

African Development Bank

Interim Financial Statements (**Unaudited**)

Nine months ended 30 September 2018

Balance Sheet	1-2
Income Statement	3
Statement of Comprehensive Income	4
Statement of Changes in Equity	5
Statement of Cash Flows	6
Notes to the Financial Statements	7

BALANCE SHEET
AS AT 30 SEPTEMBER 2018
 (UA thousands Note B)

ASSETS	30 SEPTEMBER 2018	31 DECEMBER 2017	30 SEPTEMBER 2017
CASH	2,724,412	1,173,096	950,262
DEMAND OBLIGATIONS	3,801	3,801	3,801
TREASURY INVESTMENTS (Note F)	11,549,540	11,521,065	12,125,386
DERIVATIVE ASSETS (Note G)	592,938	717,022	859,754
NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL (Note H)	39	76	91
ACCOUNTS RECEIVABLE			
Accrued income and charges receivable on loans (Note I)	308,440	280,070	253,331
Other accounts receivable	358,233	314,904	309,980
	665,673	594,974	563,311
DEVELOPMENT FINANCING ACTIVITIES			
Loans, net (Notes D & I)	18,612,385	17,633,653	16,756,092
Hedged loans – Fair value adjustment (Note G)	27,384	54,448	55,778
Equity participations (Note J)	840,594	781,217	742,413
	19,480,363	18,469,318	17,554,283
OTHER ASSETS			
Property, equipment and intangible assets	96,552	95,808	94,439
Miscellaneous	576	578	467
	97,128	96,386	94,906
TOTAL ASSETS	35,114,894	32,575,738	32,151,794

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

LIABILITIES & EQUITY	30 SEPTEMBER 2018	31 DECEMBER 2017	30 SEPTEMBER 2017
ACCOUNTS PAYABLE			
Accrued financial charges	225,760	285,577	172,594
Other accounts payable	726,057	593,685	1,070,743
Employee Benefit Liabilities (Note P)	410,140	376,325	420,263
	1,361,957	1,255,587	1,663,600
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE	22,408	-	-
DERIVATIVE LIABILITIES (Note G)	1,253,911	1,051,631	878,408
BORROWINGS (Note K)			
Borrowings at fair value	24,687,865	22,566,653	22,077,316
Borrowings at amortized cost	608,688	609,037	620,482
	25,296,553	23,175,690	22,697,798
EQUITY (Note L)			
Capital			
Subscriptions paid	4,502,279	4,268,811	4,243,537
Cumulative Exchange Adjustment on Subscriptions (CEAS)	(155,626)	(158,035)	(157,554)
Subscriptions paid (net of CEAS)	4,346,653	4,110,776	4,085,983
Reserves	2,833,412	2,982,054	2,826,005
Total equity	7,180,065	7,092,830	6,911,988
TOTAL LIABILITIES & EQUITY	35,114,894	32,575,738	32,151,794

INCOME STATEMENT **FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018** (UA thousands – Note B)

	2018	2017
OPERATIONAL INCOME & EXPENSES		
Income from:		
Loans and related derivatives (Note M)	441,165	345,169
Investments and related derivatives (Note M)	179,155	148,445
Equity investments (Dividends)	10,147	7,377
Other securities	31	3,459
Total income from loans and investments	630,498	504,450
Borrowing expenses (Note N)		
Interest and amortized issuance costs	(351,563)	(320,431)
Net interest on borrowing-related derivatives	44,802	119,714
(Losses) on borrowings, related derivatives and others	(14,063)	23,192
Net impairment charge (Note I)		
Loan principal	(56,024)	3,822
Loan charges	(3,515)	(13,320)
Provision for impairment on equity investments	758	508
Provision for impairment on investments	(41)	
Provision for impairment Financial guarantees	108	
Translation gains / (losses)	6,268	(10,122)
Other income	3,276	2,514
Net operational income	260,504	310,327
OTHER EXPENSES		
Administrative expenses (Note O)	(109,086)	(96,885)
Depreciation – Property, equipment and intangible assets	(12,900)	(11,215)
Sundry expenses	(6,408)	(2,241)
Total other expenses	(128,394)	(110,341)
Income before distributions approved by the Board of Governors	132,110	199,986
Distributions of income approved by the Board of Governors	(83,000)	(82,000)
NET INCOME FOR THE PERIOD	49,110	117,986

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
 (UA thousands – Note B)

	2018	2017
NET INCOME FOR THE PERIOD	49,110	117,986
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”	(14,765)	19,840
Unrealized (losses)/gains on fair-valued borrowings arising from “own credit”	(27,323)	(58,658)
Total items that will not be reclassified to profit or loss	(42,088)	(38,818)
Total other comprehensive income	(42,088)	(38,818)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	7,022	79,168

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

STATEMENT OF CHANGES IN EQUITY
FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018
 (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 2017	4,019,875	(161,044)	2,990,665	(423,827)	89,624	90,375	6,605,668
Net income for the period	-	-	117,986	-	-	-	117,986
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 losses on new subscriptions	-	3,490	-	-	-	-	3,490
BALANCE AT 30 SEPTEMBER 2017	4,243,537	(157,554)	3,108,651	(423,827)	109,464	31,717	6,911,988
BALANCE AT 30 DECEMBER 2017	4,268,811	(158,035)	3,167,093	(361,999)	145,722	31,238	7,092,830
Effects of changes in accounting policies (IFR 9)			(155,663)				(155,663)
BALANCE AT 1 JANUARY 2018	4,268,811	(158,035)	3,011,430	(361,999)	145,722	31,238	6,937,167
Net income for the period	-	-	49,110				49,110
Other comprehensive income							
Net losses on financial assets at fair value through "other comprehensive income"	-	-		-	(14,765)	-	(14,765)
Unrealized losses on fair-valued borrowings arising from "own credit"	-	-				(27,323)	(27,323)
Total other comprehensive income	-	-		-	(14,765)	(27,323)	(42,088)
Net increase in paid-up capital	233,467						233,467
Net conversion gains on new subscriptions		2,409					2,409
BALANCE AT 30 SEPTEMBER 2018	4,502,278	(155,626)	3,060,540	(361,999)	130,957	3,915	7,180,065

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

STATEMENT OF CASH FLOWS

FOR THE NINE MONTHS ENDED 30 SEPTEMBER 2018

(UA thousands – Note B)

	2018	2017
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income/(loss)	49,110	117,986
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	12,900	11,215
Provision for impairment on loan principal and charges	59,540	9,498
Unrealized losses on investments and related derivatives	(19,471)	(11,128)
Amortization of premium or discount on treasury investments at amortized cost	11,359	8,988
Provision for impairment on investments	41	
Provision for impairment on financial guarantee	(108)	
Provision for impairment on equity investments	(758)	(508)
Amortization of borrowing issuance costs	(3,577)	38,949
Unrealized losses /(gains) on borrowings, related derivatives and others	18,161	(53,767)
Translation (gains)/losses	(6,288)	10,122
Share of profits in associate	262	322
Net movements in derivatives	100,671	115,628
Changes in accrued income on loans	(43,801)	(27,367)
Changes in accrued financial charges	(59,817)	(43,836)
Net change in reverse repurchase agreements and cash collateral on securities borrowed	22,408	-
Changes in other receivables and payables	138,135	(166,509)
Net cash provided by operating activities	287,895	9,593
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(2,322,339)	(2,744,390)
Repayments of loans	1,081,736	1,037,899
Movement in investments held at amortized cost		
Purchases	(433,585)	(753,891)
Proceeds on disposal and maturity	134,423	186,011
Movement in investments held at fair value through profit or loss		
Purchases	(4,571,715)	(2,438,735)
Proceeds on disposal and maturity	4,616,769	1,645,840
Acquisition of fixed assets	(12,424)	(8,613)
Disbursements on equity participations	(74,869)	(47,323)
Repayments on equity participations	20,998	19,530
Net cash used in investing, lending and development activities	(1,561,005)	(3,103,672)
FINANCING ACTIVITIES:		
New borrowings	4,900,400	6,040,407
Repayments on borrowings	(2,510,464)	(3,237,135)
Cash from capital subscriptions	235,876	227,151
Net cash provided by financing activities	2,625,812	3,030,423
Effect of exchange rate changes on cash and cash equivalents	(11,649)	29,486
Increase in cash and cash equivalents	1,332,052	33,679
Cash and cash equivalents at the beginning of the period	1,719,776	2,035,868
Cash and cash equivalents at the end of the period	3,051,828	2,069,547
COMPOSED OF:		
Investments maturing within 3 months from acquisition:		
Investments at fair value through profit and loss	327,416	1,119,285
Cash	2,724,412	950,262
Cash and cash equivalents at the end of the period	3,051,828	2,069,547
SUPPLEMENTARY DISCLOSURE:		
1. Operational cash flows from interest and dividends:		
Interest paid	(366,578)	(244,553)
Interest received	188,767	351,834
Dividend received	10,147	7,377
2. Movement resulting from exchange rate fluctuations:		
Loans	111,692	50,083
Borrowings	(98,849)	(556,479)
Currency swaps	122,831	303,793

NOTES TO THE FINANCIAL STATEMENTS

NINE MONTHS ENDED 30 SEPTEMBER 2018

NOTE A. OPERATIONS AND AFFILIATED ORGANIZATIONS

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

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

NOTE B. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue Recognition

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

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

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

Functional and Presentation Currencies

The Bank conducts its operations in the currencies of its member countries. As a result of the application of IAS 21 revised, "The Effects of Changes in Foreign Exchange Rates", the Bank prospectively changed its functional currency from the currencies of all its member countries to the Unit of Account (UA) effective 1 January 2005, as it was concluded that the UA most faithfully represented the aggregation of economic effects of events, conditions and the underlying transactions of the Bank

conducted in different currencies. The UA is also the currency in which the financial statements are presented. The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement establishing the Bank (the Agreement) as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF.

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

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated into UA at rates prevailing at the balance sheet date. The rates used for translating currencies into UA at 30 September 2018 and 2017 are reported in Note R-1. Non-monetary assets and liabilities are translated into UA at historical rates. Translation differences are included in the determination of net income. Capital subscriptions are recorded in UA at the rates prevailing at the time of receipt. The translation difference relating to payments of capital subscriptions is reported in the financial statements as the Cumulative Exchange Adjustment on Subscriptions (CEAS). This is composed of the difference between the UA amount at the predetermined rate and the UA amount using the rate at the time of receipt. When currencies are converted into other currencies, the resulting gains or losses are included in the determination of net income.

Member Countries' Subscriptions

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

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

Although the Agreement establishing the ADB allows for a member country to withdraw from the Bank,

no member has ever withdrawn its membership voluntarily, nor has any member indicated to the Bank that it intends to do so. The stability in the membership reflects the fact that the members, who constitute both African and non-African countries, are committed to the purpose of the Bank to contribute to the sustainable economic development and social progress of its Regional Member Countries individually and jointly. Accordingly, as of 30 September 2018, the Bank did not expect to distribute any portion of its net assets due to member country withdrawals.

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

the shares would have been reduced had the losses been taken into account when the repurchase price was determined. In addition, the former member remains liable on any call, subsequent to the termination date, for unpaid subscriptions, to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

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

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

Employee Benefits

1) Pension Obligations

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

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

2) Post-Employment Medical Benefits

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

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

Financial Instruments

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

1) Financial Assets

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

i) Financial Assets at Amortized Cost

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

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

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

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

Loans that have a conversion option that could potentially change the future cash flows to no longer represent solely payments of principal and interest are measured at FVTPL as required by IFRS 9. The fair value is determined using the expected cash flows model with inputs including interest rates and the borrower's credit spread estimated based on the Bank's internal rating methodology for non-sovereign loans. Investments classified as financial assets at amortized cost include investments that are non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method.

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

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes as well as certain loans for which either of the criteria for recognition at amortized cost is not met. Gains and

losses on these financial assets are reported in the income statement in the period in which they arise. Derivatives are also categorized as financial assets at fair value through profit or loss.

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

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

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

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

iv) Financial Guarantee Contracts

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

Recognition and Derecognition of Financial Assets

Purchases and sales of financial assets are recognized or derecognized on a trade-date basis, which is the date on which the Bank commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Bank has transferred substantially all risks and rewards of ownership.

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

Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are recorded at market rates. The Bank receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to counterparties under the repurchase and security lending arrangements and the securities transferred to the Bank under the resale agreements do not meet the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on the

Bank balance sheet, and securities received under resale agreements are not recorded on the Bank's balance sheet. In cases where the Bank enters into a "reverse repo" – that is, purchases an asset and simultaneously enters into an agreement to resell the same at a fixed price on a future date – a receivable from reverse repurchase agreement is recognized in the statement of financial position and the underlying asset is not recognized in the financial statements.

Cash and Cash equivalents

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

2) Financial Liabilities

i) Borrowings

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

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

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

ii) Financial Liabilities at Fair Value through Profit or Loss

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

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

iii) Other Liabilities

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

borrowings and other accounts payable.

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

Derivatives

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

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

The Bank assesses its hybrid financial assets (i.e. the combined financial asset host and embedded derivative) in its entirety to determine their classification. A hybrid financial asset is measured at amortized cost if the combined cash flows represent solely principal and interest on the outstanding principal; otherwise it is measured at fair value. As at 30 September 2018, the Bank had hybrid financial assets that were measured at fair value in accordance with IFRS 9.

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

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

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

Hedge Accounting

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

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

adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss from that date.

Impairment of Financial Assets

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

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

Stage 1: 12-months ECL

The Bank assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Bank recognizes as a provision on the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months

Stage 2: Lifetime ECL – not credit impaired

The Bank assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. For these exposures, the Bank recognizes as a provision a lifetime ECL (i.e. reflecting the remaining lifetime of the financial asset).

Stage 3: Lifetime ECL – credit impaired

The Bank identifies ECLs on those exposures that are assessed as credit impaired based on whether one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit impaired, a lifetime ECL is recognized as specific provision, and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

Determining the stage for impairment

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

This includes quantitative and qualitative information and also, forward-looking analysis. Please refer to Note D Risk management.

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

The provision for doubtful debts for these financial assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the income statement.

Measurement of ECLs

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

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

Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

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

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

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

ECLs are recognized using a provision for doubtful debts account in profit and loss. In the case of debt instruments measured at amortized cost, the measurement of ECLs is based on the three-stage approach as applied to financial assets at amortized cost. The Bank recognizes the provision charge in profit and loss.

Offsetting of Financial Instruments

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

Fair Value Disclosure

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank measures fair values using other valuation techniques that incorporate the maximum use of market data inputs.

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

measurement.

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

The Bank uses widely recognized valuation models for measuring the fair value of common and simpler financial instruments, like interest rate and currency swaps that use only observable market data and require minimum management judgment and estimation. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with the measurement of fair value.

Observable market prices and inputs available vary depending on the products and markets and are subject to changes based on specific events and general conditions in the financial markets.

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

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

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

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data. Included in this category are instruments valued using: quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

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

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

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

Cash: The carrying amount is the fair value.

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

Borrowings: The fair values of the Bank's borrowings are based on market quotations when possible or

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

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

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

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

Loans: The Bank does not sell its sovereign loans, nor does it believe there is a comparable market for these loans. The Bank's loan assets, except for those at fair value, are carried on the balance sheet at amortized cost. The fair value of loans carried at amortized cost are 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 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 2018, such subscriptions cumulatively represented less than 1 percent of the economic interest in the capital of the ADF.

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

Property and Equipment

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

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

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

The residual values and useful lives of assets are reviewed periodically and adjusted if appropriate. Assets that are subject to amortization are reviewed annually for impairment. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to disposal and its value in use. Gains and losses on disposal are determined as the difference between proceeds and the asset's carrying amount and are included in the income statement in the period of disposal.

Intangible Assets

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

Leases

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

Allocations and Distributions of Income Approved by the Board of Governors

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

Allocable Income

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

Retained Earnings

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the preparation of financial statements in conformity with IFRS, Management makes certain estimates, assumptions and judgments that affect the reported amounts of assets, liabilities, revenue and expenses as well as the disclosure of contingent liabilities. Actual results could differ from such estimates. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The most significant judgments and estimates are summarized below:

1) Significant Judgments

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

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

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

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

Impairment losses on financial assets

The measurement of impairment losses both under IFRS 9 and IAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Bank's internal credit grading model, which assigns PDs to the individual grades
- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time ECL basis and the

qualitative assessment

- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

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

Events after the Reporting Period

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

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

Reclassification and Restatement

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

NOTE C. THE EFFECT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The new standards that are expected to be relevant to the Bank are discussed briefly below:

IFRS 16: Leases

On 13 January 2017, the IASB published IFRS 16 "Leases", which replaces the current guidance on lease accounting in IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The new standard requires far-reaching changes in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting its obligation to make future lease payments and a 'right-of-use asset' reflecting its right to use the underlying leased asset, for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

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

IFRS 9 Transition disclosures

New and amended standards and interpretations

In these financial statements, the Bank has applied IFRS 9 effective for annual periods beginning on or after 1 January 2018, for the first time. The Bank has not adopted early any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRS 9 Financial Instruments

IFRS 9 replaces IAS 39 for annual periods on or after 1 January 2018. However, in 2011 the Bank early adopted the classification and measurement requirements for financial instruments (except impairment of financial instrument) under IFRS 9 'Financial Instruments' in the year ended 31 December 2011.

The Bank elected an accounting policy choice under IFRS 9 to continue to apply the hedge accounting requirements under IAS 39 "Financial Instruments: Recognition and measurement.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Therefore, the comparative information for financial instrument impairment in 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognized in the opening retained earnings and other reserves of the current period.

Consequently, for note disclosures, the consequential amendments to IFRS 7 disclosures have also only been applied to the current period. The comparative period notes disclosures repeat those disclosures made in the prior year. Changes include transition disclosures as shown in the transitional disclosures below, detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are set out in Note D.

Differences arising from the adoption of IFRS 9 have been recognized directly in retained earnings as of 1 January 2018 and are disclosed below.

Changes to the impairment calculation

The adoption of IFRS 9 has fundamentally changed the Bank's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Bank to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. The quantitative impact of applying IFRS 9 as at 1 January 2018 is disclosed in Note D.

The table below, reconciles the closing impairment allowances for financial assets in accordance with IAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets as at 31 December 2017 and the opening impairment allowances determined in accordance with IFRS 9 as at 1 January 2018.

(UA thousands)

	As at 31.12.2017		As at 01.01.2018
	Impairment allowance under IAS 39 & 37	Additional IFRS 9 impairment allowance	Impairment allowance under IFRS 9
Loan at amortized cost	184,593	142,610	327,203
Interest receivables	250,326	11,916	262,242
Treasury investments		177	177
Guarantees		960	960
Balance at 1 January 2018	434,919	155,663	590,582

The introduction of IFRS 9 has increased the total impairment allowance held by the Bank by approximately UA 155.66, from UA 434.92 million as at 31 December 2017 to UA 590.58 million as at 1 January 2018. The total effect of the increase in Impairment allowance under IFRS 9 considers both the disbursed and the undisbursed Counterparty exposure

NOTE D. RISK MANAGEMENT POLICIES AND PROCEDURES

In carrying out its development mandate, the Bank seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless unavoidable 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) which is chaired by the Chief Risk Officer ensures effective implementation of the Bank's credit policies and oversees all credit risk issues related to sovereign and non-sovereign operations, prior to their submission to OPSCOM. OPSCOM is chaired by the Senior Vice President and reviews all operational activities before they are submitted to the Board of Directors for approval.

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

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

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

Policy Framework

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

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

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

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

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

Credit Risk

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

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

1) Sovereign Credit Risk

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

Country Exposure in Borrowing Member Countries

The Bank's exposures as at 30 September 2018 from its lending activities to borrowing member countries as well as the private sector projects in those countries are summarized below:

(Amounts in UA thousands)

Country	N° of Loans	Total Loans*	Unsigned Loan Amounts	Undisbursed Balance	Outstanding Balance	% of Total Outstanding Loans
Algeria	1	746,702	-	-	746,702	3.98%
Angola	6	1,193,114	-	385,064	808,049	4.25%
Botswana	3	786,492	-	7,277	779,214	4.10%
Burkina Faso	1	34,863	-	34,863	-	0.00%
Cameroon	9	775,146	69,692	492,967	212,487	1.12%
Cape Verde	10	158,140	-	44,598	113,543	0.60%
Congo CG	3	160,303	-	121,049	39,254	0.21%
Côte D'Ivoire	5	448,970	-	377,659	71,311	0.38%
Dem Rep Congo	6	285,026	-	-	285,026	1.50%
Egypt	15	2,240,404	-	169,141	2,071,264	10.90%
Equatorial Guinea	3	44,139	-	23,422	20,717	0.11%
Ethiopia	2	129,525	-	128,288	1,237	0.01%
Gabon	9	779,674	-	203,536	576,138	3.03%
Kenya	6	734,755	-	672,848	61,908	0.33%
Mauritius	9	430,997	71,672	17,490	341,835	1.80%
Morocco	60	3,769,894	172,012	531,822	3,066,059	16.14%
Multinational	1	180,793	180,793	-	-	0.00%
Namibia	10	893,027	-	402,877	490,151	2.58%
Nigeria	7	1,256,421	-	343,890	912,531	4.80%
Rwanda	3	161,696	-	144,276	17,421	0.09%
Senegal	7	571,683	120,302	379,441	71,940	0.38%
Seychelles	4	45,392	-	12,369	33,023	0.17%
Somalia	3	4,336	-	-	4,336	0.02%
South Africa	8	1,680,271	145,832	99,642	1,434,797	7.55%
Sudan	4	53,943	-	-	53,943	0.28%
Swaziland	7	103,968	-	60,417	43,551	0.23%
Tanzania	4	455,407	88,436	336,661	30,310	0.16%
Tunisia	39	2,691,210	-	551,345	2,139,865	11.27%
Uganda	5	279,735	-	261,911	17,823	0.09%
Zambia	11	421,178	-	392,767	28,411	0.15%
Zimbabwe	12	196,199	-	-	196,199	1.01%
Total Public Sector	273	21,713,405	848,739	6,195,621	14,669,045	77.22
Total Private Sector	163	5,933,731	1,089,830	517,334	4,326,567	22.78
Total	436	27,647,136	1,938,569	6,712,955	18,995,612	100.00

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

** Countries in non-accrual status as at 30 September 2018.

- (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 2018, no decision has been taken by the states of Sudan and South Sudan regarding the terms and conditions of such exchange.

Slight differences may occur in totals due to rounding.

Exposure Exchange Agreement

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

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

Under the EEA, the MDB that originates the sovereign loans and buys protection continues to be the lender of record. An exposure exchange in no way affects the application of the normal sovereign sanctions policies by the buyer of protection.

Purchased or sold credit protection pays out only upon the occurrence of certain credit events with respect to any sovereign borrower in the reference portfolio.

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

The EEAs have final maturities in 2030 with linear annual reduction of the notional amounts starting from 2025. As at 30 September 2018, the total notional amount of credit protection purchased or sold on the relevant underlying single reference entities is USD 4.44 billion (UA 3.18 billion).

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

(USD millions)

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

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

As of 30 September 2018, no default events have occurred on any exposures covered (either for the counterparties for which protection was purchased or sold) under these Exposure Exchanges and the Bank continues to expect full recovery of its sovereign and sovereign-guaranteed exposures covered.

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

Systematic Credit Risk Assessment

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

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

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

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	
	4+	B+	B1	Satisfactory
	4			
	4-	B	B2	
Moderate Risk	5+			Acceptable
	5	B-	B3	
	5-			
High Risk	6+	CCC+	Caa1	Marginal Special attention
	6			
	6-	CCC	Caa2	
Very High Risk	7			Substandard
	8	CCC-	Caa3	
	9	CC	Ca	
	10	C	C	Los

Portfolio Risk Monitoring

The weighted average risk rating of the Bank's sovereign and sovereign-guaranteed portfolio was 2.80 at the end of September 2018, compared to 2.72 as of 30 September 2017.

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

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

To cover potential losses related to credit, the Bank maintains a prudent risk capital cushion for credit

risks. The Bank's capital adequacy policy articulates differentiated risk capital requirements for public sector and private sector credit-sensitive assets (loans and equity investments), as well as for contingent liabilities (guarantees and client risk management products) in each risk class. Risk capital requirements are generally higher for private sector operations which have a higher probability of default and loss-given default than public sector operations. At the end of September 2018, the Bank's public sector loan portfolio used up to 46.5 percent of the Bank's total risk capital based on the Bank's capital adequacy framework. The Bank defines risk capital as the sum of paid-in capital net of exchange adjustments, plus accumulated reserves adjusted by gain on financial assets at fair value through Other Comprehensive Income and unrealized loss/gain on fair-valued borrowings arising from "own credit". Any shortfall of the stock of provisions to expected losses is deducted. Callable capital is not included in the computation of risk capital.

2) Non-Sovereign Credit Risk

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

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

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

To cover potential unexpected credit-related losses due to extreme and unpredictable events, the Bank maintains a risk capital cushion for non-sovereign credit risks derived from the Bank's Economic Capital Policy (Internal Rating Based - (IRB)). At the end of September 2018, the Bank's non-sovereign portfolio required as risk capital approximately 23.2 percent of the Bank's total on-balance sheet risk capital sources. This level is still below the limit of 45 percent for total non-sovereign operations. Out of the Bank's non-sovereign portfolio, equity participations required as risk capital approximately 11.7 percent of the Bank's total on-balance sheet risk capital sources. This is still below the statutory limit of 15 percent established by the Board of Governors for equity participations.

Credit Exposure Limits

The Bank operates a system of exposure limits to ensure an adequately diversified portfolio at any given point in time. The Bank manages credit risk at the global country exposure limit (combined sovereign-guaranteed and non-sovereign portfolios) by ensuring that in aggregate, the total exposure to any country does not exceed 15 percent of the Bank's total risk capital. This threshold and other determinants of country limit are articulated in the Bank's capital adequacy framework.

The credit exposure on the non-sovereign portfolio is further managed by regularly monitoring the exposure limit with regard to the specific industry/sectors, equity investments and single obligor. In addition, the Bank generally requires a range of collateral (security and/or guarantees) from project sponsors to partially mitigate the credit risk for direct private sector loans.

The Private Sector Credit Enhancement Facility (PSF)

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

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

3) Counterparty Credit Risk

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

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

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

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

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

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

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

The Bank uses derivatives in the management of its borrowing portfolio and for asset and liability management purposes. As a rule, the Bank executes an International Swaps and Derivatives Association (ISDA) master agreement and netting agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated AA-/Aa3 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 2018, the Bank's counterparty credit portfolio including all investments and derivative instruments required as risk capital 2.7 percent of the Bank's total on-balance sheet risk capital sources.

Expected Credit Loss

Definition of default

The definition of default for the purpose of determining ECLs considers indicators that the debtor is unlikely to pay it is past due for more than 90 days for non-sovereign counterparties and 180 days for sovereign counterparties on any material credit obligation to the Bank. The bank rebuts the IFRS 9 90 days past due rebuttable presumption in the banks sovereign loan portfolio because the Sanction policy of the Bank defines a non-accrual loan or non-performing as a loan that is at least 180 days past due. This is also current practice with other Multilateral Development Banks. The recovery rate for loans that are less than 180 days past due is way larger than loans that are that are at least 180 days past due loans, which demonstrates a more lagging effect.

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

Credit Risk Grades

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of the respective exposures involves the use of the following:

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

Modifications of financial assets and financial liabilities

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the Bank's accounting policy

When the terms of a financial asset are modified, and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

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

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

Measurement and recognition of expected credit losses

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

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where it is available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, then this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property, LTV ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount. For financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk grading;
- collateral type;
- date of initial recognition;
- remaining term to maturity;
- industry; and
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Bank has limited historical data, external benchmark information is used to supplement the internally available data.

Assessment of significant increase in credit risk

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

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

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

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

Incorporation of forward-looking information

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

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

Calculation of expected credit losses

The Bank calculates ECLs based on three probability-weighted scenarios in the calculation of the probability weighted ECL. The three scenarios are: base case, optimistic and pessimistic. Each of these is associated with different PDs, EADs and LDG parameters.

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

Expected Credit Losses

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

Financial Instruments with impairment, by stage

The tables below present a breakdown of gross financial assets in scope of IFRS 9 where there has been an increase in impairment allowance with stage allocation by asset classification.

As at 30.09.2018

(UA thousands)	Stage 1	Stage 2	Stage 3	Total
Loan at amortized cost	154,278	38,974	189,973	383,227
Interest receivables	7,586	2,000	256,1712	265,757
Treasury investments	219			219
Guarantees	846		6	851
Total impairment as at 30 September 2018	162,930	40,974	446,1501	650,055

As at 01.01.2018

(UA thousands)	Stage 1	Stage 2	Stage 3	Total
Loan at amortized cost	124,207	18,350	184,646	327,203
Interest receivables	7,543	1,468	253,231	262,242
Treasury investments	177			177
Guarantees	945	-	14	959
Total impairment as at 1 January 2018	132,872	19,818	437,891	590,581

The tables below present an analysis of loans at amortized cost by gross exposure, impairment allowance and coverage ratio by stage allocation and business segment as at 30 September 2018 and 1 January 2018.

As at 30.09.2018

(UA million)	Gross exposure				Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	14,415		254	14,669	106		79	185
Non-Sovereign	3,712	477	142	4,331	48	39	111	198
Total Sep 2018	18,126	477	397	19,000	154	39	190	383

	Coverage ratio (impairment allowance/gross exposure)			
	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Sovereign	0.74		30.94	1.26
Non-Sovereign	1.29	8.17	78.17	4.57
Total coverage ratio	0.85	8.17	47.88	2.02

Stage 1: assets-impairments is calculated based on a 12 month expected loss. Coverage for these performing, non-deteriorated assets is 0.74% for sovereign loan and 1.29 % in non-sovereign loans

Stage 2 assets: have seen a significant increase in credit risk but are not defaulted and are largely performing. Under IFRS 9, these assets require a lifetime expected loss to be held, there were no loans grouped as stage 2 in sovereign loans while the coverage ratio for non-sovereign loans increased to 8.17 % from 5.97% as 1 Jan 2018.

Stage 3 assets: coverage ratio for sovereign and non-sovereign loans decreased to 30.94% and 78.17% from 33.27% and 89.71% as at 1 Jan 2018.

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

As at 01.01.2018

(UA million)	Gross exposure				Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Sovereign	13,662		250	13,912	82		83	165
Non-Sovereign	3,489	307	113	3,909	42	18	102	162
Total Jan 2018	17,151	307	363	17,821	124	18	185	327
	Coverage ratio (impairment allowance/gross exposure)							
	Stage 1 %	Stage 2 %	Stage 3 %	Total %				
Sovereign	0.60		33.27	1.19				
Non-Sovereign	1.20	5.97	89.71	4.14				
Total coverage ratio	0.72	5.97	50.87	1.84				

Stage 1: assets-impairments is calculated based on a 12 month expected loss. Coverage for these performing, non-deteriorated assets is 0.6% for sovereign loan and 1.20% in non-sovereign loans

Stage 2 assets: have seen a significant increase in credit risk but are not defaulted and are largely performing. Under IFRS 9, these assets require a lifetime expected loss to be held, there were no loans grouped as stage 2 in sovereign loans while the coverage ratio for non-sovereign loans is 5.97%.

Stage 3 assets: As at 1 January the coverage ratio amounts to 33.27% for sovereign loans and 89.71% for non-sovereign loans.

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

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. With effect from 1 October 2017, the IMF formally approved the inclusion of the Chinese Yuan Renminbi (CNY) in Special Drawing Rights (SDR) with a weight of 10.92 percent. The SDR rate represents the sum of specific amounts of the five basket currencies valued in US Dollars, on the basis of the exchange rates quoted at noon each day in the London market.

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

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 (six-month LIBOR floating rate). The Bank may also provide borrowers with risk management products such as swaps to modify the currency and interest rate terms of its market-based loan products. Although it retains the credit risks of the borrower, the Bank eliminates the associated market risk on these risk management products by simultaneously laying off market risks with an approved derivative counterparty.

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

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

Interest Rate Risk on Assets Funded by Equity

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

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

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

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 nine months ended 30 September 2018 amounted to UA 57.56 million, compared to prepayments of UA 94.63 million realized in 2017, none of which related to loans committed prior to 1997.

Operational Risk

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

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

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

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

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

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

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

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

existence of a whistleblower protection policy.

NOTE E. FINANCIAL ASSETS AND LIABILITIES

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values as at 30 September 2018 and 2017:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	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
30 September 2018	Mandatorily at Fair value	Designated at Fair Value				
Cash	-	-	-	2,724,412	2,724,412	2,724,412
Demand obligations	-	-	-	3,801	3,801	3,801
Treasury investments	6,698,188	-	-	4,851,352	11,549,540	11,559,594
Derivative assets	592,938	-	-	-	592,938	592,938
Non-negotiable instruments on account of capital	-	-	-	39	39	39
Accounts receivable	-	-	-	666,673	666,673	666,673
Loans	18,583	-	-	18,593,802	18,612,385	18,825,583
Equity participations	-	-	840,594	-	840,594	840,594
Total financial assets	7,309,709	-	840,594	26,840,079	34,990,382	35,213,635
Accounts payable	-	-	-	1,361,957	1,361,957	1,361,957
Securities sold under agreements to repurchase	-	-	-	22,408	22,408	22,408
Derivative liabilities	1,253,911	-	-	-	1,253,911	1,253,911
Borrowings	-	24,687,865	-	608,688	25,296,553	25,339,389
Total financial liabilities	1,253,911	24,687,865	-	1,993,053	27,934,830	27,977,666

UA thousands)

	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
30 September 2017	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	-	-	16,706,379	16,756,092	16,967,475
Equity participations	-	-	742,413	-	742,413	742,413
Total financial assets	8,539,042	-	742,413	22,719,656	32,001,111	32,227,278
Accounts payable	-	-	-	1,663,600	1,663,600	1,663,600
Derivative liabilities	878,408	-	-	-	878,408	878,408
Borrowings	-	22,077,316	-	620,482	22,697,798	22,080,557
Total financial liabilities	878,408	22,077,316	-	2,284,082	25,239,806	24,622,566

The table below classifies the Bank's financial instruments that were carried at fair value at 30 September 2018 and 2017 into three levels reflecting the relative reliability of the measurement bases, with Level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument		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)			
	2018	2017	2018	2017	2018	2017	2018	2017
Treasury investments	4,719,984	5,829,867	1,969,295	1,817,896	8,907	12,151	6,698,187	7,659,915
Derivative assets	11,991	10,665	571,362	843,721	9,585	5,369	592,938	859,755
Loans	-	-	18,583	19,373	-	-	18,583	19,373
Equity participation	10,827	11,008	-	-	829,767	731,405	840,594	742,413
Total financial assets	4,742,802	5,851,540	2,559,240	2,680,991	848,259	748,925	8,150,302	9,281,456
Derivative liabilities	-	-	1,208,374	827,398	45,537	51,011	1,253,911	878,408
Borrowings	16,167,129	13,079,576	8,273,525	8,352,086	247,211	645,654	24,687,865	22,077,316
Total financial liabilities	16,167,129	13,079,576	9,481,899	9,179,483	292,749	696,665	25,941,777	22,955,725

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 2018 and 2017 into three levels reflecting the relative reliability of the measurement bases, with Level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument		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)			
	2018	2017	2018	2017	2018	2017	2018	2017
Treasury investments	4,847,458	4,554,226	-	-	-	-	4,847,458	4,554,226
Loans			-	-	18,807,000	16,948,101	18,807,000	16,948,101
Total financial assets	4,847,458	4,554,226	-	-	18,807,000	16,948,101	23,654,458	21,502,327
Borrowings	-	177,590	543,719	393,351	105,380	121,499	649,099	692,440
Total financial liabilities	-	177,590	543,719	393,351	105,380	121,499	649,099	692,440

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

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

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

Significant Unobservable Inputs

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

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

Comparable pricing

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

Yield

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

Correlation

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

Liquidity Discount

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

Volatility

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

Credit Spreads

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

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 2018 and 2017 were made up as follows:

(UA thousands)

	2018	2017
Balance at 1 January	201,048	162,751
New transactions	20,312	38,469
Amounts recognized in income statement during the period	(11,973)	(11,348)
Translation effects	(5,715)	(1,942)
Balance at 30 September	203,672	187,930

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 September 30, 2018, the Bank held collateral with a fair value of UA 176.44 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 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Treasury investments mandatorily measured at fair value through profit or loss	6,698,188	7,659,915
Treasury investments at amortized cost	4,851,571	4,465,471
Total treasury investments	11,549,759	12,125,386
Provision for impairment on investments	(219)	
Total after impairment	11,549,540	12,125,386

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 2018 and 2017 was as follows:

(UA millions)

	US Dollar		Euro		CNY		Other Currencies		All Currencies	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Time deposits	129.29	561.30	149.34	305.23	-		48.79	252.75	327.42	1,119.28
Asset-backed securities	8.51	9.91	0.00	2.23	-	-	0.00	0.00	8.51	12.14
Government and agency obligations	3,182.10	2,940.31	538.50	721.67	-	100.96	58.42	46.06	3,779.02	3,809.00
Corporate bonds	447.33	128.00	27.10	74.68	-	-	0.00	0.00	474.43	202.68
Financial institutions	734.94	656.23	734.41	907.64	-	-	25.51	51.26	1,494.86	1,615.13
Supranational	391.86	669.51	108.65	218.01	6.17		107.27	14.17	613.48	901.69
Total	4,894.03	4,965.26	1,558.00	2,229.46	6.17	100.96	239.99	364.24	6,698.19	7,659.92

The nominal value of treasury investments mandatorily measured at FVTPL as at 30 September 2018 was UA 6,537.18 million (2017: UA 7,647.97 million). The average yield of treasury investments mandatorily measured at FVTPL for the nine months ended 30 September 2018 was 0.97 % (2017 1.16 %).

The contractual maturity structure of treasury investments mandatorily measured at FVTPL as at 30 September 2018 and 2017 was as follows:

(UA millions)

	2018	2017
One year or less	1213.87	2426.71
More than one year but less than two years	2640.5	2019.67
More than two years but less than three years	1081.06	1955.22
More than three years but less than four years	1022.73	883.44
More than four years but less than five years	498.84	164.21
More than five years	241.19	210.74
Total	6,698.19	7,659.99

Treasury Investments at Amortized Cost

A summary of the Bank’s treasury investments at amortized cost at 30 September 2018 and 2017 was as follows:

(UA millions)

	US Dollar		Euro		CNY		Other Currencies		All Currencies	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Asset-backed securities		-		-		-		-		-
Government and agency obligations	863.12	826.27	800.92	704.34	559.15	646.04	689.62	694.67	2,912.81	2,871.29
Supranational	911.61	807.47	623.58	590.38	99.10	13.84	304.47	182.46	1,938.76	1,594.15
Total	1,774.73	1,633.74	1,424.50	1,294.72	658.25	659.88	994.09	877.13	4,851.57	4,465.44

The nominal value of treasury investments at amortized cost as at 30 September 2018 was UA 4,851.57 million (2017: UA 4,465.44 million). The average yield of treasury investments at amortized cost for the nine months ended 30 September 2018 was 1.39 % (2017: 1.79 %).

The contractual maturity structure of treasury investments at amortized cost as at 30 September 2018 and 2017 was as follows:

(UA millions)

	2018	2017
One year or less	89.50	44.83
More than one year but less than two years	345.35	475.36
More than two years but less than three years	347.13	346.86
More than three years but less than four years	437.25	379.28
More than four years but less than five years	539.78	405.76
More than five years	3,092.56	2,813.38
Total	4,851.57	4,465.44

The fair value of treasury investments at amortized cost as at 30 September 2018 was UA 4,847.38 million (2017: UA 4,480.26 million).

NOTE G. DERIVATIVE ASSETS AND LIABILITIES

The fair values of derivative financial assets and financial liabilities at 30 September 2018 and 2017 were as follows:

(UA thousands)

	2018		2017	
	Assets	Liabilities	Assets	Liabilities
Borrowings-related:				
Cross-currency swaps	530,937	866,687	783,568	662,715
Interest rate swaps	20,589	313,641	64,066	128,113
Loan swaps	27,595	72,835	1,237	85,489
	579,120	1,253,162	848,871	876,316
Investments-related:				
Asset swaps	1,427	749	218	2,092
Macro-hedge swaps and others	12,391	-	10,665	-
	13,818	749	10,883	2,092
Total	592,938	1,253,911	859,754	878,408

The notional amounts of derivative financial assets and financial liabilities at 30 September 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Borrowings-related:		
Cross-currency swaps	10,673,679	11,282,068
Interest rate swaps	17,051,534	13,302,117
Loan swaps	2,544,685	2,630,866
	30,269,898	27,215,051
Investments-related:		
Asset swaps	135,957	2,811
Macro-hedge swaps	19,581	119,236
	155,537	122,047
Total	30,425,435	27,337,098

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 September 30, 2018, the Bank had futures with a notional value of EUR 5,508 million, GBP 818 million and USD 20 million. The carrying value of EUR futures was a positive market value of UA 1.29 million (in the money) while the USDs and GBP futures was a negative market value of UA 24.52 million and UA 0.15 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 2018, there were no open positions with respect to forward exchange transactions.

Hedge Accounting

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

The fair value of the loan swaps designated and effective as hedging instruments as at 30 September 2018 was a liability of UA 47.07 million. The fair value gain on these loan swaps for the nine months ended 30 September 2018 was UA 28.99 million. The fair value loss on the hedged loans attributable to the hedged risk was UA 29.23 million. Therefore, the hedge effectiveness recognized in profit or loss was a loss of UA 0.24 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 2018, the amortization of fair value adjustment on the hedged risk amounted to UA 2.79 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 2018 and 2017, the non-negotiable notes' balances were as follows:

(UA thousands)

	2018	2017
Balance at 1 January	76	159
Net movement for the period	(37)	(68)
Balance at 30 September	39	91

NOTE I. LOANS AND GUARANTEES

Loans

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

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

Loan Portfolio: The Bank's loan portfolio is currently made up of three primary types of loans based on the financial terms: fixed rate, floating rate and variable rate loans. Fixed rate and variable rate loans have both multicurrency and single currency terms – that is, they are offered in multicurrencies 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 2018 and 2017, outstanding loans were as follows:

(UA thousands)

	2018	2017
Outstanding balance of loans - amortized cost	18,977,030	16,974,542
Outstanding balance of loans - fair value	18,582	19,372
	18,995,612	16,993,914
Less: accumulated provision for impairment	(383,227)	(237,822)
Balance at 30 September	18,612,385	16,756,092

Maturity and Currency Composition of Outstanding Loans

The contractual maturity structure of outstanding loans as at 30 September 2018 and 2017 was as follows:

(UA millions)	2018			2017	
	Fixed Rate	Floating Rate	Variable Rate	Total	Total
One year or less	1,223.68	303.13	175.18	1,701.99	1,511.48
More than one year but less than two years	1,632.99	231.43	0.00	1,864.43	1,385.10
More than two years but less than three years	1,580.92	152.81	0.00	1,733.74	1,562.42
More than three years but less than four years	1,429.73	145.17	0.00	1,574.90	1,419.62
More than four years but less than five years	1,331.33	150.73	0.00	1,482.06	1,401.81
More than five years	10,026.40	612.10	0.00	10,638.50	9,713.48
Total	17,225.06	1,595.38	175.18	18,995.61	16,993.91

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 2018 and 2017 were as follows:

(Amounts in UA millions)

			2018		2017	
			Amount	%	Amount	%
Fixed Rate:	Multi-Currency	Euro	78.67		94.10	
		Japanese Yen	134.16		156.55	
		Pound Sterling	1.47		1.77	
		Swiss Franc	2.25		2.24	
		US Dollar	186.88		204.03	
		Others	0.00		-	
			403.43	2.12	458.69	2.70
	Single Currency	Euro	5,061.65		5,228.72	
		Japanese Yen	-		0.00	
		South African Rand	1,305.29		1,179.71	
		US Dollar	6,646.38		5,794.25	
		Others	36.98		45.58	
			13,050.31	68.70	12,248.26	72.07
	Structured Products	Euro	2,077.32		1,302.18	
		US Dollar	1,530.29		1,126.98	
		South African Rand	163.70		160.10	
			3,771.31	19.85	2,589.26	15.24
Floating Rate:	Single Currency	Euro	260.35		307.34	
		Japanese Yen	4.33		6.03	
		South African Rand	72.45		83.66	
		US Dollar	1,258.25		1,127.23	
			1,595.38	8.40	1,524.26	8.97
Variable Rate:	Multi-Currency	Euro	0.00		-	
		Japanese Yen	0.00		-	
		US Dollar	137.48		135.73	
			137.48	0.72	135.73	0.80
	Single Currency	Euro	6.90		7.03	
		Japanese Yen	15.24		15.16	
		Swiss Franc	0.99		0.98	
		US Dollar	14.58		14.54	
			37.71	0.21	37.71	0.22
	Total		18,995.61	100.00	16,993.91	100.00

The weighted average yield on outstanding loans for the nine months ended 30 September 2018 was 3.36 % (2017: 2.79 %).

A comparative summary of the currency composition of outstanding loans at 30 September 2018 and 2017 was as follows:

(Amounts in UA millions)

	2018		2017	
	Amount	%	Amount	%
Euro	7,484.90	39.40	6,939.37	40.83
Japanese Yen	153.73	0.81	177.74	1.05
Pound Sterling	1.47	0.01	1.77	0.01
South African Rand	1,541.44	8.11	1,423.46	8.38
Swiss Franc	3.24	0.02	3.22	0.02
US Dollar	9,773.86	51.45	8,402.77	49.45
Others	36.97	0.19	45.58	0.26
Total	18,995.61	100.00	16,993.91	100.00

Accrued Income and Charges Receivable on Loans

The accrued income and charges receivable on loans as at 30 September 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Accrued income and charges receivable on loans	574,197	520,318
Less: accumulated provision for impairment	(265,757)	(266,987)
Balance at 30 September	308,440	253,331

Provision for Impairment on Loan Principal and Charges Receivable

At 30 September 2018, outstanding loans with an aggregate principal balance of UA 498.13 million (2017: UA 546.71 million), of which UA 382.07 million (2017: UA 304.94 million) was overdue, were considered to be impaired.

The gross amounts of loans and charges receivable that were impaired and their cumulative impairment using IAS 39 at 30 September 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Outstanding balance on impaired loans	498,131	546,714
Less: accumulated provision for impairment	(383,227)	(237,822)
Net balance on impaired loans	114,904	308,892
Charges receivable and accrued income on impaired loans	382,071	379,049
Less: accumulated provision for impairment	(265,757)	(266,987)
Net charges receivable and accrued income on impaired loans	116,314	112,062

The movements in the accumulated provision for impairment on outstanding loan principal for the nine months ended 30 September 2018 and 2017 were as follows:

UA thousands)

	2018	2017
Balance as at 1 January 2018	327,203	251,423
provision for impairment on loan principal for the period (net)	56,024	(3,822)
Reversal of Provision for impairment for the period		(1,057)
Translation effects		(8,722)
Balance at 30 September	383,227	237,822

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 2018, provision for impairment made on private sector loan amounted to UA 35.63 million (2017: net reversal of UA 2.38 million). The accumulated provisions on private sector loans at 30 September 2018 amounted to UA 185.87 million (2017: UA 154.16 million).

The movements in the accumulated provision for impairment on loan interest and charges receivable for the nine months ended 30 September 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Balance at 1 January	262,242	259,458
Provision for impairment on loan charges for the period (net)	3,515	13,320
Translation effects	-	(5,791)
Balance at 30 September	265,757	266,987

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 2018, a provision for impairment was made on interest and charges receivable on private sector loans in the amount of UA 3.52 million (2017: UA 7.53 million). The accumulated provision on interest and charges receivable on private sector loans at 30 September 2018 amounted to UA 13.55 million (2017: UA 23.72 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 2018, outstanding irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 21.92 million (2017: no outstanding irrevocable guarantee).

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 2018 amounted to UA 379.71 million (2017: UA 382.20 million). The 12 month expected credit loss (ECL) calculated on the Bank's financial guarantee as at September 2018 amounts to UA 0.85 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 for creating lending headroom and reducing credit exposure. The details are presented in Note D. As at 30 September 2018 the nominal amounts of these contracts were USD 4.44 billion (UA 3.18 billion)

Similarly, the Bank purchases credit enhancement facilities from the Private Sector Enhancement Facility (PSF) for some of its loans. As at 30 September 2018, the covered amounts of non-sovereign loans by PSF amounted to UA 350.75 million and the cost of this coverage for the nine months ended 30 September 2018 was UA 8.49 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 nine months ended 30 September 2018 amounted to UA 177.10 million (2017: UA 163.58 million), representing 61.95 percent (2017: 62.94 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 2018, the Bank's pro-rata or economic share in ADF was 0.41 percent (2017: 0.43 percent).

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

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

Other Equity Participations

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

economic merit.

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

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

NOTE K. BORROWINGS

As at 30 September 2018 and 2017, the Bank's borrowings were as follows:

(UA millions)

	2018	2017
Borrowings at fair value	24,688	22,077
Borrowings at amortized cost	609	620
Total	25,297	22,698

The Bank's borrowings as at 30 September 2018 included subordinated borrowings in the amount of UA 221.71 million (2017: UA 218.87 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 2018 was UA 29.05 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 2018 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	5,338.97	-	5,338.97
More than one year but less than two years	3,433.75	91.24	3,524.99
More than two years but less than three years	2,622.76	138.74	2,761.50
More than three years but less than four years	2,464.07	3.21	2,467.28
More than four years but less than five years	731.46	171.95	903.41
More than five years	9,044.05	647.67	9,691.72
Total	23,635.06	1,052.81	24,687.87

ii) Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	172.27	-	172.27
More than one year but less than two years	13.94	-	13.94
More than two years but less than three years	39.50	63.16	102.66
More than three years but less than four years	104.80	-	104.80
More than four years but less than five years	150.51	(0.01)	150.51
More than five years	67.40	-	67.40
Subtotal	548.42	63.16	611.58
Net unamortized premium and discount	(2.90)	-	(2.90)
Total	545.52	63.16	608.68

The fair value of borrowings carried at fair value through profit or loss at 30 September 2018 was UA 24,687.87 million (2017: UA 22,077.32 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at 30 September 2018 was UA 25,518.18 million (2017: UA 22,607.61 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per Note O, there was a net loss of UA 14.37 million on borrowings, related derivatives and others for the quarter ended 30 September 2018 (2017: net gain of UA 23.19 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 2018 was a loss of UA 27.32 million (2017: a loss of UA 58.66 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 2018, the cumulative unrealized fair value losses to date were UA 456.95 million (2017: losses of UA 717.73 million).

NOTE L. 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 78th and 79th member countries of the Bank.

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

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

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

by 163,296 shares and 19,414 shares.

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

The Bank's capital as at 30 September 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Capital Authorized (in shares of UA 10 000 each)	66,975,050	66,975,050
Less: Unsubscribed	(1,587,012)	(1,147,682)
Subscribed Capital	65,388,038	65,827,368
Less: Callable Capital	(60,414,315)	(60,830,205)
Paid-up Capital	4,973,723	4,997,163
Shares to be issued upon payment of future installments	(471,940)	(754,230)
Add: Amounts paid in advance	496	604
	4,502,279	4,243,537
Less: Amounts in arrears	-	-
Capital at 30 September	4,502,279	4,243,537

Included in the total unsubscribed shares of UA 1,587.01 million at 30 September 2018 was an amount of UA 38.83 million representing the balance of the shareholding of the former Socialist Federal Republic of Yugoslavia (former Yugoslavia).

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

Subscriptions by member countries and their voting power at 30 September 2018 were as follows:

(Amounts in UA thousands)

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
1	ALGERIA	276,315	4.256	196,601	2,566,550	276,940	4.253
2	ANGOLA	75,963	1.170	46,866	712,772	76,588	1.176
3	BENIN	12,532	0.193	7,791	117,533	13,157	0.202
4	BOTSWANA	69,802	1.075	65,184	632,845	70,427	1.081
5	BURKINA FASO	25,927	0.399	16,512	242,775	26,552	0.408
6	BURUNDI	15,420	0.238	10,233	143,966	16,045	0.246
7	CAMEROON	70,336	1.083	43,095	660,281	70,961	1.090
8	CAPE VERDE	4,578	0.071	3,598	42,190	5,203	0.080
9	CENT.AFR. REP	2,720	0.042	1,802	25,412	3,345	0.051
10	CHAD	4,061	0.063	2,881	37,740	4,686	0.072
11	COMOROS	527	0.008	605	4,676	1,152	0.018
12	CONGO	29,408	0.453	17,747	276,350	28,498	0.438
13	CÔTE D'IVOIRE	242,986	3.743	160,209	2,269,670	243,611	3.741
14	DEM.REP.CONGO	84,007	1.294	56,679	783,395	84,632	1.300
15	DJIBOUTI	1,213	0.019	1,517	10,618	1,838	0.028
16	EGYPT	366,232	5.642	260,567	3,401,760	366,857	5.633
17	EQU.GUINEA	9,536	0.147	7,447	87,917	10,161	0.156
18	ERITREA	2,003	0.031	2,506	17,522	2,628	0.040
19	ETHIOPIA	102,678	1.582	63,842	962,940	103,303	1.586
20	GABON	65,009	1.001	52,331	597,778	65,634	1.008
21	GAMBIA,THE	9,829	0.151	5,905	92,413	9,937	0.153
22	GHANA	139,123	2.143	85,325	1,305,881	139,748	2.146
23	GUINEA	26,183	0.403	16,870	244,961	26,808	0.412
24	GUINEA BISSAU	1,254	0.019	870	11,680	1,879	0.029
25	KENYA	93,610	1.442	58,208	877,900	94,235	1.447
26	LESOTHO	3,711	0.057	4,063	33,060	4,336	0.067
27	LIBERIA	12,488	0.192	8,251	116,637	13,113	0.201
28	LIBYA	171,835	2.647	120,463	1,597,888	151,138	2.321
29	MADAGASCAR	42,234	0.651	26,304	396,040	42,859	0.658
30	MALAWI	14,776	0.228	10,043	137,720	15,401	0.236
31	MALI	28,055	0.432	16,667	263,881	27,192	0.418
32	MAURITANIA	3,708	0.057	4,171	32,916	4,302	0.066
33	MAURITIUS	42,316	0.652	32,865	390,230	42,941	0.659
34	MOROCCO	234,936	3.619	178,360	2,171,000	235,561	3.617
35	MOZAMBIQUE	40,474	0.623	25,176	379,588	41,099	0.631
36	NAMIBIA	22,459	0.346	17,440	207,150	23,084	0.354
37	NIGER	15,342	0.236	9,674	143,753	15,106	0.232
38	NIGERIA	607,691	9.361	441,562	5,635,383	608,316	9.341
39	RWANDA	8,567	0.132	5,369	80,303	9,192	0.141
40	SAO TOME & P.	4,395	0.068	2,908	41,054	5,020	0.077
41	SENEGAL	68,024	1.048	42,008	638,241	68,649	1.054
42	SEYCHELLES	1,837	0.028	1,871	16,499	2,462	0.038
43	SIERRA LEONE	17,857	0.275	11,648	166,931	18,482	0.284
44	SOMALIA	1,941	0.030	2,427	16,986	2,566	0.039
45	SOUTH AFRICA	329,126	5.070	209,656	3,081,600	329,751	5.064
46	SOUTH SUDAN	26,720	0.412	1,695	265,510	24,698	0.379
47	SUDAN	20,042	0.309	13,791	186,627	19,555	0.300
48	SWAZILAND	7,388	0.114	8,350	65,530	8,013	0.123
49	TANZANIA	49,563	0.763	31,300	464,337	50,188	0.771
50	TOGO	10,190	0.157	6,724	95,171	10,815	0.166
51	TUNISIA	91,111	1.404	66,840	844,260	91,736	1.409
52	UGANDA	28,241	0.435	18,480	263,947	28,866	0.443
53	ZAMBIA	76,508	1.179	48,203	716,865	77,133	1.184
54	ZIMBABWE	120,129	1.851	78,015	1,123,278	120,754	1.854
Total Regionals		3,832,915	59.044	2,629,514	35,699,905	3,837,152	58.923

Slight differences may occur in totals due to rounding.

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
	Total Regionals						
55	ARGENTINA	5,847	0.090	6,108	52,364	6,472	0.099
56	AUSTRIA	29,208	0.450	21,420	270,660	29,833	0.458
57	BELGIUM	41,787	0.644	28,698	389,180	42,412	0.651
58	BRAZIL	21,645	0.333	15,512	200,936	22,270	0.342
59	CANADA	251,150	3.869	183,363	2,328,140	251,775	3.866
60	CHINA	76,641	1.181	51,406	715,020	77,266	1.186
61	DENMARK	76,622	1.180	55,846	710,380	77,247	1.186
62	FINLAND	31,976	0.493	23,450	296,310	32,601	0.501
63	FRANCE	245,672	3.784	180,160	2,276,560	246,297	3.782
64	GERMANY	270,641	4.169	185,655	2,520,760	271,266	4.166
65	INDIA	16,705	0.257	11,145	155,920	17,330	0.266
66	ITALY	157,960	2.433	108,439	1,471,170	158,585	2.435
67	JAPAN	359,265	5.534	263,470	3,329,180	359,890	5.526
68	KOREA	31,305	0.482	21,005	292,060	31,930	0.490
69	KUWAIT	29,208	0.450	21,420	270,660	29,833	0.458
70	LUXEMBOURG	13,215	0.204	5,029	127,130	13,840	0.213
71	NETHERLANDS	56,956	0.877	38,396	531,180	57,581	0.884
72	NORWAY	76,911	1.185	55,914	713,200	77,536	1.191
73	PORTUGAL	15,657	0.241	10,833	145,740	16,282	0.250
74	SAUDI ARABIA	12,610	0.194	8,665	117,440	13,235	0.203
75	SPAIN	69,307	1.068	49,630	643,440	69,932	1.074
76	SWEDEN	102,766	1.583	74,744	952,920	103,391	1.588
77	SWITZERLAND	95,930	1.478	70,350	888,950	96,555	1.483
78	TURKEY	23,471	0.362	7,589	227,130	24,096	0.370
79	U.K.	114,975	1.771	77,999	1,071,760	115,600	1.775
80	U.S.A.	431,273	6.644	296,520	4,016,219	431,898	6.632
	Total Non-Regionals	2,658,703	40.956	1,872,765	24,714,409	2,674,953	41.077
	Grand Total	6,491,618	100.000	4,502,279	60,414,315	6,512,105	100.000

The subscription position including the distribution of voting rights at 30 September 2018 reflects the differences in the timing of subscription payments by member countries during the allowed subscription payment period for GCI-VI. After the shares have been fully subscribed, the regional and non-regional groups are expected to hold 60 percent and 40 percent voting rights, respectively.

Slight differences may occur in totals due to rounding.

Cumulative Exchange Adjustment on Subscriptions (CEAS)

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

At 30 September 2018 and 2017, the Cumulative Exchange Adjustment on Subscriptions was as follows:

(UA thousands)

	2018	2017
Balance at 1 January	158,035	161,044
Net conversion gains on new subscriptions	(2,409)	(3,490)
Balance at 30 September	155,626	157,554

Reserves

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

Retained Earnings

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

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 2018 and 2017, the allocable income was as follows:

(UA thousands)

	2018	2017
Income before Board of Governors' approved distribution	132,110	199,986
Unrealized (gains) / losses on borrowings and derivatives	14,063	(23,192)
Translation (gains)/losses	(6,268)	10,122
Unrealized losses on macro hedge swaps	120	2,170
Allocable income	140,025	189,086

NOTE M. INCOME FROM LOANS AND INVESTMENTS AND RELATED DERIVATIVES

Income from Loans and related derivatives

Income from loans and related derivatives for the nine months ended 30 September 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest income on loans not impaired	383,449	336,519
Interest income on impaired loans	74,424	28,598
Interest expense on loan swaps	(27,801)	(32,569)
Commitment charges	18,512	11,474
(Charges)/Income on finance guarantee contracts	(8,491)	
Trade finance guarantee fees	867	938
Statutory commission	205	209
Total	441,165	345,169

Income from Investments and Related Derivatives

Income from investments and related derivatives for the nine months ended 30 September 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest income	188,058	163,567
Realized fair value losses on investments	(15,119)	(10,100)
Unrealized fair value gains on investments	6,217	(5,022)
Total	179,156	148,445

Total interest income on investments at amortized cost for the nine months ended 30 September 2018 was UA 72.10 million (2017: UA 74.99 million).

NOTE N. BORROWING EXPENSES

Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the months ended 30 September 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Charges to bond issuers	351,041	316,470
Amortization of issuance costs	522	3,961
Total	351,563	320,431

Total interest expense for financial liabilities not at fair value through profit or loss for the nine months ended 30 September 2018 was UA 7.62 million (2017: UA 7.98 million).

Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the nine months ended 30 September 2018 and 2017 was as follows:

(UA thousands)

	2018	2017
Interest on derivatives payable	344,699	228,278
Interest on derivatives receivable	(389,501)	(347,992)
Total	(44,802)	(119,714)

Gains/losses on Borrowings, Related Derivatives and Others

Gains/losses on borrowings, related derivatives and others for the nine months ended 30 September 2018 and 2017 were as follows:

(UA thousands)

	2018	2017
Gains/(losses) borrowings, related derivatives and others	(14,370)	23,192
Total	(14,370)	23,192

The Gains/(losses) on borrowings, related derivatives and others include the income statement effects of the hedge accounting, consisting of unrealized gain of UA 0.24 million, representing hedge effectiveness and UA 0.76 million of amortization of fair value adjustments on the hedged risk (See Note G).

NOTE O. ADMINISTRATIVE EXPENSES

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

Administrative expenses comprised the following:

(UA thousands)

	2018	2017
Manpower expenses	228,186	213,731
Other general expenses	58,528	46,736
Total	286,714	260,467
Reimbursable by ADF	(177,095)	(163,164)
Reimbursable by NTF	(534)	(418)
Net	109,085	96,885

NOTE P. 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 2018, virtually all of the SRP's investments were under external management and these were invested in indexed funds, with the following objectives: a) Equity portfolio – to track as closely as possible, the returns of the Morgan Stanley Capital International World Index as well as hedging the currency exposure of the SRP's anticipated future liabilities; b) Bond portfolio – to track as closely as possible, the returns of the Citigroup World Government Bond Index as well as hedge the currency exposure of the SRP's anticipated future liabilities.

Post-Employment Medical Benefit Plan

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

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

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

The following table summarizes the employee benefit liabilities on the balance sheet relating to SRP and MBP for as at ended September 30, 2018.

UA thousands)

	Staff Retirement Plan		Medical Benefit Plan		Total	
	2018	2017	2018	2017	2018	2017
Define Benefit Obligation	216.36	282.04	159.96	193.11	376.32	475.15
Present value/Plan assets	26.71	(64.59)	7.11	9.70	33.82	(54.89)
Liability on Balance sheet	243.07	217.45	167.07	202.81	410.14	420.26

NOTE Q. 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 nine months ended 30 September 2018, and 2017 was made up as follows:

(UA thousands)

	2018	2017
Salaries	20,544	17,439
Termination and other benefits	7,310	8,443
Contribution to retirement and medical plan	4,430	3,819
Total	32,285	29,700

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 2018, outstanding balances on loans and advances to management staff amounted to UA 7.35 million (2017: UA 4.79 million).

NOTE R. SUPPLEMENTARY DISCLOSURES**NOTE R- 1: EXCHANGE RATES**

The rates used for translating currencies into Units of Account at 30 September 2018 and 2017 were as follows:

		2018	2017
1 UA = 1 SDR =	Algerian Dinar	165.08300	159.87300
	Angolan Kwanza	371.98200	234.49700
	Australian Dollar	1.93195	1.80290
	Botswana Pula	14.79590	14.52510
	Brazilian Real	5.58559	4.50347
	Canadian Dollar	1.82898	1.776379
	Chinese Yuan Renminbi	9.60126	9.39576
	CFA Franc	790.62500	785.24600
	Danish Kroner	8.98723	8.90916
	Egyptian Pound	24.99640	24.95310
	Ethiopian Birr	38.73480	33.47560
	Euro	1.20530	1.19710
	Gambian Dalasi	69.04000	67.08000
	Ghanaian Cedi	6.66595	6.21807
	Guinean Franc	12,625.50000	12,684.40000
	Indian Rupee	101.22200	92.36600
	Japanese Yen	158.31900	159.22200
	Kenyan Shilling	140.85800	145.91900
	Korean Won	1,552.50000	1,620.63000
	Kuwaiti Dinar	0.42206	0.42703
	Libyan Dinar	1.93240	1.93240
	Mauritian Rupee	47.73610	47.80410
	Moroccan Dirham	13.18650	13.29700
	New Zealand Dollar	14.08600	13.64320
	New Zealand Dollar	2.10890	1.95720
	Nigerian Naira	427.04900	431.57900
	Norwegian Krone	14.40990	11.26760
	Pound Sterling	1.06990	1.05596
	Sao Tomé Dobra	29.34170	29,060.10000
	Saudi Arabian Riyal	5.23218	5.29987
	South African Rand	19.78990	19.07820
	Swedish Krona	12.35820	11.45980
	Swiss Franc	1.36232	1.37005
	Tanzanian Shilling	3,195.66000	3,159.12000
	Tunisian Dinar	3.89270	3.49998
	Turkish Lira	8.08838	4.86786
	Ugandan Shilling	5,203.90000	5,088.74000
	United States Dollar	1.39525	1.41330
	Vietnamese Dong	32,122.10000	32,399.20000

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