

# African Development Bank

Interim Financial Statements (Unaudited)  
Nine months ended 30 September 2017

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**BALANCE SHEET**  
**AS AT 30 SEPTEMBER 2017**  
(UA thousands – Note B)

<b>ASSETS</b>	<b>30 SEPTEMBER 2017</b>	<b>31 DECEMBER 2016</b>	<b>30 SEPTEMBER 2016</b>
CASH	950,262	1,306,821	1,384,041
DEMAND OBLIGATIONS	3,801	3,801	3,801
SECURITIES PURCHASED UNDER RESALE AGREEMENTS	-	-	71,643
TREASURY INVESTMENTS (Note F)	12,125,386	10,590,041	10,587,780
DERIVATIVE ASSETS (Note G)	859,754	1,233,748	1,456,157
NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL (Note H)	91	159	168
ACCOUNTS RECEIVABLE			
Accrued income and charges receivable on loans (Note I)	253,331	233,493	214,690
Other accounts receivable	309,980	310,340	845,133
	563,311	543,833	11,059,823
DEVELOPMENT FINANCING ACTIVITIES			
Loans, net (Notes D & I)	16,756,092	15,097,024	13,632,228
Hedged loans – Fair value adjustment (Note G)	55,778	80,230	122,427
Equity participations (Note J)	742,413	719,375	704,890
Other securities (Note K)	-	54,358	51,588
	17,554,283	15,950,987	14,511,133
OTHER ASSETS			
Property, equipment and intangible assets	94,439	97,042	97,306
Miscellaneous	518	648	573
	94,957	97,690	97,879
<b>TOTAL ASSETS</b>	<b>32,151,845</b>	<b>29,727,080</b>	<b>29,172,425</b>

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

LIABILITIES & EQUITY	30 SEPTEMBER 2017	31 DECEMBER 2016	30 SEPTEMBER 2016
ACCOUNTS PAYABLE			
Accrued financial charges	172,594	216,430	130,806
Other accounts payable	1,491,006	1,399,558	1,968,715
	1,663,600	1,615,988	2,099,521
DERIVATIVE LIABILITIES (Note G)	878,408	861,274	780,529
BORROWINGS (Note L)			
Borrowings at fair value	22,077,316	20,007,612	19,057,712
Borrowings at amortized cost	620,482	636,538	613,942
	22,697,798	20,644,150	19,671,654
EQUITY (Note M)			
Capital			
Subscriptions paid	4,243,537	4,019,875	3,991,565
Cumulative Exchange Adjustment on Subscriptions (CEAS)	(157,554)	(161,044)	(160,298)
Subscriptions paid (net of CEAS)	4,085,983	3,858,831	3,831,267
Reserves	2,826,056	2,746,837	2,789,454
Total equity	6,912,039	6,605,668	6,620,721
TOTAL LIABILITIES & EQUITY	32,151,845	29,727,080	29,172,425

**INCOME STATEMENT**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**  
(UA thousands – Note B)

	2017	2016
OPERATIONAL INCOME & EXPENSES		
Income from:		
Loans and related derivatives (Note N)	345,169	267,709
Investments and related derivatives (Note N)	148,445	115,190
Equity investments (Dividends)	7,377	2,926
Other securities	3,459	2,691
Total income from loans and investments	504,450	388,516
Borrowing expenses (Note O)		
Interest and amortized issuance costs	(320,431)	(277,004)
Net interest on borrowing-related derivatives	119,714	153,654
Gains on borrowings, related derivatives and others	23,192	11,870
Net impairment charge (Note I)		
Loan principal	3,822	(15,937)
Loan charges	(13,320)	(15,002)
Provision for impairment on equity investments	508	664
Translation (losses)/gains	(10,122)	2,525
Other income	2,565	9,208
Net operational income	310,378	258,494
OTHER EXPENSES		
Administrative expenses (Note P)	(96,885)	(95,622)
Depreciation – Property, equipment and intangible assets	(11,215)	(6,296)
Sundry expenses	(2,241)	(4,360)
Total other expenses	(110,341)	(106,278)
Income before distributions approved by the Board of Governors	200,037	152,216
Distributions of income approved by the Board of Governors	(82,000)	(95,000)
<b>NET INCOME FOR THE PERIOD</b>	<b>118,037</b>	<b>57,216</b>

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

**STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**  
(UA thousands – Note B)

	2017	2016
NET INCOME FOR THE PERIOD	118,037	57,216
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Net gains/(losses) on financial assets at fair value through “other comprehensive income”	19,840	759
Unrealized (losses)/gains on fair-valued borrowings arising from “own credit”	(58,658)	(114,717)
Remeasurements of defined benefit liability	-	(75,052)
Total items that will not be reclassified to profit or loss	(38,818)	(189,010)
Total other comprehensive income	(38,818)	(189,010)
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>79,219</b>	<b>(131,794)</b>

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

**STATEMENT OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**  
(UA thousands – Note B)

	Capital Subscriptions Paid	Cumulative Exchange Adjustment on Subscriptions	Retained Earnings	Remeasurement of Defined Benefit Plan	Reserves		Total Equity
					Net Gains/ (losses) on Financial Assets at Fair value through Other Comprehensive Income	Unrealized Gains/ (Losses) on Fair-Valued Borrowings Arising from "Own Credit"	
BALANCE AT 1 JANUARY 2016	3,727,691	(168,842)	2,965,595	(249,362)	101,535	103,480	6,480,097
Net loss for the period	-	-	57,216	-	-	-	57,216
Other comprehensive income							
Net gains on financial assets at fair value through "other comprehensive income"	-	-	-	-	759	-	759
Unrealized losses on fair-valued borrowings arising from "own credit"	-	-	-	-	-	(114,717)	(114,717)
Remeasurement of defined benefit liability	-	-	-	(75,052)	-	-	(75,052)
Total other comprehensive income	-	-	-	(75,052)	759	(114,717)	(189,010)
Net increase in paid-up capital	263,874	-	-	-	-	-	263,874
Net conversion losses on new subscriptions	-	8,544	-	-	-	-	8,544
<b>BALANCE AT 30 SEPTEMBER 2016</b>	<b>3,991,565</b>	<b>(160,298)</b>	<b>3,022,811</b>	<b>(324,414)</b>	<b>102,294</b>	<b>(11,237)</b>	<b>6,620,721</b>
BALANCE AT 1 JANUARY 2017	4,019,875	(161,044)	2,990,665	(423,827)	89,624	90,375	6,605,668
Net income for the period	-	-	118,037				118,037
Other comprehensive income							
Net gains on financial assets at fair value through "other comprehensive income"	-	-		-	19,840	-	19,840
Unrealized losses on fair-valued borrowings arising from "own credit"	-	-				(58,658)	(58,658)
Total other comprehensive income	-	-	-	-	19,840	(58,658)	(38,818)
Net increase in paid-up capital	223,662						223,662
Net conversion gains on new subscriptions		3,490					3,490
<b>BALANCE AT 30 SEPTEMBER 2017</b>	<b>4,243,537</b>	<b>(157,554)</b>	<b>3,108,702</b>	<b>(423,827)</b>	<b>109,464</b>	<b>31,717</b>	<b>6,912,039</b>

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

**STATEMENT OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2017**  
(UA thousands – Note B)

	2017	2016
<b>CASH FLOWS FROM:</b>		
<b>OPERATING ACTIVITIES:</b>		
Net income/(loss)	118,037	57,216
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	11,215	6,296
Provision for impairment on loan principal and charges	9,498	30,938
Unrealized (gains)/losses on investments and related derivatives	(11,128)	2,750
Amortization of premium or discount on treasury investments at amortized cost	8,988	(1,734)
Provision for impairment on equity investments	(508)	(664)
Amortization of borrowing issuance costs	38,949	19,626
Unrealized gains on borrowings, related derivatives and others	(53,767)	(31,852)
Translation losses / (gains)	10,122	(2,525)
Share of profits in associate	322	123
Net movements in derivatives	115,628	7,004
Changes in accrued income on loans	(27,367)	(39,461)
Changes in accrued financial charges	(43,836)	(46,349)
Net change in reverse repurchase agreements and cash collateral on securities borrowed	-	(71,643)
Changes in other receivables and payables	(166,560)	(70,140)
Net cash provided by operating activities	9,593	140,415
<b>INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:</b>		
Disbursements on loans	(2,744,390)	(1,590,697)
Repayments of loans	1,037,899	970,018
Investments maturing after 3 months from acquisition:		
Investments at amortized cost	(136,677)	(186,492)
Investments at fair value through profit and loss	(1,156,249)	(2,198,158)
Acquisition of fixed assets	(8,613)	(10,774)
Disbursements on equity participations	(47,323)	(37,057)
Repayments on equity participations	19,530	17,277
Net cash used in investing, lending and development activities	(3,035,823)	(3,035,883)
<b>FINANCING ACTIVITIES:</b>		
New borrowings	6,040,407	5,882,402
Repayments on borrowings	(3,237,135)	(2,967,674)
Cash from capital subscriptions	227,151	272,418
Net cash provided by financing activities	3,030,423	3,187,146
Effect of exchange rate changes on cash and cash equivalents	29,486	33,003
(Decrease)/increase in cash and cash equivalents	33,679	43,851
Cash and cash equivalents at the beginning of the period	2,035,868	2,403,875
<b>Cash and cash equivalents at the end of the period</b>	<b>2,069,547</b>	<b>2,447,726</b>
<b>COMPOSED OF:</b>		
Investments maturing within 3 months from acquisition:		
Investments at fair value through profit and loss	1,119,285	1,063,685
Cash	950,262	1,384,041
<b>Cash and cash equivalents at the end of the period</b>	<b>2,069,547</b>	<b>2,447,726</b>
<b>SUPPLEMENTARY DISCLOSURE:</b>		
1. Operational cash flows from interest and dividends:		
Interest paid	(244,553)	(169,699)
Interest received	351,834	392,015
Dividend received	7,377	2,926
2. Movement resulting from exchange rate fluctuations:		
Loans	50,083	(146,372)
Borrowings	(556,479)	222,506
Currency swaps	303,793	(90,191)

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

## **NOTES TO THE FINANCIAL STATEMENTS**

### **NINE MONTHS ENDED 30 SEPTEMBER 2017**

#### **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 30 September 2017 and 2016 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 30 September 2017, 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.

Were a member 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 nine 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 income statement. 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.

## **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 income statement. 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 and measurement. 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 30 September 2017, 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 income statement.

## 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 30 September 2017, 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 period’s amounts have been made to conform to the presentation in the current period. These reclassifications did not affect prior period’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. The changes in measures arising from on initial application of IFRS 9 will be incorporated through an adjustment to the opening reserves and retained earnings position as at January 1, 2018. The Bank does not intend to restate comparatives as it is not possible without use of hindsight.

#### **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, for virtually all lease contracts, a lease liability reflecting its obligation to make future lease payments and a ‘right-of-use asset’ reflecting its right to use the underlying lease assets. 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.

### **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 30 September 2017 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	751,817	-	0	751,817	4.42
Angola	5	1,106,362	-	397,007	709,355	4.17
Botswana	4	905,252	58,519	11,521	835,212	4.91
Cameroon	7	545,657	11,862	515,830	17,966	0.11
Cabo Verde	8	129,532	-	41,363	88,169	0.52
Congo	3	161,401	-	141,383	20,018	0.12
Côte d'Ivoire	4	409,306	-	403,817	5,489	0.03
Democratic Republic of Congo	6	337,821	-	-	337,821	2.00
Egypt	14	1,914,166	-	142,166	1,772,000	10.43
Equatorial Guinea	3	48,577	-	26,359	22,218	0.13
Ethiopia	2	127,871	-	127,476	395	0.00
Gabon	7	419,220	-	70,696	348,524	2.05
Kenya	5	612,309	-	587,841	24,469	0.14
Mauritius	9	369,614	-	31,030	338,584	1.99
Morocco	60	3,683,306	-	624,364	3,058,942	18.00
Namibia	8	1,432,817	-	740,921	691,896	4.07
Nigeria	1	52,692	-	41,773	10,919	0.06
Rwanda	5	454,473	-	444,102	10,371	0.06
Senegal	4	45,827	-	14,333	31,494	0.19
Seychelles	3	4,312	-	-	4,312	0.03
Somalia**	7	1,411,383	-	155,564	1,255,819	7.39
South Africa	4	53,592	-	-	53,592	0.32
Sudan**	7	107,735	-	78,534	29,201	0.17
Swaziland	3	362,285	-	361,167	1,118	0.01
Tanzania	37	2,515,425	-	371,113	2,144,312	12.62
Tunisia	4	248,992	-	243,122	5,870	0.03
Uganda	8	361,067	-	351,642	9,425	0.06
Zambia	12	193,694	-	-	193,694	1.14
Zimbabwe**	3	29,699	27,170	-	2,529	0.01
Multinational	7	561,808	-	104,498	457,310	2.69
<b>Total Public Sector</b>	<b>251</b>	<b>19,358,012</b>	<b>97,551</b>	<b>6,027,622</b>	<b>13,232,841</b>	<b>77.87</b>
<b>Total Private Sector</b>	<b>157</b>	<b>5,909,170</b>	<b>998,949</b>	<b>1,149,148</b>	<b>3,761,073</b>	<b>22.13</b>
<b>Total</b>	<b>408</b>	<b>25,267,182</b>	<b>1,096,500</b>	<b>7,176,770</b>	<b>16,993,914</b>	<b>100.00</b>

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

\*\* Countries in non-accrual status as at 30 September 2017.

(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 September 2017, 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.

### *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 nine-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 30 September 2017, the total notional amount of credit protection purchased or sold on the relevant underlying single reference entities is USD 4.47billion (UA 3.16 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		
<b>TOTAL</b>	<b>1,587.71</b>	<b>TOTAL</b>	<b>2,880.00</b>	<b>TOTAL</b>	<b>1,587.71</b>	<b>TOTAL</b>	<b>2,880.00</b>

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 30 September 2017, 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		
		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+	CCC	Caa2	Special Attention
	6			
	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 2.72 at the end of September 2017, compared to 2.75 as of 30 September 2016.

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 September 2017, the Bank's public sector loan portfolio

used up to 45 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.

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 September 2017, the cumulative impairment provision to cover the incurred loss on impaired loan principal in the non-sovereign portfolio was UA 157.38 million compared to UA 132.01 million at the end of September 2016.

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 September 2017, the Bank's non-sovereign portfolio required as risk capital approximately 27 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	A/A2		AA-/Aa3	AAA/Aaa		
institutions									
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.

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.

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 September 2017, the Bank's counterparty credit portfolio including all investments and derivative instruments required as risk capital 2.5 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.

### **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.

### **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).

### **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 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 (nine-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 nine-month LIBOR floating rate benchmark. The operational liquidity portfolio is managed to meet projected operational cash flow needs and uses a one-month LIBOR floating rate benchmark.

The Bank diversifies the sources of its funding by issuing debt in a variety of markets and instruments. Unless fixed rate funding is required for one of its pool-based loan products, the Bank protects its net interest margin by simultaneously swapping all new borrowings into floating rate in one of the Bank's active currencies on a standard nine-month LIBOR rate reference. Where the Bank issues structured debt, the Bank simultaneously enters into a swap with matching terms to synthetically create the desired nine-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.

## Prepayment Risk

In addition to the two principal sources of interest rate risk described above, the Bank is exposed to prepayment risk on loans committed before 1997 on which the Bank is unable to charge a prepayment penalty. In practice the level of prepayments on such loans has generally been within acceptable levels. For all market-based loans issued since 1997, the Bank protects itself from prepayment risk by linking the prepayment penalty to the cost of redeploying the funds at current market rates. Since 2006, total annual prepayments on loans particularly those committed prior to 1997 have been declining over the years. Prepayments in the period ended 30 September 2017 amounted to UA 94.63 million, none of which related to loans committed prior to 1997 (No prepayment in the period ended 30 September 2016).

## 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 30 September 2017 and 2016:

### Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

30 September 2017	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	-	-	-	950,262	950,262	950,262
Demand obligations	-	-	-	3,801	3,801	3,801
Treasury investments	7,659,915	-	-	4,465,471	12,125,386	12,140,170
Derivative assets	859,754	-	-	-	859,754	859,754
Non-negotiable instruments on account of capital	-	-	-	91	91	91
Accounts receivable	-	-	-	563,311	563,311	563,311
Loans	19,373	-	-	16,736,719	16,756,092	16,967,475
Equity participations	-	-	742,413	-	742,413	742,413
Other securities	-	-	-	-	-	-
<b>Total financial assets</b>	<b>8,539,042</b>	<b>-</b>	<b>742,413</b>	<b>22,719,656</b>	<b>32,001,111</b>	<b>32,227,278</b>
Accounts payable	-	-	-	1,663,600	1,663,600	1,663,600
Securities sold under agreements to repurchase	-	-	-	-	-	-
Derivative liabilities	878,408	-	-	-	878,408	878,408
Borrowings	-	22,077,316	-	620,482	22,697,798	22,080,557
<b>Total financial liabilities</b>	<b>878,408</b>	<b>22,077,316</b>	<b>-</b>	<b>2,284,082</b>	<b>25,239,806</b>	<b>24,622,566</b>

(UA thousands)

30 September 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	-	-	-	1,384,041	1,384,041	1,384,041
Demand obligations	-	-	-	3,801	3,801	3,801
Securities purchased under resale agreements	71,643	-	-	-	71,643	71,643
Treasury investments	6,506,941	-	-	4,080,839	10,587,780	10,843,322
Derivative assets	1,456,157	-	-	-	1,456,157	1,456,157
Non-negotiable instruments on account of capital	-	-	-	168	168	168
Accounts receivable	-	-	-	1,059,823	1,059,823	1,059,823
Loans	20,835	-	-	13,611,393	13,632,228	14,208,382
Equity participations	-	-	704,890	-	704,890	704,890
Other securities	-	-	-	51,588	51,588	51,588
<b>Total financial assets</b>	<b>8,055,576</b>	<b>-</b>	<b>704,890</b>	<b>20,191,653</b>	<b>28,952,119</b>	<b>29,783,815</b>
Accounts payable	-	-	-	2,099,521	2,099,521	2,099,521
Derivative liabilities	780,529	-	-	-	780,529	780,529
Borrowings	-	19,057,712	-	613,942	19,671,654	19,788,147
<b>Total financial liabilities</b>	<b>780,529</b>	<b>19,057,712</b>	<b>-</b>	<b>2,713,463</b>	<b>22,551,704</b>	<b>22,668,197</b>

The table below classifies the Bank's financial instruments that were carried at fair value at 30 September 2017 and 2016 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)			
	2017	2016	2017	2016	2017	2016	2017	2016
Treasury investments	5,829,867	4,204,055	1,817,896	2,263,612	12,151	39,274	7,659,915	6,506,941
Derivative assets	10,665	9,087	843,721	1,436,206	5,369	10,864	859,755	1,456,157
Loans	-	-	19,373	20,835	-	-	19,373	20,835
Equity participation	11,008	5,632	-	-	731,405	699,258	742,413	704,890
<b>Total financial assets</b>	<b>5,851,540</b>	<b>4,218,774</b>	<b>2,680,991</b>	<b>2,613,499</b>	<b>748,925</b>	<b>749,396</b>	<b>9,281,456</b>	<b>8,688,823</b>
Derivative liabilities	-	-	827,398	738,890	51,011	41,639	878,408	780,529
Borrowings	13,079,576	10,282,065	8,352,086	8,583,133	645,654	192,514	22,077,316	19,057,712
<b>Total financial liabilities</b>	<b>13,079,576</b>	<b>10,282,065</b>	<b>9,179,483</b>	<b>9,322,023</b>	<b>696,665</b>	<b>234,153</b>	<b>22,955,725</b>	<b>19,838,241</b>

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.

### 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 30 September 2017 and 2016 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)			
	2017	2016	2017	2016	2017	2016	2017	2016
Treasury investments	4,554,226	4,186,332	-	113,716	-	36,333	4,554,226	4,336,381
Loans	-	-	-	-	16,948,102	14,187,547	16,948,102	14,187,547
<b>Total financial assets</b>	<b>4,554,226</b>	<b>4,186,332</b>	<b>-</b>	<b>113,716</b>	<b>16,948,102</b>	<b>14,223,880</b>	<b>21,502,328</b>	<b>18,523,928</b>
Borrowings	177,590	-	393,351	635,426	121,499	95,009	692,440	730,435
<b>Total financial liabilities</b>	<b>177,590</b>	<b>-</b>	<b>393,351</b>	<b>635,426</b>	<b>121,499</b>	<b>95,009</b>	<b>692,440</b>	<b>730,435</b>

### 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
<b>Treasury investments</b> Time deposits Asset-backed securities Government and agency obligations Corporate bonds Financial institutions Supranational	Discounted cash flow Comparable pricing	Credit spread Conditional prepayment rate Constant default rate Expected payments profile following default Loss-given default yield	Increase in rate reduces fair value
<b>Loans</b> Fixed rate Floating rate	Discounted cash flow	Average cost of capital Probability of default, loss given default	A high probability of default results in lower fair value
<b>Derivative assets</b>	Options model	Volatility of credit Counterparty credit risk Own credit risk	
<b>Equity participations</b>	Net asset value	NA	NA
<b>Derivative liabilities</b>	Discounted cash flow	Volatility of credit Credit spreads	
<b>Borrowings</b>	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.

### **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 30 September 2017 and 2016 were made up as follows:

(UA thousands)

	<b>2017</b>	<b>2016</b>
Balance at 1 January	162,751	136,742
New transactions	38,469	13,072
Amounts recognized in income statement during the period	(11,348)	(9,379)
Translation effects	(1,942)	21,963
<b>Balance at 30 September</b>	<b>187,930</b>	<b>162,398</b>

## 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 30 September 2017, the Bank had received collateral with fair value of UA 294.05 million in connection with swap agreements. This was in the form of cash and has been recorded on the balance sheet with a corresponding liability included in "Other accounts payable". There was no collateral held in the form of liquid financial assets and kept in custody by the Bank.

The composition of treasury investments as at 30 September 2017 and 2016 was as follows:

(UA thousands)

	2017	2016
Treasury investments mandatorily measured at fair value through profit or loss	7,659,915	6,506,941
Treasury investments at amortized cost	4,465,471	4,080,839
<b>Total</b>	<b>12,125,386</b>	<b>10,587,780</b>

### 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 30 September 2017 and 2016 was as follows:

(UA millions)

	US Dollar		Euro		CNY		Other Currencies		All Currencies	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Time deposits	561.30	312.26	305.23	667.17	-	71.73	252.75	12.52	1,119.28	1,063.68
Asset-backed securities	9.91	23.97	2.23	15.30	-	-	0.00	-	12.14	39.27
Government and agency obligations	2,940.31	1,619.81	721.67	822.61	100.96	-	46.06	68.19	3,809.00	2,510.61
Corporate bonds	128.00	179.41	74.68	95.58	-	-	0.00	-	202.68	274.99
Financial institutions	656.23	1,431.87	907.64	515.36	-	9.51	51.26	38.89	1,615.13	1,995.63
Supranational	669.51	210.26	218.01	370.69	-	-	14.17	41.81	901.69	622.76
<b>Total</b>	<b>4,965.26</b>	<b>3,777.58</b>	<b>2,229.46</b>	<b>2,486.71</b>	<b>100.96</b>	<b>81.24</b>	<b>364.24</b>	<b>161.41</b>	<b>7,659.92</b>	<b>6,506.94</b>

The nominal value of treasury investments mandatorily measured at FVTPL as at 30 September 2017 was UA 7,647.97 million (2016: UA 6,475.15 million). The average yield of treasury investments mandatorily measured at FVTPL for the nine months ended 30 September 2017 was 1.16 % (2016: 0.87 %)

The contractual maturity structure of treasury investments mandatorily measured at FVTPL as at 30 September 2017 and 2016 was as follows:

(UA millions)

	2017	2016
One year or less	2,426.71	1,821.81
More than one year but less than two years	2,019.60	1,706.86
More than two years but less than three years	1,955.22	1,219.24
More than three years but less than four years	883.44	1,592.12
More than four years but less than five years	164.21	140.47
More than five years	210.74	26.44
<b>Total</b>	<b>7,659.92</b>	<b>6,506.94</b>

### Treasury Investments at Amortized Cost

A summary of the Bank's treasury investments at amortized cost at 30 September 2017 and 2016 was as follows:

(UA millions)

	US Dollar		Euro		CNY		Other Currencies		All Currencies	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Asset-backed securities	-	35.82	0.00	-	-	-	-	0.00	-	35.82
Government and agency obligations	826.27	922.96	704.34	689.85	646.04	-	694.67	717.01	2,871.32	2,329.82
Financial institutions	-	37.68	0.00	-	-	-	-	70.51	-	108.19
Supranational	807.47	788.44	590.38	599.94	13.84	-	182.46	218.63	1,594.15	1,607.01
<b>Total</b>	<b>1,633.74</b>	<b>1,784.90</b>	<b>1,294.72</b>	<b>1,289.79</b>	<b>659.88</b>	<b>-</b>	<b>877.13</b>	<b>1,006.15</b>	<b>4,465.47</b>	<b>4,080.84</b>

The nominal value of treasury investments at amortized cost as at 30 September 2017 was UA 4,414.70 million (2016: UA 4,038.38 million). The average yield of treasury investments at amortized cost for the nine months ended 30 September 2017 was 1.79 % (2016: 2.10 %).

The contractual maturity structure of treasury investments at amortized cost as at 30 September 2017 and 2016 was as follows:

(UA millions)

	2017	2016
One year or less	44.83	77.46
More than one year but less than two years	475.36	310.66
More than two years but less than three years	346.86	457.34
More than three years but less than four years	379.28	352.05
More than four years but less than five years	405.76	347.48
More than five years	2,813.38	2,535.85
<b>Total</b>	<b>4,465.47</b>	<b>4,080.84</b>

The fair value of treasury investments at amortized cost as at 30 September 2017 was UA 4,480.26 million (2016: UA 4,336.38 million).

## NOTE G. DERIVATIVE ASSETS AND LIABILITIES

The fair values of derivative financial assets and financial liabilities at 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017		2016	
	Assets	Liabilities	Assets	Liabilities
<b>Borrowings-related:</b>				
Cross-currency swaps	783,568	662,715	1,337,240	579,848
Interest rate swaps	64,066	128,112	91,730	41,550
Loan swaps	1,237	85,489	11,447	153,764
	<b>848,871</b>	<b>876,316</b>	<b>1,440,417</b>	<b>775,162</b>
<b>Investments-related:</b>				
Asset swaps	218	2,092	2,768	5,367
Macro-hedge swaps and others	10,665	0	12,972	-
	<b>10,883</b>	<b>2,092</b>	<b>15,740</b>	<b>5,367</b>
<b>Total</b>	<b>859,754</b>	<b>878,408</b>	<b>1,456,157</b>	<b>780,529</b>

The notional amounts of derivative financial assets and financial liabilities at 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017	2016
<b>Borrowings-related:</b>		
Cross-currency swaps	11,282,068	10,301,838
Interest rate swaps	13,302,117	10,089,114
Loan swaps	2,630,866	1,601,288
	<b>27,215,051</b>	<b>21,992,240</b>
<b>Investments-related:</b>		
Asset swaps	2,811	221,163
Macro-hedge swaps	119,236	223,884
	<b>122,047</b>	<b>445,047</b>
<b>Total</b>	<b>27,337,098</b>	<b>22,437,287</b>

### 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 30 September 2017, the Bank had futures with a notional value of Euro 9,943 million, GBP 874 million and USD 23,477million. The carrying value of Euro futures was a positive market value of UA 2.8 million (in the money) and for the US dollars futures was a negative market value of UA 8.5 million (out of 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 30 September 2017, 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 30 September 2017 was a liability of UA 78.54 million. The fair value gain on these loan swaps for the nine months ended 30 September 2017 was UA 31.88 million. The fair value loss on the hedged loans attributable to the hedged risk was UA 32.24 million. Therefore, the hedge effectiveness recognized in profit or loss was a gain of UA 0.36 million.

Hedge accounting treatment for swaps at the designation date requires the amortization of the difference between the net carrying amount of loans and their fair value from inception. For the nine months ended September 2017, the amortization of fair value adjustment on the hedged risk amounted to UA 2.89 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 30 September 2017 and 2016, the non-negotiable notes' balances were as follows:

(UA thousands)

	2017	2016
Balance at 1 January	159	271
Net movement for the year	(68)	(103)
<b>Balance at 30 September</b>	<b>91</b>	<b>168</b>

## 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 30 September 2017 and 2016, outstanding loans were as follows:

(UA thousands)

	2017	2016
Outstanding balance of loans - amortized cost	16,974,542	13,831,319
Outstanding balance of loans - fair value	19,372	20,835
	16,993,914	13,852,154
Less: accumulated provision for impairment	(237,822)	(219,926)
<b>Balance at 30 September</b>	<b>16,756,092</b>	<b>13,632,228</b>

### Maturity and Currency Composition of Outstanding Loans

The contractual maturity structure of outstanding loans as at 30 September 2017 and 2016 was as follows:

(UA millions)

Periods	2017			2016	
	Fixed Rate	Floating Rate	Variable Rate	Total	Total
One year or less	1,107.49	230.56	173.43	1,511.48	1,355.74
More than one year but less than two years	1,096.65	288.45	0.00	1,385.10	1,315.46
More than two years but less than three years	1,398.04	164.38	0.00	1,562.42	1,255.53
More than three years but less than four years	1,263.10	156.52	0.00	1,419.62	1,182.38
More than four years but less than five years	1,256.40	145.41	0.00	1,401.81	1,215.24
More than five years	9,174.53	538.95	0.00	9,713.48	7,527.80
<b>Total</b>	<b>15,296.21</b>	<b>1,524.27</b>	<b>173.43</b>	<b>16,993.91</b>	<b>13,852.15</b>

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 30 September 2017 and 2016 were as follows:

(Amounts in UA millions)

			2017		2016	
			Amount	%	Amount	%
<b>Fixed Rate:</b>	Multi-Currency	Euro	94.10		120.54	
		Japanese Yen	156.55		222.02	
		Pound Sterling	1.77		2.26	
		Swiss Franc	2.24		3.88	
		US Dollar	204.03		183.75	
		Others	0.00		0.02	
			458.69	2.70	532.47	3.84
	Single Currency	Euro	5,228.72		4,785.61	
		Japanese Yen	0.00		0.85	
		South African Rand	1,179.71		896.56	
		US Dollar	5,794.25		5,411.82	
		Others	45.58		37.56	
			12,248.26	72.07	11,132.40	80.37
	Structured Products	Euro	1,302.18		-	
		US Dollar	1,126.98		-	
		South African Rand	160.10		-	
			2,589.26	15.24	-	-
<b>Floating Rate:</b>	Single Currency	Euro	307.34		351.37	
		Japanese Yen	6.03		8.75	
		South African Rand	83.66		90.81	
		US Dollar	1,127.23		1,387.17	
			1,524.26	8.97	1,838.10	13.27
	Structured Products	US Dollar	-		167.93	
			-	-	167.93	1.21
<b>Variable Rate:</b>	Multi-Currency	Euro	-		30.12	
		Japanese Yen	0.00		0.87	
		US Dollar	135.73		107.00	
			135.73	0.80	137.99	1.00
	Single Currency	Euro	7.03		9.39	
		Japanese Yen	15.16		17.10	
		Swiss Franc	0.98		0.99	
		US Dollar	14.54		15.78	
			37.71	0.22	43.26	0.31
	<b>Total</b>		<b>16,993.91</b>	<b>100.00</b>	<b>13,852.15</b>	<b>100.00</b>

The weighted average yield on outstanding loans for the period ended 30 September 2017 was 2.79 % (2016: 2.90 %).

A comparative summary of the currency composition of outstanding loans at 30 September 2017 and 2016 was as follows:

(Amounts in UA millions)

	2017		2016	
	Amount	%	Amount	%
Euro	6,939.37	40.83	5,297.03	38.24
Japanese Yen	177.74	1.05	249.59	1.80
Pound Sterling	1.77	0.01	2.26	0.02
South African Rand	1,423.46	8.38	987.37	7.12
Swiss Franc	3.22	0.02	4.87	0.04
US Dollar	8,402.77	49.45	7,273.45	52.51
Others	45.58	0.26	37.58	0.27
<b>Total</b>	<b>16,993.91</b>	<b>100.00</b>	<b>13,852.15</b>	<b>100.00</b>

### Accrued Income and Charges Receivable on Loans

The accrued income and charges receivable on loans as at 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017	2016
Accrued income and charges receivable on loans	520,318	465,020
Less: accumulated provision for impairment	(266,987)	(250,330)
<b>Balance at 30 September</b>	<b>253,331</b>	<b>214,690</b>

### Provision for Impairment on Loan Principal and Charges Receivable

At 30 September 2017, outstanding loans with an aggregate principal balance of UA 546.71 million (2016: UA 534.93 million), of which UA 304.94 million (2016: UA 298.50 million) was overdue, were considered to be impaired. The gross amounts of loans and charges receivable that were impaired and their cumulative impairment at 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017	2016
Outstanding balance on impaired loans	546,714	534,932
Less: accumulated provision for impairment	(237,822)	(219,926)
<b>Net balance on impaired loans</b>	<b>308,892</b>	<b>315,006</b>
Charges receivable and accrued income on impaired loans	379,049	354,228
Less: accumulated provision for impairment	(266,987)	(250,330)
<b>Net charges receivable and accrued income on impaired loans</b>	<b>112,062</b>	<b>103,898</b>

The movements in the accumulated provision for impairment on outstanding loan principal for the periods ended 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017	2016
Balance at 1 January	251,423	201,847
Provision for impairment on loan principal for the period (net)	(3,822)	15,937
Reversal of provision for loan written off	(1,057)	-
Translation effects	(8,722)	2,142
<b>Balance at 30 September</b>	<b>237,822</b>	<b>219,926</b>

Accumulated provisions for impairment on outstanding loan principal included the provisions relating to public and private sector loans. During the nine months ended 30 September 2017, a net reversal of provision for impairment made on private sector loans amounted to UA 2.38 million (2016: provision for UA 13.99 million). The accumulated provisions on private sector loans at 30 September 2017 amounted to UA 154.16 million (2016: UA 132.02 million).

The movements in the accumulated provision for impairment on loan interest and charges receivable for the nine months ended 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017	2016
Balance at 1 January	259,458	228,580
Provision for impairment on loan charges for the period (net)	13,320	15,002
Translation effects	(5,791)	6,748
<b>Balance at 30 September</b>	<b>266,987</b>	<b>250,330</b>

Accumulated provisions for impairment on loan interest and charges receivable included the provisions relating to public and private sector loans. During the nine months ended 30 September 2017, a provision for impairment was made on interest and charges receivable on private sector loans in the amount of UA 7.52 million (2016: UA 4.31 million). The accumulated provision on interest and charges receivable on private sector loans at 30 September 2017 amounted to UA 23.72 million (2016: UA 11.84 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 30 September 2017, there is no outstanding irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans (2016: UA 0.60 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 30 September 2017 amounted to UA 382.20 million (2016: UA 376.54 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 30 September 2017 the nominal amounts of these contracts was USD 4.47 billion (UA 3.16 billion).

Similarly, the Bank purchases credit enhancement facilities from the Private Sector Enhancement Facility (PSF) for some of its loans. As at 30 September 2017, the covered amounts of non-sovereign loans by PSF amounted to UA 252.89 million and the cost of this coverage for the nine months ended 30 September 2017 was UA 0.59 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 period ended 30 September 2017 amounted to UA 163.16 million (2016: UA 158.36 million), representing 62.94 percent (2016: 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 30 September 2017, the Bank's pro-rata or economic share in ADF was 0.45 percent (2016: 0.46 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), 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.

## 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.

As at 30 September 2017, there was no outstanding amount in respect of debt instruments in RMCs (2016: UA 51.59 million).

## NOTE L. BORROWINGS

As at 30 September 2017 and 2016, the Bank's borrowings were as follows:

(UA millions)

	2017	2016
Borrowings at fair value	22,077.32	19,057.71
Borrowings at amortized cost	620.48	613.94
<b>Total</b>	<b>22,697.80</b>	<b>19,671.65</b>

The Bank's borrowings as at 30 September 2017 included subordinated borrowings in the amount of UA 218.87 million (2016: UA 209.12 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 30 September 2017 was UA 28.59 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.

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at 30 September 2017 was as follows:

*i) Borrowings Carried at Fair Value*

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	3,626.78	531.75	4,158.53
More than one year but less than two years	4,736.49	1.32	4,737.81
More than two years but less than three years	4,121.42	111.31	4,232.73
More than three years but less than four years	1,276.95	31.77	1,308.72
More than four years but less than five years	2,418.02	2.66	2,420.68
More than five years	4,944.89	273.96	5,218.85
<b>Total</b>	<b>21,124.55</b>	<b>952.77</b>	<b>22,077.32</b>

*ii) Borrowings Carried at Amortized Cost*

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	17.17	-	17.17
More than one year but less than two years	171.24	-	171.24
More than two years but less than three years	10.94	-	10.94
More than three years but less than four years	41.05	62.81	103.86
More than four years but less than five years	104.22	(0.01)	104.22
More than five years	216.12	-	216.12
<b>Subtotal</b>	<b>560.74</b>	<b>62.81</b>	<b>623.55</b>
Net unamortized premium and discount	(3.07)	-	(3.07)
<b>Total</b>	<b>557.67</b>	<b>62.81</b>	<b>620.48</b>

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at 30 September 2016 was as follows:

i) *Borrowings Carried at Fair Value*

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	3,622.00	305.19	3,927.19
More than one year but less than two years	3,116.31	-	3,116.31
More than two years but less than three years	4,048.77	1.49	4,050.26
More than three years but less than four years	1,891.37	1.85	1,893.22
More than four years but less than five years	1,149.28	39.52	1,188.80
More than five years	4,734.52	147.41	4,881.93
<b>Total</b>	<b>18,562.25</b>	<b>495.46</b>	<b>19,057.71</b>

ii) *Borrowings Carried at Amortized Cost*

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	4.66	-	4.66
More than one year but less than two years	19.03	-	19.03
More than two years but less than three years	163.36	-	163.36
More than three years but less than four years	11.61	-	11.61
More than four years but less than five years	47.12	70.88	118.00
More than five years	310.25	-	310.25
<b>Subtotal</b>	<b>556.03</b>	<b>70.88</b>	<b>626.91</b>
Net unamortized premium and discount	(12.97)	-	(12.97)
<b>Total</b>	<b>543.06</b>	<b>70.88</b>	<b>613.94</b>

The fair value of borrowings carried at fair value through profit or loss at 30 September 2017 was UA 22,077.32 million (2016: UA 19,057.71 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at 30 September 2017 was UA 22,607.61 million (2016: UA 18,983.23 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per Note O, there was a loss of UA 2.52 million on fair-valued borrowings and related derivatives for the nine months ended 30 September 2017 (2016: net loss of UA 0.08 million). The fair value movement attributable to changes in the Bank's credit risk included in the other comprehensive income for the period ended 30 September 2017 was a loss of UA 58.66 million (2016: loss of UA 114.72 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 30 September 2017, the cumulative unrealized fair value losses to date were UA 717.73 million (2016: losses of UA 1,083.20 million).

## NOTE M. EQUITY

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

### Capital

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

#### *Subscriptions Paid In*

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

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

Prior to the sixth General Capital Increase (GCI-VI) and by its resolutions B/BG/2008/07 and B/BG/2009/05, the Board of Governors authorized two capital increases bringing the Authorized Capital of the Bank from UA 21,870 million to UA 22,120 million to allow the Republic of Turkey and the Grand Duchy of Luxembourg to become members of the Bank. The membership of these two countries became effective upon completion of the formalities specified in the Agreement establishing the Bank and in the General Rules Governing Admission of Non-Regional Countries to Membership of the Bank. Consequently, on 20 October 2013 and 29 May 2014, the Republic Turkey and The Grand Duchy Luxembourg respectively were formally admitted as the 78<sup>th</sup> and 79<sup>th</sup> 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 and 19,414.

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 30 September 2017 and 2016 was as follows:

(UA thousands)

	2017	2016
Capital Authorized (in shares of UA 10 000 each)	66,975,050	66,975,050
Less: Unsubscribed	(1,147,682)	(1,111,367)
Subscribed Capital	65,827,368	<b>65,863,683</b>
Less: Callable Capital	(60,830,205)	(60,955,435)
Paid-up Capital	4,997,163	<b>4,908,248</b>
Shares to be issued upon payment of future installments	(754,230)	(917,180)
Add: Amounts paid in advance	604	497
	4,243,537	<b>3,991,565</b>
Less: Amounts in arrears		-
<b>Capital at 30 September</b>	<b>4,243,537</b>	<b>3,991,565</b>

Included in the total unsubscribed shares of UA 1,446.67 million at 30 September 2017 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 30 September 2017 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	274,888	4.228	182,367	2,566,550	275,513	4.222
2	ANGOLA	75,694	1.164	44,173	712,772	76,210	1.168
3	BENIN	12,490	0.192	7,367	117,533	13,115	0.201
4	BOTSWANA	69,627	1.071	63,433	632,845	70,252	1.077
5	BURKINA FASO	25,834	0.397	15,580	242,775	26,459	0.405
6	BURUNDI	15,367	0.236	9,709	143,966	15,992	0.245
7	CAMEROON	70,092	1.078	40,648	660,281	70,717	1.084
8	CAPE VERDE	4,553	0.070	3,346	42,190	5,178	0.079
9	CENTRAL AFRICAN REPUBLIC	2,720	0.042	1,802	25,412	3,345	0.051
10	CHAD	4,295	0.066	2,717	40,240	4,920	0.075
11	COMOROS	542	0.008	605	4,826	1,167	0.018
12	CONGO	29,408	0.452	17,747	276,350	30,033	0.460
13	CÔTE D'IVOIRE	242,156	3.725	151,900	2,269,670	242,781	3.721
14	DEMOCRATIC REPUBLIC OF CONGO	83,779	1.289	54,402	783,395	84,404	1.293
15	DJIBOUTI	1,213	0.019	1,517	10,618	1,838	0.028
16	EGYPT	364,239	5.603	240,640	3,401,760	364,864	5.591
17	EQUATORIAL GUINEA	9,483	0.146	6,921	87,917	10,108	0.155
18	ERITREA	2,003	0.031	2,506	17,522	2,628	0.040
19	ETHIOPIA	102,330	1.574	60,360	962,940	102,955	1.578
20	GABON	64,615	0.994	48,390	597,778	65,240	1.000
21	GAMBIA, THE	9,796	0.151	5,571	92,413	9,904	0.152
22	GHANA	138,116	2.125	80,294	1,300,871	139,242	2.134
23	GUINEA	26,094	0.401	15,983	244,961	26,719	0.409
24	GUINEA BISSAU	1,364	0.021	870	12,780	1,989	0.030
25	KENYA	93,293	1.435	55,034	877,900	93,918	1.439
26	LESOTHO	3,725	0.057	4,053	33,210	4,350	0.067
27	LIBERIA	12,444	0.191	7,827	116,637	13,070	0.200
28	LIBYA	193,156	2.971	120,463	1,811,098	172,459	2.643
29	MADAGASCAR	42,077	0.647	24,725	396,040	42,701	0.654
30	MALAWI	15,794	0.243	10,043	147,900	16,419	0.252
31	MALI	28,055	0.432	16,667	263,881	28,680	0.440
32	MAURITANIA	3,709	0.057	4,171	32,916	4,331	0.066
33	MAURITIUS	42,309	0.651	32,865	390,230	42,937	0.658
34	MOROCCO	233,735	3.595	166,354	2,171,000	234,361	3.591
35	MOZAMBIQUE	40,273	0.619	23,165	379,588	40,898	0.627
36	NAMIBIA	22,347	0.344	16,329	207,150	22,972	0.352
37	NIGER	15,341	0.236	9,674	143,743	15,966	0.245
38	NIGERIA	604,559	9.300	410,238	5,635,383	605,184	9.274
39	RWANDA	8,538	0.131	5,078	80,303	9,163	0.140
40	SAO TOME & PRINCIPE	4,380	0.067	2,759	41,054	5,005	0.077
41	SENEGAL	67,810	1.043	39,873	638,241	68,435	1.049
42	SEYCHELLES	1,832	0.028	1,825	16,499	2,457	0.038
43	SIERRA LEONE	18,649	0.287	11,648	175,381	19,327	0.296
44	SOMALIA	1,941	0.030	2,427	16,986	2,566	0.039
45	SOUTH AFRICA	327,502	5.038	193,420	3,081,600	328,127	5.028
46	SOUTH SUDAN	29,383	0.452	1,695	292,140	27,345	0.419
47	SUDAN	21,450	0.330	13,621	200,877	20,650	0.316
48	SWAZILAND	7,388	0.114	8,350	65,530	8,013	0.123
49	TANZANIA	49,385	0.760	29,517	464,337	50,009	0.766
50	TOGO	10,155	0.156	6,376	95,171	10,780	0.165
51	TUNISIA	91,107	1.401	66,840	844,260	91,734	1.406
52	UGANDA	29,131	0.448	17,978	273,347	29,756	0.456
53	ZAMBIA	76,233	1.173	45,452	716,865	76,858	1.178
54	ZIMBABWE	127,288	1.958	78,015	1,258,158	127,913	1.960
	<b>Total Regionals</b>	<b>3,853,686</b>	<b>69,279</b>	<b>2,485,327</b>	<b>36,115,786</b>	<b>3,861,955</b>	<b>59,183</b>

*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
	<b>Total Regionals</b>						
55	ARGENTINA	5,847	0.090	6,108	52,364	6,472	0.099
56	AUSTRIA	29,061	0.447	19,958	270,660	29,686	0.455
57	BELGIUM	41,576	0.640	26,595	389,180	42,202	0.647
58	BRAZIL	21,498	0.331	14,051	200,936	22,124	0.339
59	CANADA	251,112	3.863	182,993	2,328,140	251,737	3.858
60	CHINA	76,256	1.173	47,556	715,020	76,881	1.178
61	DENMARK	76,604	1.178	55,674	710,380	77,229	1.184
62	FINLAND	31,815	0.489	21,849	296,310	32,440	0.497
63	FRANCE	244,441	3.760	167,859	2,276,560	245,066	3.756
64	GERMANY	269,291	4.142	172,150	2,520,760	269,916	4.136
65	INDIA	16,629	0.256	10,380	155,920	17,254	0.264
66	ITALY	157,167	2.418	100,508	1,471,170	157,792	2.418
67	JAPAN	357,466	5.499	245,480	3,329,180	358,091	5.488
68	KOREA	31,153	0.479	19,480	292,060	31,778	0.487
69	KUWAIT	29,208	0.449	21,420	270,660	29,833	0.457
70	LUXEMBOURG	13,114	0.202	4,015	127,130	13,739	0.211
71	NETHERLANDS	56,668	0.872	35,523	531,180	57,294	0.878
72	NORWAY	76,521	1.177	52,020	713,200	77,146	1.182
73	PORTUGAL	15,579	0.240	10,045	145,750	16,204	0.248
74	SAUDI ARABIA	12,547	0.193	8,030	117,440	13,172	0.202
75	SPAIN	69,297	1.066	49,534	643,440	69,922	1.072
76	SWEDEN	102,238	1.573	69,475	952,920	102,863	1.576
77	SWITZERLAND	95,449	1.468	65,546	888,950	96,074	1.472
78	TURKEY	23,253	0.358	5,416	227,130	23,878	0.366
79	UNITED KINGDOM	114,348	1.759	71,733	1,071,760	114,973	1.762
80	UNITED STATES OF AMERICA	429,103	6.601	274,815	4,016,219	429,728	6.585
	<b>Total Non Regionals</b>	<b>2,647,241</b>	<b>40.721</b>	<b>1,758,210</b>	<b>24,714,419</b>	<b>2,663,494</b>	<b>40.817</b>
	<b>Grand Total</b>	<b>6,500,927</b>	<b>100.000</b>	<b>4,243,537</b>	<b>60,830,205</b>	<b>6,525,449</b>	<b>100.000</b>

The subscription position including the distribution of voting rights at 30 September 2017 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 30 September 2017 and 2016, the Cumulative Exchange Adjustment on Subscriptions was as follows:

(UA thousands)

	2017	2016
Balance at 1 January	161,044	168,842
Net conversion losses on new subscriptions	(3,490)	(8,544)
<b>Balance at 30 September</b>	<b>157,554</b>	<b>160,298</b>

### *Reserves*

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

#### *Retained Earnings*

Retained earnings 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.

#### *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 30 September 2017 and 2016, the allocable income was as follows:

(UA thousands)

	2017	2016
Income before Board of Governors' approved distribution	200,037	152,216
Unrealized gains on borrowings and derivatives	(23,192)	(11,870)
Translation losses / (gains)	10,122	(2,525)
Unrealized losses on macro hedge swaps	2,170	4,329
<b>Allocable income</b>	<b>189,137</b>	<b>142,150</b>

## **NOTE N. INCOME FROM LOANS AND INVESTMENTS AND RELATED DERIVATIVES**

### **Income from Loans and related derivatives**

Income from loans and related derivatives for the periods ended 30 September 2017 and 2016 was as follows:

(UA thousands)

	2017	2016
Interest income on loans not impaired	336,519	251,543
Interest income on impaired loans	28,598	27,362
Interest expense on loan swaps	(32,569)	(25,772)
Commitment charges	12,412	14,377
Trade finance guarantee fees	-	199
Statutory commission	209	251,543
<b>Total</b>	<b>345,169</b>	<b>267,709</b>

### Income from Investments and Related Derivatives

Income from investments and related derivatives for the periods ended 30 September 2017 and 2016 was as follows:

(UA thousands)

	2017	2016
Interest income	163,567	124,028
Realized fair value losses on investments	(10,100)	(16,061)
Unrealized fair value (losses)/gains on investments	(5,022)	7,223
<b>Total</b>	<b>148,445</b>	<b>115,190</b>

Total interest income on investments at amortized cost for the period ended 30 September 2017 was UA 74.99 million (2016: UA 65.29 million).

### NOTE O. BORROWING EXPENSES

#### Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the periods ended 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017	2016
Charges to bond issuers	316,470	277,360
Amortization of issuance costs	3,961	(356)
<b>Total</b>	<b>320,431</b>	<b>277,004</b>

Total interest expense for financial liabilities not at fair value through profit or loss for the period ended 30 September 2017 was UA 7.98 million (2016: UA 5.92 million).

#### Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the periods ended 30 September 2017 and 2016 was as follows:

(UA thousands)

	2017	2016
Interest on derivatives payable	228,278	127,847
Interest on derivatives receivable	(347,992)	(281,501)
<b>Total</b>	<b>(119,714)</b>	<b>(153,654)</b>

#### Gains/losses on Borrowings, Related Derivatives and Others

Gains/losses on borrowings, related derivatives and others for the periods ended 30 September 2017 and 2016 were as follows:

(UA thousands)

	2017	2016
Unrealized losses on fair-valued borrowings and related derivatives	(2,520)	(84)
Gains on derivatives on non-fair valued borrowings and others	25,710	11,954
<b>Total</b>	<b>23,192</b>	<b>11,870</b>

The gain on derivatives on non-fair valued borrowings and others for the nine months ended 30 September 2017 amounted to UA 25.71 million (2016: gain of UA 11.95 million). This included the income statement effects of the hedge accounting, consisting of unrealized gain of UA 0.36 million, representing hedge effectiveness and UA 2.89 million of amortization of fair value adjustments on the hedged risk (See Note G).

## NOTE P. ADMINISTRATIVE EXPENSES

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

Administrative expenses comprised the following:

(UA thousands)

	2017	2016
Manpower expenses	213,731	200,520
Other general expenses	46,736	53,815
<b>Total</b>	<b>260,467</b>	<b>254,335</b>
Reimbursable by ADF	(163,164)	(158,358)
Reimbursable by NTF	(418)	(355)
<b>Net</b>	<b>96,885</b>	<b>95,622</b>

## NOTE Q. EMPLOYEE BENEFITS

### Staff Retirement Plan

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

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

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

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

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

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 30 September 2017, 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.

## NOTE R. RELATED PARTIES

The following related parties have been identified:

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

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

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

The Bank’s investment in the ADF is included in Equity Participations and disclosed in Note J. In addition to the amount reported as equity participation, the Bank periodically makes allocations from its income to the Fund, to further its objectives. Net income allocations by the Bank to ADF are reported as Other Resources in the Fund’s financial statements.

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

Grant resources administered by the Bank on behalf of other donors, including its member countries, agencies and other entities are generally restricted for specific uses, which include the co-financing of Bank’s lending projects, debt reduction operations and technical assistance for borrowers including feasibility studies.



## Management Personnel Compensation

Compensation paid to the Bank's management personnel and executive directors during the periods ended 30 September 2017, and 2016 was made up as follows:

(UA thousands)

	2017	2016
Salaries	17,439	15,343
Termination and other benefits	8,443	8,074
Contribution to retirement and medical plan	3,819	3,363
<b>Total</b>	<b>29,700</b>	<b>26,780</b>

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 30 September 2017, outstanding balances on loans and advances to management staff amounted to UA 4.789 million (2016: UA 3.99 million).

## NOTE S. SUPPLEMENTARY DISCLOSURES

### NOTE S- 1: EXCHANGE RATES

The rates used for translating currencies into Units of Account at 30 September 2017 and 2016 were as follows:

		2017	2016
1 UA = 1 SDR =	Algerian Dinar	159.87300	153.24100
	Angolan Kwanza	234.49700	231.55400
	Australian Dollar	1.80290	1.82937
	Botswana Pula	14.52510	14.61970
	Brazilian Real	4.50347	4.49857
	Canadian Dollar	1.776379	1.83089
	Chinese Yuan Renminbi	9.39576	9.31064
	CFA Franc	785.24600	820.35300
	Danish Kroner	8.90916	9.31871
	Egyptian Pound	24.95310	12.37900
	Ethiopian Birr	33.47560	31.13910
	Euro	1.19710	1.25062
	Gambian Dalasi	67.08000	63.810000
	Ghanaian Cedi	6.21807	5.50151
	Guinean Franc	12,684.40000	12,675.90000
	Indian Rupee	92.36600	93.04400
	Japanese Yen	159.22200	141.08900
	Kenyan Shilling	145.91900	141.32900
	Korean Won	1,620.63000	1,530.23000
	Kuwaiti Dinar	0.42703	0.42063
	Libyan Dinar	1.93240	1.93240
	Mauritian Rupee	47.80410	49.42520
	Moroccan Dirham	13.29700	13.60680
	New Zealand Dollar	1.95720	1.93032
	Nigerian Naira	431.57900	425.97100
	Norwegian Krone	11.26760	11.23870
	Pound Sterling	1.05596	1.07693
	Sao Tomé Dobra	29,060.10000	30,687.50000
	Saudi Arabian Riyal	5.29987	5.23431
	South African Rand	19.07820	19.38450
	Swedish Krona	11.45980	12.03010
	Swiss Franc	1.37005	1.35980
	Tanzanian Shilling	3,159.12000	3,032.83000
	Tunisian Dinar	3.49998	3.07306
	Turkish Lira	4.86786	4.12313
	Ugandan Shilling	5,088.74000	4,729.79000
	United States Dollar	1.41330	1.39581
	Vietnamese Dong	32,399.20000	31,340.80000

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.