

AFRICAN DEVELOPMENT BANK GROUP

Financial Report 2016

Financial Management and Financial Statements
Year Ended 31 December 2016



AFRICAN DEVELOPMENT BANK GROUP

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Letter of Transmittal

In accordance 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 Financial Report of the African Development Bank and the African Development Fund for the financial year ended 31 December 2016.

The Annual Report includes a review of developments in the operational activities of the Bank Group during 2016. 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 2017 and the review of financial management and financial results. These reports are available electronically on the Bank Group's web page at www.afdb.org/annualreport.



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

Date: 30 March 2017

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 KPMG, 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 (AUF) 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. AUF, 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. AUF 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 AUF to discuss the adequacy of internal controls over financial reporting and any other matter that may require AUF'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 2016. Management is not aware of any material control weakness that could affect the reliability of the 2016 financial statements.

In addition to providing an audit opinion on the fairness of the financial statements for 2016, 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 2016 and their opinion thereon is presented separately in this annual report.

Charles O. Boamah
Vice President, Finance

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Independent Auditor's Report to the Board of Governors of the African Development Bank Group regarding the effectiveness of internal control over financial reporting

Year ended December 31, 2016

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 "Bank Group") as of December 31, 2016, 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 Bank Group is responsible for implementing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of such internal control. Management has asserted the effectiveness of internal controls over financial reporting as of December 31, 2016.

Independent Auditor's responsibilities

Our responsibility is to express an opinion on the 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.



African Development Bank Group
*Independent Auditor's Report to the Board of Governors
of the African Development Bank Group regarding
the effectiveness of internal control over financial reporting*

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) 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 (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition 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 Bank Group, in all material respects, maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

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, 2016, in accordance with the International Standards on Auditing, and we have expressed unqualified opinions on those financial statements.

Paris La Défense, March 30th, 2017

KPMG S.A.

Valéry Foussé
Partner

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 on borrowing of funds for inclusion in its ordinary capital resources or guarantees chargeable to such resources. This acts as protection for holders of bonds and guarantees issued by the Bank in the unlikely event that it 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 triggers the issuance of the shares corresponding to the entire callable capital portion, and 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 was 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 has subsequently evolved due to the net effect of various Board resolutions and decisions aimed at admitting new members and stands at UA 66.98 billion at end December 2016.

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

As at 31 December 2016, the paid-up capital of the Bank amounted to UA 4.90 billion, with a paid-in capital (i.e. the portion of paid-up capital that has been actually paid) level of UA 4.02 billion, compared with UA 4.88 billion and UA 3.73 billion of paid-up and paid-in capital, respectively, at the end of 2015. The Bank's callable capital at 31 December 2016, stood at UA 60.59 billion including UA 21.79 billion from non-borrowing member countries rated A- and higher, compared with UA 60.60 billion and UA 21.65 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 have become due and remain 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 at 31 December 2016, are shown in the Statement of Subscriptions to the Capital Stock and Voting Powers, which forms part of the Financial Statements included elsewhere in this Report.

Bank Rating

The Bank monitors and manages its key financial strength metrics in a stringent manner to sustain its high international rating. The four leading international rating agencies - Standard and Poor's, Fitch, Moody's, and Japan Credit Rating Agency - reaffirmed their AAA/Aaa rating of the Bank's senior and AA+/Aa1 ratings of its subordinated debts, with a stable outlook. The high ratings underline the Bank's very strong financial position, solid capital adequacy, high level of liquidity prudent financial management and support from shareholders. In 2016, 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 ongoing institutional change and transformation aimed at delivering on the High 5s.

Borrowings

The Bank raises funds from the capital markets to provide cost-effective resources to finance development projects and programs in regional member countries. The top-notch credit ratings enjoyed by the Bank enables it to issue securities at attractive interest rates.

Table 1.1.

Bank Authorized and Subscribed Capital, 2012 - 2016
(in UA millions)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| Authorized Capital | 66,975 | 66,975 | 66,975 | 66,975 | 66,975 |
| Paid-up Capital | 4,963 | 4,962 | 4,865 | 4,884 | 4,897 |
| Callable Capital | 60,252 | 60,248 | 60,268 | 60,598 | 60,589 |
| Total Subscribed Capital | 65,215 | 65,210 | 65,133 | 65,482 | 65,486 |

The 2016 borrowing program was approved by the Board of Directors for a maximum amount of up to UA 6.2 billion to be raised from the debt markets plus an additional envelope of USD 300 million (UA 223 million equivalent) under the Enhanced Private Sector Assistance (EPSA) facility. Following an increase in expected disbursements, the Board of Directors approved a proposal in October 2016 to increase the borrowing program by an amount of UA 2.5 billion, taking the maximum amount to be raised from capital markets to UA 8.7 billion.

As of 31 December 2016, a total amount of UA 7.4 billion had been raised, representing 84.92% of the revised 2016 borrowing program, with a weighted average maturity of 4.3 years.

Targeted efforts were made to canvass new investors and to penetrate new markets throughout the year. Noteworthy was the continued success of the Bank's Global Benchmark program with institutional investors showing strong interest and confidence in the Bank's bond issues. The program was highlighted by the successful launch of an inaugural EUR 750 million 10 year benchmark. This issuance will serve as the anchor point to build out a full EUR curve over time. In addition, five benchmarks of USD 1 billion each were launched in 2016, with each reaching comfortable levels of oversubscription in spite of varying market conditions.

As of 31 December 2016, the Bank's outstanding borrowing portfolio stood at UA 20.64 billion, compared to UA 16.45 billion as of 31 December 2015.

The 2017 borrowing program was approved for a maximum amount of up to UA 6.94 billion to be raised from debt capital markets, plus an additional envelope of up to the Japanese Yen (JPY) equivalent of USD 500 million (UA 372 million equivalent) under the Enhanced Private Sector Assistance (EPSA) facility.

Green Bonds

The Bank launched its green bond program in 2013, targeting Socially Responsible Investors (SRI) across the globe who

wanted to make a difference with their investments by helping to finance climate change solutions in Africa. This was the third year of the program, demonstrating the Bank's continued commitment to supporting climate-smart and low carbon investments on the continent.

In 2016 the Bank issued a new 5.5 year 1.25 billion Swedish Krona (UA 102 million) green bond. The transaction marked the Bank's third appearance in the Swedish green bond market, after having previously issued two Swedish Krona Green Bond transactions in early 2014. The Bank also launched its inaugural Kangaroo Green Bond, a successful Australian Dollar (AUD) 55 million (UA 30 million) 15-year transaction, the third Green Bond issued by a Supranational, Sovereign and Agency (SSA) borrower in the Kangaroo market and the longest SSA Kangaroo Green Bond in that market. The success of these transactions demonstrates the strong support from investors who are committed to supporting Africa's gradual transition to green growth. The total amount of green bonds outstanding (including private placement and uridashi issues) stood at USD 1 billion (UA 744 million) at the end of 2016. More details on the projects being financed by green bond issues can be found on the Bank's dedicated green bond website or in its annual newsletter.

Themed Bonds

In addition to its green bond program and since 2010, the Bank is also active in issuing bonds linked to various social themes including education, food security, infrastructure and water.

With the decision to place a sharper focus on five strategic priorities, the 'High 5s', in 2016 investors were steered towards these new development themes. During the year the Bank issued two bonds under the theme "Improve the quality of life for the people of Africa" for aggregate proceeds of UA 76 million, and also executed a "Feed Africa" themed bond for an amount of UA 36 million. Proceeds of these bond issues were included in the ordinary capital resources of the Bank and under the terms of the bonds, an amount equal to the net proceeds will

Table 1.2.
Overview of Themed Bond Activity in Each Sector
(Amounts in UA millions)

| | Total Bonds Issued | Cumulative Disbursements | Total Bonds Outstanding | Maturity Range of Bonds Issued |
|--|--------------------------|-----------------------------|-------------------------------|--------------------------------------|
| Education | 310.3 | 171.3 | 19.0 | 3 to 6 years |
| Food Security | 134.3 | 93.8 | 134.3 | 3 to 5 years |
| Infrastructure | 143.6 | 1,084.7 | 143.6 | 7 to 10 years |
| Water | 39.5 | 170.4 | - | 4 years |
| Sub-total | 627.7 | 1,520.2 | 296.9 | |
| Improve the quality of life for the people of Africa | 76.0 | 273.9 | 76.0 | 3 to 10 years |
| Feed Africa | 36.0 | 83.2 | 36.0 | 10 years |
| Sub-total* | 112.0 | 357.1 | 112.0 | |
| Total | 739.7 | 1,877.3 | 408.9 | |

* Disbursements for selected list of projects under "Improve the quality of life for the people of African" and "Feed Africa".

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.

Table 1.2 provides a snapshot of the Bank's activity in the sectors financed.

Financial Products

The ADB 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 ADB 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 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 introduces 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 will be 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, unfixed 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 YEN, 6-month EURIBOR for Euro 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, computed every six months, and a contractual spread, that was set at 80 basis points (bps) with effect from 1 September 2016, plus a maturity premium, if applicable. The maturity premium is pegged at 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 includes a commitment fee of 25 bps to be charged on the undisbursed balance of new loans, the introduction of a front end fee of 25 bps on new loans, and an increase in the contractual spread from 60 bps to eighty 80 bps.

For non-sovereign-guaranteed borrowers the loan product offered 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 or a fixed base rate plus a risk-based credit spread. NSGLs have a repayment period of 15 years including a grace period not exceeding 5 years.

Other loan structures offered by the Bank include parallel and A/B loan syndications, and local currency loans. The Bank can also 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. These local currency 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 Small and Medium-size Enterprises (SMEs) sector 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. 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

Through the guarantee product, the Bank seeks to leverage its preferred creditor status to assist eligible borrowers to obtain financing from third party private lenders, including via the capital markets. Guarantees also enable borrowers to obtain financing in their own local currency where the Bank is not able to provide such financing directly from its own resources. 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 repayments of private loans or bonds against all risks. PRGs cover private lenders against the risk of a government, or a government owned agency, failing to perform its obligations vis-à-vis a private 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 finance 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 Trade Finance Program (TFP) of up to USD 1 billion for a four-year initial phase, to address the shortage of trade finance for Regional Member Countries (RMCs) and to address the structural gap between the demand for trade finance and the market supply through

provision of liquidity and risk mitigation solutions to financial institutions actively involved in trade finance in Africa.

The TFP provides to eligible clients, funded and unfunded products including: (a) Risk Participation Agreements (RPAs), (b) Trade Finance Lines of Credit (TFLOCs), and (c) Soft Commodity Finance Facilities (SCFFs). 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).

Risk Participation Agreement

The Risk Participation Agreement (RPA) is both a funded and a 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.

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 will be used to finance exclusively trade-related transactions in RMCs. Trade transactions financed by TFLOC include, among others, pre-shipment and post-shipment financing, capital expenditure, letters of credit discounting, factoring/forfeiting, 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.

Soft Commodity Finance Facility (SCFF)

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 (TFP)

The financial performance of the program in 2016 was above budget in all measures, and demand for trade interventions from

RMCs remains strong. Going forward, in order to consolidate the TFP into the Bank's operations as a core activity rather than as a program with a sunset clause, the following changes aimed at increasing both the size and product suite have been introduced:

- a) Utilisation of the current TFP limit of USD 1 billion for guarantee products only. The funded trade finance instruments are to be treated like the other lending instruments in terms of allocation of funds for non-sovereign operations.
- b) Introduction of the following new products to meet the ever evolving clients' needs: (i) direct guarantees that provide 100 percent risk cover for single transactions; (ii) supply and value chain financing; and (iii) Risk Distribution Agreements (RDAs) 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 through grant 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 environment 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 capacity to assume credit risks 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.

The Bank entered Exposure Exchange Agreements (EEAs) 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 2016, the total outstanding notional 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 3.33 billion). No default events have occurred on any exposures covered under these exposure exchanges, and the Bank continues to expect full recovery of its sovereign and sovereign-guaranteed exposures. It is noteworthy that Standard and Poor's in the course of their 2016 annual rating exercise confirmed, the efficacy of the MDB exposure exchange in improving the Bank's risk-adjusted capital adequacy ratio.

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 developed in 2012, which is regularly updated based on the evolving risk profile of the Bank's operations.

The policies and practices employed by the Bank to manage these risks are described in detail in Note D to the Financial Statements, included in the 2016 Financial Report.

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 (AUF) Committee of the Board of Directors.

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 Bank rules, no firm of auditors can serve for more than two consecutive five-year terms. In this regard the incumbent auditors are serving their final term with the completion of the 2016 audit and the process of recruiting new auditors has been completed with their formal approval expected 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 AUF 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.

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 Organization of Economic Cooperation and Development (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. From the indicators, the leverage ratio as measured by debt to usable capital ratio, increased during 2016 due to the Bank's increased presence in the debt markets. Management also adopted a more conservative stance in its loan loss provisioning for the year.

Table 1.3.

Key Financial Performance Indicators (KPI) : 2016 and 2015

| Definition | Importance to the business and management | Achievement | |
|--|---|--------------------------------|--------------------------------|
| | | 2016 | 2015 |
| 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. | 1.45% | 1.42% |
| 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. | 73.17% | 58.47% |
| 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. | 0.09% | 0.16% |
| 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. | 4.91% | 3.92% |

FINANCIAL RESULTS

In 2016, the Bank earned income before allocation and distributions approved by the Board of Governors of UA 120.07 million, compared with UA 93.16 million in 2015. This increase is primarily due to the combined effect of higher interest realized on increased volumes of loans and investments and realized gains on treasury investments. The gain on treasury investments derived from the disposal of treasury investments previously held at amortized cost necessitated by the need to rebalance the currency composition of the Bank's assets in 2016 following the inclusion of the Chinese Yuan Renminbi (CNY) in the currency basket, with effect from 1 October 2016.

Adjusted for the effects of the fair valuation of borrowings and derivatives, income before allocation and distributions amounted to UA 188.11 million for 2016, compared to UA 142.68 million in 2015.

The net interest margin fell in 2016, largely due to a reduction in the performance of treasury investments. Interest income from loans increased by 16.40 percent to UA 350.50 million in 2016 from UA 301.11 million in 2015. The treasury portfolio continued to perform above its set benchmarks. Overall, net interest income increased by 5.91 percent during the year driven largely by the higher average gross earning assets which increased by 14.36 percent during the year.

Total Bank Group administrative expenses increased by 5.86 percent to UA 342.26 million in 2016 from UA 323.30 million in 2015, primarily due to higher operational expenses. Total manpower expenses, excluding actuarial valuation effects of benefit plans, increased by UA 10.70 million (4.65 percent)—from UA 229.87 million in 2015 to UA 240.57 million in 2016. The

Bank's share of the total Bank Group's administrative expenses amounted to UA 130.06 million for 2016, compared with UA 122 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, stood at UA 3.26 billion at the end of 2016 compared to UA 3.35 billion at the end of 2015.

Distributions Approved by the Board of Governors

In 2016, the Board of Governors approved distributions of UA 95 million from 2015 income to various development initiatives in Africa. The beneficiaries of these distributions are listed in Note N 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 approved a transfer of UA 115 million from the 2015 income into reserves. This transfer, which significantly improves the equity, represents a record level of retained earnings appropriated by the Bank in recent years. The Boards of Directors have also agreed to recommend to the Board of Governors, at its Annual Meeting in May 2017, distributions totaling UA 82 million from 2016 income to 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 2017 will be

reported as expenses in the 2017 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 2016, the Bank Group's general administrative expenses, excluding charges for depreciation and amortization, were UA 342.26 million, up from UA 323.30 million in 2015. For 2017 the Bank Group's administrative expenditure is budgeted at UA 368.35 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.

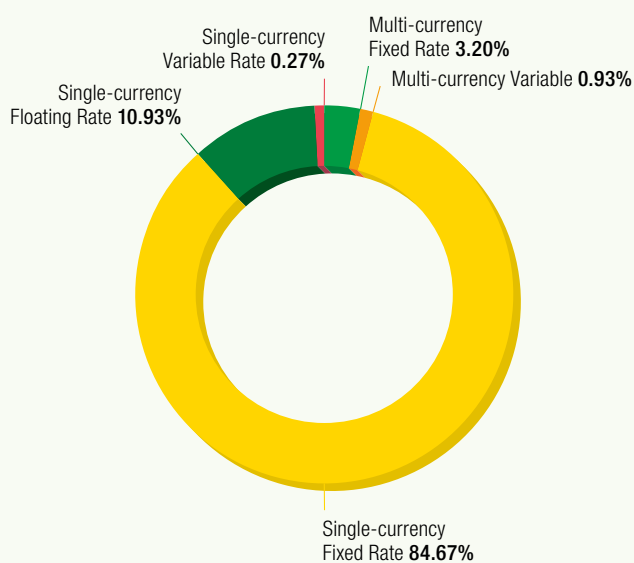
Investments

The ADB's liquid assets are tranching 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 London Interbank Bid Rate (LIBID) for the operational portfolio, and 6-month marked-to-market LIBOR, resetting on 1 February and 1 August 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 2016, consistent with a frequently changing global financial market environment which has been characterized by low interest rates. 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. As a result, the credit quality and liquidity profile of the Bank's investments remains very strong.

Despite periods of heightened volatility in 2016, which were triggered by political events such as the United Kingdom (UK) referendum on its European Union (EU) membership and the United States (US) Presidential elections, the overall impact on

Figure 1.1.
Outstanding Loan Portfolio by Product Type at 31 December 2016 (Percentages)



returns remained limited. In addition, market conditions improved in the second half of the year benefitting investment returns.

The Bank's cash and treasury investments (net of repurchase agreements) as of 31 December 2016 totaled UA 11.90 billion, compared to UA 9.61 billion at the end of 2015. Investment income for 2016 amounted to UA 155.71 million or a return of 1.37 percent on an average liquidity of UA 11.37 billion (compared to an income of UA 122.21 million, or a return of 1.36 percent, on an average liquidity of UA 8.97 billion in 2015). Overall, the portfolios at fair value outperformed their average benchmarks in the key currencies during the year. The higher return in 2016 compared to 2015 was a result of improving market conditions during the second half of the year and the onset of a steady rise of U.S. Dollar interest rates driven by the Federal Reserve's increase in policy rates. In addition, the Bank benefited from a one-off windfall of UA 27.45 million generated from the sale of held-at-amortized costs assets. These were undertaken as part of the Bank's asset and liability management re-alignment strategy triggered by the Chinese Yuan Renminbi inclusion in the Special Drawing Rights (SDR) basket. In line with the applicable standards the realized gains were accounted for separately in the results for the year.

Table 1.4.
Lending Status, 2012-2016
(UA millions)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|----------|----------|----------|----------|----------|
| Loans Approved* | 1,801.47 | 1,705.04 | 3,052.29 | 4,373.44 | 6,108.04 |
| Disbursements | 2,208.17 | 1,430.78 | 1,938.53 | 1,619.17 | 3,221.75 |
| Undisbursed Balances | 4,463.23 | 4,490.13 | 3,751.22 | 4,640.60 | 6,804.44 |

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

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 Chinese Yuan 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.

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 2016 amounted to UA 40.56 billion. This represents an increase of UA 6.09 billion over the balance at 31 December 2015 which stood at UA 34.47 billion. Table 1.4 presents the evolution of loans approved, disbursed and undisbursed balances from 2012 to 2016.

Total disbursed and outstanding loans as at 31 December 2016 was UA 15.35 billion, representing an increase of UA 2.28 billion over the UA 13.07 billion outstanding as at the end of 2015. Undisbursed balances of signed loans at 31 December 2016 totaled UA 6.80 billion, which is an increase of UA 2.16 billion over the UA 4.64 billion undisbursed loans at 31 December 2015.

The number of active loans as at 31 December 2016 was 400 while 724 loans amounting to UA 14.15 billion had been fully repaid. A breakdown of the outstanding loan portfolio by product type is presented in Figure 1.1.

Disbursements

Loan disbursements during 2016 amounted to UA 3.22 billion, compared to UA 1.62 billion in 2015. At 31 December 2016, cumulative disbursements (including non-sovereign loans) amounted to UA 33.75 billion. A total of 948 loans were fully disbursed amounting to UA 29.84 billion, representing 88.40 percent of cumulative disbursements. Loan disbursements in 2016 by country are shown in Table 1.5.

Repayments

Principal loan repayments amounted to UA 1.31 billion in 2016 compared to UA 0.93 billion realized in 2015, representing an increase of 41.28 percent over the previous year. Cumulative repayments as of 31 December 2016, were UA 18.81 billion compared to UA 16.81 billion at 31 December 2015. Figure 1.2 shows the evolution of loan disbursements and repayments for the period, 2012-2016.

Outlook for 2017

The Bank is expected to be impacted by the continuing turbulence in the global financial markets given the sensitivity of its financial results to changes in these domains. The diligent monitoring of their impacts on the volume of the Bank's lending

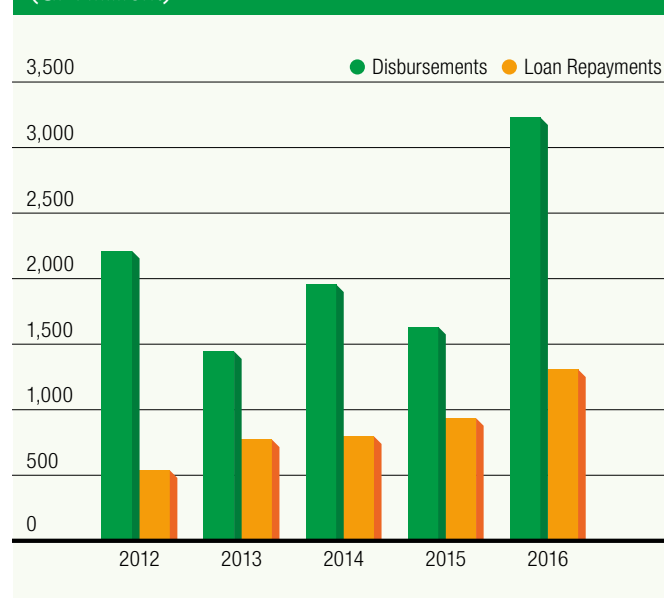
Table 1.5.

Loan Disbursements by Country in 2016 (UA millions)

| Country | Amount disbursed |
|------------------------------|------------------|
| Algeria | 707.55 |
| Angola | 287.21 |
| Botswana | 3.33 |
| Cabo Verde | 3.20 |
| Cameroon | 0.33 |
| Côte d'Ivoire | 43.47 |
| Democratic Republic of Congo | 9.15 |
| Egypt | 467.30 |
| Equatorial Guinea | 6.51 |
| Ethiopia | 0.29 |
| Ghana | 10.76 |
| Kenya | 108.32 |
| Mauritania | 2.58 |
| Mauritius | 57.45 |
| Morocco | 361.97 |
| Mozambique | 1.65 |
| Namibia | 145.19 |
| Niger | 2.35 |
| Nigeria | 142.41 |
| Rwanda | 8.99 |
| Senegal | 16.12 |
| Seychelles | 7.25 |
| South Africa | 216.22 |
| Swaziland | 3.85 |
| Tanzania | 14.66 |
| Tunisia | 412.94 |
| Uganda | 0.94 |
| Zambia | 20.28 |
| Multinational | 159.48 |
| TOTAL | 3,221.75 |

Figure 1.2.

Loan Disbursements and Repayments, 2012-2016 (UA millions)



and the timing of repayment of its loans in 2017 and beyond, is critical if it 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, including infrastructure development, regional integration, private sector development, governance and accountability, and skills and technology provides the Bank with a unifying framework under the High 5s for the effective delivery of its operational activities in the coming year and beyond.

The year 2016 was the first full year of operations following the completion of the Bank's move back to its statutory headquarters in Abidjan, Côte d'Ivoire. The completion of the move 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 move 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 move. A positive consequence of this is that the achievement of the target cost to income ratio of 30% will be possible in the medium term.

Managing Investment Performance in a Context of Political Uncertainty

The Bank's borrowing and investment activities during the year were undertaken amidst a series of unexpected political outcomes which generated temporary periods of volatility in the financial markets. Nevertheless, overall financial market conditions steadily improved over the year as the effect of each shock progressively faded.

The year started amid greater tensions in financial markets caused by fears of turmoil in emerging markets following the Federal Reserve policy rate increase in December 2015. This is because the onset of a rise in U.S. Dollar interest rates in the past had triggered a debt crisis in emerging markets impacting financial markets globally. In addition, lower than expected economic data in China compounded fears of a slowdown in the

economy, sparking a sharp drop in the Chinese stock markets. Chinese authorities intervened to calm domestic markets by instating trading curbs including short-sell bans. Another key element of the weakness in markets at the early part of the year was the slumping oil price which dropped to its lowest level in 13 years. Nevertheless, as the Bank of Japan and the European Central Bank stepped up monetary easing efforts and expectations of the Federal Reserve's pace of interest rate normalisation was revised down, volatility in financial markets abated. A tightening in credit spreads ensued by the second quarter of the year.

Towards the second half of the year, the UK's vote to leave the EU came as a genuine shock for markets given that investors had been confident that the status quo would prevail. However, global uncertainties diminished to some degree following the Bank of England's subsequent revival of quantitative easing and data releases from the UK that highlighted economic resilience post-Brexit. Similarly, recent elections in the US and Italy's No vote to the reforms proposed under its constitutional referendum created short-term volatility in the financial markets, but credit spreads tightened shortly thereafter. In light of persistently low inflation, global central banks continued to employ extremely accommodative monetary policies. A notable exception was the Federal Reserve, which continued tightening monetary policy, increasing rates in December for the first time from the same month last year.

Interest rates remained low across the developed world, but have been on an upward trend since the last quarter of 2016, enhancing the returns on the Bank's treasury investment portfolios. Furthermore, lower levels of credit spreads had a positive impact on investment income. Given the volatile global market, the Bank maintained a conservative investment strategy, prioritizing capital preservation and liquidity. Accordingly, the Bank targeted high quality liquid assets with shorter maturities, with a focus on secured investments where possible. As a result, the credit quality and liquidity profile of the Bank's investment remains very strong, whilst volatility of returns is limited.

African Development Bank

Financial Statements

Year ended 31 December 2016

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Balance sheet

as at 31 December 2016

(UA thousands – Note B)

| ASSETS | 2016 | 2015 |
|---|-------------------|-------------------|
| CASH | 1,306,821 | 1,214,608 |
| DEMAND OBLIGATIONS | 3,801 | 3,801 |
| TREASURY INVESTMENTS (Note F) | 10,590,041 | 8,392,261 |
| DERIVATIVE ASSETS (Note G) | 1,233,748 | 1,454,625 |
| NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL (Note H) | 159 | 271 |
| ACCOUNTS RECEIVABLE | | |
| Accrued income and charges receivable on loans (Note I) | 233,493 | 196,979 |
| Other accounts receivable | 310,340 | 292,558 |
| | 543,833 | 489,537 |
| DEVELOPMENT FINANCING ACTIVITIES | | |
| Loans, net (Notes D & I) | 15,097,024 | 12,868,547 |
| Hedged loans – Fair value adjustment (Note G) | 80,230 | 79,837 |
| Equity participations (Note J) | 719,375 | 703,268 |
| Other securities (Note K) | 54,358 | 46,423 |
| | 15,950,987 | 13,698,075 |
| OTHER ASSETS | | |
| Property, equipment and intangible assets (Note L) | 97,042 | 92,828 |
| Miscellaneous | 648 | 731 |
| | 97,690 | 93,559 |
| TOTAL ASSETS | 29,727,080 | 25,346,737 |

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

| LIABILITIES & EQUITY | 2016 | 2015 |
|--|-------------------|-------------------|
| ACCOUNTS PAYABLE | | |
| Accrued financial charges | 216,430 | 177,155 |
| Other accounts payable | 1,399,558 | 1,155,228 |
| | 1,615,988 | 1,332,383 |
| DERIVATIVE LIABILITIES (Note G) | 861,274 | 1,084,992 |
| BORROWINGS (Note M) | | |
| Borrowings at fair value | 20,007,612 | 15,851,251 |
| Borrowings at amortized cost | 636,538 | 598,014 |
| | 20,644,150 | 16,449,265 |
| EQUITY (Note N) | | |
| Capital | | |
| Subscriptions paid | 4,019,875 | 3,727,691 |
| Cumulative Exchange Adjustment on Subscriptions (CEAS) | (161,044) | (168,842) |
| Subscriptions paid (net of CEAS) | 3,858,831 | 3,558,849 |
| Reserves | 2,746,837 | 2,921,248 |
| Total equity | 6,605,668 | 6,480,097 |
| TOTAL LIABILITIES & EQUITY | 29,727,080 | 25,346,737 |

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

Income statement for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|---|---------------|-----------------|
| OPERATIONAL INCOME & EXPENSES | | |
| Income from: | | |
| Loans and related derivatives (Note O) | 369,188 | 314,771 |
| Investments and related derivatives (Note O) | 155,707 | 122,213 |
| Equity investments (Dividends) | 7,343 | 15,050 |
| Other securities | 3,777 | 3,734 |
| Total income from loans and investments | 536,015 | 455,768 |
| Gain on sale of investments at amortized cost (Note O) | 27,451 | - |
| Borrowing expenses (Note P) | | |
| Interest and amortized issuance costs | (373,052) | (346,134) |
| Net interest on borrowing-related derivatives | 196,261 | 217,620 |
| Losses on borrowings, related derivatives and others | (68,044) | (49,516) |
| Net impairment charge (Note I) | | |
| Loan principal | (43,777) | (51,577) |
| Loan charges | (24,033) | (13,848) |
| Provision for impairment on equity investments (Note J) | 156 | 433 |
| Translation gains | 998 | 14,605 |
| Other income | 9,514 | 2,301 |
| Net operational income | 261,489 | 229,652 |
| OTHER EXPENSES | | |
| Administrative expenses (Note Q) | (130,060) | (121,999) |
| Depreciation – Property, equipment and intangible assets (Note L) | (10,035) | (9,052) |
| Sundry expenses | (1,324) | (5,441) |
| Total other expenses | (141,419) | (136,492) |
| Income before distributions approved by the Board of Governors | 120,070 | 93,160 |
| Distributions of income approved by the Board of Governors (Note N) | (95,000) | (124,000) |
| NET INCOME/(LOSS) FOR THE YEAR | 25,070 | (30,840) |

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

Statement of comprehensive income for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|---|------------------|----------------|
| NET INCOME/(LOSS) FOR THE YEAR | 25,070 | (30,840) |
| 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” | (11,911) | 38,214 |
| Unrealized (losses)/gains on fair-valued borrowings arising from “own credit” | (13,105) | 73,058 |
| Remeasurements of defined benefit liability | (174,465) | 25,496 |
| Total items that will not be reclassified to profit or loss | (199,481) | 136,768 |
| Total other comprehensive income | (199,481) | 136,768 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | (174,411) | 105,928 |

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

Statement of changes in equity for the year ended 31 December 2016 (UA thousands – Note B)

| | | | | Reserves | | | |
|---|----------------------------------|--|----------------------|---|---|--|------------------|
| | Capital Subscriptions Paid | Cumulative Exchange Adjustment on Subscriptions | Retained Earnings | Remeasure- ments of Defined Benefit Liability | Net Gains/ Losses on Financial Assets at Fair Value through Other Comprehensive Income | Unrealized Gains/(Losses) on Fair-Valued Borrowings Arising from "Own Credit" | Total Equity |
| BALANCE AT 1 JANUARY 2015 | 3,438,232 | (173,538) | 2,996,435 | (274,858) | 63,321 | 30,422 | 6,080,014 |
| Net loss for the year | - | - | (30,840) | - | - | - | (30,840) |
| Other comprehensive income | | | | | | | |
| Net gains on financial assets at fair value through "other comprehensive income" | - | - | - | - | 38,214 | - | 38,214 |
| Unrealized gains on fair-valued borrowings arising from "own credit" | - | - | - | - | - | 73,058 | 73,058 |
| Remeasurement of defined benefit liability | - | - | - | 25,496 | - | - | 25,496 |
| Total other comprehensive income | - | - | - | 25,496 | 38,214 | 73,058 | 136,768 |
| Net increase in paid-up capital | 289,459 | - | - | - | - | - | 289,459 |
| Net conversion gains on new subscriptions | - | 4,696 | - | - | - | - | 4,696 |
| BALANCE AT 31 DECEMBER 2015 AND 1 JANUARY 2016 | 3,727,691 | (168,842) | 2,965,595 | (249,362) | 101,535 | 103,480 | 6,480,097 |
| Net income for the year | - | - | 25,070 | - | - | - | 25,070 |
| Other comprehensive income | | | | | | | |
| Net losses on financial assets at fair value through "other comprehensive income" | - | - | - | - | (11,911) | - | (11,911) |
| Unrealized losses on fair-valued borrowings arising from "own credit" | - | - | - | - | - | (13,105) | (13,105) |
| Remeasurement of defined benefit liability | - | - | - | (174,465) | - | - | (174,465) |
| Total other comprehensive income | - | - | - | (174,465) | (11,911) | (13,105) | (199,481) |
| Net increase in paid-up capital | 292,184 | - | - | - | - | - | 292,184 |
| Net conversion gains on new subscriptions | - | 7,798 | - | - | - | - | 7,798 |
| BALANCE AT 31 DECEMBER 2016 | 4,019,875 | (161,044) | 2,990,665 | (423,827) | 89,624 | 90,375 | 6,605,668 |

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

Statement of cash flows for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|--|------------------|------------------|
| CASH FLOWS FROM: | | |
| OPERATING ACTIVITIES: | | |
| Net income/(loss) | 25,070 | (30,840) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 10,035 | 9,052 |
| Provision for impairment on loan principal and charges | 67,810 | 65,425 |
| Unrealized losses on investments and related derivatives | 7,336 | 32,290 |
| Amortization of premium or discount on treasury investments at amortized cost | (1,940) | 3,902 |
| Provision for impairment on equity investments | (156) | (433) |
| Amortization of borrowing issuance costs | 20,294 | (14,129) |
| Unrealized losses on borrowings, related derivatives and others | 56,308 | 65,443 |
| Translation gains | (998) | (14,605) |
| Share of profits in associate | 302 | 394 |
| Net movements in derivatives | 10,468 | 27,618 |
| Changes in accrued income on loans | (67,392) | (9,247) |
| Changes in accrued financial charges | 39,275 | (84,407) |
| Net change in reverse repurchase agreements and cash collateral on securities borrowed | - | (394,806) |
| Changes in other receivables and payables | 20,287 | 414,026 |
| Net cash provided by operating activities | 186,699 | 69,683 |
| INVESTING, LENDING AND DEVELOPMENT ACTIVITIES: | | |
| Disbursements on loans | (3,221,752) | (1,619,171) |
| Repayments of loans | 1,311,008 | 927,930 |
| Investments maturing after 3 months of acquisition: | | |
| Investments at amortized cost | (398,069) | (208,427) |
| Investments at fair value through profit and loss | (2,139,283) | 234,559 |
| Acquisition of fixed assets | (14,258) | (23,740) |
| Disposal of fixed assets | 63 | 695 |
| Disbursements on equity participations | (53,224) | (76,238) |
| Repayments on equity participations | 12,844 | 17,400 |
| Net cash used in investing, lending and development activities | (4,502,671) | (746,992) |
| FINANCING ACTIVITIES: | | |
| New borrowings | 7,379,755 | 5,484,651 |
| Repayments on borrowings | (3,729,050) | (3,312,314) |
| Cash from capital subscriptions | 299,983 | 294,155 |
| Net cash provided by financing activities | 3,950,688 | 2,466,492 |
| Effect of exchange rate changes on cash and cash equivalents | (2,723) | (35,989) |
| (Decrease)/increase in cash and cash equivalents | (368,007) | 1,753,194 |
| Cash and cash equivalents at the beginning of the year | 2,403,875 | 650,681 |
| Cash and cash equivalents at the end of the year | 2,035,868 | 2,403,875 |
| COMPOSED OF: | | |
| Investments maturing within 3 months of acquisition: | | |
| Investments at fair value through profit and loss | 729,047 | 1,189,267 |
| Cash | 1,306,821 | 1,214,608 |
| Cash and cash equivalents at the end of the year | 2,035,868 | 2,403,875 |
| SUPPLEMENTARY DISCLOSURE: | | |
| 1. Operational cash flows from interest and dividends: | | |
| Interest paid | (137,516) | (250,322) |
| Interest received | 521,567 | 488,793 |
| Dividend received | 7,343 | 15,050 |
| 2. Movement resulting from exchange rate fluctuations: | | |
| Loans | (347,432) | 281,278 |
| Borrowings | 573,930 | (64,417) |
| Currency swaps | (71,700) | (151,274) |

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

Notes to the financial statements

Year ended 31 December 2016

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. The related transactions were executed in October 2016 using spot currency exchange.

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 2016 and 2015 are reported in Note V-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 results 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 2016, 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 R – 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)

Debt instruments 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, debt instruments 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 2016, 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

Assets Carried at Amortized Cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, that asset is included in a group of financial assets with similar credit characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. 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 Bank determines that there is objective evidence that an impairment loss on loans and receivables or investments carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For sovereign-guaranteed loans, the estimated impairment representing present value losses arises from delays that may be experienced in receiving amounts due. For non-sovereign-guaranteed loans, the impairment reflects management's best estimate of the non-collectability, in whole or in part, of amounts due as well as delays in the receipt of such amounts.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or investment carried 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. Interest and charges are accrued on all loans including those in arrears. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or 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 more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little 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 categorised 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. For equity investments in unlisted entities the fair value is assessed using appropriate methods, which maximize the use of relevant observable inputs for example, discounted cash flows.

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 reported in these financial statements for disclosure purposes only 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. The estimated fair value of loans is disclosed in Note I.

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 the 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 2016, 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.

2) Significant Estimates

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

Impairment Losses on Financial Assets Measured at Amortized Cost – At each financial statements reporting date, the Bank reviews its financial assets measured at amortized cost for impairment. The Bank first assesses whether objective evidence of impairment exists for individual assets. If such objective evidence exists, impairment is determined by discounting expected future cash flows using the asset's original effective interest rate and comparing this amount to the asset's net carrying amount. Determining the amount and timing of future cash flows on impaired assets requires significant judgment. If the Bank determines that no objective evidence of impairment exists for an individually assessed asset, that asset is included in a group of assets with similar credit characteristics and collectively assessed for impairment. Objective evidence of impairment for a group of assets may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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 at the end of the year of high-quality corporate bonds in the currencies comprising the Bank's UA, and the estimates for the other variables are based on the bank 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

Standards, Amendments and Interpretations issued but not yet effective

At the date of issue of these financial statements, various International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) were not yet effective for application and had not been applied in preparing these financial statements. The new standards which are expected to be relevant to the Bank are discussed briefly below:

IFRS 15: Revenues from Contracts with Customers

IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018. It specifies how and when entities should recognize revenue from contracts with customers as well as the required disclosures in the financial statements. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

The Bank has determined that the standard is not applicable to its operations as its contracts with customers are accounted for under IFRS 9.

IFRS 9: Financial Instruments

The Bank has already adopted phase 1 of the IFRS 9 with effect from 1 January 2011. Phase 2, which is the final version of IFRS 9 was issued on 24 July 2014 and is effective for annual periods beginning on or after 1 January 2018. The revisions in the final phase of this standard introduce a third classification and measurement category for financial assets, namely fair value through OCI, some revisions to hedge accounting and replacement of the incurred loss model in IAS 39 with the expected credit loss impairment model. The final standard also includes the guidance for financial liabilities, as previously issued to the effect that there is no subsequent recycling of realized gains or losses on “own credit” from OCI to profit and loss.

The Bank has embarked on an IFRS 9 implementation program which is expected to be completed by end 2017. The Bank continues to assess the impact that adoption will have on its financial position and performance and will quantify the impact of IFRS 9, when it is practicable to provide reliable estimates.

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 for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

Preliminary indications are that the new standard will affect the Bank. However, the full impact on the financial position and performance is still being assessed.

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 critical to 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 profiles 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) 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, operational 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 capital adequacy policy and its commitment to maintain a prudent risk profile

consistent with the highest credit rating. The Bank allocates its risk capital between non-core risks (10 percent), with sovereign and non-sovereign 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 Capital Adequacy Policy, the General Authority on Asset Liability Management (the ALM Authority), the General Authority on the Bank's Financial Products and Services (the FPS Authority) and the Bank's 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 operations.

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 the largest source of risk for the Bank arising essentially from its 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 and enclave projects; 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 2016 and 2015 is as follows:

(UA thousands)

| Assets | 2016 | 2015 |
|--|-------------|-------------|
| Cash | 1,306,821 | 1,214,608 |
| Demand obligations | 3,801 | 3,801 |
| Treasury investments at amortized cost | 4,476,613 | 3,957,896 |
| Treasury investments at fair value | 6,113,428 | 4,434,365 |
| Derivative assets | 1,233,748 | 1,454,625 |
| Non-negotiable instruments on account of capital | 159 | 271 |
| Accrued income and charges receivable on loans | 492,951 | 425,559 |
| Other accounts receivable | 337,063 | 320,213 |
| Loans | 15,348,447 | 13,070,393 |
| Equity participations | 767,256 | 751,306 |
| Other debt securities | 54,358 | 46,423 |

1) Sovereign Credit Risk

When the Bank lends to public sector borrowers, 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 and the conduciveness of its business environment.

Country Exposure in Borrowing Member Countries

The Bank's exposures as at 31 December 2016 to borrowing member countries as well as the private sector and enclave projects from its lending activities are summarized below:

(Amounts in UA thousands)

| Country | N° of Loans | Total Loans* | Unsigned Loan Amounts | Undisbursed Balance | Outstanding Balance | % of Total Outstanding Loans |
|------------------------------|-------------|-------------------|-----------------------|---------------------|---------------------|------------------------------|
| Algeria | 1 | 705,694 | - | - | 705,694 | 4.60 |
| Angola | 5 | 1,163,123 | 241,756 | 176,937 | 744,430 | 4.85 |
| Botswana | 4 | 1,018,873 | 59,182 | 13,830 | 945,861 | 6.16 |
| Cabo Verde | 8 | 124,568 | - | 41,500 | 83,068 | 0.54 |
| Cameroon | 7 | 516,848 | 222,964 | 279,216 | 14,668 | 0.10 |
| Congo | 3 | 151,499 | - | 151,499 | - | - |
| Côte d'Ivoire | 2 | 294,306 | 186,241 | 108,065 | - | - |
| Democratic Republic of Congo | 6 | 365,310 | - | - | 365,310 | 2.38 |
| Egypt | 15 | 2,082,669 | - | 534,218 | 1,548,451 | 10.09 |
| Equatorial Guinea | 3 | 55,724 | - | 39,320 | 16,404 | 0.10 |
| Ethiopia | 2 | 134,431 | - | 134,131 | 300 | 0.00 |
| Gabon | 7 | 263,452 | 66,359 | - | 197,093 | 1.28 |
| Kenya | 4 | 582,727 | 283,555 | 298,214 | 958 | 0.01 |
| Mauritius | 9 | 467,112 | - | 64,937 | 402,175 | 2.62 |
| Morocco | 59 | 3,553,879 | 65,503 | 795,150 | 2,693,226 | 17.55 |
| Namibia | 6 | 422,133 | - | 173,687 | 248,446 | 1.62 |
| Nigeria | 8 | 1,514,297 | 297,546 | 928,460 | 288,291 | 1.88 |
| Rwanda | 1 | 55,396 | - | 48,286 | 7,110 | 0.05 |
| Senegal | 3 | 193,493 | 50,967 | 142,265 | 261 | 0.00 |
| Seychelles | 5 | 47,859 | - | 15,190 | 32,669 | 0.21 |
| Somalia** | 3 | 4,335 | - | - | 4,335 | 0.03 |
| South Africa | 8 | 1,702,729 | - | 413,369 | 1,289,360 | 8.40 |
| Sudan** | 4 | 54,484 | - | - | 54,484 | 0.35 |
| Swaziland | 8 | 115,676 | - | 93,236 | 22,440 | 0.15 |
| Tanzania | 3 | 380,872 | - | 380,356 | 516 | 0.00 |
| Tunisia | 38 | 2,548,496 | - | 393,988 | 2,154,508 | 14.04 |
| Uganda | 3 | 194,074 | - | 192,969 | 1,105 | 0.01 |
| Zambia | 8 | 379,591 | 114,785 | 261,335 | 3,471 | 0.02 |
| Zimbabwe** | 12 | 203,631 | - | - | 203,631 | 1.33 |
| Multinational | 4 | 115,092 | 107,116 | - | 7,976 | 0.05 |
| Total Public Sector | 249 | 19,412,373 | 1,695,974 | 5,680,158 | 12,036,241 | 78.42 |
| Total Private Sector | 151 | 5,908,371 | 1,471,886 | 1,124,279 | 3,312,206 | 21.58 |
| Total | 400 | 25,320,744 | 3,167,860 | 6,804,437 | 15,348,447 | 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 2016.

(1) 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 2016, 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 401.04 million of which UA 124.26 million related to trade finance as at 31 December 2016.

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, 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. Following a default, the seller pays compensation to the buyer for part of the unpaid interest, based on the EEA amount for the country in default at the interest rate stipulated in the agreement, currently set at USD six-month LIBOR plus 0.75 percent. The seller is only required to make principal payments to the buyer when the EEA buyer writes off or restructures part, or all, of the loans in the reference portfolio. Any principal payment made reduces the EEA amount and the coverage of the EEA for the country for which the write-off/restructuring occurs. Experience shows that MDBs hardly ever write off arrears as the said arrears always ultimately get settled. Interest payments and principal, where applicable, are made on a semi-annual basis and cannot exceed contractual payments related to the loans that are in default.

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 2016, the total notional amount of credit protection purchased or sold on the relevant underlying single reference entities is USD 4.47 billion (UA 3.33 billion). The participating MDBs have paid no credit protection fee (i.e. guarantee premium) as the amount of exposure exchanged - purchased and sold - are notionally the same at inception.

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 2016, 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 exposure exchange, is managed and mitigated by the Bank through its robust risk management mechanisms and frameworks.

The Private Sector Credit Enhancement Facility (PSFs)

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.

Systematic Credit Risk Assessment

The foundation of the Bank's credit risk management is a systematic credit risk assessment framework, through underlying models and their associated risk factors that have been optimized to ensure more predictive power of the rating parameters and to better align with widely-used rating scales and ensure consistency with best practices. The credit risk assessment is measured using a uniform internal 22-grade master scale, optimized to provide: (i) increased granularity; (ii) better differentiation between obligors; (iii) smoother grade distribution to alleviate the current grade concentration; and finally (iv) to create a common framework when communicating credit risks to risks takers. The level of granularity helps in measuring probabilities of default in order to better differentiate between obligors.

The credit ratings at the sovereign level are derived from a risk assessment of five risk indices that include 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:

| Risk Class | Revised Rating Scale | International Ratings | | Assessment |
|----------------|----------------------|-----------------------|--------------|-------------------|
| | | S&P – Fitch | Moody's | |
| Very Low Risk | 1+ | A+ and above | A1 and above | Excellent |
| | 1 | A | A2 | |
| | 1- | A- | A3 | |
| | 2+ | BBB+ | Baa1 | Strong |
| | 2 | BBB | Baa2 | |
| Low Risk | 2- | BBB- | Baa3 | |
| | 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 |

Portfolio Risk Monitoring

The weighted average risk rating of the Bank's sovereign and sovereign-guaranteed portfolio was 2.74 at the end of December 2016, compared to 2.63 as of 31 December 2015. The distribution of the sovereign portfolio across the Bank's five risk classes is shown in the table below:

| | Risk Profile of Outstanding Sovereign-Guaranteed Loan Portfolio | | | | |
|------|---|----------|---------------|-----------|----------------|
| | Very Low Risk | Low Risk | Moderate Risk | High Risk | Very High Risk |
| 2016 | 59% | 15% | 22% | 4% | - |
| 2015 | 61% | 15% | 19% | 5% | - |
| 2014 | 54% | 27% | 12% | 7% | - |
| 2013 | 54% | 24% | 12% | 9% | 1% |
| 2012 | 73% | 15% | 1% | 10% | 1% |
| 2011 | 70% | 15% | 1% | 13% | 1% |

It is the Bank's policy that if the payment of principal, interest or other charges with respect to any Bank Group 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 incurred loss in such portfolio.

To cover potential Expected Losses (EL) and Unexpected Losses (UL) 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 2016, the Bank's public sector loan portfolio used up to 42 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". Callable capital is not included in the computation of risk capital.

2) Non-Sovereign Credit Risk

When the Bank lends to private sector borrowers and to enclave projects, 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 assess the credit risk of non-sovereign projects or facilities, the Bank uses several models to assess the risk of every project at entry. The models are tailored to the specific characteristics and nature of the transactions. The result of the credit risk assessment is measured using a uniform internal 22-grade master scale as described above.

Non-sovereign transactions are grouped into the following three main categories: a) project finance; b) financial institutions; and c) private equity funds. Internal credit ratings are derived on the basis of pre-determined critical factors.

a) Project Finance

The first factor involves the overall evaluation and assessment of the borrower's financial strength. This assesses:

Primarily, i) the capacity of the project to generate sufficient cash flow to service its debt; ii) the company's operating performance and profitability; and iii) the project company's capital structure, financial flexibility and liquidity positions.

Secondly, the following, four main non-financial parameters are analyzed: i) the outlook of the industry in which the project company operates; ii) the competitive position of the project company within the industry; iii) the strength of the project company's management with particular emphasis on its ability to deal with adverse conditions; and iv) the quality of the information on which the analysis is based.

Finally, the project company's risk rating is adjusted to reflect the overall host country risk rating.

b) Financial Institutions

The assessment of financial institutions follows the uniform rating system commonly referred to as the CAMELS model: i) Capital adequacy – analyses of the composition, adequacy and quality of the institution's capital; ii) Asset quality, operating policies and procedures and risk management framework; iii) Management quality and decision-making framework; iv) Earnings and market position – an evaluation of the quality and level of profitability; v) Liquidity and funding adequacy – an assessment focusing on the entity's ability to access debt market; and vi) Sensitivity to market risk – an assessment of the impact of interest rate changes and exchange rate fluctuations.

c) Private Equity Funds

The assessment of Private Equity Funds takes into consideration the analysis of the following qualitative and quantitative factors:

- Financial strength and historic fund performance;
- Investment strategy and risk management;
- Industry structure;
- Management and corporate governance; and
- Information quality.

All new non-sovereign projects require an initial credit rating and undergo a rigorous project approval process. The Non-Sovereign Working Group of the CRC reviews the non-sovereign credit rating of each project on a quarterly basis and may recommend changes for approval by CRC if justified by evolving country and project conditions.

Since 2009, the Bank has been increasing its non-sovereign loan and equity exposures. The weighted-average risk rating was 3.95 at the end of 2016 compared to 4.0 at the end of 2015. 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 |
| 2016 | 18% | 23% | 39% | 14% | 6% |
| 2015 | 21% | 24% | 33% | 16% | 6% |
| 2014 | 31% | 21% | 31% | 14% | 3% |
| 2013 | 36% | 17% | 31% | 14% | 2% |
| 2012 | 33% | 19% | 36% | 9% | 3% |
| 2011 | 36% | 20% | 35% | 5% | 4% |

In compliance with IFRS, the Bank does not make general provisions to cover the expected losses in the performing non-sovereign portfolio. For the non-performing portfolio, the Bank makes a specific provision based on an assessment of the credit impairment, or incurred loss, on each loan. At the end of December 2016, the cumulative impairment provision to cover the incurred loss on impaired loan principal in the non-sovereign portfolio was UA 162.68 million compared to UA 118.36 million at the end of December 2015.

In addition to private sector lending, the Bank makes equity investments in private sector entities, either directly or through investment funds.

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 Approach Internal Rating Based (IRB). At the end of December 2016, the Bank's non-sovereign portfolio required as risk capital approximately 26 percent of the Bank's total on-balance sheet risk capital sources. This level is still below the limit of 45 percent determined by the Bank for total non-sovereign operations. Out of the Bank's non-sovereign portfolio, equity participations required as risk capital approximately 10 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 the maintenance of 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 allocation are clearly spelt out in the Bank's capital adequacy framework.

In the revised capital adequacy and exposure management approved by the Board in May 2011, the 15 percent (of the Bank's total risk capital) global country concentration limit is meant to allow for adequate portfolio diversification.

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.

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 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 | 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 | | |
| Mortgage Backed Securities (MBS)/ Asset Backed Securities (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 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 by at least two approved rating agencies or 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:

| | Derivatives | | | Credit Risk Profile of Net Exposure | | |
|------|-----------------|-------------|----------------|-------------------------------------|------------|--------------|
| | Notional Amount | Fair Value* | Net Exposure** | AAA | AA+ to AA- | A+ and lower |
| 2016 | 12,607 | 503 | 32 | 0% | 25% | 75% |
| 2015 | 12,408 | 663 | 68 | 0% | 70% | 30% |
| 2014 | 16,882 | 565 | 132 | 0% | 90% | 10% |
| 2013 | 15,898 | 544 | 134 | 0% | 90% | 10% |
| 2012 | 15,209 | 1,047 | 109 | 0% | 54% | 46% |
| 2011 | 15,393 | 1,192 | 146 | 0% | 68% | 32% |

* 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)

| | 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 | Related Amounts not Set Off in the Statement of Financial Position | | Net Amount |
|------|--|--|--|--|---------------------|------------|
| | | | | Financial Instruments | Collateral Received | |
| 2016 | 935 | (432) | 503 | - | (520) | (17) |
| 2015 | 1,362 | (699) | 663 | - | (627) | 36 |
| 2014 | 902 | (337) | 565 | - | (455) | 110 |
| 2013 | 654 | (110) | 544 | - | (408) | 136 |

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

(UA millions)

| | 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 | Related Amounts not Set Off in the Statement of Financial Position | | Net Amount |
|------|---|---|---|--|-------------------------|------------|
| | | | | Financial Instruments | Cash Collateral Pledged | |
| 2016 | 538 | (396) | 142 | - | - | 142 |
| 2015 | 526 | (228) | 298 | - | - | 298 |
| 2014 | 704 | (419) | 285 | - | - | 285 |
| 2013 | 880 | (290) | 590 | - | 3 | 593 |

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 |
| 2016 | 45% | 38% | 17% |
| 2015 | 44% | 45% | 11% |
| 2014 | 48% | 50% | 2% |
| 2013 | 51% | 44% | 5% |
| 2012 | 62% | 31% | 7% |
| 2011 | 58% | 33% | 9% |

To cover potential unexpected credit losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for counterparty credit. At the end of December 2016, the Bank's counterparty credit portfolio including all investments and derivative instruments required as risk capital 3 percent of the Bank's total on-balance sheet risk capital sources.

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 hair-cuts based on asset class and credit rating.

The contractual maturities of financial liabilities and future interest payments at 31 December 2016 and 2015 were as follows:

Contractual Maturities of Financial Liabilities and Future Interest Payments as at 31 December 2016

(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 | (365,931) | 988,736 | 253,875 | 329,646 | 12,801 | 18,836 | 127,134 | 246,444 |
| Borrowings at fair value | 20,007,612 | 21,892,312 | 4,360,504 | 5,166,708 | 3,346,191 | 1,975,721 | 2,166,528 | 4,876,660 |
| | 19,641,681 | 22,881,048 | 4,614,379 | 5,496,354 | 3,358,992 | 1,994,557 | 2,293,662 | 5,123,104 |
| Financial liabilities without derivatives | | | | | | | | |
| Accounts payable | 1,615,988 | 1,615,988 | 1,615,988 | - | - | - | - | - |
| Borrowings at amortized cost | 636,538 | 924,405 | 54,003 | 80,270 | 218,301 | 47,948 | 156,554 | 367,329 |
| | 2,252,526 | 2,540,393 | 1,669,991 | 80,270 | 218,301 | 47,948 | 156,554 | 367,329 |
| Total financial liabilities | 21,894,207 | 25,421,441 | 6,284,370 | 5,576,624 | 3,577,293 | 2,042,505 | 2,450,216 | 5,490,433 |
| Represented by: | | | | | | | | |
| Derivative liabilities | (365,931) | 988,736 | 253,875 | 329,646 | 12,801 | 18,836 | 127,134 | 246,444 |
| Accounts payable | 1,615,988 | 1,615,988 | 1,615,988 | - | - | - | - | - |
| Borrowings | 20,644,150 | 22,816,717 | 4,414,507 | 5,246,978 | 3,564,492 | 2,023,669 | 2,323,082 | 5,243,989 |

Contractual Maturities of Financial Liabilities and Future Interest Payments as at 31 December 2015

(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 | 355,533 | 1,208,547 | 204,407 | 273,183 | 288,556 | 54,209 | 7,223 | 380,969 |
| Borrowings at fair value | 15,851,251 | 17,045,076 | 4,011,338 | 3,369,892 | 3,237,750 | 1,223,042 | 1,339,325 | 3,863,729 |
| | 16,206,784 | 18,253,623 | 4,215,745 | 3,643,075 | 3,526,306 | 1,277,251 | 1,346,548 | 4,244,698 |
| Financial liabilities without derivatives | | | | | | | | |
| Accounts payable | 1,332,383 | 1,332,383 | 1,332,383 | - | - | - | - | - |
| Borrowings at amortized cost | 598,014 | 943,594 | 58,795 | 59,793 | 71,854 | 213,010 | 41,603 | 498,539 |
| | 1,930,397 | 2,275,977 | 1,391,178 | 59,793 | 71,854 | 213,010 | 41,603 | 498,539 |
| Total financial liabilities | 18,137,181 | 20,529,600 | 5,606,923 | 3,702,868 | 3,598,160 | 1,490,261 | 1,388,151 | 4,743,237 |
| Represented by: | | | | | | | | |
| Derivative liabilities | 355,533 | 1,208,547 | 204,407 | 273,183 | 288,556 | 54,209 | 7,223 | 380,969 |
| Accounts payable | 1,332,383 | 1,332,383 | 1,332,383 | - | - | - | - | - |
| Borrowings | 16,449,265 | 17,988,670 | 4,070,133 | 3,429,685 | 3,309,604 | 1,436,052 | 1,380,928 | 4,362,268 |

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 2016 and 2015 was as follows:

Net Currency Position as at 31 December 2016

(Amounts in UA thousands)

| | Euro | United States Dollar | Japanese Yen | Pound Sterling | Chinese Yuan | Other | Subtotal | Units of Account | Total |
|---|------------------|----------------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|
| Assets | | | | | | | | | |
| Cash | (22,274) | 8,070 | 108,264 | 11,419 | 15,138 | 1,186,480 | 1,307,097 | (276) | 1,306,821 |
| Demand obligations | - | - | - | - | - | 3,801 | 3,801 | - | 3,801 |
| Investments – | | | | | | | | | |
| measured at fair value ^(a) | 1,804,194 | 3,953,857 | 663 | 81,101 | 96,135 | 184,021 | 6,119,971 | - | 6,119,971 |
| Investments at amortized cost | 1,243,303 | 1,697,626 | 333,573 | 500,490 | 701,621 | - | 4,476,613 | - | 4,476,613 |
| Non-negotiable instruments | | | | | | | | | |
| on account of capital | - | 159 | - | - | - | - | 159 | - | 159 |
| Accounts receivable | 573,615 | 357,976 | 49,354 | 40,230 | 7,796 | (485,518) | 543,453 | 380 | 543,833 |
| Loans | 6,287,204 | 7,479,165 | 184,803 | 1,821 | - | 1,224,261 | 15,177,254 | - | 15,177,254 |
| Equity participations | 62,101 | 578,032 | - | - | - | 17,137 | 657,270 | 62,105 | 719,375 |
| Other securities | - | - | - | - | - | 54,358 | 54,358 | - | 54,358 |
| Other assets | - | - | - | - | - | - | - | 97,690 | 97,690 |
| | 9,948,143 | 14,074,885 | 676,657 | 635,061 | 820,690 | 2,184,540 | 28,339,976 | 159,899 | 28,499,875 |
| Liabilities | | | | | | | | | |
| Accounts payable | (508,280) | 964,470 | (106,665) | (296) | (42,813) | (1,371,269) | (1,064,853) | (551,135) | (1,615,988) |
| Borrowings | (1,076,659) | (14,008,695) | (1,360,065) | (231,353) | - | (3,967,378) | (20,644,150) | - | (20,644,150) |
| Currency swaps on borrowings and related derivatives ^(b) | (6,133,791) | 2,444,593 | 1,606,189 | 231,361 | - | 2,217,579 | 365,931 | - | 365,931 |
| | (7,718,730) | (10,599,632) | 139,459 | (288) | (42,813) | (3,121,068) | (21,343,072) | (551,135) | (21,894,207) |
| Currency position of equity as at 31 December 2016 | 2,229,413 | 3,475,253 | 816,116 | 634,773 | 777,877 | (936,528) | 6,996,904 | (391,236) | 6,605,668 |
| % of subtotal | 31.86 | 49.67 | 11.66 | 9.07 | 11.12 | (13.38) | 100.00 | - | 100.00 |
| SDR composition | | | | | | | | | |
| as at 31 December 2016 | 30.33 | 43.34 | 7.58 | 7.87 | 10.89 | - | 100.00 | - | 100.00 |

(a) Investments measured at fair value comprise:

| | |
|---|-----------|
| Investments measured at fair value | 6,113,428 |
| Derivative assets | 10,736 |
| Derivative liabilities | (4,193) |
| Amount per statement of net currency position | 6,119,971 |

(b) Currency swaps on borrowings comprise:

| | |
|--|-----------|
| Derivative assets | 1,223,012 |
| Derivative liabilities | (857,081) |
| Net swaps on borrowings per statement of net currency position | 365,931 |

Net Currency Position as at 31 December 2015

(Amounts in UA thousands)

| | Euro | United States Dollar | Japanese Yen | Pound Sterling | Other | Subtotal | Units of Account | Total |
|---|--------------------|----------------------|----------------|----------------|--------------------|---------------------|------------------|---------------------|
| Assets | | | | | | | | |
| Cash | (15,991) | 25,320 | 129,584 | 64,217 | 1,023,536 | 1,226,666 | (12,058) | 1,214,608 |
| Demand obligations | - | - | - | - | 3,801 | 3,801 | - | 3,801 |
| Investments – measured at fair value (a) | 1,480,065 | 2,827,398 | 610 | 109 | 140,283 | 4,448,465 | - | 4,448,465 |
| Investments at amortized cost | 1,292,019 | 1,644,454 | 290,275 | 731,148 | - | 3,957,896 | - | 3,957,896 |
| Non-negotiable instruments on account of capital | - | 271 | - | - | - | 271 | - | 271 |
| Accounts receivable | 574,445 | 313,087 | 35,694 | 44,297 | (467,135) | 500,388 | (10,851) | 489,537 |
| Loans | 5,282,346 | 6,595,194 | 223,612 | 2,437 | 844,795 | 12,948,384 | - | 12,948,384 |
| Equity participations | 57,394 | 546,916 | - | - | 36,707 | 641,017 | 62,251 | 703,268 |
| Other securities | - | - | - | - | 46,423 | 46,423 | - | 46,423 |
| Other assets | - | - | - | - | - | - | 93,559 | 93,559 |
| | 8,670,278 | 11,952,640 | 679,775 | 842,208 | 1,628,410 | 23,773,311 | 132,901 | 23,906,212 |
| Liabilities | | | | | | | | |
| Accounts payable | (320,978) | 649,442 | (116,153) | (382) | (1,541,760) | (1,329,831) | (2,552) | (1,332,383) |
| Borrowings | (118,753) | (10,667,526) | (1,246,405) | (375,256) | (4,041,325) | (16,449,265) | - | (16,449,265) |
| Currency swaps on borrowings and related derivatives (b) | (5,878,141) | 1,504,874 | 1,540,166 | 375,782 | 2,812,852 | 355,533 | - | 355,533 |
| | (6,317,872) | (8,513,210) | 177,608 | 144 | (2,770,233) | (17,423,563) | (2,552) | (17,426,115) |
| Currency position of equity as at 31 December 2015 | 2,352,406 | 3,439,430 | 857,383 | 842,352 | (1,141,823) | 6,349,748 | 130,349 | 6,480,097 |
| % of subtotal | 37.05 | 54.16 | 13.50 | 13.27 | (17.98) | 100.00 | - | 100.00 |
| SDR composition as at 31 December 2015 | 33.24 | 47.64 | 7.24 | 11.87 | - | 100.00 | - | 100.00 |

(a) Investments measured at fair value comprise:

| | |
|---|------------------|
| Investments measured at fair value | 4,434,365 |
| Derivative assets | 17,750 |
| Derivative liabilities | (3,650) |
| Amount per statement of net currency position | <u>4,448,465</u> |

(b) Currency swaps on borrowings comprise:

| | |
|--|----------------|
| Derivative assets | 1,436,875 |
| Derivative liabilities | (1,081,342) |
| Net swaps on borrowings per statement of net currency position | <u>355,533</u> |

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 and the last revision became effective on 1 January 2011 based on the value of exports of goods and services and international reserves. With effect from 1 October 2016, 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 2016 and 2015, 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 2016

(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 | 2,888.41 | 2,139.77 | 482.48 | 512.20 | 709.01 | 2.94 | 6,734.83 | (3.96) | 6bps |
| GBP | 2,952.89 | 1,988.67 | 493.25 | 576.00 | 724.84 | 2.94 | 6,738.61 | (0.18) | 0bp |
| JPY | 2,953.76 | 1,989.26 | 542.74 | 523.79 | 725.06 | 2.94 | 6,737.55 | (1.24) | 2bps |
| CNY | 2,944.03 | 1,982.71 | 491.78 | 522.07 | 794.94 | 2.94 | 6,738.46 | (0.33) | 0bp |
| Net assets resulting from 10% appreciation from each African currency against the SDR | 2,976.11 | 2,004.31 | 497.13 | 527.76 | 730.54 | 3.24 | 6,739.09 | 0.29 | 0bp |
| Net assets resulting from a 10% depreciation against the USD | | | | | | | | | |
| EUR | 3,060.59 | 1,873.82 | 511.24 | 542.74 | 751.28 | 2.94 | 6,742.61 | 3.82 | 6bps |
| GBP | 2,997.53 | 2,018.74 | 500.71 | 483.23 | 735.80 | 2.94 | 6,738.96 | 0.17 | 0bp |
| JPY | 2,996.72 | 2,018.19 | 455.07 | 531.41 | 735.60 | 2.94 | 6,739.94 | 1.15 | 2bps |
| CNY | 2,944.03 | 1,982.71 | 491.78 | 522.07 | 794.94 | 2.94 | 6,738.46 | (0.33) | 0bp |
| Net assets resulting from a 10% depreciation of each African currency against the SDR | 2,976.11 | 2,004.31 | 497.13 | 527.76 | 730.54 | 2.68 | 6,738.52 | (0.27) | 0bp |
| Assumptions | | | | | | | | | |
| Base net assets | 2,976.11 | 2,004.31 | 497.13 | 527.76 | 730.54 | 2.94 | 6,738.79 | | |
| Currency weight | 0.58 | 0.39 | 11.90 | 0.09 | 1.02 | | | | |
| Base exchange rate | 1.34 | 1.27 | 157.28 | 1.09 | 9.34 | | | | |

Sensitivity of the Bank's Net Assets to Currency Fluctuations as at 31 December 2015

(Amounts in UA thousands)

| | US Dollar | Euro | Japanese Yen | Pound Sterling | 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 | 3,025.41 | 2,281.88 | 504.80 | 749.60 | 14.13 | 6,575.82 | (3.48) | 5bps |
| GBP | 3,089.29 | 2,118.24 | 515.46 | 841.97 | 14.13 | 6,579.09 | (0.22) | 0bp |
| JPY | 3,103.28 | 2,127.82 | 569.58 | 768.89 | 14.13 | 6,583.70 | 4.39 | 7bps |
| Net assets resulting from 10% appreciation from each African currency against the SDR | 3,125.84 | 2,143.30 | 521.56 | 774.48 | 15.54 | 6,580.72 | 1.41 | 2bps |
| Net assets resulting from a 10% depreciation against the USD | | | | | | | | |
| EUR | 3,223.10 | 2,009.08 | 537.79 | 798.58 | 14.13 | 6,582.68 | 3.37 | 5bps |
| GBP | 3,159.82 | 2,166.60 | 527.23 | 711.73 | 14.13 | 6,579.51 | 0.20 | 0bp |
| JPY | 3,146.64 | 2,157.56 | 477.30 | 779.63 | 14.13 | 6,575.26 | (4.04) | 6bps |
| Net assets resulting from a 10% depreciation of each African currency against the SDR | 3,125.84 | 2,143.30 | 521.56 | 774.48 | 12.84 | 6,578.02 | (1.28) | 2bps |
| Assumptions | | | | | | | | |
| Base net assets | 3,125.84 | 2,143.30 | 521.56 | 774.48 | 14.13 | 6,579.31 | | |
| Currency weight | 0.66 | 0.42 | 12.10 | 0.11 | | | | |
| Base exchange rate | 1.38 | 1.27 | 166.41 | 0.94 | | | | |

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 2016 and 2015 was as follows:

Interest Rate Risk Position as at 31 December 2016

(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 | 1,306,821 | - | - | - | - | - | - | 1,306,821 |
| Demand obligations | 3,801 | - | - | - | - | - | - | 3,801 |
| Treasury investments (a) | 6,465,731 | 476,660 | 389,650 | 373,290 | 389,710 | 2,448,360 | 53,183 | 10,596,584 |
| Non-negotiable instruments on account of capital | 78 | 56 | 25 | - | - | - | - | 159 |
| Accounts receivable | 803,290 | - | - | - | - | - | (259,457) | 543,833 |
| Loans – disbursed and outstanding | 12,529,090 | 314,639 | 314,617 | 463,311 | 306,108 | 1,422,392 | (1,710) | 15,348,447 |
| Hedged loans – fair value adjustment | - | - | - | - | - | - | 80,230 | 80,230 |
| Accumulated impairment for loan losses | - | - | - | - | - | - | (251,423) | (251,423) |
| Equity participations | - | - | - | - | - | - | 719,375 | 719,375 |
| Other securities | 54,358 | - | - | - | - | - | - | 54,358 |
| Other assets | - | - | - | - | - | - | 97,690 | 97,690 |
| | 21,163,169 | 791,355 | 704,292 | 836,601 | 695,818 | 3,870,752 | 437,888 | 28,499,875 |
| Liabilities | | | | | | | | |
| Accounts payable | (1,615,988) | - | - | - | - | - | - | (1,615,988) |
| Borrowings (b) | (20,201,789) | (199) | (40,832) | (217) | (3,832) | (127,029) | 95,679 | (20,278,219) |
| Macro-hedge swaps | (124,628) | 104,885 | - | - | 4,458 | 15,285 | - | - |
| | (21,942,405) | 104,686 | (40,832) | (217) | 626 | (111,744) | 95,679 | (21,894,207) |
| Interest rate risk position as at 31 December 2016* | (779,236) | 896,041 | 663,460 | 836,384 | 696,444 | 3,759,008 | 533,567 | 6,605,668 |

* Interest rate risk position represents equity.

(a) Treasury investments comprise:

| | |
|--|------------|
| Treasury investments | 10,590,041 |
| Derivative assets – investments | 10,736 |
| Derivative liabilities – investments | (4,193) |
| Amount per statement of interest rate risk | 10,596,584 |

(b) Borrowings comprise:

| | |
|--|-------------|
| Borrowings | 20,644,150 |
| Derivative assets – borrowings | (1,223,012) |
| Derivative liabilities – borrowings | 857,081 |
| Net borrowings per statement of interest rate risk | 20,278,219 |

Interest Rate Risk Position as at 31 December 2015

(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 | 1,214,608 | - | - | - | - | - | - | 1,214,608 |
| Demand obligations | 3,801 | - | - | - | - | - | - | 3,801 |
| Treasury investments (a) | 4,766,881 | 328,160 | 485,050 | 358,020 | 354,090 | 2,086,200 | 27,960 | 8,406,361 |
| Non-negotiable instruments on account of capital | 102 | 76 | 54 | 39 | - | - | - | 271 |
| Accounts receivable | 718,117 | - | - | - | - | - | (228,580) | 489,537 |
| Loans – disbursed and outstanding | 10,106,076 | 342,051 | 313,425 | 345,122 | 307,063 | 1,658,181 | (1,525) | 13,070,393 |
| Hedged loans – fair value adjustment | - | - | - | - | - | - | 79,837 | 79,837 |
| Accumulated impairment for loan losses | - | - | - | - | - | - | (201,846) | (201,846) |
| Equity participations | - | - | - | - | - | - | 703,268 | 703,268 |
| Other securities | 46,423 | - | - | - | - | - | - | 46,423 |
| Other assets | - | - | - | - | - | - | 93,559 | 93,559 |
| | 16,856,008 | 670,287 | 798,529 | 703,181 | 661,153 | 3,744,381 | 472,673 | 23,906,212 |
| Liabilities | | | | | | | | |
| Accounts payable | (1,332,383) | - | - | - | - | - | - | (1,332,383) |
| Borrowings (b) | (15,978,687) | (203) | (203) | (36,840) | (219) | (100,145) | 22,565 | (16,093,732) |
| Macro-hedge swaps | (221,279) | 100,977 | 101,752 | - | - | 18,550 | - | - |
| | (17,532,349) | 100,774 | 101,549 | (36,840) | (219) | (81,595) | 22,565 | (17,426,115) |
| Interest rate risk position as at 31 December 2015* | (676,341) | 771,061 | 900,078 | 666,341 | 660,934 | 3,662,786 | 495,238 | 6,480,097 |

* Interest rate risk position represents equity.

(a) Treasury investments comprise:

| | |
|--|-----------|
| Treasury investments | 8,392,261 |
| Derivative assets – investments | 17,750 |
| Derivative liabilities – investments | (3,650) |
| Amount per statement of interest rate risk | 8,406,361 |

(b) Borrowings comprise:

| | |
|--|-------------|
| Borrowings | 16,449,265 |
| Derivative assets – borrowings | (1,436,875) |
| Derivative liabilities – borrowings | 1,081,342 |
| Net borrowings per statement of interest rate risk | 16,093,732 |

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 six-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 a lifetime of 10 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 2015 and 2016, 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 6.44 million and UA 5.81 million as of 31 December 2016 and 2015, 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 2016 and 2015, respectively. However, due to the low level of interest rates across the Japanese Yen yield curve, the sensitivity analysis in 2016 and 2015 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 | |
|--|-----------------------|---------------------|-------------------------|---------------------|
| | 2016 Gain/(Loss) | 2015 Gain/(Loss) | 2016 Gain/(Loss) | 2015 Gain/(Loss) |
| Investments at fair value through profit or loss | (12,553) | (7,776) | 14,229 | 8,808 |
| Fair-valued borrowings and derivative portfolios | (207,193) | (176,630) | 189,203 | 172,944 |

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 2016 amounted to UA 249.63 million compared to prepayments of UA 24.94 million realised in 2015, 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 (GCRO) is responsible for the management of operational risk activities across the Bank. This includes the implementation of an Integrated Internal Control Framework (IICF) covering, an Internal Control over Financial Reporting (ICFR) based on the COSO Framework and an Operational Risk Management Framework (ORM). 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.

An ORM, on the other hand, not only addresses risks inherent in other business processes not covered by ICFR but also 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 approach 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, which makes the key decisions based on recommendations from the Operations Crisis Committee (OCC); (ii) the OCC, chaired by the Corporate Vice President, that closely monitors all developments affecting the Bank and advises on measures necessary to mitigate the relevant risks; and (iii) the Business Continuity Unit (BCPU) that 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 2016 and 2015:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

| 31 December 2016 | Financial Assets and Liabilities through Profit or Loss | | Fair Value through Other Comprehensive Income | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|--|---|--------------------------|---|--|-----------------------|-------------------|
| | Mandatorily at Fair Value | Designated at Fair Value | | | | |
| Cash | - | - | - | 1,306,821 | 1,306,821 | 1,306,821 |
| Demand obligations | - | - | - | 3,801 | 3,801 | 3,801 |
| Treasury investments | 6,113,428 | - | - | 4,476,613 | 10,590,041 | 10,704,093 |
| Derivative assets | 1,233,748 | - | - | - | 1,233,748 | 1,233,748 |
| Non-negotiable instruments on account of capital | - | - | - | 159 | 159 | 159 |
| Accounts receivable | - | - | - | 543,833 | 543,833 | 543,833 |
| Loans | 20,752 | - | - | 15,076,272 | 15,097,024 | 15,304,475 |
| Equity participations | - | - | 719,375 | - | 719,375 | 719,375 |
| Other securities | - | - | - | 54,358 | 54,358 | 54,358 |
| Total financial assets | 7,367,928 | - | 719,375 | 21,461,857 | 29,549,160 | 29,870,663 |
| Accounts payable | - | - | - | 1,615,988 | 1,615,988 | 1,615,988 |
| Derivative liabilities | 861,274 | - | - | - | 861,274 | 861,274 |
| Borrowings | - | 20,007,612 | - | 636,538 | 20,644,150 | 20,725,746 |
| Total financial liabilities | 861,274 | 20,007,612 | - | 2,252,526 | 23,121,412 | 23,203,008 |

(UA thousands)

| 31 December 2015 | Financial Assets and Liabilities through Profit or Loss | | Fair Value through Other Comprehensive Income | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|--|---|--------------------------|---|--|-----------------------|-------------------|
| | Mandatorily at Fair Value | Designated at Fair Value | | | | |
| Cash | - | - | - | 1,214,608 | 1,214,608 | 1,214,608 |
| Demand obligations | - | - | - | 3,801 | 3,801 | 3,801 |
| Treasury investments | 4,434,365 | - | - | 3,957,896 | 8,392,261 | 8,538,778 |
| Derivative assets | 1,454,625 | - | - | - | 1,454,625 | 1,454,625 |
| Non-negotiable instruments on account of capital | - | - | - | 271 | 271 | 271 |
| Accounts receivable | - | - | - | 489,537 | 489,537 | 489,537 |
| Loans | 20,265 | - | - | 12,848,282 | 12,868,547 | 12,977,286 |
| Equity participations | - | - | 703,268 | - | 703,268 | 703,268 |
| Other securities | - | - | - | 46,423 | 46,423 | 46,423 |
| Total financial assets | 5,909,255 | - | 703,268 | 18,560,818 | 25,173,341 | 25,428,597 |
| Accounts payable | - | - | - | 1,332,383 | 1,332,383 | 1,332,383 |
| Derivative liabilities | 1,084,992 | - | - | - | 1,084,992 | 1,084,992 |
| Borrowings | - | 15,851,251 | - | 598,014 | 16,449,265 | 16,553,691 |
| Total financial liabilities | 1,084,992 | 15,851,251 | - | 1,930,397 | 18,866,640 | 18,971,066 |

The table below classifies the Bank's financial instruments that were carried at fair value at 31 December 2016 and 2015 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 | | 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 | | Total | |
|------------------------------------|---|------------------|---|------------------|---|----------------|-------------------|-------------------|
| | (Level 1) | | (Level 2) | | (Level 3) | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Treasury investments | 4,203,230 | 3,141,911 | 1,875,174 | 1,230,333 | 35,024 | 62,121 | 6,113,428 | 4,434,365 |
| Derivative assets | 6,268 | 6,997 | 1,220,056 | 1,444,462 | 7,424 | 3,166 | 1,233,748 | 1,454,625 |
| Loans | - | - | 20,752 | 20,265 | - | - | 20,752 | 20,265 |
| Equity participations | 6,269 | 6,488 | - | - | 713,106 | 696,780 | 719,375 | 703,268 |
| Total financial assets | 4,215,767 | 3,155,396 | 3,115,982 | 2,695,060 | 755,554 | 762,067 | 8,087,303 | 6,612,523 |
| Derivative liabilities | - | - | 817,535 | 1,050,456 | 43,739 | 34,536 | 861,274 | 1,084,992 |
| Borrowings | 13,275,578 | 8,904,524 | 6,567,675 | 6,787,675 | 164,359 | 159,052 | 20,007,612 | 15,851,251 |
| Total financial liabilities | 13,275,578 | 8,904,524 | 7,385,210 | 7,838,131 | 208,098 | 193,588 | 20,868,886 | 16,936,243 |

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, the fair values for loans and 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 2016 and 2015 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 |
|---|--|--|----------------------|---------------------------|------------------|
| 2015 | | | | | |
| Balance at 1 January 2015 | 215,504 | 587,602 | 33,191 | (52,840) | (278,526) |
| Unrealized (losses)/gains recognized in income statement | (3,195) | - | 6,577 | 3,677 | 934 |
| Gains recognized in the statement of comprehensive income | - | 38,214 | - | - | - |
| Purchases, issues and settlements (net) | (115,075) | 58,838 | (30,322) | 16,770 | 124,180 |
| Reclassification | - | - | 912 | - | - |
| Translation effects | (35,113) | 12,126 | (575) | (8,760) | (5,640) |
| Transfer between assets and liabilities | - | - | (6,617) | 6,617 | - |
| Balance at 31 December 2015 | 62,121 | 696,780 | 3,166 | (34,536) | (159,052) |
| 2016 | | | | | |
| Balance at 1 January 2016 | 62,121 | 696,780 | 3,166 | (34,536) | (159,052) |
| Unrealized (losses)/gains recognized in income statement | (20,720) | - | (692) | (7,401) | 2,053 |
| Losses recognized in the statement of comprehensive income | - | (11,911) | - | - | - |
| Purchases, issues and settlements (net) | (7,159) | 40,380 | 4,156 | (2,091) | 1,956 |
| Translation effects | 782 | (12,143) | 1,030 | 53 | (9,316) |
| Transfer between assets and liabilities | - | - | (236) | 236 | 0 |
| Balance at 31 December 2016 | 35,024 | 713,106 | 7,424 | (43,739) | (164,359) |

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 2016 and 2015 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 | | 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 | | Total | |
|------------------------------------|---|------------------|--|----------------|--|-------------------|-------------------|-------------------|
| | (Level 1) | | (Level 2) | | (Level 3) | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Treasury investments | 4,553,354 | 3,946,031 | - | 62,065 | 37,311 | 96,317 | 4,590,665 | 4,104,413 |
| Loans | - | - | - | - | 15,283,723 | 12,957,021 | 15,283,723 | 12,957,021 |
| Total financial assets | 4,553,354 | 3,946,031 | - | 62,065 | 15,321,034 | 13,053,338 | 19,874,388 | 17,061,434 |
| Borrowings | - | - | 609,536 | 601,711 | 108,598 | 100,729 | 718,134 | 702,440 |
| Total financial liabilities | - | - | 609,536 | 601,711 | 108,598 | 100,729 | 718,134 | 702,440 |

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 | | Credit spread | |
| Asset-backed securities | | Conditional prepayment rate | |
| Government and agency obligations | Discounted cash flow | Constant default rate | Increase in rate reduces fair value |
| Corporate bonds | Comparable pricing | Expected payments profile following default | |
| Financial institutions | | Loss given default yield | |
| Supranational | | | |
| Loans | | | |
| Fixed rate | Discounted cash flow | Average cost of capital | |
| Floating rate | | 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 | N/A | N/A |
| 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 negative UA 0.01 million or negative 0.02 percent (2015: UA 0.01 million or 0.01 percent).

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 31 December 2016 and 2015. However, due to the low level of interest rates across the Japanese Yen yield curve, the sensitivity analysis in 2016 and 2015 for liabilities denominated in Japanese Yen reflect a parallel movement in the yield curve of +/- 10 bps:

(UA thousands)

| | Upward Parallel Shift | | Downward Parallel Shift | |
|--|--------------------------|---------|----------------------------|-------|
| | Gain/(Loss) | | Gain/(Loss) | |
| | 2016 | 2015 | 2016 | 2015 |
| Fair-valued level 3 borrowings and derivative portfolios | (7,233) | (3,868) | 3,393 | 3,023 |

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 2016 and 2015 were made up as follows:

(UA thousands)

| | 2016 | 2015 |
|--|----------------|----------------|
| Balance at 1 January | 136,743 | 139,044 |
| New transactions | 27,169 | 32,208 |
| Amounts recognized in income statement during the year | (13,210) | (37,054) |
| Translation effects | 12,050 | 2,545 |
| Balance at 31 December | 162,752 | 136,743 |

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 31 December 2016, the Bank had received collateral with fair value of UA 526 million in connection with swap agreements. Of this amount, a total of UA 464 million was in the form of cash and has been recorded on the balance sheet with a corresponding liability included in "Other accounts payable". The balance of UA 62 million was in the form of liquid financial assets and is kept in custody by the Bank.

The composition of treasury investments as at 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|--|-------------------|------------------|
| Treasury investments mandatorily measured at fair value through profit or loss | 6,113,428 | 4,434,365 |
| Treasury investments at amortized cost | 4,476,613 | 3,957,896 |
| Total | 10,590,041 | 8,392,261 |

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 2016 and 2015 was as follows:

(UA millions)

| | US Dollar | | Euro | | CNY | | Other Currencies | | All Currencies | |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|--------------|--------------|------------------|--------------|-----------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Time deposits | 128.38 | 588.06 | 392.64 | 600.16 | 53.52 | - | 154.51 | 1.04 | 729.05 | 1,189.26 |
| Asset-backed securities | 23.59 | 27.35 | 11.18 | 34.73 | - | - | - | - | 34.77 | 62.08 |
| Government and agency obligations | 2,208.24 | 1,262.17 | 613.85 | 420.98 | 10.66 | 11.04 | 81.08 | 63.87 | 2,913.83 | 1,758.06 |
| Corporate bonds | 103.97 | 196.37 | 42.76 | 55.68 | - | - | - | - | 146.73 | 252.05 |
| Financial institutions | 1,231.98 | 689.63 | 714.60 | 265.26 | - | - | 22.99 | 23.40 | 1,969.57 | 978.29 |
| Supranational | 249.76 | 51.04 | 28.21 | 99.16 | 31.92 | 34.75 | 9.59 | 9.68 | 319.48 | 194.63 |
| Total | 3,945.92 | 2,814.62 | 1,803.24 | 1,475.97 | 96.10 | 45.79 | 268.17 | 97.99 | 6,113.43 | 4,434.37 |

The nominal value of treasury investments mandatorily measured at FVTPL as at 31 December 2016 was UA 6,108.09 million (2015: UA 4,425.60 million). The average yield of treasury investments mandatorily measured at FVTPL for the year ended 31 December 2016 was 0.45% (2015: 0.58%).

The contractual maturity structure of treasury investments mandatorily measured at FVTPL as at 31 December 2016 and 2015 was as follows:

(UA millions)

| | 2016 | 2015 |
|--|-----------------|-----------------|
| One year or less | 2,791.71 | 2,635.22 |
| More than one year but less than two years | 1,306.00 | 769.96 |
| More than two years but less than three years | 1,784.50 | 594.66 |
| More than three years but less than four years | 209.20 | 387.17 |
| More than four years but less than five years | 0.02 | - |
| More than five years | 22.00 | 47.36 |
| Total | 6,113.43 | 4,434.37 |

Treasury Investments at Amortized Cost

A summary of the Bank's treasury investments at amortized cost at 31 December 2016 and 2015 was as follows:

(UA millions)

| | US Dollar | | Euro | | CNY | | Other Currencies | | All Currencies | |
|-----------------------------------|-----------------|-----------------|-----------------|-----------------|---------------|----------|------------------|-----------------|-----------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Asset-backed securities | 37.19 | 94.30 | - | - | - | - | - | - | 37.19 | 94.30 |
| Government and agency obligations | 814.54 | 933.17 | 697.20 | 735.75 | 701.62 | - | 675.08 | 727.75 | 2,888.44 | 2,396.67 |
| Financial institutions | 37.05 | - | - | - | - | - | - | 61.92 | 37.05 | 61.92 |
| Supranational | 808.85 | 617.00 | 546.09 | 556.26 | - | - | 158.99 | 231.75 | 1,513.93 | 1,405.01 |
| Total | 1,697.63 | 1,644.47 | 1,243.29 | 1,292.01 | 701.62 | - | 834.07 | 1,021.42 | 4,476.61 | 3,957.90 |

The nominal value of treasury investments at amortized cost as at 31 December 2016 was UA 4,423.44 million (2015: UA 3,929.94 million). The average yield of treasury investments at amortized cost for the year ended 31 December 2016 was 3.23% (2015: 2.81%).

The contractual maturity structure of treasury investments at amortized cost as at 31 December 2016 and 2015 was as follows:

(UA millions)

| | 2016 | 2015 |
|--|-----------------|-----------------|
| One year or less | 345.89 | 318.66 |
| More than one year but less than two years | 473.31 | 329.50 |
| More than two years but less than three years | 386.46 | 480.23 |
| More than three years but less than four years | 372.42 | 355.28 |
| More than four years but less than five years | 402.99 | 352.91 |
| More than five years | 2,495.54 | 2,121.32 |
| Total | 4,476.61 | 3,957.90 |

The fair value of treasury investments at amortized cost as at 31 December 2016 was UA 4,590.66 million (2015: UA 4,104.41 million).

Note G – Derivative assets and liabilities

The fair values of derivative financial assets and financial liabilities at 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | | 2015 | |
|------------------------------|------------------|----------------|------------------|------------------|
| | Assets | Liabilities | Assets | Liabilities |
| Borrowings-related: | | | | |
| Cross-currency swaps | 1,167,194 | 594,839 | 1,360,605 | 924,967 |
| Interest rate swaps | 48,045 | 148,769 | 68,566 | 43,307 |
| Loan swaps | 7,773 | 113,473 | 7,704 | 113,068 |
| | 1,223,012 | 857,081 | 1,436,875 | 1,081,342 |
| Investments-related: | | | | |
| Asset swaps | 1,712 | 4,193 | 2,629 | 3,650 |
| Macro-hedge swaps and others | 9,024 | - | 15,121 | - |
| | 10,736 | 4,193 | 17,750 | 3,650 |
| Total | 1,233,748 | 861,274 | 1,454,625 | 1,084,992 |

The notional amounts of derivative financial assets and financial liabilities at 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|-----------------------------|-------------------|-------------------|
| Borrowings-related: | | |
| Cross-currency swaps | 10,776,969 | 10,691,305 |
| Interest rate swaps | 11,669,522 | 6,498,407 |
| Loan swaps | 1,777,321 | 1,480,199 |
| | 24,223,812 | 18,669,911 |
| Investments-related: | | |
| Asset swaps | 244,983 | 194,920 |
| Macro-hedge swaps | 227,865 | 329,728 |
| | 472,848 | 524,648 |
| Total | 24,696,660 | 19,194,559 |

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 2016, the Bank had futures with a notional value of Euro 6,388 million, GBP 222 million and USD 14,669 million. The carrying value of Euro futures was a negative market value of UA 2.8 million (out of the money) and for the US Dollars futures was a positive market value of UA 9.7 million (in the money).

Forward Exchange Transactions to Hedge

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 executed forward exchange transactions to economically hedge its administrative expenses. As at 31 December 2016, 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 2016 was a liability of UA 109.54 million. The fair value gain on these loan swaps for the year ended 31 December 2016 was UA 2.71 million. The fair value loss on the hedged loans attributable to the hedged risk was UA 3.36 million. Therefore, the hedge effectiveness recognized in the income statement was a loss of UA 0.65 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 2016, the amortization of fair value adjustment on the hedged risk amounted to UA 4.03 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 2016 and 2015, the non-negotiable notes' balances were as follows:

(UA thousands)

| | 2016 | 2015 |
|-------------------------------|------------|------------|
| Balance at 1 January | 271 | 739 |
| Net movement for the year | (112) | (468) |
| Balance at 31 December | 159 | 271 |

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, offered in multicurrency 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 2016 and 2015, outstanding loans were as follows:

(UA thousands)

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Outstanding balance of loans - amortized cost | 15,327,695 | 13,050,128 |
| Outstanding balance of loans - fair value | 20,752 | 20,265 |
| | 15,348,447 | 13,070,393 |
| Less: accumulated provision for impairment | (251,423) | (201,846) |
| Balance at 31 December | 15,097,024 | 12,868,547 |

Fair Value of Loans

At 31 December 2016 and 2015, the carrying and estimated fair values of outstanding loans were as follows:

(UA thousands)

| | 2016 | | 2015 | |
|---|-------------------|----------------------|-------------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Loans at amortized cost | | | | |
| Fixed rate loans | 13,465,104 | 13,416,625 | 10,785,155 | 10,679,302 |
| Floating rate loans | 1,677,955 | 1,677,148 | 2,082,283 | 2,088,446 |
| Variable rate loans | 184,636 | 189,950 | 182,690 | 189,273 |
| Subtotal | 15,327,695 | 15,283,723 | 13,050,128 | 12,957,021 |
| Loans at fair value | 20,752 | 20,752 | 20,265 | 20,265 |
| Total | 15,348,447 | 15,304,475 | 13,070,393 | 12,977,286 |
| Accumulated provision for impairment on loans at amortized cost | (251,423) | - | (201,846) | - |
| Net loans | 15,097,024 | 15,304,475 | 12,868,547 | 12,977,286 |

The Bank is 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 2016 and 2015 was as follows:

(UA millions)

| Periods | 2016 | | | 2015 | |
|--|------------------|-----------------|---------------|------------------|------------------|
| | Fixed Rate | Floating Rate | Variable Rate | Total | Total |
| One year or less | 968.41 | 262.61 | 183.60 | 1,414.62 | 1,266.10 |
| More than one year but less than two years | 946.49 | 322.25 | 1.04 | 1,269.78 | 1,098.16 |
| More than two years but less than three years | 1,042.55 | 185.80 | - | 1,228.35 | 1,362.59 |
| More than three years but less than four years | 1,260.48 | 155.83 | - | 1,416.31 | 1,106.51 |
| More than four years but less than five years | 1,131.43 | 145.40 | - | 1,276.83 | 1,108.44 |
| More than five years | 8,136.50 | 606.06 | - | 8,742.56 | 7,128.59 |
| Total | 13,485.86 | 1,677.95 | 184.64 | 15,348.45 | 13,070.39 |

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 2016 and 2015 were as follows:

(Amounts in UA millions)

| | | | 2016 | | 2015 | |
|----------------|---------------------|--------------------|----------|-----------|----------|-----------|
| | | | Amount | % | Amount | % |
| Fixed Rate: | Multi-Currency | Euro | 95.08 | | 136.04 | |
| | | Japanese Yen | 170.09 | | 211.01 | |
| | | Pound Sterling | 1.84 | | 2.60 | |
| | | Swiss Franc | 2.24 | | 3.84 | |
| | | US Dollar | 222.46 | | 196.23 | |
| | | Others | - | | 0.02 | |
| | | | 491.71 | 3.21 | 549.74 | 4.21 |
| | Single Currency | Euro | 4,739.42 | | 4,639.67 | |
| | | Japanese Yen | 0.76 | | 2.16 | |
| | | South African Rand | 1,087.61 | | 702.30 | |
| | | US Dollar | 5,894.01 | | 4,838.92 | |
| | | Others | 41.02 | | 52.37 | |
| | | | | 11,762.82 | 76.64 | 10,235.42 |
| | Structured Products | Euro | 1,056.97 | | - | |
| | | US Dollar | 174.36 | | - | |
| | | 1,231.33 | 8.02 | - | - | |
| Floating Rate: | Single Currency | Euro | 336.90 | | 428.85 | |
| | | Japanese Yen | 7.86 | | 9.03 | |
| | | South African Rand | 95.69 | | 89.35 | |
| | | US Dollar | 1,237.50 | | 1,575.31 | |
| | | | | 1,677.95 | 10.93 | 2,102.54 |
| Variable Rate: | Multi-Currency | Euro | - | | 29.60 | |
| | | Japanese Yen | - | | 0.73 | |
| | | US Dollar | 142.69 | | 108.17 | |
| | | | | 142.69 | 0.93 | 138.50 |
| | Single Currency | Euro | 9.21 | | 11.03 | |
| | | Japanese Yen | 15.37 | | 14.44 | |
| | | Swiss Franc | 0.98 | | 0.98 | |
| | | US Dollar | 16.39 | | 17.74 | |
| | | | | 41.95 | 0.27 | 44.19 |
| | Total | | | 15,348.45 | 100.00 | 13,070.39 |

The weighted average yield on outstanding loans for the year ended 31 December 2016 was 2.60% (2015: 2.45%).

A comparative summary of the currency composition of outstanding loans at 31 December 2016 and 2015 was as follows:

(Amounts in UA millions)

| | 2016 | | 2015 | |
|--------------------|------------------|---------------|------------------|---------------|
| | Amount | % | Amount | % |
| Euro | 6,237.58 | 40.64 | 5,245.19 | 40.13 |
| Japanese Yen | 194.08 | 1.26 | 237.37 | 1.81 |
| Pound Sterling | 1.84 | 0.01 | 2.60 | 0.02 |
| South African Rand | 1,183.30 | 7.71 | 791.65 | 6.06 |
| Swiss Franc | 3.22 | 0.02 | 4.82 | 0.04 |
| US Dollar | 7,687.41 | 50.09 | 6,736.37 | 51.54 |
| Others | 41.02 | 0.27 | 52.39 | 0.40 |
| Total | 15,348.45 | 100.00 | 13,070.39 | 100.00 |

Accrued Income and Charges Receivable on Loans

The accrued income and charges receivable on loans as at 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|--|----------------|----------------|
| Accrued income and charges receivable on loans | 492,951 | 425,559 |
| Less: accumulated provision for impairment | (259,458) | (228,580) |
| Balance at 31 December | 233,493 | 196,979 |

Provision for Impairment on Loan Principal and Charges Receivable

At 31 December 2016, outstanding loans with an aggregate principal balance of UA 568.52 million (2015: UA 541.73 million), of which UA 287.42 million (2015: UA 270.22 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 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|--|----------------|----------------|
| Outstanding balance on impaired loans | 568,518 | 541,726 |
| Less: accumulated provision for impairment | (251,423) | (201,846) |
| Net balance on impaired loans | 317,095 | 339,880 |
| Charges receivable and accrued income on impaired loans | 364,804 | 324,857 |
| Less: accumulated provision for impairment | (259,458) | (228,580) |
| Net charges receivable and accrued income on impaired loans | 105,346 | 96,277 |

The movements in the accumulated provision for impairment on outstanding loan principal for the years ended 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|---|----------------|----------------|
| Balance at 1 January | 201,847 | 151,288 |
| Provision for impairment on loan principal for the year (net) | 43,777 | 51,577 |
| Reversal of provision for loan written off | - | (4,967) |
| Translation effects | 5,799 | 3,948 |
| Balance at 31 December | 251,423 | 201,846 |

Accumulated provisions for impairment on outstanding loan principal included the provisions relating to public and private sector loans. During the year ended 31 December 2016, a net provision for impairment made on private sector loans amounted to UA 40.91 million (2015: provision for UA 65.99 million). The accumulated provisions on private sector loans at 31 December 2016 amounted to UA 162.68 million (2015: UA 118.36 million).

The movements in the accumulated provision for impairment on loan interest and charges receivable for the years ended 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|---|----------------|----------------|
| Balance at 1 January | 228,580 | 225,649 |
| Provision for impairment on loan charges for the year (net) | 24,033 | 13,848 |
| Reversal of provision for loan written off | - | (16,384) |
| Translation effects | 6,845 | 5,467 |
| Balance at 31 December | 259,458 | 228,580 |

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 2016, a provision for impairment was made on interest and charges receivable on private sector loans in the amount of UA 9.07 million (2015: UA 4.89 million). The accumulated provision on interest and charges receivable on private sector loans at 31 December 2016 amounted to UA 17.03 million (2015: UA 7.58 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 2016, outstanding irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 1.11 million (2015: UA 0.59 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 2016 amounted to UA 401.04 million (2015: UA 444.43 million).

Other than the guarantees above given to other entities, the Bank in 2015 entered into guarantee contracts 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. Based on the structure, such guarantees are referred to as Exposure Exchange Agreements and are primarily risk management tools. The details are in Note in D. As at 31 December 2016 the nominal amounts of these contracts was USD 4.47 billion (UA 3.33 billion).

Similarly, the Bank purchases credit enhancement facilities from the Private Sector Enhancement Facility (PSF) for some of its loans. As at 31 December 2016, the covered amounts of non-sovereign loans by PSF amounted to UA 146.90 million and the cost of this coverage for 2016 was UA 0.55 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 period. Based on the cost-sharing formula, the share of administrative expenses incurred by ADF for the year ended 31 December 2016 amounted to UA 211.73 million (2015: UA 200.93 million), representing 62.14 percent (2015: 63.14 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 2016, the Bank's pro-rata or economic share in ADF was 0.45 percent (2015: 0.48 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, no rights to variable returns from its relationship with ADF and has an economic interest of less than 1 percent in the Fund. 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) described in Note V-2, 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 2016 and 2015 are summarized below:

(Amounts in UA thousands)

| Institutions | Year Established | Callable Capital | Carrying Value | |
|--|------------------|------------------|----------------|----------------|
| | | | 2016 | 2015 |
| African Development Fund | 1972 | - | 111,741 | 111,741 |
| Accumulated share of profit/(loss) & impairment on 1 January | | | (49,490) | (49,528) |
| Share of loss for the year | | | (302) | (395) |
| Reversal of provision for the year | | | 156 | 433 |
| | | - | 62,105 | 62,251 |
| DIRECT INVESTMENTS | | | | |
| Development Finance Institutions | | | | |
| Africa50 Project Development | 2016 | - | 2,181 | - |
| Africa50 Project Finance | 2015 | 55,790 | 18,589 | 18,041 |
| Africa Prudential plc | 2015 | - | 116 | 145 |
| African Export and Import Bank | 1993 | 20,180 | 70,620 | 55,283 |
| African Guarantee Fund | 2011 | - | 7,582 | 6,908 |
| Afriland Properties plc | 2015 | - | 88 | 134 |
| Central African Development Bank (BDEAC) | 1975 | 2,152 | 1,566 | 1,326 |
| East African Development Bank | 1967 | 10,414 | 16,289 | 15,311 |
| Eastern and Southern African Trade and Development Bank | 1985 | 40,466 | 55,345 | 52,521 |
| Great Lakes Development Bank (BDEGL)* | 1980 | - | - | - |
| Shelter Afrique | 1982 | 6,099 | 930 | 13,583 |
| TCX Investment Company Mauritius Limited | 2007 | 165 | 18,176 | 15,300 |
| United Capital plc | 2015 | - | 415 | 307 |
| West African Development Bank (BOAD) | 1973 | 1,742 | 5,186 | 5,157 |
| | | 137,008 | 197,083 | 184,016 |
| Commercial Banks | | | | |
| United Bank for Africa | 1961 | - | 5,650 | 6,488 |
| | | - | 5,650 | 6,488 |
| Microfinance Institutions | | | | |
| AB Microfinance Bank Nigeria Limited | 2007 | - | 856 | 1,297 |
| Access Bank Liberia Limited | 2008 | - | 960 | 915 |
| Access Bank Tanzania Limited | 2007 | - | 652 | 650 |
| Advans Banque Congo | 2008 | - | 1,326 | 1,199 |
| MicroCred Côte d'Ivoire S.A. | 2013 | - | 680 | 826 |
| | | - | 4,474 | 4,887 |
| Insurance | | | | |
| Africa Trade Insurance Agency | 2013 | - | 11,452 | 10,831 |
| Africa-Re | 1977 | - | 49,080 | 42,544 |
| Eastern and Southern African Reinsurance Company (ZEP-RE) | 2011 | - | 17,419 | 15,543 |
| | | - | 77,951 | 68,918 |
| TOTAL DIRECT INVESTMENTS | | 137,008 | 285,158 | 264,309 |
| FUNDS | | | | |
| Africa Capitalization Fund | 2010 | 803 | 17,248 | 19,754 |
| Africa Health Fund LLC | 2009 | 3,398 | 11,897 | 9,538 |
| Africa Joint Investment Fund | 2010 | 540 | 6,482 | 13,785 |
| Africa Renewable Energy Fund L.P | 2014 | 10,106 | 7,286 | 5,380 |
| African Agriculture Fund LLC | 2010 | 1,598 | 26,148 | 22,291 |
| African Infrastructure Investment Fund 2 | 2009 | 2,360 | 20,638 | 19,745 |
| AfricInvest Fund II LLC | 2008 | 700 | 8,604 | 8,567 |
| AfricInvest Fund III LLC | 2016 | 8,935 | 6,747 | - |
| AFIG Fund II LP | 2016 | 18,027 | 454 | - |
| Agri-Vie Fund PCC | 2008 | 487 | 8,937 | 9,865 |
| Argan Infrastructure Fund | 2010 | 6,508 | 3,514 | 3,874 |
| ARM-Harith Infrastructure Fund | 2015 | 10,231 | 4,473 | 2,991 |
| Atlantic Coast Regional Fund LLC | 2008 | 1,678 | 13,175 | 16,975 |
| Aureos Africa Fund LLC | 2007 | 1,253 | 14,786 | 15,161 |
| Business Partners International Southern Africa SME Fund | 2014 | 3,228 | 1,600 | 1,184 |
| Carlyle Sub-Saharan Africa Fund (CSSAF) | 2012 | 16,346 | 5,259 | 6,583 |
| Catalyst Fund I LLC | 2010 | 464 | 8,297 | 6,753 |
| Cauris Croissance II Fund | 2012 | 1,086 | 1,425 | 1,889 |
| ECP Africa Fund II PCC | 2005 | 8,603 | 21,233 | 25,230 |
| ECP Africa Fund III PCC | 2008 | 6,369 | 44,423 | 41,224 |
| Eight Miles LLP | 2012 | 2,949 | 15,215 | 8,248 |
| Enko Africa Private Equity Fund | 2014 | 9,384 | 1,031 | 1,081 |
| Evolution One Fund | 2010 | 746 | 2,837 | 1,941 |
| GEF Africa Sustainable Forestry Fund | 2011 | 219 | 14,173 | 11,721 |
| GroFin Africa Fund | 2008 | 2,401 | 2,048 | 4,044 |
| Helios Investors II (Mauritius) Limited | 2011 | 901 | 30,135 | 25,788 |
| I & P Afrique Entrepreneurs | 2012 | 1,459 | 3,259 | 2,769 |
| Investment Fund for Health in Africa | 2010 | 1,138 | 5,436 | 5,458 |
| KIBO Fund II | 2014 | 7,339 | 1,411 | 788 |
| Maghreb Private Equity Fund II (Mauritius) PCC | 2008 | 4,397 | 10,595 | 17,431 |
| Maghreb Private Equity Fund III (Mauritius) PCC | 2012 | 1,908 | 16,119 | 14,078 |
| Moringa Mauritius Africa | 2016 | 7,034 | 807 | - |
| New Africa Mining Fund II | 2010 | - | - | - |
| Pan African Housing Fund (PAHF) | 2013 | 2,949 | 1,860 | 981 |
| Pan African Infrastructure Development Fund | 2007 | 3,062 | 29,430 | 28,835 |
| Pan African Infrastructure Development Fund II | 2014 | 6,496 | 440 | 935 |
| Pan-African Investment Partners II Limited | 2008 | - | 3 | 57 |
| South Africa Infrastructure Fund | 1996 | - | - | 19,346 |
| West Africa Emerging Market Fund | 2011 | 841 | 4,687 | 2,418 |
| TOTAL FUNDS | | 155,943 | 372,112 | 376,708 |
| TOTAL DIRECT INVESTMENTS AND FUNDS | | 292,951 | 657,270 | 641,017 |
| GRAND TOTAL | | 292,951 | 719,375 | 703,268 |

* 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 2016 amounted to UA 563.14 million (2015: UA 524.63 million).

Note K — Other securities

The Bank may invest in certain debt instruments issued by entities in its Regional Member Countries (RMCs) for the purpose of financing development projects and programs. The Bank may also invest in other securities including trade financing that meet the development objectives of its borrower member countries.

These investments are classified as financial assets at amortized cost.

The carrying amount of Other securities at 31 December 2016 was UA 54.36 million (2015: UA 46.42 million).

Note L — Property, equipment and intangible assets

(UA thousands)

| | Property and Equipment | | | | | Intangible Assets | Grand Total |
|----------------------------------|------------------------|--------------------------|---------------------------|--------------------------------|----------------------------|-------------------|---|
| | Land | Capital Work in Progress | Building and Improvements | Furniture, Fixtures & Fittings | Equipment & Motor Vehicles | Computer Software | Property, Equipment & Intangible Assets |
| 2016 | | | | | | | |
| Cost: | | | | | | | |
| Balance at 1 January | 480 | 69,803 | 24,133 | 16,375 | 62,214 | 173,005 | 23,722 |
| Put into use | - | (59,816) | 41,528 | - | 18,288 | - | - |
| Additions during the year | - | 7,423 | 262 | 1,393 | 4,305 | 13,383 | 875 |
| Disposals during the year | - | - | - | (16) | (4,101) | (4,117) | - |
| Balance at 31 December | 480 | 17,410 | 65,923 | 17,752 | 80,706 | 182,271 | 24,597 |
| Accumulated Depreciation: | | | | | | | |
| Balance at 1 January | - | - | 22,422 | 8,364 | 50,606 | 81,392 | 22,507 |
| Depreciation during the year | - | - | 1,122 | 2,590 | 5,292 | 9,004 | 1,031 |
| Disposals during the year | - | - | - | (17) | (4,091) | (4,108) | - |
| Balance at 31 December | - | - | 23,544 | 10,937 | 51,807 | 86,288 | 23,538 |
| Net Book Values: | | | | | | | |
| 31 December 2016 | 480 | 17,410 | 42,379 | 6,815 | 28,899 | 95,983 | 1,059 |

(UA thousands)

| | Property and Equipment | | | | | Intangible Assets | Grand Total |
|----------------------------------|------------------------|--------------------------|---------------------------|--------------------------------|----------------------------|-------------------|---|
| | Land | Capital Work in Progress | Building and Improvements | Furniture, Fixtures & Fittings | Equipment & Motor Vehicles | Computer Software | Property, Equipment & Intangible Assets |
| 2015 | | | | | | | |
| Cost: | | | | | | | |
| Balance at 1 January | 480 | 56,345 | 23,314 | 18,843 | 66,042 | 165,024 | 22,668 |
| Additions during the year | - | 13,533 | 819 | 3,346 | 4,980 | 22,678 | 1,062 |
| Disposals during the year | - | (75) | - | (5,814) | (8,808) | (14,697) | (8) |
| Balance at 31 December | 480 | 69,803 | 24,133 | 16,375 | 62,214 | 173,005 | 23,722 |
| Accumulated Depreciation: | | | | | | | |
| Balance at 1 January | - | - | 22,121 | 11,780 | 53,509 | 87,410 | 21,448 |
| Depreciation during the year | - | - | 301 | 2,173 | 5,511 | 7,985 | 1,067 |
| Disposals during the year | - | - | - | (5,589) | (8,414) | (14,003) | (8) |
| Balance at 31 December | - | - | 22,422 | 8,364 | 50,606 | 81,392 | 22,507 |
| Net Book Values: | | | | | | | |
| 31 December 2015 | 480 | 69,803 | 1,711 | 8,011 | 11,608 | 91,613 | 1,215 |

The land on which the Headquarters 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 perfect the transfer of title to the Bank are underway.

Note M — Borrowings

As at 31 December 2016 and 2015, the Bank's borrowings were as follows:

(UA millions)

| | 2016 | 2015 |
|------------------------------|------------------|------------------|
| Borrowings at fair value | 20,007.61 | 15,851.25 |
| Borrowings at amortized cost | 636.54 | 598.01 |
| Total | 20,644.15 | 16,449.26 |

The Bank's borrowings as at 31 December 2016 included subordinated borrowings in the amount of UA 230.07 million (2015: UA 223.09 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 2016 was UA 28.22 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 2016 and 2015 was as follows:

Borrowings and Swaps as at 31 December 2016

(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) | Weighted Average Cost ^(b) (%) | Average Maturity (Years) | Notional Amount Payable/ (Receivable) | Weighted Average Cost ^(b) (%) | Average Maturity (Years) |
| Euro | Fixed | 1,076.66 | - | 0.26 | 6.8 | 133.81 | 8.71 | 2.7 | (1,039.72) | 0.20 | 6.5 |
| | | - | - | - | - | (59.59) | 1.08 | 0.2 | - | - | - |
| | Adjustable | - | - | - | - | 5,990.09 | (0.37) | 3.5 | 1,039.72 | (0.39) | 6.5 |
| | | - | - | - | - | (187.52) | (0.60) | 1.1 | - | - | - |
| GBP | Fixed | 231.35 | - | 0.88 | 1.9 | - | - | - | - | - | - |
| | | - | - | - | - | (228.77) | 0.01 | 1.9 | - | - | - |
| | Adjustable | - | - | - | - | - | - | - | - | - | - |
| | | - | - | - | - | - | - | - | - | - | - |
| Japanese Yen | Fixed | 856.71 | 130.56 | 0.91 | 31.1 | - | - | - | - | - | - |
| | | - | - | - | - | (958.54) | 0.90 | 30.9 | - | - | - |
| | Adjustable | 372.80 | - | 3.95 | 3.8 | 60.95 | (0.71) | 4.2 | 15.92 | (0.44) | 7.7 |
| | | - | - | - | - | (327.99) | 3.88 | 9.3 | (15.92) | 2.04 | 7.7 |
| US Dollar | Fixed | 12,121.52 | 379.37 | 1.71 | 2.4 | - | - | - | - | - | - |
| | | - | - | - | - | (3,868.10) | 1.73 | 1.9 | (8,410.21) | 1.47 | 2.4 |
| | Adjustable | 1,434.73 | - | 0.87 | 1.7 | 3,218.44 | 0.86 | 12.0 | 9,857.51 | 1.06 | 2.3 |
| | | - | - | - | - | (1,479.09) | 0.67 | 4.0 | (1,435.66) | 0.96 | 1.7 |
| Others ^(d) | Fixed | 3,831.52 | 127.52 | 4.40 | 4.8 | - | - | - | - | - | - |
| | | - | - | - | - | (3,058.89) | 3.91 | 5.1 | (777.01) | 4.02 | 9.8 |
| | Adjustable | 82.32 | 2.58 | 0.33 | 2.3 | 1,012.88 | 7.21 | 3.2 | 565.24 | 3.79 | 9.8 |
| | | - | - | - | - | (630.98) | 5.06 | 2.0 | - | - | - |
| Total | Fixed | 18,117.76 | 637.45 | 2.15 | 4.6 | 133.81 | 8.71 | 2.7 | (1,039.72) | 0.20 | 6.5 |
| | | - | - | - | - | (8,173.90) | 2.42 | 6.5 | (9,178.22) | 1.69 | 3.0 |
| | Adjustable | 1,889.85 | 2.58 | 1.45 | 2.2 | 10,282.36 | 0.76 | 6.2 | 11,478.39 | 1.06 | 3.1 |
| | | - | - | - | - | (2,625.57) | 2.03 | 4.0 | (1,451.58) | 0.97 | 1.8 |
| Principal at face value | | 20,007.61 | 640.03 | 2.08 | 4.5 | (383.30) | - | - | (191.13) | - | - |
| Net unamortized premium/(discount) | | - | (3.49) | - | - | 733.36 | - | - | 229.74 | - | - |
| | | 20,007.61 | 636.54 | 2.08 | 4.5 | 350.06 | - | - | 38.61 | - | - |
| Fair valuation adjustment | | - | - | - | - | 229.29 ^(c) | - | - | (139.34) ^(c) | - | - |
| Total | | 20,007.61 | 636.54 | 2.08 | 4.5 | 572.35 | - | - | (100.73) | - | - |

Supplementary disclosure (direct borrowings):

The notional amount of borrowings at 31 December 2016 was UA 20,644.15 million and the estimated fair value was UA 20,725.75 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 2016.

(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 as at 31 December 2015

(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) | Weighted Average Cost ^(b) (%) | Average Maturity (Years) | Notional Amount Payable/ (Receivable) | Weighted Average Cost ^(b) (%) | Average Maturity (Years) |
| Euro | Fixed | 118.74 | - | 0.28 | 1.3 | 213.65 | 6.63 | 5.3 | - | - | - |
| | | - | - | - | - | - | - | - | (117.85) | 0.28 | 1.3 |
| | Adjustable | - | - | - | - | (271.05) | (0.35) | 1.5 | 117.85 | (0.23) | 1.3 |
| | | - | - | - | - | 5,740.60 | (0.17) | 3.5 | - | - | - |
| Japanese Yen | Fixed | 771.80 | 122.67 | 0.88 | 33.3 | - | - | - | - | - | - |
| | | - | - | - | - | (831.75) | 0.86 | 34.2 | - | - | - |
| | Adjustable | 351.94 | - | 4.30 | 4.3 | 15.71 | (0.49) | 6.6 | 14.36 | (0.31) | 8.7 |
| | | - | - | - | - | (371.00) | 3.34 | 9.6 | (14.36) | 2.47 | 8.7 |
| US Dollar | Fixed | 10,085.14 | 368.04 | 1.58 | 1.6 | - | - | - | - | - | - |
| | | - | - | - | - | (4,293.77) | 1.75 | 2.2 | (5,357.47) | 1.65 | 2.5 |
| | Adjustable | 178.59 | - | 0.85 | 0.9 | 3,848.06 | 0.27 | 9.9 | 5,625.48 | 0.45 | 2.4 |
| | | - | - | - | - | (759.27) | (0.08) | 4.0 | (238.13) | 1.60 | 0.7 |
| Others ^(d) | Fixed | 3,954.45 | 58.15 | 3.16 | 4.2 | - | - | - | - | - | - |
| | | - | - | - | - | (3,476.88) | 3.17 | 4.0 | (572.08) | 1.77 | 1.6 |
| | Adjustable | 390.59 | 49.77 | 5.22 | 2.0 | 614.98 | 5.64 | 3.1 | 503.33 | 2.75 | 1.8 |
| | | - | - | - | - | (684.60) | 3.94 | 2.3 | - | - | - |
| Total | Fixed | 14,930.13 | 548.86 | 1.94 | 4.1 | 213.65 | 6.63 | 5.3 | - | - | - |
| | | - | - | - | - | (8,602.39) | 2.24 | 6.0 | (6,047.40) | 1.54 | 1.9 |
| | Adjustable | 921.12 | 49.77 | 4.08 | 2.7 | 4,207.70 | 1.09 | 9.5 | 6,261.02 | 0.83 | 2.4 |
| | | - | - | - | - | 3,925.73 | (1.24) | 3.1 | (252.49) | (0.54) | (1.0) |
| Principal at face value | | 15,851.25 | 598.63 | 2.07 | 4.0 | (255.31) | - | - | (38.87) | - | - |
| Net unamortized premium/(discount) | | - | (0.62) | - | - | 519.40 | - | - | 34.59 | - | - |
| | | 15,851.25 | 598.01 | 2.07 | 4.0 | 264.09 | - | - | (4.28) | - | - |
| Fair valuation adjustment | | - | - | - | | 171.55 ^(c) | - | - | 29.54 ^(c) | - | - |
| Total | | 15,851.25 | 598.01 | 2.07 | 4.0 | 435.64 | - | - | 25.26 | - | |

Supplementary disclosure (direct borrowings):

The notional amount of borrowings at 31 December 2015 was UA 16,449.26 million and the estimated fair value was UA 16,553.69 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 2015.

(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 2016 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

| Periods | Ordinary | Callable | Total |
|--|------------------|---------------|------------------|
| One year or less | 3,749.90 | 285.69 | 4,035.59 |
| More than one year but less than two years | 4,882.12 | 20.51 | 4,902.63 |
| More than two years but less than three years | 3,145.94 | 1.34 | 3,147.28 |
| More than three years but less than four years | 1,761.66 | 34.94 | 1,796.60 |
| More than four years but less than five years | 1,974.30 | - | 1,974.30 |
| More than five years | 3,934.19 | 217.02 | 4,151.21 |
| Total | 19,448.11 | 559.50 | 20,007.61 |

ii) Borrowings Carried at Amortized Cost

(UA millions)

| Periods | Ordinary | Callable | Total |
|--|---------------|--------------|---------------|
| One year or less | 4.80 | - | 4.80 |
| More than one year but less than two years | 31.07 | - | 31.07 |
| More than two years but less than three years | 169.10 | - | 169.10 |
| More than three years but less than four years | 11.84 | - | 11.84 |
| More than four years but less than five years | 56.76 | 63.68 | 120.44 |
| More than five years | 302.78 | - | 302.78 |
| Subtotal | 576.35 | 63.68 | 640.03 |
| Net unamortized premium and discount | (3.49) | - | (3.49) |
| Total | 572.86 | 63.68 | 636.54 |

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at 31 December 2015 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

| Periods | Ordinary | Callable | Total |
|--|------------------|---------------|------------------|
| One year or less | 3,530.54 | 192.29 | 3,722.83 |
| More than one year but less than two years | 3,137.85 | - | 3,137.85 |
| More than two years but less than three years | 3,066.91 | - | 3,066.91 |
| More than three years but less than four years | 1,107.37 | 1.33 | 1,108.70 |
| More than four years but less than five years | 1,182.68 | 2.37 | 1,185.05 |
| More than five years | 3,600.75 | 29.16 | 3,629.91 |
| Total | 15,626.10 | 225.15 | 15,851.25 |

ii) Borrowings Carried at Amortized Cost

(UA millions)

| Periods | Ordinary | Callable | Total |
|--|---------------|--------------|---------------|
| One year or less | 4.93 | - | 4.93 |
| More than one year but less than two years | 5.93 | - | 5.93 |
| More than two years but less than three years | 19.78 | - | 19.78 |
| More than three years but less than four years | 162.29 | - | 162.29 |
| More than four years but less than five years | 4.93 | - | 4.93 |
| More than five years | 340.93 | 59.84 | 400.77 |
| Subtotal | 538.79 | 59.84 | 598.63 |
| Net unamortized premium and discount | (0.62) | - | (0.62) |
| Total | 538.17 | 59.84 | 598.01 |

The fair value of borrowings carried at fair value through profit or loss at 31 December 2016 was UA 20,007.61 million (2015: UA 15,851.25 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at 31 December 2016 was UA 20,346.44 million (2015: UA 15,848.51 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per Note P, there was a loss of UA 68.83 million on fair-valued borrowings and related derivatives for the year ended 31 December 2016 (2015: net loss of UA 38.81 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 2016 was a loss of UA 13.11 million (2015: gain of UA 73.06 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 2016, the cumulative unrealized fair value losses to date were UA 720.68 million (2015: losses of UA 770.29 million).

Note N – 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 six 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 20 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 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|---|------------------|------------------|
| Capital Authorized (in shares of UA 10 000 each) | 66,975,050 | 66,975,050 |
| Less: Unsubscribed | (1,488,883) | (1,492,542) |
| Subscribed Capital | 65,486,167 | 65,482,508 |
| Less: Callable Capital | (60,588,775) | (60,598,095) |
| Paid-up Capital | 4,897,392 | 4,884,413 |
| Shares to be issued upon payment of future installments | (878,060) | (1,157,150) |
| Add: Amounts paid in advance | 560 | 445 |
| | 4,019,892 | 3,727,708 |
| Less: Amounts in arrears | (17) | (17) |
| Capital at 31 December | 4,019,875 | 3,727,691 |

Included in the total unsubscribed shares of UA 1,488.88 million at 31 December 2016 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 2016 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 | 273,459 | 4.233 | 168,046 | 2,566,550 | 274,084 | 4.211 |
| 2 Angola | 75,439 | 1.168 | 41,629 | 712,772 | 76,064 | 1.169 |
| 3 Benin | 12,447 | 0.193 | 6,942 | 117,532 | 13,072 | 0.201 |
| 4 Botswana | 69,627 | 1.078 | 63,433 | 632,845 | 70,252 | 1.079 |
| 5 Burkina Faso | 25,741 | 0.398 | 14,649 | 242,775 | 26,366 | 0.405 |
| 6 Burundi | 15,367 | 0.238 | 9,709 | 143,966 | 15,992 | 0.246 |
| 7 Cabo Verde | 4,944 | 0.076 | 3,346 | 46,100 | 5,569 | 0.086 |
| 8 Cameroon | 69,847 | 1.081 | 38,202 | 660,281 | 70,472 | 1.083 |
| 9 Central African Republic | 2,720 | 0.042 | 1,802 | 25,412 | 3,345 | 0.051 |
| 10 Chad | 4,278 | 0.066 | 2,548 | 40,240 | 4,903 | 0.075 |
| 11 Comoros | 542 | 0.008 | 605 | 4,826 | 1,167 | 0.018 |
| 12 Congo | 29,309 | 0.454 | 16,758 | 276,350 | 29,934 | 0.460 |
| 13 Côte d'Ivoire | 241,341 | 3.736 | 143,749 | 2,269,670 | 241,966 | 3.718 |
| 14 Democratic Republic of Congo | 83,552 | 1.293 | 52,126 | 783,395 | 84,177 | 1.293 |
| 15 Djibouti | 1,213 | 0.019 | 1,517 | 10,618 | 1,838 | 0.028 |
| 16 Egypt | 358,016 | 5.542 | 220,711 | 3,359,460 | 358,641 | 5.510 |
| 17 Equatorial Guinea | 9,431 | 0.146 | 6,395 | 87,917 | 10,056 | 0.154 |
| 18 Eritrea | 2,003 | 0.031 | 2,506 | 17,522 | 2,628 | 0.040 |
| 19 Ethiopia | 101,981 | 1.579 | 56,878 | 962,940 | 102,606 | 1.576 |
| 20 Gabon | 70,772 | 1.096 | 48,390 | 659,348 | 71,397 | 1.097 |
| 21 Gambia | 9,796 | 0.152 | 5,571 | 92,413 | 10,421 | 0.160 |
| 22 Ghana | 137,701 | 2.132 | 76,129 | 1,300,871 | 138,326 | 2.125 |
| 23 Guinea | 26,005 | 0.403 | 15,095 | 244,961 | 26,630 | 0.409 |
| 24 Guinea Bissau | 1,458 | 0.023 | 870 | 13,720 | 2,083 | 0.032 |
| 25 Kenya | 92,976 | 1.439 | 51,863 | 877,900 | 93,601 | 1.438 |
| 26 Lesotho | 3,724 | 0.058 | 4,039 | 33,210 | 4,349 | 0.067 |
| 27 Liberia | 12,445 | 0.193 | 7,827 | 116,637 | 13,070 | 0.201 |
| 28 Libya | 193,171 | 2.990 | 120,463 | 1,811,247 | 193,796 | 2.977 |
| 29 Madagascar | 41,412 | 0.641 | 23,097 | 391,030 | 42,037 | 0.646 |
| 30 Malawi | 16,812 | 0.260 | 10,043 | 158,080 | 17,437 | 0.268 |
| 31 Mali | 27,959 | 0.433 | 15,712 | 263,881 | 28,584 | 0.439 |
| 32 Mauritania | 3,706 | 0.057 | 4,145 | 32,915 | 4,331 | 0.067 |
| 33 Mauritius | 42,309 | 0.655 | 32,865 | 390,230 | 42,934 | 0.660 |
| 34 Morocco | 232,534 | 3.600 | 154,342 | 2,171,000 | 233,159 | 3.582 |
| 35 Mozambique | 38,221 | 0.592 | 22,528 | 359,697 | 38,846 | 0.597 |
| 36 Namibia | 22,236 | 0.344 | 15,217 | 207,150 | 22,861 | 0.351 |
| 37 Niger | 15,341 | 0.237 | 9,674 | 143,742 | 15,966 | 0.245 |
| 38 Nigeria | 577,177 | 8.935 | 375,952 | 5,407,433 | 577,802 | 8.877 |
| 39 Rwanda | 8,509 | 0.132 | 4,787 | 80,303 | 9,134 | 0.140 |
| 40 São Tomé & Príncipe | 4,365 | 0.068 | 2,610 | 41,054 | 4,990 | 0.077 |
| 41 Senegal | 67,574 | 1.046 | 37,508 | 638,241 | 68,199 | 1.048 |
| 42 Seychelles | 1,827 | 0.028 | 1,778 | 16,499 | 2,452 | 0.038 |
| 43 Sierra Leone | 18,648 | 0.289 | 11,113 | 175,381 | 19,273 | 0.296 |
| 44 Somalia | 1,941 | 0.030 | 2,427 | 16,986 | 2,566 | 0.039 |
| 45 South Africa | 327,518 | 5.070 | 193,420 | 3,081,600 | 328,143 | 5.042 |
| 46 South Sudan | 29,383 | 0.455 | 1,695 | 292,140 | 30,008 | 0.461 |
| 47 Sudan | 21,450 | 0.332 | 13,621 | 200,877 | 22,075 | 0.339 |
| 48 Swaziland | 7,388 | 0.114 | 8,350 | 65,530 | 8,013 | 0.123 |
| 49 Tanzania | 49,204 | 0.762 | 27,718 | 464,337 | 49,829 | 0.766 |
| 50 Togo | 10,122 | 0.157 | 6,049 | 95,171 | 10,747 | 0.165 |
| 51 Tunisia | 90,577 | 1.402 | 61,525 | 844,260 | 90,341 | 1.388 |
| 52 Uganda | 29,021 | 0.449 | 16,875 | 273,347 | 29,646 | 0.455 |
| 53 Zambia | 75,956 | 1.176 | 42,663 | 716,865 | 76,558 | 1.176 |
| 54 Zimbabwe | 133,571 | 2.068 | 77,555 | 1,258,158 | 134,196 | 2.062 |
| Total Regionals | 3,824,066 | 59.199 | 2,355,067 | 35,897,385 | 3,856,932 | 59.257 |

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 | 3,824,066 | 59.199 | 2,355,067 | 35,897,385 | 3,856,932 | 59.257 |
| 55 Argentina | 5,847 | 0.091 | 6,107 | 52,364 | 6,472 | 0.099 |
| 56 Austria | 28,915 | 0.448 | 18,495 | 270,660 | 29,540 | 0.454 |
| 57 Belgium | 41,366 | 0.640 | 24,492 | 389,180 | 41,992 | 0.645 |
| 58 Brazil | 23,785 | 0.368 | 14,051 | 223,806 | 24,411 | 0.375 |
| 59 Canada | 250,904 | 3.884 | 180,903 | 2,328,140 | 251,529 | 3.864 |
| 60 China | 76,159 | 1.179 | 47,526 | 714,080 | 76,784 | 1.180 |
| 61 Denmark | 76,484 | 1.184 | 55,409 | 709,440 | 77,109 | 1.185 |
| 62 Finland | 31,655 | 0.490 | 20,248 | 296,310 | 32,280 | 0.496 |
| 63 France | 243,211 | 3.765 | 155,557 | 2,276,560 | 243,836 | 3.746 |
| 64 Germany | 267,940 | 4.148 | 158,645 | 2,520,760 | 268,565 | 4.126 |
| 65 India | 16,626 | 0.257 | 10,347 | 155,920 | 17,251 | 0.265 |
| 66 Italy | 157,167 | 2.433 | 100,507 | 1,471,170 | 157,792 | 2.424 |
| 67 Japan | 355,667 | 5.506 | 227,490 | 3,329,180 | 356,292 | 5.474 |
| 68 Korea | 31,153 | 0.482 | 19,418 | 292,060 | 31,778 | 0.488 |
| 69 Kuwait | 29,208 | 0.452 | 21,420 | 270,660 | 29,833 | 0.458 |
| 70 Luxembourg | 13,012 | 0.201 | 3,001 | 127,130 | 13,637 | 0.210 |
| 71 Netherlands | 56,584 | 0.876 | 35,461 | 530,400 | 57,209 | 0.879 |
| 72 Norway | 76,038 | 1.177 | 48,126 | 712,260 | 76,663 | 1.178 |
| 73 Portugal | 15,500 | 0.240 | 9,258 | 145,750 | 16,125 | 0.248 |
| 74 Saudi Arabia | 12,483 | 0.193 | 7,395 | 117,440 | 13,108 | 0.201 |
| 75 Spain | 69,279 | 1.073 | 49,351 | 643,440 | 69,904 | 1.074 |
| 76 Sweden | 101,711 | 1.575 | 64,206 | 952,920 | 102,336 | 1.572 |
| 77 Switzerland | 94,969 | 1.470 | 60,743 | 888,950 | 95,594 | 1.469 |
| 78 Turkey | 21,512 | 0.333 | 3,244 | 211,890 | 22,137 | 0.340 |
| 79 United Kingdom | 113,399 | 1.756 | 71,438 | 1,062,560 | 114,024 | 1.752 |
| 80 United States of America | 425,032 | 6.580 | 251,970 | 3,998,360 | 425,657 | 6.540 |
| Total Non-Regionals | 2,635,606 | 40.801 | 1,664,808 | 24,691,390 | 2,651,858 | 40.743 |
| Grand Total | 6,459,672 | 100.000 | 4,019,875 | 60,588,775 | 6,508,790 | 100.000 |

The subscription position including the distribution of voting rights at 31 December 2016 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 2016 and 2015, the Cumulative Exchange Adjustment on Subscriptions was as follows:

(UA thousands)

| | 2016 | 2015 |
|---|----------------|----------------|
| Balance at 1 January | 168,842 | 173,538 |
| Net conversion gains on new subscriptions | (7,798) | (4,696) |
| Balance at 31 December | 161,044 | 168,842 |

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 remeasurements of defined liability.

Retained Earnings

Retained earnings included 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 included the transition adjustments resulting from the adoption of new or revised financial reporting standards, where applicable.

The movements in retained earnings during 2015 and 2016 were as follows:

(UA thousands)

| | |
|------------------------------------|------------------|
| Balance at 1 January 2015 | 2,996,435 |
| Net income for the year | (30,840) |
| Balance at 31 December 2015 | 2,965,595 |
| Net income for the current year | 25,070 |
| Balance at 31 December 2016 | 2,990,665 |

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 2016 and 2015, the allocable income was as follows:

(UA thousands)

| | 2016 | 2015 |
|---|----------------|----------------|
| Income before Board of Governors' approved distribution | 120,070 | 93,160 |
| Unrealized losses on borrowings and derivatives | 78,778 | 49,516 |
| Translation gains | (998) | (14,605) |
| Unrealized losses on macro hedge swaps | 5,477 | 9,332 |
| Allocable income | 203,327 | 137,403 |

During the year, the Board of Governors approved the distribution of UA 95.00 million (2015: UA 124.00 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.

The movement in the surplus account during 2015 and 2016 is as follows:

(UA thousands)

| | |
|---|--------------|
| Balance at 1 January 2015 | 8,442 |
| Allocation from 2014 net income | 25,000 |
| Distribution to Special Relief Fund | (10,000) |
| Distribution to MIC Technical Assistance Fund | (8,000) |
| Distribution to NEPAD Infrastructure Project Preparation Facility | (8,000) |
| Balance at 31 December 2015 | 7,442 |
| Balance at 1 January 2016 | 7,442 |
| Allocation from 2015 net income | 11,000 |
| Distribution to Special Relief Fund | (6,000) |
| Distribution to MIC Technical Assistance Fund | (5,000) |
| Balance at 31 December 2016 | 7,442 |

Distributions to entities for development purposes, including those made from the surplus account, for the years ended 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|---|---------------|----------------|
| African Development Fund (ADF) | 43,000 | 51,000 |
| Post Conflict Assistance - DRC | 41,000 | 47,000 |
| Special Relief Fund | 6,000 | 10,000 |
| MIC Technical Assistance Fund | 5,000 | 8,000 |
| NEPAD Infrastructure Project Preparation Facility | - | 8,000 |
| Total | 95,000 | 124,000 |

Note O — Income from loans and investments and related derivatives

Income from Loans and related derivatives

Income from loans and related derivatives for the years ended 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|---------------------------------------|----------------|----------------|
| Interest income on loans not impaired | 348,068 | 305,609 |
| Interest income on impaired loans | 36,868 | 32,898 |
| Interest expense on loan swaps | (34,435) | (37,401) |
| Commitment charges | 16,376 | 11,430 |
| Trade finance guarantee fees | 2,028 | 1,965 |
| Statutory commission | 283 | 270 |
| Total | 369,188 | 314,771 |

Income from Investments and Related Derivatives

Income from investments and related derivatives for the years ended 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|---|----------------|----------------|
| Interest income | 170,166 | 151,680 |
| Realized fair value losses on investments | (22,416) | (4,966) |
| Unrealized fair value gains/(losses) on investments | 7,957 | (24,501) |
| Total | 155,707 | 122,213 |

Total interest income on investments at amortized cost for the year ended 31 December 2016 was UA 133.01 million (2015: UA 102.64 million).

During the year, 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 to align its net assets to the SDR basket, Management approved the disposal of certain financial assets held at amortized cost (dominated in USD; Euro; JPY; GBP) to fund the acquisition of Chinese Yuan Renminbi financial assets. The nominal value of the disposed financial assets was UA 365.57 million while the proceeds amounted to UA 393.02 million. The gain on disposal of UA 27.45 million was included in the income statement.

Note P — Borrowing expenses

Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the years ended 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|--------------------------------|----------------|----------------|
| Charges to bond issuers | 375,213 | 344,336 |
| Amortization of issuance costs | (2,161) | 1,798 |
| Total | 373,052 | 346,134 |

Total interest expense for financial liabilities not at fair value through profit or loss for the year ended 31 December 2016 was UA 1.85 million (2015: UA 61.34 million).

Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the years ended 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|------------------------------------|------------------|------------------|
| Interest on derivatives payable | 187,833 | 108,841 |
| Interest on derivatives receivable | (384,094) | (326,461) |
| Total | (196,261) | (217,620) |

Gains/losses on Borrowings, Related Derivatives and Others

Gains/losses on borrowings, related derivatives and others for the years ended 31 December 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|--|-----------------|-----------------|
| Unrealized losses on fair-valued borrowings and related derivatives | (68,834) | (38,814) |
| Gains/(losses) on derivatives on non-fair valued borrowings and others | 790 | (10,702) |
| Total | (68,044) | (49,516) |

The gain on derivatives on non-fair valued borrowings and others for the year ended 31 December 2016 amounted to UA 0.79 million (2015: loss UA 10.70 million). This included the income statement effects of the hedge accounting, consisting of unrealized loss of UA 0.65 million, representing hedge effectiveness and UA 4.03 million 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 (Credit Valuation Adjustment) for the year ended 31 December 2016 amounted to UA 1.42 million (2015: loss UA 11.22 million), whilst valuation adjustment gain relating to credit risk in derivative financial liabilities (Funding Valuation Adjustment) for the year ended 31 December 2016 was UA 8.89 million (2015: loss UA 0.34 million).

Note Q — 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)

| | 2016 | 2015 |
|------------------------|----------------|----------------|
| Manpower expenses* | 266,707 | 250,672 |
| Other general expenses | 75,557 | 72,623 |
| Total | 342,264 | 323,295 |
| Reimbursable by ADF | (211,733) | (200,932) |
| Reimbursable by NTF | (471) | (364) |
| Net | 130,060 | 121,999 |

* Share of ADB manpower expenses amount - UA 105.91 million (2015: UA 96.78 million).

Included in general administrative expenses is an amount of UA 10.02 million (2015: UA 7.80 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 as follows:

(UA thousands)

| | 2016 | 2015 |
|--|---------------|---------------|
| Within one year | 7,131 | 8,141 |
| In the second to fifth years inclusive | 7,192 | 9,273 |
| Total | 14,323 | 17,414 |

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 R — 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.

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 2016, 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 pension and post-employment medical benefit expenses for 2016 and 2015 for the Bank, the ADF and the NTF combined (the Bank Group) comprised the following:

(UA millions)

| | Staff Retirement Plan | | Medical Benefit Plan | |
|--------------------------------|-----------------------|--------------|----------------------|---------------|
| | 2016 | 2015 | 2016 | 2015 |
| Current service cost – gross | 43.22 | 48.45 | 13.21 | 13.82 |
| Past service cost amendments | - | - | - | (16.22) |
| Less: employee contributions | (9.98) | (9.11) | (3.14) | (2.46) |
| Net current service cost | 33.24 | 39.34 | 10.07 | (4.86) |
| Interest cost | 22.64 | 21.03 | 5.18 | 4.44 |
| Expected return on plan assets | (18.74) | (15.90) | - | - |
| Expense for the year | 37.14 | 44.47 | 15.25 | (0.42) |

As at 31 December 2016, the Bank had a liability to the SRP amounting to UA 282.04 million (2015: UA 128.90 million) while the Bank's liability to the post-employment aspect of the MBP amounted to UA 193.11 million (2015: UA 145.64 million).

As at 31 December 2016 and 2015 the determination of these liabilities, which are included in “Other accounts payable” on the Balance Sheet is set out below:

(UA millions)

| | Staff Retirement Plan | | Medical Benefit Plan | |
|--|-----------------------|-----------------|----------------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 |
| Fair value of plan assets: | | | | |
| Market value of plan assets at beginning of year | 550.50 | 508.93 | 39.13 | 34.55 |
| Actual return on assets | 46.45 | (8.95) | (0.03) | 0.06 |
| Employer's contribution | 19.96 | 60.34 | 6.29 | 5.03 |
| Plan participants' contribution during the year | 9.98 | 9.11 | 3.14 | 2.46 |
| Benefits paid | (22.29) | (18.93) | (2.99) | (2.97) |
| Market value of plan assets at end of year | 604.60 | 550.50 | 45.54 | 39.13 |
| Present value of defined benefit obligation: | | | | |
| Benefit obligation at beginning of year | 679.40 | 689.48 | 184.77 | 175.36 |
| Current service cost | 33.24 | 39.34 | 10.07 | 11.36 |
| Employee contributions | 9.98 | 9.11 | 3.14 | 2.46 |
| Interest cost | 22.64 | 21.03 | 6.63 | 5.55 |
| Actual (gain)/loss | 163.67 | (60.63) | 37.03 | 9.23 |
| Benefits paid | (22.29) | (18.93) | (2.99) | (2.97) |
| Past service cost amendments | - | - | - | (16.22) |
| Benefit obligation at end of year | 886.64 | 679.40 | 238.65 | 184.77 |
| Funded status: | | | | |
| Liability recognized on the balance sheet at 31 December, representing excess of benefit over plan asset | (282.04) | (128.90) | (193.11) | (145.64) |

There were no unrecognized past service costs at 31 December 2016 and 2015. At 31 December 2016, the cumulative net actuarial losses recognized directly in equity through other comprehensive income for the SRP were UA 335.23 million (2015: losses of UA 199.26 million). The cumulative net actuarial losses recognized directly in equity through other comprehensive income for MBP were UA 88.60 million (2015: losses of UA 50.10 million).

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

(UA millions)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Staff Retirement Plan: | | | | | |
| Fair value of plan assets | 604.60 | 550.50 | 508.93 | 454.01 | 415.84 |
| Present value of defined benefit obligation | (886.64) | (679.40) | (689.48) | (550.31) | (523.13) |
| Deficit funding | (282.04) | (128.90) | (180.55) | (96.30) | (107.29) |
| Experience adjustments on plan assets | 3.74 | (23.97) | 0.89 | (26.37) | (33.05) |
| Experience adjustments on plan liabilities | (338.96) | (175.29) | (235.93) | (140.24) | (163.59) |
| Net | (335.22) | (199.26) | (235.04) | (166.61) | (196.64) |

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

(UA millions)

| | 2016 | 2015 | 2014 | 2013 | 2012 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| Medical Benefit Plan: | | | | | |
| Fair value of Plan assets | 45.54 | 39.13 | 34.55 | 30.81 | 25.85 |
| Present value of defined benefit obligation | (238.65) | (184.77) | (175.36) | (161.60) | (158.85) |
| Deficit funding | (193.11) | (145.64) | (140.81) | (130.79) | (133.00) |
| Experience adjustments on plan assets | (6.49) | (5.01) | (3.96) | (2.89) | (2.18) |
| Experience adjustments on plan liabilities | (82.11) | (45.09) | (35.86) | (43.64) | (60.23) |
| Net | (88.60) | (50.10) | (39.82) | (46.53) | (62.41) |

Assumptions used in the latest available actuarial valuations at 31 December 2016 and 2015 were as follows:

(Percentages)

| | Staff Retirement Plan | | Medical Benefit Plan | |
|------------------------------|-----------------------|------|----------------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| Discount rate | 3.02 | 3.40 | 3.02 | 3.40 |
| Rate of salary increase | 4.00 | 3.65 | 4.00 | 3.65 |
| Future pension increase | 2.00 | 2.15 | | |
| Health care cost growth rate | | | 5.00 | 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 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 17.89 years and 18.5 years, respectively.

The following table shows projected benefit cash flow outgo:

(UA millions)

| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 to 2026 |
|--------------------|-------|-------|-------|-------|-------|--------------|
| Cash flow from MBP | 3.13 | 3.35 | 3.56 | 3.77 | 4.00 | 23.87 |
| Cash flow from SRP | 26.72 | 32.54 | 31.68 | 35.49 | 33.08 | 186.72 |

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 | |
|--|-------------|--------|-------------|----------|
| | 2016 | 2015 | 2016 | 2015 |
| Effect on total service and interest cost | 6,406 | 6,052 | (4,635) | (4,346) |
| Effect on post-retirement benefit obligation | 79,252 | 57,701 | (58,721) | (43,568) |

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 | |
|--|-------------|--------|-------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Effect on total service and interest cost | 11,297 | 6,441 | (15,482) | (8,458) |
| Effect on post-retirement benefit obligation | 138,625 | 94,693 | (181,702) | (120,986) |

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 2016 and 2015 for the Staff Retirement Plan:

(UA thousands)

| | 2016 | 2015 |
|-------------------|----------------|----------------|
| Debt securities | 278,628 | 257,274 |
| Equity securities | 215,087 | 199,555 |
| Property | 97,674 | 87,975 |
| Others | 133 | - |
| Total | 591,522 | 544,804 |

At 31 December 2016 and 2015, 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 2017, are UA 57.43 million and UA 18.51 million, respectively.

Note S — 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 N. 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 allocations by the Bank to ADF are reported as Other Resources in the Fund's financial statements. Net income allocation to the Fund in 2016 amounted to UA 43 million (2015: UA 51 million).

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 Q.

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 2016 and 2015 are disclosed in Note V-5.

The Bank charges fees for managing some of these funds. Management fees received by the Bank for the year ended 31 December 2016 amounted to UA 1.71 million (2015: UA 1.70 million).

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

Management Personnel Compensation

Compensation paid to the Bank's management personnel and executive directors during the years ended 31 December 2016, and 2015 was made up as follows:

(UA thousands)

| | 2016 | 2015 |
|---|---------------|---------------|
| Salaries | 21,074 | 20,351 |
| Termination and other benefits | 9,644 | 11,403 |
| Contribution to retirement and medical plan | 4,611 | 4,269 |
| Total | 35,329 | 36,023 |

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 2016, outstanding balances on loans and advances to management staff amounted to UA 4.89 million (2015: UA 5.83 million).

Note T — 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 2016 and 2015 is detailed as follows:

(UA thousands)

| | 2016 | 2015 |
|------------------------------------|----------------|----------------|
| Interest income from loans | | |
| Fixed rate loans | 312,743 | 272,224 |
| Variable rate loans | 14,147 | 13,717 |
| Floating rate loans | 58,046 | 52,566 |
| | 384,936 | 338,507 |
| Commitment charges and commissions | 18,687 | 13,665 |
| Interest expense on loan swaps | (34,435) | (37,401) |
| Total income from loans | 369,188 | 314,771 |
| Income from investments | 155,707 | 122,213 |
| Income from other debt securities | 3,777 | 3,734 |
| Other income | 44,308 | 17,351 |
| Total external revenue | 572,980 | 458,069 |

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 88.36 million for the year ended 31 December 2016 (2015: one country with revenues exceeding 10 percent of Bank's revenue amounted to UA 75.55 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 2016 and 2015 is detailed as follows:

(UA thousands)

| | Central Africa | Eastern Africa | Northern Africa | Southern Africa | Western Africa | Multinational | Total |
|---------------------------------|----------------|----------------|-----------------|-----------------|----------------|---------------|----------------|
| 2016 | | | | | | | |
| Income from sovereign loans | 41,687 | 4,815 | 58,178 | 100,301 | 4,397 | 200 | 209,578 |
| Income from non-sovereign loans | 4,482 | 17,214 | 15,859 | 48,212 | 42,804 | 31,039 | 159,610 |
| | 46,169 | 22,029 | 74,037 | 148,513 | 47,201 | 31,239 | 369,188 |
| 2015 | | | | | | | |
| Income from sovereign loans | 42,435 | 4,213 | 50,865 | 80,713 | 2,466 | 233 | 180,925 |
| Income from non-sovereign loans | 3,533 | 11,530 | 16,198 | 36,729 | 35,531 | 30,325 | 133,846 |
| | 45,968 | 15,743 | 67,063 | 117,442 | 37,997 | 30,558 | 314,771 |

As of 31 December 2016, 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 U — Approval of financial statements

On 29 March 2017, 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 May 2017.

Note V — Supplementary disclosures

Note V — 1: Exchange rates

The rates used for translating currencies into Units of Account at 31 December 2016 and 2015 were as follows:

| | | 2016 | 2015 |
|--------------|-----------------------|---------------|---------------|
| 1 UA = SDR = | Algerian Dinar | 148.586000 | 148.456000 |
| | Angolan Kwanza | 224.588000 | 187.510000 |
| | Australian Dollar | 1.857840 | 1.896700 |
| | Botswana Pula | 14.362500 | 15.587500 |
| | Brazilian Real | 4.380510 | 5.410990 |
| | Canadian Dollar | 1.805030 | 1.917850 |
| | Chinese Yuan Renminbi | 9.342830 | 8.995480 |
| | CFA Franc | 836.568000 | 834.922000 |
| | Danish Kroner | 9.481280 | 9.472210 |
| | Egyptian Pound | 24.499800 | 10.835092 |
| | Ethiopian Birr | 30.276000 | 29.279000 |
| | Euro | 1.275340 | 1.272830 |
| | Gambian Dalasi | 58.650000 | 55.460000 |
| | Ghanaian Cedi | 5.458630 | 5.204920 |
| | Guinean Franc | 12,362.700000 | 10,663.200000 |
| | Indian Rupee | 91.353400 | 91.910100 |
| | Japanese Yen | 157.018000 | 167.116000 |
| | Kenyan Shilling | 137.917000 | 140.118000 |
| | Korean Won | 1,624.620000 | 1,624.080000 |
| | Kuwaiti Dinar | 0.411430 | 0.420570 |
| | Libyan Dinar | 1.932400 | 1.932400 |
| | Mauritian Rupee | 48.409500 | 49.778500 |
| | Moroccan Dirham | 13.572400 | 13.726600 |
| | New Zealand Dollar | 1.929300 | 2.023550 |
| | Nigerian Naira | 412.220000 | 269.631000 |
| | Norwegian Krone | 11.588100 | 12.206900 |
| | Pound Sterling | 1.092780 | 0.935100 |
| | Sao Tomé Dobra | 31,186.800000 | 31,778.200000 |
| | Saudi Arabian Riyal | 5.041240 | 5.196480 |
| | South African Rand | 18.396500 | 21.541200 |
| | Swedish Krona | 12.229500 | 11.574200 |
| | Swiss Franc | 1.368260 | 1.374780 |
| | Tanzanian Shilling | 2,905.990000 | 2,979.700000 |
| | Tunisian Dinar | 3.154220 | 2.808040 |
| | Turkish Lira | 4.633920 | 4.009690 |
| | Ugandan Shilling | 4,853.700000 | 4,678.710000 |
| | United States Dollar | 1.344330 | 1.385730 |
| | Vietnamese Dong | 30,297.200000 | 30,676.600000 |

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 V — 2: Other development assistance activities

i) Democratic Republic of Congo (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.

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 2016, 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 cancellation 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 cancellation. 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 V — 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 2016 and 2015, 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 2016 and 2015 are summarized below:

(UA thousands)

| | 2016 | 2015 |
|--|----------------|----------------|
| Contribution received | 128,586 | 128,586 |
| Funds generated (net) | 142,210 | 140,452 |
| Adjustment for translation of currencies | (94,003) | (99,162) |
| | 176,793 | 169,876 |
| Represented by: | | |
| Due from banks | 5,384 | 5,053 |
| Investments | 127,865 | 115,224 |
| Accrued income and charges receivable on loans | 1,127 | 1,124 |
| Accrued interest on investments | 125 | 59 |
| Other amounts receivable | 538 | 295 |
| Loans outstanding | 57,395 | 48,765 |
| | 192,434 | 170,520 |
| Less: Current accounts payable | (15,641) | (644) |
| | 176,793 | 169,876 |

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 2016 and 2015 follows:

(UA thousands)

| | 2016 | 2015 |
|---|--------------|--------------|
| Fund balance | 103,467 | 97,464 |
| Funds generated | 5,833 | 5,481 |
| Funds allocated to Social Dimensions of Structural Adjustment (SDA) | 2 | 1 |
| Less: Relief disbursed | (101,910) | (94,272) |
| | 7,392 | 8,674 |
| Represented by: | | |
| Due from bank | 697 | 1,250 |
| Investments | 6,695 | 7,424 |
| | 7,392 | 8,674 |

At 31 December 2016, a total of UA 2.95 million (2015: UA 0.72 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 2016 and 2015 follows:

(UA thousands)

| | 2016 | 2015 |
|--|---------------|---------------|
| Contribution received | 39,205 | 36,082 |
| Funds generated (net) | (691) | (336) |
| | 38,514 | 35,746 |
| Represented by: | | |
| Due from bank | 985 | 648 |
| Investments | 35,073 | 35,473 |
| Loans outstanding | 2,155 | - |
| Accrued income and charges receivable on loans and investments | 484 | - |
| Less: Current accounts payable | (183) | (375) |
| | 38,514 | 35,746 |

Note V — 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 2016 and 2015 are summarized below:

(UA thousands)

| | 2016 | 2015 |
|---|--------------|--------------|
| i) Mamoun Beheiry Fund | | |
| Contribution | 151 | 151 |
| Income from investments | 160 | 200 |
| | 311 | 351 |
| Less: Prize awarded | (46) | (46) |
| Gift | (25) | (25) |
| | 240 | 280 |
| Represented by: | | |
| Due from banks | 240 | 280 |
| | 240 | 280 |
| ii) Special Emergency Assistance Fund for Drought and Famine in Africa | | |
| Contributions | 24,542 | 23,809 |
| Funds generated | 6,374 | 6,171 |
| | 30,916 | 29,980 |
| Relief granted | (27,330) | (26,513) |
| | 3,586 | 3,467 |
| Represented by: | | |
| Due from banks | 1,428 | 3 |
| Investments | 2,158 | 3,464 |
| | 3,586 | 3,467 |
| Total Resources & Assets of Trust Funds | 3,826 | 3,747 |

Note V — 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 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|--|----------------|----------------|
| Africa Climate Change Fund | 4,301 | 4,409 |
| Africa Growing Together Fund | 35,807 | 33,165 |
| Africa Trade Fund | 6,085 | 6,811 |
| Africa Water Facility Fund | 44,743 | 51,999 |
| African Community of Practice | 3,443 | 1,112 |
| African Economic Outlook | 61 | 48 |
| African Energy Leaders Group | 435 | - |
| African Legal Support Facility | 12,799 | 14,496 |
| Agriculture Fast Track Fund | 13,477 | 14,465 |
| AMINA | 1,637 | 1,620 |
| Bill and Melinda Gates Foundation TCA | 7,350 | 1,169 |
| Canada | 299 | 712 |
| Chinese Government Grant | 214 | 250 |
| Clean Technology Fund | 51,494 | 67,075 |
| Climate Development | 12,212 | 11,188 |
| Congo Basin | 33,221 | 38,528 |
| EU Africa Infrastructure Trust Fund | 1,061 | 382 |
| Fertilizer Financing Mechanism | 9,516 | 9,242 |
| Finland | 2,580 | 3,205 |
| France-BAD (Fonds d'Assistance Technique) | 623 | 717 |
| Global Agriculture and Food Security Programme (GAFSP) | 33,556 | 4,078 |
| Global Environment Facility | 27,158 | 22,882 |
| Global Strategy to improve Agriculture and Rural Statistics (GARS) | 1,603 | 2,852 |
| Governance Trust Fund | 1,426 | 1,408 |
| ICA-Infrastructure Consortium for Africa | 1,312 | 1,355 |
| IMDES (Initiative Migration and Development) | 4,594 | 4,855 |
| Improving Statistics Food Security Trust Fund (ISFS) | 770 | 942 |
| India | 2,820 | 1,882 |
| International Comparison Program - Africa (ICP – Africa) | 14 | 13 |
| Investment Climate Facility for Africa | 1,606 | 10,200 |
| Italy | 34 | 285 |
| Japan (FAPA) | 31,735 | 29,767 |
| Korea Trust Fund | 24,964 | 22,422 |
| Lake Turkana Wind Power Project | 36 | 3,199 |
| Making Finance Work for Africa | 723 | 731 |
| MENA Transition Fund | 18,840 | 16,176 |
| Microfinance Trust Fund | 3,632 | 3,828 |
| Multi-Donor Water Partnership Program | 628 | 694 |
| NEPAD Infrastructure | 32,908 | 37,876 |
| Norway | 634 | 842 |
| Portuguese Technical Cooperation Trust Fund | 553 | 736 |
| Private Sector Credit Enhancement Facility | 41,965 | - |
| Programme for Infrastructure Development in Africa (PIDA) | 111 | 109 |
| Rural Water Supply and Sanitation Initiative | 63,582 | 71,588 |
| SFRD (Great Lakes) | 429 | 433 |
| South South cooperation Trust Fund | 1,480 | 2,109 |
| Statistical Capacity Building (SCB) | 8,798 | 7,735 |
| Strategic Climate Fund | 27,370 | 20,818 |
| Sustainable Energy Fund for Africa | 44,663 | 33,044 |
| Swedish Trust Fund for Consultancy Services | 120 | 171 |
| Switzerland Technical Assistance Grant | 1,432 | 1,800 |
| The Nigeria Technical Cooperation Fund | 6,982 | 9,124 |
| The United Kingdom | 6,523 | 8,708 |
| The United Nations Development Program | - | 41 |
| Trust Fund for Countries in Transition | 2,159 | 1,699 |
| Value for Money Fund | 925 | 901 |
| Zimbabwe Multi-Donor Trust Fund | 43,939 | 44,108 |
| Others | 43 | 43 |
| Total | 681,425 | 630,047 |



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African Development Bank

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Independent Auditors' Report on the Financial Statements to the Board of Governors of the African Development Bank

Year ended December 31, 2016

Opinion

We have audited the accompanying financial statements of the African Development Bank (the Bank) which comprise the balance sheet as at December 31, 2016 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 informations as set out in notes A to V.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans

Refer to Note I of the financial statements

The key audit matter

The impairment of loans is estimated by management through the exercise of judgment and the use of subjective assumptions.



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Due to the significance of loans and the related estimation uncertainty, this is considered a key audit matter.

How the matter was addressed in our audit

We assessed the Bank's process of credit risk monitoring. We inspected the quarterly credit risk documentation approved by the Credit Risk Committee of the Bank to evaluate whether credit risk is monitored appropriately.

Valuation of financial assets, liabilities and derivatives

Refer to Notes E, F, G & M of the financial statements

The key audit matter

The determination of the value of financial instruments at fair value or amortized cost and of their possible impairment requires the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates.

Due to the significance of those financial instruments and the related estimation uncertainty, this is considered a key audit matter.

How the matter was addressed in our audit

We assessed the Bank's process related to the determination of the fair value of bonds, interest-rate swaps and currency-rate swaps, and the methodology implemented by the Bank to check market prices in liquid markets or to model fair valuation.

We compared the valuation of fair values for bonds to market prices available and assessed their classification according to the three levels of fair value at year end.

Using specific thresholds, we analyzed individual bonds at amortized cost, with a loss in value at year end compared to the purchase price, in order to assess whether impairment was necessary.

We compared the valuation of swaps to external information prepared by the counterparties. We also assessed whether swaps not recognized as hedges had been correctly valued at fair value through profit and loss.

Actuarial valuation of post-employment benefits

Refer to Note R of the financial statements

The key audit matter

The valuation of the Bank's retirement and post-employment medical benefit obligations requires the exercise of judgment and the use of actuarial assumptions.

Due to the significance of those benefit obligations and the related estimation uncertainty, this is considered a key audit matter.

How the matter was addressed in our audit

We assessed the reasonableness of key actuarial assumptions used in valuing the retirement and post-employment medical benefit obligations. This included a comparison of the discount rate against data derived from Bond's markets of the five currencies of the Unit of Account and an assessment of key assumptions relating to the evaluation of the medical benefit obligation.



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 auditors' 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 financial statements in accordance with IFRS, and for such internal controls 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 management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.
- Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls.



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- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on 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. If we conclude that a material uncertainty exists, we are required, in our auditors' report, to draw attention to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves a 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.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 auditors' 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 30th, 2017

KPMG S.A.

Valéry Foussé
Partner

ADB administrative budget for financial year 2017

(UA thousands)

Description

| | |
|---|----------------|
| Personnel Expenses | |
| Salaries | 164,125 |
| Benefits | 77,158 |
| Other Employee Expenses | 11,193 |
| Short-Term and Technical Assistance Staff | 1,968 |
| Consultants | 22,145 |
| Staff Training | 4,177 |
| | 280,766 |
| General Expenses | |
| Official Missions | 18,725 |
| Accommodation | 17,441 |
| Equipment Rental, Repairs and Maintenance | 11,414 |
| Communication Expenses | 8,589 |
| Printing, Publishing and Reproduction | 1,334 |
| Office Supplies and Stationery | 570 |
| Library | 160 |
| Other Institutional Expenses | 29,353 |
| | 87,586 |
| Total Administrative Expenses | |
| | 368,352 |
| Depreciation | 12,340 |
| Total | |
| | 380,692 |
| Less: Management Fees* | (232,270) |
| Net Administrative Budget | 148,422 |

* 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 by State Participants, as well as other resources received by the Fund. The cumulative subscriptions to the ADF amounted to UA 26.71 billion at 31 December 2016.

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.

During the negotiations of the Fourteenth Replenishment of the ADF (ADF-14), that took place in Luxembourg from 28 to 29 November 2016, Deputies agreed on a resource level of UA 5.04 billion, comprised of donor subscriptions of UA 3.36 billion, including a grant element of UA 0.14 billion from Concessional Donor Loans (CDL) and Bridge Loans (BL), donor contributions of UA 0.12 billion in the form of CDL (net of grant element), supplementary contributions of UA 0.01 billion, Advanced Commitment Capacity or internally generated resources of UA 0.74 billion, a technical gap of UA 0.81 billion.

The thirteenth (ADF-13) replenishment was adopted by the Board of Governors on 31 January 2014, and became effective on 31 March 2014, with the total resource envelope amounting to UA 5.35 billion, comprising of donor subscriptions of UA 3.80 billion, supplementary contributions of UA 0.06 billion, Advanced Commitment Capacity or internally generated resources of UA 0.98 billion, and a technical gap of UA 0.51 billion. The replenishment covered the 2014-2016 operational period. As of 31 December 2016, State Participants had subscribed a total amount of UA 3.82 billion, representing 99 percent of the ADF-13 updated pledged amount.

Private Sector Credit Enhancement Facility

As part of the ADF 13 replenishment, in 2014 the Fund allocated a grant of UA 165 million for the establishment of the Private Sector Enhancement Facility (the PSF). The PSF provides credit enhancement guarantees on certain eligible private sector loans in ADF countries to encourage increased development financing to the private sector in these countries. The PSF is operationally and financially autonomous from the Fund and its statutory framework explicitly preclude it from having recourse to the Fund for any losses that it may incur. As at 31 December 2016, credit enhancement facilities amounting to UA 146.90 million had been signed.

Commitments under the Multilateral Debt Relief Initiative

Under the Multilateral Debt Relief Initiative (MDRI), donor countries agree to compensate ADF for the cancellation of its loans to

Heavily Indebted Poor Countries (HIPC) that have reached, or will reach the completion point under the enhanced HIPC initiative. The MDRI became effective on 1 September 2006, and covers the period, 2006-2054. To preserve the financial integrity and the financing capacity of the Fund, the terms of the MDRI require donors to fully compensate the Fund for debts canceled under the MDRI. Donors have also agreed that periodic adjustments would be made under the initiative to reflect changes in the actual and estimated costs to the Fund resulting from debt forgiveness.

As of 31 December 2016, the Fund had received from donors aggregate commitments of UA 4.69 billion, representing 83 percent of the MDRI cost of UA 5.65 billion for the period, 2006-2054.

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 the 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” or 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, 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 and incentivize 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 Low-Income Countries (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 3.20 billion at 31 December 2016, compared to UA 3.27 billion at the end of 2015. Investment income for the year, excluding the realized gain on investments at amortized cost, amounted to UA 50.35 million, representing a return of 1.49 percent, on an average liquidity level of UA 3.37 billion, compared with an income of UA 60.97 million, representing a return of 1.64 percent, on an average liquidity of 3.72 billion in 2015.

The Fund benefited from a one-off windfall of UA 31.66 million that was generated by the sales of held-at-amortized costs assets. These were undertaken as part of the Fund's asset and liability management re-alignment strategy triggered by

the Chinese Yuan Renminbi inclusion in the Special Drawing Rights' currency basket.

Development Activities

Cumulative loans and grants signed, net of cancellations, at 31 December 2016, amounted to UA 29.38 billion, compared to UA 28.26 billion at the end of 2015. Table 1.6 presents loans approved, disbursed and undisbursed balances from 2012 to 2016.

Total outstanding loans, as at 31 December 2016, was UA 10.73 billion, which is UA 0.93 billion higher than the UA 9.80 billion outstanding at the end of 2015.

The number of active loans and grants as at December 2016 was 1,244 while 727 loans amounting to UA 5.77 billion had been fully repaid or canceled through MDRI.

Disbursements

Loans and grants disbursed by the Fund increased by 3.57 percent to stand at UA 1.45 billion in 2016 from UA 1.40 billion in 2015. As at 31 December 2016, cumulative disbursements on loans and grants amounted to UA 22.96 billion compared to UA 21.51 billion at the end of the previous year. A total of 2,225 loans and grants were fully disbursed amounting to UA 18.15 billion, which represents 79.03 percent of cumulative disbursements. Figure 1.3 tracks the evolution of loan disbursements and repayments over the past five years.

Repayments

In 2016, principal loan repayments for the Fund amounted to UA 69.64 million compared to UA 66.34 million in 2015, representing an increase of 4.97 percent over the previous year. Cumulative repayments as of 31 December 2016, stood at UA 7.39 billion.

Risk Management Policies and Processes

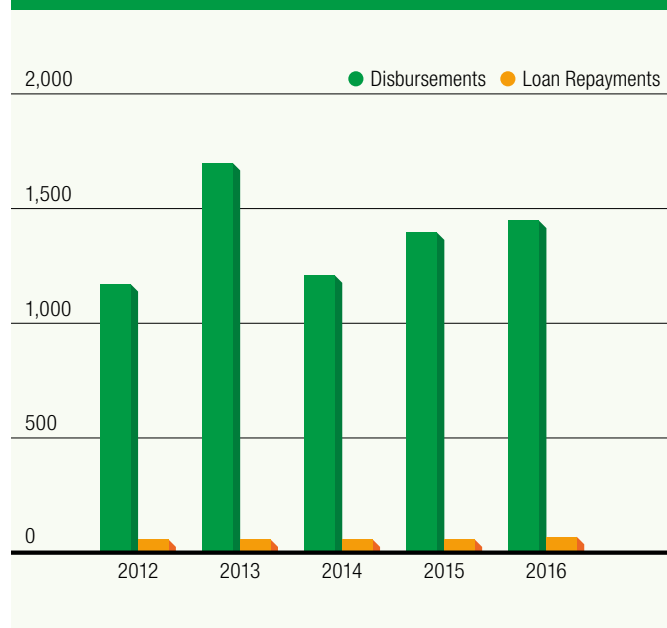
As in the case of the Bank, the Fund employs stringent risk management procedures in order to prudently reduce its exposure to risks, such as liquidity, currency and interest rate risks, that are not essential to its core business of providing development-related assistance to its clients. The details of the risk management policies and practices employed by the Fund to manage these risks are provided in Note C to the Financial Statements.

Table 1.6.
Lending Status, 2012-2016
(UA millions)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|----------|----------|----------|----------|----------|
| Loans Approved* | 1,659.51 | 2,054.48 | 1,338.23 | 1,259.58 | 1,267.91 |
| Disbursements | 1,169.60 | 1,702.21 | 1,215.30 | 1,398.36 | 1,447.30 |
| Undisbursed Balances | 6,921.62 | 6,327.68 | 6,558.66 | 6,762.39 | 6,413.75 |

* Excludes approvals of special funds but includes guarantees and grants.

Figure 1.3.
Loan Disbursements and Repayments, 2012-2016
(UA Millions)



FINANCIAL RESULTS

The Fund reported a lower deficit of UA 67.26 million in 2016, compared with a deficit of UA 83.25 million in 2015, explained primarily by the increase in investment income from UA 60.97 million in 2015 to UA 82.01 million in 2016. As the prevailing low interest environment continued to depress the investment income, the increase is largely due to realized gains on the disposal of treasury investments previously held at amortized cost.

Persistent losses over recent years are due mainly 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 and the increased grant element included in the recent ADF resource allocation. Although these changes are not reported as 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 28.34 million in 2016, marginally up from UA 27.21 million recorded in 2015 as a result of the generally low global interest rates.

The Fund's share of the total shareable administrative expenses of the Bank Group increased by UA 10.80 million, in nominal terms, from UA 200.93 million in 2015 to UA 211.73 million in 2016, due to the general increase in the operational expenses of the Bank Group. The Fund's share of these expenses reduced marginally to stand at 62.14 percent for 2016, compared with 63.14 percent for 2015. 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 2016. 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 2.09 million of non-accrued loan income was excluded from 2016 income compared to UA 2.05 million in 2015. The number of borrowers in non-accrual status at 31 December 2016, remained unchanged at three, the same level as at the end of December 2015.

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 1.45 billion was disbursed for loans and grants as compared to UA 1.40 billion made in 2015, representing a marginal increase over the previous year.

African Development Fund

Special Purpose Financial Statements

Year ended 31 December 2016

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Statement of net development resources as at 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|--|------------------|------------------|
| DEVELOPMENT RESOURCES | | |
| DUE FROM BANKS | 310,579 | 376,273 |
| INVESTMENTS (Note D) | | |
| Treasury investments, mandatorily at fair value | 1,871,797 | 1,699,887 |
| Treasury investments at amortized cost | 1,018,054 | 1,192,030 |
| Total investments | 2,889,851 | 2,891,917 |
| DEMAND OBLIGATIONS (Note E) | 2,378,081 | 2,669,459 |
| RECEIVABLES | | |
| Accrued income on loans and investments | 59,918 | 57,417 |
| Other receivables | 35,658 | 25,766 |
| | 95,576 | 83,183 |
| LIABILITIES | (216,245) | (88,946) |
| NET DEVELOPMENT RESOURCES | 5,457,842 | 5,931,886 |
| FUNDING OF DEVELOPMENT RESOURCES | | |
| SUBSCRIPTIONS AND CONTRIBUTIONS (Notes G & M) | | |
| Amounts subscribed including contributions through accelerated encashment of subscriptions | 26,643,411 | 26,644,463 |
| Less: Portion of accelerated encashment not yet effected | (282) | (15,793) |
| | 26,643,129 | 26,628,670 |
| Less: Installments not yet payable | (337,535) | (1,348,588) |
| | 26,305,594 | 25,280,082 |
| Less: Installments due | (7,018) | (7,018) |
| | 26,298,576 | 25,273,064 |
| Contributions paid on Multilateral Debt Relief Initiative | 928,363 | 849,249 |
| | 27,226,939 | 26,122,313 |
| Less: Unamortized discounts on subscriptions and contributions (Note B) | (88,272) | (100,786) |
| | 27,138,667 | 26,021,527 |
| Cumulative exchange adjustment on subscriptions and contributions (Note B) | (368,644) | (306,711) |
| Total subscriptions and contributions | 26,770,023 | 25,714,816 |
| OTHER RESOURCES (Note H) | 645,961 | 602,961 |
| RESERVES (Note I) | (407,777) | (340,516) |
| CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B) | (358,396) | (353,093) |
| | 26,649,811 | 25,624,168 |
| ALLOCATION OF DEVELOPMENT RESOURCES | | |
| GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note F) | (5,321,811) | (4,750,545) |
| GRANTS DISBURSED TO HEAVILY INDEBTED POOR COUNTRIES INITIATIVE (Note F) | (184,000) | (184,000) |
| NET DEBT RELIEF (Note F) | (4,955,072) | (4,955,072) |
| LOANS DISBURSED AND OUTSTANDING (Note F) | (10,731,086) | (9,802,665) |
| NET DEVELOPMENT RESOURCES | 5,457,842 | 5,931,886 |

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 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|---|--------------------|--------------------|
| INCOME AND EXPENSES | | |
| Service charges on loans | 75,230 | 66,907 |
| Commitment charges on loans | 21,337 | 23,417 |
| Income on investments | 82,008 | 60,967 |
| Administrative expenses (Note K) | (211,733) | (200,932) |
| Discount on accelerated encashment of participants' demand obligations | (28,335) | (27,209) |
| Financial charges | (192) | (1,251) |
| Realized and unrealized loss on derivatives | (1,411) | - |
| Loss on exchange | (4,165) | (5,148) |
| Deficit | (67,261) | (83,249) |
| CHANGE IN DEVELOPMENT RESOURCES FUNDING | | |
| Increase in paid-up subscriptions | 1,025,507 | 1,100,072 |
| Contributions received on account of Multilateral Debt Relief Initiative | 79,121 | 101,198 |
| Increase in other resources | 43,000 | 51,000 |
| Changes in accumulated exchange adjustment on subscriptions and contributions | (61,933) | (15,070) |
| Changes in unamortized discounts on subscriptions and contributions | 12,512 | 11,416 |
| Changes in accumulated translation adjustment | (5,303) | (21,072) |
| | 1,092,904 | 1,227,544 |
| CHANGE IN DEVELOPMENT RESOURCES ALLOCATION | | |
| Disbursement of grants | (571,266) | (370,728) |
| Disbursement of loans | (876,030) | (1,027,633) |
| Repayment of loans | 69,635 | 66,342 |
| Recoveries on account of Multilateral Debt Relief Initiative | - | 9,317 |
| Translation adjustment on loans | (122,026) | (41,112) |
| | (1,499,687) | (1,363,814) |
| Change in Net Development Resources | (474,044) | (219,519) |
| Net Development Resources at the beginning of the year | 5,931,886 | 6,151,405 |
| NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR | 5,457,842 | 5,931,886 |

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

Statement of comprehensive income for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|--|-----------------|------------------|
| DEFICIT | (67,261) | (83,249) |
| OTHER COMPREHENSIVE INCOME | | |
| Changes in accumulated translation adjustment | (5,303) | (21,072) |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | (72,564) | (104,321) |

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

Statement of cash flows for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|---|----------------|----------------|
| CASH FLOWS FROM: | | |
| OPERATING ACTIVITIES: | | |
| Deficit | (67,261) | (83,249) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Unrealized loss/(gain) on investments | 9,351 | (8,362) |
| Discount on accelerated encashment of participants' demand obligations | 28,335 | 27,209 |
| Changes in accrued income on loans and investments | (2,501) | (1,406) |
| Changes in net current assets | 108,262 | (18,304) |
| Net cash provided by/(used in) operating activities | 76,186 | (84,112) |
| INVESTING, LENDING AND DEVELOPMENT ACTIVITIES: | | |
| Disbursement of grants | (571,266) | (370,728) |
| Disbursement of loans | (876,030) | (1,027,633) |
| Repayment of loans | 69,635 | 66,342 |
| Recoveries on account of Multilateral Debt Relief Initiative | - | 9,317 |
| Investments maturing after 3 months of acquisition: | | |
| Treasury investments, mandatorily at fair value | 292,997 | (404,717) |
| Treasury investments at amortized cost | 103,932 | 382,374 |
| Net cash used in investment, lending and development activities | (980,732) | (1,345,045) |
| FINANCING ACTIVITIES: | | |
| Subscriptions and contributions received in cash | 446,556 | 448,760 |
| Participants' demand obligations encashed | 806,340 | 794,355 |
| Increase in other resources | 43,000 | 51,000 |
| Net cash provided by financing activities | 1,295,896 | 1,294,115 |
| Effect of exchange rate changes on cash and cash equivalents | 7,861 | (26,186) |
| Net increase/(decrease) in cash and cash equivalents | 399,211 | (161,228) |
| Cash and cash equivalents at the beginning of the year | 475,589 | 636,817 |
| Cash and cash equivalents at the end of the year | 874,800 | 475,589 |
| COMPOSED OF: | | |
| Cash | 310,579 | 376,273 |
| Investments maturing within 3 months of acquisition: | | |
| Treasury investments, mandatorily at fair value | 564,221 | 99,316 |
| Cash and cash equivalents at the end of the year | 874,800 | 475,589 |
| SUPPLEMENTARY DISCLOSURE: | | |
| Movements resulting from exchange rate fluctuations on: | | |
| Loans | 122,026 | 41,112 |
| Subscriptions and contributions | (61,933) | (15,070) |

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

Notes to the special purpose financial statements

Year ended 31 December 2016

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 27 May 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 fifty percent (50 %) of the voting powers in the ADF and the President of the Bank is the ex-officio President of the Fund.

The ADB, the Nigeria Trust Fund (NTF), which is a special fund administered by the ADB, and the ADF 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 that follow.

Resources

The resources of the Fund consist of subscriptions by the Bank, subscriptions and contributions by State Participants, 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 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 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 loss on the foreign exchange forwards was recognized in the 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 2016 and 2015 are as follows:

| | 2016 | 2015 |
|----------------------------------|--------------|--------------|
| 1 Unit of Account equals: | | |
| Argentinian Peso | 21.524800 | 13.234600 |
| Brazilian Real | 4.380510 | 5.410990 |
| Canadian Dollar | 1.805030 | 1.917850 |
| Chinese Renminbi Yuan | 9.342830 | 8.995480 |
| Danish Krone | 9.481280 | 9.472210 |
| Euro | 1.275340 | 1.272830 |
| Indian Rupee | 91.353400 | 91.910100 |
| Japanese Yen | 157.018000 | 167.116000 |
| Korean Won | 1,624.620000 | 1,624.080000 |
| Kuwaiti Dinar | 0.411430 | 0.420570 |
| Norwegian Krone | 11.588100 | 12.206900 |
| Pound Sterling | 1.092780 | 0.935100 |
| South African Rand | 18.396500 | 21.541200 |
| Swedish Krona | 12.229500 | 11.574200 |
| Swiss Franc | 1.368260 | 1.374780 |
| Turkish Lira | 4.633920 | 4.009690 |
| United States Dollar | 1.344330 | 1.385730 |

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 cancellation 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 seventy percent (70%) of the total cost of debt relief for the first group of 14 post-completion point Heavily Indebted Poor Countries (HIPC)s; 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 cancellation, 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 thirteenth 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. 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 from 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 to 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) have access to ADF funds with modified financing terms at par with those of blend countries.
- Category B countries are those deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off with 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 and the 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 specific 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 provides guarantees, through the Partial Risk Guarantees (PRGs) program, for credits issued in support of projects located within a member country that are undertaken by private entities. Under the PRGs program, the Fund provides financial guarantees for private lenders to a member country in the event that a member country fails to honor its contractual obligations with respect to private lenders to a project. The PRGs insure private lenders 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, regulatory risks and various forms of breach of contract.

Under the PRGs framework the Fund executes the payment obligations if the borrower defaults and the lender consequently demanding payment from the Fund. In the event that a guarantee is called, the Fund has the contractual right to require payment from the member country that has provided the counter guarantee to the Fund.

Guarantee fee income received is deferred and amortized over the life of the guarantee.

Partial Credit Guarantee

The Fund also provides further credit instrument in the form of Partial Credit Guarantee (PCGs) – a risk mitigation instrument designed to better leverage resources by crowding in private capital.

The PCGs product serves to partially guarantee debt service obligations and will 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 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, cancellation 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 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.

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 2016 from its lending activities are summarized below:

Summary of loans as at 31 December 2016

(Amounts in UA thousands)

| Country | N° of Loans* | Total Loans* | Unsigned Loan Amounts | Undisbursed Balance | Outstanding Balance | % of Total Outstanding Loans |
|------------------------------|--------------|-------------------|-----------------------|---------------------|---------------------|------------------------------|
| Angola | 14 | 76,521 | - | 32,722 | 43,799 | 0.41 |
| Benin | 34 | 348,888 | - | 102,239 | 246,649 | 2.30 |
| Botswana | 12 | 42,885 | - | - | 42,885 | 0.40 |
| Burkina Faso | 35 | 431,937 | - | 83,943 | 347,994 | 3.24 |
| Burundi | 6 | 23,749 | - | - | 23,749 | 0.22 |
| Cameroon | 35 | 589,145 | 24,030 | 221,490 | 343,625 | 3.20 |
| Cabo Verde | 29 | 93,979 | - | 2,807 | 91,172 | 0.85 |
| Central African Republic | 1 | 1,025 | - | 215 | 810 | 0.01 |
| Chad | 16 | 108,811 | - | 32,260 | 76,551 | 0.71 |
| Congo | 4 | 54,214 | - | 43,787 | 10,427 | 0.10 |
| Côte d'Ivoire | 7 | 139,636 | 1,000 | 104,524 | 34,112 | 0.32 |
| Democratic Republic of Congo | 9 | 197,944 | 106,220 | 1,005 | 90,719 | 0.85 |
| Djibouti | 20 | 99,613 | 6,000 | 18,593 | 75,020 | 0.70 |
| Egypt | 17 | 122,439 | - | - | 122,439 | 1.14 |
| Equatorial Guinea | 11 | 22,572 | - | - | 22,572 | 0.21 |
| Eritrea | 8 | 80,816 | - | 13,180 | 67,636 | 0.63 |
| Ethiopia | 31 | 1,651,076 | 25,590 | 493,434 | 1,132,052 | 10.55 |
| Gabon | 1 | 1,059 | - | - | 1,059 | 0.01 |
| Gambia | 12 | 38,664 | - | 8,516 | 30,148 | 0.28 |
| Ghana | 42 | 896,703 | 35,000 | 150,026 | 711,677 | 6.63 |
| Guinea | 17 | 175,614 | - | 104,459 | 71,155 | 0.66 |
| Guinea-Bissau | 10 | 31,000 | - | 12,521 | 18,479 | 0.17 |
| Kenya | 60 | 1,870,554 | 5,135 | 595,599 | 1,269,820 | 11.83 |
| Lesotho | 37 | 142,187 | 12,780 | 9,324 | 120,083 | 1.12 |
| Liberia | 8 | 148,684 | 9,420 | 95,824 | 43,440 | 0.40 |
| Madagascar | 28 | 364,052 | - | 96,791 | 267,261 | 2.49 |
| Malawi | 28 | 284,557 | 7,520 | 96,593 | 180,444 | 1.68 |
| Mali | 47 | 580,336 | 9,395 | 150,178 | 420,763 | 3.92 |
| Mauritania | 17 | 64,551 | - | 8,675 | 55,876 | 0.52 |
| Mauritius | 2 | 1,697 | - | - | 1,697 | 0.02 |
| Morocco | 5 | 26,850 | - | - | 26,850 | 0.25 |
| Mozambique | 39 | 792,012 | 51,280 | 168,870 | 571,862 | 5.33 |
| Namibia | 2 | 10,543 | - | - | 10,543 | 0.10 |
| Niger | 25 | 294,132 | - | 119,694 | 174,438 | 1.63 |
| Nigeria | 28 | 881,561 | 71,768 | 268,643 | 541,150 | 5.04 |
| Rwanda | 26 | 417,970 | - | 157,199 | 260,771 | 2.43 |
| São Tomé & Príncipe | 6 | 17,328 | - | 12,867 | 4,461 | 0.04 |
| Senegal | 43 | 554,457 | - | 135,895 | 418,562 | 3.90 |
| Seychelles | 3 | 4,304 | - | - | 4,304 | 0.04 |
| Sierra Leone | 16 | 117,656 | - | 26,993 | 90,663 | 0.84 |
| Somalia**+ | 17 | 66,203 | - | - | 66,203 | 0.62 |
| Sudan** | 15 | 179,134 | - | - | 179,134 | 1.67 |
| Swaziland | 8 | 28,804 | - | - | 28,804 | 0.27 |
| Tanzania | 51 | 1,802,191 | - | 537,923 | 1,264,268 | 11.78 |
| Togo | 3 | 21,530 | - | 4,764 | 16,766 | 0.16 |
| Uganda | 36 | 1,082,692 | - | 306,200 | 776,492 | 7.24 |
| Zambia | 24 | 428,641 | 8,290 | 137,271 | 283,080 | 2.64 |
| Zimbabwe** | 10 | 36,890 | - | - | 36,890 | 0.34 |
| Multinational | 20 | 163,001 | 146,409 | 4,860 | 11,732 | 0.11 |
| Total | 975 | 15,610,807 | 519,837 | 4,359,884 | 10,731,086 | 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 the North and South Sudan. At end of December 2016, no decision has been taken by the states of the North 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 2016.

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 vs. 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 |
| 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 | | |
| | AAA | | | | | |
| Mortgage Backed Securities (MBS)/ Asset Backed Securities (ABS) | 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 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. The shift in the credit risk profile of the investments and derivative portfolio of the Fund in 2016 were due to realignment of Net Development Resources (NDR) following inclusion of the Chinese Yuan Renminbi (CNY) in the Special Drawing Rights (SDR) basket with effect from 1 October 2016.

| | Credit Risk Profile of the Investment and Derivative Portfolios | | |
|------|---|------------|--------------|
| | AAA | AA+ to AA- | A+ and lower |
| 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.

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 1 October 2016 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 (dominated in USD; Euro; 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 income statement.

Interest Rate Risk Position as at 31 December 2016

(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 | 310,579 | - | - | - | - | - | 310,579 |
| Investments | 1,331,450 | 710,350 | 372,267 | 141,307 | 54,311 | 280,166 | 2,889,851 |
| Demand obligations | 623,773 | 511,052 | 448,762 | 350,658 | 207,960 | 235,876 | 2,378,081 |
| Accounts receivable | 95,576 | - | - | - | - | - | 95,576 |
| | 2,361,378 | 1,221,402 | 821,029 | 491,965 | 262,271 | 516,042 | 5,674,087 |
| Liabilities | | | | | | | |
| Accounts payable | (216,245) | - | - | - | - | - | (216,245) |
| | (216,245) | - | - | - | - | - | (216,245) |
| Net Development Resources at 31 December 2016 | 2,145,133 | 1,221,402 | 821,029 | 491,965 | 262,271 | 516,042 | 5,457,842 |

Interest Rate Risk Position as at 31 December 2015

(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 | 376,273 | - | - | - | - | - | 376,273 |
| Investments | 864,160 | 797,860 | 753,220 | 309,890 | 138,811 | 27,976 | 2,891,917 |
| Demand obligations | 774,962 | 610,949 | 437,887 | 360,694 | 148,608 | 336,359 | 2,669,459 |
| Accounts receivable | 83,183 | - | - | - | - | - | 83,183 |
| | 2,098,578 | 1,408,809 | 1,191,107 | 670,584 | 287,419 | 364,335 | 6,020,832 |
| Liabilities | | | | | | | |
| Accounts payable | (88,946) | - | - | - | - | - | (88,946) |
| | (88,946) | - | - | - | - | - | (88,946) |
| Net Development Resources at 31 December 2015 | 2,009,632 | 1,408,809 | 1,191,107 | 670,584 | 287,419 | 364,335 | 5,931,886 |

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)

| 31 December 2016 | Financial Assets and Liabilities through Profit or Loss | | Fair Value through Other Comprehensive Income | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|------------------------------------|---|--------------------------|---|--|-----------------------|------------------|
| | Mandatorily at Fair Value | Designated at Fair Value | | | | |
| Cash | - | - | - | 310,579 | 310,579 | 310,579 |
| Treasury investments | 1,871,797 | - | - | 1,018,054 | 2,889,851 | 2,889,548 |
| Demand obligations | - | - | - | 2,378,081 | 2,378,081 | 2,378,081 |
| Accounts receivable | - | - | - | 95,576 | 95,576 | 95,576 |
| Total financial assets | 1,871,797 | - | - | 3,802,290 | 5,674,087 | 5,673,784 |
| Liabilities | - | - | - | 216,245 | 216,245 | 216,245 |
| Total financial liabilities | - | - | - | 216,245 | 216,245 | 216,245 |

(UA thousands)

| 31 December 2015 | Financial Assets and Liabilities through Profit or Loss | | Fair Value through Other Comprehensive Income | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|------------------------------------|---|--------------------------|---|--|-----------------------|------------------|
| | Mandatorily at Fair Value | Designated at Fair Value | | | | |
| Cash | - | - | - | 376,273 | 376,273 | 376,273 |
| Treasury investments | 1,699,887 | - | - | 1,192,030 | 2,891,917 | 2,946,459 |
| Demand obligations | - | - | - | 2,669,459 | 2,669,459 | 2,669,459 |
| Accounts receivable | - | - | - | 83,183 | 83,183 | 83,183 |
| Total financial assets | 1,699,887 | - | - | 4,320,945 | 6,020,832 | 6,075,374 |
| Liabilities | - | - | - | 88,946 | 88,946 | 88,946 |
| Total financial liabilities | - | - | - | 88,946 | 88,946 | 88,946 |

The composition of investments as at 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|--|------------------|------------------|
| Treasury investments mandatorily measured at fair value through profit or loss | 1,871,797 | 1,699,887 |
| Treasury investments at amortized cost | 1,018,054 | 1,192,030 |
| Total | 2,889,851 | 2,891,917 |

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 2016 and 2015 follows:

(UA millions)

| | Chinese Yuan | | US Dollar | | Euro | | Other Currencies | | All Currencies | |
|-----------------------------------|---------------|----------|---------------|---------------|---------------|---------------|------------------|---------------|-----------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Time deposits | 85.63 | - | 57.44 | 25.04 | 91.15 | 22.23 | 129.42 | 52.05 | 363.64 | 99.32 |
| Asset-backed securities | - | - | 0.09 | 0.11 | - | 1.67 | - | 8.25 | 0.09 | 10.03 |
| Government and agency obligations | 364.86 | - | 430.10 | 457.20 | 194.59 | 190.12 | 283.58 | 303.79 | 1,273.13 | 951.11 |
| Corporate bonds | - | - | 7.44 | 268.40 | 8.04 | 53.40 | - | 196.67 | 15.48 | 518.47 |
| Financial institutions | - | - | 129.72 | - | 51.63 | - | 9.19 | - | 190.54 | - |
| Supranational | - | - | 14.87 | 24.89 | - | 59.58 | 14.05 | 36.49 | 28.92 | 120.96 |
| Total | 450.49 | - | 639.66 | 775.64 | 345.41 | 327.00 | 436.24 | 597.25 | 1,871.80 | 1,699.89 |

The contractual maturity structure of investments measured at FVTPL at 31 December 2016 and 2015 was as follows:

(UA millions)

| | 2016 | 2015 |
|--|-----------------|-----------------|
| One year or less | 1,129.51 | 631.85 |
| More than one year but less than two years | 462.33 | 504.18 |
| More than two years but less than three years | 241.44 | 518.36 |
| More than three years but less than four years | 38.43 | 43.72 |
| More than four years but less than five years | 0.09 | - |
| More than five years | - | 1.78 |
| Total | 1,871.80 | 1,699.89 |

Treasury Investments at Amortized Cost

A summary of the Fund's treasury investments at amortized cost at 31 December 2016 and 2015 follows:

(UA millions)

| | Chinese Yuan | | US Dollar | | Euro | | Other Currencies | | All Currencies | |
|-----------------------------------|---------------|----------|---------------|---------------|---------------|---------------|------------------|---------------|-----------------|-----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Asset-backed securities | - | - | - | 14.42 | - | - | - | - | - | 14.42 |
| Government and agency obligations | 551.70 | - | 111.44 | 492.62 | 138.50 | 224.68 | - | 66.18 | 801.64 | 783.48 |
| Corporate bonds | - | - | - | 6.00 | - | 25.26 | - | 10.65 | - | 41.91 |
| Financial institutions | - | - | - | - | 25.14 | - | - | 33.05 | 25.14 | - |
| Supranational | - | - | 97.07 | 202.84 | 94.20 | 116.33 | - | - | 191.27 | 352.22 |
| Total | 551.70 | - | 208.51 | 715.88 | 257.84 | 366.27 | - | 109.88 | 1,018.05 | 1,192.03 |

The contractual maturity structure of investments at amortized cost at 31 December 2016 and 2015 was as follows:

(UA millions)

| | 2016 | 2015 |
|--|-----------------|-----------------|
| One year or less | 201.94 | 232.31 |
| More than one year but less than two years | 248.02 | 293.68 |
| More than two years but less than three years | 130.83 | 234.86 |
| More than three years but less than four years | 102.88 | 266.17 |
| More than four years but less than five years | 54.22 | 138.81 |
| More than five years | 280.16 | 26.20 |
| Total | 1,018.05 | 1,192.03 |

Futures Contracts

The Fund entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at 31 December 2016, the Fund had futures with a notional value of Euro 1,195 million, GBP 2,115 million and USD 1,930 million. The carrying value of Euro futures, GBP futures and US Dollars futures were negative market values (out of the money) of UA 0.36 million, UA 0.58 million and UA 0.05 million respectively.

Note E — Demand obligations

Demand obligations represent subscription payments made by participants, in accordance with Article 9 of the Agreement, in 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 are generally granted under conditions that allow for repayment over 40 years after 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 1 percent per annum and from years 21 through 50 at a rate of 3 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 and lines of credit approved after June 1996 carry a 0.5 percent per annum commitment charge on the undisbursed portion. Such commitment charge commences to accrue after 90 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 30 years' maturity, grace period of 8 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. The new lending terms require the acceleration of loan repayment by regular and advanced ADF-only countries, and also to blend, gap and graduating countries; and the granting of financial incentives for voluntary loan repayment.

Prior to the establishment of the Technical Assistance Account, loans for pre-investment studies were normally granted for a period of 10 years, including a grace period of 3 years, with repayments in seven equal installments from years 4 through 10.

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 2016, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 29.32 million (2015: UA 12.91 million).

The Fund also provides innovative financial instruments in the form of Partial Reimbursement Guarantees (PRGs) and, Partial Credit Guarantee (PCG) for the purpose of better leveraging resources by crowding in ADB and commercial sources of financing.

The PRGs product provides guarantees to private entities for development exposures on projects located in Regional Member Countries. Such guarantees represent potential risk to the Fund if amounts guaranteed for an entity are not reimbursed. As at 31 December 2016, guarantees provided by the Fund to private entities on account of its borrowers amounted to UA 145.75 million (2015: UA 145.75 million).

The PCGs product serves to partially guarantee the debt service obligations of Regional Member Countries, which include extension of debt maturities, the improvement of access to domestic and foreign capital markets, and the reduction of borrowing costs. As at 31 December 2016 no PCGs guarantees have been provided.

Private Sector Credit Enhancement Facility

In 2014 the Fund allocated a grant of UA 165 million for the establishment of the Private Sector Enhancement Facility (the PSF) to encourage increased development financing in the ADF countries. The PSF provides credit enhancement guarantees to the AfDB on certain eligible loans to the private sector in ADF countries. The PSF is operationally and financially autonomous from the Fund and its statutory framework explicitly preclude it from having recourse to the Fund for any losses that it may incur. As at 31 December 2016, credit enhancement of UA 146.90 million had been signed.

As at 31 December 2016, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 282.23 million (2015: UA 273.79 million) of which UA 129.85 million (2015: UA 118.64 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 31 December 2016, would have been higher by UA 2.10 million (2015: UA 2.05 million). At 31 December 2016, the cumulative charges not recognized on the non-accrual loans amounted to UA 45.85 million, compared to UA 42.64 million at 31 December 2015.

Lines of credit to national development banks and similar national finance institutions are generally granted for a maximum of 20 years, including a 5-year grace period.

At 31 December 2016, outstanding loans amounted to UA 10,731.09 million (2015: UA 9,802.66 million).

Maturity and Currency Composition of Outstanding Loans

The maturity distribution of outstanding loans as at 31 December 2016 and 2015 was as follows:

(Amounts in UA millions)

| | 2016 | | 2015 | |
|--|------------------|---------------|-----------------|---------------|
| | Amount | % | Amount | % |
| One year or less* | 216.83 | 2.02 | 196.18 | 2.00 |
| More than one year but less than two years | 95.56 | 0.89 | 84.11 | 0.86 |
| More than two years but less than three years | 109.54 | 1.02 | 93.17 | 0.95 |
| More than three years but less than four years | 123.43 | 1.15 | 107.02 | 1.09 |
| More than four years but less than five years | 138.49 | 1.29 | 118.73 | 1.21 |
| More than five years | 10,047.24 | 93.63 | 9,203.45 | 93.89 |
| Total | 10,731.09 | 100.00 | 9,802.66 | 100.00 |

* Include the arrears on loans.

The currency composition of outstanding loans as at 31 December 2016 and 2015 was as follows:

(Amounts in UA millions)

| Currency | 2016 | | 2015 | |
|----------------------|------------------|---------------|-----------------|---------------|
| | Amount | % | Amount | % |
| Canadian Dollar | 9.64 | 0.09 | 9.22 | 0.10 |
| Danish Kroner | 8.96 | 0.08 | 9.15 | 0.09 |
| Euro | 3,266.33 | 30.44 | 3,052.29 | 31.14 |
| Japanese Yen | 620.75 | 5.78 | 594.92 | 6.07 |
| Norwegian Krone | 15.30 | 0.14 | 14.66 | 0.15 |
| Pound Sterling | 574.89 | 5.36 | 662.60 | 6.76 |
| Swedish Krona | 9.70 | 0.09 | 10.70 | 0.11 |
| Swiss Franc | 46.97 | 0.44 | 49.28 | 0.50 |
| United States Dollar | 6,178.22 | 57.58 | 5,399.52 | 55.08 |
| Others | 0.33 | 0.00 | 0.32 | 0.00 |
| Total | 10,731.09 | 100.00 | 9,802.66 | 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 use, including technical assistance and project financing. Grants do not bear charges. The share of grants under the tenth, eleventh and twelfth general replenishments is based on a country-by-country analysis of debt sustainability. Under the seventh, eighth and ninth general replenishments, technical assistance may also be provided on a reimbursable basis.

Technical assistance loans are granted under conditions that allow for repayment in 50 years, including a 10-year grace period, from the date of the loan agreement. However, the following categories of loans have different terms:

- (i) where the loan is granted for the preparation of a pre-investment study and the study proves that the project is not feasible, the grace period is extended to 45 years with a repayment period of 5 years thereafter.
- (ii) where the loan is granted for strengthening Regional Member Countries' cooperation or for the improvement of the operations of existing institutions and is not related to specific projects or programs, the grace period is 45 years with a repayment period of 5 years thereafter.

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 2016 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 cancellation 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 cancellation did not have an impact on the Fund's balance of net development resources. Cancellation of ADF debts are effected when other eligible countries reach the HIPC completion point.

At 31 December 2016, a gross amount of UA 5.68 billion (2015: UA 5.68 billion) of outstanding loans had been canceled under MDRI for 30 (2015: 30) HIPC completion-point countries. Of this amount, UA 1,225.99 million (2015: 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 (2015: UA 942.71 million). As of 31 December 2016, 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 2016 and 2015 follows:

(UA thousands)

| | 2016 | | | 2015 | | |
|-------------------------------|----------------|------------------|------------------|----------------|------------------|------------------|
| | HIPC | MDRI | Total | HIPC | MDRI | Total |
| Balance at 1 January | 235,096 | 4,719,976 | 4,955,072 | 235,096 | 4,564,345 | 4,799,441 |
| Loans canceled* | - | - | - | - | 164,947 | 164,947 |
| Cash received* | - | - | - | - | (9,316) | (9,316) |
| Balance at 31 December | 235,096 | 4,719,976 | 4,955,072 | 235,096 | 4,719,976 | 4,955,072 |

* Upon implementation of MDRI.

Special Arrears Clearance Mechanism

Arrears Clearance Mechanism for DRC – In connection with an internationally coordinated effort including the ADB Group, 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 mechanism for the DRC. Under the arrears clearance mechanism, representatives of ADF State Participants (the Deputies) authorized an allocation of approximately UA 36.50 million of grant resources from the ninth replenishment of the ADF (ADF-9) to clear the entire stock of the DRC's arrears to the Fund. The Deputies also authorized the use of approximately UA 11.77 million of the residual Supplementary Financing Mechanism (SFM) resources from ADF-8 as a partial payment against the DRC's arrears on charges to the ADB.

Fragile States Facility Framework – The Fragile States Facility (FSF) was established in March 2008 to provide a broader and integrated framework for assistance to eligible states, typically Regional Member Countries of ADB emerging from conflict or crisis. The purposes of FSF are to consolidate peace, stabilize economies and lay the foundation for sustainable poverty reduction and long-term economic growth. The FSF assumes the arrears clearance activities of the now defunct Post Conflict Countries Facility (PCCF), which was established as a framework to assist countries emerging from conflicts in clearing their arrears and prepare them for re-engagement with the donor communities, in order to reactivate development assistance and help these countries reach the 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 contributions from the ADF, the ADB and private donors. Resources from the facility are provided on a case-by-case basis to genuine eligible fragile states not yet receiving debt relief to fill financing gaps after maximum effort by the country to clear its arrears to the Bank Group. Contributions made by the Fund to the facility cannot be used to clear the debt owed to the Fund by beneficiary fragile state. Contributions by the Fund to the Facility are included in "Grants and Technical Assistance Activities" in the Statement of Net Development Resources.

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 thirteen general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note M.

The Board of Governors, by its resolution F/BG/2014/01 of 31 January 2014, approved the thirteenth general replenishment of the Fund (ADF-13), following the Deputies agreement for a replenishment level of UA 5.35 billion, of which UA 0.98 billion represents internally generated resources, for the three-year operational period, 2014 to 2016. ADF-13 came into effect in March 2014 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 31 December 2016, subscriptions to ADF-13 amounted to UA 3.82 billion.

At their meeting held in Luxembourg on 28 and 29 November 2016, the Deputies reached agreement on the terms of the Fourteenth General Replenishment (ADF-14) of the Fund. In accordance with the Agreement establishing the Fund, the replenishment report authorizing the ADF-14 replenishment was submitted to, and approved by the Board of Governors. The fourteenth replenishment will come into effect on the date when State Participants shall have deposited with the Fund, Instruments of Subscription representing an aggregate amount equivalent to at least thirty percent (30%) of the total intended subscriptions.

At 31 December 2016, cumulative contributions pledged on account of the MDRI amounted to UA 5.68 billion of which UA 928.37 million 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 M.

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 632.99 million representing contributions by the Bank of UA 630.99 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 2016 and 2015 were as follows:

(UA thousands)

| | 2016 | 2015 |
|-------------------------------|------------------|------------------|
| Reserves at 1 January | (340,516) | (257,267) |
| Deficit for the year | (67,261) | (83,249) |
| Balance at 31 December | (407,777) | (340,516) |

Note J — 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 2016, the undisbursed balance of trust fund resources was UA 5.76 million (2015: UA 5.10 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 K — 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 year amounted to UA 211.73 million (2015: UA 200.93 million).

Note L — 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 K. 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 M — Statement of subscriptions, contributions and voting power as at 31 December 2016

(Amounts in UA thousands)

| Participants | Subscriptions | | | | | Payment Positions | | | | MDRI | Voting Power | |
|--|----------------|------------------|------------------------------|--------------------|---------------------|---------------------|-------------------------|------------------|------------------------------|-------------------|------------------|----------------|
| | Initial | Special Increase | ADF-1 to ADF-12 Installments | ADF-13 Installment | Grants Compensation | Total Subscriptions | Total Installments Paid | Installments Due | Installments not yet Payable | Payments Received | Number of Votes | % |
| 1 ADB | 4,605 | 1,382 | 105,754 | - | - | 111,741 | 111,741 | - | - | - | 1,000,000 | 50.000 |
| 2 Angola | 9,691 | - | - | - | - | 9,691 | 9,691 | - | - | - | 0.364 | 0.018 |
| 3 Argentina | 1,842 | - | 16,789 | - | - | 18,631 | 1,842 | 7,018 | 9,771 | - | 0.069 | 0.003 |
| 4 Austria | 13,816 | - | 379,318 | 93,099 | 203 | 486,436 | 486,436 | - | - | 14,470 | 18.865 | 0.943 |
| 5 Belgium | 2,763 | - | 442,331 | 90,003 | 278 | 535,375 | 535,375 | - | - | 18,890 | 20.875 | 1.044 |
| 6 Brazil | 1,842 | 921 | 140,866 | - | - | 143,629 | 143,629 | - | - | - | 5.409 | 0.270 |
| 7 Canada | 13,816 | 6,908 | 1,557,485 | 214,485 | 773 | 1,793,467 | 1,793,467 | - | - | 95,664 | 71.148 | 3.557 |
| 8 China | 13,816 | - | 421,923 | 84,280 | 282 | 520,301 | 520,019 | - | - | 20,010 | 20.339 | 1.017 |
| 9 Denmark | 4,605 | 1,842 | 581,148 | 75,172 | 418 | 663,185 | 663,185 | - | - | 13,257 | 25.476 | 1.274 |
| 10 Egypt | - | - | 1,303 | 1,326 | - | 2,629 | 2,629 | - | - | - | - | - |
| 11 Finland | 1,842 | - | 451,107 | 109,382 | 259 | 562,590 | 562,590 | - | - | 18,280 | 19.077 | 0.954 |
| 12 France | 8,809 | - | 2,271,239 | 364,167 | 1,354 | 2,645,569 | 2,645,570 | - | - | 112,113 | 103.860 | 5.193 |
| 13 Germany | 6,860 | 6,956 | 2,277,291 | 402,680 | 1,347 | 2,695,134 | 2,695,134 | - | - | 80,550 | 104.538 | 5.227 |
| 14 India | 5,526 | - | 73,969 | 12,364 | 30 | 91,889 | 91,889 | - | - | 2,121 | 3.541 | 0.177 |
| 15 Italy | 9,211 | - | 1,478,382 | 202,337 | 724 | 1,690,654 | 1,690,654 | - | - | 47,206 | 54.126 | 2.706 |
| 16 Japan | 13,816 | - | 2,457,987 | 293,377 | 1,407 | 2,766,587 | 2,766,586 | - | - | 81,427 | 107.262 | 5.363 |
| 17 Korea | 9,211 | - | 199,661 | 57,541 | 109 | 266,522 | 266,522 | - | - | 8,684 | 10.365 | 0.518 |
| 18 Kuwait | 4,974 | - | 166,846 | 7,864 | 29 | 179,713 | 179,713 | - | - | 13,118 | 7.263 | 0.363 |
| 19 Luxembourg | 14,514 | - | - | - | - | 14,514 | 14,514 | - | - | - | 0.547 | 0.027 |
| 20 Netherlands | 3,684 | 1,842 | 936,792 | 166,606 | 643 | 1,109,567 | 1,109,567 | - | - | 40,214 | 42.852 | 2.143 |
| 21 Norway | 4,605 | 2,303 | 983,880 | 201,519 | 608 | 1,192,915 | 1,192,915 | - | - | 43,139 | 46.296 | 2.315 |
| 22 Portugal | 7,368 | - | 166,191 | - | 1 | 173,560 | 151,119 | - | 22,441 | 6,888 | 5.951 | 0.298 |
| 23 Saudi Arabia | 8,290 | - | 252,207 | 23,202 | 81 | 283,780 | 283,780 | - | - | 5,508 | 10.894 | 0.544 |
| 24 South Africa | 1,794 | - | 29,493 | 16,195 | 20 | 47,502 | 47,502 | - | - | 9,562 | 0.001 | 0.000 |
| 25 Spain | 1,842 | 921 | 557,923 | 43,713 | 390 | 604,789 | 562,425 | - | 42,364 | 48,167 | 22.996 | 1.150 |
| 26 Sweden | 4,605 | 3,684 | 1,105,956 | 207,302 | 687 | 1,322,234 | 1,322,234 | - | - | 48,745 | 51.634 | 2.582 |
| 27 Switzerland | 2,763 | 2,938 | 789,377 | 131,073 | 493 | 926,644 | 926,644 | - | - | 59,769 | 37.150 | 1.858 |
| 28 Turkey | 40,693 | - | - | - | - | 40,693 | 40,693 | - | - | - | 1.533 | 0.077 |
| 29 United Arab Emirates | 4,145 | - | 4,145 | - | - | 8,290 | 8,290 | - | - | - | 0.312 | 0.016 |
| 30 United Kingdom | 4,800 | 3,073 | 1,992,671 | 611,550 | 1,047 | 2,613,141 | 2,613,141 | - | - | 92,637 | 101.905 | 5.095 |
| 31 United States of America | 12,434 | 8,290 | 2,603,776 | 385,980 | 1,845 | 3,012,325 | 2,749,366 | - | 262,959 | 47,944 | 105.352 | 5.268 |
| Supplementary/voluntary contributions | - | - | 94,714 | 15,000 | - | 109,714 | 109,714 | - | - | - | - | - |
| Total | 238,582 | 41,060 | 22,540,524 | 3,810,217 | 13,028 | 26,643,411 | 26,298,576 | 7,018 | 337,535 | 928,363 | 2,000,000 | 100.000 |
| Supplementary information: | | | | | | | | | | | | |
| Supplementary contributions through accelerated encashment to reduce the gap | - | - | 60,001 | 5,320 | - | 65,321 | 60,001 | - | 5,320 | 6,195 | - | - |

Note N — Approval of special purpose financial statements

On 29 March 2017, 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 May 2017.

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African Development Fund

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Independent Auditors' Report on the Financial Statements to the Board of Governors of the African Development Fund

Year ended December 31, 2016

Opinion

We have audited the accompanying financial statements of the African Development Fund (the Fund) which comprise the statement of net development resources as at December 31, 2016 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 N.

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, 2016.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements based on International Standards on Auditing, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 auditors' 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.

KPMG S.A.,
a French limited liability entity and a member firm
of the KPMG Network of independent member firms
affiliated with KPMG International Cooperative, a Swiss entity.

Société anonyme d'expertise
comptable et de commissariat
aux comptes à directoire et
conseil de surveillance.
Inscrite au Tableau de l'Ordre
à Paris sous le n° 14-30080101
et à la Compagnie Régionale
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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 these 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 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on 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. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial 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 control that we identify during our audit.

Paris La Défense, March 30th, 2017

KPMG S.A.



Valéry Foussé
Partner

ADF administrative budget for financial year 2017

(UA thousands)

| | |
|------------------|----------------|
| Management fees* | 232,120 |
| Direct Expenses | 150 |
| Total | 232,270 |

* 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 Boards.

THE 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 26 April 2008, following a positive evaluation of its performance during the initial thirty (30) years of operation.

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 133.25 million at 31 December 2016 compared to UA 120.28 million at the end of 2015. Investment income for 2016 was UA 0.99 million, representing a return of 0.84 percent, on an average liquidity level of UA 117.20 million, compared to an income of UA 0.37 million representing a return of 0.29 percent on an average liquidity of UA 126.93 million in 2015. The portfolio outperformed its benchmark in 2016 benefiting from improving market conditions during the second half of the year.

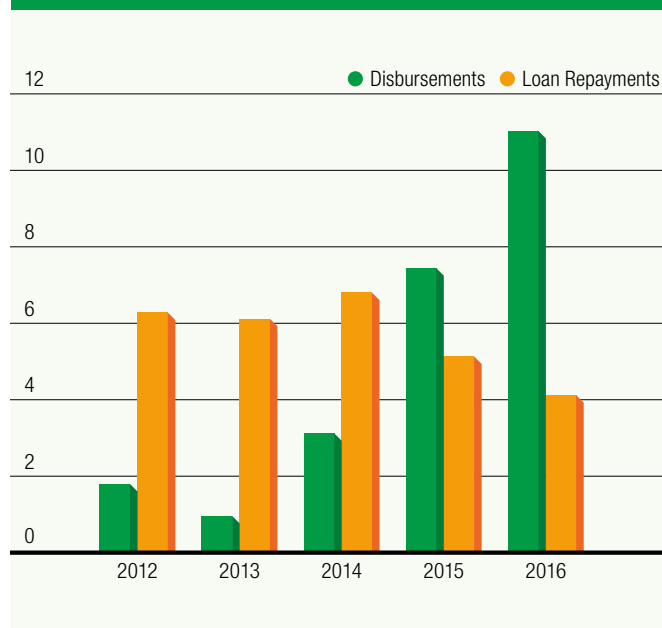
Loan Portfolio

Cumulative loans signed, net of cancellations as at 31 December 2016, amounted to UA 320.46 million, the same level as at the end of 2015. During 2016 new loan approvals amounted to 18.46 million compared with UA 12.50 million in 2015. Table 1.7 below presents the evolution of loans approved, loans disbursed and the undisbursed balances from 2012 to 2016.

Table 1.7.
Lending Status, 2012-2016
(UA millions)

| | 2012 | 2013 | 2014 | 2015 | 2016 |
|----------------------|-------|-------|-------|-------|-------|
| Loans Approved | 12.90 | 31.17 | 11.49 | 12.50 | 18.46 |
| Disbursements | 1.76 | 0.96 | 3.13 | 7.47 | 10.98 |
| Undisbursed Balances | 22.86 | 40.70 | 67.23 | 71.79 | 60.81 |

Figure 1.4.
Loan Disbursements and Repayments, 2012-2016
(UA millions)



As at 31 December 2016 there were 35 active loans with an outstanding amount of UA 57.54 million and 51 fully repaid loans amounting to UA 165.24 million.

Disbursements

Disbursements increased from UA 7.47 million in 2015 to UA 10.98 million in 2016. As at 31 December 2016, cumulative disbursements amounted to UA 259.65 million (2015: UA 248.67 million). A total of 70 loans amounting to UA 238.89 million were fully disbursed as at 31 December 2016, representing 92 percent of cumulative disbursements on that date. Figure 1.4 shows the evolution of loan disbursements and repayments over the past five years.

Repayments

Principal loan repayments amounted to UA 4.12 million in 2016 compared to UA 5.09 million in 2015, representing a decrease of 19.19% over the previous year. Cumulative repayments as of December 2016 stood at UA 200.80 million compared to UA 190.66 million previously.

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 from UA 1.39 million in 2015 to UA 1.90 million in 2016, 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 0.11 million from UA 0.36 million in 2015 to UA 0.47 million in 2016. As noted earlier, the NTF's share of the total administrative 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 16.76 percent from UA 41.29 million at the end of 2015 to UA 48.21 million on 31 December 2016.

Nigeria Trust Fund

Financial Statements

Year ended 31 December 2016

| | |
|-----------------------------------|-----|
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Balance sheet as at 31 December 2016 (UA thousands – Note B)

| ASSETS | 2016 | 2015 |
|--|----------------|----------------|
| DUE FROM BANKS | 5,384 | 5,053 |
| INVESTMENTS (Note F) | 127,865 | 115,224 |
| ACCOUNTS RECEIVABLE | | |
| Accrued income and receivables on loans | 1,127 | 1,124 |
| Accrued income on investments | 125 | 59 |
| Other receivables | 538 | 295 |
| | 1,790 | 1,478 |
| LOANS (Notes D & G) | | |
| Disbursed and outstanding | 57,537 | 48,903 |
| Less: Accumulated provision for impairment | (142) | (138) |
| | 57,395 | 48,765 |
| TOTAL ASSETS | 192,434 | 170,520 |

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

| LIABILITIES & EQUITY | 2016 | 2015 |
|---|----------------|----------------|
| ACCOUNTS PAYABLE | 15,641 | 644 |
| EQUITY (Note H) | | |
| Capital | 128,586 | 128,586 |
| Reserves | | |
| Retained earnings | 142,210 | 140,452 |
| Cumulative Currency Translation Adjustment (Note B) | (94,003) | (99,162) |
| Total reserves | 48,207 | 41,290 |
| Total Equity | 176,793 | 169,876 |
| TOTAL LIABILITIES & EQUITY | 192,434 | 170,520 |

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

Income statement for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|---|--------------|--------------|
| INCOME (Note I) | | |
| Interest and charges on loans | 1,365 | 1,457 |
| Income from investments | 990 | 365 |
| Total income | 2,355 | 1,822 |
| EXPENSES | | |
| Administrative expenses (Note J) | 472 | 364 |
| Bank charges and sundry (gains)/losses | (23) | 86 |
| Total expenses | 449 | 450 |
| Provision for impairment on loan principal and charges (Note G) | 9 | (17) |
| Total expenses and provision for impairment | 458 | 433 |
| Income before distributions approved by the Board of Governors | 1,897 | 1,389 |
| Distributions of income approved by the Board of Governors (Note H) | (139) | (149) |
| NET INCOME FOR THE YEAR | 1,758 | 1,240 |

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

Statement of comprehensive income for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|--|--------------|--------------|
| NET INCOME FOR THE YEAR | 1,758 | 1,240 |
| Other comprehensive income | - | - |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | 1,758 | 1,240 |

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

Statement of changes in equity for the year ended 31 December 2016 (UA thousands – Note B)

| | Capital | Retained Earnings | Cumulative Currency Translation Adjustment | Total Equity |
|---|----------------|-------------------|---|-----------------|
| BALANCE AT 1 JANUARY 2015 | 128,586 | 146,347 | (106,656) | 168,277 |
| Withdrawal of funds by the Government of Nigeria | - | (7,135) | - | (7,135) |
| Net income for the year | - | 1,240 | - | 1,240 |
| Currency translation adjustment | - | - | 7,494 | 7,494 |
| BALANCE AT 31 DECEMBER 2015 AND 1 JANUARY 2016 | 128,586 | 140,452 | (99,162) | 169,876 |
| Net income for the year | - | 1,758 | - | 1,758 |
| Currency translation adjustment | - | - | 5,159 | 5,159 |
| BALANCE AT 31 DECEMBER 2016 | 128,586 | 142,210 | (94,003) | 176,793 |

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

Statement of cash flows for the year ended 31 December 2016 (UA thousands – Note B)

| | 2016 | 2015 |
|---|---------------|---------------|
| CASH FLOWS FROM: | | |
| OPERATING ACTIVITIES: | | |
| Net income | 1,758 | 1,240 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for impairment on loan principal and charges | 9 | (17) |
| Unrealized loss/(gains) on investments | 152 | (104) |
| Changes in accrued income and receivables on loans | 1,253 | 356 |
| Changes in net current assets | 13,328 | (806) |
| Net cash provided by operating activities | 16,500 | 669 |
| INVESTING, LENDING AND DEVELOPMENT ACTIVITIES: | | |
| Disbursements on loans | (10,984) | (7,468) |
| Repayment of loans | 4,116 | 5,093 |
| Investments maturing after 3 months of acquisition: | | |
| Held at fair value through profit or loss | (13,978) | 12,274 |
| Net cash (used in)/provided by investing, lending and development activities | (20,846) | 9,899 |
| FINANCING ACTIVITIES: | | |
| Withdrawal of funds by the Government of Nigeria | - | (7,135) |
| Net cash used in financing activities | - | (7,135) |
| Effect of exchange rate changes on cash and cash equivalents | 3,371 | 5,481 |
| Net (decrease)/increase in cash and cash equivalents | (975) | 8,914 |
| Cash and cash equivalents at the beginning of the year | 22,543 | 13,629 |
| Cash and cash equivalents at the end of the year | 21,568 | 22,543 |
| COMPOSED OF: | | |
| Investments maturing within 3 months of acquisition | 16,184 | 17,490 |
| Cash | 5,384 | 5,053 |
| Cash and cash equivalents at the end of the year | 21,568 | 22,543 |
| SUPPLEMENTARY DISCLOSURE | | |
| 1. Operational cash flows from interest | | |
| Interest received | 1,373 | 1,500 |
| 2. Movement resulting from exchange rate fluctuations on loans | 1,731 | 1,893 |

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

Notes to the financial statements

Year ended 31 December 2016

Note A — Nature of operations

The Nigeria Trust Fund (the Fund or NTF) was established under an agreement signed on 26 February 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 26 April 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 has been extended for a period of ten years starting from 26 April 2008.

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 31 December 2016, 1 UA was equivalent to 1.34433 United States Dollars (2015: 1.38573 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 assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets 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 a loan, receivable or held-to-maturity investment carried at amortized cost, 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 loan or other investment held 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.

Interest and charges are accrued on all loans, including those in arrears.

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 measuring 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 reported in these financial statements 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 Losses on Assets Carried at Amortized Cost

The Fund first assesses whether objective evidence of impairment exists individually for financial assets. If the Fund determines that no objective evidence of impairment exists for an individually assessed financial asset, then that asset is included in a group of financial assets with similar credit characteristics and collectively assessed for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. 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 and can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss on loans and receivables or investments carried at amortized cost has been incurred, 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 carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

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

Standards, Amendments and Interpretations issued but not yet effective

At the date of issue of these financial statements, various International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) were not yet effective for application and had not been applied in preparing these financial statements. The new standards which are expected to be relevant to the Fund are discussed briefly below:

IFRS 15: Revenues from Contracts with Customers

IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after 1 January 2018. It specifies how and when entities should recognize revenue from contracts with customers as well as the required disclosures in the financial statements. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

The Fund has determined that the standard is not applicable to its operations as its contracts with customers are accounted for under IFRS 9.

IFRS 9: Financial Instruments

The Fund has already adopted phase 1 of the IFRS 9 with effect from 1 January 2011. Phase 2, which is the final version of IFRS 9 was issued on 24 July 2014 and is effective for annual periods beginning on or after 01 January 2018. The revisions in the final phase of this standard introduce a third classification and measurement category for financial assets, namely fair value through Other Comprehensive Income (OCI), some revisions to hedge accounting and replacement of the IAS 39 incurred loss model with the expected credit loss impairment. The final standard also includes the guidance for financial liabilities, as previously issued to the effect that there is no subsequent recycling of realized gains or losses on own credit from OCI to profit and loss.

The Fund has embarked on an IFRS 9 implementation program which is expected to be completed by end 2017. The Fund continues to assess the impact that adoption will have on its financial position and performance and will quantify the impact of IFRS 9, when it is practicable to provide reliable estimates.

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 for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

The new standard will not affect the Fund.

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 31 December 2016 were to the following countries:

(Amounts in UA thousands)

| Country | N° of Loans* | Total Loans* | Unsigned Loan Amounts | Undisbursed Balance | Outstanding Balance | % of Total Outstanding Loans |
|---------------|--------------|----------------|-----------------------|---------------------|---------------------|------------------------------|
| Benin | 3 | 9,923 | - | 6,000 | 3,923 | 6.82 |
| Cabo Verde | 1 | 142 | - | - | 142 | 0.25 |
| Cameroon | 1 | 5,015 | - | 4,617 | 398 | 0.69 |
| Côte d'Ivoire | 1 | 4,000 | 4,000 | - | - | - |
| Djibouti | 1 | 391 | - | - | 391 | 0.68 |
| Gambia | 3 | 10,209 | - | - | 10,209 | 17.74 |
| Ghana | 1 | 1,196 | - | - | 1,196 | 2.08 |
| Guinea | 1 | 2,474 | - | - | 2,474 | 4.30 |
| Guinea-Bissau | 1 | 3,475 | - | 3,087 | 388 | 0.67 |
| Liberia | 2 | 13,612 | 7,060 | 5,138 | 1,414 | 2.46 |
| Madagascar | 1 | 6,602 | - | 3,707 | 2,895 | 5.03 |
| Malawi | 2 | 11,664 | - | 7,621 | 4,043 | 7.03 |
| Mali | 1 | 6,523 | - | 5,652 | 871 | 1.51 |
| Mauritania | 2 | 6,754 | - | - | 6,754 | 11.74 |
| Namibia | 1 | 552 | - | - | 552 | 0.96 |
| Niger | 1 | 7,400 | 7,400 | - | - | - |
| Rwanda | 2 | 10,648 | - | 6,500 | 4,148 | 7.21 |
| Senegal | 1 | - | - | - | - | - |
| Seychelles | 1 | 452 | - | - | 452 | 0.79 |
| Sierra Leone | 2 | 7,488 | - | 6,670 | 818 | 1.42 |
| Somalia** | 1 | 865 | - | - | 865 | 1.50 |
| Swaziland | 1 | 3,774 | - | - | 3,774 | 6.56 |
| Tanzania | 1 | 269 | - | - | 269 | 0.47 |
| Togo | 1 | 6,534 | - | 5,845 | 689 | 1.20 |
| Uganda | 1 | 10,307 | - | 3,866 | 6,441 | 11.19 |
| Zambia | 1 | 6,536 | - | 2,105 | 4,431 | 7.70 |
| Total | 35 | 136,805 | 18,460 | 60,808 | 57,537 | 100.00 |

* Excludes fully repaid loans and canceled loans.

** Country with overdue amounts as at 31 December 2016.

Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

As at 31 December 2016, 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 | | Assessment |
|----------------|----------------------|-----------------------|--------------|-------------------|
| | | S&P – Fitch | Moody's | |
| 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 | | |
| Mortgage Backed Securities (MBS)/ Asset Backed Securities (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 investment 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 |
| 2016 | 66% | 23% | 11% |
| 2015 | 19% | 68% | 13% |
| 2014 | 19% | 78% | 3% |
| 2013 | 50% | 44% | 6% |
| 2012 | 63% | 19% | 18% |
| 2011 | 50% | 23% | 27% |

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 2016, the Fund had UA 60.81 million of loans which were committed but not yet disbursed (2015: UA 71.79 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 31 December 2016 and 2015 were as follows:

Interest Rate Risk Position as at 31 December 2016

(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 | 5,384 | - | - | - | - | - | - | 5,384 |
| Investments | 58,674 | 53,060 | 16,080 | - | - | 51 | - | 127,865 |
| Accounts receivable | 1,790 | - | - | - | - | - | - | 1,790 |
| Loans | 4,670 | 3,300 | 3,610 | 3,800 | 3,760 | 38,397 | (142) | 57,395 |
| | 70,518 | 56,360 | 19,690 | 3,800 | 3,760 | 38,448 | (142) | 192,434 |
| Liabilities | | | | | | | | |
| Accounts payable | (15,641) | - | - | - | - | - | - | (15,641) |
| Interest rate risk position as at 31 December 2016* | 54,877 | 56,360 | 19,690 | 3,800 | 3,760 | 38,448 | (142) | 176,793 |

* Interest rate risk position represents equity.

Interest Rate Risk Position as at 31 December 2015

(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 | 5,053 | - | - | - | - | - | - | 5,053 |
| Investments | 87,675 | 21,760 | 4,292 | 1,436 | - | 61 | - | 115,224 |
| Accounts receivable | 1,478 | - | - | - | - | - | - | 1,478 |
| Loans | 4,981 | 3,680 | 3,190 | 3,310 | 3,260 | 30,482 | (138) | 48,765 |
| | 99,187 | 25,440 | 7,482 | 4,746 | 3,260 | 30,543 | (138) | 170,520 |
| Liabilities | | | | | | | | |
| Accounts payable | (644) | - | - | - | - | - | - | (644) |
| Interest rate risk position as at 31 December 2015* | 98,543 | 25,440 | 7,482 | 4,746 | 3,260 | 30,543 | (138) | 169,876 |

* 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 43 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 31 December 2016 and 2015, respectively.

(UA thousands)

| | +100 Basis Points | | -100 Basis Points | |
|---|-------------------|-------|-------------------|------|
| | 2016 | 2015 | 2016 | 2015 |
| (Loss)/Gain on investments measured at fair value | (367) | (261) | 368 | 262 |

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 | | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|------------------------------------|---|--------------------------|--|-----------------------|----------------|
| | Mandatorily at Fair Value | Designated at Fair Value | | | |
| 31 December 2016 | | | | | |
| Due from banks | - | - | 5,384 | 5,384 | 5,384 |
| Treasury investments | 127,865 | - | - | 127,865 | 127,865 |
| Accounts receivable | - | - | 1,790 | 1,790 | 1,790 |
| Loans | - | - | 57,395 | 57,395 | 52,589 |
| Total financial assets | 127,865 | - | 64,569 | 192,434 | 187,628 |
| Liabilities | - | - | 15,641 | 15,641 | 15,641 |
| Total financial liabilities | - | - | 15,641 | 15,641 | 15,641 |

(UA thousands)

| | Financial Assets and Liabilities through Profit or Loss | | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|------------------------------------|---|--------------------------|--|-----------------------|----------------|
| | Mandatorily at Fair Value | Designated at Fair Value | | | |
| 31 December 2015 | | | | | |
| Due from banks | - | - | 5,053 | 5,053 | 5,053 |
| Treasury investments | 115,224 | - | - | 115,224 | 115,224 |
| Accounts receivable | - | - | 1,478 | 1,478 | 1,478 |
| Loans | - | - | 48,765 | 48,765 | 48,505 |
| Total financial assets | 115,224 | - | 55,296 | 170,520 | 170,260 |
| Liabilities | - | - | 644 | 644 | 644 |
| Total financial liabilities | - | - | 644 | 644 | 644 |

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 1 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 31 December 2016, all investments are held at fair value through profit and loss.

The Fund's investments held at FVTPL at 31 December 2016 and 2015 are summarized below:

(UA thousands)

| | 2016 | 2015 |
|-----------------------------------|----------------|----------------|
| Time deposits | 16,184 | 17,490 |
| Asset-backed securities | 51 | 61 |
| Government and agency obligations | 111,630 | 85,465 |
| Corporate bonds | - | 12,208 |
| Total | 127,865 | 115,224 |

The table below classifies the Fund's investments at 31 December 2016 and 2015 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 | |
|-----------------------------------|--|----------------|--|---------------|--|-----------|----------------|----------------|
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Time deposits | 16,184 | 17,490 | - | - | - | - | 16,184 | 17,490 |
| Asset-backed securities | - | - | - | - | 51 | 61 | 51 | 61 |
| Government and agency obligations | 111,630 | 85,465 | - | - | - | - | 111,630 | 85,465 |
| Corporate bonds | - | - | - | 12,208 | - | - | - | 12,208 |
| Total | 127,814 | 102,955 | - | 12,208 | 51 | 61 | 127,865 | 115,224 |

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at 31 December 2016 and 2015 are made up as follows:

(UA thousands)

| | 2016 | 2015 |
|---|-----------|-----------|
| Balance at 1 January | 61 | 323 |
| Losses recognized in income statement | (11) | (30) |
| Purchases, issues and settlements (net) | - | (236) |
| Currency translation adjustments | 1 | 4 |
| Balance at 31 December | 51 | 61 |

The contractual maturity structure of the Fund's investments as at 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|--|----------------|----------------|
| One year or less | 58,674 | 87,675 |
| More than one year but less than two years | 53,060 | 21,760 |
| More than two years but less than three years | 16,080 | 4,292 |
| More than three years but less than four years | - | 1,436 |
| More than four years but less than five years | - | - |
| More than five years | 51 | 61 |
| Total | 127,865 | 115,224 |

The notional balance of investments as at 31 December 2016 was UA 127.87 million (2015: UA 115.22 million), while the average yield was 0.85 % (2015: 0.32%).

Note G — Loans

Loans originated prior to 22 September 2003, carry an interest rate of four percent on the outstanding balance. With effect from 22 September 2003, pursuant to the Board of Governors' resolution B/BG/2003/11 of 3 June 2003 and the protocol agreement between the Government of Nigeria and the Bank, dated 22 September 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 grace periods 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 2 December 2008 which stipulates that the resources of the Fund will henceforth be deployed in accordance with the following three options:

(1) 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.

(2) 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.

(3) 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 USD 10 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 31 December 2016, all loans disbursed were repayable in United States Dollars.

The contractual maturity structure of outstanding loans as at 31 December 2016 and 2015 was as follows:

(Amounts in UA millions)

| Periods | 2016 | | 2015 | |
|--|--------------|---------------|--------------|---------------|
| | Amount | % | Amount | % |
| One year or less | 4.67 | 8.12 | 4.98 | 10.18 |
| More than one year but less than two years | 3.30 | 5.74 | 3.68 | 7.53 |
| More than two years but less than three years | 3.61 | 6.27 | 3.19 | 6.52 |
| More than three years but less than four years | 3.80 | 6.60 | 3.31 | 6.77 |
| More than four years but less than five years | 3.76 | 6.53 | 3.26 | 6.67 |
| More than five years | 38.40 | 66.74 | 30.48 | 62.33 |
| Total | 57.54 | 100.00 | 48.90 | 100.00 |

The weighted-average interest yield on outstanding loans for the year ended 31 December 2016 was 2.59% (2015: 3.21%).

Borrowers may prepay loans, subject to the terms specified in the loan agreement.

Provision for Impairment on Loan Principal and Charges Receivable

As at 31 December 2016, loans made to or guaranteed by certain borrowing countries with an aggregate principal balance of UA 0.87 million, of which UA 0.87 million was overdue, were considered to be impaired.

The gross amounts of impaired loans and charges receivable and their corresponding impairment provisions at 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|--|------------|------------|
| Outstanding balance on impaired loans | 865 | 840 |
| Less: accumulated provision for impairment | (142) | (138) |
| Net balance on impaired loans | 723 | 702 |
| Charges receivable and accrued income on impaired loans | 1,183 | 1,122 |
| Less: accumulated provision for impairment | (622) | (599) |
| Net charges receivable and accrued income on impaired loans | 561 | 523 |

Movements in the accumulated provision for impairment on loan principal for the year ended 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|---|------------|------------|
| Balance at 1 January | 138 | 155 |
| Provision for impairment on loan principal for the year | - | (24) |
| Translation effects | 4 | 7 |
| Balance at 31 December | 142 | 138 |

Movements in the accumulated provision for impairment on interest and charges receivable on loans for the year ended 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|---|------------|------------|
| Balance at 1 January | 599 | 573 |
| Provision for impairment on loan charges for the year | 9 | 7 |
| Translation effects | 14 | 19 |
| Balance at 31 December | 622 | 599 |

Fair Value of Loans

At 31 December 2016 and 2015, the carrying and estimated fair values of outstanding loans was as follows:

(UA thousands)

| | 2016 | | 2015 | |
|---|----------------|----------------------|----------------|----------------------|
| | Carrying Value | Estimated Fair Value | Carrying Value | Estimated Fair Value |
| Loan balance at 31 December | 57,537 | 52,589 | 48,903 | 48,505 |
| Accumulated provision for impairment on loans | (142) | - | (138) | - |
| Net balance | 57,395 | 52,589 | 48,765 | 48,505 |

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 14 July 1976, and the second installment, equivalent to USD 39.61 million, was received on 1 February 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 7 October 1981. The second installment of Naira 8 million, equivalent to USD 10.87 million, was received on 4 May 1984. The third installment of Naira 7 million, equivalent to USD 7.38 million, was received on 13 September 1985.

Following a request by the Government of Nigeria, on 14 June 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 31 December 2014, the Government of the Federal Republic of Nigeria authorized the withdrawal of an amount of USD 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 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 31 December 2016 and 2015 was as follows:

(UA thousands)

| | |
|---|----------------|
| Balance at 1 January 2015 | 146,347 |
| Liberia Arrears Clearance | (7,135) |
| Net income for the year | 1,240 |
| Balance at 31 December 2015 and 1 January 2016 | 140,452 |
| Net income for current year | 1,758 |
| Balance at 31 December 2016 | 142,210 |

The Board of Governors of the Bank approves the transfers of part of the Fund's annual income for the year to Heavily Indebted Poor Countries (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. Approvals during the years ended 31 December 2016 and 2015 were UA 0.14 million and UA 0.15 million, respectively.

Cumulative Currency Translation Adjustments

Cumulative currency translation adjustments as at 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|-------------------------------|---------------|---------------|
| Balance at January 1 | 99,162 | 106,656 |
| Movements during the year | (5,159) | (7,494) |
| Balance at 31 December | 94,003 | 99,162 |

Note I – Income

Interest and Charges on Loans

Interest and charges on loans for the year ended 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|---------------------------------------|--------------|--------------|
| Interest income on loans not impaired | 1,007 | 1,072 |
| Interest income on impaired loans | 33 | 33 |
| Commitment charges | 325 | 352 |
| Total | 1,365 | 1,457 |

Income from Investments

Income from investments for the year ended 31 December 2016 and 2015 was as follows:

(UA thousands)

| | 2016 | 2015 |
|---|------------|------------|
| Interest income | 905 | 507 |
| Realized and unrealized fair value losses | 85 | (142) |
| Total | 990 | 365 |

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:

- Separately identifiable costs incurred by the Bank for the Fund; and
- 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 0.47 million charged for the year ended 31 December 2016 (2015: UA 0.36 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 31 December 2016 in respect of Fund's share of administrative expenses was UA 0.04 million (2015: UA 0.05 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 31 December 2016 and 2015 is detailed as follows:

(UA thousands)

| | 2016 | 2015 |
|---|--------------|--------------|
| Interest income and charges on loans with sovereign guarantee | 1,365 | 1,457 |
| Treasury investment income | 990 | 365 |
| Total external revenue | 2,355 | 1,822 |

The Fund'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. 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 31 December 2016 and 2015 is detailed as follows:

(UA thousands)

| | Central Africa | Eastern Africa | Northern Africa | Southern Africa | Western Africa | Multi-national | Total |
|-------------------|----------------|----------------|-----------------|-----------------|----------------|----------------|-------|
| 2016 | | | | | | | |
| Income from Loans | 25 | 252 | 137 | 301 | 602 | 48 | 1,365 |
| 2015 | | | | | | | |
| Income from Loans | 25 | 271 | 149 | 313 | 608 | 91 | 1,457 |

There were no revenues deriving from transactions with a single external customer that amounted to 10 percent or more of the Fund's revenues for the year ended 31 December 2016.

Note M — Approval of financial statements

On 29 March 2017, 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 May 2017.

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**Independent Auditors' Report to the Board of Governors of the African Development Bank
in respect of the Nigeria Trust Fund**

Year ended December 31, 2016

Opinion

We have audited the accompanying financial statements of the Nigeria Trust Fund ("The Fund") which comprise the balance sheet as at December 31, 2016 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 informations as set out in notes A to M.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 2016 and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Fund in accordance with the ethical requirements that are relevant to our audit of the financial statements based on International Standards on Auditing, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Impairment of loans

Refer to note G of the financial statements

The key audit matter

The impairment of loans is estimated by management through the exercise of judgment and the use of subjective assumptions.

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Due to the significance of loans and the related estimation uncertainty, this is considered a key audit matter.

How the matter was addressed in our audit

We assessed the Fund's process of credit risk monitoring. We inspected the quarterly credit risk documentation approved by the Credit Risk Committee of the Fund to evaluate whether credit risk is monitored appropriately.

Valuation of financial assets and investments

Refer to note E & F of the financial statements

The key audit matter

The determination of the value of financial instruments at fair value and of their possible impairment requires the application of valuation techniques which often involve the exercise of judgment by management and the use of assumptions and estimates.

Due to the significance of those financial instruments and the related estimation uncertainty, this is considered a key audit matter.

How the matter was addressed in our audit

We assessed the Fund's process related to the methodology implemented by the Fund to check market prices in liquid markets or to model fair valuation.

We compared the fair values for bonds to market prices available and assessed their classification according to the three levels of fair value at year end.

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 auditors' 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 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 management either intends to liquidate the Fund or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Fund's financial reporting process.

Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on 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. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial 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 control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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 auditors' 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 30th, 2017

KPMG S.A.



Valéry Foussé
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