments Mandatorily Measured at Fair Value through Profit or Loss (FVTPL)

A summary of the Fund's treasury investments measured at FVTPL at 31 December 2018 and 2017 follows:

(UA millions)

	Chinese Yuan		US Dollar		Euro		Other currencies		All Currencies	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Time deposits	-	-	34.35	19.51	21.11	110.32	20.18	192.32	75.64	322.15
Asset-backed securities	-	-	0.05	0.06	-	-	-	-	0.05	0.06
Government and agency obligations	31.47	999.68	64.77	206.84	-	46.79	317.11	165.38	413.35	1,418.69
Corporate bonds	-	-	44.33	-	8.29	8.54	-	-	52.62	8.54
Financial institutions	-	-	100.39	59.51	17.64	25.39	267.14	-	385.17	84.90
Supranational	-	-	25.14	14.07	20.97	-	36.50	23.78	82.61	37.85
Total	**31.47**	**999.68**	**269.03**	**299.99**	**68.01**	**191.04**	**640.93**	**381.48**	**1,009.44**	**1,872.19**

The contractual maturity structure of investments measured at FVTPL at 31 December 2018 and 2017 was as follows:

(UA millions)

	2018	2017
One year or less	455.13	1,547.44
More than one year but less than two years	153.50	258.79
More than two years but less than three years	347.08	65.90
More than three years but less than four years	9.29	0.06
More than four years but less than five years	44.38	-
More than five years	0.06	-
Total	**1,009.44**	**1,872.19**

Treasury Investments at Amortized Cost

A summary of the Fund's treasury investments at amortized cost at 31 December 2018 and 2017 follows:

(UA millions)

	Chinese Yuan		US Dollar		Euro		Other currencies		All Currencies	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Government and agency obligations	436.38	508.06	13.92	59.82	24.21	88.31	315.94	-	790.45	656.19
Supranational	-	-	27.11	78.77	58.96	93.72	-	-	86.07	172.49
Total	**436.38**	**508.06**	**41.03**	**138.59**	**83.17**	**182.03**	**315.94**	**-**	**876.52**	**828.68**

The contractual maturity structure of investments at amortized cost at 31 December 2018 and 2017 was as follows:

(UA millions)

	2018	2017
One year or less	129.04	383.73
More than one year but less than two years	103.05	105.85
More than two years but less than three years	54.01	55.58
More than three years but less than four years	54.68	56.46
More than four years but less than five years	53.72	55.27
More than five years	482.02	171.79
Total	**876.52**	**828.68**

Futures Contracts

The Fund has entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at December 31, 2018, the Fund had futures with a notional value of Euro 394 million, GBP 1,168 million, USD 1,190 million and CAD 1,310 million. The carrying value of Euro, GBP, USD and CAD had a positive market value of UA 0.12 million, UA 0.28 million, UA 0.72 million and UA 0.38 million respectively (in the money).

Note E – Demand obligations

Demand obligations represent subscription payments made by participants, in accordance with Article 9 of the Agreement. These obligations take the form of non-negotiable, non-interest-bearing notes payable at their par value on demand. The Board of Governors has agreed that the encashment of these notes will be governed by the Fund's disbursement requirements.

Note F – Development activities

According to the Fund's loan regulations, loans are expressed in UA and repaid in the currency disbursed.

Project Loans and Lines of Credit

Loans to ADF-Only Countries are generally granted under conditions that allow for repayment over 40 years including a 10-year grace period commencing from the date of the loan agreement. Loan principal is generally repayable from years 11 through 20 at a rate of 2 percent per annum and from years 21 through 40 at a rate of 4 percent per annum. A service charge at a rate of 0.75 percent per annum on the principal amount disbursed and outstanding is payable by the borrower semi-annually. Loans approved after June 1996 carry a 0.50 percent per annum commitment charge on the undisbursed portion. Such commitment charge commences to accrue after 120 days from the date of signature of the loan agreement. With effect from the ADF 12 replenishment, loans to blend, gap and graduating countries carry differentiated financing terms of thirty (30) years' maturity including a grace period of 5 years and interest rate of 1 percent, in addition to the existing standard 0.50 percent commitment fee and 0.75 percent service charge. Under ADF-13, further differentiated lending terms were adopted with the view of preserving the long-term financial sustainability and capacity of the Fund. ADF-Only Countries are grouped into two subgroups based on their GNI per capita. Countries with GNI per capita below the average for the group are called "ADF-Only Regular Countries" and benefit from the standard terms referred to above. Countries with GNI per capita above the average of the group are called "ADF-Only Advance Countries"; their financing terms differ from the Regular subgroup through a shorter grace period of 5 years and equal and consecutive principal amortization after grace period. The new lending terms require the acceleration of loan repayment for member countries that fulfil the requirements for graduation to ADB window. Financial incentives are also offered to ADB graduated countries for voluntary loan prepayment to ADF.

ADF Lending Terms:

Category	Sub-groups	Maturity (years)	Grace period (years)	First period (years)	Amorti-zation rate	Second period (years)	Amorti-zation rate	Service charge (%)	Commitment fee (%)	Interest rate	Conces-sionality
ADF-only	Regular: 40/10	40	10	10	2.0%	20	4.0%	0.75	0.50	0.0%	61%
	Advance: 40/5	40	5	-	2.9%	-	2.9%	0.75	0.50	0.0%	51%
Blend, Gap and Graduating	Blend/Gap/ Graduating: 30/5	30	5	-	4.0%	-	4.0%	0.75	0.50	1.0%	35%

Of the undisbursed balances of loans signed, the Fund may enter into special irrevocable commitments to pay amounts to borrowers or others in respect of the cost of goods and services to be financed under loan agreements. As at 31 December 2018, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 16.70 million (2017: UA 11.74 million).

As at 31 December 2018, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 279.26 million (2017: UA 276.43 million) of which UA 144.29 million (2017: UA 134.97 million) was overdue, were in non-accrual status. If these loans had not been in non-accrual status, income from loans for the year ended 3l December 2018, would have been higher by UA 2.14 million (2017: UA 2.09 million). At 31 December 2018, the cumulative charges not recognized on the non-accrual loans amounted to UA 49.80 million, compared to UA 47.23 million at 31 December 2017.

The Fund also provides innovative financial instruments in the form of Partial Risk Guarantees (PRGs) and, Partial Credit Guarantee (PCG) for the purpose of better leveraging resources by sharing or mitigating risk and crowding in other sources of financing. ADF guarantees allow borrowers and project companies to get access to new sources of financing and to improve financing terms and conditions.

The PRGs product is a financial guarantee that covers private sector projects against a government or government owned entity's failure to meet its specified contractual obligations to the project. As at 31 December 2018, guarantees provided by the Fund to private entities on account of its borrowers amounted to UA 159.65 million (2017: UA 160.12 million).

The PCGs covers debt service on scheduled payments of commercial debt, against all risks or specific events of defaults by borrowers from both public and private sectors. PCGs support private sector entities, government and SOEs in mobilizing debt from commercial lenders/investors to finance their activities and projects. Governments can also use PCGs in the form of Policy Based Guarantees (PBGs) to raise commercial financing in support of their strategic reforms under the Policy Based Operations Framework (Budget Support operations). As at 31 December 2018, PCGs provided by the Fund amounted to UA 30.72 million (2017: UA 1.41 million).

At 31 December 2018, outstanding loans amounted to UA 12,520.90 million (2017: UA 11,637.49 million).

Private Sector Credit Enhancement Facility

The Private Sector Credit Enhancement Facility (the Facility or PSF) was established with the approval of the Board of Governors of the Consultative Meeting on the Thirteenth replenishment (ADF-13 Report) on January 31, 2014. The PSF provides credit enhancement guarantees to eligible private sector loans in ADF – eligible countries. This is geared towards catalyzing additional private investment in these countries. The PSF is operationally and financially autonomous from the Fund and its statutory framework explicitly precludes it from having recourse to the Fund for any losses that it may incur.

As at December 31, 2018, the total available resources to the Private Sector Enhancement Facility (the PSF) were UA 365 million. This is made up of a UA 165 million grant allocated by the Fund in 2014 for the establishment of the PSF to encourage increased development financing in the ADF countries and an additional contribution of UA 200 million, approved in 2017, under the Fourteenth Replenishment of the ADF.

As at 31 December 2018, credit enhancement of UA 357.22 million had been signed.

Maturity and Currency Composition of Outstanding Loans

The maturity distribution of outstanding loans as at 31 December 2018 and 2017 was as follows:

(Amounts in UA millions)

	2018		2017	
	Amount	%	Amount	%
One year or less*	257.85	2.06	229.88	1.97
More than one year but less than two years	128.95	1.03	110.39	0.95
More than two years but less than three years	145.97	1.17	125.80	1.08
More than three years but less than four years	173.27	1.38	141.73	1.22
More than four years but less than five years	192.66	1.54	166.48	1.43
More than five years	11,622.20	92.82	10,863.21	93.35
Total	**12,520.90**	**100.00**	**11,637.49**	**100.00**

** Include the arrears on loans.*

The currency composition of outstanding loans as at 31 December 2018 and 2017 was as follows:

(Amounts in UA millions)

	2018		2017	
Currency	Amount	%	Amount	%
Canadian Dollar	8.92	0.07	9.58	0.08
Danish Krone	9.01	0.07	9.42	0.08
Euro	3,900.78	31.15	3,807.63	32.72
Japanese Yen	617.14	4.93	600.35	5.16
Norwegian Krone	14.36	0.11	15.03	0.13
Pound Sterling	601.97	4.81	624.31	5.36
Swedish Krona	8.88	0.07	9.78	0.08
Swiss Franc	44.23	0.35	44.81	0.39
United States Dollar	7,315.27	58.44	6,516.22	56.00
Others	0.34	-	0.36	-
Total	**12,520.90**	**100.00**	**11,637.49**	**100.00**

Slight differences may occur in total due to rounding.

Grants and Technical Assistance Activities

Under the Fund's lending policy, 5 percent of the resources available under the third and fourth general replenishments, 10 percent under the fifth and sixth general replenishments, and 7.5 percent under the seventh and eighth general replenishments were allocated as grants and grant-based technical assistance for the identification and preparation of development projects or programs in specified member countries. In addition, amounts in the range of 18 to 21 percent of the total resources under the ninth replenishment were set aside in the form of grants for permitted uses, including technical assistance and project financing. Grants do not bear charges. The share of grants under the tenth, eleventh, twelfth, thirteenth and fourteenth general replenishments is based on a country-by-country analysis of debt sustainability.

Technical assistance loans do not carry charges.

HIPC Debt Relief Initiative

Under the original framework of HIPC, selected loans to beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the net present value of the loans as calculated using the methodology agreed under the initiative. Following the signature of a HIPC debt relief agreement, loans identified for payment were written down to their estimated net present value. The amount of the write-down, representing the difference between the book value and net present value of the loans, was shown as an allocation of development resources. The amount of UA 71.08 million which was the write-down in respect of the debt relief granted to Mozambique in 1999 under the original HIPC framework is included in the amount stated as net debt relief in the Statement of Net Development Resources. The outstanding balance and net present value of the loans owed by Mozambique and sold to the HIPC Trust Fund in 1999 were UA 132.04 million and UA 60.96 million, respectively.

In 1999, the HIPC initiative was enhanced to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 33 African countries are currently eligible, debt relief is delivered through annual debt service reductions which allow the release of up to 80 percent of annual debt service obligations as they come due until the total net present value (NPV) of debt relief, determined by the debt sustainability analysis (DSA), is provided. Interim financing of up to 40 percent of total debt relief is granted between the decision and completion points. Total contributions by the Fund to the HIPC initiative at 31 December 2018 amounted to UA 184 million and are shown as allocation of development resources in the Statement of Net Development Resources.

Multilateral Debt Relief Initiative

At the Gleneagles Summit on 8 July 2005, the Group of 8 major industrial countries agreed on a proposal for the ADF, the International Development Association (IDA), and the International Monetary Fund (IMF) to cancel 100 percent of their claims on countries that have reached, or will reach, the completion point under the enhanced HIPC initiative. Through the Development Committee Communiqué of 25 September 2005, the donor community expressed its support for the MDRI, and urged the institutions referred to above to proceed with the necessary steps to ensure implementation.

The main objective of the MDRI is to complete the process of debt relief for HIPCs by providing additional resources to help 38 countries worldwide, 33 of which are in Africa, to make progress towards achieving the Millennium Development Goals (MDGs), while simultaneously safeguarding the long-term financing capacity of the ADF and the IDA. The debt cancelation is delivered by relieving post-completion-point HIPCs' repayment obligations and adjusting their gross assistance flows downward by the same amount. To maintain the financial integrity of the ADF, donors are expected to make additional contributions to the ADF to match "dollar-for-dollar" the foregone principal and service charge payments.

The MDRI became effective for the ADF on 1 September 2006. Since disbursed and outstanding loans are already excluded from net development resources, the debt cancelation did not have an impact on the Fund's balance of net development resources. Cancelation of ADF debts are effected when other eligible countries reach the HIPC completion point.

At 31 December 2018, a gross amount of UA 5.68 billion (2017: UA 5.68 billion) of outstanding loans had been canceled under MDRI for 30 (2017: 30) HIPC completion-point countries. Of this amount, 1,225.99 million (2017: UA 1,225.99 million) in nominal terms were converted by the HIPC Trust Fund. The present value of the converted loans was UA 942.71 million (2017: UA 942.71 million). As of 31 December 2018, the present value amounts have been transferred from the HIPC Trust Fund to ADF.

A summary of debt relief granted under HIPC and MDRI as at 31 December 2018 and 2017 follows:

(UA thousands)

	2018			2017		
	HIPC	MDRI	Total	HIPC	MDRI	Total
Balance at 31 December	**235,096**	**4,719,976**	**4,955,072**	235,096	4,719,976	4,955,072

Special Arrears Clearance Mechanism

Arrears Clearance Mechanism for DRC – In connection with an internationally coordinated effort between the Bank, the International Monetary Fund (the IMF), the World Bank and other bilateral and multilateral donors to assist the Democratic Republic of Congo (DRC) in its reconstruction efforts, the Board of Directors on 26 June 2002 approved an arrears clearance plan for the DRC. Under the arrears clearance plan, contributions received from the donor community were used immediately for partial clearance of the arrears owed by the DRC. The residual amount of DRC's arrears to the Bank and loan amounts not yet due were consolidated into new contractual receivables, such that the present value of the new loans was equal to the present value of the amounts that were owed under the previous contractual terms. The new loans carry the weighted average interest rate of the old loans. In approving the arrears clearance plan, the Board of Directors considered the following factors: a) the arrears clearance plan is part of an internationally coordinated arrangement for the DRC; b) the magnitude of DRC's arrears to the Bank ruled out conventional solutions; c) the prolonged armed conflict in the DRC created extensive destruction of physical assets, such that the DRC had almost no capacity for servicing its debt; and d) the proposed package would result in a significant improvement in its repayment capacity, if appropriate supporting measures are taken. Furthermore, there was no automatic linkage between the arrears clearance mechanism and the debt relief that may be subsequently provided on the consolidated facility. In June 2004, the DRC reached its decision point under the Heavily Indebted Poor Countries (HIPC) initiative. Consequently, the consolidated facility has since that date benefited from partial debt service relief under HIPC.

A special account, separate from the assets of the Bank, was established for all contributions towards the DRC arrears clearance plan. Such contributions may include allocations of the net income of the Bank that the Board of Governors may from time to time make to the special account, representing the Bank's contribution to the arrears clearance plan. The amount of such net income allocation is subject to the approval of the Boards of Governors of the Bank, typically occurring during the annual general meeting of the Bank. Consequently, income recognized on the consolidated DRC loans in current earnings is transferred out of reserves to the special account only after the formal approval of such transfer, in whole or in part, by the Board of Governors of the Bank.

Fragile States Facility Framework – The Post Conflict Countries' Fund was established as a framework to assist countries emerging from conflict in their efforts towards re-engagement with the donor community in order to reactivate development assistance and help these countries reach the Heavily Indebted Poor Countries (HIPC) decision point to qualify for debt relief after clearing their loan arrears to the Bank Group. The framework entails the setting aside of a pool of resources through a separate facility with allocations from the ADB's net income, and contributions from the ADF and other private donors.

Resources from the facility are provided on a case-by-case basis to genuine post-conflict countries not yet receiving debt relief to fill financing gaps after maximum effort by the post-conflict country to clear its arrears to the Bank Group. In this connection, the Board of Governors by its Resolution B/BG/2004/07 of 25 May 2004 established the Post Conflict Countries Facility (PCCF) under the administration of the ADF and approved an allocation of UA 45 million from the 2003 net income of the Bank. The Board of Governors also, by its resolution B/BG/2005/05 of 18 May 2005, approved an additional allocation of UA 30 million from the 2004 net income as the second installment of the Bank's contribution to the facility and by its resolution B/BG/2006/04 of 17 May 2006, the Board of Governors also approved the third and final installment of the Bank's allocation of UA 25 million from the 2005 net income. In March 2008, the Board of Directors approved the establishment of the Transition Support Facility (TSF) to take over the activities of the PCCF and in addition provide broader and integrated framework for assistance to eligible states. The purposes of the TSF are to consolidate peace, stabilize economies and lay the foundation for sustainable poverty-reduction and long-term economic growth of the eligible countries. By policy, contributions made by ADB to the PCCF/TSF are not used to clear the debt owed to the Bank by beneficiary countries.

Note G – Subscriptions and contributions

The Fund's initial subscriptions were provided by the Bank and the original State Participants to the Agreement, and states acceding to the Agreement since the original signing date. Thereafter, further subscriptions were received from participants in the form of a special general increase and fourteen general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note N.

The Board of Governors, by its resolution ADF/BG/2017/01 of April 27, 2017, approved the fourteenth general replenishment of the Fund (ADF-14), following the Deputies agreement for a replenishment level of UA 4.23 billion, of which UA 0.98 billion represents internally generated resources, for the three-year operational period, 2017 to 2019. ADF-14 came into effect in June 2017 after the State Participants had deposited with the Fund, enough instruments of subscriptions and the approval by the Board of Directors for the use of the internally generated resources for operational commitments. At December 31, 2018, subscriptions to ADF-14 amounted to UA 3.36 billion.

At 31 December 2018, cumulative contributions pledged on account of the MDRI amounted to UA 5.79 billion of which UA 1.20 billion had been paid and included in total subscriptions. Consistent with the resolution approving MDRI, the contributions paid entitle the State Participants to voting rights, as reflected in Note N.

Gains or losses arising from translation of subscriptions and contributions received into UA are recorded in the Cumulative Exchange Adjustment on Subscriptions account in the Statement of Net Development Resources.

Note H – Other resources

In conformity with the findings of the UN General Assembly, the Board of Directors accepted that the former Socialist Federal Republic of Yugoslavia no longer exists as a state under international law and hence is no longer a State Participant in the Fund or a member of the Bank. Pursuant to a decision of the Board of Directors of the Fund in 1993, the subscriptions of the former Socialist Federal Republic of Yugoslavia in the Fund less the unpaid portion, are deemed to have become part of the permanent patrimony of the Fund and are not returnable to any entity. Accordingly, the amounts of the paid subscriptions are reported as part of other resources in the Statement of Net Development Resources.

Also included in other resources is a total of UA 702.99 million representing contributions by the Bank of UA 700.99 million, and by the Government of Botswana of UA 2 million towards the Fund's activities, in accordance with Article 8 of the Agreement.

Note I – Reserves

Reserves as at 31 December 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Reserves at 1 January	(526,556)	(407,777)
Deficit for the year	(74,071)	(118,779)
Balance at 31 December	**(600,627)**	**(526,556)**

Note J – Borrowings

The Fund's borrowings comprise of concessional loans from three State participants. The borrowings are concessional, unsecured and unsubordinated and the Fund retains the option to prepay, in part or in whole, the outstanding amounts without penalty. These borrowings are carried and reported at amortized cost. The lenders are allocated voting rights based on the cash paid, computed as the derived grant element. The grant element, is recorded as equity and is a function of the agreed discount rate. The grant element is amortized over the life of the borrowing. As of December 31, 2018, the Fund's borrowings outstanding amounted to UA 510.49 million (2017: UA 189.48 million). These borrowings have original maturities of 20 years and 40 years, with the final maturity being 2054.

Note K – Trust Funds

The Fund has available resources entrusted to it under Article 8 of the Agreement, which empowers the Fund to receive other resources including grants from State Participants, non-participating countries, and from any public or private body or bodies.

At 31 December 2018, the undisbursed balance of trust fund resources was UA 4.87 million (2017: UA 5.96 million) representing the balance of a grant received from Japan for the development of human resources in Africa.

Resources of the trust funds are kept separate from those of the ADF.

Note L – Administrative expenses

Pursuant to Article 31 of the Agreement, the Fund reimburses the ADB for the estimated fair value of its use of the latter's offices, staff, organization, services and facilities. The amount of such administrative expenses reimbursed is based on a predetermined cost-sharing formula, which is driven, in large part, by the Fund's relative share of the number of programs and projects executed during the year by the Bank Group. The administrative expenses incurred by the Fund for the current year amounted to UA 235.75 million (2017: UA 228.50 million).

Note M – Related parties

The general operation of the Fund is conducted by a 14-member Board of Directors, of which 7 members are selected by the Bank. The Bank exercises 50 percent of the ADF's voting power and the President of the Bank is the ex-officio President of the Fund. In accordance with the Agreement, the Fund utilizes the offices, staff, organization, services and facilities of the ADB (the Bank) to carry out its functions, for which it reimburses the Bank as disclosed in Note L. In this regard, the Bank administers the resources of the Fund. The Fund also administers trust funds entrusted to it by one of its State Participants.

Note N – Statement of subscriptions, contributions and voting power as at 31 December 2018

(UA thousands)

	Subscriptions						Payment Positions			MDRI	Voting Power	
State participants / Donors	Initial & Special Increase	ADF-1 to ADF-13 Installments	ADF-14 Installment	Grants Compensation	Grant element of Concessional Loans	Total Subscriptions	Total Installments Paid	Installments Due	Installments not yet Payable	Payments Received	Number of Votes	%
1 ADB	5,987	105,754	-	-	-	111,741	111,741	-	-	-	1,000.000	50.000
2 Angola	9,691	-	5,204	-	-	14,895	14,895	-	-	-	0.508	0.025
3 Argentina	1,842	16,789	-	-	-	18,631	1,842	7,018	9,771	-	0.063	0.003
4 Austria	13,816	472,417	91,868	1,209	-	579,310	548,222	-	31,088	19,512	19.380	0.969
5 Belgium	2,763	532,334	56,587	1,338	-	593,022	549,170	-	43,852	25,472	19.616	0.981
6 Brazil	2,763	140,866	-	-	-	143,629	143,629	-	-	-	4.821	0.241
7 Canada	20,724	1,771,970	179,162	773	-	1,972,629	1,912,909	-	59,720	95,664	68.565	3.428
8 China	13,816	506,203	86,292	282	-	606,593	606,593	-	-	26,982	21.666	1.083
9 Denmark	6,447	656,320	66,340	1,464	-	730,571	684,707	-	45,864	17,876	23.984	1.199
10 Egypt*	-	2,629	1,427	-	-	4,056	2,629	-	1,427	-	-	-
11 Finland	1,842	560,489	48,956	1,290	-	612,577	568,388	-	44,190	24,649	19.880	0.994
12 France	8,809	2,635,406	290,037	7,156	64,096	3,005,504	2,906,892	-	98,612	151,196	104.391	5.220
13 Germany	13,816	2,679,971	403,800	6,193	-	3,103,780	2,967,566	-	136,215	112,241	105.133	5.257
14 India	5,526	86,333	10,657	144	2,691	105,351	100,852	-	4,499	2,860	3.540	0.177
15 Italy	9,211	1,680,719	197,424	3,460	-	1,890,814	1,739,423	-	151,391	62,477	56.279	2.814
16 Japan	13,816	2,751,364	234,702	6,153	68,471	3,074,506	2,978,672	-	95,834	123,036	105.634	5.282
17 Korea	9,211	257,202	62,628	539	-	329,580	308,561	-	21,019	11,385	10.922	0.546
18 Kuwait	4,974	174,710	8,462	139	-	188,285	188,285	-	-	13,118	6.875	0.344
19 Luxembourg	14,514	-	8,356	-	-	22,870	20,084	-	2,785	-	0.686	0.034
20 Netherlands	5,526	1,103,398	149,422	3,218	-	1,261,564	1,261,564	-	-	54,231	44.507	2.225
21 Norway	6,908	1,185,399	139,163	2,978	-	1,334,448	1,287,010	-	47,437	58,172	45.907	2.295
22 Portugal	7,368	174,766	7,611	502	-	190,247	179,386	-	10,861	9,288	6.441	0.322
23 Saudi Arabia	8,290	275,409	14,267	81	-	298,047	298,047	-	-	6,206	10.399	0.520
24 South Africa*	1,794	45,688	7,809	102	-	55,393	55,393	-	-	9,562	-	-
25 Spain	2,763	601,636	12,912	1,888	-	619,199	595,413	-	23,786	49,373	22.011	1.101
26 Sweden	8,289	1,313,258	171,529	3,323	-	1,496,399	1,438,344	-	58,055	65,731	51.343	2.567
27 Switzerland	5,701	920,450	125,795	2,239	-	1,054,185	1,011,670	-	42,514	89,719	37.597	1.880
28 Turkey	40,693	-	713	-	-	41,406	41,169	-	237	-	1.405	0.070
29 United Arab Emirates	4,145	4,145	-	-	-	8,290	8,290	-	-	-	0.283	0.014
30 United Kingdom	7,873	2,604,221	437,042	6,025	-	3,055,161	2,904,586	-	150,575	122,787	103.343	5.167
31 United States Of America	20,724	2,989,756	360,638	7,801	-	3,378,919	3,004,873	-	356,244	47,944	104.820	5.241
Supplementary/ Voluntary contributions	-	109,714	46,812	4,318	-	160,846	145,063	-	21,355	-	-	-
Total	**279,642**	**26,359,316**	**3,225,616**	**62,615**	**135,258**	**30,062,448**	**28,585,868**	**7,018**	**1,457,331**	**1,199,481**	**2,000.000**	**100.000**
Supplementary information:												
Supplementary contributions through accelerated encashment to reduce the gap	-	65,321	9,260	4,318	-	78,899	68,991	-	5,320	6,892		

*Donors to the Fund.

Slight differences may occur in totals due to rounding.

Note O – Approval of special purpose financial statements

On 27 March 2019, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors at its annual meeting in June 2019.

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Independent Auditor's Report on the special purpose Financial Statements

Year ended December 31, 2018

To the Board of Governors of the African Development Fund

Opinion

We have audited the accompanying special purpose financial statements of the African Development Fund which comprise the statement of net development resources as at December 31, 2018 and the statement of income and expenses and other changes in development resources, the statement of comprehensive income and the statement of cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information as set out in notes A to O.

In our opinion, the accompanying special purpose financial statements have been prepared, in all material respects, in accordance with the accounting and financial reporting matters as set out in the accounting policies in note B to the special purpose financial statements for the year ended December 31, 2018.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with International Standards on Auditing (ISAs). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

Independence

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Other information
Management is responsible for the other information. The other information comprises the information included in the African Development Bank Group Annual Report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with articles 26(v), 35(1) and 35(3) of the Agreement Establishing the Fund and the accounting policies set out in note B to the special purpose financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Fund'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 it is expected to liquidate the Fund or to cease operations.

The Audit & Finance Committee of the Board, and more generally those charged with governance, are responsible for overseeing the Fund's financial reporting process and to monitor the effectiveness of the internal control and risk management systems, as well as the internal audit, as regards the procedures relating to the preparation and processing of accounting and financial information.

The special purpose financial statements were approved by the Board for transmission to the Board of Governors.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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.

In accordance with International Standards on Auditing (ISAs), our role as external auditor does not consist in guaranteeing the viability or quality of management of the audited entity.

As part of an audit conducted in accordance with ISAs, the auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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;

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;

- Assesses the appropriateness of management's 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 Fund's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

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

Paris – La Défense, March 27th, 2019

The independent auditor
Deloitte & Associés

Pascal COLIN

ADF administrative budget for financial year 2019

(UA thousands)

Management Fees*	236,830
Direct Expenses	150
Total	**236,980**

** The amount represents the African Development Fund's share of the fair value of the Bank's expenses in respect of officers, staff, organization, services and facilities based on a formula approved by the respective Boards.*

NIGERIA TRUST FUND

FINANCIAL MANAGEMENT

NTF Resources

The Nigeria Trust Fund (NTF) is a special fund administered by the Bank. The Fund's resources primarily consist of subscriptions by the Federal Republic of Nigeria. The NTF was established in 1976, for an initial period of thirty (30) years, when an agreement establishing the NTF was executed between the Bank and the Federal Republic of Nigeria, with a provision for extension by mutual agreement. After two annual extensions in 2006 and 2007, the operation of the NTF was extended for ten years with effect from 25 April 2008, following a positive evaluation of its performance during the initial thirty (30) years of operation. Following the approval of the Federal Government of Nigeria, the Agreement was extended for an additional period of five years starting from 25 April 2018.

Loan Products

NTF provides financing in the form of loans to the least developed and low income regional member countries at concessionary rates in order to enhance economic development and social progress in Africa. In the past the NTF has provided concessional financing exclusively to public sector operations. However, for the extension period to 2018, the Fund's mandate has been expanded to cover financial support to private sector operations as well, including the microfinance subsector.

Investments

The cash and treasury investments of the NTF, all denominated in US Dollars, amounted to UA 107.72 million at 31 December 2018 compared to UA 110.46 million at the end of 2017. Investment income for 2018 was UA 2.25 million, representing a return of 2.05 percent, on an average liquidity level of UA 109.55 million, compared to an income of UA 1.44 million representing a return of 1.21 percent on an average liquidity of UA 118.62 million in 2017. The portfolio underperformed its benchmark in 2018 due to turbulent market conditions over the year.

Loan Portfolio

Cumulative loans signed, net of cancellations remains unchanged at UA 335.83 million as at the end of 2017 and 2018 respectively. During 2018, new loan approvals amounted to UA 13.30 million compared to 2017 when no loan was approved. Table 1.7 below presents the evolution of loans approved, loans disbursed and the undisbursed balances from 2014 to 2018. As at 31 December 2018 there were 36 active loans with an outstanding amount of UA 67.25 million and 53 fully repaid loans amounting to UA 173.63 million.

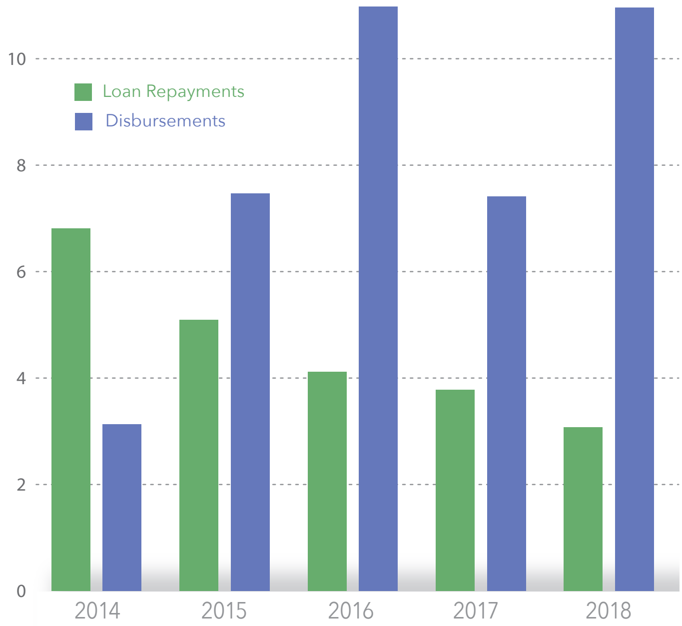
Disbursements

Disbursements increased from UA 7.41 million in 2017 to UA 10.97 million in 2018. As at 31 December 2018, cumulative disbursements amounted to UA 278.03 million (2017: UA 267.06). A total of 71 loans amounting to UA 239.31 million were fully disbursed as at 31 December 2018, representing 86.07 percent of cumulative disbursements on that date. Figure 1.4 shows the evolution of loan disbursements and repayments over the past five years.

Figure 1.4

Loan Disbursements and Repayments, 2014-2018

(UA millions)



Repayments

Principal loan repayments amounted to UA 3.07 million in 2018 compared to UA 3.78 million in 2017, representing a decrease of 18.78 percent over the previous year. Cumulative repayments as of December 2018 stood at UA 200.95 million.

Table 1.7

Lending Status, 2014–2018

(UA millions)

	2014	2015	2016	2017	2018
Loans Approved	11.49	12.50	18.46	-	13.30
Disbursements	3.13	7.47	10.98	7.41	10.97
Undisbursed Balances	67.23	71.79	60.81	68.77	57.80

Risk Management Policies and Processes

The NTF, similar to the Bank, seeks to reduce its exposure to risks that are not essential to its core business of providing development related assistance, such as liquidity, currency and interest rate risks. The Fund follows stringent risk management procedures in managing these risks. Note D to the Financial Statements of the Fund provides the details of the risk management policies and practices employed by NTF.

FINANCIAL RESULTS

NTF's income before distributions approved by the Board of Governors increased by UA 0.48 million from UA 2.18 million in 2017 to UA 2.66 million in 2018, mainly due to an increase in investment income.

Administrative expenses representing the NTF's share of the total shareable expenses of the ADB Group, increased by UA 0.15 million from UA 0.55 million in 2017 to UA 0.70 million in 2018. As noted earlier, the NTF's share of the total shareable expenses of the ADB Group is based on a predetermined cost-sharing formula, which is driven by the relative levels of certain operational volume indicators and relative balance sheet-size. However, the NTF's share of the total administrative expenses is capped at no more than 20 percent of its gross income in any year.

The NTF's reserves net of cumulative currency translation adjustments increased by 13.76 percent from UA 40.47 million at the end of 2017 to UA 46.04 million on 31 December 2018.

Nigeria Trust Fund

Financial Statements
For the Year ended December 31, 2018

Balance sheet
As at 31 December 2018

(UA thousands – Note B)

ASSETS	2018	2017
DUE FROM BANKS	5,728	7,508
INVESTMENTS (Note F)	101,994	102,950
ACCOUNTS RECEIVABLE		
Accrued income and receivables on loans	809	1,034
Accrued income on investments	318	132
Other receivables	1,133	3
	2,260	1,169
LOANS (Notes D & G)		
Disbursed and outstanding	67,254	57,869
Less: Accumulated provision for impairment	(1,024)	(135)
	66,230	57,734
TOTAL ASSETS	**176,212**	**169,361**

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

LIABILITIES & EQUITY		
ACCOUNTS PAYABLE	1,584	310
EQUITY (Note H)		
Capital	128,586	128,586
Reserves		
Retained earnings	145,768	144,200
Cumulative Currency Translation Adjustment (Note B)	(99,726)	(103,735)
Total reserves	46,042	40,465
Total Equity	174,628	169,051
TOTAL LIABILITIES & EQUITY	**176,212**	**169,361**

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

Income statement
for the year ended 31 December 2018
(UA thousands – Note B)

	2018	2017
INCOME (Note I)		
Interest and charges on loans	1,261	1,315
Income from investments	2,254	1,439
Total income	3,515	2,754
EXPENSES		
Administrative expenses (Note J)	703	548
Bank charges and sundry losses/(gains)	88	8
Total expenses	791	556
Provision for impairment on loan principal and charges (Note G) (reversal)	62	18
Total expenses and provision for impairment	853	574
Income before distributions approved by the Board of Governors	2,662	2,180
Distributions of income approved by the Board of Governors (Note H)	(218)	(190)
NET INCOME FOR THE YEAR	**2,444**	**1,990**

The accompanying notes to the financial statements form part of this statement.
The effect of IFRS 9 on Expected Credit Loss on January 1, 2018 has been included in equity and is disclosed in Note C

Statement of comprehensive income
for the year ended 31 December 2018
(UA thousands – Note B)

	2018	2017
NET INCOME FOR THE YEAR	2,444	1,990
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**2,444**	**1,990**

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

Statement of change in equity
for the year ended 31 December 2018
(UA thousands – Note B)

	Capital	Retained Earnings	Cumulative Currency Translation Adjustment	Total Equity
BALANCE AT JANUARY 1, 2017	**128,586**	**142,210**	**(94,003)**	**176,793**
Net income for the year	-	1,990	-	1,990
Currency translation adjustment	-	-	(9,732)	(9,732)
BALANCE AT DECEMBER 31, 2017	**128,586**	**144,200**	**(103,735)**	**169,051**
Effect of change in accounting policies IFRS 9 (Note C)	-	(876)	-	(876)
BALANCE AT JANUARY 1, 2018 (IFRS 9)	**128,586**	**143,324**	**(103,735)**	**168,175**
Net income for the year	-	2,444	-	2,444
Currency translation adjustment	-	-	4,009	4,009
BALANCE AS AT DECEMBER 31, 2018	**128,586**	**145,768**	**(99,726)**	**174,628**

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

Statement of cash flows
For the year ended 31 December 2018

(UA thousands – Note B)

	2018	2017
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	2,444	1,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for impairment on loan principal and charges	62	18
Unrealized gains on investments	(129)	(40)
Changes in accrued income and receivables on loans	(288)	562
Changes in net current assets	424	(15,179)
Net cash provided/(used) in operating activities	2,513	(12,649)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements of loans	(10,965)	(7,412)
Repayment of loans	3,067	3,779
Investments maturing after 3 months of acquisition:		
Held at fair value through profit or loss	737	13,295
Net cash (used)/provided in investing, lending and development activities	(7,161)	9,662
Effect of exchange rate changes on cash and cash equivalents	2,519	(6,380)
Net decrease in cash and cash equivalents	(2,129)	(9,367)
Cash and cash equivalents at the beginning of the year	12,201	21,568
Cash and cash equivalents at the end of the year	**10,072**	**12,201**
COMPOSED OF:		
Investments maturing within 3 months of acquisition	4,344	4,693
Cash	5,728	7,508
Cash and cash equivalents at the end of the year	**10,072**	**12,201**
SUPPLEMENTARY DISCLOSURE		
1. Operational cash flows from interest		
Interest received	1,486	1,408
2. Movement resulting from exchange rate fluctuations on loans	1,464	(3,329)

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

Notes to the financial statements for the year ended 31 December 2018

Note A – Nature of operations

The Nigeria Trust Fund (the Fund or NTF) was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank (ADB or the Bank) and the Federal Republic of Nigeria. The African Development Bank, headquartered in Abidjan, Côte d'Ivoire, manages the resources of the Fund on behalf of the Government of Nigeria. The purpose of the Fund is to assist in the development efforts of the poorer ADB Regional Member Countries. The Agreement stipulates that the Fund shall be in effect for a period of 30 years from the date the Agreement became effective and that such sunset date may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. The Agreement expired on April 24, 2006 and was extended twice for one-year periods, to allow for the completion of an independent review of the operation of the Fund. Following the successful completion of the independent review, the Agreement was extended for ten years starting from April 25, 2008.

Following the approval of the Federal Government of Nigeria, the Agreement was again extended for an additional period of five years starting from April 25, 2018.

Note B – Summary of significant accounting policies

The financial statements of the Fund are prepared in accordance with International Financial Reporting Standards (IFRS) promulgated by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention except for certain financial assets that are carried at fair value.

The significant accounting policies employed by the Fund are summarized below:

Revenue Recognition

Interest income is accrued and recognized based on the effective interest rate for the time such instrument is outstanding and held by the Fund. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial asset to the asset's net carrying amount. Commitment fees are accrued for unutilized loan facilities.

Income from investments includes realized and unrealized gains and losses on financial instruments measured at fair value through profit or loss.

Functional and Presentation Currencies

The Fund conducts its operations in United States Dollars; and has determined that its functional currency is the United States Dollars (USD). In accordance with Article VII, section 7.3, of the Agreement establishing the Fund, the financial statements are presented in Units of Account (UA).

The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement Establishing the Bank as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF. At December 31, 2018, 1 UA was equivalent to 1.39079 United States dollars (2017: 1.42413 USD).

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated from USD to UA at rates prevailing at the balance sheet date. Translation differences are included in reserves under cumulative currency translation adjustment (CCTA). Changes in CCTA are reported in the statement of changes in equity. Capital replenishments are recorded in UA at the exchange rates prevailing at the time of receipt. Translation gains and losses on conversion of currencies into UA are included in the determination of net income.

Financial Instruments

Financial assets and financial liabilities are recognized when the Fund assumes related contractual rights or obligations.

1) Financial Assets

In accordance with IFRS 9, the Fund classifies its financial assets into the following categories: financial assets at amortized cost; and financial assets at fair value through profit or loss (FVTPL). These classifications are determined based on the Fund's business model. In accordance with the Fund's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. Management determines the classification of its financial assets at initial recognition.

i) *Financial Assets at Amortized Cost*

A financial asset is classified as 'amortized cost' only if the asset meets the objective of the Fund's business model to hold the asset to collect the contractual cash flows, and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in financial assets are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

If either of the two criteria above is not met, the financial asset is classified as at fair value through profit or loss.

Financial assets at amortized cost include loans and receivables on amounts advanced to borrowers and certain investments that meet the criteria of financial assets at amortized cost. Loans and receivables comprise demand obligations, accrued income and receivables from loans and investments and other sundry amounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at amortized cost using the effective interest method.

Loan origination fees are deferred and recognized over the life of the related loan as an adjustment of yield. Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered insignificant.

Investments classified as financial assets at amortized cost include investments that are non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method.

ii) *Financial Assets at Fair Value through Profit or Loss (FVTPL)*

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes. Gains and losses on these financial assets are reported in the income statement in the period in which they arise. Derivatives are also categorized as financial assets at fair value through profit or loss.

Cash and cash equivalents include amounts due from banks, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value and have a time to maturity upon acquisition of three months or less.

Purchases and sales of financial assets are recognized on a trade-date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred, substantially all risks and rewards of ownership.

2) Financial Liabilities

Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancellation or expiration.

Impairment of Financial Assets

The Fund applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets: Debt instruments measured at amortized cost, Loan commitments, Financial guarantee contracts and Treasury investments held at amortized cost.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

i) *Stage 1: 12-months ECL*

The Fund assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired since origination. For these exposures, the Fund recognizes as a provision a 12 month ECL (reflecting on the portion of the lifetime ECL expected to occurr within the next 12 months).

ii) *Stage 2: Lifetime ECL – not credit impaired*

The Fund assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Fund recognizes as a provision a lifetime ECL (i.e. reflecting the ECL for the remaining lifetime of the financial asset).

iii) Stage 3: Lifetime ECL – credit impaired

The Fund identifies ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For these exposures a lifetime ECL is recognized as a specific provision, and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

Determining the stage for impairment

At each reporting date, the Fund assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Fund considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and previously assessed significant increase in credit risk since origination is reversed, then the provision for doubtful debts reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Fund's investment grade criteria, or which are less than 90 days past due, are considered to have a low credit risk. The provision for doubtful debts for these financial assets is based on a 12-months ECL.

When an asset is uncollectible, it is written-off against the related provision. Such assets are written-off after all the necessary procedures are completed and the amount of the loss determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

The Fund assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped based on shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund 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 discounted by the effective interest rate.

Undrawn loan commitments: As the present value of the difference between the contractual cash flows that are due to the Fund if the commitment is drawn-down and the cash flows that the Fund expects to receive.

Financial guarantee contracts: As the expected payments to reimburse the holder less any amounts that the Fund expects to recover.

For further details on how the Fund calculates ECLs including the use of forward looking information, refer to the Credit quality of financial assets section in Note D Risk management.

ECLs are recognized using a provision for doubtful debts account in the income statement.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Fair Value Disclosure

In liquid or active markets, the most reliable indicators of fair value are quoted market prices. A financial instrument is regarded as quoted in an active market if quoted prices are regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market might be inactive include when there is a wide bid-offer spread or a significant increase in the bid-offer spread or there are few or no recent transactions observed in the market. When markets become illiquid or less active, market quotations may not represent the prices at which orderly transactions would take place between willing buyers and sellers and therefore may require an adjustment in the valuation process. Consequently, in an inactive market, price quotations are not necessarily determinative of fair values. Considerable judgment is required to distinguish between active and inactive markets.

The fair values of quoted investments in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets or unlisted securities, the Fund establishes fair value by using valuation techniques that incorporate the maximum use of market data inputs. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realized in a sale might be different from the fair values disclosed.

The following three hierarchical levels are used for the determination of fair value:

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging).

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

The methods and assumptions used by the Fund in estimating the fair values of financial instruments are as follows:

Cash and cash equivalents: The carrying amount is the fair value.

Investments: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: The Fund does not sell its loans, nor does it believe there is a comparable market for its loans. The fair value of loans carried at amortized cost are deemed to approximate their carrying value net of the impairment losses based on the expected credit loss model and represents management's best estimates of the expected cash flows of its loans. The fair valuation of loans has been determined using a discounted cash flow model based on year-end market lending rates in USD, including impairment percentages when applicable.

Retained Earnings

Retained earnings of the Fund consist of amounts allocated to reserves from prior years' income and unallocated current year net income.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the preparation of financial statements in conformity with IFRS, management makes certain estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgments 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.

The most significant judgments and estimates are summarized below:

i) Impairment of Financial Assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Fund's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Fund's internal credit grading model, which assigns PDs to the individual grades
- The Fund's criteria for assessing if there has been a significant increase in credit risk necessitating the allowances to be measured on a 12 months or a lifetime ECL basis and the related qualitative assessment
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

ii) Fair Values of Financial Instruments

The fair value of financial instruments that are not quoted in active markets is measured by using valuation techniques. Where valuation techniques (for example, models) are used to measure fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are periodically calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Reclassifications

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current period. These reclassifications did not affect prior year's reported result.

Note C – The effect of new and revised international financial reporting standards

IFRS 16: Leases

On 13 January 2016, the IASB published IFRS 16 "Leases", which replaces the current guidance on lease accounting in IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The new standard requires far-reaching changes in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption short-term leases and leases of low-value assets; however, lessees can only apply this exemption. The new standard will not affect the Fund.

New and amended standards and interpretations

In these financial statements, the Fund has applied IFRS 9 Financial Instruments requirements effective for annual periods beginning on or after 1 January 2018, for the first time. IFRS 15 Revenues from Contracts with Customers which is also applicable from 1 January 2018 specifies how and when entities should recognize revenues from contracts with customers. The standard has no impact on the operations of the Fund since its contracts with customers primarily constitute loans and similar debt instruments accounted for under IFRS 9. The Fund has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 Financial Instruments: Recognition and measurement, for annual periods beginning on or after 1 January 2018. In the year ended 31 December 2011 the Fund early adopted the classification and measurement requirements for financial instruments.

The Fund elected an accounting policy choice under IFRS 9 to continue to apply the IAS 39 hedge accounting requirements.

As permitted by the transitional provisions of IFRS 9, the Fund has elected not to restate comparative figures in its first time adoption of the new rules. Therefore, the comparative impairment information for financial instrument impairment for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current year.

For disclosures in the notes the consequential amendments to IFRS 7 disclosures have also only been applied to the current year. The notes for the comparative period repeat those disclosures in the prior year. Changes include transition disclosures as shown in the transitional disclosures below, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note D.

Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 1 January 2018 and are disclosed below.

Reconciliations from opening to closing ECL allowances are presented in Notes I.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Fund's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Fund to record an allowance for ECLs for all loans and other debt instruments not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination, when the allowance is based on lifetime ECL.

The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note D.

The table below, reconciles the closing impairment allowances for financial assets in accordance with IAS 39 as at 31 December 2017 and the opening impairment allowances determined in accordance with IFRS 9 as at 1 January 2018.

(UA thousands)	As at 31 December 2017		As at 1 Janauary 2018
	Impairment allowance under IAS 39	Additional IFRS 9 impairment allowance	Impairment allowance under IFRS 9
Loans at amortized cost	134.50	855.13	989.63
Interest receivables	611.68	21.41	633.09
Total impairment allowance	**746.18**	**876.54**	**1,622.72**

The introduction of IFRS 9 increased the total impairment allowance held by the Fund by approximately UA 0.88 million, from UA 0.75 million as at 31 December 2017 to UA 1.62 million as at 1 January 2018. Impairment allowance under IFRS 9 considers both the disbursed and the undisbursed counterparty exposures.

Note D – Risk management policies and procedures

As described in Note A, the Bank manages the resources of the Fund on behalf of the Government of Nigeria. In the course of exercising its fiduciary duties, the Bank applies specific risk management policies designed to protect the resources of the Fund through the Bank's General Authority on Asset and Liability Management ("the ALM Authority"). The ALM Authority sets out the guiding principles for managing the Fund's risks, including interest rate risk, currency risk, liquidity risk, counter-party credit risk and operational risk.

Under the ALM Authority, the President of the Bank is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO). ALCO is the Bank's most senior management forum on finance and financial risk management issues and is chaired by the Vice President for Finance of the Bank.

The ALCO meet on a regular basis to perform its oversight roles. Among its functions, the ALCO reviews regular and ad-hoc finance and treasury risk management reports and projections and approves strategies to adjust the balance sheet. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency risk and financial projections.

In late 2013, a Group Chief Risk Officer position was created reporting directly to the President of the Bank.

Day-to-day operational responsibilities for implementing the Bank's risk management policies and guidelines are delegated to the relevant business units, and the Financial Management Department is responsible for monitoring the day-to-day compliance with those policies and guidelines.

The following sections describe in detail the manner in which the individual sources of risk are managed by the Fund.

Credit Risk

Credit risk is the potential financial loss due to the default of one or more debtors/obligors. Credit risk is the largest source of risk for the Fund arising from its lending and treasury operations essentially and it includes sovereign credit risk from lending operations, and counterparty credit risk.

1) Sovereign Credit Risk

When the Fund lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. Also, in extending credit to sovereign entities, it is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Fund. Country credit risk is managed through financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessment. These include the assessment of each country's macroeconomic performance as well as its socio-political conditions and future growth prospects.

Country Exposure in Borrowing Member Countries

The Fund's outstanding loans at December 31, 2018 were to the following countries:

(UA thousands)

Country	N° of loans	Total Loans*	Unsigned Loans	Undisbursed Balance	Outstanding Balances	% of Total Outstanding Loans
Benin	3	8,877	-	3,470	5,407	8.04
Cameroon	1	5,007	-	3,700	1,307	1.94
Cabo Verde**	1	-	-	-	-	-
Côte d'Ivoire	1	4,001	-	3,895	106	0.16
Eswatini	1	3,040	-	-	3,040	4.52
Gambia	3	8,494	-	-	8,494	12.63
Ghana	1	963	-	-	963	1.43
Guinea	1	1,828	-	-	1,828	2.72
Guinea-Bissau	1	319	-	-	319	0.47
Liberia	2	13,583	-	9,948	3,635	5.41
Madagascar	1	6,509	-	1,494	5,015	7.46
Malawi	3	16,051	4,500	1,630	9,921	14.75
Mali	2	9,306	2,800	4,814	1,692	2.52
Mauritania	3	11,499	6,000	-	5,499	8.18
Namibia	1	229	-	-	229	0.34
Niger	1	7,400	-	7,400	-	-
Rwanda	2	9,812	-	6,500	3,312	4.92
Senegal**	1	-	-	-	-	-
Seychelles	1	146	-	-	146	0.22
Sierra Leone	2	7,436	-	6,094	1,342	2.00
Somalia***	1	837	-	-	837	1.24
Togo	1	6,522	-	4,999	1,523	2.26
Uganda	1	10,112	-	1,785	8,327	12.38
Zambia	1	6,388	-	2,076	4,312	6.41
Total	**36**	**138,359**	**13,300**	**57,805**	**67,254**	**100.00**

* *Excludes fully repaid loans and canceled loans.*
** *Outstanding loan balance value is less than UA 100, at the current exchange rate.*
*** *Country with overdue amounts as at December 31, 2018*
Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

As at December 31, 2018, all the Fund's loans were made only to public sector borrowers, and such loans generally carry full sovereign guarantee or the equivalent from the borrowing member state.

The Fund's credit risk management framework is based on a systematic credit risk assessment using a uniform internal credit risk rating scale that is calibrated to reflect the Fund's statistical loss expectations as shown in the table below.

Risk Class	Revised Rating Scale	International Ratings S&P – Fitch	International Ratings Moody's	Assessment
Very Low Risk	1+	A+ and above	A1 and above	Excellent
	1	A	A2	
	1-	A-	A3	
	2+	BBB+	Baa1	Strong
	2	BBB	Baa2	
	2-	BBB-	Baa3	
Low Risk	3+	BB+	Ba1	Good
	3	BB	Ba2	
	3-	BB-	Ba3	
Moderate Risk	4+	B+	B1	Satisfactory
	4	B	B2	
	4-			
	5+	B-	B3	Acceptable
	5			
High Risk	5-	CCC+	Caa1	Marginal
	6+			
	6	CCC	Caa2	Special Attention
	6-			
Very High Risk	7	CCC-	Caa3	Substandard
	8			
	9	CC	Ca	Doubtful
	10	C	C	Loss

These sovereign risk credit ratings are derived from a risk assessment on five risk indices that include macro-economic performance, debt sustainability, socio-political factors, business environment and portfolio performance. These five risk indices are combined to derive a composite sovereign country risk index and then converted into separate country risk ratings. These country risk ratings are validated against the average country risk ratings from accredited rating agencies and other specialized international bodies. The Credit Risk Committee reviews the country ratings on a quarterly basis to ensure compliance with country exposure limits, changes in country credit risk conditions, and to approve changes in loss provisioning, if any.

Portfolio Risk Monitoring

It is the Fund's policy that if the payment of principal, interest or other charges becomes 30 days overdue, no new loans to that country, or to any public sector borrower in that country, will be presented to the Board of Directors for approval, nor will any previously approved loan be signed, until all arrears are cleared. Furthermore, for such countries, disbursements on all loans to or guaranteed by that borrower country are suspended until all overdue amounts have been paid.

2) Counterparty Credit Risk

Counterparty credit risk is the potential for loss due to the failure of a counterparty to honor its obligation. Various financial instruments are used to manage the Fund's exposure to fluctuations in market interest and currency rates, and to invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Fund.

Given the nature of the Fund's business, it is not possible to completely eliminate counterparty credit risk, however, this risk is minimized by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures. Counterparties for treasury assets must meet the Fund's minimum credit rating requirements and are approved by the Bank's Vice President for Finance. For counterparties that are rated below the minimum rating requirements, approval by ALCO is required.

The following table details the minimum credit ratings for authorized investment counterparties:

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2			AA-/Aa3	AAA/Aaa
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
MBS/ABS	AAA Maximum legal maturity of 50 years for ABS/MBS with the underlying collateral originated in the UK and 40 year maximum legal maturity for all other eligible ABS/MBS. Also, the maximum weighted average life for all ABS/MBS at the time of acquisition shall not exceed 5 years.					

The Fund invests in money market mutual funds with a minimum rating of AA-/Aa3.

In addition to these minimum rating requirements, the Fund operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a maximum of 10 percent of the Fund's total liquidity for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and regularly monitored against the Fund's credit limits after considering the benefits of any collateral.

As shown in the following table, the estimated potential counterparty credit exposure of the portfolio continues to be predominantly in the AA- or higher-rated class.

	Credit Risk Profile of the Investment and Derivative Portfolios		
	AAA	AA+ to AA-	A+ and lower
2018	34%	53%	13%
2017	71%	29%	0%
2016	66%	23%	11%
2015	19%	68%	13%
2014	19%	78%	3%

Expected Credit risk

Definition of default

The definition of default for determining ECLs considers indicators that the debtor is unlikely to pay and past due for more than 180 days for sovereign counterparties on any material credit obligation to the Fund. The Fund rebuts the IFRS9's 90 days past due rebuttable presumption in the Fund's sovereign loan portfolio because the Sanction policy of the Fund defines a non-accrual loan or non-performing loan as a loan that is at least 180 days past due. This is also the current practice with other Multilateral Development Banks. The recovery rate for loans that are less than 180 days past due is much larger than loans that are at least 180 days past due.

The Fund considers default on the basis that the obligor is unlikely to pay its credit obligations to the Fund without recourse by the Fund to actions such as realizing security.

Credit risk grades

The Fund 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 judgment. 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.
Each exposure is allocated to a credit risk grade at 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 of the respective exposures involves the use of the following:

- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities
- Data from credit reference agencies, press articles and changes in external credit ratings
- Modifications of financial assets and financial liabilities.

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognised and the renegotiated loan recognised as a new loan at fair value in accordance with the accounting policy set out in the Fund's accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime PD at the reporting date based on the modified terms; with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

If the terms of a financial asset are modified, the Fund considers whether the cash flows arising from the modified asset are substantially different. If substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, a new financial asset is recognized at fair value while the original financial asset is derecognized.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recognizes a modification gain/loss in the statement of profit or loss as the difference between the gross carrying amount prior to the modification and the gross carrying amount.

Measurement and recognition of expected credit losses

ECLs are calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), discounted at the original EIR.

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.

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 internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings 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. The Fund estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios to reflect possible changes in relevant prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Fund derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. 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 financial assets for which credit risk has not significantly increased, the Fund 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 risk management purposes, the Fund considers a longer period. The maximum contractual period extends to the date at which the Fund 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 grading;
- Collateral type;
- Date of initial recognition;
- Remaining term to maturity;
- 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. For portfolios in respect of which the Fund has limited historical data, external benchmark information is used to supplement the data available internally.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Fund considers both quantitative and qualitative information and analysis based on the Fund's historical experience and expert credit risk assessment, including forward looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk on its sovereign and non-sovereign loan has increased significantly since initial recognition when contractual payments are more than 180 days past due for sovereign loans. The reason for rebutting the IFRS rebuttable presumption is explained in the definition of default above.

Despite the foregoing, the Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Fund considers a financial asset to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definition.

For financial guarantee contracts, the date that the Fund becomes a party to the irrevocable commitment is considered the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contracts, the Fund considers the changes in the risk that the specified debtor will default on the contract.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

Incorporation of forward-looking information

The Credit Risk Committee considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs.

The Committee consists of senior executives from risk, finance and economics functions. Relevant regional and industry specific adjustments are applied to capture variations from general industry scenarios. These reflect reasonable and supportable forecasts of future macro-economic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to, unemployment rates, interest rates, gross domestic product, inflations, and commodity prices and these require an evaluation of both the current and forecast direction of the macro-economic cycle.

Incorporating forward-looking information increases the degree of judgement required as to how changes in these macro-economic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Calculation of expected credit losses

The Fund calculates ECLs based on three probability-weighted scenarios. The three scenarios are base case, optimistic and pessimistic. Each of these is associated with different PD, EAD and LGD parameters.

These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data. For accounting purposes, the 12-months and lifetime PD represent the expected point-in-time probability of a default over the next 12 months and remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and future economic conditions that affect credit risk. The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility. The 12-months ECL is equal to the discounted sum over the next 12-months of monthly PDs multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PDs over the full remaining life multiplied by the LGD and EAD.

Expected Credit Losses

IFRS 9 requires the recognition of 12 month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

Impairment of Financial Instruments by stage

The tables below presents gross exposure of loans at amortized within the scope of IFRS 9 and the applicable impairment allowance based on stage allocation as at 31 December 2018 and 1 January 2018.

As at 31 December 2018

	Gross exposure/Impairment allowance			
(UA thousands)	Stage 1	Stage 2	Stage 3	Total
Sovereign loans (Gross)	66,417	-	837	67,254
Total loans at amortized cost	66,417	-	837	67,254
Less: Impairment allowance	(886)	-	(138)	(1,024)
Total net exposure December 31, 2018	**65,531**	**-**	**699**	**66,230**

As at 1 January 2018

	Gross exposure/Impairment allowance			
(UA thousands)	Stage 1	Stage 2	Stage 3	Total
Sovereign loans (Gross)	57,052	-	817	57,869
Total loans at amortized cost	57,052	-	817	57,869
Less: Impairment allowance	(855)	-	(135)	(990)
Total net exposure January 1, 2018	**56,197**		**682**	**56,879**

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. In order to mitigate liquidity risk, the Fund's investment management policy ensures it has sufficient liquid assets to meet its disbursement obligations.

Currency Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. The Fund manages its currency risk by holding all of its investments and loans in U.S. dollars, the currency in which the Fund's resources are denominated.

Interest Rate Risk

The Fund is exposed to fair value interest rate risk on its portfolio of loans and investments. All of the Fund's loans have fixed interest rates. Investments are managed against the monthly average of three-months LIBOR in order to manage the available resources prudently. Re-pricing risk is not considered significant in comparison to the Fund's equity resources, and is accordingly not hedged.

At December 2018, the Fund had UA 57.80 million of loans which were committed but not yet disbursed (2017: UA 68.77 million). The interest rate on these undisbursed loans has been fixed at between 2 to 4 percent per annum.

Interest rate risk positions as at December 31, 2018 and 2017 were as follows:

Interest Rate Risk Position as at December 31, 2018

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non-interest bearing funds	Total
Assets								
Cash	5,728	-	-	-	-	-	-	5,728
Investments	43,054	29,540	23,030	-	6,330	40	-	101,994
Accounts receivable	2,260	-	-	-	-	-	-	2,260
Loans	4,630	4,170	4,340	4,350	4,560	45,204	(1,024)	66,230
	55,672	33,710	27,370	4,350	10,890	45,244	(1,024)	176,212
Liabilities								
Accounts payable	(1,584)	-	-	-	-	-	-	(1,584)
Interest rate risk position as at December 31, 2018*	**54,088**	**33,710**	**27,370**	**4,350**	**10,890**	**45,244**	**(1,024)**	**174,628**

** Interest rate risk position represents equity.*

Interest Rate Risk Position as at December 31, 2017

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non-interest bearing funds	Total
Assets								
Cash	7,508	-	-	-	-	-	-	7,508
Investments	102,950	-	-	-	-	-	-	102,950
Accounts receivable	1,169	-	-	-	-	-	-	1,169
Loans	3,860	3,500	3,780	3,860	3,840	39,029	(135)	57,734
	115,487	3,500	3,780	3,860	3,840	39,029	(135)	169,361
Liabilities								
Accounts payable	(310)	-	-	-	-	-	-	(310)
Interest rate risk position as at December 31, 2017*	**115,177**	**3,500**	**3,780**	**3,860**	**3,840**	**39,029**	**(135)**	**169,051**

** Interest rate risk position represents equity.*

Currency and Interest Rate Sensitivity Analysis

The Fund holds all of its investments and loans in U.S. dollars and therefore is exposed only to translation adjustment as the Fund's assets are reported in UA for financial statements purposes. Any change in the UA/USD exchange rate would have an impact of approximately 36 percent on these reported values.

Movements in interest rates have an impact on the reported fair value of the trading portfolio. The table below shows the effect of a parallel yield curve movement +/- 100bps as at December 31, 2018 and 2017, respectively.

(UA thousands)

	+100 Basis Points		-100 Basis Points	
	2018	2017	2018	2017
(Loss)/Gain on investments measured at fair value	(336)	(284)	336	286

Note E – Financial assets and liabilities

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss				
December 31, 2018	Mandatorily at Fair value	Designated at Fair Value	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Due from banks	-	-	5,728	5,728	5,728
Treasury investments	101,994	-	-	101,994	101,994
Accounts receivable	-	-	2,260	2,260	2,260
Loans*	-	-	66,230	66,230	66,230
Total financial assets	**101,994**	**-**	**74,218**	**176,212**	**176.212**
Accounts payable	-	-	1,584	1,584	1,584
Total financial liabilities	**-**	**-**	**1,584**	**1,584**	**1,584**

** At 31 December 2018 the fair value of loans measured at amortized cost are deemed to approximate their carrying value net of impairment loss.*

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss				
December 31, 2017	Mandatorily at Fair value	Designated at Fair Value	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Due from banks	-	-	7,508	7,508	7,508
Treasury investments	102,950	-	-	102,950	102,950
Accounts receivable	-	-	1,169	1,169	1,169
Loans	-	-	57,734	57,734	51,750
Total financial assets	**102,950**	**-**	**66,411**	**169,361**	**163,377**
Accounts payable	-	-	310	310	310
Total financial liabilities	**-**	**-**	**310**	**310**	**310**

Note F – Investments

As part of its portfolio management strategy, the Fund invests in government and agency obligations, time deposits, and asset-backed securities.

For government and agency obligations with final maturities longer than one year, the Fund may only invest in obligations with counterparties having a minimum credit rating of AA- issued or unconditionally guaranteed by governments of member countries of the Bank or other official entities. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Investments in money market instruments are restricted to instruments having maturities of not more than 1 year and a minimum rating of A.

As at December 31, 2018, all investments are held at fair value through profit and loss.

The Fund's investments at December 31, 2018 and 2017 (at FVTPL) are summarized below:

(UA thousands)

	2018	2017
Time deposits	4,344	4,690
Asset-backed securities	40	50
Government and agency obligations	91,280	98,210
Corporate bonds	6,330	-
Total	**101,994**	**102,950**

The table below classifies the Fund's investments at December 31, 2018 and 2017 into three levels reflecting the relative reliability of the measurement bases, with level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument (Level 1)		Valuation techniques for which all significant inputs are based on observable market data (Level 2)		Valuation techniques for which any significant input is not based on observable market data (Level 3)		Total	
	2018	2017	2018	2017	2018	2017	2018	2017
Time deposits	4,344	4,690	-	-	-	-	4,344	4,690
Asset-backed securities	-	-	-	-	40	50	40	50
Government and agency obligations	91,280	98,210	-	-	-	-	91,280	98,210
Corporate bonds	-	-	6,330	-	-	-	6,330	-
Total	**95,624**	**102,900**	**6,330**	**-**	**40**	**50**	**101,994**	**102,950**

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at December 31, 2018 and 2017 are made up as follows:

(UA thousands)

	2018	2017
Balance at January 1	50	51
Losses recognized in income statement	(1)	(7)
Purchases, issues and settlements (net)	(6)	9
Currency translation adjustments	1	(3)
Balance at December 31	**44**	**50**

The contractual maturity structure of the Fund's investments as at December 31, 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
One year or less	43,054	56,450
More than one year but less than two years	29,540	24,590
More than two years but less than three years	23,030	21,860
More than four years but less than five years	6,330	-
More than five years	40	50
Total	**101,994**	**102,950**

The notional balance of investments as at the end of December 2018 was UA 101.99 million (2017: UA 102.95 million), while the average yield was 2.05% (2017: 1.23%).

Note G – Loans

Loans originated before September 22, 2003; carry an interest rate of four percent (4%) on the outstanding balance. With effect from September 22, 2003, pursuant to the Board of Governors' resolution B/BG/2003/11 of June 3, 2003 and the protocol agreement between the Government of Nigeria and the Bank, dated September 22, 2003, the interest rate on loans was changed from a flat 4 percent per annum to a range of 2 percent to 4 percent (inclusive) per annum on the outstanding balance and future undisbursed loans. Furthermore, a 0.75 percent commission is payable on undisbursed balances commencing 120 days after the signature of the loan. Loans approved prior to the extension of the Agreement are granted for a maximum period of twenty-five years including a grace period of up to five years.

Following the extension of the Agreement in April 2008, the terms of the NTF loans were further modified in line with the terms of financing in the operational guidelines of the Fund, approved pursuant to the Board of Directors' resolution ADB/BD/WP/2008/196 of December 2, 2008 which stipulates that the resources of the Fund will henceforth be deployed in accordance with the following three options:

Financial terms for the first option include: (i) no interest charges on NTF loans; (ii) a service charge of 0.75 percent per annum on outstanding balances; (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (iv) a 20-year repayment period with a 7-year grace period.

Financial terms for the second option include: (i) no interest charges on NTF loans; (ii) a service charge of 0.75 percent per annum on outstanding balances; (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (iv) a 15-year repayment period with a 5-year grace period.

Financial terms for the third option would be the same terms as for the ADB private sector financing, taking into consideration the risk analysis of the project.

For all the above-mentioned options, the grace period starts from the date of signing of the financing agreement or at a date agreed amongst co-financiers, in the case of co-financed projects.

For private sector operations, a commitment fee of 0.75 percent per annum on undisbursed balances will be charged from 120 days after the signing of the loan agreement.

The NTF shall provide financing to suit the needs of its borrowers.

Loan Ceilings

In order to promote broader coverage of the NTF resources, utilization will be subject to a ceiling for each operation. For both public and private sector operations, a ceiling of USD10 million per project will apply. Project proposals of more than USD 10 million may be considered if there is strong justification. This will be subject to review as appropriate depending on the recommendations of the mid-term reviews of the NTF.

The Fund's loan regulations require that loans be expressed in UA and repaid in the currency disbursed. At December 31, 2018, all loans disbursed were repayable in United States Dollars.

The contractual maturity structure of outstanding loans as at December 31, 2018 and 2017 was as follows:

(Amounts in UA millions)

	2018		2017	
Periods	Amount	%	Amount	%
One year or less	4.63	7.43	3.86	6.67
More than one year but less than two years	4.17	5.78	3.50	6.05
More than two years but less than three years	4.34	6.37	3.78	6.53
More than three years but less than four years	4.35	6.70	3.86	6.67
More than four years but less than five years	4.56	6.55	3.84	6.64
More than five years	45.20	67.17	39.03	67.44
Total	**67.25**	**100.00**	**57.87**	**100.00**

The weighted-average interest yield on outstanding loans for the year ended December 31, 2018 was 2.07% (2017: 2.27%). Borrowers may prepay loans, subject to the terms specified in the loan agreement.

Provision for Impairment on Loan Principal and Charges Receivable

As at December 31, 2018, loans made to or guaranteed by certain borrowing countries with an aggregate principal balance of UA 0.84 million, of which UA 0.84 million was overdue, were considered to be impaired.

The gross amounts of impaired loans and charges receivable and their corresponding impairment provisions at December 31, 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Outstanding balance on impaired loans	837	817
Less: accumulated provision for impairment	(138)	(135)
Net balance on loans	**699**	**682**
Charges receivable and accrued income on impaired loans	1,219	1,164
Less: accumulated provision for impairment	(643)	(612)
Net charges receivable and accrued income on impaired loans	**576**	**552**

An analysis of changes in ECL allowances in relation to the Fund's financial assets carried at amortized cost for the year ended December 31, 2018 were as follows:

(UA thousands)

	Stage 1	Stage 3	Total
Balances at January 1, 2018	873.96	748.76	1,622.72
Increase in provision during the year	29.25	32.26	61.51
Total impairment as at 31 December 2018	**903.21**	**781.02**	**1,684.23**

Fair Value of Loans

At December 31, 2018 the fair value of loans measured at amortized cost are deemed to approximate their net carrying value following the adoption of the expected credit loss impairment model. The carrying and estimated fair value of outstanding loans as at 31 December 2017 are also presented below.

(UA thousands)	2018	2017	
	Carrying Value/Fair Value	Carrying Value	Estimated Fair Value
Loan balance at December 31	67,254	57,869	51,750
Accumulated provision for impairment on loans	(1,024)	(135)	-
Net balance	**66,230**	**57,734**	**51,750**

Note H – Equity

Equity is composed of Fund capital, reserves & retained earnings, and cumulative currency translation adjustments. These are further detailed as follows:

Fund Capital

The initial capital of the Fund was Naira 50 million which was payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to USD 39.90 million, was received by the Bank on July 14, 1976, and the second installment, equivalent to USD 39.61 million, was received on February 1, 1977.

During May 1981, the Federal Republic of Nigeria announced the replenishment of the Fund with Naira 50 million. The first installment of Naira 35 million, equivalent to USD 52.29 million, was received on October 7, 1981. The second installment of Naira 8 million, equivalent to USD 10.87 million, was received on May 4, 1984. The third installment of Naira 7 million, equivalent to USD 7.38 million, was received on September 13, 1985.

Following a request by the Government of Nigeria, on June 14, 2006, a withdrawal of USD 200 million (UA 135.71 million) was made by the Government of Nigeria from the resources of the Fund.

A second request for a withdrawal of USD 200 million (UA 129.04 million) was paid to the Government of Nigeria in July 2009.

During the year ended December 31, 2014, the Government of the Federal Republic of Nigeria authorized the withdrawal of an amount of USD13 million (UA 8.41 million) from reserves to settle its commitment on the arrears clearance of debt owed by Liberia under the internationally coordinated arrears clearance mechanism for Post-Conflict Countries.

During the year ended December 31, 2015, following a request by the Government of Nigeria, on May 13, 2015, a withdrawal of USD 10 million (UA 7.14 million) was made from the resources of the Fund and paid to the Government of Nigeria.

Reserves including Retained Earnings

Retained Earnings

Retained earnings as at December 31, 2018 and 2017 was as follows:

(UA thousands)

Balance at January 1, 2017	142,210
Net income for the year	1,990
Balance at December 31, 2017	**144,200**
Effect of changes in accounting policies (IFRS 9)	(876)
Balance at January 1, 2018 (IFRS 9)	**143,324**
Net income for current year	2,444
Balance at December 31, 2018	**145,768**

The Board of Governors of the Bank approves the transfers of part of the Fund's annual income for the year to HIPC. Transfers approved by the Board of Governors of the Bank are reported within the income statement as expenses in the year the transfer is approved. Prior to 2006, Board of Governors' approved transfer was reported as a reduction in retained earnings.

Cumulative Currency Translation Adjustments

Cumulative currency translation adjustments as at December 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Balance at January 1	103,735	94,003
Movements during the year	(4,009)	9,732
Balance at December 31, 2018	**99,726**	**103,735**

Note I – Income

Interest and Charges on Loans

Interest and charges on loans for the period ended December 31, 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest income on loans not impaired (Stage 1)	907	956
Interest income on impaired loans (Stage 3)	33	34
Commitment charges	321	325
Total	**1,261**	**1,315**

Income from Investments

Income from investments for the period ended December 31, 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest income	2,407	1,521
Realized and unrealized fair value losses	(153)	(82)
Total	**2,254**	**1,439**

Note J – Administrative Expenses

According to the Agreement establishing NTF, the Fund shall pay to the Bank the expenses incurred in the management of the Fund as follows:

a) Separately identifiable costs incurred by the Bank for the Fund; and
b) Indirect costs incurred by the Bank in the management of the Fund.

However, the annual payment for the aforementioned expenses incurred by the Bank shall not exceed 20 percent of the Fund's gross income during the course of each period. The administrative cost-sharing formula may be reviewed from time-to-time by mutual agreement.

The amount of UA 0.70 million charged for the period ended December 31, 2018 (2017: UA 0.55 million) represents the Fund's share of the Bank Group expenses.

Note K – Related Parties

The Nigeria Trust Fund is administered by the African Development Bank. The ADB conducts the general operations of the NTF on the basis of the terms of the Agreement and in consultation with the Government of Nigeria. The NTF utilizes the offices, staff, organization, services and facilities of the Bank and reimburses the Bank for its share of the costs of such facilities, based on an agreed-upon cost-sharing formula (see Note J). The amount outstanding at December 31, 2018 in respect of Fund's share of administrative expenses was UA 0.10 million (2017: UA 0.08 million) and is included in Accounts Payable on the balance sheet.

Note L – Segment Reporting

The objective of the Fund is to provide loan funds to the poorer ADB regional member countries for development purposes. The Fund's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers. Management has concluded that the Fund has only one reportable segment in accordance with IFRS 8.

The main products and services from which the Fund derives its revenue are mainly loans to ADB regional member countries and treasury investments.

External revenue for the years ended December 31, 2018 and 2017 is detailed as follows:

(UA thousands)

	2018	2017
Interest income and charges on loans with sovereign guarantee	1,261	1,315
Treasury investment income	2,254	1,439
Total external revenue	**3,515**	**2,754**

The Fund's development activities are divided into five sub-regions of the continent of Africa for internal management purposes, namely: Central Africa, East Africa, North Africa, Southern Africa, and West Africa. Treasury investment activities are carried out mainly outside of the continent of Africa and are therefore not included in the table below. In presenting information on the basis of the above geographical areas, revenue is based on the location of customers. The Fund uses ADB's offices, staff, organization, services and facilities and therefore has no fixed assets of its own.

Geographical information about income from loans for the year ended December 31, 2018 and 2017 is detailed as follows:

(UA thousands)

	Central Africa	Eastern Africa	Northern Africa	Southern Africa	Western Africa	Multi-national	Total
2018							
Income from Loans	26	254	115	253	580	33	1,261
2017							
Income from Loans	26	271	123	262	585	48	1,315

Revenues derived from transactions with a single borrower country and exceeding 10 percent of the Fund's revenue for one country amounted to UA 0.15 million for the year ended December 31, 2018.

NOTE M – APPROVAL OF FINANCIAL STATEMENTS

On March 27, 2019, the Board of Directors of the Bank authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors of the African Development Bank at its annual meeting in June 2019.

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Independent Auditor's Report Financial Statements

Year ended December 31, 2018

To the Board of Governors of the African Development Bank in respect of the Nigeria Trust Fund

Opinion

We have audited the accompanying financial statements of the Nigeria Trust Fund which comprise the balance sheet as at December 31, 2018 and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out in notes A to M.

In our opinion, the accompanying financial statements present fairly, in all material respects, and give a true and fair view of the assets and liabilities and of the financial position of the Fund as at December 31, 2018 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

Audit Framework

We conducted our audit in accordance with International Standards on Auditing (ISAs). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *"Auditor's Responsibilities for the Audit of the Financial Statements"* section of our report.

Independence

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Key Audit Matters

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

Impairment based on expected credit losses - First time application of the IFRS 9 rules

Risk identified	The application of the IFRS 9 impairment rules as from January 1, 2018 has introduced significant changes, which have financial and operational impacts for the Fund. In addition to the impairment methodology for incurred credit risk (stage 3), the new expected losses rules require the recording of impairments calculated as follows: • stage 1 representing an expected loss within 1 year from initial recognition of the financial asset; • stage 2, which represents an expected loss at maturity, in the event of a significant increase in credit risk since initial recognition. The estimate of expected credit losses requires the exercise of judgment, to determine in particular: • the rating procedures for loans covered by this impairment model; • the rules for mapping loans to their appropriate staging; • criteria for the increase in credit risk; • certain parameters for calculating expected credit losses, such as the probability of default (PD) and the loss rate in the event of default (LGD). • the methodology for taking into account macroeconomic projections for both increase in credit risk and measurement of expected losses. • These parameters are integrated into the model used by the Fund to determine the amount of expected credit losses. The impact of IFRS 9 impairment rules and the accounting principles applied are detailed in notes C, D and G. Thus, the impact related to the implementation of the new impairment model is: • an amount of UA 876.54 thousand on opening shareholders' equity in respect with the first application of the IFRS 9 impairment part; • an impairment charge on loans principal classified in categories 1 and 2 of UA 31 thousand for the year 2018 (out of a total amount of impairment charge for the year 2018 of UA 34 thousand). As at 31 December 2018, the accumulated impairment for expected losses on loans classified in categories 1 and 2 amounted to UA 886 thousand for a total impairment amount of UA 1,024 thousand. Given the scope of this standard, the complexity of its implementation and the importance of the accounting estimates, we considered that the application of this standard from January 1, 2018 is a key audit matter for the year 2018.
Our response	Our work consisted mainly, with the assistance of our experts, in: • analyzing the compliance of calculation and calibration methods with the IFRS 9 standards, in particular on: - the loans rating process, the significant increase in credit risk criteria and the rules for mapping loans to their appropriate staging; - calculation of expected losses (review of the model, calibration of PDs, LGDs, forward looking assumptions, backtesting methods, etc.); • carrying out independent calculations with our own tools. Finally, our audit work also included the review of the impact of expected credit losses as at January 1, 2018 and as at December 31, 2018 and the review of the relevant explanatory information provided in the notes to the financial statements.

Incurred Credit Risk - Impairment for loans classified in stage 3

Risk identified	The Nigeria Trust Fund is exposed to credit and counterparty risks on loans that it grants. These risks result from the inability of its clients and counterparties to meet their financial commitments. In accordance with IFRS 9 impairment rules, the Fund records impairments to cover expected credit losses (loans classified in stages 1 and 2 - see key audit matter mentioned above) and incurred losses (loans classified in stage 3). Impairment on incurred losses for loans classified in stage 3 are determined on an individual basis. These individual impairments are determined by the management based on the estimated future recoverable cash flow estimated on each of the concerned loans. As indicated in notes D and G to the financial statements, the outstanding loans of the Fund amounted to UA 67,254 thousand including UA 837 thousand of outstanding loans classified in stage 3 which are impaired at UA 138 thousand as at December 31, 2018. Given that the assessment of impairment requires a significant accounting estimate and use of management's judgement, we consider that the identification and evaluation of incurred credit risk on loans is a key audit matter.
Our response	As part of our audit procedures, we reviewed the control framework for identifying exposures, monitoring credit and counterparty risks, assessing non-recovery risks and determining related impairment and provisions. Our work consisted of assessing the quality of the monitoring system for watchlisted and impaired loans. In addition, based on a sample selected on materiality and risk criteria, we performed an independent analysis of the amounts of provisions.

Other information
Management is responsible for the other information. The other information comprises the information included in the African Development Bank Group Annual Report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained during 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.

Responsibilities of Management and Those Charged with Governance for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund'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 it is expected to liquidate the Fund or to cease operations.

The Audit & Finance Committee of the Board, and more generally those charged with governance, are responsible for overseeing the Fund's financial reporting process and to monitor the effectiveness of the internal control and risk management systems, as well as the internal audit, as regards the procedures relating to the preparation and processing of accounting and financial information.

The financial statements were approved by the Board for transmission to the Board of Governors.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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.

In accordance with International Standards on Auditing (ISAs), our role as external auditor does not consist in guaranteeing the viability or quality of management of the audited entity.

As part of an audit conducted in accordance with ISAs, the auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his 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;

- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;

- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;

- Assesses the appropriateness of management's 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 Fund's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;

- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

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

Paris – La Défense, March 27th, 2019

The independent auditor
Deloitte & Associés

Pascal COLIN


AFRICAN DEVELOPMENT BANK GROUP