AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

2023 FINANCIAL REPORT

FINANCIAL MANAGEMENT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2023

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Letter of Transmittal

In conformity with Article 32 of the Agreement Establishing the African Development Bank, and Articles 8, 11, and 12 of the General Regulations adopted thereunder, and pursuant to Article 26 of the Agreement Establishing the African Development Fund and Articles 8, 11, and 12 of the General Regulations adopted thereunder, the Boards of Directors of the Bank and of the Fund, hereby submit to the Boards of Governors the Annual Report and the Financial Report of the African Development Bank and the African Development Fund for the financial year ended 31 December 2023. The Annual Report includes a review of developments in the operational activities of the Bank Group during 2023. The Financial Report contains the full set of audited financial statements of the Bank and the special purpose financial statements of the Fund, together with the approved administrative budget for 2024. Electronic versions of the two Reports are available on the Bank Group's website at www.afdb.org/annualreport.

AFRICAN DEVELOPMENT BANK GROUP

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

March 29, 2024

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

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

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

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

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

The Bank's assessment of the effectiveness of internal controls was based on criteria established in the "Internal Control-Integrated Framework" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on the results of this assessment, Management asserts that the Bank Group maintained effective internal controls over its financial reporting as contained in the financial statements as of December 31 2023. Management is not aware of any material control weakness that could affect the reliability of the 2023 financial statements.

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

Year ended December 31st, 2023

To the Board of Governors of the African Development Bank Group

Scope

We have examined the internal control over financial reporting of the African Development Bank (ADB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF) (together the "African Development Bank Group") as of December 31, 2023, based on criteria established in *"Internal Control – Integrated Framework" (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibilities

The management of the African Development Bank Group is responsible for implementing and maintaining effective internal controls over financial reporting and for the assessment of the effectiveness of such internal controls. Management has asserted the effectiveness of internal controls over financial reporting as of December 31, 2023.

Independent Auditor's responsibilities

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

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

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

Deloitte.

Inherent limitation

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

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

Opinion

In our opinion, the African Development Bank Group, in all material respects, maintained effective internal control over financial reporting as of December 31, 2023, based on criteria established in *"Internal Control – Integrated Framework (2013)"* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have audited the financial statements of the African Development Bank, the African Development Fund and the Nigeria Trust Fund as of and for the year ended December 31, 2023, in accordance with the International Standards on Auditing, and we have expressed unqualified opinions on those financial statements.

Paris – La Défense, May 2, 2024

The independent auditor
Deloitte & Associés

Jean-Vincent COUSTEL

THE AFRICAN DEVELOPMENT BANK

FINANCIAL MANAGEMENT

Capital Subscription

The capital stock of the Bank is composed of paid-up and callable capital. The paid-up capital is the amount of capital payable over a period determined by the Resolution of the Board of Governors that governs the relevant General Capital Increase. The Bank's callable capital is only subject to payment as and when required by the Bank to meet its obligations arising from borrowing funds for inclusion in its ordinary capital resources or guarantees chargeable to such resources. There has never been a call on the callable capital of the Bank. A member country's full payment of the first installment of the paid-up capital of a new subscription triggers the issuance of the shares corresponding to the entire callable capital portion, and the remaining paid-up shares for the subscription are issued only as and when the corresponding payments are received by the Bank.

Following the approval by the Board of Governors of the increase of the Bank's capital base by 125% in 2019 and a Special Temporary Callable Capital Increase in March 2021, the authorized capital of the African Development Bank stood at UA 180.64 billion as at end December 2023. Six percent of the shares created under the Seventh General Capital Increase (GCI-VII) are to be paid over a set period, while 94 percent are callable. In accordance with the resolution governing this capital increase, the GCI-VII shares were allocated to regional and non-regional members in such proportions that, when fully subscribed and paid, the regional group holds 60 percent of the total capital stock and the non-regional group 40 percent. The paid-up portion of the GCI-VII subscription is payable in eight equal annual installments for Member Countries not eligible to borrow from the African Development Fund (ADF) and in twelve equal annual installments for Member Countries eligible to borrow from the ADF.

As at December 31, 2023, the paid-up portion of the capital of the Bank amounted to UA 9.94 billion with a paid-in capital level, the portion of the paid-up capital that has been effectively paid, of UA 6.95 billion compared with UA 9.97 billion paid-up capital and UA 6.37 billion of paid-in capital, at the end of 2022. The Bank's callable capital as of December 31, 2023 stood at UA 138.18 billion, including UA 50.45 billion from non-borrowing member countries rated A- and higher, compared with UA 138.79 billion and UA 50.43 billion, respectively, as at the end of the previous year. The evolution of the Bank's capital over the past five years is shown in Table 1.1

In accordance with the Bank's Share Transfer Rules, shares for which payments have become due and remain unpaid are forfeited after a 120-day grace period (harmonized for all subscriptions since GCI-VI) and offered for subscription to member countries within the same membership group – regional or non-regional – to maintain the stipulated shareholding ratio.

On 31 December 2023, the 2,860,447 callable shares created under the Special Temporary Callable Capital Increase expired, and any shares allocated to member countries were returned to the Bank. However, these shares remain included in the Bank's authorized capital pending their cancellation by the Board of Governors, as provided for in Article 29 (2) (a) of the Bank Agreement.

As a result of this cancellation, the authorized capital stock of the Bank will be reduced from UA 180,638,830,000 to UA 152,034,360,000.

Details of the Bank's capital subscriptions by member countries as of December 31, 2023 are presented in the Statement of Subscriptions to the Capital Stock and Voting Powers, included as Note L to the Financial Statements in this Report.

The Bank's Credit Rating

The Bank monitors and manages its key financial strength metrics on a continuous basis to sustain its high credit ratings. The four leading international rating agencies – Standard and Poor's, Fitch, Moody's, and Japan Credit Rating Agency – have all reaffirmed the AAA/Aaa rating of the Bank's senior loans and AA+/Aa1 rating of its subordinated debt, with stable outlook(s). The Bank's high-quality credit ratings underline its strong financial position, solid capital adequacy, high level of liquidity, excellent funding record, prudent financial management, preferred creditor status and strong support from shareholders.

In 2023, Standard and Poor's revised the Bank's stand-alone credit profile (SACP) to 'aaa' from 'aa+', reflecting the Bank's exceptionally robust capital adequacy to support countercyclical lending when required. The Bank's financial and risk management functions continued to reinforce the Bank's long-term financial sustainability and credit rating. The Bank's financial and risk management policies and procedures are presented in Note C to the Financial Statements

Table 1.1
Bank Authorized and Subscribed Capital, 2019–2023
(in UA millions)

	2023	2022	2021	2020	2019
Authorized capital	**180,639**	**180,639**	**180,639**	**153,191**	**153,191**
Paid-up Capital	9,935	9,975	9,959	7,054	4,951
Callable Capital	138,178	138,794	138,515	93,793	61,196
Total Subscribed Capital	**148,113**	**148,769**	**148,474**	**100,847**	**66,147**

Borrowing Activities

The Board of Directors approved the 2023 borrowing program for a maximum amount of UA 5.6 billion to be raised from financial markets plus an additional envelope of USD 350 million equivalent (UA 260.87 million) under the Enhanced Private Sector Assistance (EPSA) facility. As of December 31, 2023, a total amount of UA 5.02 billion had been raised, representing 90 percent of the approved borrowing program.

In 2023, geopolitical tensions were a significant contributor to overall market volatility as well as the continued rate hikes by multiple central banks. Against this dynamic backdrop, the Bank was able to execute two USD global benchmarks of USD 2 billion each, in both the 3-year and 5-year parts of the curve. USD global benchmark issuances continue to be the backbone of the Bank's borrowing program and consistently attract high-quality institutional investor interest. The commitment to launch regular benchmarks allows the Bank to reinforce its visibility and presence in the capital markets.

The Bank was also active in other public domestic issuances as they remain an important part of its funding diversification. Several transactions, including new issuances and re-openings of existing lines, were executed in the Australian dollar (AUD), Swiss franc (CHF), British pound sterling (GBP), Norwegian krone and Swedish krona (SEK). Of note was the Bank's return to the Swiss franc market with its first primary public domestic issuance in over 14 years. In the Environment, Social and Governance (ESG) space, the Bank continued to consolidate its footprint with several ESG labeled transactions, including an inaugural Social Bond in the Sterling market for GBP 300 million.

Green Bonds

Since the establishment of its Green Bond Framework in 2013, the Bank has issued 15 green bond transactions denominated in USD, SEK, NOK, AUD, and ZAR for a total amount of USD 3.8 billion (UA 2.8 billion) highlighting its continued commitment to support climate-resilient and low-carbon investments on the continent in sectors such as renewable energy, energy efficiency, sustainable mobility, environmentally sustainable management of living natural resources and land use and sustainable water and wastewater management. As of 31 December 2023, the total amount of green bonds outstanding was USD 1.1 billion (UA 814 million), compared to USD 576 million (UA 433 million) as of 31 December 2022. In 2023, the Bank issued a SEK 1.5 billion 5-year Green Bond due January 2028, a SEK 1 billion 4-year Green Bond due November 2027, a NOK 2 billion 5-year Green Bond due March 2028 and a AUD 150 million 15-year Green Kangaroo bond due March 2038.

More details on the eligible green projects financed by the Bank's green bonds are available on the Bank's sustainable bond webpage: https://www.afdb.org/en/about-overview-financial-information-investor-resources-capital-markets-sustainable-bond-program/green-projects

Social Bonds

The Bank's Social Bond Framework is focused on meeting the critical development challenges of Africa with proceeds aimed at financing projects with strong social impact on the continent targeting affordable basic infrastructure, access to essential services, food security and sustainable food systems, employment generation and programs designed to prevent and/or alleviate unemployment stemming from socioeconomic crisis, including through SME financing and Microfinance, and socio-economic advancement and empowerment.

In 2023, the African Development Bank issued one social bond: GBP 300 million 2-year Social Bond due August 2025. This transaction brought the total issuance under the Bank's Social Bond program to USD 8 billion (UA 5.9 billion) with 10 transactions since the establishment of its Social Bond framework in 2017. The total amount of social bonds outstanding was USD 4.6 billion (UA 3.4 billion) as of 31 December 2023, and as of the end of 2023 the Bank is the largest issuer of Social Bonds in the multilateral development bank (MDB) sector.

More details on the eligible social projects financed by the Bank's social bonds are available on the Bank's sustainable bond webpage: https://www.afdb.org/en/about-overview-financial-information-investor-resources-capital-markets-sustainable-bond-program/social-projects.

In December 2023, the Bank launched a new Sustainable Bond Framework, which updated both the Green Bond and Social Bond Frameworks along with incorporating new Sustainability Bond Guidelines. The new framework enables the issuance of green bonds, social bonds, sustainability bonds and sustainable hybrid capital. Moody's Investor Services provided the Second Party Opinion for the framework, giving an overall rating of SQS2 Sustainability Quality Score (very good).

Themed Bonds

The Bank continued to meet increased demand from Japanese investors for themed bonds. This demand reflected investors' preference for investing in bonds that support social projects while also meeting their investment risk/return objectives. In 2023, the Bank issued 12 theme bonds aligned with the High 5 operational priorities for a combined total issued amount of UA 164 million, including 7 "Improve the Quality of Life for the People of Africa" theme bonds, 1 "Feed Africa" theme bond, and 4 "Light Up and Power Africa" theme bonds denominated in various currencies including: US dollar, Mexican peso, South African rand, Australian dollar, Indian rupee and Hong Kong dollar.

Themed bond proceeds are included in the ordinary capital resources of the Bank. Under the terms of the bonds, an amount equal to the net proceeds will be directed, on a 'best-efforts' basis, towards projects related to the relevant themes, subject to and in accordance with the Bank's lending standards and guidelines.

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

All set for Hybrid Capital Launch

As of December 2023, all the preliminary work for the launch of the Bank's inaugural Hybrid Capital instrument in early 2024, have been completed. The aim of the highly anticipated hybrid capital issuance is to increase lending capacity through a debt instrument structured to qualify for treatment as equity in its balance sheet. The transaction will be structured as a perpetual subordinated Note, with a first call date and payments of interest and principal subject to

Table 1.2
Overview of Themed Bonds Activity by Sector as at 31 December 2023
(amounts in UA millions)

	Total Bonds Issued	Cumulative Disbursements*	Total Bonds Outstanding	Maturity Range of Bonds Issued
Infrastructure	143.6	1,334.0	14.3	7 to 10 years
Sub-total	**143.6**	**1,334.0**	**14.3**	
Improve the quality of life for the people of Africa	619.5	699.8	404.3	1 to 30 years
Feed Africa	504.1	492.3	467.4	1 to 30 years
Light Up & Power Africa	284.5	733.5	283.6	1 to 30 years
Integrate Africa	121.9	255.9	120.2	2 to 30 years
Industrialize Africa	93.5	283.8	93.5	4 to 10 years
Sub-total*	**1,623.5**	**2,465.3**	**1,369.0**	
Total	**1,767.1**	**3,799.3**	**1,383.3**	

**Disbursements for a selected list of projects under AfDB High 5s.*

the sole discretion of the Bank. This issuance is expected to mark a significant milestone within the MDB space as it will be the first sustainable hybrid capital issuance by a multilateral development bank, underscoring the Bank's pioneering role in aligning its balance sheet with the G20 Capital Adequacy Framework (CAF) recommendations aimed at bolstering the lending capacity of MDBs.

Financial Innovation, Syndications and Co-financing

The Bank continues to pursue and scale-up its (i) renewed thrust in using co-financing, blended finance, and syndicated loan structures in financing sovereign and non-sovereign operations; and (ii) structured finance operations, including balance sheet optimization initiatives and the use of innovative financial products such as guarantees and local currency financing, among other products, to fulfill its development mandate.

In 2023, the Bank mobilized a UA 2.85 billion (UA 2.14 billion and UA 710 million for public and private sector operations respectively), surpassing its target by 270 %. This result stems from a ramping up of the utilization of co-financing arrangements, syndication and insurance mobilization as well as an acceleration in the uptake of the Bank and Fund's guarantee instruments.

The Bank's co-financing arrangements contributed the lion's share of the current volume of active co-financing standing at UA 1.269 billion in 2023 compared to UA 850 million in 2022. Co-financing arrangements contribution by partner is distributed as follows: 38% from Japan's Accelerated Co-financing Facility for Africa, 19% from the Islamic Development Fund; 16% from China's Africa Growing Together Fund; 10% from Korea-Africa Energy Investment Framework; 9% from Agence Française de Développement; and 8% from the OPEC Fund.

In 2023, the Bank included in its syndication activities the mobilization of institutional investors and secured commitments of up to UA 236 million from private insurers. During the year, the Bank signed three syndication mandates to mobilize over USD 3 billion for the 2024 lending program for sovereign and non-sovereign projects in the transport, health, and sustainable finance related projects.

The Bank also mobilized private sector financing for sovereign operations, of up to UA 1.075 billion, representing 38 % of the overall mobilization, using its Partial Credit Guarantee instruments for several sovereign borrowings in the debt capital markets, namely for ESG loans for Benin, and Côte d'Ivoire; and tapping into the Panda Bond market with an inaugural issuance for the Arab Republic of Egypt.

Finally, the Bank consolidated its pioneering position in the area of balance sheet optimization in line with the MDB reform agenda by executing a new Exposure Exchange Agreement with the Asian Development Bank for USD 1 billion.

Financial Products

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

Loans

The Bank provides loans to its clients on differentiated terms depending on the classification of the borrower. The Bank categorizes its standard loans as either Sovereign-Guaranteed Loans (SGLs) or Non-Sovereign Guaranteed Loans (NSGLs). SGLs are loans made to Regional Member Countries (RMCs) or to public sector entities from RMCs supported by the full faith and credit of the RMC in whose territory the borrower is domiciled. Public sector companies are eligible for SGLs if they are guaranteed by an RMC or by the RMCs in whose territory or territories the projects will be executed.

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

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

In response to borrower demand for a flexible loan product that facilitates dynamic debt management and easily adapts to specific maturity and risk profile needs, in March 2016 the

Bank introduced the Fully Flexible Loan (FFL) for the benefit of its sovereign and sovereign guaranteed borrowers. The FFL combines a standard loan product with maturity-based pricing and embedded risk management products. The FFL can be applied as a (i) regular project finance loan to eligible sovereign borrowers, or (ii) policy-based operation (PBO) specifically to finance public sector reform implementation, or as a (iii) Results-Based Financing (RBF) where disbursement of the loan is linked to the achievement of certain results by the borrower.

The maturity-based pricing allows borrowers to choose up to 25-year maturity and an 8-year grace period against an ascending Maturity Premium depending on the exact tenor-grace period combination selected. The embedded risk management products provide borrowers with two options: Base rate and or currency conversion. The former allows borrowers to: (i) fix, unfix and re-fix the Base Rate on a disbursed portion of the loan and, (ii) to cap or collar the Base Rate on a disbursed portion of the loan. The currency conversion, on the other hand, allows borrowers to change their loan (disbursed and /or undisbursed), in part or in full into any other ADB approved lending currency.

Private sector or Non-Sovereign Guaranteed Loans (NSGLs) are offered exclusively through the ADB window. NSGLs are offered in the form of a Fixed Spread Loan (FSL), a standard loan priced with a risk-based lending spread that is fixed for the life of the loan and added to its Base Rate. In addition to financing corporate loans and project finance, under the FSL, the Bank may subscribe to debt or subordinated debt instruments issued by a private enterprise or public sector enterprise in the process of being privatized. The FSL is also used to provide Lines of Credit and Agency Lines to financial intermediaries and other third parties and to provide local currency or synthetic local currency loans. The FSL is also the loan product underpinning the syndication business of the Bank.

The Bank offers other loan structures, including parallel and A/B loan syndications and local currency loans. The Bank can provide local currency loans in the following RMC currencies: Botswana pula, Egyptian pounds, Franc CFA (XOF and XAF), Ghanaian cedis, Kenyan shillings, Nigerian naira, Rwandese francs, South African rand, Tanzanian shillings, Ugandan shillings and Zambian kwacha. Other currencies can be added depending on the demand and ability of the Bank to fund through the local market. Lending in these currencies is only offered if the Bank can fund itself efficiently in the relevant local currency market on a best-efforts basis although the Bank continues to evolve its local currency frameworks and products to avail more client solutions. Other currencies can be added depending on the demand and ability of the Bank to fund through the local market. These local currency loans are offered under the FSL pricing framework with a cost-pass-through principle for the loans to ensure that the overall cost of funds is fully covered. Other local currencies not approved as lending currencies of the Bank can be available under deliverable or non-deliverable contracts executed with the Bank's derivatives counterparties.

Lines of Credit

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

Guarantees

The Bank Group has been providing guarantee products since 2000. The Bank's guarantee instruments are effective tools to protect investors and lenders against specific risks, enabling optimal allocation of risks. Through the various guarantee products it offers, the Bank seeks to attract new sources of financing from third party local and international lenders and investors, including via the capital markets resulting in better financing terms and a reduction of effective financing costs for beneficiaries. The Bank's guarantees can be classified into two categories: Partial Credit Guarantees (PCGs) and Partial Risk Guarantees (PRGs).

The PRG protects private lenders and investors against well-defined political risks related to the failure of a government or a government-related entity to honor certain specified commitments. The PRG is aimed at incentivizing governments to undertake policy and fiscal reforms necessary to mitigate performance-related risks. The PCG covers debt service on scheduled payments of commercial debt, against all risks or specific events of defaults. As such, PCGs support private sector entities, government and State-Owned Enterprises (Applicants) in mobilizing debt (Guaranteed Obligations) from commercial lenders/investors (Beneficiaries) to finance their activities and projects.

Guarantees continue to be a critical financial product offering for the institution across the private sector and low-income sovereign clients. To stimulate additional private sector investments in Africa and streamline guarantee operations across the two lending windows of the Bank Group, the Board of Directors approved a Revised Guarantees Policy in 2019. The Revised Guarantees Policy introduces new structures within the various guarantee products offered, including portfolio guarantees, risk sharing credit guarantees, true local currency guarantees, subnational guarantees, and syndication of unfunded participation from the market. The new policy also permits the Bank to seek re-insurance for executed guarantees.

Risk Management Products

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

Equity and Quasi-Equity Participation

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

Trade Finance Program

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

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

a) Risk Participation Agreements

The Risk Participation Agreement (RPA) is a funded or non-funded trade finance product that enables the Bank to share risk with a select group of international and regional confirming banks who provide documentary credit confirmation services to African issuing banks to support and expand trade in Africa. Under the RPA product, the Bank participates by sharing in the trade finance credit risk – generally capped to no more than 50 percent of a trade transaction exposure – on a portfolio of eligible issuing bank trade transactions of partner confirming banks. RPAs operate on a portfolio basis and do not require the Bank to sign direct agreements with the local issuing banks. Under a funded RPA, the Bank and the RPA bank jointly fund issuing banks for trade finance activities. For unfunded RPA, the Bank shares the credit risks on a portfolio of trade finance operations from issuing banks.

b) Trade Finance Lines of Credit

The Trade Finance Line of Credit (TFLOC) is similar to the conventional line of credit offered by the Bank to local financial institutions, except that the TFLOC is used to finance exclusively trade-related transactions in RMCs and has a maximum tenor of 3.5 years. Trade transactions financed by the TFLOC include, among others, pre-shipment and post-shipment financing, capital expenditure, letters of credit discounting, factoring/forfaiting, import and export trade finance.

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

c) Soft Commodity Finance Facility

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

d) Transaction Guarantee

Following approval by the Board of Directors, a complementary trade finance instrument called Transaction Guarantee (TG) was launched in July 2021. It enables the Bank to provide up to 100 percent non-payment risk cover to Confirming Banks for the risk they take on Issuing Banks in Africa for individual trade finance transactions. The TG instrument is particularly useful to banks in low-income and transition states where the availability of trade finance confirmation lines is severely constrained due to perceived higher risk. The instrument brings the Bank in line with sister MDBs who all use it as their main trade finance instrument.

Other Financial Services

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

Risk Management Policies and Processes

The Bank's development operations are undertaken within a conservative financial and risk management framework, which is governed by various risk management policies, including the risk appetite statement and the long-term financial sustainability framework. These key policy documents lay out the core principles in place that ensure that the financial capacity and financial sustainability of the Bank and its triple-A ratings are preserved over the long term. In addition to the risk appetite statement and the long-term financial sustainability framework, the Bank has a clearly defined capital adequacy and exposure management policy, a credit policy with detailed guidelines, a risk management governance framework, an asset and liability management authority with detailed guidelines, and an end-to-end credit evaluation and underwriting process. The Bank seeks to minimize its exposure to risks that are not essential to its core business of providing development finance and related assistance. Accordingly, the Bank's risk management policies, guidelines, and practices are designed to reduce exposure to interest rate, currency, liquidity, counterparty, legal and other operational risks, while maximizing the Bank's capacity to assume the credit risks that arise from its development related activities and resulting exposure to public and private sector clients, within approved risk limits.

The Operational Risk Management Framework is approved by the Board of Directors and is implemented with the support of a Risk Management Committee ("ORMC") with senior-level representation from all Complexes of the Bank. The following activities underpin operational risk management within the Bank:

- An annual operational risk review is conducted and covers the Bank's current operational risk (OR) governance framework, an update on the implementation of internal controls over financial reporting (ICFR), monitoring the progress in the implementation of the Bank's operational risk (OR) management framework and the key emerging trends in operational risk (OR) relevant to the operations of the Bank.
- The annual operational risk and internal control certification process is also conducted in addition to the annual certification of internal controls over financial reporting (ICFR).
- The individual business units conduct regular self-assessments of their operational risks (RCSA) and the effectiveness of their internal controls.
- Continuous identification and monitoring, in close liaison with the business units, of key risk indicators (KRIs) for significant residual risks. Operational risk awareness sessions are regularly organized for operational risk focal points and champions as well as an annual "OpRisk Day" for all staff. The publication of Newsletters like "OpRisk Bytes" to promote ongoing operational risk awareness complete the picture.

An integrated workflow-based risk management software platform (ACP) is in place to help all stakeholders involved in the credit risk assessment process streamline their work and improve efficiency.

The Bank continues to be well capitalized with sufficient buffer to absorb any unexpected credit shocks from its loan portfolio and development lending purposes. The stress testing of its capital adequacy shows the Bank can withstand several extreme shock scenarios in its business.

The Bank has undertaken several strategic initiatives to preserve its risk-bearing capacity. One of the key achievements is the revision of some of the Bank's risk parameter models, linked to the implementation of all Moody's Analytics recommendations related to the capital adequacy framework. This has led to a substantial improvement in the Bank's Risk Capital Utilization Ratio (RCUR), which provides significant headroom for the Bank's capital to support its lending trajectory and absorb any potential adverse events. The risks to the Bank's balance sheet are actively monitored on a risk dashboard, which is regularly updated based on the evolving risk profile of the Banks operations.

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

Balance Sheet Optimization (BSO)

BSO constitutes the Bank's strategic response to the 2015 call by G20 to Multilateral Development Banks (MDBs) to optimize their balance sheets for higher lending to its clients. These initiatives involve the purchase of credit protection on loan exposures, through exposure exchanges, credit risk insurance and guarantee transactions, among other credit transfer structures.

The BSO Strategic Framework approved by the Board in May 2020 sets out the three key objectives of implementing BSO activities within the Bank as follows:

a. create additional headroom to achieve the Bank's High 5 targets through active capital management.

b. reinforce the safety margins that underpin the Bank's AAA credit rating by improving the Bank's prudential ratios.

c. mobilize institutional and private investors to leverage scarce public resources for development purposes.

The Bank has executed various BSO transactions including the first MDB Exposure Exchange Agreement (EEA) launched in 2015 and the three transactions under the Room to Run (R2R) program. While the former involves a simultaneous exchange of equivalent credit risk exposures on portfolios of sovereign loans among participating MDBs, the latter includes the 2018 Synthetic Securitization Transaction (R2R-SST) on a reference portfolio of USD 1 billion in non-sovereign infrastructure loans and the portfolio Credit Insurance (R2R-CI) transaction on a reference portfolio of USD 500 million of non-sovereign financial sector loans. The second R2R transaction involves the execution of a credit insurance on a partial credit guarantee to support a derivative trade by one of its sovereign borrowers. Room 2 Run Sovereign (R2RS) – the third transaction under the R2R program – was executed in October 2022 with the UK's Foreign Commonwealth and Development Office (FCDO) and three private insurers from the Lloyd's market. R2RS is structured as a sovereign credit protection of up to USD 2 billion on a notional reference portfolio exposure to eleven (11) Regional Member Countries. It has provided the Bank with an estimated additional USD 2 billion in new lending capacity for climate finance.

The Bank is also increasingly focused on implementing BSO risk transfer structures executed at loan origination thereby taking a more proactive and programmatic portfolio approach towards significant risk transfers. Several such structures have been concluded in recent years. These include the 2021 securitization at origination of the Affirmative Finance Action for Women in Africa (AFAWA) Risk Sharing Mechanism involving France and the Netherlands as well as the 2022 Lusophone Compact Guarantee signed with the Government of Portugal for EUR 400 million to support new private sector projects in Portuguese-speaking African countries. In 2023, the Bank also approved a USD 1 billion guarantee program with the FCDO to support the Republic of South Africa with financing the needed just energy transition away from fossil fuels.

These BSO transactions, whether executed on seasoned assets or at loan origination, contribute to efficient use of the Bank's risk capital by hedging its portfolio credit risk and creating additional headroom for the Bank to continue to play its countercyclical role and creating new pathways for institutional investors to finance Africa's development projects.

Since the Bank commenced BSO transactions in 2015, no default event has occurred. The Bank continues to explore potential BSO arrangements with other sovereign and non-sovereign counterparties and other multilateral development banks in line with the G20 recommendations to MDBs to bolster their capital adequacy for higher lending.

Internal Audit

The Office of the Auditor General derives its mandate from the Bank's Financial Regulations and its terms of reference, which are in line with the internal audit best practices promulgated by Institute of Internal Auditors (IIA). The IIA defines internal auditing as an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. In line with the global internal audit standards issued by the Institute of Internal Auditors (IIA), Management recognizes that internal auditing plays a critical role in enhancing the Bank's ability to serve the public interest. While the primary function of internal auditing within the Bank is to strengthen governance, risk management, and control processes, its effects extend beyond the organization. Internal auditing contributes to the Bank's overall stability and sustainability by providing assurance on its operational efficiency, reliability of reporting, compliance with laws, rules and/or regulations – both internal and external, safeguarding of assets, and ethical culture. This, in turn, fosters public trust and confidence in the Bank and the broader systems of which it is a part. In this connection, the Office of the Auditor General is responsible for planning, organizing, directing, and controlling a broad, comprehensive program of auditing both internally and externally, including without limitation, the audit of all projects, and programs of the Bank Group. The Office provides all levels of management with periodic, independent, and objective appraisals and audits of financial, accounting, operational, administrative, and other activities, including identifying and recommending means of improving accountability, efficiency of operations and economy in the use of resources.

To date, the activities of the Office of the Auditor General are governed by the 2017 IIA Standards, Code of Ethics, and International Professional Practices Framework. These standards will be replaced by the revised global internal audit standards expected to be published in early 2024, effective January 2025. The Office uses its resources effectively and efficiently, by concentrating them on the highest business risks the Bank faces and its risk appetite and most significant activities. This approach is consistent with the IIA Standards and the COSO Internal Control Framework. These standards require the internal audit function to methodologically assess the pertinent risks to the Bank Group and focus its efforts based on the anticipated business risks. Such risks are dynamically assessed throughout the year, considering audit results, continuous risk assessments and input from the Board's Audit and Finance Committee and Senior Management. The Internal Audit Work Programme is prepared based on an annual risk assessment and evaluation process, involving quantitative and qualitative analysis and independent professional judgment. The President and the Board of Directors approve the Annual Internal Audit Work Programme.

The Auditor General reports regularly to the President, normally through his cabinet and to the Board (through the Audit and Finance Committee) on the activities of the Office and informs them on the sufficiency of the resources at its disposal for the delivery of its mandate. The Office, and its members of staff, are guaranteed unrestricted access to all Bank records, documents, properties, and persons relevant to the subject matter under review in the performance of their work. Any restrictions to information are deemed to constitute limitation of scope in the auditor's work and must be reported to the Board. This ensures that the Office of the Auditor General is able to perform its duties with objectivity and independence of mind without any undue direct or indirect influence. And, to further effectively maintain the independence of the function the President appoints and removes the Auditor General in consultation with the Board of Directors. The appointment of the Auditor General is for a five-year tenure, renewable once. The incumbent is not eligible for staff appointment thereafter.

Financial Reporting

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

Based on the COSO internal control framework, senior management has put in place a robust and functioning mechanism to certify the effectiveness of the Bank's internal controls over external financial reporting. The President, the Vice President – Finance and the Financial Controller sign this annual certification statement. The Bank's external auditors also provide a separate attestation. The Bank has a comprehensive system of reporting to the Board of Directors and its committees, including periodic reporting by the Office of the Auditor-General to the Audit and Finance (AUFI) Committee of the Board of Directors.

External Auditors

The Board of Governors are responsible for the appointment of the Bank's external auditors on the recommendation of the Board of Directors, for a five-year term. Under the Bank rules, no firm of auditors can serve for more than two consecutive five-year terms. In this regard, the incumbent auditors for the Bank Group are serving the second year of their second term following approval of their re-appointment during the 2022 Annual Meetings.

The external audit function is statutory and is regulated by the International Standards on Auditing (ISA), issued by the International Federation of Accountants (IFAC) through the

International Auditing and Assurance Standards Board. The external auditors perform an annual audit to enable them to express an opinion on whether the Bank's financial statements present fairly, in all material respects, the financial position and the results of the operations of the Bank. They also examine whether the statements have been presented in accordance with International Financial Reporting Standards. In addition, as described under Financial Reporting above, the external auditors also conduct a comprehensive review and provide an opinion on the effectiveness of the Bank's internal controls over external financial reporting. The external auditors provide this attestation as a report separate from the audit opinion. At the conclusion of their annual audit, the external auditors submit a management letter for the attention of Senior Management and the Board of Directors, which is reviewed in detail and discussed with the Audit and Finance Committee of the Board. The management letter sets out the external auditors' observations and recommendations for improvement on internal controls and other key audit matters and includes management's responses and proposed actions for implementing the auditors' recommendations.

The performance and independence of the external auditors is subject to periodic review by the AUFI Committee of the Board. There are key provisions in the Bank's policy regarding the independence of the external auditors, including a requirement for the mandatory rotation of the Engagement Partner in cases where the term of the audit firm is renewed for a second and final five-year period. There are stringent conditions on the provision of non-audit services by incumbent auditors, including the enforcement of a prohibited list of non-audit services. The incumbent auditors cannot provide non-audit services in the banned list without authorization by the Board. However, services outside the list may be contracted without prior approval, subject to a specified cap on the consultancy fee payable and submission of a periodic report on the services to the Board. The cap on the consultancy fees and the reporting requirement is aimed at ensuring that the provision of such non-audit services does not jeopardize the independence of the incumbent audit firm.

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

Anti-Corruption Regime within the Bank

The key function of the Office of Integrity and Anti-Corruption (PIAC) in the promotion of an anti-corruption regime within the Bank is enshrined in Article 12 of the Agreement Establishing the Bank on the "Use of Resources", which requires that the Bank's resources be used solely for the purposes for which they are intended. To this end, PIAC is responsible for ensuring that the resources available to the Bank are used exclusively to finance the economic and social development of the Regional Member Countries to whom the resources have been extended by applying the best international standards in the performance of its mission.

By virtue of its mandate, PIAC is also responsible for promoting and establishing an environment of zero tolerance against fraud, corruption, and staff misconduct in the implementation of the Bank's operations and programs. To this end, PIAC contributes to the promotion of integrity and to the fight against corruption and illicit financial flows. This responsibility and related activities cover the full spectrum of Bank Group operations in Regional Member Countries, the Headquarters, and the entire Bank corporate structure. The Implementation of these activities is underpinned by a risk-based approach in the prevention and investigation of fraud and similar corruptive practices.

The Bank, like similar business organizations, implements a robust integrity compliance framework in accordance with international standards to prevent, deter, detect, report, and mitigate against corruption, fraud, and illicit financial flows risks in Bank-financed operations and activities.

There are policies, procedures, and guidelines in place that set out standards for conducting due diligence assessment in Bank-financed projects and their counterparties. The procedures also provide for the management and execution of efficient anti-money laundering (AML) and counter-terrorist financing activities in line with the Financial Action Task Force (FATF) standards, where the Bank currently has observer status. As part of the quality assurance and improvement program, the AML policies and guidelines provide for the Bank to be subjected to periodic assessment by relevant external partners, mainly correspondent banks and development partners.

In fulfillment of its oversight role, PIAC conducts regular Bank-wide Integrity Risk Assessments on Money Laundering/ Terrorist Financing/ Illicit Financial Flows, Fraud, Corruption, and Sanctions to ensure that these risks are effectively monitored and managed. These assessments aim to identify and assess integrity risks in Bank operations and activities. The scope of the integrity risk assessment has been incorporated into the Bank Master Screening Tool (BMST), an automated screening tool for tracking sanctions on and adverse media coverage of clients and counterparties. The BMST enhances PIAC's monitoring and oversight ability and helps with proactive identification of integrity risks and mitigating measures to safeguard the Bank.

In recognition of the importance of the Bank's integrity risk management efforts, PIAC, in collaboration with the Delivery, Performance Management, and Results Department (SNDR), runs on a regular basis two (2) mandatory courses to create staff awareness and enhance knowledge. These courses include Principles of Due Diligence, which covers the Bank's policies and procedures for conducting integrity due diligence checks on prospective and existing counterparties and Combatting Money Laundering Course with content on anti-money laundering risk assessment.

Regional Member Countries (RMCs) have also benefited from PIAC's collaboration with the Commonwealth Africa Anti-Corruption Center (CAACC), the International Centre for Asset Recovery (ICAR) of the Basel Institute on Governance, and the Organization for Economic Co-operation and Development

(OECD) to improve skills and provide specialized trainings to investigators and prosecutors on topical integrity risks issues.

To further enhance integrity in management of Bank – financed projects, PIAC undertakes Project Integrity Reviews (PIR) on Bank funded projects to minimize the risks of integrity lapses, thereby contributing to the achievement of its developmental goals. A risk-based approach is utilized for the selection of projects for review. The results of this proactive approach feed into raising of risk awareness, due diligence and capacity building initiatives, using real case studies to prevent further integrity and illicit financial flow risks in the Bank's operations.

G20 Capital Adequacy Framework

In response to global challenges, the G20 International Financial Architecture (IFA) Working Group commissioned a review[1] of the Capital Adequacy Frameworks (CAFs) of MDBs to boost their lending capacity while preserving their credit ratings. The review proposed seventeen (17) reforms grouped into five areas/categories: (1) Redefine the Approach to Risk Appetite; (2) Incorporate Uplift from Callable Capital in CAFs; (3) Implement Innovations; (4) Improve Credit Rating Agency Assessment; and (5) Improve the Enabling Environment for Capital Adequacy Governance. A detailed analysis of the recommendations from the Review was undertaken and discussed with the Board of Directors identifying the recommendations relevant to the operations of the Bank and clarifying the Management plan for their implementation. By the end of 2023, the Bank had implemented most of the recommendations[2] that can be completed by each MDB individually. In addition, the Bank continues to work with its peers and shareholders to address the few recommendations[3] that require a coordinated effort.

Performance Management and Monitoring

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

Table 1.3
Key Financial Performance Indicators: 2023 and 2022

Definition	Importance to the business and management	2023	2022
Return on Assets	As a profitability ratio, this measures the profit or return generated from the Bank's total assets or capital. It tells how efficiently the Bank generates profit growth from the capital at its disposal, both debt and equity.	1.03%	0.63%
Average Return on Liquid Funds	This measures the average return generated or lost due to the investment of liquid funds. In other words, it measures how profitable the liquid assets are in generating revenue to the Bank, pending disbursement for project financing.	3.25%	1.58%
Total debt to Usable Capital*	This measures the Bank's financial leverage calculated by dividing its total debt by usable capital. It indicates the proportion of equity and debt the Bank uses to finance its operations.	40.59%	40.30%
Weighted Average Risk Rating-Sovereign**	The weighted average risk rating relates to the weighted average rating for all loans and guarantees within the sovereign portfolio. It measures the Sovereign portfolio's overall risk profile and credit quality.	3.2	3.15
Impairment Loss Ratio (Non-Sovereign)	This KPI represents the impairment on loans as a proportion of the period-end balances. Granting credit is the Bank's main purpose and is also one of the Bank's principal sources of Income and risk. The loan loss ratio indicates the quality and recoverability of loans granted to non-sovereign borrowers. (The ratio's denominator is the non-sovereign loans.)	12.40%	12.90%
Risk Capital Utilization Ratio (RCUR)***	This metric tests the Bank's capital adequacy and risk-bearing capacity. A strong capital position over time assures the Bank's ability to lend even during crises and withstand adverse non-accrual shocks.	53.70%	55.94%

** The Bank's policy limits the debt to usable capital ratio to 100 percent. The usable capital is defined as the sum of paid in capital, reserves, and callable capital from non-borrowing countries rated A- or better.*

*** The rating stands at BB for 2023, compared to BB- in 2022, according to the international rating scale.*

**** The Bank's Risk Appetite Statement has a threshold of 90 percent with a hard limit of 100 percent for the RCUR.*

1 *Boosting MDBs' investing capacity: An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks (2022)*

2 *Recommendations 1A, 1B, 3A, 3B, 3C, and 3D.*

3 *Recommendations 3E, 5B, and 5D.*

FINANCIAL RESULTS

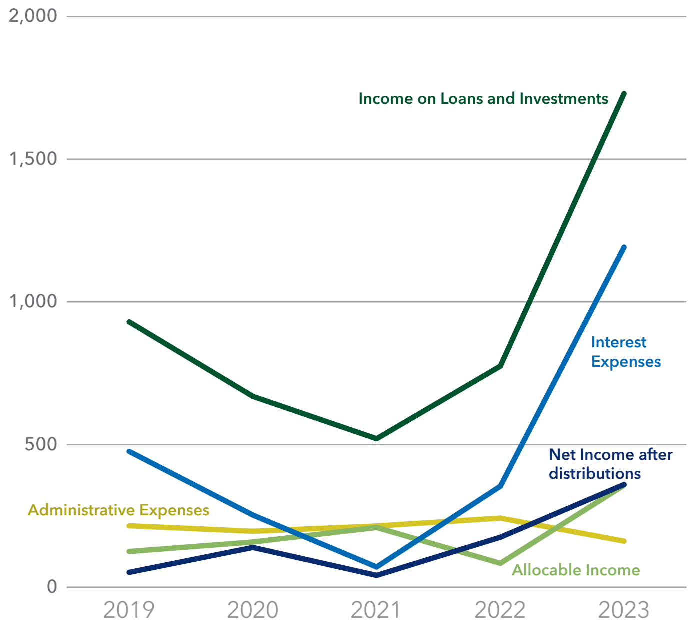
Net Income and Allocable Income

The Bank's Net Income was UA 360.05 million in 2023, compared to UA 175.28 million in 2022. The increase in 2023 net income was due to a combination of several factors, including; (i) UA 94.81 million (398.19 percent) increase in Realized and Unrealized gains on treasury trading portfolios and related derivatives to UA 118.62 million; (ii) UA 80.73 million (33.32 percent) decrease in Other Operating Expenses to UA 161.56 million; (iii) UA 76.37 million (79.46 percent) decrease in expected credit losses (ECLs) on financial instruments held at amortized cost to UA 19.75 million and (iv) UA 77.44 million (116.52 percent) decrease in Currency Translation losses of UA 10.98 million in December 2023 from gains of UA 66.46 million in December 2022.

Given the Bank's intention to maintain its non-trading portfolio positions, the Bank adjusts Net Income before distributions approved by the Board of Governors for the impact of volatile income elements, such as fair value changes on borrowings and related derivatives, and currency translation gains or losses, to derive Allocable Income, which is used to make net income allocation to reserves and distributions to development initiatives.

After the adjustment for volatility, the Bank's Allocable Income in 2023 was UA 357.55 million, compared to the UA 83.92 million reported in December 2022. Figure 1.1 presents the Income and Expenses trends from 2019 to 2023.

Figure 1.1 Income Trends, 2019–2023
(UA millions)



Financial Position

Lending Operations

In 2023, the Bank approved UA 5.79 billion in loans compared to UA 3.32 billion in 2022. The net loans outstanding stood at UA 22.02 billion at the end of 2023 compared to UA 20.70 billion in 2022. Net loan disbursements were the key driver of the UA 1,326.08 million increase in net loans outstanding.

The gross loan balance increased by UA 1.32 billion (6.17 percent) in 2023 to UA 22.75 billion from UA 21.43 billion in December 2022. On the composition of the increase in gross loan balance, sovereign operations increased by UA 1.20 billion (6.47 percent) to UA 19.69 billion in December 2023 from UA 18.50 billion as at 31 December 2022, while non-sovereign operations increased by UA 0.13 billion (4.28 percent) to UA 3.06 billion as at 31 December 2023 from UA 2.93 billion in 2022.

Figure 1.2 presents the disbursements and net loans outstanding from 2019 to 2023.

Expected Credit Loss (ECL) allowances on loans and other financial instruments

ECL allowance on loans and other financial instruments at amortized cost recognized on the balance sheet increased by UA 6.55 million (adjusted for write-offs on loan principal and charges) to UA 961.01 million as of 31 December 2023 from the UA 954.46 million reported as at 31 December 2022.

Treasury Operations

Investment Portfolio

The Bank's investment portfolio increased by UA 0.67 billion, from UA 11.71 billion as of December 31, 2022, to UA 12.38 billion as of December 31, 2023. The increase in the liquid asset portfolio is primarily due to additional investments from proceeds from capital subscriptions.

As of December 31, 2023, the investments remain highly rated, with 52.1 percent rated AAA, 33.6 percent falling between AA- and AA+, and 14.3 percent between A- and A+. This allocation reflects the objective of capital preservation.

Borrowing Portfolio

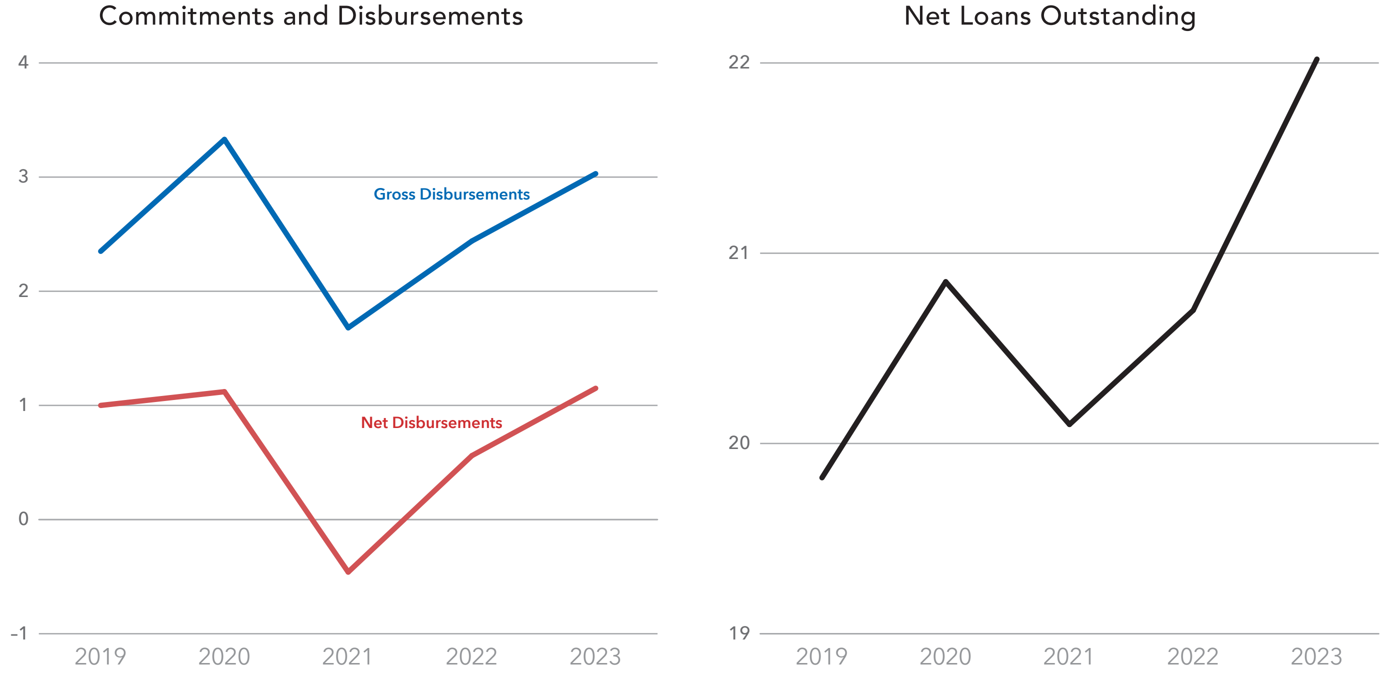
The Bank raised UA 5.4 billion in medium and long-term debt in 2023 and repaid UA 5.6 billion, resulting in a net cash outflow of UA 0.2 billion. The funds raised financed lending operations and satisfied liquidity requirements. The borrowing portfolio increased by UA 0.53 billion, from UA 24.25 billion as of December 31, 2022, to UA 24.78 billion as of December 31, 2023.

Equity Participation Portfolio

The Bank takes equity positions in privately owned productive enterprises and financial intermediaries, public sector companies that are 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 the development of their private sectors. The Bank's equity participation is also aimed at promoting the efficient use of resources and 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 development merit. These investments are classified and measured at Fair Value through Other Comprehensive Income (FVOCI).

The Bank's Equity Participation Portfolio increased by UA 75.23 million (7.21 percent) to reach UA 1.12 billion from UA 1.04 billion as at 31 December 2022. This increase resulted from the net disbursements cash outflow of UA 48.07 million,

Figure 1.2 Commitments and Disbursements and Net Loans Outstanding, 2019–2023
(UA billions)



representing higher capital disbursements of UA 80.29 million compared to capital returns or repayments of UA 32.22 million during the year.

Fair value or mark-to-market (MTM) adjustments on equity participation instruments led to an income of UA 50.05 million, reversing losses of UA 31.80 million reported in 2022. These gains are due to positive net asset valuations and gains on investee companies.

Dividend income increased by UA 6.29 million (44.33 percent) to UA 20.48 million from UA 14.19 million in December 2022 due to higher dividends receipt from investee companies and institutions.

Capital and Reserves

The Bank's authorized share capital stood at UA 180.64 billion as at December 31, 2023 of which subscribed capital amounts to UA 148.11 billion and paid-in capital to UA 6.95 billion.

The paid-in capital increased by UA 0.58 billion to UA 6.95 billion as at 31 December 2023 from UA 6.37 billion as at 31 December 2022. This increase was due to funds received in respect of capital subscriptions from General Capital Increases.

The Bank's reserves increased by UA 0.34 billion to UA 4.01 billion at the end of 2023 from UA 3.67 at the end of 2022. Total Equity increased by UA 0.93 billion from 9.88 to 10.81 billion in 2023 due to the net positive effect of the increase in capital subscriptions and the total comprehensive income reported for the year.

The Bank continues to maintain a strong capital position. Despite the ongoing challenges in its operating environment, the Bank continues to generate sufficient levels of income to facilitate contributions to other development initiatives in Africa on behalf of its shareholders.

Total Assets

As of December 31, 2023, total assets grew by 3.3 percent to UA 39.47 billion compared with 38.22 billion in December 31, 2022. The growth was primarily due to the increase in treasury investments, net loans outstanding and equity participation assets. The growth is financed by the increase in equity due to additional capital subscriptions and increase in reserves during the year.

Financial Performance

The Bank's Net Income was UA 360.05 million in 2023, compared to a net income of UA 175.28 million in 2022. The Bank's Other Comprehensive Income (OCI) for the year ended 31 December 2023 decreased by UA 360.56 million (104.75 percent) to a loss of UA 16.37 million, compared to an income of UA 344.20 million in 31 December 2022. The decrease resulted principally from remeasurement losses on Medical Benefit Plan (MBP), caused by negative changes in financial assumptions, mainly the increase in medical cost inflation and the decrease in discount rate.

Total Comprehensive Income for the year ended 31 December 2023 decreased by UA 175.79 million (33.84 percent) to UA 343.68 million, compared to UA 519.47 million reported in December 2022.

Results from Lending activities

Loan Income

Under the Bank's pricing policy, lending rates are based on the cost of the borrowings funding these loans. After the effect of related swaps, the loan and borrowing portfolios are based on variable interest rates, and the portion of the loan portfolio funded by equity is therefore sensitive to changes in interest rates.

The Bank's 2023 total income from loans was UA 1.22 billion, an increase of UA 701.99 million compared with UA 521.57 million in 2022. The increase was driven mainly by the increase in market interest rates and the size of the outstanding loan portfolio.

Interest income on Sovereign loans increased significantly by 143.40 percent to UA 908.46 million in 2023 from UA 373.24 million in 2022 while interest income on non-sovereign loans increased by 42.28 percent to UA 226.86 million in 2023 from UA 159.45 million in 2022.

In 2023, loan interest income, net of funding costs was UA 9.95 million a decrease of UA 143.36 million over UA 153.31 million in 2022. The decline in loan interest income net of funding costs was primarily due to the increase in funding costs attributable to the rise in market interest rates.

Results from Investing activities

Investment Income

Interest revenue from treasury investments was UA 340.98 million in 2023, compared with UA 194.36 million in 2022. The significant increase in treasury investment income is mainly a result of higher interest rates in the markets, albeit largely offset by higher funding costs. Nevertheless, the Treasury investment portfolios performed in line with benchmarks over the year.

Fair value changes on Treasury investments held for trading for 31 December 2023 was a gain of UA 118.62 million compared to UA 23.81 million in 2022. This positive fair value arose from favorable changes in market conditions which favorably impacted inputs used in the valuation of trading and derivative positions.

Net Interest Income

The net interest income represents the difference after netting off the interest expense on borrowings from the sum of the interest income on loans and treasury investments. It increased by UA 4.32 million (1.22 percent) to UA 358.87 million in December 2023 from UA 354.55 million recorded in December 2022 due to higher interest income on loans and treasury investments compared to interest expense during the year.

The Net interest margin (NIM) increased to 1.38 percent compared to 1.12 percent in December 2022.

Expenses

Interest Expenses

Interest expense on Borrowings in 2023 increased by UA 837.72 million to UA 1,191.71 million from UA 353.99 million in 2022. This significant increase in interest expense on borrowings is attributable mainly to the increases in reference interest rates across all currencies, especially the USD, EUR, and ZAR and the increase in outstanding borrowings.

Non-Interest Expenses

The Bank's net non-interest expenses are primarily comprised of administrative expenses. The Bank Group administrative budget constitutes a single resource envelope that funds the combined work programs of the Bank Group. The allocation of administrative expenses between AfDB, ADF and NTF is based on a predetermined cost-sharing formula driven primarily by the staff time spent on individual entity's work program deliverables.

Total Bank Group administrative expenses decreased by 32.43 percent from UA 453.88 million in 2022 to UA 306.68 million in 2023

The decrease in personnel expenses compared to 2022 was mainly due to a reduction in the provisions for actuarial valuation which moved from expenses of UA 63.14 million in 2022 to income of UA 100.46 million in 2023. The decrease in provisions for Actuarial Valuation was due to the reduction in Past Service costs as result of the amendment of Staff Retirement Plan stemming from the extension of the retirement age from 62 to 65 years and an improvement in the returns on the plan assets. The overall budgeted expenditure remained within the approved administrative budget in 2023.

Provision for losses on loans and other exposures

In 2023 the Bank recorded provisions of UA 19.75 million for losses on loans and other exposures under IFRS 9 Expected Credit Losses (ECL) methodology. The decrease in the 2023 provisioning requirement was largely due to lower ECLs on sovereign operations compared to 2022 and lower ECLs on non-sovereign operations in 2023 caused by credit stage migration compared to 2022.

The accumulated provision for losses on loans and other exposures of UA 961.01 million as at December 31, 2023 was 2.33 percent of total exposures, compared with the prior year when it was UA 954.46 million and 2.48 percent of total exposures. See Note C to Financial Statements for details of the Bank's risk management policies and procedures.

Unrealized mark-to-market gains/losses on non-trading portfolios

The unrealized mark-to-market gains and losses mainly relate to the treasury investments at amortized cost, borrowings, and other asset and liability management (ALM) portfolios. Since these are non-trading portfolios, any unrealized mark-to-market gains and losses associated with these positions are adjusted out of reported net income to arrive at allocable Income. As a result, from a long-term financial sustainability perspective, income allocations are broadly based on amounts that have been realized. For 2023, UA 59.48 million of net unrealized mark-to-market gains (2022: UA 88.90 million) and currency translation losses of UA 10.98 million (2022: gains of UA 66.46 million) were excluded from reported net income to arrive at allocable income.

Board of Governors-approved Net income allocation

Net income allocation decisions are based on allocable Income. Management recommends to the Board allocations out of net Income at the end of each fiscal year to augment reserves and support developmental activities. The key differences between allocable Income and reported net Income relate to unrealized mark-to-market gains and losses on the Bank's non-trading portfolios and expenses related to Board of Governors-approved and other transfers. All the adjustments between reported Income and allocable Income are recommended by management and approved by the Board.

In 2023, the Board of Governors approved distributions of UA 46 million from 2022 net Income and surplus to various development initiatives in Africa, compared to UA 64 million approved in 2022. The beneficiaries of these distributions are listed in Note L to the financial statements. In accordance with the Bank's accounting policies, such distributions are reported as expenses in the year the Board of Governors approves them. The Boards of Directors have also agreed to recommend to the Board of Governors, distributions totaling UA 107.55 million from 2023 net income and surplus account towards funding various development initiatives in its RMCs. If approved by the Board of Governors, such distributions and any others that may be approved during 2024 will be reported as expenses in the 2024 financial statements, in line with the prevailing accounting practice.

Investments

The Bank has an established conservative investment strategy, prioritizing capital preservation, liquidity of investment, and returns on investments, in that order. The Bank's liquid assets are tranched into three portfolios: operational portfolio, prudential portfolio held for trading (fair value), and an equity-backed portfolio held at amortized cost. Each has a benchmark that reflects the cash flow and risk profile of its assets and funding sources. These benchmarks are 1-month LIBID for the operational portfolio and 6-month mark-to-market reference rate, resetting on February 1 and August 1 for the prudential portfolio. The operational and prudential portfolios are held for trading and are fair-valued. The equity-backed portfolio is managed against a periodically repricing profile benchmark with 10 percent of the Bank's net assets repricing uniformly over 10 years.

The Bank's cash and treasury investments as of December 31, 2023 totaled UA 13.77 billion, compared to UA 14.54 billion at the end of 2022. Investment income for 2023 amounted to UA 459.60 million representing a return of 3.25 percent on an average liquidity of UA 14.16 billion (compared to an income of UA 218.16 million, representing a return of 1.58 percent, on an average liquidity of UA 13.82 billion in 2022). Overall, the portfolios at fair value performed in line with its benchmark during the year.

The bulk of the Bank's liquid assets is denominated in currencies of the Special Drawing Rights' basket. It should be noted that the value of one SDR is equivalent to one UA. The Bank's Asset and Liability Management Guidelines require mitigation of foreign exchange risk, and as such the currency composition of the Bank's net assets and the Special Drawing Right's basket are aligned regularly. The Bank also holds assets in non-SDR currencies such as the Swiss Franc, the Canadian Dollar and the South African Rand.

Managing Investment Performance

In 2023, central banks raised policy rates to combat high inflation. The European Central Bank and the Bank of England increased their key policy rate by 200 and 175 basis points respectively, while the Federal Reserve hiked rates by 100 basis points. Inflation concerns are progressively receding with inflation declining from 6.5% to 3.4% in the US and from 9.2% to 2.9% in the eurozone over the year. Nevertheless, the path back to 2% inflation target in the US continues to be challenging considering the strong labor market and consumer spending. Meanwhile, growth in the U.S. remained strong at a 2.5% pace, after registering a 1.9% growth in 2022, and above market expectations. In contrast, the Eurozone grew at 0.1% in 2023, thereby avoiding recession but its lethargic level signaled prolonged weakness.

From the foregoing, it is clear the significant increase in income from treasury investments realized during the year is mainly attributable to higher interest rates. It is noteworthy, however, that this positive impact is offset by higher interest expenses from borrowings in line with the Bank's ALM framework. Furthermore, increased market volatility led to a widening of credit spreads, which weighted on the performance of Treasury portfolios.

The challenging market conditions and volatility experienced in 2023 are expected to persist throughout next year as inflation concerns coincide with robust labor markets with heightened expectations of interest rate cuts by major central banks. These expectations have been delayed causing flatter yield curves in the Eurozone and the US. Globally, central banks are expected to closely monitor these developments with their policies expected to remain largely data dependent and thus could change very quickly if conditions warrant. The uncertainties elsewhere in the world have not left the continent of Africa unscathed. As in Europe for example, the Bank's Regional Member Countries are expected to face the main uncertainties related to how persistent inflation will be and the extent to which higher commodity prices and supply chain disruptions caused by the ongoing geopolitical tensions will feed through to their core inflation and wages experiences. There is no doubt that ongoing geopolitical tensions continue to be a large source of macroeconomic uncertainty particularly around the evolution of supply chains and energy markets within the African continent and globally. In this context, within the treasury investment space, the Bank will continue to maintain a conservative investment strategy, prioritizing capital preservation and liquidity. The Bank will continue to target high-quality liquid assets with shorter maturities, with a focus on secured investments where possible to maintain the liquidity of its investments.

On the development financing front, the Bank is committed to continuing to provide reliable long-term financing to its Regional Member Countries, under both its sovereign and non-sovereign lending windows, thus continuing to effectively play its countercyclical stabilizing role for the benefit of its members. As in the past, the Bank will extend this critical financing in cooperation with other MDBs, co-financiers and donors, in a catalytic manner. Additionally, to better serve its clients, in the coming years the Bank will continue to further develop and broaden its financial product offerings and explore innovative structures to increase both its risk bearing and its lending capacity, as well as contribute to further capital market development by exploring innovative capital raising options around hybrid capital and similar financial instruments.

Loan Portfolio

The Bank makes loans to its Regional Member Countries and public sector enterprises guaranteed by the government. Loans are also extended to private sector enterprises without a government guarantee.

Cumulative loans signed, net of cancellations, as at December 31, 2023 amounted to UA 62.79 billion. This represents an increase of UA 3.07 billion over the balance at December 31, 2022 which stood at UA 59.72 billion. Figure 1.3 presents the evolution of loans approved, disbursed and undisbursed balances, from 2019 to 2023.

Total net disbursed and outstanding loans as at December 31, 2023 was UA 22.02 billion, representing an increase of UA 1.3 billion over the UA 20.69 billion outstanding as at the end of 2022. Undisbursed balances of signed loans at December 31, 2023 totaled UA 8.96 billion, which is a slight decrease of UA 0.28 billion over the UA 9.25 billion undisbursed loans at December 31, 2022.

The number of active loans as at December 2023 was 544, while 894 loans amounting to UA 22.18 billion had been fully repaid. A breakdown of the outstanding loan portfolio by product type is presented in Figure 1.4.

Disbursements

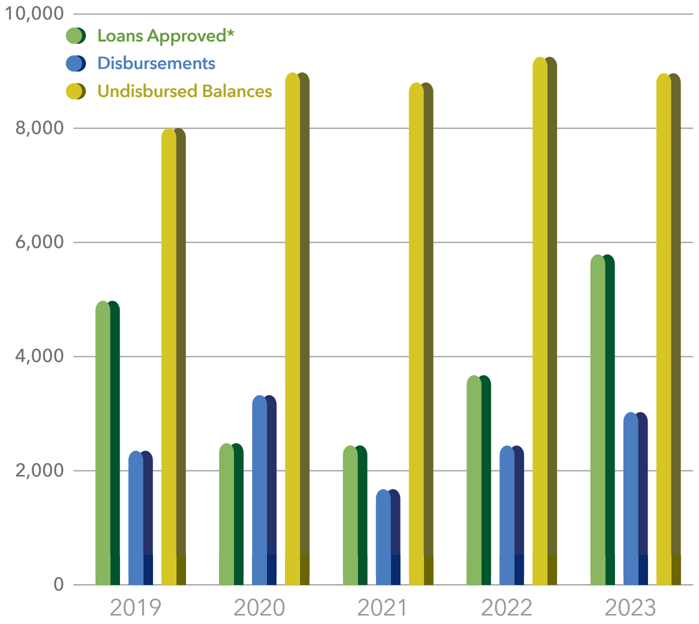
Loan disbursements during 2023 amounted to UA 3.03 billion, compared to UA 2.44 billion in 2022. At December 31, 2023, cumulative disbursements (including non-sovereign loans) amounted to UA 53.48 billion. 1,177 loans were fully disbursed, amounting to UA 46.75 billion, representing 87.42 percent of cumulative disbursements. Loan disbursements in 2023 by country are shown in Table 1.4.

Repayments

In 2023, principal loan repayments amounted to UA 1.88 billion, mirroring the amount realized in 2022. As at December 31, 2023, cumulative repayments reached UA 30.61 billion, marking an increase from UA 28.90 billion as at December 31, 2022. Figure 1.5 shows the evolution of loan disbursements and repayments for the period 2019–2023.

Figure 1.3 Lending Status, 2019–2023

(UA millions)



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

Figure 1.4 Outstanding Loan Portfolio by Product Type, 31 December 2023

(Percent)

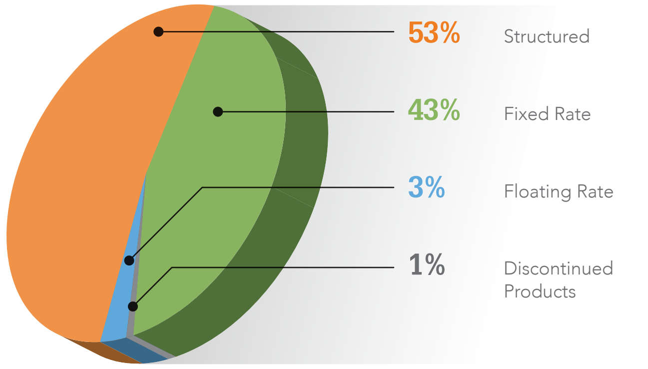
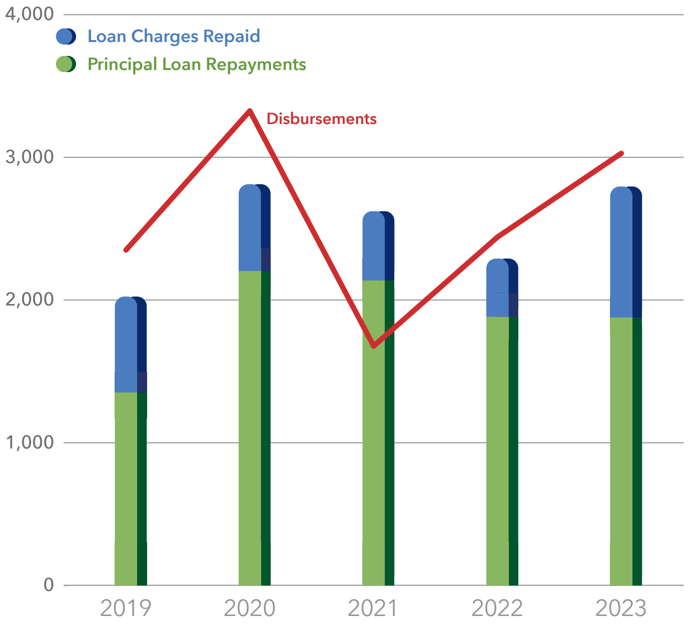


Table 1.4
Loan Disbursements by Country

(UA millions)

Country	2023	2022
Angola	40.2	36.51
Benin	12.14	21.77
Botswana	-	99.24
Burkina Faso	2.8	6.40
Cabo Verde	3.75	25.06
Cameroon	107.88	144.25
Republic of the Congo	84.64	11.37
Côte d'Ivoire	151.79	284.38
Democratic Republic of Congo	-	5.82
Egypt	315.25	42.43
Equatorial Guinea	6.49	2.08
Eswatini	14.83	66.17
Ethiopia	7.77	9.78
Gabon	27.46	58.13
Kenya	189.54	255.42
Mauritania	-	7.82
Mauritius	296	-
Morocco	324.83	546.38
Namibia	31.22	144.13
Nigeria	133.81	100.98
Rwanda	36.46	13.70
Senegal	254.73	110.71
Seychelles	19.29	2.94
South Africa	245.11	58.66
Tanzania	150.84	133.07
Tunisia	82.01	34.67
Uganda	61.73	61.13
Zambia	31.91	56.56
Multinational	395.48	101.82
TOTAL	**3,027.96**	**2,441.38**

Figure 1.5 Loan Disbursements and Repayments, 2019–2023
(UA millions)



Outlook for 2024

In the final quarter of 2023, the global economy continues to grapple with economic challenges posed by elevated market interest rates and inflation, although interest rates have started moderating and inflation has begun to show signs of abating in some economies. However, the effects of these economic factors continue to weigh economic activity down, with cost of borrowings and production costs trending well above normal levels for countries, especially in the more vulnerable emerging market and developing economies.

Accordingly, the outlook for the global economy in 2024 is expected to be characterized by moderate to weak economic growth as geopolitical risks remain high, especially in the Middle East, which could disrupt supply chains and re-ignite commodities price surge. The IMF in its latest world economic outlook report released in January 2024, forecasts global economic growth for 2024 at 3.1 percent and thereafter to rise to 3.2 percent in 2025.

For Africa, the Bank Group latest Macroeconomic Performance and Outlook report (MEO 2024) released on 16 February 2024, stated that "growth in Africa's average real GDP fell to an estimated 3.2 percent in 2023, from 4.1 percent in 2022, due largely to multiple shocks – living cost crisis, increasing effects of climate change, health pandemics, and geopolitical tensions. Despite these challenges, the report noted that Africa's economies remain resilient, with growth in 2024 projected to rise to 3.8 percent. As such, sustainable economic growth in 2024 would require a moderation to the high inflation to combat the cost of production and living crises, sound fiscal management policies to optimize revenue and avert debt default and overhang, focus on critical sectors (e.g., health, agriculture, power, and education) and adaptation strategies to minimize disruptions to livelihoods from climate change.

From a financial reporting perspective, the known and estimable effects of the various global events (e.g., higher interest rates and inflation) have been recorded in these financial statements for the period ended 31 December 2023, and the Bank reported Net Income before distribution approved by the Board of Governors of UA 406.05 million compared to UA 239.28 million reported in 2022, representing a 69.70 percent YoY increase.

The rise in market interest rates caused total interest income from loans and treasury investments to increase by 118.84 percent (UA 842.04) to UA 1,550.58 million in December 2023. Similarly, the elevated interest rates caused interest expenses on borrowings to increase by 236.65 percent (UA 837.72 million) to UA 1,191.71 million, resulting in a 1.22 percent (UA 4.32 million) YoY increase in Net Interest Income in December 2023. Furthermore, these market conditions resulted in fair value gains on borrowings and related derivatives of UA 59.48 million in December 2023 compared to UA 88.90 million in 2022, representing a 33.09 percent YoY decrease. Also, the net realized, and unrealized fair value gains on trading treasury investments increased to UA 118.62 million in 2023 compared to UA 23.81 million in 2022. Total Administrative expenses remained relatively stable between 2023 and 2022, except for the significant reduction in provision for actuarial valuation on SRP, which went down from expense of UA 63.14 million in 2022 to income of UA 100.46 million in 2023 due mainly to the effect of extension of retirement age from 62 to 65 years.

Accordingly, the Bank will continue to monitor and take appropriate actions to manage its business and financial risks, apply risk management adjustments on its exposures, and report the effects of changes in market conditions in its financial statements as they become known and estimable.

African Development Bank

Financial Statements
Year ended 31 December 2023

Balance Sheet
as at 31 December 2023

(UA thousands)

ASSETS		2023		2022
CASH AND BANK BALANCES (Note E)		1,383,149		2,830,737
DEMAND OBLIGATIONS		1,146		1,143
TREASURY INVESTMENTS (Note F)				
Treasury investments at fair value	4,481,799		4,691,711	
Treasury investments at amortized cost	7,900,861		7,020,916	
		12,382,660		11,712,627
DERIVATIVE ASSETS (Note G)		895,351		924,352
ACCOUNTS RECEIVABLE (Note H)				
Accrued income and charges receivable on loans	641,739		501,710	
Other accounts receivable	1,188,638		821,514	
		1,830,377		1,323,224
DEVELOPMENT FINANCING ACTIVITIES				
Loans, net (Notes C & H)	22,021,408		20,695,328	
Hedged loans – fair value adjustment (Note G)	(278,757)		(394,435)	
Equity participations (Note I)	1,119,073		1,043,838	
		22,861,724		21,344,731
OTHER ASSETS				
Property and equipment and intangible assets (Note J)	78,128		84,121	
Employee benefit assets (Note Q)	36,879		-	
Miscellaneous	261		289	
		115,268		84,410
TOTAL ASSETS		**39,469,675**		**38,221,224**

LIABILITIES AND EQUITY		2023		2022
ACCOUNTS PAYABLE				
Accrued financial charges	735,066		527,025	
Other accounts payable	869,098		703,941	
		1,604,164		1,230,966
EMPLOYEE BENEFIT LIABILITIES (Note Q)		266,843		228,431
DERIVATIVE LIABILITIES (Note G)		2,007,866		2,624,884
BORROWINGS (Note K)				
Borrowings at fair value	24,562,870		24,006,353	
Borrowings at amortized cost	213,538		247,854	
		24,776,408		24,254,207
TOTAL LIABILITIES		28,655,281		28,338,488
EQUITY (NOTE L)				
Capital				
Subscriptions paid	6,951,686		6,366,244	
Cumulative exchange adjustment on subscriptions (CEAS)	(151,635)		(154,169)	
Subscriptions paid (net of CEAS)		6,800,051		6,212,075
Reserves		4,014,343		3,670,661
TOTAL EQUITY		10,814,394		9,882,736
TOTAL LIABILITIES AND EQUITY		**39,469,675**		**38,221,224**

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

Income Statement
for the year ended 31 December 2023
(UA thousands)

	2023	2022
OPERATIONAL INCOME & EXPENSES		
Income from:		
Loans and related derivatives (Note M)	1,223,550	521,566
Treasury investments and related derivatives (Note M)	459,604	218,162
Equity participation investments (dividends)	20,478	14,185
Other securities	7,938	6,889
Total income from loans and treasury investments	1,711,570	760,802
Borrowing expenses (Note O)	(1,191,709)	(353,990)
Interest and amortized issuance costs	(515,686)	(418,133)
Net interest on borrowing-related derivatives	(676,023)	64,143
Gains on borrowings at FVTPL and related derivatives (Note O)	59,478	88,900
Net impairment provisions (Note H)	(18,287)	(97,017)
Loan principal	(5,785)	(172,695)
Loan charges	(12,502)	75,678
Impairment (provisions)/write-back on financial guarantees	(1,428)	872
Impairment (provisions)/write-back on treasury tnvestments	(31)	28
Impairment write-back on equity accounted investments (Note I)	677	1,531
Currency translation (losses)/ gains	(10,976)	66,457
Other income (Note N)	18,318	13,990
Net operational income	**567,612**	**481,573**
OTHER OPERATING EXPENSES		
Administrative expenses (Note P)	(133,116)	(207,164)
Depreciation and amortization (Note J)	(28,090)	(29,091)
Sundry expenses	(359)	(6,040)
Total other operating expenses	(161,565)	(242,295)
Net Income before distributions approved by the Board of Governors	**406,047**	**239,278**
Distributions of income approved by the Board of Governors	(46,000)	(64,000)
NET INCOME FOR THE YEAR	**360,047**	**175,278**

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

Statement of Other Comprehensive Income
for the year ended 31 December 2023
(UA thousands)

	2023	2022
NET INCOME FOR THE YEAR	360,047	175,278
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Net fair value gains/(losses) on equity investments at FVOCI	50,047	(31,801)
Unrealized fair value gains on borrowings at FVTPL – "own credit"	35,577	92,623
Re-measurements of defined benefit liability	(101,989)	283,373
Total items that will not be reclassified to profit or loss	(16,365)	344,195
Total other comprehensive income for the year	(16,365)	344,195
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**343,682**	**519,473**

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

Statement of Changes in Equity
for the year ended 31 December 2023

(UA thousands)

			Reserves				
	Capital subscriptions paid	Cumulative exchange adjustment on subscription	Retained earnings	Remeasurement of defined benefit plan	Net gains/ (losses) on financial assets at fair value through other comprehensive income	Unrealized gains/ (losses) on fair-valued borrowings arising from "own credit"	Total equity
Balance at 1 January 2022	**5,710,568**	**(155,837)**	**3,290,130**	**(214,437)**	**62,409**	**13,086**	**8,705,920**
Net income for the year	-	-	175,278	-	-	-	175,278
Other comprehensive income:							
Net fair value losses on equity investments at FVOCI	-	-	-	-	(31,801)	-	(31,801)
Unrealized fair value gains on borrowings at FVTPL arising from "own credit"	-	-	-	-	-	92,623	92,623
Remeasurements of defined benefit liabilities	-	-	-	283,373	-	-	283,373
Total other comprehensive income	-	-	-	283,373	(31,801)	92,623	344,195
Total comprehensive income for the year	-	-	175,278	283,373	(31,801)	92,623	519,473
Net increase in paid-up capital	655,676	-	-	-	-	-	655,676
Net conversion gains on new subscription	-	1,668	-	-	-	-	1,668
Balance at 31 December 2022	**6,366,244**	**(154,169)**	**3,465,408**	**68,936**	**30,608**	**105,709**	**9,882,736**
Net income for the year	-	-	360,047	-	-	-	360,047
Other comprehensive income:							
Net fair value gains on equity investments at FVOCI	-	-	-	-	50,047	-	50,047
Unrealized fair value gains on borrowings at FVTPL arising from "own credit"	-	-	-	-	-	35,577	35,577
Remeasurements of defined benefit liabilities	-	-	-	(101,989)	-	-	(101,989)
Total other comprehensive income	-	-	-	(101,989)	50,047	35,577	(16,365)
Total comprehensive income for the year	-	-	**360,047**	**(101,989)**	**50,047**	**35,577**	**343,682**
Net increase in paid-up capital	585,442	-	-	-	-	-	585,442
Net conversion gains on new subscription	-	2,534	-	-	-	-	2,534
Balance at 31 December 2023	**6,951,686**	**(151,635)**	**3,825,455**	**(33,053)**	**80,655**	**141,286**	**10,814,394**

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

Statement of Cash Flows
for the year ended 31 December 2023
(UA thousands)

	2023	2022
OPERATING ACTIVITIES:		
Net income for the year	360,047	175,278
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	28,090	29,091
Losses/(gains) on disposal of property and equipment	80	(39)
Net impairment provisions on loan principal and charges	18,287	97,017
Unrealized (gains) on treasury investments and related derivatives	(57,913)	(64,481)
Amortization of discount or premium on treasury investments at amortized cost	2,218	9,321
Impairment provisions/(write-back) on treasury investments	31	(28)
Impairment provisions/(writeback) on financial guarantees	1,428	(872)
Income on equity accounted investments	(677)	(1,531)
Amortization of borrowing issuance costs	538	1,120
Unrealized gains on borrowings at FVTPL and related derivatives	(59,478)	(88,900)
Currency translation losses/(gains)	10,976	(66,457)
Share of (gains)/losses on equity accounted investments	(374)	101
Net movements in derivatives	99,079	58,635
Changes in accrued income on loans	(149,610)	(202,713)
Changes in accrued financial charges	208,041	275,617
Changes in employee benefit assets and labilities	1,533	(220,233)
Changes in other accounts receivable and payable	(302,941)	90,650
Net cash used in operating activities	**159,355**	**91,576**
INVESTING, LENDING, AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(3,027,970)	(2,441,403)
Repayments of loans	1,876,240	1,882,943
Investments maturing after 3 months of acquisition:		
Treasury investments at FVTPL	318,206	(1,026,260)
Treasury investments at amortized cost	(893,064)	(339,604)
Acquisition of property and equipment	(22,193)	(24,793)
Proceeds from disposal of property and equipment	16	49
Disbursements on equity participations	(80,292)	(88,837)
Repayments on equity participations	32,216	30,343
Net cash used in investing, lending, and development activities	**(1,796,841)**	**(2,007,562)**
FINANCING ACTIVITIES:		
New borrowings	5,392,106	6,821,291
Repayments on borrowings	(5,605,015)	(5,726,077)
Payments of lease liabilities	(9,654)	(8,589)
Cash from capital subscriptions	587,975	657,344
Net cash generated from financing activities	**365,412**	**1,743,969**
Net increase in cash and cash equivalents	**(1,272,074)**	**(172,017)**
Effect of exchange rate changes on cash and cash equivalents	(67,220)	(153,140)
Cash and cash equivalents at the beginning of the year	3,298,386	3,623,543
Cash and cash equivalents at end of the year	**1,959,092**	**3,298,386**
COMPOSED OF:		
Investments maturing within 3 months from acquisition:		
Investments at fair value through profit and loss	575,943	467,649
Cash	1,383,149	2,830,737
Cash and cash equivalents at the end of the year	**1,959,092**	**3,298,386**
SUPPLEMENTARY DISCLOSURE		
1. Cash flow from interest and dividends:		
Interest paid	(1,399,751)	(78,374)
Interest received	1,441,104	747,230
Dividend received	20,478	14,185
2. Movement resulting from exchange rate fluctuations:		
Loans	(76,730)	(186,963)
Borrowings	127,578	181,426
Currency swaps	(115,469)	115,394

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

Notes to the Financial Statements for the Year Ended 31 December 2023

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 Countries. The Bank's Headquarters is located in Abidjan, Côte d'Ivoire. The Bank finances development projects and programs in its Regional Member Countries, 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 Countries. 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 Material Accounting Policy Information

The Bank's individual financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). These 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 material accounting policy information applied 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. Interest income is recognized on loans and treasury investments.

Fee and commission income and expenses are recognized in the income statement when due in line with the contract, giving rise to the income or expenses.

Realized and unrealized fair value gains or losses are recognized in the income statement on financial assets and financial liabilities (including derivatives) classified as measured at fair value through profit or loss (FVTPL).

Dividends are recognized on equity participation instruments measured at fair value through other comprehensive income (FVOCI) when the Bank's right to receive the dividends is established.

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, *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 UA 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 IMF formally approved the inclusion of the Chinese renminbi yuan (CNY) in its SDR basket with effect from 1 October 2016 with a weight of 10.92 percent. In line with the Bank's policy, Management approved the execution of currency exchange transactions to align the net assets composition of the Bank to the SDR.

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated into UA at rates prevailing at the balance sheet date. The rates used for translating currencies into UA at 31 December 2023 and December 2022 are reported in Note U. Non-monetary assets and liabilities are translated into UA at historical rates.

Currency translation changes (gains or losses) are recognized in the income statement in the determination of net income. Capital subscriptions are recorded in UA at the rates prevailing at the time of receipt. When currencies are translated into other currencies, the resulting gains or losses are recognized in the income statement.

The currency translation changes arising from capital subscription payments are reported in the equity component of the balance sheet as the Cumulative Exchange Adjustment on Subscriptions (CEAS) as they arise from transactions with member countries. These currency translation gains or losses represent the difference between the UA amount at the predetermined rate and the UA amount using the rate at the time of receipt.

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 deliver either 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 are included in equity, net of transaction costs.

The Bank's member countries' subscriptions meet the conditions for classification as equity with features of puttable financial instruments that include contractual obligations for repurchase or redemption for cash or another financial asset when certain conditions are met.

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 include both African and non-African countries, are committed to the purpose of the Bank to contribute to the sustainable economic development and social progress of its Regional Member Countries individually and jointly. Accordingly, as of 31 December 2023, 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 country, 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 that a member were to withdraw, the Bank may set the dates in respect of payments for shares repurchased. If, for example, paying a former member would have adverse consequences for the Bank's financial position, the Bank could defer payment until the risk had passed, and indefinitely if appropriate. Furthermore, shares that become unsubscribed for any reason may be offered by the Bank for purchase by eligible member countries, based on the share transfer rules approved by the Board of Governors. In any event, no payments shall be made until six months after the termination date.

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

Employee Benefits

Short-term Employee Benefits

Short-term benefits (such as wages, salaries, and bonuses) are employee benefits expected to be settled within 12 months of the balance sheet date. Short-term employee benefits are expensed in the profit or loss as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Post-employment Benefits

The Bank operates a post-employment benefit plan that combines the features of a defined benefit (DB) and a defined contribution (DC) plan into a hybrid pension structure which are explained below.

Defined Contribution Plans

Under the defined contribution plan component of the hybrid pension scheme, the Bank and its employees pay fixed contributions to an externally administered fund with an investment-grade credit rating, on behalf of the participants. The retirement benefits of the participants depend solely on the contributions made and the plan's investment performance. The Bank has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The contributions are recognized as pension expense in the income statements when they are due. Contributions not yet transferred to the fund are recorded in accounts payable on the balance sheet and are transferred within the shortest possible time frame.

Defined Benefit Plans

The Bank also operates a Staff Retirement Plan (SRP) as part of the hybrid pension scheme that is accounted for as a defined benefit plan. 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. The liability recognized in the balance sheet in respect of defined benefit is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets.

The calculation of the cost of providing benefits for the DB is performed annually by a qualified actuary 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.

Remeasurement of the net defined benefit obligation, which comprises actuarial gains and losses as well as the differences between expected and real returns on assets, is recognized immediately in other comprehensive income in the year they occur. Net interest expense and other expenses related to the defined benefit are recognized in the income statement.

When benefits of a plan are changed or when a plan is curtailed, the resulting change in benefits that relate to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Bank recognizes gains and losses on settlement of a defined benefit plan when the settlement occurs.

Medical Benefit Plan

The Bank also operates a 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 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.

The MBP is accounted for as a defined benefit plan. 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 liability recognized in the balance sheet in respect of MBP is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The calculation of the cost of providing benefits for the MBP is performed annually by a qualified actuary using the projected unit credit method.

Remeasurement of the net defined benefit obligation, which comprise 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 it occurs. Net interest expense and other expenses related to the MBP are recognized in profit or loss.

The effect of changes in accounting policies and further details of the Bank's employee benefits are included in Note Q – Employee Benefits.

Financial Instruments

Financial assets and financial liabilities are recognized on the Bank's balance sheet when the Bank assumes related contractual rights or obligations. All financial assets and financial liabilities are initially recognized at fair value plus for an item not at FVTPL, transaction costs that are directly attributable to the acquisition or issue.

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 FVTPL, and financial assets at FVOCI on the basis of both criteria:

- the Bank's business model for managing the financial assets; and
- the contractual cash flow characteristics of the financial assets.

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, are for the promotion of the economic development of its member countries and not for trading to realize fair value changes.

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 is 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.

Debt investments classified as financial assets at amortized cost include non-derivative treasury investments 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

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. Realized and unrealized gains or 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 FVTPL.

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 – Equity

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 FVOCI.

Equity investments are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from fair value measurement recognized in other comprehensive income and transferred to appropriate reserve in equity. The cumulative gains or losses in equity are not reclassified to profit or loss on disposal of the equity investments but may be reclassified to retained earnings. No impairments are recognized in the income statement. Dividends earned from such investments are recognized in profit and loss unless the dividends clearly represent a repayment of part of the cost of the investment, in which case, they are recognized against the carrying amount of the equity 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 writes or issues financial guarantee contracts – which are not managed on a fair value basis – to its clients including banks, financial institutions, and other parties. IFRS 9 requires written or issued financial guarantee contracts to be initially recognized at fair value. The fair value of a financial guarantee contract issued in a stand-alone arm's length transaction to an unrelated third party is likely equal to the amount of premium received.

Financial guarantee contracts that are not managed on a fair value basis are subsequently measured at the higher of the amount initially recognized less cumulative amortization and the loss allowances determined under IFRS 9.

The Bank applies the derecognition principles when it purchases transactions that meet the definition of a financial guarantee contract and applies the relevant guidance in IFRS and judgement to determine whether a purchased financial guarantee contract is an integral element of the loan or debt instrument and is to be accounted for as a separate contract in the financial statements or not.

Where the Bank is the buyer or holder of a transaction (e.g., credit protection or similar activities) that meets the definition of a financial guarantee contract, it determines whether the financial guarantee contract is an integral element of the loan or debt instrument (or pool of loans or debt instruments) or not. When measuring expected credit losses (ECL), IFRS 9 requires that the estimate of expected cash shortfalls shall reflect the cash flows expected from collateral and other credit enhancements that are part of the contractual terms and are not recognized separately by the Bank. Accordingly, when the purchased financial guarantee contract is deemed integral to the loan or debt instrument by the Bank, the cashflow expected from the collateral and other credit enhancements is included in the ECL estimation of the loan or debt instrument and the cost is treated as a transaction cost included in effective interest rate (EIR). The cash flow from the purchased financial guarantee contract is not accounted for as a separate contract on the financial statements.

Financial guarantee contracts managed on a fair value basis are subsequently designated and measured at FVTPL, with fair value gains or losses recognized in the income statement.

Recognition and derecognition of financial assets

Regular way purchases and sales of financial assets are recognized and 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.

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial assets are transferred or in which the Bank neither transfers nor retains substantially all the risks and rewards of ownership and does not retain control of the financial asset. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability on the balance sheet.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of (i) the consideration received (including any new asset obtained less any new liability assumed) and (ii) any cumulative gain or loss that had been recognized in other comprehensive income (OCI) is recognized in the income statement. Any cumulative gain/loss recognized in OCI and retained in the reserve in respect of equity instruments designated as at FVOCI is not recognized in profit or loss on derecognition of such instruments.

During the course of its development activities, the Bank enters into transactions (for example, sale and repurchase agreements, credit protection or financial guarantee contracts) whereby it transfers financial assets recognized on its balance sheet but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized on the balance sheet.

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 and an obligation under repurchase are recognized in the statement of financial position. However, 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 major capital markets for lending and liquidity management purposes. The Bank issues different 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: ensuring 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 borrowing, 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 rate (EIR) 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 C 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.

ii) Financial Liabilities at Fair Value through Profit or Loss

This category has two sub-categories: financial liabilities held for trading and financial liabilities designated at FVTPL 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 were carried on the balance sheet at fair value.

In accordance with IFRS 9, fair value changes in the Bank's financial liabilities that are designated as at FVTPL are presented as follows:

- the amount of change in the fair value that is attributable to changes in the Bank's "own credit" risk are presented in other comprehensive income (OCI);
- and the remaining amount of change in the fair value is presented in profit or loss.

Amounts presented in OCI are never reclassified to profit or loss when the liability is settled or derecognized. However, the Bank may transfer the cumulative gain or loss within equity (i.e., to retained earnings).

iii) Other Liabilities

All financial liabilities that are not derivatives or designated at FVTPL are recorded at amortized cost. These include certain borrowings, accrued finance charges on borrowings, and other accounts payable and liabilities. 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, the related debt is also carried at fair value with changes in fair value recognized in the income statement.

The Bank assesses its hybrid financial assets (i.e., the combined financial asset host and embedded derivative) in its entirety to determine their classification. A hybrid financial asset is measured at amortized cost if the combined cash flows represent solely principal and interest on the outstanding principal; otherwise, it is measured at fair value. As at 31 December 2023, the Bank had a hybrid loan (with nil balance) classified as measured at FVTPL 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 are not closely related to those of the host contract and the host contract is 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 the income statement.

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

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

Hedge Accounting

The Bank applies hedge accounting with the objective of representing in the financial statements the effect of its risk management activities involving the use financial instruments to manage exposures arising from particular risks that could affect profit or loss (or in some cases OCI). Hedge accounting helps to modify the normal basis for recognizing gains and losses arising from hedging instruments and hedged items in a hedging relationship, so that both are recognized in the profit or loss (or OCI) in the same accounting period.

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 and other eligible financial instruments.

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 has an economic relationship with the hedged items in offsetting changes in their fair values or cash flows. 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.

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. The cumulative fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortized to profit or loss using appropriate methodology from the date the fair value adjustment is available and fully amortized at maturity.

Impairment of Financial Assets

The Bank applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets: debt instruments measured at amortized cost, loan commitments, financial guarantee contracts and treasury investments held at amortized cost. Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

i) Stage 1: 12 Months of Expected Credit Losses

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

ii) Stage 2: Lifetime Expected Credit Losses – Not Credit Impaired

Stage 2 comprises financial assets that have had a significant increase in credit risk since initial recognition but for which there is no objective evidence of impairment. The Bank recognizes lifetime ECL for stage 2 financial assets. For these exposures, the Bank recognizes an allowance amount based on lifetime ECL (i.e., an allowance amount reflecting the remaining lifetime of the financial asset). A significant increase in credit risk is considered to have occurred when contractual payments are more than 30 days past due and the amount overdue is more than UA 25,000 for sovereign and non-sovereign loans or where, in the case of non-sovereign loans, there has been a rating downgrade since initial recognition.

iii) Stage 3: Lifetime Expected Credit Losses – Credit Impaired

Included in stage 3 are assets that have been categorized as credit impaired. The Bank recognizes lifetime ECL for all stage 3 financial assets as a specific provision. A financial asset is classified as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that financial instrument have occurred after its initial recognition.

Evidence of impairment includes indications that the borrower is experiencing significant financial difficulties, or a default or delinquency has occurred. A default by an obligor occurs when either or both of the following have taken place:

- The Bank considers that the obligor is unlikely to pay its credit obligations in full without recourse by the Bank to actions such as realizing security; or
- The obligor is past due by more than 180 days for sovereign loans and more than 90 days for non-sovereign loans, provided that the amount overdue is more than UA 25,000.

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

When the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that criteria for recognizing the lifetime ECL are no longer met (i.e., is not cured), the Bank measures the loss allowance at an amount equal to 12 months of ECL at the current reporting date. A financial asset is considered cured (i.e., no longer impaired) when all past due amounts, including interest, have been recovered and it is determined that the principal and interest are fully collectable in accordance with the original contractual terms or revised market terms of the financial instrument, with all criteria for the impaired classification having been remedied.

Determining the Stage for Impairment

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

An exposure will migrate through the ECL stages as asset quality deteriorates or improves. For both non-sovereign and sovereign loans, a significant increase in credit risk is considered to have occurred when the rating at reporting date has been downgraded or contractual payments are more than 30 days past due and the overdue amount is higher than UA 25,000. In the case of sovereign loans, however, both the rating downgrade and 30 days overdue must occur at the same time with the overdue amounts exceeding the limit.

If, in a subsequent period, asset quality improves and any previously assessed significant increase in credit risk since origination is reversed, then the provision for doubtful debts reverts from lifetime ECL to 12 months of ECL. Exposures whose credit rating remains within the Bank's investment grade criteria are considered to have a low credit risk even where their credit rating has deteriorated.

When there is no reasonable expectation of recovery of an asset, 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 Expected Credit Losses

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. ECLs are recognized using a loss allowance account and recognized in the profit and loss.

Write-off

The Bank writes off the gross carrying amount of a financial asset when it has no reasonable expectations of recovering the financial asset in its entirety or a portion thereof.

A write-off constitutes a derecognition event. As such, when the Bank has no reasonable expectations of recovering a loan (i.e., it is deemed uncollectible), the amount written off is accounted for by directly reducing the outstanding principal and/or interest charges against the related ECL allowance.

A loan is deemed uncollectible when the Bank determines that an obligor does not have sufficient cash flows from either assets or operational income to repay the amount due for write-off. A loan is therefore deemed uncollectible and written off only after the amount deemed uncollectible has been determined and all internal write-off procedures have been activated, approved, and completed. However, such a loan is still subject to enforcement activity.

Subsequent recoveries of amounts previously deemed uncollectible and written off are recognized as other income in the income statement.

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 C Risk Management Policies and Procedures.

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 offset 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 to 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 C Risk Management Policies and Procedures.

Fair Value Disclosure

In 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 if 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 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. Included in this category are 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.

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: Fair values of the Bank's borrowings are based on market quotations when possible or valuation techniques based on discounted cash flow models using a floating reference rate market-determined discount curve 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 the 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 the underlying assets are periodically valued by fund managers or independent valuation experts using market practices, as in the case of private funds, 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 that 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 is deemed to approximate their carrying value net of the impairment losses based on the expected credit loss model and represents Management's best measures of the present value of the expected cash flows of these loans.

The fair valuation of loans has been measured using a discounted cash flow model based on year-end market lending rates in the relevant currency including impairment, when applicable, and credit spreads for non-sovereign loans. In arriving at its best estimate Management makes certain assumptions about the unobservable inputs to the model, the significant ones of which are the expected cash flows and the discount rate. These are regularly assessed for reasonableness and impact on the fair value of loans.

An increase in the level of forecast cash flows in subsequent periods would lead to an increase in the fair value, and an increase in the discount rate used to discount the forecast cash flows would lead to a decrease in the fair value of loans. Changes in fair value of loans carried at fair value through profit and loss are reported in the income statement.

Valuation Processes Applied by the Bank

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

Where third-party information from brokers or pricing experts is used to measure fair value, documents are independently assessed and evidence is 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; and (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 Gain or Loss

At initial recognition, the Bank determines fair value of its financial instruments in line with the requirements of IFRS 13. As a result, when the Bank issues a new financial asset or financial liability, it measures the financial asset or financial liability at fair value, plus or minus (in the case of a financial asset or financial liability not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The best evidence of fair value of a financial instrument at initial recognition is normally the transaction price, that is, the fair value of the consideration given or received.

However, where the fair value of the financial asset or financial liability at initial recognition differs from the transaction price, commonly referred to as day-one gain or loss, IFRS requires the Bank to determine the fair value at initial recognition and any gains or losses between the fair value measured at initial recognition and the transaction price are recognized in the income statement as follows:

- If that fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e., a Level 1 input) or is based on a valuation technique that uses only data from observable markets (i.e, Level 2 inputs), the Bank recognizes any difference between the fair value at initial recognition and the transaction price immediately as a gain or loss in the income statement.
- In all other cases, the difference between the fair value at initial recognition and the transaction price is deferred. After initial recognition, the Bank recognizes that deferred difference as a gain or loss in the income statement only to the extent that it arises from a change in a factor (including time) that market participants would take into account when pricing the asset or liability.

The Bank holds some financial instruments maturing after more than 10 years where the fair value at initial recognition and transaction price may differ. In this case, the difference between the fair value at initial recognition and the transaction price is accounted for on the basis of the observability of the inputs used to determine the fair value at initial recognition. If fair value is determined on the basis of a quoted price in an active market or a valuation technique that uses only observable data, the day-one gain or loss is recognized immediately. If fair value is not determined on the basis of a quoted price in an active market or a valuation technique that uses only observable data, the day-one gain or loss is either deferred until the instrument's fair value can be determined using a quoted and observable inputs, or amortized over the life of the transaction.

Subsequent to initial recognition, these financial instruments are measured at fair value and the resulting gains or losses are recognized in the income statement at the end of the reporting period, with an adjustment for the day-one gain or loss. For accounting purposes, therefore, the fair value gains or losses determined on these financial instruments at the end of the reporting period are recognized in the income statement.

Investment in Associates

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 I.

IAS 28 requires that the equity method be used to account for investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition.

The investor's share of the profit or loss of the investee is recognized in the investor's income statement. The subscriptions by the Bank to the capital of the ADF occurred between 1974 and 1990. At 31 December 2023, 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 requires 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, and any impairment losses (or impairment reversals) are recognized in the income statement. 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. 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
- Right-of-use assets: over the shorter of the estimated useful life and lease term.

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 system 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

As a lessee, the Bank has several contracts for its offices in the headquarters and certain member countries that convey the right to use the offices (the underlying asset) for a period in exchange for consideration. Under such agreements, the contract contains an explicitly identified asset and the Bank has the right to obtain substantially all of the economic benefits from use of the offices throughout the period of the lease.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. Right-of-use assets are measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease.

On the statement of financial position, right-of-use assets have been included in property, plant, and equipment, and lease liabilities have been included in other accounts payable. The Bank depreciates the right-of-use assets on a straight-line basis over the shorter of its estimated useful life and the lease term.

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Bank's incremental borrowing rate. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

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 member countries and may be funded from amounts previously transferred to surplus account or from the current year's income in equity.

Allocable Income

The Bank uses allocable income for making distributions out of its net income. It represents net income before distribution approved by the Board adjusted for the impact of volatile unrealized elements such as from financial liabilities (gains or losses on borrowings at fair value and related derivatives) and translation gains or losses. This adjusted net income forms the basis of allocations of income to reserves and development initiatives.

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.

Segment Reporting

An operating segment is a component of the Bank Group that engages in business activities from which it can earn revenues and incur expenses, whose operating results are regularly reviewed by the Chief Operating Decision Maker (that is, Management under the direct authority of the Board) to make decisions about resources to be allocated to the segment and assess its performance. Operating segments are identified and reported in a manner consistent with the internal reporting provided to Management and the Board. The measurement of segment assets, liabilities, income, and expenses is in accordance with the Bank Group's accounting policies.

Critical Accounting Judgments and Key Sources of Estimation

Uncertainty in the preparation of financial statements in conformity with IFRS may arise due to various factors and complexities inherent in financial reporting. 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 under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

- The Bank's internal credit grading model, which assigns a probability of default to the individual grades.
- The Bank's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12-month or lifetime ECL basis and the applicable 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 the probability of default, likely loss in the event of default, and exposure at default.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

2) Significant Estimates

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

Fair Value of Financial Instruments – The fair value of financial instruments that are not quoted in active markets is measured 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.

Change in Presentation and Comparative Information

In some cases, the Bank may change the presentation of certain line items in the financial statements in the current year to enhance inter-period comparability. When such a change in presentation is made, the comparative information is also adjusted as necessary to reflect the new presentation.

Economic Outlook

In the final quarter of 2023, the global economy continues to grapple with economic challenges posed by elevated market interest rates and inflation, although interest rates have started moderating and inflation has begun to show signs of abating in some economies. However, the effects of these economic factors continue to weigh down economic activity, with cost of borrowings and production costs trending well above normal levels for countries, especially in the more vulnerable emerging market and developing economies.

Accordingly, the outlook for the global economy in 2024 is expected to be characterized by moderate to weak economic growth as geopolitical risks remain high, especially in the Middle East, which could disrupt supply chains and re-ignite commodities price surges. The International Monetary Fund's World Economic Outlook report released in January 2024 forecasts global economic growth for 2024 at 3.1 percent, rising thereafter to 3.2 percent in 2025.

For Africa, the Bank Group latest Macroeconomic Performance and Outlook report (MEO 2024), released on 16 February 2024, stated that growth in Africa's average real GDP fell to an estimated 3.2 percent in 2023, from 4.1 percent in 2022, due largely to multiple shocks living cost crisis, increasing effects of climate change, health pandemics, and geopolitical tensions. Despite these challenges, the report noted that Africa's economies remain resilient, with growth projected to rise to 3.8 percent in 2024. As such, sustainable economic growth in 2024 would require a moderation to the high inflation to combat the cost of production and cost of living crises, sound fiscal management policies to optimize revenue and avert debt default and overhang, focus on critical sectors (e.g., health, agriculture, power, and education), and adaptation strategies to minimize disruptions to livelihoods from climate change.

From a financial reporting perspective, the known and estimable effects of the various global events have been recorded in these financial statements for the year ended 31 December 2023, manifesting in net income before distribution approved by the Board of Governors of UA 406.05 million compared to UA 239.28 million reported in the same period in 2022, representing a 69.70 percent year-on-year increase.

The rise in market interest rates caused total interest income from loans and treasury investments to increase by 118.84 percent (UA 842.04) to UA 1,550.58 million in December 2023. Similarly, the elevated interest rates caused interest expenses on borrowings to increase by 236.65 percent (UA 837.72 million) to UA 1,191.71 million, resulting in a 1.22 percent (UA 4.32 million) year-on-year increase in net interest income in December 2023. Furthermore, these market conditions resulted in fair value gains on borrowings and related derivatives of UA 59.48 million in December 2023 compared to UA 88.90 million in 2022, representing a 33.09 percent year-on-year decrease. Also, the net realized, and unrealized fair value gains on trading treasury investments increased to UA 118.62 million in 2023 compared to UA 23.81 million in 2022. Total administrative expenses remained relatively stable between 2023 and 2022, except for the significant reduction in provision for actuarial valuation on the Staff Retirement Plan (SRP), which went down from expense of UA 63.14 million in 2022 to income of UA 100.46 million in 2023 due mainly to the effect of the extension of the retirement age from 62 to 65 years.

The moderating inflation and market interest rates, coupled with weak global economic growth prospects, may cause the Bank's fair value and currency translation changes, credit risks, and other performance indicators to remain less predictable in the later part of 2024 compared to 2023. Accordingly, the Bank will continue to monitor and take appropriate actions to manage its business and financial risks, apply risk management adjustments on its exposures, and report the effects of the evolution of geopolitical tensions and market conditions in its financial statements as they become known and estimable.

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 below:

The Bank issued its maiden hybrid capital instrument on January 2024, with the aim of strengthening its capital base and optimizing its balance sheet. The transaction was a USD 750 million perpetual subordinated hybrid capital note with a coupon of 5.75%, with call and payments of at the sole discretion of the Bank. The hybrid capital instrument meets the classification criteria for equity in line with IFRS and would be presented as equity in the financial statements in the 2024 financial reporting period.

Effect of New and Amended International Financial Reporting Standards

A number of new or amended standards became effective for annual periods beginning after 1 January 2023 and beyond with earlier application permitted. The Bank did not early adopt any of the new or amended standards in preparing these financial statements. None of these new/amended standards had any significant impact on the financial statements for the year ended 31 December 2023. Details are provided below.

a) New International Financial Reporting Standards and Amendments Applicable from 1 January 2023

1. IFRS 17 Insurance Contracts – IFRS 17 was issued in May 2017 as a replacement for IFRS 4 Insurance Contracts and establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. It requires a current measurement model in which estimates are remeasured in each reporting period. Contracts are measured using the building blocks of:

- discounted probability-weighted cash flows
- an explicit risk adjustment, and
- a contractual service margin representing the unearned profit of the contract, which is recognized as revenue over the coverage period.

These requirements are designed to achieve the goal of consistent, principle-based accounting for insurance contracts. The standard allows a choice between recognizing changes in discount rates either in the statement of profit or loss or directly in other comprehensive income. IFRS 17 also permits an optional and simplified premium allocation approach for the liability for the remaining coverage for eligible groups of insurance contracts, which are often written by non-life insurers.

The Bank does not issue insurance contracts nor does it have significant exposure to insurance risks. As such, this standard did not have any significant impact on the financial statements of the Bank.

2. Disclosure of Material Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 – The IASB amended IAS 1 Presentation of Financial Statements to require entities to disclose their material rather than their significant accounting policies. The amendments define "material accounting policy information" (as information that, when considered together with other information included in an entity's financial statements, can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements) and explain how to identify when accounting policy information is material. The IASB further clarified that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

To support this amendment, the IASB also amended IFRS Practice Statement 2 Making Materiality Judgements to provide guidance on how to apply the concept of materiality to accounting policy disclosures.

These amendments did not have any significant impact on the financial statements of the Bank, except for minor changes to nomenclature in the accounting policies.

3. Definition of Accounting Estimates – Amendments to IAS 8 – The amendment to IAS 8 Accounting Policies, Changes in Accounting Estimates, and Errors clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, whereas changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period. These amendments did not have any significant impact on the financial statements of the Bank.

b) New International Financial Reporting Standards and Amendments Applicable from 1 January 2024 and Beyond

The following standards and amendments had been issued but are mandatorily applicable for annual reporting periods beginning on or after 1 January 2024.

1. Amendment to IFRS 16 – Leases on Sale and Leaseback – These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

2. Amendment to IAS 1 – Non-current Liabilities with Covenants – These amendments clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

3. Amendment to IAS 7 and IFRS 7 – Supplier Finance: These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows, and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

4. Amendments to IAS 21 – Lack of Exchangeability – An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

c) International Financial Reporting Sustainability Standards Effective after 1 January 2024

In June 2023, the International Sustainability Standards Board released its first two IFRS Sustainability Reporting Standards. The standards are:

1. IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information – sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its material sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity; and

2. IFRS S2 Climate-related Disclosures – IFRS S2 sets out the requirements for identifying, measuring, and disclosing information about material climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

The standards are effective from 1 January 2024, but individual jurisdictions are required to decide whether and when to adopt these standards. The Bank is currently considering the requirements of the IFRSs.

NOTE C – 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, liquidity risk, staff benefit plans risk, and other operational risk) that are incidental but nevertheless unavoidable in the execution of its mandate.

Risk Governance and Risk Appetite

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

Four management-level committees perform monitoring and oversight roles: The Asset and Liability Management Committee (ALCO), the Credit Risk Committee (CRC), the Operations Committee (OPSCOM), and the Operational Risk Management Committee (ORMC). 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 and Chief Financial Officer.

The CRC is chaired by the Group Chief Risk Officer and ensures effective implementation of the Bank's credit policies and oversees all credit risk issues related to sovereign and non-sovereign operations. The 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 ORMC, co-chaired by the Vice President of the People and Talent Management Complex and the Group Chief Risk Officer, is a committee of representative business units across the Bank that exercises oversight over the Operational Risk Management Framework (ORMF) implementation process. It provides a forum to facilitate monitoring, discussing, and deciding on issues with policy implications related to operational risk management. The ORMC meets quarterly, but the chairperson may also convene special meetings of the committee at any time. The ORMC reports to Senior Management and subsequently to the Board of Directors (if necessary) on any significant operational risk issues that require top management attention.

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, financial products, and financial projections and approves proposed strategies to manage the Bank's balance sheet. The CRC is responsible for end-to-end credit risk governance, credit assessments, portfolio monitoring, and rating change approval, among other responsibilities. The ALCO and the 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 of all credit, market, and operational risk issues. However, the day-to-day operational responsibility for implementing the Bank's financial and risk management policies and guidelines is delegated to the appropriate business units. The Financial Management Department and the office of the Group Chief Risk Officer are responsible for monitoring day to-day compliance with those policies and guidelines. Day-to-day risks are managed through the three-lines-of-defense approach, in which business units as primary risk takers constitute the first line of defense. The risk department act as the second line of defense, and the audit department acts as the third line of defense.

The degree of risk the Bank is willing to assume to fulfill 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) and core risks. Non-core risks include market risk, credit risk, and counterparty credit risks from treasury investment activities; staff benefit plan risks; and operational risk. Core risks are related to the Bank's lending activities (sovereign and non-sovereign). The capital allocation for non-sovereign operations is up to 45 percent of the Bank's risk capital. The Bank revises its credit risk model and inputs into the credit risk model in response to changes in risk and business environment in line with its credit risk management policies, model risk management framework, and governance control. Any changes are reflected prospectively from the date the revision to the credit risk model or input takes effect.

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 Long-Term Financial Sustainability Framework, the Capital Adequacy Policy, the General Authority on Asset and Liability Management (the ALM Authority), the General Authority on the Bank's Financial Products and Services (the FPS Authority), and the Bank's Credit Policy and associated Credit Risk Management Guidelines.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Bank's financial assets and liabilities within defined parameters. The ALM Authority sets out the guiding principles for managing the Bank's interest rate risk, currency exchange rate risk, liquidity risk, authorized transactions, 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 its private sector borrowers' exposures, and (iii) counterparty credit risk in its portfolio of treasury investments and derivative transactions used for asset and liability management purposes. These risks are managed within an integrated framework of credit policies, guidelines, and processes, which are described in more detail in the sections that follow.

The Bank's maximum exposure to credit risk before collateral received and other credit enhancements for 31 December 2023 and 31 December 2022 is as follows:

(UA thousands)

Assets	2023	2022
Cash and bank balances	1,383,149	2,830,737
Demand obligations	1,146	1,143
Treasury investments at fair value	4,481,799	4,691,711
Treasury investments at amortized cost	7,900,861	7,020,916
Derivative assets	895,351	924,352
Accrued income and charges receivable on loans	641,739	501,710
Other accounts receivable	1,188,638	821,514
Loans	22,021,408	20,695,328

1) Sovereign Credit Risk

When the Bank lends to borrowers from its public sector window, it generally requires a full sovereign guarantee or the equivalent from the borrowing member country. 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 and exposure management, including individual country exposure 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, governance, socio-political conditions, conduciveness of its business environment, and payment track record with the Bank. The Bank also applies a sanctions policy that imposes severe restrictions on countries that fail to honor their obligation to the Bank.

Country Exposure in Borrowing Member Countries

The Bank's exposures as at 31 December 2023 and 31 December 2022 from its lending activities to borrowing member countries as well as from the private sector projects in those countries are summarized below:

Summary of Loans as at 31 December 2023

(UA thousands)

Country	No. of loans*	Total loans*	Unsigned loan amounts	Undisbursed balance	Outstanding balance – gross	% of total outstanding loans
Algeria	1	616,001	-	-	616,001	2.71
Angola	10	1,420,006	-	604,936	815,070	3.58
Benin	5	341,096	53,259	251,897	35,940	0.16
Botswana	5	680,336	-	133,908	546,428	2.40
Burkina Faso	3	96,737	-	79,207	17,530	0.08
Cameroon	21	1,816,061	312,177	683,975	819,909	3.60
Cabo Verde	17	222,323	-	21,323	201,000	0.88
Republic of the Congo	6	424,771	-	81,983	342,788	1.51
Côte d'Ivoire	18	1,328,298	-	610,914	717,384	3.15
Egypt	21	2,404,730	163,346	151,824	2,089,560	9.19
Equatorial Guinea	5	78,143	-	55,799	22,344	0.10
Eswatini	12	378,405	84,324	141,055	153,026	0.67
Ethiopia	2	130,975	-	60,004	70,971	0.31
Gabon	13	975,265	-	266,989	708,276	3.11
Kenya	20	1,742,740	187,593	448,427	1,106,720	4.86
Mauritius	8	629,726	-	81,987	547,739	2.41
Morocco	68	4,468,578	328,242	674,658	3,465,678	15.23
Namibia	13	1,025,876	148,517	105,943	771,416	3.39
Nigeria	18	2,103,613	134,161	729,521	1,239,931	5.45
Rwanda	8	730,649	151,762	337,541	241,346	1.06
Senegal	25	1,541,983	-	737,762	804,221	3.54
Seychelles	8	99,515	24,596	1,225	73,694	0.32
South Africa	10	1,385,124	-	184,696	1,200,428	5.28
Tanzania	11	1,107,988	49,192	621,553	437,243	1.92
Tunisia	42	2,669,245	67,267	669,902	1,932,076	8.49
Uganda	10	794,030	133,923	406,266	253,841	1.12
Zambia	10	350,521	-	91,231	259,290	1.14
Zimbabwe**	12	204,035	-	-	204,035	0.90
Multinational	3	192,587	192,587	-	-	-
Total public sector	**405**	**29,959,357**	**2,030,946**	**8,234,526**	**19,693,885**	**86.57%**
Total private sector	**139**	**4,909,324**	**1,123,888**	**730,137**	**3,055,299**	**13.43%**
Total	**544**	**34,868,681**	**3,154,834**	**8,964,663**	**22,749,184**	**100.00%**

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

*** Countries in non-accrual status as at 31 December 2023.*

Slight differences may occur in totals due to rounding.

Summary of Loans as at 31 December 2022

(UA thousands)

Country	No. of loans	Total loans*	Unsigned loan amounts	Undisbursed balance	Outstanding balance – gross	% of total outstanding loans
Algeria	1	646,495	-	-	646,495	3.02
Angola	8	1,364,506	-	514,749	849,757	3.97
Benin	3	184,929	-	161,816	23,113	0.11
Botswana	5	759,985	134,997	-	624,988	2.92
Burkina Faso	3	94,005	-	79,738	14,267	0.07
Cameroon	19	1,517,838	31,630	758,844	727,364	3.39
Cabo Verde	16	219,360	11,174	6,140	202,046	0.94
Republic of the Congo	5	347,736	-	88,825	258,911	1.21
Côte d'Ivoire	16	1,209,884	-	620,207	589,677	2.75
Democratic Republic of Congo	6	33,308	-	-	33,308	0.16
Egypt	20	2,474,851	63,851	458,716	1,952,284	9.11
Equatorial Guinea	5	77,834	-	60,562	17,272	0.08
Eswatini	12	317,884	-	168,180	149,704	0.70
Ethiopia	2	133,695	-	68,298	65,397	0.31
Gabon	13	996,032	-	285,500	710,532	3.32
Kenya	17	1,547,986	50,283	578,806	918,897	4.29
Mauritius	6	366,918	-	-	366,918	1.71
Morocco	67	4,269,815	165,309	762,257	3,342,249	15.60
Namibia	13	1,012,143	-	148,875	863,268	4.03
Nigeria	15	2,043,991	100,688	761,888	1,181,415	5.51
Rwanda	7	580,731	-	376,591	204,140	0.95
Senegal	23	1,390,365	185,806	620,164	584,395	2.73
South Africa	10	1,349,163	-	197,445	1,151,718	5.37
Seychelles	7	78,136	18,785	1,863	57,488	0.27
Tanzania	9	1,007,604	121,329	567,784	318,491	1.49
Tunisia	40	2,651,771	-	670,336	1,981,435	9.25
Uganda	9	678,563	53,350	418,051	207,162	0.97
Zambia	10	372,408	-	123,995	248,413	1.16
Zimbabwe**	12	205,695	-	-	205,695	0.96
Multinational	2	148,071	148,071	-	-	-
Total public sector	**381**	**28,081,702**	**1,085,273**	**8,499,630**	**18,496,800**	**86.32%**
Total private sector	**139**	**4,838,908**	**1,155,627**	**752,490**	**2,930,791**	**13.68%**
Total	**520**	**32,920,610**	**2,240,900**	**9,252,120**	**21,427,591**	**100.00%**

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

*** Countries in non-accrual status as at 31 December 2022.*

Slight differences may occur in totals due to rounding.

Balance Sheet Optimization Initiatives

In line with the G20 calls to multilateral development banks (MDBs) to optimize their balance sheets and following on the Capital Adequacy Framework recommendations released in 2022, the Bank continues to pioneer Balance Sheet Optimization (BSO) initiatives to mobilize additional financial resources and play its countercyclical financing role. The BSO policy framework approved in June 2020 concretizes the objectives of risk transfer transactions with the Bank as (i) reducing concentration risk on the Bank's sovereign and/or non-sovereign loan and/or guarantee portfolios; (ii) diversifying and crowding in investors into ESG and development finance, and (iii) increasing the institution's lending headroom. BSO initiatives involve the purchase of credit protection on defined sovereign and non-sovereign exposures, through Exposure Exchange Agreements (EEA), credit insurance, and guarantee transactions, among other instruments.

Since the execution of the first transaction in 2015, BSO has become a valuable tool for creating lending headroom to facilitate the Bank's ability to meet client expectations.

Balance Sheet Optimization Initiatives – Sovereign

In this section, BSO initiatives transacted for the benefit of sovereign obligors are discussed. Similar transactions impacting non-sovereign credit exposures are described under Non-Sovereign Credit Risk.

Exposure Exchange Agreement

The first sovereign BSO transaction completed by the Bank was under the EEA. This multi-peer risk sharing framework was established as part of efforts at the time to reduce sovereign concentration risk and increase lending headroom among MDBs. The EEA involves a simultaneous exchange of equivalent credit risk on defined reference portfolios of sovereign exposures, subject to each participating MDB retaining a minimum of 50 percent of the total exposure to each country that is part of the EEA. At the time of each individual transaction, the parties sign Confirmation Schedules reflecting the proposed portfolios to be exchanged and the relevant maturities. Under the EEA, the MDB that originates the sovereign loans and buys protection continues to be the lender of record. Thus, 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.

The first Confirmation Schedules were concluded in 2015 between the African Development Bank, the Inter-American Development Bank (IADB), and the World Bank (IBRD), all AAA-rated entities. These inaugural Confirmation Schedules have a final maturity in 2030 with linear annual reduction of the notional amounts starting from 2025.[1] Eight years later, in July 2023, the Bank finalized another Confirmation Schedule of a USD 1 billion with the Asian Development Bank (AsDB) under the EEA framework for 15 years maturing in July 2038 to further enhance Bank headroom available to high-risk countries.

The EEA in no way affects the application of 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 the EEA are returned to the seller of protection. To date, no such credit events have occurred.

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

The table below presents the countries and notional amounts of credit protection contracted under the various Confirmation Schedules governed by the EEA

(USD millions)

Protection purchased						Protection sold					
World Bank		Inter-American Development Bank		Asian Development Bank		World Bank		Inter-American Development Bank		Asian Development Bank	
Angola	213.71	Angola	85.00	Angola	150.00	Albania	126.00	Argentina	750.00	Bangladesh	225.00
Botswana	225.00	Egypt	720.00	Cameroon	165.00	China	128.18	Brazil	820.00	India	225.00
Gabon	150.00	Morocco	990.00	Republic of the Congo	100.00	India	450.00	Ecuador	303.20	Pakistan	250.00
Namibia	49.00	Nigeria	95.00	Egypt	110.00	Indonesia	475.32	Mexico	800.00	Mongolia	100.00
Nigeria	100.00	Tunisia	990.00	Gabon	184.00	Jordan	13.00	Panama	206.80	Philippines	200.00
South Africa	850.00			Morocco	191.00	Pakistan	10.21				
				Senegal	100.00	Romania	185.00				
						Türkiye	200.00				
TOTAL	**1,587.71**	**TOTAL**	**2,880.00**	**TOTAL**	**1,000.00**	**TOTAL**	**1,587.71**	**TOTAL**	**2,880.00**	**TOTAL**	**1,000.00**

1 *The relevant parties are in discussions to renew the transaction ahead of the envisaged amortization in 2025.*

Sovereign Portfolio Credit Insurance

In addition to the EEA described above, the Bank also purchases credit insurance protection cover on the obligations of one or more of its sovereign borrowers. In 2022, the Bank executed a portfolio-based credit insurance transaction, Room 2 Run Sovereign (R2RS), with the UK's Foreign Commonwealth and Development Office and three private insurers from the Lloyd's market, providing the Bank with an estimated additional USD 2 billion in new lending capacity for climate finance. R2RS increased the efficient use of the Bank's risk capital by hedging its portfolio credit risk and creating additional headroom for the Bank's operations in order to improve the overall risk profile of the Bank's assets. The Bank remains the lender of record of the covered sovereign loans and guarantees in the reference portfolio and expects full recovery of its sovereign and sovereign-guaranteed exposures covered in the remote case of a default. This notwithstanding, no default events have occurred on any sovereign exposures covered as of 31 December 2023.

The R2RS transaction continues to improve the Bank's Risk Capital Utilization Rate and the Weighted Average Risk Rating. The R2RS also strengthens Standards & Poor's main capital adequacy metric and the Risk Adjusted Capital ratio, which represent an important buffer to the Bank's risk-bearing capacity.

Insurance at Origination for Single Sovereign Obligors

In 2023, the BSO strategy accelerated deployment of insurance at origination on sovereign assets. This approach has allowed the Bank to increase its relevance to clients, particularly RMCs seeking to mobilize sustainable financing from commercial lenders and capital markets. The Bank approved an ADB Partial Credit Guarantee (PCG) of USD 345 million equivalent in renminbi to facilitate Egypt's inaugural issuance of a Sustainability Panda Bond of approximately USD 500 million to finance ESG projects under the country's Sovereign Sustainable Financing Framework. Effective in October 2023, Egypt's Sustainable Panda bond is the first ever Panda Bond issued in China by an African sovereign and crowds in capacity from a panel of five private insurers who provided USD 70 million toward scaling up the size of the Bank's guarantee.

The Bank also provided a EUR 400 million ADB PCG in support of the mobilization of a EUR 533 million 15-year ESG loan to the Government of Côte d'Ivoire. In this transaction, the Bank collaborated with the insurance arm of the Islamic Development Bank – (Islamic Corporation for the Insurance of Investment and Export Credit), another founding member of the Co-Guarantee Platform, to back the Bank's participation with EUR 194 million. This enabled the Bank to provide the full EUR 400 million guarantee cover representing 80% AAA credit enhancement to the lender. This translated to optimal financing for the government in terms of loan pricing at the required tenor.

Overall, the total notional amount of credit protection, including insurance, purchased or sold on the underlying single referenced sovereign entities rose to UA 4.08 billion (USD 5.47 billion equivalent) as at 31 December 2023 and UA 3.36 billion as at 31 December 2022 (USD 4.47 billion equivalent).

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 for better alignment 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 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, which is translated into credit risk ratings for sovereign counterparties. 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 assessment	International ratings		Assessment
		S&P – Fitch	Moody's	
Very low risk	1+	A+ and above	A1 and above	Excellent
	1	A	A2	
	1-	A-	A3	
	2+	BBB+	Baa1	Strong
	2	BBB	Baa2	
	2-	BBB-	Baa3	
Low risk	3+	BB+	Ba1	Good
	3	BB	Ba2	
	3-	BB-	Ba3	
Moderate risk	4+	B+	B1	Satisfactory
	4	B	B2	
	4-			
	5+	B-	B3	Acceptable
	5			
High risk	5-	CCC+	Caa1	Marginal
	6+			
	6	CCC	Caa2	Special attention
	6-			
Very high risk	7	CCC-	Caa3	Substandard
	8			
	9	CC	Ca	Doubtful
	10	C	C	Loss

Portfolio Risk Monitoring

The weighted average risk rating of the Bank's sovereign and sovereign-guaranteed portfolio was 3.20 at the end of 31 December 2023, compared with 3.15 as of 31 December 2022.

The table below shows the distribution of the Bank's sovereign portfolio across the five risk categories.

Year	Risk profile of the sovereign portfolio				
	Very low risk	Low risk	Moderate risk	High risk	Very high risk
2023	39%	21%	30%	9%	1%
2022	40%	19%	34%	6%	1%
2021	34%	18%	39%	8%	1%
2020	39%	18%	31%	11%	1%
2019	47%	27%	22%	2%	2%

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. The Bank estimates ECLs on its sovereign loan portfolio in accordance with IFRS 9. In 2022, the Bank revised its less given default (LGD) model for the sovereign loans portfolio developed in accordance with the global best practices of the sector and the Bank's Model Risk Management (MRM) guidelines. This model replaces the one implemented at the first application of the

IFRS 9 impairment requirements and allows for a lower dependence on the effective interest rate (EIR) and its high volatility. The revised LGD model is now based on an average EIR for the risk class rather than the EIR per contract.

The revised model has been refined by integrating an estimate of the recovery costs and a floor to capture its value. This allows a more global understanding of the average recoveries and captures the adjustment factors linked to the macroeconomic and geopolitical environment specific to each counterparty. It also takes into account the recommendations of Moody's Analytics on the Bank's Capital Adequacy Framework.

In line with the MRM framework, the CRC has validated this revised model. The Bank will conduct periodic reviews of this revised model or whenever a substantial change occurs in the economic environment in line with its risk management.

To cover potential unexpected 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, as well as for contingent liabilities (guarantees and client risk management products) in each risk class.

Risk capital requirements are generally higher for private sector operations, which have a higher probability of default and loss given default than public sector operations. At the end of December 2023, the Bank's sovereign loan and guarantee portfolio used up to 33.7 percent (2022: 34.92 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 the gain on financial assets at FVOCI, unrealized loss/gain on fair-valued borrowings arising from "own credit," and any shortfall of the stock of provisions to expected losses. Callable capital is not included in the computation of risk capital.

2) Non-Sovereign Credit Risk

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

To assess the credit risk of non-sovereign projects or facilities, the Bank uses several models to score the risk of every project at entry. These models are tailored to the 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 four main categories: project finance, corporate finance, financial institutions, and private equity funds. The weighted-average risk rating was 4.09 at the end of December 2023 compared with 4.18 at the end of 2022.

The distribution of the non-sovereign portfolio across the Bank's five credit risk classes is shown in the table below.

	Risk profile of the non-sovereign portfolio				
Year	Very low risk	Low risk	Moderate risk	High risk	Very high risk
2023	19%	17%	31%	19%	14%
2022	18%	16%	34%	14%	18%
2021	9%	19%	43%	12%	17%
2020	17%	21%	36%	15%	11%
2019	18%	22%	41%	12%	7%

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 model, which uses internally developed risk parameters (internal rating based).

At the end of December 2023, the Bank's non-sovereign portfolio represented 4.9 percent (2022: 4.58 percent) of its total loan portfolio. Of the Bank's non-sovereign portfolio, equity participations required as risk capital approximately 9.3 percent (2022: 9.86 percent) of the Bank's total on-balance sheet risk capital sources. This is below the internal 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 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 risk capital utilization of any country does not exceed 15 percent of the Bank's total risk capital. The Bank also has a limit of 11.25% for capital utilization rate per sector. These thresholds and other determinants of country limits are articulated in the Bank's capital adequacy framework and Risk Appetite Statement.

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.

Balance Sheet Optimization Initiatives – Non-sovereign

As in the case of sovereign credit exposures, the Bank has entered into BSO initiatives covering its non-sovereign loan and guarantee portfolio aimed at (i) mobilizing institutional investment, (ii) addressing concentration and other prudential ratio limits, and (iii) increasing lending headroom. These initiatives involve, among other structured finance approaches, assets sell downs, credit insurance, financial guarantees, and synthetic securitization structures on defined non-sovereign exposures. Under the BSO credit protection purchased on its non-sovereign credit exposures, the Bank will be compensated for losses arising from credit default by the counterparty in the reference non-sovereign portfolio. As the originator of the qualifying transactions and as protection buyer, the Bank remains the lender of record. In line with the substance, the transactions are accounted for as financial guarantee contracts. Accordingly, the cash flow expected from the purchased BSO credit protection or financial guarantee contract is included in the measurement of the ECL of the loan, with the effect of improving ECLs reported in the financial statements of the Bank.

Specific BSO initiatives undertaken by the Bank covering its non-sovereign obligors are described below.

Private Sector Credit Enhancement Facility

The Bank enters into risk participation agreements for the primary purpose of promoting private sector operations in certain countries by inviting other entities to participate in the risks of such private sector operations. The Private Sector Credit Enhancement Facility (PSF) is one of such initiatives.

The PSF was established in 2015, as an independent special-purpose vehicle managed by the African Development Fund, to absorb risk on selected non-sovereign loans issued by the Bank in low-income countries at origination. The PSF is operated to maintain a risk profile equivalent to an investment-grade rating and absorbs risk using a risk participation agreement structure. The Bank has purchased credit enhancement from the PSF for some of its non-sovereign loans. As at 31 December 2023, the notional amounts of non-sovereign loans covered by the PSF stood at UA 249.32 million (31 December 2022: UA 266.48 million).

Non-Sovereign Synthetic Securitization and Portfolio Credit Insurance

In 2018, the Bank launched its now well-known Room 2 Run program as a subset of its BSO initiatives. Within the Room 2 Run umbrella, two pioneering portfolio-based transactions were executed in support of easing prudential limits on the non-sovereign portfolio and crowding in institutional investors. The first transaction was the USD 1 billion synthetic securitization and the second was the USD 500 million portfolio credit insurance deal. Over the years, these BSO initiatives have cumulatively amortized down to UA 1.81 billion (31 December 2022: UA 1.80 billion) and the Bank is exploring opportunities to execute a new similar portfolio-based transaction.

Risk Participation Agreements on Non-sovereign Assets

The Affirmative Financing Action for Women in Africa (AFAWA) Risk Sharing Mechanism (RSM) became operational effective in December 2021, and it features a counter guarantee from the Bank shareholders (France and the Netherlands) in support of the Bank's PCG to the African Guarantee Fund, the initiative's implementation partner for Phase I. A mid-term review of the structure is planned for 2024. In 2023, the Bank closed a collateralized Risk Participation Agreement with Norfund for USD 15 million, on the back of the subordinated loan of USD 50 million provided by the Bank to a private sector borrower in Tanzania. With the collateral paid upfront to the Bank, this risk transfer generates a capital benefit estimated at UA 3.9 million that should allow the Bank to extend additional loans of between UA 10 million and UA 22 million to similarly rated projects.

Portfolio Guarantees

On September 2022, the Bank signed the Lusophone Compact Guarantee with the Government of Portugal for EUR 400 million in support of private sector projects in Portuguese-speaking countries in Africa. The Lusophone Compact Guarantee, with a maturity of 15 years, allows the Bank to receive cover on single obligor credit on non-sovereign transactions in eligible countries for up to 85% of the principal on an on-demand basis – portfolio construction is ongoing as of end-2023.

Insurance at Origination for Non-sovereign Single Obligors

In 2023, the Bank closed bound a policy on a manufacturing sector project in Nigeria, mobilizing USD 50 million in insurance cover. It should also be noted that insurance cover on Ethiopian Airlines was terminated in June 2023 following a loan prepayment.

It is expected that pipeline credit insurance on single assets such as the Mozambique LNG transaction, among others, will close in 2024 with various insurers rated AA- and above, thereby helping to continue to unlock millions in additional lending capacity toward new private sector transactions.

The overall total notional outstanding exposure of all relevant underlying single and portfolio-based non-sovereign reference entities covered by BSOs stood at UA 2.06 billion as at 31 December 2023 (31 December 2022: UA 2.07 billion)

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 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 be approved by the Bank's Vice President for Finance and CFO. 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 short-term credit rating of A-1/P-1/F-1 for non-DVP-based transactions.

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

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2 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			AA-/Aa3	AAA/Aaa
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 enter 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 master agreement and netting agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated A-/A3 or above by at least two approved rating agencies and must enter into a collateral exchange agreement with the Bank. Lower rated counterparties may be used exceptionally for local currency transactions. These counterparties require ALCO approval. Approved transactions with derivative counterparties include swaps, forwards, options, and other over-the-counter derivatives.

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

(Amounts in UA millions)

	Derivatives			Credit risk profile of net exposure		
Year	Notional amount	Fair value*	Net exposure**	AAA	AA+ to AA-	A+ and lower
2023	34,086	127	40	-	-	100%
2022	36,803	104	15	-	-	100%
2021	38,502	295	28	-	1%	99%
2020	29,804	884	115	-	1%	99%
2019	27,837	593	84	-	11%	89%

** Fair value before collateral.*

*** After collateral received in cash or securities.*

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 potential future exposure methodology and monitored regularly against the Bank's credit limits after considering the benefits of any collateral.

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

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

(UA millions)

Year	Gross amounts of recognized financial assets	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Collateral received	
2023	138	(12)	127	-	(89)	38
2022	144	(40)	104	-	(89)	15
2021	526	(280)	246	-	(347)	(101)
2020	1,474	(590)	884	-	(849)	35
2019	1,057	(521)	536	-	(576)	(40)

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

(UA millions)

Year	Gross amounts of recognized financial liabilities	Gross amounts of recognized financial liabilities set off in the balance sheet	Net amounts of financial assets presented in the balance sheet	Related amounts not set off in the statement of financial position		Net amount
				Financial instruments	Cash collateral pledged	
2023	2,115	(780)	1,336	-	-	1,336
2022	2,754	(742)	2,012	-	-	2,012
2021	661	(279)	382	-	-	382
2020	145	(41)	104	-	-	104
2019	225	(29)	196	-	-	196

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

	Credit risk profile of the investment portfolio		
Year	AAA	AA+ to AA-	A+ and lower
2023	53%	32%	15%
2022	46%	39%	15%
2021	51%	36%	13%
2020	54%	36%	10%
2019	50%	38%	12%

To cover potential unexpected credit losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for counterparty credit.

As of 31 December 2023, the capital consumption attributable to the Bank's counterparty credit portfolio, including all investments and derivative instruments, stood at 4.3 percent (31 December 2022: 3.51 percent) of the Bank's total risk capital.

Expected Credit Risk

Definition of Default

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

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

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

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 is based on applicable criteria at the reporting date.

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 they are 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 or loss in the income statement as the difference between the gross carrying amount prior to the modification and the new gross carrying amount.

Measurement and Recognition of Expected Credit Loss

ECLs are calculated by multiplying three main components: the probability of default (PD), loss given default (LGD), and exposure at default (EAD), discounted at the appropriate effective interest rate (EIR) on the reporting date.

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 that 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 available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between ratings classes, this will lead to a change in the estimate of the associated PD.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry, and recovery costs of any collateral that is integral to the financial asset. LGD estimates are recalibrated for different economic scenarios to reflect possible changes in relevant prices. They are calculated on a discounted cash flow basis using the EIR 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 modeling 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 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 conducted on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type
- Credit risk grading
- Date of initial recognition
- Remaining term to maturity

- Industry
- 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.

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 BB- equivalent or better.

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

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

Incorporation of Forward-looking Information

The Bank's Credit Risk Committee considers a range of relevant forward-looking macro-economic scenarios assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. The Committee consists of senior executives from risk, finance and operations functions. Relevant regional and industry specific adjustments are applied to capture variations from general industry scenarios. These reflect reasonable and supportable forecasts of future macroeconomic conditions that are not captured within the base ECL calculations. Macro-economic factors taken into consideration include, but are not limited to gross domestic product, gross capital formation, government's revenue, government's debts, current account balance and lending rates. 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 Loss

The Bank calculates ECLs based on three probability-weighted macroeconomic scenarios. The three scenarios are: base case, optimistic and pessimistic. Each of these is associated with different probability of default parameters and different weight. These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking macro-economic data.

For accounting purposes, the 12-month and lifetime PD used are the point-in-time forward-looking 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 under different macroeconomic scenario that affect credit risk. The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility. The 12-month ECL is equal to the discounted sum over the next 12 months of the marginal PD multiplied by the LGD and EAD. Lifetime ECL is calculated using the discounted sum of marginal PD over the full remaining life multiplied by the LGD and EAD. The Bank will continue to assess and update the parameters used in the ECL model on an ongoing basis to reflect its loss and recovery experiences and changes in the macroeconomic variables.

The Bank recognizes all ECLs in the income statement in the reporting period when it is determined and as an adjustment to the loss allowance account on the balance sheet. When the Bank has measured the loss allowance for a financial instrument at an amount equal to lifetime ECL in the previous reporting period but determines at the current reporting date that criteria for recognizing the lifetime ECL is no longer met, the Bank measures the loss allowance at an amount equal to 12-month ECL at the current reporting period. This determination and subsequent reversal of loss allowance (i.e. write back) is based on the financial instrument being cured and appropriate for the backward transfer.

Amounts Arising from Expected Credit Losses

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

Impairment of Financial Instruments by Stage

The tables below present a breakdown of impairment allowance based on stage allocation and asset classification as at 31 December 2023 and 31 December 2022 and a reconciliation of ECL allowance recognized in the income statement.

Table 1.1: Impairment on Loans and Other Debt Instruments Measured at Amortized Cost, by Stage

As at 31 December 2023

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Loan at amortized cost	125,966	136,887	464,923	727,776
Interest receivables	6,032	8,359	216,609	231,000
Treasury investments	302	-	-	302
Guarantees	1,932	-	-	1,932
Total impairment as at 31 December 2023	**134,232**	**145,246**	**681,532**	**961,010**

As at 31 December 2022

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Loan at amortized cost	157,107	115,058	460,098	732,263
Interest receivables	4,720	3,962	212,737	221,419
Treasury investments	270	-	-	270
Guarantees	491	13	-	504
Total impairment as at 31 December 2022	**162,588**	**119,033**	**672,835**	**954,456**

Table 1.2: Reconciliation of Expected Credit Loss Allowance Recognized in the Income Statement

Expected Credit Loss Impairment on Loan Principal and Interest for 31 December 2023

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Opening 1 January	161,827	119,020	672,835	953,682
Provisions for the year – income statement	(29,829)	26,226	21,889	18,287
Write-Off	-	-	(13,193)	(13,193)
Closing 31 December 2023	**131,998**	**145,246**	**681,531**	**958,776**
Charge/(write-back) for the year 31 December 2022	**83,185**	**67,028**	**(53,196)**	**97,017**

Expected Credit Loss Impairment on Treasury Investments for 31 December 2023

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Opening 1 January	270	-	-	270
Provisions for the year – income statement	31	-	-	31
Closing 31 December 2023	**301**	**-**	**-**	**301**
Write-back for the year December 2022	**(28)**	**-**	**-**	**(28)**

Expected Credit Loss Impairment on Financial Guarantees for 31 December 2023

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Opening 1 January	491	13	-	504
Provisions for the year – income statement	1,441	(13)	-	1,428
Closing 31 December 2023	**1,932**	**-**	**-**	**1,932**
Write-back for the year 31 December 2022	**(813)**	**(59)**	**-**	**(872)**

The table below presents an analysis of loans – sovereign and non-sovereign – at amortized cost by gross exposure, impairment allowance and coverage ratio at 31 December 2023 and 31 December 2022.

Table 1.3: Analysis of Loans at Amortized Cost, Impairments, and Expected Credit Loss Coverage Ratio

As at 31 December 2023

(UA millions)

	Gross exposure				Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan principal	**20,350**	**1,713**	**687**	**22,750**	**123.57**	**115.16**	**464.92**	**703.65**
Non-sovereign	1,850	723	483	3,056	38.26	41.92	378.82	459.00
Sovereign	18,500	990	204	19,694	85.31	73.24	86.10	244.65
Interest receivables	**438**	**39**	**409**	**886**	**6.03**	**8.36**	**216.61**	**231.00**
Non-sovereign	45	17	57	119	2.66	3.08	64.64	70.38
Sovereign	393	22	352	767	3.37	5.28	151.97	160.62
Undisbursed loans	**8,536**	**414**	**15**	**8,965**	**2.40**	**21.73**	**-**	**24.13**
Non-sovereign	715	-	15	730	0.71	-	-	0.71
Sovereign	7,821	414	-	8,235	1.69	21.73	-	23.42
Total loans	**29,324**	**2,166**	**1,111**	**32,601**	**132.00**	**145.25**	**681.53**	**958.78**
Guarantees	**694**	**-**	**-**	**694**	**1.93**	**-**	**-**	**1.93**
Non-sovereign	43	-	-	43	0.50	-	-	0.50
Sovereign	651	-	-	651	1.43	-	-	1.43
Treasury investments	**7,897**	**-**	**-**	**7,897**	**0.30**	**-**	**-**	**0.30**
31 December 2023	**37,915**	**2,166**	**1,111**	**41,192**	**134.23**	**145.25**	**681.53**	**961.01**

	ECL coverage ratios			
	Stage 1	Stage 2	Stage 3	Total
Loan principal	**0.61%**	**6.72%**	**67.69%**	**3.09%**
Non-sovereign	2.07%	5.80%	78.46%	15.02%
Sovereign	0.46%	7.40%	42.20%	1.24%
Interest receivables	**1.38%**	**21.87%**	**52.89%**	**26.06%**
Non-sovereign	5.86%	18.68%	112.69%	58.99%
Sovereign	0.86%	24.29%	43.15%	20.94%
Undisbursed loans	**0.03%**	**5.25%**	**-**	**0.27%**
Non-sovereign	0.10%	-	-	0.10%
Sovereign	0.02%	5.25%	-	0.28%
Total loans	**0.45%**	**6.71%**	**61.33%**	**2.94%**
Guarantees	**0.28%**	**-**	**-**	**0.28%**
Non-sovereign	1.16%	-	-	1.16%
Sovereign	0.22%	-	-	0.22%
Treasury investments	**-**	**-**	**-**	**-**
Total coverage ratio	**0.35%**	**6.71%**	**61.33%**	**2.33%**

**Expected coverage loss coverage ratio shows the impairment allowance (ECL) in each stage as a proportion of gross exposure in each stage.*

As at 31 December 2022
(UA millions)

	Gross exposure				Impairment allowance*			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
Loan principal	**19,257**	**1,465**	**706**	**21,428**	**154.33**	**96.57**	**460.10**	**710.99**
Non-sovereign	1,942	489	499	2,930	49.54	35.07	378.06	462.67
Sovereign	17,315	976	207	18,498	104.79	61.50	82.03	248.32
Interest receivables	**222**	**17**	**406**	**645**	**4.72**	**3.97**	**212.74**	**221.43**
Non-sovereign	37	9	65	111	2.69	2.18	73.60	78.47
Sovereign	185	8	341	534	2.03	1.79	139.14	142.96
Undisbursed loans	**8,742**	**470**	**40**	**9,252**	**2.78**	**18.49**	**-**	**21.27**
Non-sovereign	713	-	40	752	0.82	-	-	0.82
Sovereign	8,030	470	-	8,500	1.96	18.49	-	20.45
Total loans	**28,221**	**1,952**	**1,152**	**31,325**	**161.83**	**119.02**	**672.84**	**953.69**
Guarantees	**88**	**1**	**-**	**89**	**0.49**	**0.01**	**-**	**0.50**
Non-sovereign	24	1	-	25	0.19	0.01	-	0.20
Sovereign	64	-	-	64	0.30	-	-	0.30
Treasury investments	**7,010**	**-**	**-**	**7,010**	**0.27**	**-**	**-**	**0.27**
31 December 2022	**35,319**	**1,953**	**1,152**	**38,424**	**162.59**	**119.03**	**672.84**	**954.46**

**Loss given default (LGD) for sovereign portfolio was revised in 2022, with the effect that the same LGD is used for principal and interest cashflows in line with the scorecard approach. The effect of this revised LGD is limited to stage 3 sovereign loans only and had no impact on the overall exposure coverage of the Bank.*

	ECL coverage ratios			
	Stage 1	Stage 2	Stage 3	Total
Loan principal	**0.80%**	**6.59%**	**65.17%**	**3.32%**
Non-sovereign	2.55%	7.17%	75.76%	15.79%
Sovereign	0.61%	6.30%	39.63%	1.34%
Interest receivables	**2.13%**	**23.35%**	**52.40%**	**34.33%**
Non-sovereign	7.27%	24.22%	113.23%	70.69%
Sovereign	1.10%	22.38%	40.80%	26.77%
Undisbursed loans	**0.03%**	**3.93%**	**-**	**0.23%**
Non-sovereign	0.10%	-	-	0.11%
Sovereign	0.02%	3.93%	-	0.24%
Total loans	**0.57%**	**6.10%**	**58.41%**	**3.04%**
Guarantees	**0.56%**	**1.00%**	**-**	**0.56%**
Non-sovereign	0.79%	1.00%	-	0.82%
Sovereign	0.47%	-	-	0.47%
Treasury investments	**-**	**-**	**-**	**-**
Total coverage ratio	**0.46%**	**6.10%**	**58.41%**	**2.48%**

An analysis of changes in ECL allowances in relation to the bank's financial assets carried at amortized cost is provided below:

Analysis of the Changes in Expected Credit Loss Allowance Account between 31 December 2022 and 31 December 2023

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 2023	**162,588**	**119,033**	**672,835**	**954,456**
New assets originated or purchased	25,166	-	-	25,166
Assets derecognized or repaid	4,211	266	74	4,551
Transfer from Stage 1 to Stage 2	(5,624)	5,624	-	-
Transfer from Stage 2 to Stage 3	-	(5,229)	5,229	-
Transfer from Stage 1 to Stage 3	(4,920)	-	4,920	-
Amount written off	-	-	(13,193)	(13,193)
New and increased provision	(47,189)	25,552	11,667	(9,970)
Gross carrying amount as at December 2023	**134,232**	**145,246**	**681,532**	**961,010**

The total ECL allowance (loans, treasury investments, and financial guarantees) reported in the income statement was a provision of UA 19.75 million for 31 December 2023 compared to a provision of UA 96.12 million for 31 December 2022. The total ECL allowance on the balance sheet as at 31 December 2023 increased by UA 6.55 million to UA 961.01 million from the UA 954.56 million as at 31 December 2022.

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 1-year period. The PML is updated quarterly and computed as the sum of four components: i) 1-year debt service payments, ii) 1-year projected net loan disbursements (loans disbursed less repayments) if greater than zero, iii) loan equivalent value of committed guarantees, and iv) undisbursed equity investments.

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

The contractual maturities of financial liabilities and future interest payments at 31 December 2023 and at 31 December 2022 were as follows:

Contractual Maturities of Financial Liabilities and Future Interest Payments at 31 December 2023

(UA thousands)

	Carrying amount	Contractual cash flow	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years
Financial liabilities with derivatives								
Derivative liabilities	1,138,109	(3,758,884)	(150,813)	(795,504)	(734,721)	(465,410)	(105,650)	(1,506,786)
Borrowings at fair value	24,562,870	29,686,112	3,793,584	3,352,680	6,656,597	6,086,045	3,861,541	5,935,665
	25,700,979	**25,927,228**	**3,642,771**	**2,557,176**	**5,921,876**	**5,620,635**	**3,755,891**	**4,428,879**
Financial liabilities without derivatives								
Accounts payable	1,604,164	1,604,164	1,604,164	-	-	-	-	-
Borrowings at amortized cost	213,538	217,770	106,069	33,871	74,551	250	240	2,789
	1,817,702	1,821,934	1,710,233	33,871	74,551	250	240	2,789
Total financial liabilities	**27,518,681**	**27,749,162**	**5,353,004**	**2,591,047**	**5,996,427**	**5,620,885**	**3,756,131**	**4,431,668**
Represented by:								
Derivative liabilities	1,138,109	(3,758,884)	(150,813)	(795,504)	(734,721)	(465,410)	(105,650)	(1,506,786)
Accounts payable	1,604,164	1,604,164	1,604,164	-	-	-	-	-
Borrowings	24,776,408	29,903,882	3,899,653	3,386,551	6,731,148	6,086,295	3,861,781	5,938,454

Contractual Maturities of Financial Liabilities and Future Interest Payments at 31 December 2022

(UA thousands)

	Carrying amount	Contractual cash flow	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years
Financial liabilities with derivatives								
Derivative liabilities	1,720,404	(4,356,022)	(413,928)	(691,914)	(470,957)	(918,294)	(456,819)	(1,404,110)
Borrowings at fair value	24,006,353	29,038,386	6,014,503	3,208,860	2,428,503	6,254,854	3,991,154	7,140,512
	25,726,757	**24,682,364**	**5,600,575**	**2,516,946**	**1,957,546**	**5,336,560**	**3,534,335**	**5,736,402**
Financial liabilities without derivatives								
Accounts payable	1,230,966	1,230,966	1,230,966	-	-	-	-	-
Borrowings at amortized cost	247,854	281,931	214,460	7,991	280	356	453	58,391
	1,478,820	**1,512,897**	**1,445,426**	**7,991**	**280**	**356**	**453**	**58,391**
Total financial liabilities	**27,205,577**	**26,195,261**	**7,046,001**	**2,524,937**	**1,957,826**	**5,336,916**	**3,534,788**	**5,794,793**
Represented by:								
Derivative liabilities	1,720,404	(4,356,022)	(413,928)	(691,914)	(470,957)	(918,294)	(456,819)	(1,404,110)
Accounts payable	1,230,966	1,230,966	1,230,966	-	-	-	-	-
Borrowings	24,254,207	29,320,317	6,288,963	3,216,851	2,428,783	6,255,210	3,991,607	7,198,903

Market Risk

Market risk is the risk of loss or adverse financial impact on the Bank's financial instruments due to direct or indirect changes in market prices. The Bank principally faces two forms of market risk: (i) Currency exchange risk and (ii) interest rate risk.

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 the Bank's balance sheet is funded by equity resources, which are reported in UA (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 UA by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR (the UA). 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 a revision to the SDR currency composition.

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

Net Currency Position at 31 December 2023

(UA thousands)

	Euro	United States dollar	Japanese yen	Pound sterling	Chinese yuan	Other	Subtotal	Units of Account	Total
Assets									
Cash	233,406	119,993	813,920	9,552	-	209,069	1,385,940	(2,791)	1,383,149
Demand obligations	-	-	-	-	-	1,146	1,146	-	1,146
Investments at fair value [(a)]	668,677	40,736	-	102,048	192,397	3,503,535	4,507,393	-	4,507,393
Investments at amortized cost	2,391,844	3,145,424	673,187	670,443	939,050	80,913	7,900,861	-	7,900,861
Accounts receivable	316,968	1,832,245	(645,024)	19,512	86,676	137,568	1,747,945	82,432	1,830,377
Loans	10,851,051	9,271,836	693	-	-	1,619,071	21,742,651	-	21,742,651
Equity participations	97,328	923,176	-	-	-	33,275	1,053,779	65,294	1,119,073
Other assets	-	-	-	-	-	-	-	115,268	115,268
	14,559,274	15,333,410	842,776	801,555	1,218,123	5,584,577	38,339,715	260,203	38,599,918
Liabilities									
Accounts payable	(450,026)	(689,922)	(89,685)	(17,708)	(40,480)	(313,793)	(1,601,614)	(2,550)	(1,604,164)
Employee benefits liabilities	-	-	-	-	-	-	-	(266,843)	(266,843)
Borrowings	(5,921,523)	(10,263,334)	(1,228,638)	(1,986,517)	(554,311)	(4,822,085)	(24,776,408)	-	(24,776,408)
Currency swaps on borrowings and related derivatives[(b)]	(4,764,260)	(3,046,443)	1,398,319	1,997,069	549,925	2,727,281	(1,138,109)	-	(1,138,109)
	(11,135,809)	(13,999,699)	79,996	(7,156)	(44,866)	(2,408,597)	(27,516,131)	(269,393)	(27,785,524)
Currency position of equity as at 31 December 2023	**3,423,465**	**1,333,711**	**922,772**	**794,399**	**1,173,257**	**3,175,980**	**10,823,584**	**(9,190)**	**10,814,394**
% of sub-total	**31.63**	**12.32**	**8.53**	**7.34**	**10.84**	**29.34**	**100.00**	**-**	**100.00**
SDR Composition as at 31 December 2023	**30.71**	**43.08**	**7.06**	**7.68**	**11.47**	**-**	**100.00**	**-**	**100.00**

(a) Investments measured at fair value comprise:	
Investments measured at fair value	4,481,799
Derivative assets	30,851
Derivative liabilities	(5,257)
Amount per statement of net currency position	4,507,393
(b) Currency swaps on borrowings is made up as follows:	
Derivative asset	864,500
Derivative liability	(2,002,609)
Net swaps on borrowings per statement of net currency position	(1,138,109)

Net Currency Position at 31 December 2022

(UA thousands)

	Euro	United States dollar	Japanese yen	Pound sterling	Chinese yuan	Other	Subtotal	Units of Account	Total
Assets									
Cash	(151,313)	231,294	1,132,139	5,186	-	1,624,412	2,841,718	(10,981)	2,830,737
Demand obligations	-	-	-	-	-	1,143	1,143	-	1,143
Investments at fair value (a)	655,422	11,240	-	55,413	79,533	3,909,975	4,711,583	-	4,711,583
Investments at amortized cost	2,004,866	2,830,662	569,745	632,696	895,136	87,811	7,020,916	-	7,020,916
Accounts receivable	185,962	3,025,525	(861,675)	11,871	153,657	(1,311,949)	1,203,391	119,833	1,323,224
Loans	9,915,174	8,499,926	13,363	-	-	1,872,430	20,300,893	-	20,300,893
Equity participations	87,685	64,174	-	-	-	891,877	1,043,736	102	1,043,838
Other assets	-	-	-	-	-	-	-	84,410	84,410
	12,697,796	14,662,821	853,572	705,166	1,128,326	7,075,699	37,123,380	193,364	37,316,744
Liabilities									
Accounts payable	(263,131)	(574,534)	(101,489)	(13,732)	(157)	(275,373)	(1,228,416)	(2,550)	(1,230,966)
Employee Benefit liabilities	-	-	-	-	-	-	-	(228,431)	(228,431)
Borrowings	(5,719,150)	(11,210,934)	(1,241,531)	(1,568,491)	(335,761)	(4,178,340)	(24,254,207)	-	(24,254,207)
Currency swaps on borrowings and related derivatives (b)	(3,801,271)	(3,146,588)	1,359,978	1,574,656	335,828	1,956,994	(1,720,404)	-	(1,720,404)
	(9,783,552)	(14,932,056)	16,958	(7,567)	(90)	(2,496,719)	(27,203,027)	(230,981)	(27,434,008)
Currency position of equity as at 31 December 2022	**2,914,244**	**(269,235)**	**870,530**	**697,599**	**1,128,236**	**4,578,980**	**9,920,353**	**(37,617)**	**9,882,736**
% of sub-total	**29.38**	**(2.71)**	**8.78**	**7.03**	**11.37**	**46.15**	**100.00**	**-**	**100.00**
SDR Composition as at 31 December 2022	**29.82**	**43.42**	**7.62**	**7.33**	**11.81**	**-**	**100.00**	**-**	**100.00**

(a) Investments measured at fair value comprise:	
Investments measured at fair value	4,691,711
Derivative assets	28,109
Derivative liabilities	(8,237)
Amount per statement of net currency position	4,711,583

(b) Currency swaps on borrowings comprise:	
Derivative asset	896,243
Derivative liability	(2,616,647)
Net swaps on borrowings per statement of net currency position	(1,720,404)

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: the US dollar, Euro, Japanese yen, pound sterling, and Chinese yuan. 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 2016, the IMF formally approved the inclusion of the Chinese yuan (CNY) in SDRs with a weight of 10.92 percent. The SDR rate represents the sum of specific amounts of the five basket currencies valued in US dollars, on the basis of the exchange rates quoted at noon each day in the London market.

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

The following tables illustrate the sensitivity of the Bank's net assets to currency fluctuations due to movements in the exchange rate of the currencies in the SDR basket as of 31 December 2023 and 31 December 2022. The sensitivity analysis shown assumes a separate 10 percent appreciation/depreciation for each currency in the basket against the US dollar. Due to a moderate change in the African currency holdings, the table also includes the effect of a 10 percent appreciation/depreciation of each African currency against the SDR. Under the different scenarios, the currency risk management strategy of the Bank shows a minimal change in net assets as a result of currency mismatches.

Sensitivity of the Bank's Net Assets to Currency Fluctuations as at 31 December 2023

(UA millions)

	Us dollar	Euro	Japanese yen	Pound sterling	Chinese yuan	Other currencies	Net assets	Change in net assets gain/(loss)	Basis point change of total net assets
Net assets resulting from a 10% appreciation against the USD									
EUR	4,302.69	3,523.90	730.80	771.49	1,164.60	6.49	10,499.97	7.21	7bps
GBP	4,401.40	3,277.05	747.57	868.11	1,191.31	6.49	10,491.93	(0.82)	1bps
JPY	4,404.01	3,278.99	822.81	789.65	1,192.02	6.49	10,493.97	1.23	1bps
CNY	4,384.69	3,264.60	744.73	786.19	1,305.47	6.49	10,492.17	(0.59)	1bps
Net assets resulting from a 10% appreciation of each African currency against the SDR	4,435.13	3,302.16	753.30	795.23	1,200.44	7.14	10,493.40	0.65	1bps
Net assets resulting from a 10% depreciation against the USD									
EUR	4,562.81	3,088.38	774.98	818.13	1,235.00	6.49	10,485.79	(6.95)	7bps
GBP	4,466.24	3,325.32	758.58	728.01	1,208.86	6.49	10,493.50	0.76	1bps
JPY	4,463.81	3,323.51	689.24	800.38	1,208.20	6.49	10,491.63	(1.13)	1bps
CNY	4,482.01	3,337.06	761.26	803.64	1,102.85	6.49	10,493.31	0.54	1bps
Net assets resulting from a 10% depreciation of each African currency against the SDR	4,435.13	3,302.16	753.30	795.23	1,200.44	5.90	10,492.16	(0.59)	1bps
Assumptions:									
Base net assets	4,435.13	3,302.16	753.30	795.23	1,200.44	6.49	10,492.75	-	-
Add: Fair valuation effects on borrowings and derivatives	265.97	252.99	35.42	(0.10)	(7.28)	(225.36)	321.64	-	-
Base net assets (including fair valuation of borrowings and derivatives)	4,701.10	3,555.15	788.72	795.13	1,193.16	(218.87)	10,814.39	-	-
Currency weight	0.5781	0.3738	13.4520	0.0809	1.0993	-	-	-	-
Base exchange rate	1.3449	1.2143	190.3765	1.0554	9.5555	-	-	-	-

Sensitivity of the Bank's Net Assets to Currency Fluctuations as at 31 December 2022

(Amounts in UA millions)

	Us dollar	Euro	Japanese yen	Pound sterling	Chinese yuan	Other currencies	Net assets	Change in net assets gain/(loss)	Basis point change of Total net Assets
Net assets resulting from a 10% appreciation against the USD									
Euro	4,044.94	2,979.34	675.28	663.52	1,083.21	39.78	9,486.07	(3.27)	3bps
Pound sterling	4,135.65	2,769.23	690.42	746.24	1,107.50	39.78	9,488.82	(0.52)	1bps
Japanese yen	4,134.20	2,768.26	759.19	678.16	1,107.11	39.78	9,486.70	(2.64)	3bps
Chinese yuan	4,116.69	2,756.54	687.25	675.29	1,212.66	39.78	9,488.21	(1.12)	1bps
Net assets resulting from a 10% appreciation of each African currency against the SDR	4,165.79	2,789.41	695.45	683.34	1,115.57	43.76	9,493.31	3.98	4bps
Net assets resulting from a 10% depreciation against the USD									
Euro	4,282.08	2,606.62	714.86	702.42	1,146.71	39.78	9,492.48	3.15	3bps
Pound sterling	4,193.56	2,808.01	700.09	625.36	1,123.01	39.78	9,489.81	0.48	1bps
Japanese yen	4,194.93	2,808.92	636.65	688.12	1,123.38	39.78	9,491.77	2.44	3bps
Chinese yuan	4,211.45	2,819.98	703.07	690.83	1,025.27	39.78	9,490.38	1.05	1bps
Net assets resulting from a 10% depreciation of each African currency against the SDR	4,165.79	2,789.41	695.45	683.34	1,115.57	36.16	9,485.72	(3.62)	4bps
Assumptions:									
Base net assets	4,165.79	2,789.41	695.45	683.34	1,115.57	39.78	9,489.34	-	-
Add: Fair valuation effects on borrowings & derivatives	177.59	370.64	24.87	(2.41)	(6.41)	(170.88)	393.40	-	-
Base net assets (including fair valuation of borrowings and derivatives)	4,343.38	3,160.05	720.32	680.93	1,109.16	(131.10)	9,882.74	-	-
Currency weight	0.5781	0.3738	13.4520	0.0809	1.0993	-	-	-	-
Base exchange rate	1.3361	1.2512	176.0461	1.1099	9.2178	-	-	-	-

Interest Rate Risk

The Bank's interest rate risk sensitivity comprises the following two elements:

- The sensitivity of the interest margin between the rate the Bank earns on its assets and the cost of the borrowings funding such assets.
- 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 that yet is adequately responsive to general market trends.

The interest rate risk positions as at 31 December 2023 and 31 December 2022 were as follow:

Interest Rate Risk Position as at 31 December 2023

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non-interest bearing funds	Total
Assets								
Cash	1,383,149	-	-	-	-	-	-	1,383,149
Demand obligations	1,146	-	-	-	-	-	-	1,146
Treasury investments[a]	5,227,441	650,170	678,680	777,660	773,730	4,368,130	(67,557)	12,408,254
Accounts receivable	1,830,377	-	-	-	-	-	-	1,830,377
Loans – disbursed and outstanding	19,929,812	316,043	333,728	281,559	279,895	1,655,018	(46,871)	22,749,184
Hedged loans – fair value adjustment	-	-	-	-	-	-	(278,757)	(278,757)
Accumulated impairment for loan losses	-	-	-	-	-	-	(727,776)	(727,776)
Equity participations	-	-	-	-	-	-	1,119,073	1,119,073
Other assets	-	-	-	-	-	-	115,268	115,268
	28,371,925	966,213	1,012,408	1,059,219	1,053,625	6,023,148	113,380	38,599,918
Liabilities								
Accounts payable	(1,604,164)	-	-	-	-	-	-	(1,604,164)
Employee Benefit liabilities	(266,843)	-	-	-	-	-	-	(266,843)
Borrowings[b]	(27,358,776)	-	-	-	-	-	1,444,259	(25,914,517)
	(29,229,783)	-	-	-	-	-	1,444,259	(27,785,524)
Interest rate risk position as at 31 December 2023	**(857,858)**	**966,213**	**1,012,408**	**1,059,219**	**1,053,625**	**6,023,148**	**1,557,639**	**10,814,394**

(a) Treasury investments comprise:	
Treasury investments	12,382,660
Derivative assets – investments	30,851
Derivative liabilities – investments	(5,257)
Amount per statement of interest rate risk	12,408,254

(b) Borrowings comprise	
Borrowings	24,776,408
Derivative assets – borrowings	(864,500)
Derivative liabilities – borrowings	2,002,609
Net borrowings per statement of interest rate risk	25,914,517

Interest Rate Risk Position as at 31 December 2022

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non interest bearing funds	Total
Assets								
Cash	2,830,737	-	-	-	-	-	-	2,830,737
Demand obligations	1,143	-	-	-	-	-	-	1,143
Treasury investments[(a)]	5,406,296	640,250	649,980	665,050	730,310	3,634,272	6,341	11,732,499
Accounts receivable	1,323,224	-	-	-	-	-	-	1,323,224
Loans – disbursed and outstanding	18,327,562	339,934	310,466	326,571	275,489	1,877,971	(30,402)	21,427,591
Hedged loans – fair value adjustment	-	-	-	-	-	-	(394,435)	(394,435)
Accumulated impairment for loan losses	-	-	-	-	-	-	(732,263)	(732,263)
Equity participations	-	-	-	-	-	-	1,043,838	1,043,838
Other assets	-	-	-	-	-	-	84,410	84,410
	27,888,962	980,184	960,446	991,621	1,005,799	5,512,243	(22,511)	37,316,744
Liabilities								
Accounts payable	(1,230,966)	-	-	-	-	-	-	(1,230,966)
Employee benefit liabilities	(228,431)	-	-	-	-	-	-	(228,431)
Borrowings[(b)]	(27,256,267)	(86)	(114)	(75,255)	(114)	(275)	1,357,500	(25,974,611)
	(28,715,664)	(86)	(114)	(75,255)	(114)	(275)	1,357,500	(27,434,008)
Interest rate risk position as at 31 December 2022	**(826,702)**	**980,098**	**960,332**	**916,366**	**1,005,685**	**5,511,968**	**1,334,989**	**9,882,736**

(a) Treasury investments comprise:	
Treasury investments	11,712,627
Derivative assets – investments	28,109
Derivative liabilities – investments	(8,237)
Amount per statement of interest rate risk	11,732,499

(b) Borrowings comprise:	
Borrowings	24,254,207
Derivative assets – borrowings	(896,243)
Derivative liabilities – borrowings	2,616,647
Net borrowings per statement of interest rate risk	25,974,611

Interest Rate Benchmark Reform – Update on the LIBOR Transition Project

Following the cessation of the publication of all London Interbank Offered Rate (LIBOR) settings, the UK Financial Conduct Authority (FCA) used its powers to compel the InterContinental Exchange Benchmark Administrator (IBA) to publish the 1-month, 3-month, and 6-month USD LIBOR settings under a non-representative "synthetic" methodology from end of June 2023. The FCA notified that publication of these remaining USD LIBOR settings under the "synthetic" methodology would cease on 30 September 2024.

The Bank continues to support its customers toward an orderly transition of the limited number of outstanding LIBOR linked contracts to their alternative reference rates (RFRs). The LIBOR Transition Task Force, established by the Bank to ensure a seamless transition from LIBOR and other IBORs to their designated alternative RFRs, has successfully overseen the project, and a significant portion of the Bank's financial instruments have been transitioned. As at 31 December 2023, all GBP LIBOR, JPY LIBOR, and CAD LIBOR referenced contracts have been fully migrated to alternative RFRs, and the remaining USD LIBOR linked exposures have been significantly reduced to an immaterial amount.

As a result of the strong success achieved, the application of RFRs is now on a business-as-usual basis and the Bank is committed to ensuring that the limited number of tough legacy USD LIBOR contracts, remaining as at 31 December 2023 are remediated and orderly transitioned to their appropriate RFRs as soon as possible. For EURIBOR and ZAR JIBAR linked contracts, the Bank will continue to apply the usual market-based pricing methodology, pending when the regulators issue alternative pricing methodologies.

The table below provides a disclosure on the limited number of USD LIBOR linked contracts by nature of financial instruments as of 31 December 2023, including the outstanding LIBOR linked transactions for the comparative period of 31 December 2022. Non-derivative financial instruments at amortized cost are presented based on their carrying amounts excluding ECLs.

(In millions)

	USD LIBOR	EURIBOR	ZAR JIBAR	GBP LIBOR	JPY LIBOR	CAD LIBOR
IBOR linked contracts by benchmark at 31 December 2023						
Financial assets						
Loans – non-sovereign	606	-	-	-	-	-
Loans – sovereign operations	4,676	-	-	-	-	-
Treasury asset	52	-	-	-	-	-
Total financial assets	**5,334**	**-**	**-**	**-**	**-**	**-**
Financial liabilities						
Treasury borrowing	50	-	-	-	-	-
Total financial liabilities	**50**	**-**	**-**	**-**	**-**	**-**
Derivatives						
Derivatives excl. futures	855	-	-	-	-	-
Derivatives – futures only	-	-	-	-	-	-
Total derivatives	**855**	**-**	**-**	**-**	**-**	**-**
Total IBOR linked contracts	**6,239**	**-**	**-**	**-**	**-**	**-**

(In millions)

	USD LIBOR	EURIBOR	ZAR JIBAR	GBP LIBOR	JPY LIBOR	CAD LIBOR
IBOR linked contracts by benchmark at 31 December 2022						
Financial assets						
Loans – Non-Sovereign	2,808	1,061	6,801	-	-	-
Loans – Sovereign Operations	13,594	15,207	41,850	-	-	-
Treasury Asset	117	100	-	-	-	-
Total financial assets	**16,519**	**16,368**	**48,651**	**-**	**-**	**-**
Financial liabilities						
Treasury Borrowing	50	-	-	-	-	-
Total financial liabilities	**50**	**-**	**-**	**-**	**-**	**-**
Derivatives						
Derivatives excl. Futures	30,187	15,896	52,770	-	7,061	-
Derivatives – Futures Only	25,517	7,593	-	-	-	1,048
Total derivatives	**55,704**	**23,489**	**52,770**	**-**	**7,061**	**1,048**
Total IBOR linked contracts	**72,273**	**39,857**	**101,421**	**-**	**7,061**	**1,048**

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. The pool is 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 has offered 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 floating reference 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 floating rate benchmark. The operational liquidity portfolio is managed to meet projected operational cash flow needs and uses a one-month 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 floating 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 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 made up mostly 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 December 2023, the Bank's overall repricing profile was closely aligned to the benchmark in almost all annual buckets.

Net Interest Margin Sensitivity

A parallel upward shift in the SDR curve of 100 basis poins (bps) would have generated a maximum gain in income statement of UA 7.29 million and UA 7.03 million as of 31 December 2023 and 31 December 2022, respectively.

Fair Value Sensitivity

Movements in interest rates also have an impact on the values of assets and liabilities that are reported in the financial statements at FVTPL. The table below shows the effect of a parallel yield curve movement of +/– 1bp of each of the currencies in the investment portfolio and the borrowings and derivative portfolios as of 31 December 2023. The market experienced high interest rates during the year. As such, the sensitivity analysis for 31 December 2023 was computed on the basis of 1bp, which is the change that was reasonably possible as at the reporting date.

(UA thousands)

	Upward parallel shift		Downward parallel shift	
	2023 gain/(loss)	2022 gain/(loss)	2023 gain/(loss)	2022 gain/(loss)
Investments at fair value through profit or loss	509	421	(509)	(421)
Fair-valued borrowings and derivative	(3,615)	(2,389)	3,959	2,437

Prepayment Risk

In addition to the two principal sources of interest rate risk described above, the Bank is exposed to prepayment risk on loans committed before 1997 on which the Bank is unable to charge a prepayment penalty. In practice, the level of prepayments on such loans has generally been within acceptable levels. For all market-based loans issued since 1997, the Bank protects itself from prepayment risk by linking the prepayment penalty to the cost of redeploying the funds at current market rates. Since 2006, total annual prepayments on loans, particularly those committed prior to 1997, have been declining over the years. Prepayments in the year ended 31 December 2023 amounted to UA 101.98 million, compared with prepayments of UA 72.37 million realized in 2022, 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, processes, people, and external events.

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

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

The ORMF, which was revised in 2019, 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 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 that 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 Plan Unit 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, and the existence of a whistleblower protection policy.

NOTE D – Financial Assets and Liabilities

The tables below set out the classification of each class of financial assets and liabilities and their respective fair values as at 31 December 2023 and 31 December 2022:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial assets and liabilities at FVTPL					
31 December 2023	Mandatorily at fair value	Designated at fair value	Fair value through other comprehensive income	Financial assets and liabilities at amortized cost	Total carrying amount	Fair value
Cash	-	-	-	1,383,149	1,383,149	1,383,149
Demand obligations	-	-	-	1,146	1,146	1,146
Treasury investments	4,481,799	-	-	7,900,861	12,382,660	11,901,742
Derivative assets	895,351	-	-	-	895,351	895,351
Accounts receivable	-	-	-	1,830,377	1,830,377	1,830,377
Loans	-	-	-	22,021,408	22,021,408	22,021,408
Equity participations	-	-	1,119,073	-	1,119,073	1,119,073
Total financial assets	**5,377,150**	**-**	**1,119,073**	**33,136,941**	**39,633,164**	**39,152,246**
Accounts payable	-	-	-	1,604,164	1,604,164	1,604,164
Derivative liabilities	2,007,866	-	-	-	2,007,866	2,007,866
Borrowings	-	24,562,870	-	213,538	24,776,408	24,443,164
Total financial liabilities	**2,007,866**	**24,562,870**	**-**	**1,817,702**	**28,388,438**	**28,055,194**

(UA thousands)

	Financial assets and liabilities at FVTPL					
31 December 2022	Mandatorily at fair value	Designated at fair value	Fair value through other comprehensive income	Financial assets and liabilities at amortized cost	Total carrying amount	Fair value
Cash	-	-	-	2,830,737	2,830,737	2,830,737
Demand obligations	-	-	-	1,143	1,143	1,143
Treasury investments	4,691,711	-	-	7,020,916	11,712,627	11,040,754
Derivative assets	924,352	-	-	-	924,352	924,352
Accounts receivable	-	-	-	1,323,224	1,323,224	1,323,224
Loans	-	-	-	20,695,328	20,695,328	20,695,328
Equity participations	-	-	1,043,838	-	1,043,838	1,043,838
Total financial assets	**5,616,063**	**-**	**1,043,838**	**31,871,348**	**38,531,249**	**37,859,376**
Accounts payable	-	-	-	1,230,966	1,230,966	1,230,966
Derivative liabilities	2,624,884	-	-	-	2,624,884	2,624,884
Borrowings	-	24,006,353	-	247,854	24,254,207	23,784,254
Total financial liabilities	**2,624,884**	**24,006,353**	**-**	**1,478,820**	**28,110,057**	**27,640,104**

The table below classifies the Bank's financial instruments that were carried at fair value at 31 December 2023 and 31 December 2022 into three levels reflecting the relative reliability of the measurement bases, with level 1 being the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument		Valuation techniques for which all significant inputs are based on observable market data		Valuation techniques for which any significant input is not based on observable market data			
	(Level 1)		(Level 2)		(Level 3)		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Treasury investments	3,755,026	3,968,740	724,157	720,087	2,616	2,884	4,481,799	4,691,711
Derivative assets	30,851	28,109	856,370	895,869	8,130	374	895,351	924,352
Equity participation	12,338	8,252	-	-	1,106,735	1,035,586	1,119,073	1,043,838
Total financial assets	**3,798,215**	**4,005,101**	**1,580,527**	**1,615,956**	**1,117,481**	**1,038,844**	**6,496,223**	**6,659,901**
Derivative liabilities	-	-	1,894,428	2,480,571	113,438	144,313	2,007,866	2,624,884
Borrowings	15,241,781	15,682,987	8,277,437	7,395,362	1,043,652	928,005	24,562,870	24,006,354
Total financial liabilities	**15,241,781**	**15,682,987**	**10,171,865**	**9,875,933**	**1,157,090**	**1,072,318**	**26,570,736**	**26,631,238**

The Bank's policy is to recognize transfers out of level 3 as of the date of the event or change in circumstances that caused the transfer. Investments whose values are based on quoted market prices in active markets, and are therefore classified within level 1, include active listed equities, exchange-traded derivatives, US government treasury bills, and certain non-US sovereign obligations. The Bank does not adjust the quoted price for these instruments.

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

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

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

Products Classified at Level 3

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 at 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 that include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. These securities are also classified at 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. The fair value of the Bank's equity participations is estimated as the Bank's percentage ownership of the net asset value of the investments.

Derivatives

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

Reconciliation of Level 3 Fair Value Balances

Reconciliation of fair value balances measured using valuation techniques with no significant input from observable market data (level 3 hierarchy) between 31 December 2022 and 31 December 2023 is as follows:

(UA thousands)

	Investments at fair value through profit and loss	Investments at fair value through other comprehensive income	Derivative assets	Derivative liabilities	Borrowings
2022					
Balance at 1 January 2022	589,366	974,717	21,937	(39,942)	(638,941)
Gain/(losses) recognized in income statement	(1,026)	-	2,052,375	15,584,775	127,479
Gains recognized in statement of comprehensive income	-	(29,363)	-	-	-
Purchases, issues, and settlements (net)	(585,648)	58,494	152	(31,673)	(441,268)
Reclassification	-	-	-	-	3,620
Translation effects	192	31,738	(2,092,911)	(15,638,652)	21,105
Transfer between assets and liabilities	-	-	18,821	(18,821)	-
Balance at 31 December 2022	**2,884**	**1,035,586**	**374**	**(144,313)**	**(928,005)**
2023					
Balance at 1 January 2023	2,884	1,035,586	374	(144,313)	(928,005)
Gain/(losses) recognized in income statement	(232)	-	2,716	51,802	(41,871)
Gains recognized in statement of comprehensive income	-	42,945	-	-	-
Purchases, issues, and settlements (net)	(14)	48,076	5,087	7,582	(86,391)
Translation effects	(22)	(19,872)	(224)	(28,332)	12,615
Transfer between assets and liabilities	-	-	177	(177)	-
Balance at 31 December 2023	**2,616**	**1,106,735**	**8,130**	**(113,438)**	**(1,043,652)**

Fair Value Hierarchy – Financial Assets and Financial Liabilities at Amortized Cost

The table below classifies the fair value of the Bank's financial instruments that were carried at amortized cost at 31 December 2023 and 31 December 2022 into three levels reflecting the observability of inputs in the fair value measurements, with level 1 as observable and level 3 as unobservable.

(UA thousands)

	Quoted prices in active markets for the same instrument		Valuation techniques for which all significant inputs are based on observable market data		Valuation techniques for which any significant input is not based on observable market data			
	(Level 1)		(Level 2)		(Level 3)		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Treasury investments	7,397,989	6,324,523	37,708	24,520	-	-	7,435,697	6,349,043
Loans	-	-	-	-	22,021,408	20,695,328	22,021,408	20,695,328
Total financial assets	**7,397,989**	**6,324,523**	**37,708**	**24,520**	**22,021,408**	**20,695,328**	**29,457,105**	**27,044,371**
Borrowings	-	-	206,118	215,490	-	8,166	206,118	223,656
Total	**-**	**-**	**206,118**	**215,490**	**-**	**8,166**	**206,118**	**223,656**

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	Percentage of equity holdings and net assets	Increase in net asset increases fair value
Derivative liabilities	Discounted cash flow	Volatility of 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 whereby 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 movement in another variable. Credit correlation generally refers to the factor that describes the relationship between the probability of individual entities defaulting on obligations and the joint probability of multiple entities defaulting 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 correlation represents the correlation between two different exchange rates.

Liquidity Discount

A liquidity discount is applied primarily to unlisted firms to reflect the fact that these stocks are not actively traded. An increase in liquidity discount in isolation will result in unfavorable 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 the strike and maturity profile of the option.

Credit Spreads

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

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

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

Investments

The fair value of level 3 investments is sensitive to sources of pricing used. The fair value variance arising from using other sources of prices amounted to nil. (2022: nil).

Borrowing and Derivatives

The table below shows the effect of a parallel yield curve movement of +/– 1 bps of each of the currencies in the level 3 borrowings and derivative portfolios as of 31 December 2023 and 31 December 2022. The market experienced high interest rates during 2023. As such, the sensitivity analysis for 31 December 2023 was computed on the basis of 1bp, which is the change that was reasonably possible as at the reporting date.

(UA thousands)

	Upward parallel shift Gain/(loss)		Downward parallel shift Gain/(loss)	
	2023	2022	2023	2022
Fair-valued level 3 borrowings and derivative portfolios	1,457	(273)	(119)	327

Day One Gain or Loss – Unrecognized Gains/Losses on the Use of Valuation Models Using Unobservable Inputs

The unamortized balances of day one profit and loss at 31 December 2023 and 31 December 2022 were made up of the following:

(UA thousands)

	2023	2022
Balance at 1 January	191,430	180,468
New transactions	17,692	55,855
Amounts recognized in income statement during the year	(20,041)	(37,057)
Translation effects	(6,763)	(7,836)
Balance	**182,318**	**191,430**

NOTE E – Cash and Bank balances

The Bank's cash and bank details are as follows:

(UA thousands)

	2023	2022
Balances with central banks	1,033,188	2,762,071
Balances with commercial banks	347,427	66,495
Other cash balances	2,534	2,171
Total	**1,383,149**	**2,830,737**

NOTE F – Treasury Investments

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

For government, agency and supranational obligations with final maturity longer than 1 year and less than 15 years, the Bank may only invest in obligations with counterparties having a minimum credit rating of AA- or unconditionally guaranteed by governments of member countries or other official entities with the same rating criteria.

For maturities beyond 15 years and up to 30 years, a AAA rating is required. For mortgage and asset-backed securities, the Bank may only invest in securities with a AAA credit rating. For bank and corporate obligations with final maturity longer than 6 months and less than 5 years, the Bank may only invest with counterparties having a minimum credit rating of AA-. AAA rating is required for debt obligations beyond 5 years and up to 10 years. The purchases of currency or interest rate options are permitted only if the life of the option contract does not exceed 1 year. Such transactions are only executed with counterparties with credit ratings of AA- or above. All derivative transactions, including options, cross-currency and interest rate swaps including asset swap transactions, are only permitted with approved counterparties or guaranteed by entities with which the Bank has entered into Master Derivative Agreements and a Collateral Support Agreement with minimum credit ratings of A-/A3 at the time of the transaction.

As at 31 December 2023, the Bank had received collateral with fair value of UA 178 million (December 2022: UA 131 million) in connection with swap agreements. This amount was in the form of cash and has been recorded on the balance sheet with a corresponding liability included in "Other accounts payable".

The composition of treasury investments as at 31 December 2023 and December 2022 was as follows:

(UA thousands)

	2023	2022
Treasury investments at amortized cost	7,901,163	7,021,187
Provision for impairment	(302)	(271)
	7,900,861	7,020,916
Treasury investments mandatorily measured at FVTPL	4,481,799	4,691,711
Total treasury investments	**12,382,660**	**11,712,627**

Treasury Investments at Amortized Cost

A summary of the Bank's treasury investments at amortized cost at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	US dollar		Euro		Chinese yuan		Other currencies		All currencies	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Government and agency obligations	1,200.37	1,184.92	1,407.42	1,228.03	846.77	795.52	1,017.11	872.02	4,471.67	4,080.49
Financial institutions	10.76	10.63	26.93	15.36	-	-	80.91	87.81	118.60	113.80
Supranational	1,934.29	1,635.11	957.53	761.51	92.42	99.75	326.65	330.53	3,310.89	2,826.90
Total	**3,145.42**	**2,830.66**	**2,391.88**	**2,004.90**	**939.19**	**895.27**	**1,424.67**	**1,290.36**	**7,901.16**	**7,021.19**

The nominal value of treasury investments at amortized cost as of 31 December 2023 is UA 7,887.81 million (31 December 2022: UA 6,927.03). The average yield of treasury investments at amortized cost for the year ended 31 December 2023 was 1.78 percent (31 December 2022: 1.61 percent).

The contractual maturity structure of treasury investments at amortized cost as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	2023	2022
1 year or less	642.76	604.71
More than 1 year but less than 2 years	656.41	647.46
More than 2 years but less than 3 years	675.71	659.83
More than 3 years but less than 4 years	778.14	661.09
More than 4 years but less than 5 years	781.47	732.50
More than 5 years	4,366.67	3,715.60
Total	**7,901.16**	**7,021.19**

The fair value of treasury investments at amortized cost as at 31 December 2023 was UA 7,437.79 million (31 December 2022: UA 6,348.18 million).

Treasury Investments Mandatorily Measured at Fair Value

A summary of the Bank's treasury investments at FVTPL at 31 December 2023 and 31 December 2022 were as follows:

(UA millions)

	US Dollar		Euro		CNY		Other Currencies		All Currencies	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Time deposits	50.96	117.65	115.25	191.96	192.40	-	217.34	158.04	575.95	467.65
Asset-backed securities	2.61	2.88	-	-	-	-	-	-	2.61	2.88
Government and Agency obligations	1,836.13	2,801.36	365.31	263.46	-	63.42	-	-	2,201.44	3,128.24
Financial Institutions	953.02	610.88	177.89	183.87	-	-	-	-	1,130.91	794.75
Supranational	545.20	274.24	25.69	7.79	-	16.16	-	-	570.89	298.19
Total	**3,387.92**	**3,807.01**	**684.14**	**647.08**	**192.40**	**79.58**	**217.34**	**158.04**	**4,481.80**	**4,691.71**

The nominal value of treasury investments mandatorily measured at FVTPL as of 31 December 2023 was UA 4,515.59 million (31 December 2022: UA 4,774.76 million). The average yield of treasury investments mandatorily measured at FVTPL for the year 31 December 2023 was 6.11 percent (31 December 2022: 1.72 percent). The contractual maturity structure of treasury investments mandatorily measured at FVTPL as of 31 December 2023 and 31 December 2022 were as follows:

(UA millions)

	2023	2022
One year or less	2,432.22	2,808.27
More than one year but less than two years	726.50	684.79
More than two years but less than three years	526.59	979.38
More than three years but less than four years	560.76	95.41
More than four years but less than five years	233.11	121.04
More than five years	2.62	2.82
Total	**4,481.80**	**4,691.71**

NOTE G – Derivative Assets and Liabilities

The fair value of derivative financial assets and financial liabilities as at 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023		2022	
	Assets	Liabilities	Assets	Liabilities
Borrowings-related:				
Cross-currency swaps	515,173	1,285,562	492,543	1,466,176
Interest rate swaps	64,420	707,527	8,875	1,141,338
Loan swaps	284,907	9,520	394,825	9,133
	864,500	2,002,609	896,243	2,616,647
Investments-related:				
Asset swaps	-	5,257	-	8,237
Macro-hedge swaps and others	30,851	-	28,109	-
	30,851	5,257	28,109	8,237
Total	**895,351**	**2,007,866**	**924,352**	**2,624,884**

The notional amounts of derivative financial assets and liabilities as at 31 December 2023 and 31 December 2022 were follows:

(UA thousands)

	2023	2022
Borrowings-related:		
Cross-currency swaps	13,165,400	11,613,895
Interest rate swaps	17,679,636	20,751,331
Loan swaps	2,765,517	2,991,843
	33,610,553	35,357,069
Investments-related:		
Asset swaps	(82,609)	161,782
	(82,609)	161,782
Total	**33,527,944**	**35,518,851**

Loan Swaps

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

Futures Contracts

The Bank has entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at 31 December 2023, the Bank had futures with a notional value of Euro 6,939 million (UA 5,699 million) (2022: Euro 3,833 million, UA 3,059 million) and USD 16,655 million (UA 12,414 million) (2022: USD 18,637 million, UA 14,004 million). The carrying values of the Euro and US dollars futures was a positive market value of Euro 3.66 million (UA 3.00 million) (2022: positive Euro 17.78 million, UA 14.19 million) and a market value of USD 16.63 million (UA 12.40 million) (2022: USD 14.51 million, UA 10.90 million) respectively.

Forward Exchange Transactions to Hedge

To insulate the Bank from possible significant increases in administrative expenses that could arise from an appreciation of the principal currencies of administrative expenditure (i.e., EUR, GBP, CFA Franc and USD vis-à-vis the UA), the Bank executed forward exchange transactions to economically hedge its administrative expenses. As at 31 December 2023 there were no open positions with respect to forward exchange transactions.

Hedge Accounting

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

The fair value of the loan swaps designated and effective as hedging instruments as at 31 December 2023 was an asset of UA 272.74 million (December 2022: a liability of UA 385.07 million). The fair value loss on these loan swaps for the year ended 31 December 2023 was UA 111.70 million (December 2022: Gains of UA 448.01 million). The fair value gain on the hedged loans attributable to the hedged risk was UA 114.00 million (December 2022: Loss of UA 445.83 million). Therefore, the hedge effectiveness recognized in the income statement was a gain of UA 2.30 million (December 2022: gain of UA 2.18 million).

Hedge accounting treatment for swaps at the designation date requires the amortization of the difference between the net carrying amount of loans and their fair value from inception. For the year ended December 2023, the amortization of fair value adjustment on the hedged risk amounted to UA 1.87 million (December 2022: UA 2.15 million).

NOTE H – Loans and Guarantees

Loans

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

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

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

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

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

At 31 December 2023 and 31 December 2022, outstanding loans were as follows:

(UA thousands)

	2023	2022
Outstanding balance of loans – Gross	22,749,184	21,427,591
Provision for impairment	(727,776)	(732,263)
Total Outstanding Loans at 31 December	**22,021,408**	**20,695,328**

Classification of Loans

At 31 December 2023 and 2022, the carrying values of net outstanding loans were as follows:

(UA thousands)

	2023	2022
Loans at amortized cost		
Fixed rate loans	3,225,176	3,531,620
Floating rate loans	19,381,037	17,751,837
Variable rate loans	142,971	144,134
Gross Loans	22,749,184	21,427,591
Provision for impairment	(727,776)	(732,263)
Total Outstanding Loans at 31 December	**22,021,408**	**20,695,328**

The Bank is exposed to a loan that is measured at FVTPL due to the existence of a conversion option in the loan that could potentially change the future cash flows to no longer represent solely payments of principal and interest as required by IFRS 9. Accordingly, the fair value of this loan, and similar loans, is determined using the expected cash flows model with inputs including interest rates and the borrower's credit spread estimated based on the Bank's internal rating methodology for non-sovereign loans. As at 31 December 2023, the fair value of the loan was determined to be zero due to changes in the key valuation inputs. Subsequent changes in the key valuation inputs would lead to measurement gains that would be recognized in the income statement.

Maturity and Currency Composition of Outstanding Loans

The contractual maturity structure of total outstanding loans (on gross basis) as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	2023				2022
Periods	Fixed Rate	Floating Rate	Variable Rate	Total	Total
One year or less	405.79	1,507.06	142.97	2,055.82	2,065.53
More than one year but less than two years	269.18	1,618.27	-	1,887.45	1,727.22
More than two years but less than three years	333.73	1,606.53	-	1,940.26	1,869.12
More than three years but less than four years	281.56	1,601.34	-	1,882.90	1,783.18
More than four years but less than five years	279.90	1,608.18	-	1,888.08	1,717.34
More than five years	1,655.02	11,439.65	-	13,094.67	12,265.20
Gross Outstanding Loans	**3,225.18**	**19,381.03**	**142.97**	**22,749.18**	**21,427.59**

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 (on gross basis) as at 31 December 2023 and 31 December 2022 were as follows:

(UA millions)

			2023		2022	
			Amount	%	Amount	%
Fixed Rate:	Multi-Currency	Euro	-		-	
		Japanese Yen	-		-	
		Pound Sterling	-		-	
		Swiss Franc	-		-	
		US Dollar	61.06		61.56	
			61.06	0.27	61.56	0.29
	Single Currency	Euro	1,074.64		1,195.74	
		Japanese Yen	-		-	
		South African Rand	0.59		21.81	
		US Dollar	394.34		497.45	
		Others	-		9.42	
			1,469.57	6.46	1,724.42	8.05
	Structured Products	Euro	1,491.93		1,525.75	
		US Dollar			-	
		South African Rand	202.61		219.89	
			1,694.54	7.45	1,745.64	8.15
Floating Rate:	Single Currency	Euro	2,949.47		3,085.86	
		Pound Sterling			0.16	
		Japanese Yen			13.37	
		South African Rand	832.02		982.99	
		US Dollar	5,264.23		5,377.91	
		Others	-		-	
			9,045.72	39.76	9,460.29	44.15
	Structured Product	Euro	5,865.26		4,696.81	
		Japanese Yen	0.70		-	
		US Dollar	3,852.64		2,938.04	
		South African Rand	616.72		656.70	
			10,335.32	45.43	8,291.55	38.70
Variable Rate:	Multi-Currency	US Dollar	142.97		144.13	
			142.97	0.63	144.13	0.67
Gross Outstanding Loans			**22,749.18**	**100**	**21,427.59**	**100.00**

The weighted average yield on outstanding loans (on gross basis) for the year ended 31 December 2023 was 5.34 percent (31 December 2022: 0.68 percent).

A comparative summary of the currency composition of outstanding loans at 31 December 2023 and 31 December 2022 were as follows:

(UA millions)

	2023		2022	
	Amount	%	Amount	%
Euro	11,381.31	50.03	10,504.16	49.02
Japanese Yen	0.70	-	13.37	0.06
Pound Sterling	-	-	0.17	-
South African Rand	1,651.95	7.26	1,881.38	8.78
US Dollar	9,715.23	42.71	9,019.09	42.09
Others	-	-	9.42	0.04
Gross Outstanding Loans	**22,749.18**	**100.00**	**21,427.59**	**100.00**

Accounts Receivable

Accrued Income and Charges Receivable on Loans including Other Accounts Receivable

The accrued income and charges receivable on loans as at 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Accrued income and charges receivable on loans	872,739	723,129
Provision for impairment	(231,000)	(221,419)
Total	641,739	501,710
Other accounts receivable	1,188,638	821,514
Total Accounts Receivable	**1,830,377**	**1,323,224**

Provision for Impairment on Loan Principal and Charges Receivable

At 31 December 2023, outstanding loans with an aggregate principal balance of UA 686.85 million (31 December 2022: UA 704.94 million), of which UA 246.46 million (31 December 2022: UA 234.31 million) was overdue, were considered to be impaired i.e., stage 3.

The gross amounts of loans and charges receivable that were impaired and their cumulative impairment at 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Outstanding balance on impaired loans	686,848	704,941
Provision for impairment (Stage 3 only)	(464,923)	(460,098)
Net balance on impaired loans	**221,925**	**244,843**

The movements in the accumulated provision for impairment on outstanding loan principal for the period ended 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Balance as at 1 January	732,263	559,568
Provision for impairment on loan principal for the year (net)	5,785	172,695
Loans written off	(10,272)	-
Net balance	**727,776**	**732,263**

Accumulated provisions for impairment on outstanding loan principal included the provisions relating to public and private sector loans. During the year ended 31 December 2023, provisions for impairment made on private sector loans amounted to UA 6.49 million compared with provisions for impairment of UA 42.80 million for the year ended 31 December 2022. The accumulated provisions on private sector loans at 31 December 2023 amounted to UA 459.00 million compared to UA 462.67 million at 31 December 2022.

The movements in the accumulated provision for impairment on loan interest and charges receivable for the year ended 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Balance at January 1	221,419	297,097
Provisions/(Writeback) on impairment on loan charges for the year (net)	12,502	(75,678)
Loans written off	(2,921)	-
Net Balance	**231,000**	**221,419**

Accumulated provisions for impairment on loan interest and charges receivable included the provisions relating to public and private sector loans. During the period ended 31 December 2023, an impairment writeback was made on interest and charges receivable on private sector loans in the amount of UA 8.08 million (31 December 2022: UA 19.80 million). The accumulated provision on interest and charges receivable on private sector loans at 31 December 2023 amounted to UA 70.38 million (31 December 2022: UA 78.47 million).

Guarantees

The Bank may enter into special irrevocable commitments to pay amounts to borrowers or other parties for goods and services to be financed under loan agreements. At 31 December 2023, outstanding irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 9.98 million (31 December 2022: UA 12.08 million).

Also, the Bank provides 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. Repayment guarantees provided by the Bank outstanding at 31 December 2023 amounted to UA 693.83 million (31 December 2022: UA 88.83 million), of which UA 20.57 million (31 December 2022: UA 86.06 million) is related to trade finance as at 31 December 2023.

The accumulated ECL calculated on the trade finance guarantees issued by the Bank as at 31 December 2023 was UA 1.93 million (31 December 2022: UA 0.50 million).

Other than the guarantees above issued to other entities, the Bank in 2015 entered into guarantee contracts referred to as EEAs, covering certain of its loans whereby it gives as well as receives compensation in case there is a default in any of the specified loans.

In addition to EEAs, since 2018, the Bank has entered into Balance Sheet Optimization (BSO) transactions which are expected to release risk capital and create additional lending headroom. These transactions involve credit insurance, credit enhancement and synthetic securitization. Like the EEAs, these transactions are accounted for as financial guarantees. The details of BSO initiatives are provided in Note C.

The Bank has purchased credit enhancement facilities from the PSF for some of its non-sovereign loans. As at 31 December 2023, the maximum coverage amounts of non-sovereign loans by PSF amounted to UA 513.47 million (31 December 2022: UA 497.99 million).

The total cost of BSO coverage for the year ended 31 December 2023 was UA 15.61 million (31 December 2022: UA 18.83 million).

NOTE I – 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 primarily by the staff time spent on individual entity's work program deliverables. Based on the cost-sharing formula, the share of administrative expenses incurred by ADF for the year end 31 December 2023 amounted to UA 172.33 million (31 December 2022: UA 246.21 million), representing 51.48 percent (December 2022: 50.98 percent) of the shareable administrative expenses incurred by the Bank. The accounts of the ADF are kept separate and distinct from those of the Bank.

Although the ADB by agreement exercises 50 percent of the voting powers in the ADF, the Agreement establishing the ADF also provides that in the event of termination of the ADF's operations, the assets of the Fund shall be distributed pro-rata to its participants in proportion to the amounts paid-in by them on account of their subscriptions, after settlement of any outstanding claims against the participants. At 31 December 2023, the Bank's pro-rata or economic share in ADF was 0.32 percent (31 December 2022: 0.34 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 was not 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 FVOCI.

For the year ended 31 December 2023, dividend income increased by UA 6.29 million (44.36 percent) to UA 20.48 million from UA 14.19 million in December 2022.

The Bank's equity interests at the end of 2023 and 31 December 2022 are summarized below:

(UA thousands)

Institutions	Year Established	Callable capital	Carrying Value 2023	Carrying Value 2022
Investment in ADF	1972		111,741	111,741
Accumulated share of profit/(loss) & impairment on 1 January			(50,953)	(52,383)
Share of gains/(losses) on equity accounted investments for the year			374	(101)
Write-back for the year			677	1,531
			61,839	60,788
DIRECT INVESTMENTS				
Development Finance Institutions				
Africa Finance Corporation (AFC)	2019	-	50,521	42,246
Africa Prudential PLC	2015	-	91	156
Africa50 – Project Development	2016	8,079	1,821	2,231
Africa50 – Project Finance	2015	18,622	58,642	57,109
African Export and Import Bank (AFREXIM)	1993	20,220	112,663	90,603
African Guarantee Fund (AGF)	2011	-	13,663	14,391
Afriland Properties PLC	2015	-	49	35
Central African Development Bank (BDEAC)	1975	2,254	2,317	2,230
Development Bank of Nigeria	2018	-	64,072	45,420
East African Development Bank (EADB)	1967	10,435	18,445	18,327
Eastern and Southern African Trade and Development Bank (PTA)	1985	56,050	105,521	110,568
Great Lakes Development Bank (BDEGL)	1980	1,000	3,457	3,387
Shelter Afrique (SHAF)	1982	-	7,714	7,776
United Capital PLC	2015	-	1,196	1,471
West African Development Bank (BOAD)	1973	5,635	7,519	6,291
		122,295	447,691	402,241
Commercial Banks				
United Bank for Africa	1961	-	11,001	6,590
		-	11,001	6,590
Microfinance Institutions				
AB Microfinance Bank Nigeria Limited	2007	-	755	1,299
Access Bank Liberia Limited	2008	-	1,127	1,001
Access Bank Tanzania Limited	2007	5	115	102
		5	1,997	2,402
Insurance				
Africa Trade Insurance Agency	2013	-	16,572	18,776
Africa-Re	1977	-	61,909	63,020
CICA-RE	2022	3	5,945	7,980
Eastern and Southern African Reinsurance Company (ZEP-RE)	2011	1	29,067	28,096
		4	113,493	117,872
Real Sectors Companies				
Kukuza Project Development Company	2017	2,982	-	-
TOTAL DIRECT INVESTMENTS		**125,286**	**574,182**	**529,105**
FUNDS				
Adiwale	2019	5,385	3,172	2,749
ADP III	2020	13,011	5,447	2,716
AFIG Fund II LP	2016	2,145	9,831	9,739
Africa Capital Works Holdings	2018	5,536	6,928	5,826
Africa Forestry Fund II Limited	2020	3,069	10,077	4,256
Africa GoGreen Fund	2023	5,456	1,818	-
Africa Health Fund LLC	2009	2,271	-	251
Africa Joint Investment Fund (AJIF – CITADEL)	2010	259	-	-
Africa Renewable Energy Fund L.P	2014	-	15,714	18,911
African Agriculture Fund LLC (AAF)	2010	548	4,538	3,345
African Domestic Bond Fund	2018	8,945	6,834	8,975
African Infrastructure Investment Fund 2 (AIIF2)	2009	1,982	5,574	6,672
African Infrastructure Investment Fund 2 (AIIF3)	2019	196	29,754	23,695
AfricInvest FIVE	2019	3,113	11,311	8,169
AfricInvest Fund 2 (AFRICINVEST2)	2008	134	882	331
AfricInvest Fund 3 (AFRICINVEST3)	2016	413	13,038	9,541
AFS LP	2018	1,989	8,607	7,640
Agri-Vie Fund (AGRIVIE)	2020	-	2,572	2,353
AIF	2017	2,047	12,970	10,564
Alitheia IDF Fund	2019	3,275	5,168	4,243
APIS Growth Fund I Africa LP	2022	2,687	21,078	21,908
Arch African Renewable Power Fund LP(ARPF)	2010	8,347	9,733	8,710
ARCH Cold Chain Solutions East Africa F	2015	3,751	2,680	2,220
Argan Infrastructure Fund (ARGAN)	2008	1,702	4,963	4,644
Arm-Harith Infrastructure Investments Limited	2007	36	10,096	8,687
Atlantic Coast Regional Fund (ACRF)	2020	2,723	2,298	2,698
Aureos Africa Fund (AUREOS)	2007	2,813	312	455
Azur Innovation Fund	2020	-	778	510
BluePeak Private Capital Fund	2023	3,010	5,190	-
BOOST PAF I	2019	-	11,643	11,356
Business Partners International Southern Africa SME Fund	2014	1,133	1,243	1,272
Carlyle Sub-Saharan Africa Fund (CSSAF)	2012	506	34,733	38,113
Catalyst Fund (CATALYST)	2010	5	563	1,101
Catalyst II	2018	873	2,020	2,161
Cathay Africinvest Innovation Fund LLC	2022	3,154	308	2,028
Cauris Croissance II Fund	2012	942	597	904
Construction Equity Fund(CEF)	2019	8,637	18,158	12,190
ECP Africa Fund 4 (ECP4)	2017	1,337	9,896	16,228
ECP Africa Fund 2 (ECP2)	2005	3,543	820	1,984
ECP Africa Fund 3 (ECP3)	2008	-	15,194	19,328
Eight Miles LLP	2012	-	2,546	4,437
Enko Africa Private Equity Fund	2014	2,470	1,410	2,724
Evolution III	2023	12,151	2,490	-
Evolution Fund II (Mauritius) LP	2018	3,123	12,169	9,125
Evolution One Fund (EVOLUTION ONE)	2010	52	139	174
FEI-OGEF LP	2019	2,271	4,469	5,520
FEI Ongrid	2020	13,260	12,630	3,869
Fund for Agricultural Finance in Nigeria (FAFIN)	2017	273	3,275	4,497
GEF Africa Sustainable Forestry Fund (GEF)	2011	486	5,890	4,741
GroFin Africa Fund (GROFIN)	2008	2,063	31	32
Helios Investors II Fund (HELIOS2)	2011	257	7,678	9,557
I & P Afrique Entrepreneurs	2012	403	2,568	2,943
I & P AFRIQUE ENTREPRENEURS	2020	1,991	2,947	2,304
Investment Fund for Health in Africa (IFHA)	2010	401	367	859
IPDEV II	2018	1,320	2,010	1,806
Janngo Start Up Fund Senior	2022	1,779	2,771	263
Kibo Fund II	2014	-	8,894	9,527
Maghreb Private Equity Fund 3 (MPEF4)	2019	496	15,271	14,123
Maghreb Private Equity Fund 2 (MPEF2)	2008	22	53	1,521
Maghreb Private Equity Fund 3 (MPEF3)	2012	668	6,472	8,636
MEDITERRANIA CAPITAL FUND III	2017	828	10,465	10,026
Metier Sustainable Capital International Fund II L	2020	8,323	5,114	5,069
Moringa Mauritius Africa	2016	1,405	2,642	2,508
Nigeria Infrastructure Debt Fund	2020	2	3,370	6,819
Pan African Housing Fund (PAHF)	2013	968	440	688

Institutions	Year Established	Callable capital	Carrying Value 2023	Carrying Value 2022
Pan African Infrastructure Development Fund 1 (PAIDF1)	2007	1	22,969	23,654
Pan African Infrastructure Development Fund 2 (PAIDF2)	2014	16,446	3,386	3,962
PHATISA	2018	1,841	3,583	3,582
RH Africa Fund	2023	7,070	74	-
Shore Capital Fund III	2018	4,202	6,158	5,329
TIDE AFRICA LP FUND	2017	-	8,683	11,914
Uhuru Growth Fund	2023	4,207	2,192	-
VEROD	2019	2,937	7,512	4,289
West Africa Emerging Markets Fund (WAEMF)	2011	244	3,067	2,974
Yeelen Financial Fund	2023	5,185	2,779	-
TOTAL FUNDS		**202,118**	**483,054**	**453,945**
TOTAL DIRECT INVESTMENT AND FUNDS		**327,404**	**1,057,234**	**983,050**
GRAND TOTAL		**327,404**	**1,119,073**	**1,043,838**

The cost of equity investments (excluding ADF) carried at fair value at 31 December 2023 amounted to UA 873.01 million (2022: UA 816.14 million)

Note J – Property, equipment and intangible assets

(UA thousands)

2023	Land	Capital Work in Progress	Building and Improve-ments	RoU Assets	Equipment & Motor Vehicles	Furniture, Fixtures & Fittings	Total Property & Equipment	Computer Software	Property, Equipment & Intangible Assets
Cost:									
Balance at January 1	1,168	5,907	102,466	57,820	105,510	20,835	293,706	48,158	341,864
Transfer	-	(2,209)	1,220	-	989	-	-	-	-
Additions during the year	-	2,175	118	12,632	2,788	267	17,980	4,213	22,193
Disposals during the year	-	-	(140)	-	(842)	(291)	(1,273)	(18)	(1,291)
Balance at 31 December	1,168	5,873	103,664	70,452	108,445	20,811	310,413	52,353	362,766
Accumulated Depreciation:									
Balance at January 1	-	-	59,129	43,567	91,966	19,134	213,796	43,947	257,743
Depreciation during the year	-	-	6,814	9,021	6,632	632	23,099	4,991	28,090
Disposals during the year	-	-	(58)	-	(828)	(291)	(1,177)	(18)	(1,195)
Balance at 31 December	-	-	65,885	52,588	97,770	19,475	235,718	48,920	284,638
NBV: 31 December	**1,168**	**5,873**	**37,779**	**17,864**	**10,675**	**1,336**	**74,695**	**3,433**	**78,128**

(UA thousands)

2022	Land	Capital Work in Progress	Building and Improve-ments	RoU Assets	Equipment & Motor Vehicles	Furniture, Fixtures & Fittings	Total Property & Equipment	Computer Software	Property, Equipment & Intangible Assets
Cost:									
Balance at January 1	917	5,359	100,678	44,816	102,626	20,488	274,884	42,962	317,846
Transfer	-	(1,582)	1,088	-	494	-	-	-	-
Additions during the year	251	2,130	700	13,004	3,090	421	19,596	5,196	24,792
Disposals during the year	-	-	-	-	(700)	(74)	(774)	-	(774)
Balance at 31 December	1,168	5,907	102,466	57,820	105,510	20,835	293,706	48,158	341,864
Accumulated Depreciation:									
Balance at January 1	-	-	52,498	34,483	84,656	18,497	190,134	39,282	229,416
Depreciation during the year	-	-	6,631	9,084	8,000	711	24,426	4,665	29,091
Disposals during the year	-	-	-	-	(690)	(74)	(764)	-	(764)
Balance at 31 December	-	-	59,129	43,567	91,966	19,134	213,796	43,947	257,743
NBV: 31 December	**1,168**	**5,907**	**43,337**	**14,253**	**13,544**	**1,701**	**79,910**	**4,211**	**84,121**

Gain/(Loss) on Disposal of Property and Equipment

(UA thousands)

	2023	2022
Cost (See note J)	1,291	774
Accumulated depreciation (See note J)	(1,195)	(764)
Net book value	96	10
Sales proceeds	16	49
Gain/(Loss) on Disposal of Property and Equipment (Note N)	**(80)**	**39**

Set out below, are the carrying amounts of the Banks right-of-use assets and lease liabilities and the movements during the year:

(UA thousands)

	Right of Use Asset	Lease Liabilities
As at 1 January 2022	**10,333**	**9,347**
Additions	13,004	13,127
Depreciation Expense	(9,084)	-
Payments	-	(8,589)
As at 31 December 2022	**14,253**	**13,885**
Additions	12,632	12,463
Depreciation Expense	(9,021)	-
Payments	-	(9,654)
As at 31 December 2023	**17,864**	**16,694**

NOTE K – Borrowings

As at 31 December 2023 and 31 December 2022, the Bank's borrowings were as follows:

(UA thousands)

	2023	2022
Borrowings at fair value	24,562,870	24,006,353
Borrowings at amortized cost	213,538	247,854
Total	**24,776,408**	**24,254,207**

The Bank's borrowings as at 31 December 2023 included no subordinated borrowings (31 December 2022: UA 7.51 million).

The capital adequacy framework approved by the Board of Directors adopted the use of a single debt to usable capital ratio to monitor the Bank's leverage. The ratio caps the Bank's total outstanding debt at 100 percent of usable capital. Usable capital comprises the equity of the Bank and the callable capital of its non-borrowing members rated A- or better. The Bank's usable capital at 31 December 2023 was 61.04 billion (31 December 2022: UA 60.18 billion).

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

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

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

A summary of the Bank's borrowings portfolio at 31 December 2023 and 2022 was as follows:

Borrowings and Swaps at 31 December 2023

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements[a]			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Weighted. Average Cost[b] (%)	Weighted Average Maturity (Years)	Amount Payable/ (Receivable)	Wgtd. Average Cost[b] (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Weighted Average Cost[b] (%)	Average Maturity (Years)
Euro	Fixed	5,984.02	-	0.83	3.59	-	-	-	-	-	-
		-	-	-	-	221.42	1.38	10.98	6,084.83	0.82	3.43
	Adjustable	-	-	-	-	(5,039.41)	1.38	2.73	(6,084.83)	3.91	3.43
		-	-	-	-	142.36	3.97	0.94	-	-	-
GBP	Fixed	1,986.52	-	1.57	1.71	-	-	-	-	-	-
		-	-	-	-	2,087.66	1.53	1.72	-	-	-
	Adjustable	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
Japanese Yen	Fixed	939.83	49.53	0.51	4.32	-	-	-	-	-	-
		-	-	-	-	1,029.28	0.54	1.72	-	-	-
	Adjustable	240.81	-	3.57	3.67	(18.66)	-	3.49	(11.55)	(0.32)	1.38
		-	-	-	-	353.35	3.26	5.16	11.55	2.62	1.38
US Dollar	Fixed	10,103.59	-	2.92	2.95	-	-	-	-	-	-
		-	-	-	-	90.29	2.53	3.02	10,369.13	2.87	2.97
	Adjustable	159.74	-	4.15	0.57	(6,485.75)	5.46	9.22	(10,541.67)	4.56	2.93
		-	-	-	-	3,811.70	4.70	4.25	172.55	4.08	0.56
Others[d]	Fixed	4,741.66	74.54	2.92	3.82	-	-	-	-	-	-
		-	-	-	-	5,095.35	2.79	4.65	1,041.59	0.64	20.27
	Adjustable	406.70	89.83	2.50	5.25	(1,577.30)	7.83	4.11	(305.56)	8.40	14.04
		-	-	-	-	334.00	0.36	8.21	-	-	-
Total	Fixed	23,755.62	124.07	2.18	3.25	-	-	-	-	-	-
		-	-	-	-	8,523.99	2.17	3.72	17,495.54	2.02	4.16
	Adjustable	807.25	89.83	3.13	4.06	(13,121.12)	5.13	6.11	(16,943.61)	4.39	3.31
		-	-	-	-	4,641.41	4.25	4.50	184.10	3.98	0.61
Principal at face value		24,562.87	213.90	2.22	3.28	44.28	-	-	736.02	-	-
Net unamortized premium/Discount		-	(0.36)	-	-	1,211.72	-	-	127.50	-	-
		24,562.87	213.54	2.22	3.28	1,256.00	-	-	863.52	-	-
Fair valuation adjustment		-	-	-	-	(2,026.39)	-	-	(1,506.62)[c]	-	-
Total		**24,562.87**	**213.54**	**2.22**	**3.28**	**(770.39)**	**-**	**-**	**(643.11)**	**-**	**-**

Supplementary disclosure (direct borrowings):

The carrying amount of borrowings at 31 December 2023 was UA 24,562.87 million and the estimated fair value was UA 24,768.99 million

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

(b) The average repricing period of the net currency obligations for adjustable-rate borrowings was six months. The rates indicated are those prevailing at 31 December 2023.

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

(d) These amounts relate mainly to borrowings and derivatives in AUD, CHF,NZD, TRY and ZAR. Slight differences may occur in totals due to rounding.

Borrowings and Swaps at 31 December 2022

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements[a]			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Weighted. Average Cost[b] (%)	Weighted Average Maturity (Years)	Amount Payable/ (Receivable)	Wgtd. Average Cost[b] (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Weighted Average Cost[b] (%)	Average Maturity (Years)
Euro	Fixed	5,719.15	-	0.81	4.46	-	-	-	-	-	-
		-	-	-	-	(46.11)	1.58	35.29	6,136.19	0.81	4.29
	Adjustable	-	-	-	-	(3,933.86)	0.69	2.73	(6,136.19)	0.71	4.29
		-	-	-	-	137.98	1.11	1.96	-	-	-
GBP	Fixed	1,568.49	-	0.91	2.74	-	-	-	-	-	-
		-	-	-	-	1,722.90	0.90	2.75	-	-	-
	Adjustable	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	-	-	-
Japanese Yen	Fixed	822.08	55.38	0.63	29.46	-	-	-	-	-	-
		-	-	-	-	886.36	0.67	30.77	-	-	-
	Adjustable	283.45	-	3.81	2.52	(19.04)	(0.56)	4.59	(12.46)	(0.26)	2.34
			-	-	-	149.30	1.63	2.30	12.46	0.82	19.48
US Dollar	Fixed	10,884.91	157.80	2.19	2.32	-	-	-	-	-	-
		-	-	-	-	204.84	5.20	1.97	11,276.25	2.02	2.40
	Adjustable	158.64	-	3.82	1.51	(6,049.69)	3.27	8.79	(13,706.67)	3.48	2.04
		-	-	-	-	3,443.95	3.15	4.00	2,430.42	4.04	0.35
Others[d]	Fixed	4,191.79	0.39	2.67	4.07	-	-	-	-	-	-
		-	-	-	-	4,451.43	2.62	3.85	896.01	0.78	21.38
	Adjustable	377.84	35.85	1.91	5.38	(1,801.36)	6.48	4.17	(293.79)	6.62	12.90
		-	-	-	-	630.31	2.12	5.87	-	-	-
Total	Fixed	23,186.43	213.56	1.79	4.19	-	-	-	-	-	-
		-	-	-	-	7,219.43	2.05	6.64	18,308.45	1.55	3.96
	Adjustable	819.92	35.84	2.89	3.78	(11,803.95)	2.90	6.06	(20,149.11)	2.68	2.88
		-	-	-	-	4,361.54	2.89	4.15	2,442.88	4.03	0.45
Principal at face value		24,006.35	249.41	1.83	4.17	(222.98)	-	-	602.22	-	-
Net unamortized premium/(Discount)		-	(1.56)	-	-	1,000.23	-	-	133.05	-	-
		24,006.35	247.85	1.83	4.17	777.25	-	-	735.27	-	-
Fair valuation adjustment		-	-	-		(1,750.89)	-	-	(1,867.73)[c]	-	-
Total		**24,006.35**	**247.85**	**1.83**	**4.17**	**(973.63)**	**-**	**-**	**(1,132.46)**	**-**	**-**

Supplementary disclosure (direct borrowings):

The carrying amount of borrowings at 31 December 2022 was UA 24,006.35 million and the estimated fair value was UA 24,230.01 million

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

(b) The average repricing period of the net currency obligations for adjustable-rate borrowings was six months. The rates indicated are those prevailing at 31 December 2022.

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

(d) These amounts relate mainly to borrowings and derivatives in AUD, CHF,NZD, TRY and ZAR. Slight differences may occur in totals due to rounding.

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at 31 December 2023 was as follows:

Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	3,224.82	457.76	3,682.58
More than one year but less than two years	2,661.29	104.41	2,765.70
More than two years but less than three years	5,547.08	147.51	5,694.59
More than three years but less than four years	5,439.77	103.27	5,543.04
More than four years but less than five years	3,346.33	96.16	3,442.49
More than five years	3,293.47	141.00	3,434.47
Total	**23,512.76**	**1,050.11**	**24,562.87**

Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	106.07	-	106.07
More than one year but less than two years	33.60	-	33.60
More than two years but less than three years	-	-	-
More than three years but less than four years	74.23	-	74.23
More than four years but less than five years	-	-	-
More than five years	-	-	-
Subtotal	**213.90**	**-**	**213.90**
Net unamortized premium and discount	(0.36)	-	(0.36)
Total	**213.54**	**-**	**213.54**

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at 31 December 2022 was as follows:

Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	5,155.62	355.04	5,510.66
More than one year but less than two years	2,552.43	198.29	2,750.72
More than two years but less than three years	2,032.02	11.53	2,043.55
More than three years but less than four years	5,236.85	135.32	5,372.17
More than four years but less than five years	3,473.19	103.58	3,576.77
More than five years	4,628.14	124.34	4,752.48
Total	**23,078.25**	**928.10**	**24,006.35**

Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	186.11	-	186.11
More than one year but less than two years	7.70	-	7.70
More than two years but less than three years	-	-	-
More than three years but less than four years	0.09	-	0.09
More than four years but less than five years	0.19	-	0.19
More than five years	55.32	-	55.32
Subtotal	**249.41**	**-**	**249.41**
Net unamortized premium and discount	(1.56)	-	(1.56)
Total	**247.85**	**-**	**247.85**

The fair value of borrowings carried at fair value through profit or loss at 31 December 2023 was UA 24,562.87 million (December 2022: UA 24,006.35 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at 31 December 2023 was UA 27,332.93 million (December 2022: UA 27,053.65 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 gain of UA 59.48 million on borrowings, related derivatives and others for the year ended 31 December 2023 (December 2022: a gain of UA 88.90 million). The fair value movement attributable to changes in the Bank's "own credit" risk included in the other comprehensive income for the year ended 31 December 2023 was a gain of UA 35.58 million (December 2022: a gain of UA 92.62 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 reference rate both at the beginning and end of the relevant year. The Bank's credit spread was not applied for fair value changes on callable borrowings with less than one-year call date.

For borrowings designated at fair value through profit or loss at 31 December 2023, the cumulative unrealized fair value losses to date were UA 254.84 million (December 2022: UA 919.31 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.

The sixth General Capital Increase (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 by 200 percent from UA 23,947 million to UA 67,687 million, with the creation of 4,374,000 new shares. The new shares created were 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 shares are divided into paid-up and callable shares in the proportion of 6 percent paid-up shares to 94 percent callable shares.

Prior to the GCI-VI, i.e., during the period covered by GCI-V, and by its resolution's 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 Türkiye and the Grand Duchy of Luxembourg to become members of the Bank. The membership of these two countries became effective upon completion of the formalities specified in the Agreement establishing the Bank and in the General Rules Governing Admission of Non-Regional Countries to Membership of the Bank. Consequently, on 29 October 2013 and 29 May 2014, the Republic of Türkiye and The Grand Duchy Luxembourg respectively were formally admitted as the 78th and 79th member countries of the Bank. These shares, created under the two special capital increases, were subject to the same terms and conditions as the shares created under the GCI-V.

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.

In 2019, the Board of Directors endorsed proposals made by Canada and Sweden to subscribe, temporarily, to additional non-voting callable capital of the Bank in the amounts of UA 800 million and UA 357 million, respectively. The proposals were adopted by the Board of Governors on 12 June 2019 and 31 October 2019 and accordingly, the authorized capital stock of the Bank increased. These non-voting callable shares were absorbed by Canada's and Sweden's subscriptions to GCI-VII when they became effective.

By resolution B/BG/2019/04 adopted on 12 June 2019, the Board of Governors authorized a capital increase of UA 1.34 billion through the creation of 134,050 new shares to allow Ireland to become a member of the Bank. The membership of Ireland 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. Such formalities had been completed on 24 April 2020.

On 31 October 2019, the Board of Governors of the Bank approved a 125 percent increase of the capital resources of the institution. This seventh General Capital Increase (GCI-VII) increased the authorized capital stock of the Bank from UA 69,472 million[2] to UA 153,191 million with the creation of 8,371,881 new shares. The new shares created were 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 to 94 percent callable shares.

The paid-up portion of the GCI-VII subscription is payable in twelve annual instalments for member countries eligible to receive financing from ADF and eight annual instalments for member countries not eligible to receive financing from ADF. A member country's payment of the first installment triggers its subscription, and the entire callable shares are issued. Shares representing the paid-up portion of the subscription are issued only as and when the Bank receives the actual payments for such shares.

At its extraordinary meeting held on 5 March 2021, the Board of Governors adopted a resolution, effective immediately, authorizing the creation of temporary callable capital stock increasing the Bank's capital from one hundred fifty-three billion one hundred ninety-one million three hundred sixty thousand Units of Account (UA 153,191,360,000) to one hundred eighty-one billion seven hundred ninety-five million eight hundred thirty thousand Units of Account (UA 181,795,830,000). Member countries were invited to deposit their Instruments of Subscription that would be qualified and effective only in the case of a single event leading to a reduction in the stock of the Bank's AAA-rated callable capital by at least 30 percent which would have the effect of reducing the coverage of the Bank's net debt by AAA-rated callable capital below 100 percent (the "Qualifying Event"). Had the Qualifying Event occurred before 31 December 2023, the expiry date of these shares, members having subscribed to the temporary callable capital stock would have acquired certain voting rights.

During the same extraordinary meeting, the Board of Governors approved and authorized the return and cancellation of temporary callable shares without Voting Powers, created in 2019 and subscribed by Canada and the Kingdom of Sweden, from the total authorized capital stock of the Bank, as part of the interim measures pending the conclusion of the Seventh General Capital Increase. Consequently, the authorized capital of the Bank was reduced by UA 1,157,000,000, bringing it down to UA 180,638,830,000.

On 31 December 2023, the 2,860,447 callable shares created under Special Temporary Callable Capital Increase expired, and all the shares allocated to member countries were returned to the Bank in accordance with Resolution B/BG/EXTRA/2021/05. These shares remain in the Bank's authorized capital, which will be decreased from 18,063,883 shares to 15,203,436 shares upon approval by the Board of Governors of the Resolution authorizing their cancellation as provided for in paragraph 2(a) of Article 29 of the Agreement Establishing the Bank.

2 *The amount of UA 69,472,550,000 includes: (i) the special capital increase authorized under Resolution B/BG/2019/04 to allow for the subscription by the Republic of Ireland ("Ireland") (UA 1,340,500,000), (ii) the temporary increase in non-voting callable capital allocated to the Government of Canada ("Canada") (UA 800,000,000) under Resolution B/BG/2019/09 and (iii) the temporary increase in non-voting callable capital allocated to the Kingdom of Sweden ("Sweden") (UA 357,000,000) upon the Board of Governor's approval of Resolution B/BG/EXTRA/2019/01.*

The Bank's capital as at 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Capital Authorized (in shares of UA 10 000 each)	180,638,830	180,638,830
Less: Unsubscribed	(32,525,952)	(31,870,653)
Subscribed Capital	148,112,878	148,768,177
Less: Callable Capital	(138,177,865)	(138,793,635)
Paid-up Capital	9,935,013	9,974,542
Shares to be issued upon payment of future installments	(2,983,920)	(3,608,620)
Add: Amounts paid in advance	593	322
Capital	6,951,686	6,366,244

Included in the authorized data for 31 December 2023 is 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 Countries and credit the proceeds on a pro-rata basis to the successor states. In 2003, one of the successor states declined the invitation to apply for membership and instead offered to the Bank, as part of the state's Official Development Assistance, its pro-rata interest in the proceeds of any reallocation of the shares of former Yugoslavia. The Bank accepted the offer.

Subscriptions by member countries and their voting power at 31 December 2023 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	733,385	5.053	336,365	6,997,470	734,010	5.063
2	Angola	165,315	1.139	71,797	1,581,352	154,566	1.066
3	Benin	29,811	0.205	12,143	285,972	30,405	0.210
4	Botswana	112,523	0.775	80,095	1,045,135	113,148	0.780
5	Burkina Faso	58,293	0.402	24,140	558,805	58,918	0.406
6	Burundi	31,743	0.219	13,272	304,156	32,368	0.223
7	Cabo Verde	8,549	0.059	3,991	81,510	8,563	0.059
8	Cameroon	146,851	1.012	52,575	1,415,951	144,092	0.994
9	Central African Republic	5,285	0.036	1,975	50,882	5,613	0.039
10	Chad	8,337	0.057	3,412	79,970	8,962	0.062
11	Comoros	1,130	0.008	679	10,626	1,740	0.012
12	Republic of the Congo	54,694	0.377	24,352	522,600	52,672	0.363
13	Côte d'Ivoire	553,930	3.817	217,263	5,322,050	541,835	3.737
14	Democratic Republic of Congo	252,469	1.740	66,808	2,457,885	236,519	1.631
15	Djibouti	1,213	0.008	1,517	10,618	1,838	0.013
16	Egypt	898,008	6.188	418,285	8,561,800	898,633	6.198
17	Equatorial Guinea	9,588	0.066	7,969	87,917	10,213	0.070
18	Eritrea	4,510	0.031	2,921	42,182	4,947	0.034
19	Eswatini	16,302	0.112	10,435	152,590	16,927	0.117
20	Ethiopia	225,688	1.555	84,253	2,172,640	221,237	1.526
21	Gabon	65,385	0.451	56,236	597,628	66,010	0.455
22	Gambia	18,855	0.130	6,823	181,753	19,057	0.131
23	Ghana	324,494	2.236	125,974	3,118,941	325,119	2.243
24	Guinea	58,094	0.400	22,325	558,631	57,419	0.396
25	Guinea-Bissau	984	0.007	990	8,860	1,609	0.011
26	Kenya	190,879	1.315	72,579	1,836,220	187,227	1.291
27	Lesotho	13,057	0.090	6,009	124,570	13,682	0.094
28	Liberia	28,453	0.196	11,294	273,257	28,311	0.195
29	Libya	327,912	2.259	186,004	3,093,117	328,537	2.266
30	Madagascar	93,794	0.646	35,887	902,000	92,524	0.638
31	Malawi	48,182	0.332	18,942	462,890	48,807	0.337
32	Mali	25,444	0.175	20,487	233,961	26,069	0.180
33	Mauritania	7,707	0.053	4,899	72,185	8,332	0.057
34	Mauritius	93,770	0.646	48,780	888,860	94,395	0.651
35	Morocco	675,484	4.654	350,857	6,403,990	676,109	4.664
36	Mozambique	83,311	0.574	30,513	802,617	82,056	0.566
37	Namibia	49,557	0.341	21,663	471,800	50,182	0.346
38	Niger	29,813	0.205	12,091	286,042	30,438	0.210
39	Nigeria	1,259,885	8.681	647,477	11,951,383	1,260,510	8.695
40	Rwanda	19,567	0.135	7,773	187,903	19,769	0.136
41	São Tomé and Príncipe	9,280	0.064	3,625	89,193	9,717	0.067
42	Senegal	144,329	0.994	57,384	1,385,921	144,954	1.000
43	Seychelles	1,837	0.013	1,871	16,499	2,462	0.017
44	Sierra Leone	15,893	0.110	12,985	145,951	16,518	0.114
45	Somalia	4,251	0.029	2,670	39,845	4,688	0.032
46	South Africa	729,818	5.029	319,181	6,979,012	730,443	5.038
47	South Sudan	46,150	0.318	6,665	454,850	46,775	0.323
48	Sudan	14,034	0.097	14,160	126,177	14,659	0.101
49	Tanzania	124,094	0.855	46,532	1,194,417	124,719	0.860
50	Togo	23,804	0.164	9,770	228,271	24,429	0.169
51	Tunisia	209,158	1.441	100,022	1,991,560	209,752	1.447
52	Uganda	56,440	0.389	23,349	541,067	57,065	0.394
53	Zambia	169,827	1.170	68,182	1,630,065	170,452	1.176
54	Zimbabwe	248,758	1.714	102,845	2,384,738	249,383	1.720
	Total Regionals	**8,529,922**	**58.774**	**3,891,092**	**81,406,285**	**8,499,383**	**58.626**

Slight differences may occur in totals due to rounding.

(Amounts in UA thousands)

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
	Total Regionals	**8,529,922**	**58.774**	**3,891,092**	**81,406,285**	**8,499,383**	**58.626**
55	Argentina	11,870	0.082	7,185	111,520	12,495	0.086
56	Austria	63,983	0.441	32,175	607,660	64,608	0.446
57	Belgium	93,548	0.645	61,730	873,750	94,173	0.650
58	Brazil	21,791	0.150	16,970	200,940	22,416	0.155
59	Canada	560,436	3.862	364,122	5,240,240	561,061	3.870
60	China	184,922	1.274	93,300	1,755,920	185,547	1.280
61	Denmark	167,971	1.157	84,997	1,594,720	168,596	1.163
62	Finland	69,752	0.481	32,281	665,240	70,377	0.485
63	France	535,909	3.693	248,009	5,111,090	536,534	3.701
64	Germany	597,461	4.117	300,295	5,674,320	598,086	4.125
65	India	41,203	0.284	20,175	391,860	41,828	0.289
66	Ireland	115,674	0.797	31,084	1,125,670	116,299	0.802
67	Italy	347,768	2.396	174,830	3,302,850	348,393	2.403
68	Japan	789,177	5.438	397,060	7,494,710	789,802	5.448
69	Korea	68,678	0.473	31,476	655,310	69,303	0.478
70	Kuwait	63,714	0.439	29,486	607,660	64,339	0.444
71	Luxembourg	29,584	0.204	11,895	283,950	30,209	0.208
72	Netherlands	126,529	0.872	62,970	1,202,320	127,154	0.877
73	Norway	168,887	1.164	84,750	1,604,120	169,512	1.169
74	Portugal	34,326	0.237	15,966	327,300	34,951	0.241
75	Saudi Arabia	27,646	0.190	12,799	263,670	26,454	0.182
76	Spain	153,813	1.060	95,039	1,443,100	154,438	1.065
77	Sweden	225,212	1.552	113,018	2,139,110	225,837	1.558
78	Switzerland	209,646	1.445	100,687	1,995,780	210,271	1.450
79	Türkiye	56,600	0.390	22,746	543,260	57,225	0.395
80	U.K.	271,589	1.871	177,620	2,538,270	272,214	1.878
81	U.S.A.	945,516	6.515	437,929	9,017,240	946,141	6.526
	Total Non-Regionals	**5,983,205**	**41.226**	**3,060,594**	**56,771,580**	**5,998,263**	**41.374**
	Grand Total	**14,513,127**	**100.00**	**6,951,686**	**138,177,865**	**14,497,646**	**100.00**

The subscription position including the distribution of voting rights at 31 December 2023 reflects the differences in the timing of subscription payments by member countries during the allowed subscription payment period for GCI V,GCI-VI and GCI-VII. After the shares have been fully subscribed, the regional and non-regional groups are expected to hold 60 percent and 40 percent voting rights, respectively.

Slight differences may occur in totals due to rounding.

Cumulative Exchange Adjustment on Subscriptions (CEAS)

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

At 31 December 2023 and 31 December 2022, the Cumulative Exchange Adjustment on Subscriptions were as follows:

(UA thousands)

	2023	2022
Balance at 1 January	154,169	155,837
Net conversion losses on new subscriptions	(2,534)	(1,668)
Balance	**151,635**	**154,169**

Reserves

The reserves increased by UA 343.68 million (9.36 percent) from UA 3,670.66 million as at 31 December 2022 to UA 4,014.34 million as at 31 December 2023. This increase is due to the total comprehensive income for the year of UA 343.68 million.

Retained Earnings

Retained earnings include the net income for the year after taking into account transfers approved by the Board of Governors, and net charges recognized directly in equity. Retained earnings also include the transition adjustments resulting from the adoption of new or revised financial reporting standards, where applicable. Earnings include the net income for the year, after taking into account transfers approved by the Board of Governors, and net charges recognized directly in equity. At 31 December 2023 and 31 December 2022, the retained earnings were as follows:

(UA thousands)

Balance at 1 January 2022	3,290,130
Net income for the current year	175,278
Balance at 31 December 2022	**3,465,408**
Balance at 1 January 2023	3,465,408
Net income for the current year	360,047
Balance at 31 December 2023	**3,825,455**

Allocable income

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

At 31 December 2023 and 31 December 2022, the allocable income was as follows:

(UA thousands)

	2023	2022
Net Income before distribution approved by the Board of Governors	406,047	239,278
Adjustment for unrealized elements of gains and losses:		
Unrealized (gains) on borrowings and derivatives	(59,478)	(88,900)
Translation losses/(gains)	10,976	(66,457)
Total Adjustment for unrealized elements of gains and losses	(48,502)	(155,357)
Allocable income	**357,545**	**83,921**

During the year, the Board of Governors approved the distribution of UA 46 million (2022: UA 64.00 million) from income and the surplus account to certain entities for development purposes. With effect from 2006, Board of Governors approved distributions to entities for development purposes are reported as expenses in the Income Statement in the year such distributions are approved.

Movement in the surplus account during 2023 and 2022 is as follows:

(UA thousands)

Balance at 1 January 2022	1,312
Allocation from 2021 net income	12,810
Distribution to MIC Technical Assistance Fund	(4,000)
Distribution to Special Relief Fund	(7,000)
Distribution to the NEPAD	(3,000)
Balance at 31 December 2022	**122**
Balance at 1 January 2023	122
Allocation from 2022 net income	-
Distribution to MIC Technical Assistance Fund	-
Distribution to Special Relief Fund	-
Distribution to the NEPAD	-
Balance at 31 December 2023	**122**

Distributions to entities for development purposes, including those made from the surplus account, for the years ended 31 December 2023 and 2022 were as follows:

(UA thousands)

	2023	2022
African Development Fund (ADF)	35,000	35,000
Post Conflict Assistance – DRC	11,000	15,000
Special Relief Fund	-	7,000
NEPAD	-	3,000
MIC Technical Assistance Fund	-	4,000
Total	**46,000**	**64,000**

NOTE M – Income from Loans and Investments and Related Derivatives

Income from Loans and related derivatives

Income from loans and related derivatives for the year ended 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
Interest income on loans not impaired	1,103,529	489,312
Interest income on impaired loans	31,788	43,379
Interest on loan swaps	66,345	(25,396)
Total interest income on loans	1,201,662	507,295
Commitment fees	36,079	31,788
Trade finance guarantee fees	1,238	1,130
Statutory commission	178	182
Total fee income	37,495	33,100
Balance sheet optimization (BSO) fees	(15,607)	(18,829)
Total	**1,223,550**	**521,566**

Analysis of Interest Income from Loans by Operations

(UA thousands)

	2023	2022
Interest income on sovereign loans	908,457	373,240
Interest income on non-sovereign loans	226,860	159,451
Interest on loan swaps	66,345	(25,396)
Total interest income on loans	**1,201,662**	**507,295**

Income from Investments and Related Derivatives

Income from loans and related derivatives for the year ended 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
Interest income	340,984	194,356
Realized fair value gains on investments	88,148	52,126
Unrealized fair value gains on investments	30,472	(28,320)
Subtotal	118,620	23,806
Total	**459,604**	**218,162**

Total interest income on investments at amortized cost for the year ended 31 December 2023 was UA 127.44 million (2022: UA 105.79 million).

Net interest income from loans and investment and related derivatives

The net interest income on loans, investment and related derivatives for the year ended 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
Interest income from loans	1,201,662	507,295
Interest income from treasury investment	340,984	194,356
Other debt securities	7,938	6,889
Total Interest Income	**1,550,584**	**708,540**
Borrowing expenses (Note O)	(1,191,709)	(353,990)
Net interest income	**358,875**	**354,550**

NOTE N – Other Income

Other Income represents net earnings that arise from other sources and activities apart from the Bank's development related activities and Investment activities. Other income for the year ended 31 December 2023 and 2022:

(UA thousands)

	2023	2022
Management fees	8,584	10,495
Rental income	1,222	1,261
Miscellaneous Income	5,029	1,538
Board allowances received	462	310
Share of profits/(losses) in equity accounted investments	374	(101)
(Losses)/gains on disposal of Property and equipment	(80)	39
Others	2,727	448
Total	**18,318**	**13,990**

NOTE O – Borrowing Expenses

Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the year ended 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
Charges to bond issuers	514,822	416,819
Amortization of issuance costs	538	1,120
Interest on operating lease	326	194
Total	**515,686**	**418,133**

Total interest expense for financial liabilities not at fair value through profit or loss for the year ended 31 December 2023 was UA 16.29 million (December 2022: UA 14.29 million).

Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the year ended 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
Interest on derivatives payable	1,394,441	502,063
Interest on derivatives receivable	(718,418)	(566,206)
Total	**676,023**	**(64,143)**
Net borrowing expenses	**1,191,709**	**353,990**

Gains on Borrowings and Related Derivatives

Gains on borrowings, related derivatives and others for year ended 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
Gains on borrowings, related derivatives and others	59,478	88,900

The gains on borrowings, related derivatives and others include the income statement effects of the hedge accounting, consisting of unrealized gain of UA 2.30 million (December 2022: unrealized gain of UA 2.18 million), representing hedge effectiveness and UA 1.87 million (December 2022: UA 2.15 million) of amortization of fair value adjustments on the hedged risk (See Note G).

Cumulative valuation adjustment loss in respect of counterparty risk of derivative financial assets (CVA) for the year ended 31 December 2023 amounted to UA 8.55 million (December 2022: loss UA 7.21 million), whilst cumulative valuation adjustment gain relating to credit risk in derivative financial liabilities (DVA) for the year ended 31 December 2023 was UA 21.46 million (December 2022: a gain UA 17.96 million).

NOTE P – Administrative Expenses

Total administrative expenses relate to expenses incurred for the operations of the Bank and those incurred on behalf of the ADF and the NTF. The ADF and NTF reimburse the Bank for their share of the total administrative expenses, based on an agreed-upon cost-sharing formula, which is driven primarily by the staff time spent on individual entity's work program deliverables. However, the expenses allocated to the NTF shall not exceed 20 percent of the NTF's gross income.

Administrative expenses (excluding depreciation and amortization) for the year ended 31 December 2023 and 31 December 2022 comprised the following:

(UA thousands)

	2023	2022
Manpower expenses*	223,970	386,795
Other general expenses	82,713	67,088
Total	**306,683**	**453,883**
Reimbursable by ADF	(172,325)	(246,211)
Reimbursable by NTF	(1,242)	(508)
Net	**133,116**	**207,164**

** Shares of ADB manpower expenses amount to UA 107.85 million (2022: UA 189.21 million).*

The amount reimbursable to ADB by ADF and NTF is based on the cost sharing ratio applied on the Bank Group's manpower expenses, other general expenses, depreciation and amortization expenses.

Included in general administrative expenses is an amount of UA 0.12 million (2022: UA 0.33 million) incurred under operating lease agreements for offices in Côte d'Ivoire and in certain member countries, where the Bank has offices, the short-term leases and leases of low value not recognized as liabilities. The payments in relation to these are recognized as an expense in profit or loss.

NOTE Q – Employee Benefits

Staff Retirement Plan

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

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

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

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

In 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.

In 2022, the Board of Directors approved the extension of the mandatory staff retirement age in the Bank from 62 to 65 years, effective 1 January 2023. Staff in service as of 31 December 2022 had the option to maintain their previous retirement age or choose the option to retire at age 65.

The Hybrid Scheme

On 19th September 2018, the Board of Directors approved changes to the Staff Retirement Plan (SRP or the Plan) introducing an alternative pension structure combining the features of a defined benefit (DB) and a defined contribution (DC) scheme to strengthen the Plan's long-term sustainability, while giving flexibility to members.

The effective date of the hybrid scheme is 1 July 2019. The hybrid scheme is aimed at strengthening the Plan's long-term financial viability and grants qualifying participants the flexibility to decide where to invest their contributions with the choice to contribute additional voluntary contributions to their personal DC accounts. Qualifying participants in the service of the Bank before the effective date will have the option to join the new hybrid scheme or remain in the current DB scheme. These changes will not affect the acquired pension rights of current plan participants or retirees' pension benefits. However, qualifying participants joining the plan from the effective date will automatically be enrolled in the new hybrid scheme i.e. the SRP and the newly introduced defined contribution plan.

The features of the hybrid scheme are stated below:

- Participants and the Bank will continue to contribute 9 percent and 18 percent of salaries respectively under the hybrid scheme.
- The Bank's median salary will be used as the cap and will be reset every three years.
- Contributions will be split between the DB and the DC at the median salary cap as follows;
  - *a)* Participants earning up to the median salary cap will contribute to the DB scheme and have only DB benefits at retirement; and
  - *b)* Participants with salaries higher than the median salary cap will contribute to the DB up to the median salary and will contribute the excess over the median salary to the DC. In effect, participants under the hybrid scheme will have benefits from both the DB and DC plans at retirement.
- Participants with the DC plan will have the right to determine where their contributions will be invested and the flexibility to make additional voluntary contributions to their DC accounts.
- Funds in the DC component will be invested by external fund managers for each participant's account and related management fees will be deducted directly from each participant's account.
- The DB benefits will remain under the administration of the Staff Retirement Plan.

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 of 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.

For the DC component of the hybrid plan, the amount recognized in the income statement for the year ended December 2023 was UA 1.47 million (2022: UA 0.77 million). This amount is included in Other Accounts Payable.

The post-employment scheme of staff retirement and medical benefit expenses for 2023 and 2022 for the Bank, the ADF and the NTF combined (the Bank Group) comprised the following:

(UA millions)

	Staff Retirement Plan		Medical Benefit Plan	
	2023	2022	2023	2022
Current service cost – gross	38.53	76.87	21.52	27.78
Past service cost amendments	(102.88)	-	(9.04)	-
Less: employee contributions	(13.40)	(12.84)	(4.49)	(4.24)
Net current service cost	(77.75)	64.03	7.99	23.54
Interest cost	36.68	27.70	11.91	7.18
Expected return on plan assets	(38.88)	(22.84)	(4.64)	(2.15)
(Reduction)/increase in expense for the year	**(79.95)**	**68.89**	**15.26**	**28.57**

At 31 December 2023, the Bank had a Net Employee Benefits Assets related to the SRP amounting to UA 36.88 million (2022: Employee Benefits liabilities of UA 66.76 million) while the Bank's liability to the post-employment aspect of the MBP amounted to UA 266.84 million (2022: UA 161.67 million).

At 31 December 2023 and 2022 the determination of these balances are set out below:

(UA millions)

	Staff Retirement Plan		Medical Benefit Plan	
	2023	2022	2023	2022
Fair value of plan assets:				
Market value of plan assets at beginning of year	883.17	1,063.85	100.79	89.98
Actual return on assets	121.15	(181.66)	3.47	2.05
Employer's contribution	26.80	25.84	8.96	8.47
Plan participants' contribution during the year	13.40	12.84	4.49	4.24
Benefits paid	(32.42)	(37.70)	(3.82)	(3.95)
Market value of plan assets at the end of the year	**1,012.10**	**883.17**	**113.89**	**100.79**
Present value of defined benefit obligation:				
Benefit obligation at beginning of year	949.93	1,309.16	262.46	293.33
Current service cost	25.13	64.03	17.03	23.54
Employee contributions	13.40	12.84	4.49	4.24
Interest cost	36.68	27.70	11.91	7.18
Actuarial loss/(gain)	85.38	(426.10)	97.70	(61.88)
Benefits paid	(32.42)	(37.70)	(3.82)	(3.95)
Past service cost amendments	(102.88)	-	(9.04)	-
Benefit obligation at end of year	**975.22**	**949.93**	**380.73**	**262.46**
Funded status:				
Net Employee Benefit Assets/(Liabilities) recognized on the balance sheet at 31 December	**36.88**	**(66.76)**	**(266.84)**	**(161.67)**

	2023	2022
Amount recognized on the Balance sheet – Employee Benefit Assets	**36.88**	**-**
Amount recognized on the Balance sheet – Employee Benefit Liabilities	**266.84**	**228.43**

Unrecognized past service costs at 31 December 2023 was UA 111.92 million (December 2022: nil). At 31 December 2023, the cumulative net remeasurement recognized directly in equity through other comprehensive income (OCI) for the SRP was UA 32.64 million (2022: gains of UA 35.75 million). The cumulative net remeasurement recognized directly in equity through OCI for MBP was UA 65.69 million (2022: gain of UA 33.19 million).

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

(UA millions)

	2023	2022	2021	2020	2019
Staff Retirement Plan:					
Fair value of Plan assets	1,012.10	883.17	1,063.85	908.50	849.12
Present value of defined benefit obligation	(975.22)	(949.93)	(1,309.16)	(1,286.25)	(1,149.05)
Deficit funding	**36.88**	**(66.76)**	**(245.31)**	**(377.75)**	**(299.93)**
Experience adjustments on plan assets	138.90	56.63	261.14	125.36	87.80
Experience adjustments on plan liabilities	(106.26)	(20.88)	(446.98)	(493.18)	(421.56)
Net	**32.64**	**35.75**	**(185.84)**	**(367.82)**	**(333.76)**

The funding status of the MBP at the end of the last five fiscal years was as follows:

(UA millions)

	2023	2022	2021	2020	2019
Medical Benefit Plan:					
Fair value of Plan assets	113.89	100.79	89.97	80.02	70.03
Present value of defined benefit obligation	(380.73)	(262.46)	(293.34)	(335.19)	(309.22)
Deficit funding	**(266.84)**	**(161.67)**	**(203.37)**	**(255.17)**	**(239.19)**
Experience adjustments on plan assets	(9.99)	(8.82)	(8.93)	(10.36)	(9.58)
Experience adjustments on plan liabilities	(55.70)	42.01	(19.66)	(87.14)	(92.93)
Net	**(65.69)**	**33.19**	**(28.59)**	**(97.50)**	**(102.51)**

Assumptions used in the latest available actuarial valuations at 31 December 2023 and 2022 were as follows:

(Percentages)

	Staff Retirement Plan		Medical Benefit Plan	
	2023	2022	2023	2022
Discount rate	4.00	4.40	4.00	4.40
Rate of salary increase	3.30	3.40	3.30	3.40
Future pension increase	2.20	2.30	-	-
Health care cost growth rate	-	-	7.00	6.00

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

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

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

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

The average duration of SRP and MBP is 16 years and 21 years, respectively. The following table shows projected benefit cash flow outgo:

(UA millions)

	2025	2026	2027	2028	2029 to 2033
Cash flow from MBP	4.73	5.52	6.53	7.78	63.20
Cash flow from SRP	32.94	39.06	42.68	49.45	287.16

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

(UA thousands)

	1% Increase		1% Decrease	
	2023	2022	2023	2022
Effect on total service and interest cost	13,456	8,750	(10,123)	(6,675)
Effect on post-retirement benefit obligation	92,029	58,709	(72,420)	(46,710)

The following table shows the effect of a 1 percentage point change in the discount rate for the SRP:

(UA thousands)

	1% Increase		1% Decrease	
	2023	2022	2023	2022
Effect on total service and interest cost	7,357	7,311	(9,736)	(9,641)
Effect on post-retirement benefit obligation	131,303	122,950	(166,054)	(155,121)

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

The following table presents the weighted-average asset allocation at 31 December 2023 and 2022 for the Staff Retirement Plan:

(UA thousands)

	2023	2022
Debt securities	310,909	342,918
Equity securities	623,905	443,377
Property	69,385	81,967
Total	**1,004,199**	**868,262**

At 31 December 2023 and 2022, the assets of the MBP were invested primarily in short-term deposits and bonds.

The Bank's estimate of contributions it expects to make to the SRP and the MBP for the year ending 31 December 2024, are UA 28.30 million and UA 9.77 million, respectively.

NOTE R – Related Parties

The following related parties have been identified:

The Bank makes or guarantees loans to some of its members who are also its shareholders and borrows funds from the capital markets in the territories of some of its shareholders. As a multilateral development institution with membership comprising 54 African states and 27 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 L. 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. The Board of Directors approve such loans.

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 primarily by the staff time spent on individual entity's work program deliverables.

The Bank's investment in the ADF is included in Equity Participations and disclosed in Note I. 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. Details of the outstanding balance on such grant funds at 31 December 2023 and 2022 are disclosed in Note U-5.

The Bank charges fees for managing some of these funds. Management fees received by the Bank for the year ended 31 December 2023 amounted to UA 8.6 million (2022: UA 10.50 million). The Bank also administers the SRP and MBP. The activities of the SRP and MBP are disclosed in Note Q.

Management Personnel Compensation

Compensation paid to the Bank's management personnel and executive directors during the year ended 31 December 2023 and 31 December 2022 were made up as follows

(UA thousands)

	2023	2022
Salaries	30,735	30,269
Termination and other benefits	8,518	9,940
Contribution to retirement and medical plan	6,663	6,559
Total	**45,916**	**46,768**

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. As of 31 December 2023, outstanding balances on loans and advances to management staff and executive directors amounted to UA 9.11 million (31 December 2022: UA 8.25 million).

NOTE S – Segment Reporting

The Bank is a multilateral development finance institution dedicated to the economic and social progress of its Regional Member Countries. The Bank's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers. Based on the evaluation of the Bank's operations, management has determined that AfDB has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers. The products and services from which the Bank derives its revenue are mainly loans, treasury and equity participation.

External revenue for the years ended 31 December 2023 and 2022 is detailed as follows:

(UA thousands)

	2023	2022
Interest income from loans		
Fixed rate loans	1,079,888	485,990
Variable rate loans	46,034	11,048
Floating rate loans	9,395	35,653
	1,135,317	532,691
Commitment charges and commissions	21,888	14,271
Interest on loan swaps	66,345	(25,396)
Total income from loans	**1,223,550**	**521,566**
Income from Treasury Investments	459,604	218,162
Income from other debt securities	7,938	6,889
Other income	38,796	28,175
Total external revenue	**1,729,888**	**774,792**

Revenues earned from transactions with a single borrower country of the Bank and exceeding 10 percent of the Bank's revenue for one country amounted to UA 400.11 million for the year ended 31 December 2023 (2022: UA 140.46 million).

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

Geographical information about income from loans for the years ended 31 December 2023 and 2022 is detailed as follows:

(UA thousands)

	Central Africa	Eastern Africa	Northern Africa	Southern Africa	Western Africa	Multinational	Total
2023							
Income from sovereign loans	72,429	107,421	359,141	299,920	142,714	(5,731)	975,894
Income from non-sovereign loans	9,967	38,036	34,463	76,188	62,681	26,321	247,656
	82,396	**145,457**	**393,604**	**376,108**	**205,395**	**20,590**	**1,223,550**
2022							
Income from sovereign loans	18,309	31,253	119,464	171,216	43,157	3,286	386,685
Income from non-sovereign loans	7,113	32,137	(6,589)	39,370	57,903	4,947	134,881
	25,422	**63,390**	**112,875**	**210,586**	**101,060**	**8,234**	**521,566**

As of 31 December 2023, land and buildings owned by the Bank were located primarily at the Bank's headquarters in Abidjan, Côte d'Ivoire. More than 90 percent of other fixed and intangible assets were located at the regional resource centers in Nairobi, Pretoria and Tunis.

NOTE T – Approval of Financial Statements

On March 29, 2024, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors at its annual meeting in May 2024.

Note U – Supplementary disclosures

Note U-1: Exchange rates

The rates used for translating currencies into Units of Account at 31 December 2023 and 31 December 2022 were as follows;

		2023	2022
1 UA = 1 SDR =	Algerian Dinar	180.10000	182.79300
	Angolan Kwanza	1,111.97610	670.33213
	Australian Dollar	1.97888	1.99228
	Botswana Pula	17.99030	17.10590
	Brazilian Real	6.52426	6.84570
	Canadian Dollar	1.77933	1.81035
	Chinese Yuan Renminbi	9.58727	9.29731
	CFA Franc	798.64700	821.85500
	Danish Kroner	9.07779	9.31203
	Egyptian Pound	41.44419	32.90795
	Ethiopian Birr	74.70270	71.67080
	Euro	1.21753	1.25291
	Gambian Dalasi	84.69963	80.93000
	Ghanaian Cedi	15.93904	11.41328
	Guinean Franc	11,420.37700	11,383.08100
	Indian Rupee	111.49100	110.28500
	Japanese Yen	190.45400	176.53700
	Kenyan Shilling	209.92010	164.19039
	Korean Won	1,749.80000	1,698.29000
	Kuwaiti Dinar	0.41163	0.40749
	Libyan Dinar	6.40688	6.42636
	Mauritian Rupee	59.30040	58.69100
	Moroccan Dirham	13.27301	13.90422
	New Zambian Kwacha	34.49474	24.05340
	New Zealand Dollar	2.13282	2.13379
	Nigerian Naira	1,206.71560	596.93030
	Norwegian Krone	13.72210	13.08650
	Pound Sterling	1.05381	1.10279
	Sao Tomé Dobra	29.58510	30.61850
	Saudi Arabian Riyal	5.02074	4.99286
	South African Rand	24.71770	22.77610
	Swedish Krona	13.46050	13.94070
	Swiss Franc	1.14526	1.23808
	Tanzanian Shilling	3,292.57540	3,072.67480
	Tunisian Dinar	4.11316	4.13905
	Turkish Lira	39.61710	24.97450
	Ugandan Shilling	5,074.47769	4,942.26220
	United States Dollar	1.34167	1.33084
	Vietnamese Dong	32,474.45152	32,093.20660

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

NOTE U-2: Other Development Assistance Activities

(i) Democratic Republic of Congo (DRC)

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

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

(ii) Post-Conflict Countries Assistance/Transition States Facility

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

Resources from the facility are provided on a case-by-case basis to genuine post-conflict countries not yet receiving debt relief to fill financing gaps after maximum effort by the post-conflict country to clear its arrears to the Bank Group. In this connection, the Board of Governors by its Resolution B/BG/2004/07 of 25 May 2004, established the Post-Conflict Countries Facility (PCCF) under the administration of the ADF and approved an allocation of UA 45 million from the 2003 net income of the Bank. The Board of Governors also, by its resolution B/BG/2005/05 of 18 May 2005, approved an additional allocation of UA 30 million from the 2004 net income as the second installment of the Bank's contribution to the facility and by its resolution B/BG/2006/04 of 17 May 2006, the Board of Governors also approved the third and final installment of the Bank's allocation of UA 25 million from the 2005 net income.

In March 2008, the Board of Directors approved the establishment of the Fragile States Facility (FSF) to take over the activities of the PCCF and in addition provide broader and integrated framework for assistance to eligible states. The purposes of the FSF are to consolidate peace, stabilize economies and lay the foundation for sustainable poverty-reduction and long-term economic growth of the eligible countries. By policy, contributions made by ADB to the PCCF/FSF are not used to clear the debt owed to the Bank by beneficiary countries.

(iii) Heavily Indebted Poor Countries (HIPC) Initiative

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

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

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

As at end December 2023, the implementation of the HIPC initiative shows that out of the 33 eligible countries, 31 RMCs have reached their completion points. Two (2) countries (Eritrea and Sudan) have yet to complete the requirements for HIPC debt relief. Somalia successfully implemented a poverty reduction strategy and maintained a track record of sound macroeconomic management as evidenced by the satisfactory implementation of the IMF Extended Credit Facility (ECF). This enabled Somalia to successfully reach the HIPC Completion Point on December 13, 2023.

iv) Multilateral Debt Relief Initiative (MDRI)

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

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

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

NOTE U-3: Special Funds

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

At 31 December 2023 and 2022, the following funds were held separately from those of the ordinary capital resources of the Bank:

i) The Nigeria Trust Fund (NTF) was established under an agreement signed on 26 February 1976 (the Agreement) between the African Development Bank and the Federal Republic of Nigeria. The Agreement stipulates that the NTF shall be in effect for a period of 30 years from the date the Agreement became effective and that the resources of the NTF shall be transferred to the Government of Nigeria upon termination. However, the 30-year sunset period may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria.

Following the initial expiry of the agreement on 26 April 2006, and the successful completion of independent reviews of its performance, the Agreement has been extended several times, most recently for five years from 25 April 2023.

The initial capital of the NTF was NGN 50 million payable in two equal installments of NGN 25 million each, in freely convertible currencies. The first installment, equivalent to USD 39.90 million, was received by the Bank on 14 July 1976, and payment of the second installment, equivalent to USD 39.61 million, was made on 1 February 1977.

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

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

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

The resources of the NTF at 31 December 2023 and 2022 are summarized below:

(UA thousands)

	2023	2022
Contribution received	128,586	128,586
Funds generated (net)	156,014	151,054
Adjustment for currency translation	(93,046)	(91,482)
	191,554	**188,158**
Represented by:		
Due from banks	3,500	5,486
Investments	94,928	91,216
Accrued income and charges receivable on loans	277	276
Accrued interest on investments	504	438
Other amounts receivable	763	551
Loans outstanding	92,542	92,355
	192,514	**190,322**
Less: Current accounts payable	(960)	(2,164)
	191,554	**188,158**

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

The summary statement of the resources and assets of the Special Relief Fund (for African countries affected by drought) as at 31 December 2023 and 2022 follows:

(UA thousands)

	2023	2022
Fund balance	132,462	132,462
Funds generated	6,751	6,425
Funds allocated to Social Dimensions of Structural Adjustment (SDA)	2	2
Less: Relief disbursed	(134,755)	(130,777)
	4,460	**8,112**
Represented by:		
Due from bank	1,330	1,395
Investments	3,102	6,675
Accounts receivable/(payable)	28	42
	4,460	**8,112**

At 31 December 2023, a total of UA 2.72 million (USD 3.65 million) compared with UA 0.47 million (US$ 0.63 million) in 2022, had been committed but not yet disbursed under the Special Relief Fund.

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

The summary statement of the resources and assets of the Africa Growing Together Fund as at 31 December 2023 and 2022 follows:

(UA thousands)

	2023	2022
Contribution received	455,388	304,064
Funds generated (net)	(33,221)	(25,136)
	422,167	**278,928**
Represented by:		
Due from bank	31,511	3,366
Investments	1,061	3,771
Loans outstanding	389,861	274,961
Accrued income and charges receivable on loans and investments	9,177	3,442
Less: Current accounts payable	(9,443)	(6,612)
	422,167	**278,928**

NOTE U-4: Trust Funds

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

- **The Mamoun Beheiry Fund** was established under Board of Governors' Resolution 11–70 of 31 October 1970, whereby Mr. Mamoun Beheiry, former President of the Bank, agreed to set up a fund, which could be used by the Bank to reward staff members who had demonstrated outstanding performance in fostering the objectives of the Bank.
- **The Special Emergency Assistance Fund for Drought and Famine in Africa (SEAF)** was established by the 20th Meeting of Heads of State and Governments of member countries of the African Union formerly Organization of African Unity (OAU) held in Addis Ababa, Ethiopia, from 12 to 15 November 1984, under Resolution AHG/Res. 133 (XX), with the objective of giving assistance to African member countries affected by drought and famine.

The financial highlights of these Trust Funds at 31 December 2023 and 2022 are summarized below:

(UA thousands)

	2023	2022
Mamoun Beheiry Fund		
Contribution	152	152
Income from investments	173	157
	325	309
Less: Prize awarded	(46)	(46)
Gift	(25)	(25)
	254	**238**
Represented by:		
Due from banks	254	238
	254	238
Special Emergency Assistance Fund for Drought and Famine in Africa		
Contributions	22,722	22,722
Funds generated	7,812	7,785
	30,534	30,507
Less: Relief disbursed	(29,303)	(29,524)
	1,231	983
Represented by:		
Banks and Investment	1,231	983
	1,231	983
Total Resources & Assets of Trust Funds	**1,485**	**1,221**

NOTE U-5: Grants (Donor Funds)

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

The undisbursed balances of the grant resources at 31 December 2023 and 2022 were as follows:

(UA thousands)

Trust Fund Name	2023	2022
AFAWA Risk Sharing Facility	51,293	46,791
Africa Circular Economy Facility	2,131	1,619
Africa Climate Change Fund	19,061	12,954
Africa Digital Financial Inclusion	20,955	18,312
Africa Disaster Risk Trust Fund	31,079	5,305
Africa Growing Together Fund	33,318	6,787
Africa Integrity Fund	43,923	42,242
Africa Investment Facility	51,662	37,781
Africa Renewable Energy Initiative	2,692	2,965
Africa trade Fund	2,734	3,080
Africa Water Facility Fund	44,614	41,101
African Energy Leaders Group	379	353
African Legal Support Facility	19,115	23,171
Agriculture fast track fund	494	4,119
Agri-Food SME Catalytic Financing Mechanism (IF)	47,813	45,453
Agri-Food SME Catalytic Financing Mechanism (TAF)	15,798	11,409
AMINA	1,639	1,574
Bill and Melinda Gate Foundation TCA	6,922	6,510
Boost Africa Entrepreneurs Lab Trust Fund	1,026	1,419
Boost Africa Financial Instrument	2,269	3,562
Boost Africa Technical Assistance	234	558
Canada AfDB Climate Fund (IF)	74,635	75,763
Canada AfDB Climate Fund (TAF)	6,121	-
Canadian Grant for Technical Assistance	265	256
Capital Market Development Trust Fund	5,641	4,443
Chinese Government Fund	277	256
Clean Technology Fund	122,524	56,452
Climate Development	5,249	5,340
Congo Basin Forest Fund	12,150	12,019
EU Africa Infrastructure Trust Fund	2,570	3,506
Facility for Energy Inclusion financial Instrument	11,433	18,474
Facility for Energy Inclusion Technical Assistance	568	612
Fertilizer Financing Mechanism	16,548	12,660
Finland	2,291	57
France	497	554
Fund For African Private Sector Assistance (FAPA)	47,842	42,597
Gender Equality Trust Fund	23,732	17,761
Global Agriculture and Food Security Programme (GAFSP)	5	21,792
Global Environment Facility	35,385	42,593
Global Infrastructure Facility Fund	1,195	889
Green Climate Fund	20,014	19,554
India	1,227	1,189
Infrastructure Consortium For Africa (ICA)	407	349
Initiative Migration and Developement (IMDE)	63	60
Investment Climate Facility for Africa	387	372
Italia	3,268	3,550
Job for youth and women in Agricultural Value chain in Kenya (AGRIBIZ)	15,964	-
Korea Trust Fund	32,625	31,096
Making Finance Work For Africa (MFW4A)	267	387
MENA Transition Fund	-	1,081
Microfinance Trust Fund	2,410	2,298
Multilateral Cooperation Center for Development Finance (MCDF)	4,369	-
Multi-Donor Water Partnership Programme	-	294
Nepad Infrastructure	34,399	27,053
Nigeria Technical Cooperation Fund (NTCF)	3,633	3,354
Norway	42	46
Private Sector Credit Enhancement Facility	225,663	217,989

Programme For Infrastructure Development In Africa (PIDA)	-	112
Rockefeller Foundation	731	899
Rural Water Supply and Sanitation Initiative	17,646	21,539
SFRD (Great Lakes)	465	435
South South cooperation Trust Fund	409	443
Statistical Capacity Building (SCB)	113	548
Strategic Climate Fund	71,568	50,315
Sustainable Energy Fund for Africa	239,955	191,357
Switzerland Technical Assistance Grant	375	409
Trust Fund for Countries in Transition	1,027	2,110
Uganda Road Sector Project	1,400	1,374
United Kingdom	73	74
Urban Municipal Development Fund	18,619	2,216
Value for Money Sustainability and Accountability Trust Fund	800	902
Women Entrepreneurs Finance Initiative Trust Fund	10,684	10,155
Youth Entrepreneurship Innovation Trust Fund	19,088	20,099
Zimbabwe Multi-Donor Trust Fund	1,425	2,142
Others	77	88
Total	**1,497,272**	**1,246,978**

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African Development Bank

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Independent Auditor's Report on the Financial Statements
Year ended December 31, 2023

To the Board of Governors of the African Development Bank

Opinion

We have audited the accompanying financial statements of the African Development Bank which comprise the balance sheet as at December 31, 2023, and the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out in notes A to U.

In our opinion, the accompanying financial statements present fairly, in all material respects, and give a true and fair view of the assets and liabilities and of the financial position of the Bank as at December 31, 2023 and of the results of its operations, and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

Audit Framework

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

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

Independence

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

Key Audit Matters

We inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment based on expected credit losses for loans classified in stages 1 and 2

Risk identified	In addition to the impairment methodology for incurred credit loss (stage 3 – see key audit matter mentioned below), the IFRS 9 impairment rules related to expected credit losses require the recording of impairments calculated as follows: • stage 1 representing an expected loss within 1 year from initial recognition of the financial asset; • stage 2 which represents an expected loss at maturity, in the event of a significant increase in credit risk since initial recognition. The estimate of expected credit losses requires the exercise of judgment to determine in particular: • the rating procedures for loans covered by this impairment model; • the rules for mapping loans to their appropriate staging; • criteria for the determination of increase in credit risk; • key parameters for calculating expected credit losses, such as the probability of default (PD) and loss given default (LGD); • the methodology for taking into account macroeconomic projections for both increase in credit risk and measurement of expected losses. These parameters are integrated into the model used by the Bank for each type of loan portfolio (sovereign loans and non-sovereign loans) to determine the amount of expected credit losses. In addition, these parameters are more sensitive in the current macro-economic environment context which led to a higher uncertainties and volatility that is likely to affect the reimbursement ability of some borrowers, with contrasting situations. The accounting principles applied and the impact of those IFRS 9 impairment rules are detailed in notes B, C and H. Thus, the net impairment write-back on loans classified in stages 1 and 2 amounted to UA 3,603 thousand for the year ended December 31, 2023 (out of a total amount of impairment charge on all loans of UA 18,287 thousand for the year ended December 31, 2023 due to the impairment charge impact in stage 3). Consequently, as at December 31, 2023, the accumulated impairment for expected losses on loans classified in stages 1 and 2 amounted to UA 277,244 thousand for a total impairment amount of UA 958,776 thousand. Given the scope of the IFRS 9 standard, the complexity of its implementation and the importance of the accounting estimates, we considered that impairments based on expected credit losses on loans classified in stages 1 and 2 is a key audit matter for the year ended December 31, 2023, more particularly in the context of 2023, which is marked by significant uncertainty linked to the prevailing macroeconomic environment and the absence of a comparable historical situation.

Our response	We have assessed the adequacy of the level of stages 1 & 2 credit risk coverage and the overall level of the associated cost of risk, as well as the relevance of the internal control system and, in particular, its adaptation to the current economic environment.
	With the assistance of our experts, our work consisted mainly, in:
	• analyzing compliance of calculation and calibration methods with the IFRS 9 standards, in particular on:
	  - the loans rating process, the significant increase in credit risk criteria and the rules for mapping loans to their appropriate staging;
	  - calculation of expected losses (review of the models, calibration of PDs and LGDs, review of forward-looking assumptions parameters with regard to the evolution of the macro-economic context, etc.);
	• carrying out independent calculations with our own tools.
	Finally, our audit work also included the review of the impact of expected credit losses on the financial statements as at December 31, 2023 and the review of the relevant explanatory information provided in the related notes to the financial statements.

Deloitte.

Impairment based on incurred credit risk for non-sovereign loans classified in stage 3

<table>
<tr><td>Risk identified</td><td>
The African Development Bank is exposed to credit and counterparty risks on sovereign and non-sovereign loans that it grants. These risks result from the inability of its clients and counterparties to meet their financial commitments when contractually due.
In accordance with the IFRS 9 impairment rules, the African Development Bank records impairments to cover expected credit losses (loans classified in stages 1 and 2 – see key audit matter mentioned above) and incurred losses (loans classified in stage 3).
Impairment on incurred losses for loans classified in stage 3 are determined on an individual basis. These individual impairments are determined by management based on the estimated future recoverable cash flow estimated on each of the concerned loans.
These individual impairments are also determined by management in the context of current macro-economic environment characterized by higher uncertainties and volatility that is likely to affect the reimbursement ability of some borrowers, with contrasting situations depending notably on the business sector of the counterparties.
As indicated in notes B, C and H to the financial statements, the outstanding sovereign loans classified in stage 3 concentrated in one counterparty decreased slightly, mainly due to currency translation changes (UA 204 million as at December 31, 2023 compared to UA 207 million as at December 31, 2022) whereas the Bank’s total non-sovereign loans outstanding amounted to UA 3,056 million, including UA 483 million outstanding loans classified in stage 3 with an impaired amount of UA 379 million as at December 31, 2023 (compared to UA 2,930 million total outstanding non-sovereign loans of which UA 499 million classified in stage 3 with an impaired amount of UA 378 million as at December 31, 2022).
Given that the assessment of impairment requires a significant accounting estimate and use of management’s judgement, we consider that the identification and evaluation of incurred credit loss on non-sovereign loans (which represents an increased risk compared to sovereign risks) is a key audit matter, more particularly in the context of 2023, which is marked by significant uncertainty linked to the prevailing macroeconomic environment and the absence of a comparable historical situation.
</td></tr>
<tr><td>Our response</td><td>
We have assessed the adequacy of the level of stage 3 credit risk coverage and the overall level of the associated cost of risk, as well as the relevance of the internal control system and, in particular, its adaptation to the current economic environment.
As part of our audit procedures, we reviewed the control framework for identifying exposures, monitoring credit and counterparty risks, assessing non-recovery risks and determining related impairment and provisions.
Our work consisted of assessing the quality of the monitoring system for watchlisted and impaired loans and the credit review process, particularly by the Credit Risk Committee (CRC).
In addition, based on a sample selected on materiality and risk criteria, we performed an independent analysis of the amounts of provisions.
</td></tr>
</table>

Deloitte.

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

Risk identified	The African Development Bank holds on its balance sheet a significant amount of financial assets and financial liabilities (including derivatives) with fair value of UA 6.5 billion and UA 26.6 billion, respectively, at December 31, 2023. For the purposes of measurement in accordance with IFRS 13, financial instruments are grouped into three different levels on the basis of observability of inputs used in the fair value measurement. Levels 2 and 3 include financial instruments valued on the basis of valuation models whose significant parameters are or are not observable on the market, as the case may be (UA 2.7 billion of financial assets and UA 11.3 billion of financial liabilities valued at levels 2 and 3 as at December 31, 2023 – see note D to the financial statements). The measurement of the fair value of Level 2 and Level 3 financial instruments is therefore based on valuation techniques that involve a significant amount of judgment as to the choice of methodologies and data used: • determination of unobservable market valuation parameters; • use of internal valuation models; • estimation of additional valuation adjustments to take into account certain market, counterparty or liquidity risks. We considered that financial instruments classified as Level 2 and 3 in the fair value hierarchy were a key element of the audit because of the materiality of the exposures and the use of judgment in determining fair value, especially for some financial instruments whose valuation is volatile in the current uncertain economic context (notably, high interest and inflation rates).
Our response	We have reviewed the internal control systems governing the identification, measurement and recognition of Level 2 and Level 3 fair value financial instruments. We have taken note of relevant reports and minutes of committees (particularly ALCO) that could take a position on this subject. We tested the controls (notably those by the back and the middle office) that we considered relevant for our audit, in particular those relating to: • independent verification of the valuation parameters, • determination of the main valuation adjustments and corrections made. We have performed these procedures with the assistance of our valuation experts, with whom we have also carried out independent valuation work involving the examination, based on samples, of the assumptions, methodologies and models used to estimate the main valuation adjustments. The impact of the current economic environment on the valuation of level 2 and 3 financial instruments was taken into account in our work, with particular attention to the estimates used. We also examined the main existing margin call spreads and the losses and/or gains on sales of instruments to determine the appropriateness of the Bank's valuations. Finally, we examined the disclosures relating to the valuation of financial instruments published in the notes to the financial statements.

Deloitte.

Assessment of Employee Benefits

<table>
<tr><td>Risk identified</td><td>
The African Development Bank offers its employees:

a defined benefit pension plan for employees hired prior to 1st July 2019 or, for those hired after this date a mandatory membership to a hybrid pension plan (combination of defined benefit scheme and defined contribution scheme); and
a defined benefit medical plan that also provides medical benefits to eligible former employees, including retirees.

For the defined pension plan, an actuarial valuation of the cost of the plan is performed using the projected unit credit method. It leads to a present value of the defined benefits that the Bank must pay, less the fair value of plan assets.
For the defined medical plan, the liability represents the present value of the defined post-employment benefits to be paid by the Bank less the fair value of plan assets.
As disclosed in note Q of the financial statements, the Bank’s net asset position relative to the pension plan and the Bank’s liability to the medical plan amount to UA 37 million and UA 267 million respectively as at December 31, 2023.
The valuation of the present value of the liabilities arising from the pension and medical plans is based on various parameters (discount rate, rate of salary increase, mortality rate, future rate of pension increase, rate of increase in cost of medical care, etc.).
We considered that the assessment of these social and contractual commitments was a key audit matter, given the use of judgment in determining these parameters, particularly in the current macro-economic environment (marked by the volatility of both interest and inflation rates notably) which could affect the level of the parameters used in the estimation as well as the impact of certain pension eligibility rules (introduction on 1st January 2023 of 65 as the new retirement age for newly recruited employees or its adoption by choice for employees already in position at that date).
</td></tr>
<tr><td>Our response</td><td>
With the support of our experts, we assessed the process for monitoring and determining the valuation of these social commitments.
In particular, we carried out the following work:

reviewed the terms and conditions of these defined benefit plans (pension and medical plans) and any changes that may have occurred during the 2023 financial year (notably the impact related to the change in the retirement age effective from 1st January 2023);
compared with external sources and examined the reasonableness of assumptions for determining the various parameters used, in particular the discount and inflation rates in relation to the 2023 macro-economic context and the methods of taking into account the new retirement policies;
carried out an independent valuation of each defined benefit plan by verifying the data on the basis of a sample of individuals who are beneficiaries of the pension and medical plans and then recalculating the overall commitment on the basis of the data and parameters retained by the Bank.

Finally, we examined the appropriateness of the information on employee benefits disclosed in the notes to the financial statements.
</td></tr>
</table>

Other information

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Bank or to cease operations.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

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

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

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Bank to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

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

Paris – La Défense, May 2, 2024

The independent auditor
Deloitte & Associés

Jean-Vincent COUSTEL

ADB administrative budget for financial year 2024

(UA thousands)

Description	
Personnel Expenses	
Salaries	177,497
Benefits	84,842
Other Employee Expenses	10,803
Short Term and Technical Assistance Staff	5,951
Consultants	45,844
Staff Training	5,001
	329,938
General Expenses	
Official Missions	36,874
Accommodation	16,723
Equipment Rental, Repairs and Maintenance	13,969
Communications Expenses	9,634
Printing, Publishing and Reproduction	376
Office Supplies and Stationery	409
Library	344
Other Institutional Expenses	26,108
	104,437
Total Administrative Budget	**434,375**
Depreciation	31,100
Provision for SRP & MBP	63,140
Total	**528,615**
Less Management Fees*	(269,560)
Net Administrative Budget	**259,055**

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

THE AFRICAN DEVELOPMENT FUND

FINANCIAL MANAGEMENT

Subscriptions

ADF Replenishments

The resources of the African Development Fund (the ADF or the Fund) primarily consist of subscriptions by the Bank, subscriptions and contributions made by State Participants and Donors, together with other resources received by the Fund. Cumulative subscriptions to the ADF amounted to UA 37,354.18 million[1] at December 31, 2023.

Other than the initial subscriptions received by the Fund at its inception, subsequently it receives additional resources in the form of periodic replenishments, typically on a three-year cycle, the latest one of which is the sixteenth.

The Sixteenth Replenishment of the ADF (ADF-16) to support the replenishment cycle 2023 to 2025 became effective on June 08, 2023, following its adoption by the Board of Governors on April 02, 2023. State participants agreed on an ADF-16 resource level of UA 6,192.05 million comprised of: (i) Donor subscriptions of UA 3,746.95 million[2]; (ii) Concessional Donor Loans of UA 427.40 million; and (iii) Advanced Commitment Capacity of UA 2,017.70 million. Additionally, donors provided a total grant contribution of UA 312.6 million to support the creation of a Climate Action Window (CAW).

As of December 31, 2023, the resource envelope for ADF-16 increased to UA 6,229.75 million. This figure is comprised of Donor subscriptions of UA 3,784.65[3] million (excluding grant element of CDLs), Concessional Donor Loans of UA 427.40 million and an Advance Commitment Capacity of UA 2,017.70 million. State Participants had subscribed a total amount of UA 3,409.26[4] million.

The ADF-16 replenishment will support two strategic operational priorities: developing sustainable, climate-resilient, and quality infrastructure; and governance, capacity building, and sustainable debt management in recipient countries. The replenishment is expected to deliver more social and economic impact in people's lives over the next three years as the additional resources will help connect 20 million people to electricity, provide improved agriculture to 24 million people, enable 32 million people to access water and sanitation services and another 15 million to benefit from improved access to transport.

Underlining the continued importance of addressing the roots of fragility and improving resilience as key ADF-16 priorities, state participants increased the resources allocated to the Transition States Facility by 13 percent to UA 1.244 billion. The State Participants also agreed to maintain the Regional Operations Envelope at 25 percent of the total resources available for commitment. Finally, the continuing relevance of the Private Sector Facility in low-income countries was affirmed, particularly in transition states, with the approval of an additional allocation of UA 50 million.

Financial Products

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

Loans

Prior to the ADF-13 replenishment, the ADF was operating under differentiated lending terms for ADF-eligible countries classified as blend, gap and graduating versus ADF-only countries.

Accordingly, loans extended to blend, gap and graduating countries had a maturity period of 30 years, including an 8-year grace period with an interest rate of 1 percent per annum. For ADF-only countries, their loans had a maturity period of 50 years, including a grace period of 10 years, with no interest rate. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum on outstanding balances, were maintained for all ADF loans.

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

Accordingly, new loans extended under ADF-13 and subsequent replenishment cycles (ADF-14 and ADF-15) to regular ADF countries have a maturity of 40 years, including a grace period of 10 years; and loans extended to advance ADF countries have a maturity of 40 years, including a grace period of 5 years. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum on outstanding balances remain applicable. Loans to blend, gap, and graduating countries have a maturity of 30 years including a 5-year grace period, and an interest rate charge of 1 percent per annum in addition to the standard commitment and service fees.

Under ADF-16, changes have been made to the differentiated lending terms to strengthen the long-term financial sustainability of the Fund. ADF-only countries with a moderate risk of debt distress will no longer receive grants but 100 percent loans, with a 50-year maturity including a 10-year grace period. ADF-Only Regular and Advanced Countries will have their loan maturity reduced from 40 to 38 years with a grace period of 10 and 5 years, respectively. ADF-Gap countries (even those at moderate risk of debt distress) will continue receiving loans based on the Blend countries terms with a maturity of 30 years and a 5-year grace period. The UA pricing terms of ADF loans have also been revised, with the Service Charge increased

1 This includes buy down grant provided since ADF-14.

2 Net of grant element of Concessional Donor Loan.

3 This amount includes additional subscriptions through acceleration from Canada, Belgium and Spain, and the subscription of Brazil.

4 This amount includes the buy down grant from Japan. Total subscriptions received excluding buy down grant is UA 3,327.86 million.

from 0.75 percent to 1 percent and the Commitment Fee from 0.5 percent to 0.75 percent. For Blend, Graduating, and Gap countries, the interest rate of 1 percent is maintained.

Guarantees

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

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

In 2023, the Fund continued to streamline and expand the reach of its partial guarantee products. In December 2023, the Board approved a PCG of UA 91.50 million for the Tanzania/Burundi/Democratic Republic of Congo joint standard gauge railway project.

Investments

The Fund follows a conservative investment strategy. Cash and treasury investments amounted to UA 5.19 billion as at December 31, 2023 (UA 4.57 billion in 2022), invested in high-quality instruments held in various currencies, including USD, Euro, GBP, Chinese Yuan, and South African Rand. Investment income for the year amounted to UA 198.62 million, representing a return of 4.01 percent, on an average liquidity level of UA 4.95 billion, compared with an income of UA 23.28 million, representing a return of 0.52 percent, on an average liquidity of UA 4.51 billion in 2022.

Development Activities

Cumulative loans and grants signed, net of cancellations, at December 31, 2023, amounted to UA 38.50 billion, compared to UA 37.11 billion at the end of 2022. Figure 1.6 presents loans approved, disbursed, and undisbursed balances from 2019 to 2023.

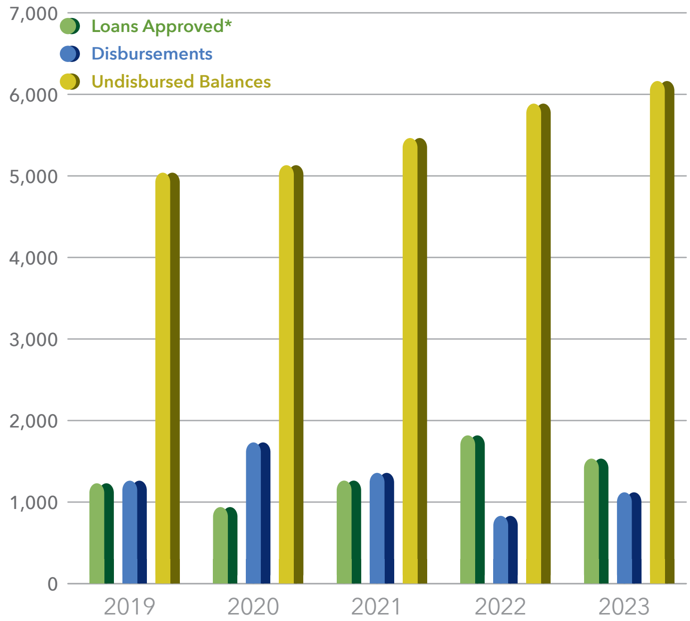
As at December 31, 2023, total outstanding loans was UA 14.94 billion, which is UA 0.40 billion higher than the UA 14.54 billion outstanding at the end of 2022.

The number of active loans and grants as at December 2023 was 1,526, while 765 loans amounting to UA 6.06 billion had been fully repaid or canceled through MDRI.

Disbursements

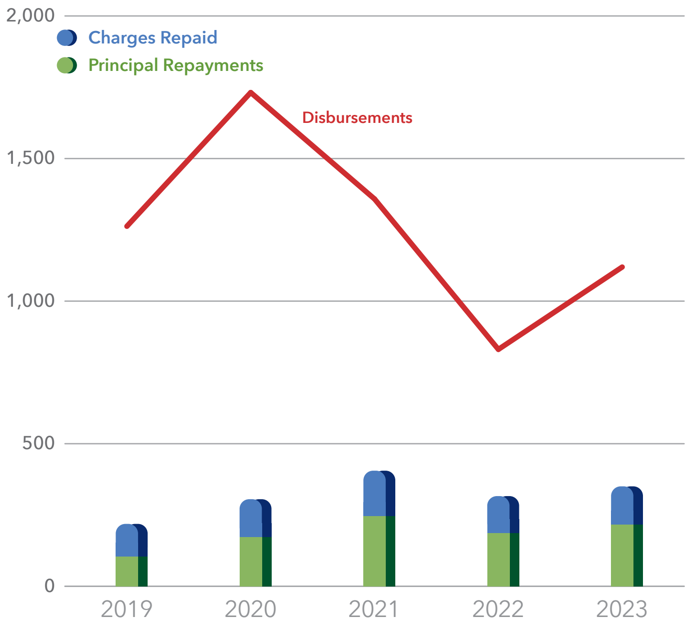
Loans and grants disbursed increased by 34.94 percent in 2023 to UA 1.12 billion up from UA 0.83 billion in 2022. As at December 31, 2023, cumulative disbursements on loans and grants amounted to UA 32.33 billion compared to UA 31.22 billion at the end of the previous year. A total of 2,648 loans and grants were fully disbursed amounting to UA 28.88 billion, which represents 89.33 percent of cumulative disbursements. Figure 1.7 tracks the evolution of loan disbursements and repayments over the past five years.

Figure 1.6 Lending Status, 2019–2023
(UA millions)



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

Figure 1.7 Loan Disbursements and Repayments, 2019–2023
(UA millions)



Repayments

Principal loan repayments for the Fund in 2023 amounted to UA 216.26 million compared to UA 187.83 million in 2022, representing an increase of 15.14 percent over the previous year. As at December 31, 2023, cumulative repayments stood at UA 8.31 billion.

Risk Management Policies and Processes

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

FINANCIAL RESULTS

The Fund reported a surplus of UA 115.27 million in 2023, the largest reported surplus by the Fund in the last 20 years, the previous highest surplus for the Fund was in 2006 (UA 40.42 million). The surplus recorded in 2023 is a significant improvement on the deficit of UA 29.47 million reported in 2022. The improved performance was principally due to the UA 62.26 million increase in interest income on treasury investments, UA 113.08 million increase on unrealized fair value gains on treasury trading portfolio and related derivatives and a decrease in administrative expenses by UA 73.88 million.

Total income from loans and treasury investments for the year ended 31 December 2023 increased by UA 181.08 million (119.33 percent) to UA 332.82 million compared to UA 151.74 million earned in the year to December 2022.

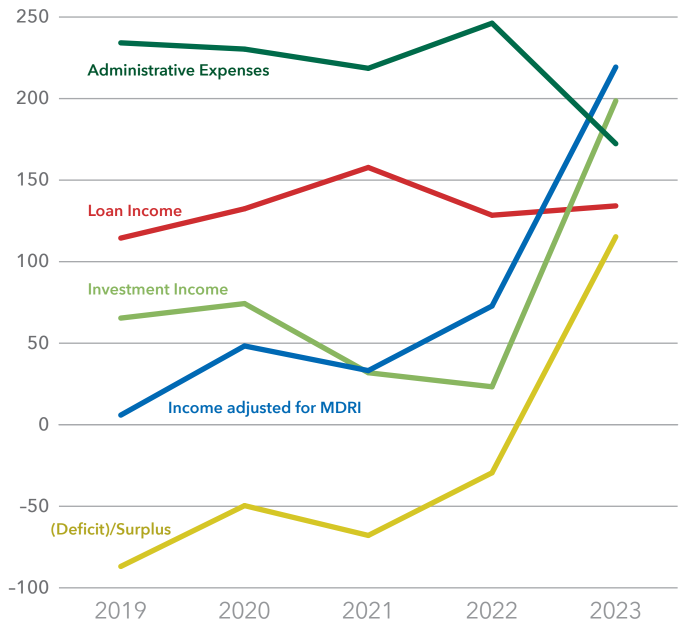
Loan income for the year increased by UA 5.74 million (4.47 percent) to UA 134.20 million compared to UA 128.46 million reported in December 2022. Loan income reported in 2023 was in line with operational expectations.

Interest income on treasury investments increased by UA 62.26 million (83.65 percent) to UA 136.69 million in December 2023 compared with UA 74.43 million in December 2022. This significant increase reflects rising interest rates in USD and EUR. Considering a fair value gain on trading portfolio and related derivatives, total treasury investment income increased to UA 198.62 million from UA 23.28 million in 2022.

Administrative expenses are shared between the three Bank Group entities – ADB, ADF, and NTF – based on a predetermined cost-sharing formula driven primarily by the staff time spent on each individual entity's work program deliverables. In 2023, the Fund's share of the total shareable administrative expenses of the Bank Group increased marginally to 51.48 percent, compared with 50.98 percent for 2022.

Notwithstanding the increase in proportionate terms, the Fund's Administrative expenses for the year ended 31 December 2023 decreased by UA 73.88 million (30.01 percent) to UA 172.33 million compared to UA 246.21 million for the year ended December 2022. The decrease in the administrative expenses was due to the decrease in the total Bank Group administrative activities.

Figure 1.8 Operating Results, 2019–2023
(UA millions)



According to the Fund's non-accrual policy, service charges on loans made to or guaranteed by borrowers are excluded from loan income if principal installments or service charges on any such loans are in arrears for six months or more until such time that payment is received. As a result of this policy, UA 0.28 million of non-accrued loan income was excluded from 2023 income (31 December 2022:0.28 million). Only one borrower (Zimbabwe) was in non-accrual status at December 31, 2023.

Impact of Debt Relief

The Fund continues to cancel qualifying debts under the Multilateral Debt Relief Initiative (MDRI) for countries that reach the HIPC completion point. The Fund is compensated by donors for debt cancelled through additional grant contributions. A summary of the cumulative loan cancellations made under the MDRI and HIPC initiatives since inception is presented in Note F to these Special Purpose Financial Statements. The effects of the MDRI and the higher share of grant contributions on the Fund's operating results is presented in Table 1.5. As shown in the table the higher income realized in 2023 enhances the overall impact of MDRI and Grant compensation on the reported adjusted ADF surplus for the reporting period compared to the previous years.

Borrowing Portfolio

As at 31 December 2023, the borrowing portfolio closed at UA 1,174.87 million, an increase of UA 9.69 million (0.83 percent) from the UA 1,165.17 million as at 31 December 2022. The increase in the outstanding borrowings is attributable to additional concessional loan draw down (UA 65.71million) under the ADF-16 cycle, offset by JPY depreciation during the year. As at 31 December 2023, an estimated 65.79 percent (UA 772.90 million) of the Fund's borrowings are in JPY, while 34.21 percent (UA 401.97 million) are made up of CNY, EUR and USD.

Interest charges on borrowings for the year ended 31 December 2023 increased to UA 5.40 million from UA 4.20 million reported

Table 1.5
Effect of MDRI and Increased Share of Grants on ADF's Operating Results
(in UA millions)

Year ended 31 December:	2023	2022	2021	2020	2019
Surplus/(deficit) for the year	115.27	(29.47)	(67.87)	(49.59)	(86.88)
Grant income forgone	60.92	59.17	57.94	54.78	49.67
MDRI income forgone	43.12	43.12	43.12	43.12	43.12
Surplus after adjustment for the impact of MDRI & Grants	**219.31**	**72.82**	**33.19**	**48.31**	**5.91**

in December 2022 due to higher concessional donor loans as at year end. Furthermore, a fair value loss of UA 16.69 million was recorded on the cross-currency swap transaction executed on the Japanese yen.

The Fund's borrowings are long dated, held, and measured at amortized cost, with a grant element recorded in equity and amortized over the life of the related concessional donor borrowing.

Treasury Investments and Subscriptions

As at 31 December 2023, treasury investments closed at UA 4,513.13 million, an increase of UA 1,167.51 million (34.90 percent) over the UA 3,345.62 million as at 31 December 2022. This increase was mainly due to the re-investment of receipts from ADF-16 donor subscriptions, cash balances, and the encashment of demand obligations during the year.

The treasury investment portfolio consists of liquid assets held at fair value through profit or loss (FVTPL) and at amortized cost. The carrying value of treasury investments held at FVTPL as at 31 December 2023 increased by UA 1,150.57 million (43.10 percent) to UA 3,819.94 million from UA 2,669.37 million as at 31 December 2022, while those held at amortized cost increased by UA 16.95 million (2.51 percent) to UA 693.20 million from UA 676.25 million as of 31 December 2022.

Total subscriptions and contributions paid as at 31 December 2023 increased to UA 35,798.95 million, an increase of UA 1,457.28 million (4.24 percent) from UA 34,341.67 million as at 31 December 2022. This increase was due to the subscriptions and contributions paid and received during the year.

Reserves

As at 31 December 2023, the deficit in reserves decreased by UA 115.27 million (13.81 percent) to UA 719.17 million from UA 834.44 million as at 31 December 2022, resulting from the surplus of UA 115.27 million reported for the year ended 31 December 2023.

Cumulative Currency Translation Adjustment (CCTA) improved to a loss of UA 229.74 million, a decrease of UA 48.70 million (17.49 percent) from the loss of UA 278.44 million as at 31 December 2022.This reflects the favorable movements in translation rates for EUR and GBP against the UA in the year.

Performance Management and Monitoring

As with the African Development Bank (the Bank), management monitors performance measures and indicators that reflect the critical success factors in the ADF's business. To the extent that the ADF extends grants in addition to lending at highly concessional rates, the conventional profitability and financial ratios are not deemed to be an appropriate means of determining its effectiveness in delivering development resources to its Regional Member Countries.

African Development Fund

Special Purpose Financial Statements

For the year ended 31 December 2023

Statement of Net Development Resources
for the years ended 31 December 2023 and 31 December 2022
(UA thousands – Note B)

		2023		2022
DEVELOPMENT RESOURCES				
DUE FROM BANKS		675,114		1,221,313
TREASURY INVESTMENTS (NOTE D)				
Treasury investments mandatorily at fair value	3,819,936			2,669,370
Treasury investments at amortized cost	693,198			676,245
Total treasury investments		4,513,134		3,345,615
DERIVATIVE ASSETS		381,143		385,662
DEMAND OBLIGATIONS (Note E)		2,062,224		2,017,884
RECEIVABLES				
Accrued income on loans and investments	65,567			50,828
Other receivables	43,804			14,201
		109,371		65,029
DERIVATIVE LIABILITIES		(369,099)		(323,645)
OTHER LIABILITIES		(33,507)		(143,227)
BORROWINGS (Note J)		(1,174,867)		(1,165,173)
NET DEVELOPMENT RESOURCES		**6,163,513**		**5,403,458**
FUNDING OF DEVELOPMENT RESOURCES				
SUBSCRIPTIONS AND CONTRIBUTIONS (Notes G & O)				
Amount subscribed including contributions through accelerated encashment of subscriptions	37,354,180			33,965,941
Less: Portion of accelerated encashment not yet effected	(59,703)			-
	37,294,477			33,965,941
Less: Installments not yet payable	(2,752,266)			(694,970)
	34,542,211			33,270,971
Less: Installments due	(7,018)			(7,018)
	34,535,193			33,263,953
Contributions paid on Multilateral Debt Relief Initiative	1,930,663			1,696,993
	36,465,856			34,960,946
Less: Unamortized discounts on subscriptions and contributions (Note B)	(35,265)			(43,832)
Less: Unamortized grant element on borrowings (Notes B & J)	(236,669)			(221,497)
	36,193,922			34,695,617
Cumulative exchange adjustment on subscriptions and contributions (Note B)	(394,971)			(353,943)
Total subscriptions and contributions		35,798,951		34,341,674
CLIMATE ACTION WINDOW (Note G)		45,393		-
OTHER RESOURCES (Note H)		890,961		855,961
RESERVES (Note I)		(719,170)		(834,441)
CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B)		(229,739)		(278,436)
		35,786,396		34,084,758
ALLOCATION OF DEVELOPMENT RESOURCES				
GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note F)		(9,546,031)		(9,005,850)
HIPC GRANTS DISBURSED (Note F)		(184,000)		(184,000)
NET DEBT RELIEF (Note F)		(4,955,072)		(4,955,072)
LOANS DISBURSED AND OUTSTANDING (Note F)		(14,937,780)		(14,536,378)
NET DEVELOPMENT RESOURCES		**6,163,513**		**5,403,458**

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

Statement of Income and Expenses and Other Changes in Development Resources for the years ended 31 December 2023 and 31 December 2022

(UA thousands – Note B)

	2023	2022
INCOME		
Service charges on loans	117,221	113,585
Commitment charges on loans	16,979	14,879
Total income on loans	134,200	128,464
Interest income from treasury investments	136,687	74,427
Fair value gains/(losses) on treasury trading portfolio and related derivatives	61,935	(51,147)
Total income on treasury investments	198,622	23,280
Total income on loans and treasury investments	**332,822**	**151,744**
EXPENSES		
Fair value (losses)/gains from derivatives on concessional donor borrowing	(16,695)	99,869
Gains/(losses) on exchange	4,770	(4,887)
Interest charges on borrowings	(5,399)	(4,191)
Other interest cost and Bank charges	(6,486)	(5,743)
Discount on accelerated encashment of participants' demand obligations	(13,191)	(12,164)
Grant element on concessional loans	(8,225)	(7,882)
Administrative expenses (Note M)	(172,325)	(246,211)
Total expenses	**(217,551)**	**(181,209)**
SURPLUS/(DEFICIT) FOR THE YEAR	**115,271**	**(29,465)**
CHANGE IN DEVELOPMENT RESOURCES FUNDING		
Increase in paid-up subscriptions	1,271,239	1,254,129
Contributions received on account of Multilateral Debt Relief Initiative	233,670	146,566
Increase in other resources	35,000	35,000
Contributions received on account of Climate Action Window	45,393	-
Change in accumulated exchange adjustment on subscriptions and contributions	(41,027)	(9,339)
Change in unamortized discounts on subscriptions and contributions	8,568	4,867
Change in unamortized grant element on concessional loans	(15,172)	(6,820)
Change in accumulated translation adjustment	48,697	104,488
	1,586,368	**1,528,891**
CHANGE IN DEVELOPMENT RESOURCES ALLOCATION		
Disbursement of grants	(540,180)	(376,766)
Disbursement of loans	(577,907)	(450,691)
Repayment of loans	216,262	187,828
Translation adjustment on loans	(39,759)	(301,101)
	(941,584)	**(940,730)**
Change in Net Development Resources	760,055	558,696
Net Development Resources at the beginning of the year	5,403,458	4,844,762
NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR	**6,163,513**	**5,403,458**

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

Statement of comprehensive income
for the years ended 31 December 2023 and 31 December 2022
(UA thousands – Note B)

	2023	2022
SURPLUS/(DEFICIT)	115,271	(29,465)
OTHER COMPREHENSIVE INCOME		
Currency translation adjustment/gains	48,697	104,488
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**163,968**	**75,023**

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

Statement of cash flows
for the years ended 31 December 2023 and 31 December 2022
(UA thousands – Note B)

	2023	2022
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Surplus/(deficit) for the year	115,271	(29,465)
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized (gains)/losses on treasury investments and derivatives	(33,874)	39,020
Unrealized losses/(gains) on borrowing related derivatives	16,695	(99,869)
Discount on accelerated encashment of participants' demand obligations	13,191	12,164
Grant element on concessional loans	8,225	7,882
Changes in accrued income on loans and investments	(14,740)	4,815
Changes in net derivatives	(10,391)	(6,451)
Changes in net current assets	(136,758)	67,803
Net cash used in from operating activities	(42,381)	(4,101)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES		
Disbursement of grants	(540,180)	(376,766)
Disbursement of loans	(577,907)	(450,691)
Repayment of loans	216,262	187,828
Investments maturing after 3 months of acquisition		
Treasury investments, mandatorily at fair value	(923,936)	(649,285)
Treasury investments at amortized cost	(29,209)	(12,333)
Net cash used in investment, lending and development activities	(1,854,970)	(1,301,247)
FINANCING ACTIVITIES		
Subscriptions and contributions received in cash	762,197	631,410
Participants' demand obligations encashed	692,882	745,897
Borrowings	71,930	51,272
Increase in other resources	35,000	35,000
Net cash provided by financing activities	1,562,009	1,463,579
Net (decrease)/increase in cash and cash equivalents	(335,342)	158,231
Effect of exchange rate changes on cash and cash equivalents	(18,102)	(41,698)
Cash and cash equivalents at the beginning of the year	2,015,953	1,899,420
Cash and cash equivalents at the end of the year	**1,662,509**	**2,015,953**
COMPOSED OF:		
Cash	675,114	1,221,313
Investments maturing within 3 months of acquisition		
Treasury investments, mandatorily at fair value	987,395	794,640
Cash and cash equivalents at the end of the year	**1,662,509**	**2,015,953**
SUPPLEMENTARY DISCLOSURE:		
Movements resulting from exchange rate fluctuations on		
Loans	39,759	301,101
Subscriptions and contributions	(41,027)	(9,339)

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

Notes to the Special Purpose Financial Statements
for the year ended 31 December 2023

NOTE A – Purpose, Organization, and Resources

Purpose and Organization

The African Development Fund (ADF or the Fund) was established in 1972 as an international institution to assist the African Development Bank (AfDB or the Bank) in contributing to the economic and social development of the Bank's regional members, promote cooperation and increased international trade, particularly among the Bank's members, and provide financing on concessional terms for such purposes.

By resolution, F/BG/2010/3 of 27 May 2010, the Board of Governors increased the membership of the Board of Directors of ADF from twelve (12) to fourteen (14), made up of seven (7) members selected by the Bank and seven (7) members selected by State Participants. The Board of Directors reports to the Board of Governors, which is made up of representatives of the State Participants and the AfDB. The AfDB exercises 50 percent of the voting powers in the ADF, and the President of the Bank is the ex-officio President of the Fund.

The AfDB, the ADF, and the Nigeria Trust Fund (NTF), which is a special fund administered by the AfDB, are collectively referred to as the Bank Group. The principal purpose of the AfDB is to promote economic and social development in its Regional Member Countries (RMCs). The AfDB finances development projects and programs in its Regional Member Countries. The AfDB also participates in the selection, study, and preparation of projects contributing to the development of its member countries and, where necessary, provides technical assistance. The NTF was established under an agreement between the Bank and the Federal Republic of Nigeria to further support the development efforts of AfDB Regional Member Countries, particularly the lesser developed countries. The assets and liabilities of the AfDB and of the NTF are separate and independent of those of the ADF. Furthermore, the ADF is not liable for their respective obligations. Transactions with these affiliates, where there are any, are disclosed in the notes, as appropriate.

Financial Resources

The resources of the Fund consist primarily of subscriptions by the Bank and subscriptions and contributions made by State Participants and donors, as well as other resources received by the Fund and resources derived from operations or otherwise accruing to the Fund. The initial resources of the Fund consisted of subscriptions by the Bank and the original State Participants to the Agreement Establishing the Fund (the Agreement). Thereafter, the resources have been replenished through Special and General increases of subscriptions and contributions, supplemented by concessional borrowings from donors.

To expand ADF's resources, a decision was made by the Board of Governors in 2023 allowing the Fund to access additional funding from the capital markets.

This new development will necessitate a change in the Fund's financial reporting framework from the current Special Purpose framework to the International Financial Reporting Standards (IFRS). The transition to IFRS is expected to happen before the Fund commences borrowing in the capital markets, which is expected to begin under the ADF-17 cycle (2026–2028).

NOTE B – Basis of Preparation

Due to its nature and organization, the Fund currently presents its financial statements on a special purpose basis. The Special Purpose Financial Statements are prepared for the specific purpose of reflecting the Net Development Resources of the Fund and are not intended to be prepared in accordance with International Financial Reporting Standards. Net Development Resources represent resources available to fund loan and grant commitments and comprise primarily cash, marketable investments, and demand obligations of State Participants. These special purpose financial statements have been prepared to comply with Article 35(1) of the Agreement establishing the Fund, which requires that the Fund circulate, at appropriate intervals, a summary of its financial position and an income and expenditure statement showing the results of its operations.

The material accounting policy information used in the preparation of the Fund's Special Purpose Financial Statements is similar to that used at the end of last year. These accounting policies are as follows:

Monetary Basis of the Special Purpose Financial Statements

The special purpose financial statements are expressed in Units of Account (UA). Article 1 of the Agreement defined a Unit of Account as having a value of 0.81851265 grams of fine gold.

On 1 April 1978, when the second amendment to the Articles of the Agreement of the International Monetary Fund (IMF) came into effect, gold was abolished as a common denominator of the international monetary system. Computations relating to the currencies of IMF members were thereafter made on the basis of the Special Drawing Right (SDR) for purposes of applying the provisions of the Articles of the IMF. The Fund's UA was therefore reset based on its relationship to the SDR at the time of the establishment of the Fund. This was 1 Unit of Account equal to SDR 0.921052.

Subsequently, on 16 November 1992, the Board of Governors decided by Resolution F/BG/92/10 to redefine the Fund's Unit of Account to be equivalent to the UA of the AfDB, which is defined as equivalent to the SDR of the IMF. In compliance with this Resolution, the Board of Directors, on 22 June 1993 adopted 1 January 1993 as the date for the entry into effect of the Resolution, and the Fund's UA has since then been defined as equal to the Bank's UA.

The IMF formally approved the inclusion of the Chinese yuan (CNY) in the IMF's Special Drawing Rights (SDR) basket with effect from 1 October 2016 and with a weight of 10.92 percent. In line with Fund policy, Management approved the execution of currency exchange transactions to align, to the extent possible, the Net Assets composition of the Fund to the SDR.

The Fund conducts its operations in the currencies of its State Participants. Income and expenses are converted into UA at the rate prevailing on the date of each transaction. Assets and liabilities are translated into UA at rates prevailing at the date of the Statement of Net Development Resources. Translation differences are debited or credited to the cumulative currency translation adjustment. Translation gains and losses on subscriptions received are credited or debited to the cumulative exchange adjustment on subscriptions and contributions. Where currencies are converted into any other currency, the resulting gains or losses are included in income.

The rates used for translating currencies into UA as at 31 December 2023 and 31 December 2022 are as follows:

Rates used for translating currencies into Units of Account as at 31 December 2023 and 31 December 2022

Currency	1 Unit of Account equals:	2023	2022
AOA	Angolan kwanza	1,111.976096	670.332130
ARS	Argentinian peso	1,084.713362	235.731689
BRL	Brazilian real	6.524260	6.845700
CAD	Canadian dollar	1.779330	1.810350
CNY	Chinese yuan	9.587270	9.297310
DKK	Danish kroner	9.077790	9.312030
EUR	Euro	1.217530	1.252910
INR	Indian rupee	111.491000	110.285000
JPY	Japanese yen	190.454000	176.537000
KRW	Korean won	1,749.800000	1,698.290000
KWD	Kuwaiti dinar	0.411630	0.407490
NOK	Norwegian krone	13.722100	13.086500
GBP	Pound sterling	1.053810	1.102790
SAR	Saudi Arabian riyal	5.020740	4.992860
ZAR	South African rand	24.717700	22.776100
SEK	Swedish krona	13.460500	13.940700
CHF	Swiss franc	1.145260	1.238080
TRY	Turkish lira	39.617100	24.974500
USD	United States dollar	1.341670	1.330840

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

Participants' Subscriptions and Contributions

Subscriptions committed by State Participants for each replenishment are recorded in full as subscriptions receivable from participants upon submission of an instrument of subscription by the participant. A replenishment becomes effective when the ADF receives instruments of subscription from participants for a portion of the intended replenishment level as specified in the replenishment resolution. The portion of subscribed amounts for which payments are not yet due from State Participants are recorded as installments on subscriptions not yet payable and are not included in the Net Development Resources of the Fund. The subscriptions not yet payable become due throughout the replenishment period (generally 3 years) in accordance with an agreed payment schedule. The actual payment of subscriptions when they become due from certain participants is conditional upon the respective participant's budgetary appropriation process.

The subscriptions receivable are settled through payment of cash or deposit of non-negotiable, non-interest-bearing demand notes. The notes are encashed by the Fund as provided in an encashment program agreed to at the time of the replenishment.

Starting with the ADF-9 replenishment, participants were given the option of an early payment of cash in an amount equivalent to the net present value of their entire subscriptions and contributions. Upon receipt of such cash payments, participants are credited with the full face value of their entire subscriptions, and in agreement with the Fund, such cash amounts received are invested and the income generated thereon is retained by the Fund. A discount, calculated as the difference between the face value of the subscriptions and the cash amount received, is initially recorded to represent the interest expected to be earned on the cash received from State Participants who opted for the accelerated encashment program. Such a discount is amortized over the projected encashment period, to recognize the effective contributions to equity by the relevant participant over and above the initial cash advanced.

By resolutions F/BG/2006/12 of 18 May 2006 and F/BG/2006/13 of 31 August 2006, the Board of Governors of the Fund authorized the Board of Directors to approve the participation of the ADF in the Multilateral Debt Relief Initiative (MDRI). In that regard, the Board of Governors also authorized an increase in the resources of the ADF to provide full and timely compensation for the debt cancellation under the MDRI subject to the attainment of the following effectiveness thresholds:

1. Receipt of instruments of commitment from donors covering an aggregate amount equivalent to at least 70 percent of the total cost of debt relief for the first group of 14 post-completion point Heavily Indebted Poor Countries (HIPCs); and
2. Receipt of unqualified instruments of commitments from donors for an amount not less than the equivalent of at least 75 percent of the total cost of debt relief incurred during the remainder of the ADF-10 period.

Upon satisfaction of the above two thresholds, the Board of Directors of the Fund approved the effectiveness of the MDRI with effect from 1 September 2006. To ensure full compensation for forgone reflows as a result of the upfront debt cancellation, the ADF governing bodies endorsed Management's proposal for a compensation scheme over the 50-year period of the Initiative. Donors will contribute additional resources to ADF, equivalent to the forgone debt service (service charges and principal) for each replenishment period, by submitting pledges over the life of the initiative. The compensatory financing arrangements will take the form of a general increase in the contribution of State Participants pursuant to Article 7 of the Agreement establishing the ADF. The contributions received from State Participants under the compensatory financing arrangements shall not be counted as part of the burden share for the replenishment period in which such resources are received but shall carry voting rights in the same manner as normal subscriptions.

Such contributions are separately disclosed within the total of subscriptions and contributions in the Statement of Net Development Resources.

Maintenance of Value of Currency Holdings

Prior to the second general replenishment, subscriptions were denominated in UA and were subject to Article 13 of the Agreement, which provided that, whenever the par value in the IMF of the currency of a State Participant is reduced in terms of the UA or its foreign exchange value has, in the opinion of the Fund, depreciated to a significant extent within that participant's territory, that participant shall pay to the Fund within a reasonable time an amount of its currency required to maintain the value, as of the time of subscription, of the amount of such currency paid into the Fund by that participant and which has not been disbursed or exchanged for another currency.

Conversely, if the currency of a State Participant has increased in par value or appreciated in its foreign exchange value within that participant's territory, the Fund shall return to that participant an amount of such currency equal to the increase in the value of the Fund's holding of that currency which was received by it in payment of subscriptions, to the extent that these amounts have not been disbursed or exchanged for another currency.

In accordance with Board of Governors' successive resolutions governing the second through to the sixteenth general replenishment of the Fund, which stipulated that Article 13 shall not apply to these general replenishments, subscribers to these replenishments fixed the amount of their subscriptions payable in national currencies in terms of agreed parities ruling at the date these replenishments came into force. Gains or losses arising on translating these subscriptions, when received, into UA are applied against subscriptions, with the offsetting debits or credits recorded as Cumulative Exchange Adjustment on Subscriptions.

Revenue Recognition

Interest income is recognized in the income statement as it accrues, using the effective interest rate for the time such an instrument is invested and held by the Fund. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial asset to the asset's net carrying amount. The Fund recognizes interest income on its current account balances with banks and treasury investments (bonds and money market).

Commitment fees are accrued for loan facilities in line with the contract.

Fair value gains or losses are recognized on treasury investments classified as measured at fair value through profit or loss (FVTPL). All fair value gains or losses are recognized in the Statement of Income and Expenses.

Financial Assets

The Fund's financial assets are classified into the following categories: financial assets at amortized cost and financial assets at fair value through profit or loss (FVTPL). These classifications are determined based on the Fund's business model and the characteristics of the contractual cash flows. In accordance with the Fund's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. Management determines the classification of its financial assets at initial recognition.

Financial Assets at Amortized Cost

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

If either of the two criteria above is not met, the financial asset is classified at FVTPL.

Financial assets at amortized cost include mainly demand obligations and accrued income on loans and receivables and certain investments that meet the criteria of financial assets at amortized cost.

Demand obligations are non-negotiable, non-interest-bearing notes payable on demand deposited for subscription payment.

Purchases and sales of financial assets are recognized on a trade date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrower.

Cash and cash equivalents include amounts due from banks, demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value, and have a time to maturity upon acquisition of 3 months or less.

Financial Assets at Fair Value through Profit or Loss

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes. Gains and losses on these financial assets are reported in the income statement in the period in which they arise. Derivatives on financial instruments are also measured and categorized at FVTPL and the gains and losses are recognized in the income statement.

Derecognition

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognized in the income statement.

Financial Liabilities

Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancellation, or expiration.

Derivatives

The Fund uses foreign exchange futures and currency swaps to mitigate its exposure to potential loss due to adverse movements in market foreign exchange and interest rates, respectively. The Fund's policy is to minimize the potential fluctuation of the value of its net worth measured in Units of Account by matching, to the extent possible, the currency composition of its Net Development Resources and outstanding loans with the currency basket of the SDR (the Unit of Account). In keeping with the Fund's currency risk management policy, the Fund uses a combination of spot currency exchange transactions, foreign exchange forwards, and currency swaps to realign any misalignment.

All foreign exchange futures and currency swap transactions are measured and classified at fair value, with all realized and unrealized gains or losses recognized in the Statement of Income and Expenses.

Impairment of Financial Assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets included in its Net Development Resources is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss has been incurred on its receivable or treasury investments held at amortized cost (described in prior years as held to maturity investment), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The estimated impairment loss may arise from delays that may be experienced in receiving amounts due, and the impairment calculations reflect management's best estimate of the effect of such delays.

The impairment loss is reported as a reduction to the carrying amount of the asset through the use of an allowance account and recognized in the Statement of Income and Expenses. If a treasury investment at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Loans are not included in Net Development Resources and are therefore not subject to impairment.

Fair Value Disclosure

The fair values of quoted financial assets in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets, the Fund establishes fair value by using valuation techniques that incorporate the maximum use of market data inputs. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models, and other valuation techniques commonly used by market participants.

Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realizable in a sale might be different from the fair values disclosed.

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

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

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

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

Investments

Fair values for investment securities are based on quoted market prices, where available, using the bid prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. For government and agency obligations with final maturities longer than 1 year, the Fund may only invest in obligations with counterparties having a minimum credit rating of AA–, issued or unconditionally guaranteed by governments of member countries of the Bank or other official entities. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Money market instruments include time deposits, certificates of deposit, and other obligations with a maturity period of less than 1 year issued or unconditionally guaranteed by banks and other financial institutions with a minimum rating of A.

Derivative Financial Instruments

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

Borrowings

Borrowings are carried at amortized cost. These borrowings are concessional, unsecured, and unsubordinated. The Fund retains the option to prepay, in part or in whole, the outstanding amounts without penalty. The providers of the concessional loans are allocated voting rights based on the cash paid, computed as the derived grant element of the loan that is a function of an agreed discount rate. The grant element is recorded as equity.

Economic Outlook

In the final quarter of 2023, the global economy continued to grapple with economic challenges posed by elevated market interest rates and inflation, although interest rates have started moderating and inflation has begun to show signs of abating in some economies. However, the effects of these economic factors continue to weigh on economic activity, with cost of borrowing and production costs trending well above normal levels for countries, especially in the more vulnerable emerging market and developing economies.

Accordingly, the outlook for the global economy in 2024 is expected to be characterized by moderate to weak economic growth as geopolitical risks remain high, especially in the Middle East, which could disrupt supply chains and re-ignite commodity price surges. The IMF, in its latest World Economic Outlook report released in January 2024, forecasts global economic growth for 2024 at 3.1 percent and thereafter rising to 3.2 percent in 2025.

For Africa, the Bank Group latest Macroeconomic Performance and Outlook report (MEO 2024), released on 16 February 2024, observed that growth in Africa's average real GDP fell to an estimated 3.2 percent in 2023, from 4.1 percent in 2022, due largely to multiple shocks, including living cost crisis, increasing effects of climate change, health pandemics, and geopolitical tensions. Despite these challenges, the report noted that Africa's economies remain resilient, with growth in 2024 projected to rise to 3.8 percent. As such, sustainable economic growth in 2024 would require a moderation of high inflation rates to combat the cost of production and living crises, sound fiscal management policies to optimize revenue and avert debt default and overhang, a focus on critical sectors (health, agriculture, power, and education), and adaptation strategies to minimize disruptions to livelihoods from climate change.

From a financial reporting perspective, the known and estimable effects of the various global events have been recorded in the Fund's financial statements for the year ended 31 December 2023, manifesting in a surplus of UA 115.27 million, compared to a deficit of UA 29.47 million reported in the same period in 2022.

The continuous increase in market interest rates caused total interest income from treasury investments in 2023 to increase by 83.65 percent (UA 136.69 million). Furthermore, the net realized and unrealized fair value gains on treasury investments in 2023 increased to UA 61.94 million compared to losses of UA 51.15 million in 2022.

Accordingly, the Fund will continue to monitor and take appropriate actions to manage its business and financial risks, apply risk management adjustments on its exposures, and report the effects of changes in market conditions in its financial statements as they become known and estimable.

Change in Presentation and Comparatives

In some cases, the Fund may, in the current year, change the presentation of certain line items in the financial statements to enhance inter-period comparability. When such a change in presentation is made, the comparative information is also adjusted to reflect the new presentation.

NOTE C – Risk Management Policies and Procedures

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

The degree of risk the Fund is willing to assume to achieve its development mandate is limited by its commitment capacity. The Fund's overall risk management strategy is to minimize the exposure of its replenishment resources (the Commitment Capacity) to the risk of over-commitment and also to protect its Net Development Resources from currency translation losses that could negatively affect the Fund's long-term capacity to meet its development needs.

The policies, processes, and procedures that the Fund uses to manage its risk profile continually evolve in response to market, credit, product, and other developments. The highest level of risk management oversight is assured by the Fund's Board of Directors, which is chaired by the President. The Board of Directors is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the Board of Directors regularly reviews trends in the Fund's risk profiles and performance to ensure compliance with the underlying policies.

The guiding principles by which the Fund manages its core and non-core risks are governed by the General Authority on Asset Liability Management (the ALM Authority) approved by the Board of Directors of the Fund.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Fund's liquid assets and liabilities within defined parameters.

The ALM Authority sets out the guiding principles for managing the Fund's interest rate risk, currency exchange rate risk, liquidity risk, counterparty credit risk, and operational risk. The ALM Authority covers the entire array of the Fund's ALM activities.

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

The ALCO, chaired by the Vice President for Finance, is the oversight and control organ of the Fund's finance and treasury risk management activities. The ALCO meets regularly to perform its oversight role. The ALCO is supported by several standing working groups that report on specific issues, including interest rate risk, currency risk, financial projections, and financial products and services. In June 2012, the Bank Group also created the Credit Risk Committee, to ensure effective implementation of the Fund's credit policies and oversee all credit risk issues related to loan operations.

Day-to-day operational responsibility for implementing the Fund's financial and risk management policies and guidelines are delegated to the appropriate business units. The Financial Management Department is responsible for monitoring day-to-day compliance with those policies and guidelines.

Treasury Investments

The Fund's treasury investment securities are classified either as financial assets at amortized cost or as investments at fair value through profit or loss. Treasury investments classified as financial assets at amortized cost include non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method. All other investment securities are classified as investments at fair value through profit or loss and measured at market value.

Investments of the proceeds of accelerated encashment of notes are classified at amortized cost or fair value depending on whether they are held to collect contractual cash flows or to realize fair value. The primary objective of such investments is to recoup the discount granted to State Participants on the accelerated encashment program.

Income on treasury investments includes interest earned and fair value gains and losses on the portfolio held at fair value through profit or loss, including derivatives. Purchases and sales of treasury investments are recognized on a trade-date basis, which is the date on which the Fund commits to purchase or sell the investments.

Loans

The Fund provides concessional funding for development purposes to the least developed countries in Africa. Country eligibility is determined by assessing gross national income per capita, creditworthiness, and performance. Annual debt sustainability analysis is used to determine the risk of debt distress of each beneficiary country and to set appropriate financing terms. The following categories of countries are eligible for ADF loans:

- **Category A:** Countries that are not deemed creditworthy for non-concessional financing and whose income levels are below the operational cut-off.
- **Category A (Gap Countries):** Countries that are not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off. These have access to ADF funds with modified financing terms at par with those of blend countries (Category B).
- **Category B:** Countries that are deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off (blend countries). These have access to a blend of ADB and ADF resources.

Graduating countries are those that are graduating from the category of ADF borrowing countries to the category of ADB borrowing countries. The applicable graduating policies are determined for each new ADF replenishment.

Disbursed and outstanding loans are reported at amortized cost and not included in Net Development Resources in the Special Purpose Financial Statements; rather, they are presented as an allocation of development resources. Accordingly, no provision for possible loan losses is required.

Loan income arising from interest, service, and commitment charges is recognized on an accrual basis. The Fund places all loans to a borrower country in non-accrual status if the principal installments, interest, or service charges on any of the loans to such member country are overdue by 6 months or more, unless the Fund's management determines that the overdue amount will be collected in the immediate future. Further, management may place a loan in non-accrual status even if it is not yet overdue by 6 months, if the facts and circumstances, including consideration of events occurring subsequent to the balance sheet date, warrant such action. On the date a borrower's loans are placed in non-accrual status, unpaid interests and charges that had previously been accrued on loans to the borrower are deducted from income on loans for that period. Interests and charges on loans in non-accrual status are included in income only to the extent that payment of such charges has been received by the Fund.

Partial Risk Guarantee

The Fund's Partial Risk Guarantee (PRG) program provides guarantees to cover private sector projects against a government's or government-owned entity's failure to meet its specified contractual obligations to the project. The PRGs cover projects against well-defined political risks related to the failure of a government or government-related entity to honor certain specified commitments, such as political force majeure, currency inconvertibility, and non-transferability, confiscation, expropriation, nationalization, and deprivation regulatory risks and various forms of breach of contract including non-honoring of financial obligations.

Under the PRG framework, the Fund executes the payment obligations if the government (or its entity whose obligations are covered) defaults and the guarantee is called. Any amount paid by the Fund under the guarantee is immediately (or as otherwise decided by the Fund) due from the host government under the counter-indemnity agreement signed between the Fund and the host government.

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

Partial Credit Guarantee

The Partial Credit Guarantee (PCG) is another credit enhancement instrument provided by the Fund. Like the PRG, it is a risk mitigation instrument designed to better leverage resources by crowding-in private capital.

Serving as a partial guarantee towards debt service obligations, PCGs help to (i) extend debt maturities; (ii) improve access to capital markets for public sector investment projects, especially in infrastructure; (iii) reduce effective borrowing costs; (iv) support mobilization of long-term resources from international and domestic capital markets; and (v) support sovereign mobilization of commercial financing for policy or sectoral reforms.

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

Grants

In addition to loans, the Fund is authorized to provide development financing in the form of grants. Prior to the ninth replenishment of the resources of the Fund, grant funds were granted for technical assistance activities only. With effect from the ninth replenishment, grants may be used for project financing as well as technical assistance. Grants, like loans, represent allocations of development resources and are accordingly treated as such in the Statement of Net Development Resources of the Fund.

Heavily Indebted Poor Countries (HIPC Debt Initiative Trust Fund)

The Fund participates in a multilateral debt relief initiative for addressing the debt problems of countries identified as Heavily Indebted Poor Countries (HIPCs) to help ensure that their reform efforts are not compromised by unsustainable external debt burdens. Under this initiative, creditors provide debt relief for countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. As a part of this process, the HIPC Debt Initiative Trust Fund (the Trust Fund), constituted by funds from donors, including the Bank Group, was established to help beneficiaries reduce their overall debt, including debts owed to the Fund.

Under the original framework of the debt relief initiative, upon signature of a HIPC Debt Relief Agreement by the Fund, the beneficiary country, and the Trust Fund, loans or repayment installments identified for sale to the Trust Fund are written down to their estimated net present value. On the settlement date, the estimated write-down is adjusted to reflect the actual difference between the cash received and the carrying value of the loans sold.

Under the enhanced HIPC framework, the implementation mechanism comprises a partial payment of ADF debt service as it falls due with funds received from the Trust Fund.

Multilateral Debt Relief Initiative (MDRI)

Under the MDRI, loans due from eligible HIPCs are canceled when the countries attain the completion point under the HIPC framework. The Fund is expected to be fully compensated for loans canceled under MDRI by additional contributions to be made by donors over the previously scheduled repayment periods of the canceled loans. When MDRI becomes effective for a country, certain amounts previously disbursed to that country as loans are no longer repayable by the country and effectively take on the character of grants made by the Fund. Accordingly, loans canceled under the MDRI are included in Net Debt Relief and reported in the Statement of Net Development Resources as allocation of development resources, with a corresponding offset to loans outstanding.

Risk Management

The following sections describe in detail how individual sources of risk are managed by the Fund.

Credit Risk

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

The Fund's credit risk arises from two principal sources: (i) sovereign credit risk arising from lending to its qualifying RMCs and (ii) counterparty credit risk on its portfolio of treasury investments and derivative transactions.

Sovereign Credit Risk

The Fund provides concessional loans in order to fund economic and social development of its member countries, which generally have a lower credit quality than ADB borrowers. Although loans are included in the financial statements as resources already allocated for development and therefore not included in the Net Development Resources, the Fund still manages sovereign credit risks to ensure equitable allocation of resources to eligible beneficiaries and ensure that expected reflows from loan repayments are properly monitored and managed. Country eligibility for loans is determined by assessing, among other things, gross national income per capita, creditworthiness, and performance. The Fund uses the International Monetary Fund/World Bank Debt Sustainability Framework (DSF) for Low-Income Countries to make performance-based allocation (PBA) of ADF resources among the many competing needs in the continent and to ensure that the funds are directed to areas where they will be used most effectively. The PBA process, which is reviewed regularly, is also used to determine the proportion of ADF resources allocated as grants to each qualifying borrower. On the basis of the debt sustainability analysis, certain countries are allocated grant-only resources, while others may receive a combination of loan and grant resources or loan resources only.

Country Exposure

The Fund's exposures as at 31 December 2023 and 31 December 2022 from its lending activities are summarized below:

Summary of Loans as at 31 December 2023

(UA thousands)

Country	No. Of loans*	Total loans*	Unsigned loan amounts	Undisbursed balance	Outstanding balance	% of total outstanding loans
Angola	14	65,724	-	1,395	64,329	0.43
Benin	45	436,647	19,998	47,254	369,395	2.47
Botswana	12	28,033	-	-	28,033	0.19
Burkina Faso	43	597,080	14,000	143,952	439,128	2.94
Burundi	6	20,514	-	-	20,514	0.14
Cameroon	41	614,127	-	98,958	515,169	3.45
Cabo Verde	29	73,832	-	121	73,711	0.49
Central African Republic	2	3,719	-	-	3,719	0.02
Chad	17	100,211	4,993	7,517	87,701	0.59
Comoros	3	15,607	4,749	1,357	9,501	0.06
Republic of the Congo	4	52,327	-	14,527	37,800	0.25
Côte d'Ivoire	23	283,660	-	108,901	174,759	1.17
Democratic Republic of Congo	18	533,297	-	358,921	174,376	1.17
Djibouti	21	90,739	-	4,877	85,862	0.57
Egypt	16	84,192	-	-	84,192	0.56
Equatorial Guinea	11	15,372	-	-	15,372	0.10
Eritrea	8	67,850	-	5,719	62,131	0.42
Eswatini	8	19,557	-	-	19,557	0.13
Ethiopia	33	1,659,255	-	81,903	1,577,352	10.56
Gabon	1	777	-	-	777	0.01
Gambia	14	37,216	-	2,915	34,301	0.23
Ghana	48	979,309	-	90,672	888,637	5.95
Guinea	26	277,911	6,170	86,446	185,295	1.24
Guinea-Bissau	13	40,660	-	11,836	28,824	0.19
Kenya	71	2,007,068	-	325,025	1,682,043	11.26
Lesotho	42	139,912	-	25,653	114,259	0.76
Liberia	14	213,586	-	76,703	136,883	0.92
Madagascar	36	527,134	-	185,099	342,035	2.29
Malawi	34	365,420	-	31,294	334,126	2.24
Mali	51	648,446	26,750	77,637	544,059	3.64
Mauritania	23	104,237	-	33,530	70,707	0.47
Mauritius	2	935	-	-	935	0.01
Morocco	5	18,729	-	-	18,729	0.13
Mozambique	38	747,685	-	39,485	708,200	4.74
Namibia	2	7,992	-	-	7,992	0.05
Niger	37	562,008	-	226,219	335,789	2.25
Nigeria	35	846,285	-	100,586	745,699	4.99
Rwanda	34	775,102	-	184,430	590,672	3.95
São Tomé and Príncipe	7	16,293	-	1,142	15,151	0.10
Senegal	47	615,620	-	87,296	528,324	3.54
Seychelles	3	2,417	-	-	2,417	0.02
Sierra Leone	18	121,194	-	5,316	115,878	0.78
Somalia	17	13,550	-	939	12,611	0.08
South Sudan	1	8,692	-	-	8,692	0.06
Sudan +	13	64,717	-	-	64,717	0.43
Tanzania	63	2,288,848	-	382,463	1,906,385	12.76
Togo	10	58,125	-	25,717	32,408	0.22
Uganda	48	1,430,964	68,500	164,783	1,197,681	8.02
Zambia	30	442,875	-	48,489	394,386	2.64
Zimbabwe**	10	36,963	-	-	36,963	0.25
Multinational	9	279,768	145,000	125,160	9,608	0.06
Total	**1,156**	**18,442,181**	**290,160**	**3,214,237**	**14,937,780**	**100.00**

+ The outcome of the referendum conducted in South Sudan in January 2011 supported the creation of an independent state of South Sudan. After the split of the current state of Sudan into two separate nations became effective in July 2011, the number and amounts of loans shown against Sudan in this statement would be split between the emerging states on a basis agreed upon following the ongoing negotiations between Sudan and South Sudan. At the end of December 2023, no decision has been taken by the states of Sudan and South Sudan regarding the terms and conditions of such exchange.

** Excludes fully repaid loans and canceled loans.*

*** Countries in non-accrual status as at 31 December 2023.*

Slight differences may occur in totals due to rounding.

Summary of Loans as at 31 December 2022

(UA thousands)

Country	No. Of loans*	Total loans*	Unsigned loan amounts	Undisbursed balance	Outstanding balance	% of total outstanding loans
Angola	14	67,963	-	1,757	66,206	0.46
Benin	43	383,033	-	52,613	330,420	2.27
Botswana	12	29,995	-	-	29,995	0.21
Burkina Faso	43	549,668	9,760	113,152	426,756	2.94
Burundi	6	21,737	-	-	21,737	0.15
Cameroon	42	609,478	11,600	103,129	494,749	3.40
Cabo Verde	29	77,108	-	121	76,987	0.53
Central African Republic	2	3,624	-	-	3,624	0.02
Chad	16	96,466	-	7,517	88,949	0.61
Comoros	2	10,639	-	4,716	5,923	0.04
Republic of the Congo	4	52,356	-	17,543	34,813	0.24
Côte d'Ivoire	23	281,457	-	125,882	155,575	1.07
Democratic Republic of Congo	17	460,153	-	309,140	151,013	1.04
Djibouti	21	95,233	-	9,946	85,287	0.59
Egypt	16	89,841	-	-	89,841	0.62
Equatorial Guinea	11	16,405	-	-	16,405	0.11
Eritrea	8	70,584	-	8,812	61,772	0.42
Eswatini	8	20,932	-	-	20,932	0.14
Ethiopia	33	1,681,571	-	93,720	1,587,851	10.92
Gabon	1	815	-	-	815	0.01
Gambia	15	38,456	-	3,811	34,645	0.24
Ghana	49	1,001,026	-	104,388	896,638	6.17
Guinea	26	256,739	12,704	76,409	167,626	1.15
Guinea-Bissau	14	40,683	-	13,749	26,934	0.19
Kenya	70	2,023,840	14,000	347,352	1,662,488	11.44
Lesotho	42	145,833	12,000	17,740	116,093	0.80
Liberia	13	202,664	-	88,614	114,050	0.78
Madagascar	37	531,380	2,500	197,667	331,213	2.28
Malawi	33	367,716	-	57,640	310,076	2.13
Mali	55	617,304	26,750	63,091	527,463	3.64
Mauritania	22	98,665	-	28,899	69,766	0.48
Mauritius	2	1,052	-	-	1,052	0.01
Morocco	5	19,874	-	-	19,874	0.14
Mozambique	37	758,428	-	47,835	710,593	4.89
Namibia	2	8,264	-	-	8,264	0.06
Niger	37	529,981	43,400	166,415	320,166	2.20
Nigeria	36	868,032	-	130,312	737,720	5.07
Rwanda	31	649,332	-	95,950	553,382	3.82
São Tomé and Príncipe	7	16,575	-	1,757	14,818	0.10
Senegal	48	582,878	-	73,361	509,517	3.51
Seychelles	3	2,648	-	-	2,648	0.02
Sierra Leone	18	125,224	-	10,760	114,464	0.79
Somalia	17	16,168	-	939	15,229	0.10
South Sudan	1	8,763	-	-	8,763	0.06
Sudan +	13	69,855	-	-	69,855	0.48
Tanzania	63	2,315,232	-	465,643	1,849,589	12.72
Togo	10	57,634	5,860	21,344	30,430	0.21
Uganda	46	1,370,803	-	239,385	1,131,418	7.78
Zambia	29	442,321	-	57,603	384,718	2.65
Zimbabwe**	10	37,264	-	-	37,264	0.26
Multinational	16	425,059	388,439	26,650	9,970	0.07
Total	**1,158**	**18,248,751**	**527,013**	**3,185,362**	**14,536,378**	**100.00**

+ The outcome of the referendum conducted in South Sudan in January 2011 supported the creation of an independent state of South Sudan. After the split of the current state of Sudan into two separate nations became effective in July 2011, the number and amounts of loans shown against Sudan in this statement would be split between the emerging states on a basis agreed upon following the ongoing negotiations between Sudan and South Sudan. At the end of December 2022, no decision has been taken by the states of Sudan and South Sudan regarding the terms and conditions of such exchange.
** Excludes fully repaid loans and canceled loans.*
*** Countries in non-accrual status as at 31 December 2022.*
Slight differences may occur in totals due to rounding.

Counterparty Credit Risk

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

Counterparties must meet the Fund's minimum credit rating requirements and be approved by the Bank Group's Vice President for Finance. ALCO approves counterparties that are rated below the minimum rating requirements. Counterparties are classified as investment counterparties, derivative counterparties, and trading counterparties. Their ratings are closely monitored by the Financial Management Department.

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

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

Minimum credit ratings for authorized investment counterparties at different maturities

<table>
<tr><th></th><th colspan="6">Maturity</th></tr>
<tr><th></th><th>6 months</th><th>1 year</th><th>5 years</th><th>10 years</th><th>15 years</th><th>30 years</th></tr>
<tr><td rowspan="2">Government</td><td colspan="4">A/A2</td><td>AA-/Aa3</td><td>AAA/Aaa</td></tr>
<tr><td colspan="6">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.</td></tr>
<tr><td>Government agencies and supranationals</td><td colspan="4">A/A2</td><td>AA-/Aa3</td><td>AAA/Aaa</td></tr>
<tr><td>Banks</td><td colspan="2">A/A2</td><td>AA-/Aa3</td><td colspan="3">AAA/Aaa</td></tr>
<tr><td>Corporations including non-bank financial institutions</td><td colspan="2">A/A2</td><td>AA-/Aa3</td><td colspan="3">AAA/Aaa</td></tr>
<tr><td>Mortgage Backed Securities (MBS)/
Asset Backed Securities (ABS)</td><td colspan="6">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.</td></tr>
</table>

The Fund uses derivatives in the management of its assets and liabilities. As a rule, the Fund executes an International Swaps and Derivatives Association (ISDA) master agreement and collateral exchange agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated AA–/Aa3 by at least two approved rating agencies or A–/A3 for counterparties with whom the Fund has entered into a collateral exchange agreement. These counterparties require ALCO approval. Approved transactions with derivative counterparties include swaps, forwards, options, and other over-the-counter derivatives.

In addition to these minimum rating requirements, the Fund operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a stipulated maximum for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the Fund's credit limits after considering the benefits of any collateral.

Credit risk profile of the investment and derivatives portfolio

	Credit risk profile of the investment and derivative portfolios		
	AAA	AA+ to AA-	A+ and lower
2023	30%	32%	38%
2022	32%	21%	47%
2021	23%	19%	58%
2020	26%	25%	49%
2019	32%	21%	47%

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. The Fund's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for between 50 percent and 75 percent of the 3 year moving average of expected disbursements. The Fund's liquidity risk arises from borrowings, other liabilities, and derivatives as presented in its Net Development Resources.

To strike a balance between generating adequate investment returns and holding securities that can be easily sold for cash if the need arises, the Fund divides its investment portfolio into two tranches with different liquidity objectives and benchmarks. The Fund's core liquidity portfolio, which is fair valued, is invested in highly liquid securities that can be readily liquidated to meet the Fund's short-term liquidity needs. In addition to the trading portfolio, the Fund maintains a second tranche of liquidity under the broad category of amortized cost portfolio, which is held in a portfolio of fixed income securities intended to earn contractual cash flows.

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in the Fund's Net Assets, including its Net Development Resources and outstanding loans, the Fund's principal currency risk management objective is to ensure that it is able to provide the disbursement currencies requested by borrowers while minimizing the exposure of its Net Development Resources to adverse exchange rate movements. To the extent possible, the Fund shall maintain the alignment of the currency composition of its Net Assets with the UA as the primary benchmark of its currency composition. The Fund may conduct currency exchange transactions for the following two reasons: (1) to align the currency composition of its Net Assets (loan and investment portfolios) with the UA and (2) to be able to provide ADF borrowers with the disbursement currencies requested.

Interest Rate Risk

Interest rate risk is the potential for loss due to adverse movements in market interest rates. In seeking to earn a stable and reasonable return on invested liquidity, the Fund's principal interest rate risk management objective is to reduce the sensitivity of the Fund's investment returns to changes in market interest rates. To achieve this objective, the Fund's investments are managed in two portfolios: (1) an actively managed portfolio (the "Operational" Portfolio) and (2) a passively managed portfolio (the "Investment" Portfolio).

The Operational Portfolio provides a readily available source of liquidity to cover both expected and unexpected disbursements as well as any other probable cash outflows. The Operational Portfolio is managed against a 3-month reference benchmark in each currency. Generally, investments in the Operational Portfolio are held for trading and are regularly marked to market.

The Investment Portfolio consists of funds that are not immediately required for loan disbursements and therefore may be invested for a longer horizon. Generally, investments in the Investment Portfolio are purchased with the intention to hold to collect the contractual cash flows and are not marked to market. The Investment Portfolio comprises two sub-portfolios: (i) an investment portfolio for income stabilization for the purpose of generating a stable income for the Fund and reducing the Fund's investment income sensitivity to interest rates and (ii) an investment portfolio for accelerated encashments for the purpose of investing proceeds from accelerated encashments to recoup the discount granted to State Participants, minimizing or eliminating interest rate risk on accelerated encashments. The investment portfolio for income stabilization is managed against a 10-year uniform re-pricing profile for each invested currency. The investment portfolio for accelerated encashments is managed against a target rate, which is the discount rate agreed with State Participants. The Fund also uses currency swaps to mitigate interest rate risk.

Interest rate risk position as at 31 December 2023 and 31 December 2022 was as follows:

Interest Rate Risk Position as at 31 December 2023

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	675,114	-	-	-	-	-	675,114
Investments	1,475,090	591,996	758,740	546,650	668,200	472,458	4,513,134
Derivative assets	381,143	-	-	-	-	-	381,143
Demand obligations	646,905	600,299	326,245	202,826	171,017	114,932	2,062,224
Accounts receivable	109,371	-	-	-	-	-	109,371
	3,287,623	1,192,295	1,084,985	749,476	839,217	587,390	7,740,986
Liabilities							
Derivative liabilities	(369,099)	-	-	-	-	-	(369,099)
Accounts payable	(33,507)	-	-	-	-	-	(33,507)
Borrowings	-	-	-	-	-	(1,174,867)	(1,174,867)
	(402,606)	-	-	-	-	(1,174,867)	(1,577,473)
Net Development Resources at 31 December 2023	**2,885,017**	**1,192,295**	**1,084,985**	**749,476**	**839,217**	**(587,477)**	**6,163,513**

Interest Rate Risk Position as at 31 December 2022

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	1,221,313	-	-	-	-	-	1,221,313
Treasury investments	1,731,940	358,250	444,930	233,260	154,520	422,715	3,345,615
Derivative assets	385,662	-	-	-	-	-	385,662
Demand obligations	508,830	388,987	367,548	290,343	205,880	256,296	2,017,884
Accounts receivable	65,029	-	-	-	-	-	65,029
	3,912,774	747,237	812,478	523,603	360,400	679,011	7,035,503
Liabilities							
Derivative liabilities	(323,645)	-	-	-	-	-	(323,645)
Accounts payable	(143,227)	-	-	-	-	-	(143,227)
Borrowings	-	-	-	-	-	(1,165,173)	(1,165,173)
	(466,872)	-	-	-	-	(1,165,173)	(1,632,045)
Net Development Resources as at 31 December 2022	**3,445,902**	**747,237**	**812,478**	**523,603**	**360,400**	**(486,162)**	**5,403,458**

Note D – Financial Assets and Liabilities

Analysis of Financial Assets and Financial Liabilities by Measurement Basis

The tables below set out the classification of each class of financial assets and liabilities and their respective fair values as at 31 December 2023 and 31 December 2022:

(UA thousands)

	Financial assets and liabilities through profit or loss				
31 December 2023	Mandatorily at fair value	Designated at fair value	Financial assets and liabilities at amortized cost	Total carrying amount	Fair value
Cash	-	-	675,114	675,114	675,114
Treasury investments	3,819,936	-	693,198	4,513,134	4,513,147
Derivative assets	381,143	-		381,143	381,143
Demand obligations	-	-	2,062,224	2,062,224	2,062,224
Loans disbursed and outstanding			14,937,780	14,937,780	14,937,780
Accounts receivables	-	-	109,371	109,371	109,371
Total financial assets	**4,201,079**	**-**	**18,477,687**	**22,678,766**	**22,678,779**
Derivative liabilities	369,099			369,099	369,099
Other liabilities	-	-	33,507	33,507	33,507
Borrowings	-	-	1,174,867	1,174,867	1,174,867
Total financial liabilities	**369,099**	**-**	**1,208,374**	**1,577,473**	**1,577,473**

(UA thousands)

	Financial assets and liabilities through profit or loss				
31 December 2022	Mandatorily at fair value	Designated at fair value	Financial assets and liabilities at amortized cost	Total carrying amount	Fair value
Cash	-	-	1,221,313	1,221,313	1,221,313
Treasury investments	2,669,370	-	676,245	3,345,615	3,345,629
Derivative assets	385,662	-		385,662	385,662
Demand obligations	-	-	2,017,884	2,017,884	2,017,884
Loans disbursed and outstanding	-	-	14,536,378	14,536,378	14,536,378
Accounts receivables	-	-	65,029	65,029	65,029
Total financial assets	**3,055,032**	**-**	**18,516,849**	**21,571,881**	**21,571,895**
Derivative liabilities	323,645			323,645	323,645
Other liabilities	-	-	143,227	143,227	143,227
Borrowings	-	-	1,165,173	1,165,173	1,165,173
Total financial liabilities	**323,645**	**-**	**1,308,400**	**1,632,045**	**1,632,045**

Treasury Investments

The composition of treasury investments as at 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
Treasury investments mandatorily measured at FVTPL	3,819,936	2,669,370
Treasury investments at amortized cost	693,198	676,245
Total	**4,513,134**	**3,345,615**

Treasury Investments Mandatorily Measured at Fair Value through Profit or Loss

A summary of the Fund's treasury investments measured at FVTPL as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	Chinese yuan		US dollar		Euro		Other currencies		All currencies	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Time deposits	78.93	-	433.14	207.07	387.56	490.70	88.46	75.35	988.09	773.12
Asset-backed securities	-	-	0.01	0.01	-	-	-	-	0.01	0.01
Government and agency obligations	91.35	472.03	828.87	358.08	618.67	202.42	93.36	129.54	1,632.25	1,162.07
Corporate bonds	-	-	31.83	16.37	-	-	-	-	31.83	16.37
Financial institutions	-	-	249.12	351.84	207.51	129.69	-	-	456.63	481.53
Supranational	-	-	472.19	145.08	137.54	33.48	101.40	57.71	711.13	236.27
Total	**170.28**	**472.03**	**2,015.16**	**1,078.45**	**1,351.28**	**856.29**	**283.22**	**262.60**	**3,819.94**	**2,669.37**

The contractual maturity structure of investments measured at FVTPL as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	2023	2022
1 year or less	1,421.01	1,677.06
More than 1 year but less than 2 years	539.44	301.57
More than 2 years but less than 3 years	703.78	390.49
More than 3 years but less than 4 years	516.79	176.54
More than 4 years but less than 5 years	638.91	123.70
More than 5 years	0.01	0.01
Total	**3,819.94**	**2,669.37**

Treasury Investments at Amortized Cost

A summary of the Fund's treasury investments at amortized cost as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	Chinese Yuan		US Dollar		Euro		Other currencies		All Currencies	
	2023	2022	2023	2022	2023	2022	2023	2022	2023	2022
Government and agency obligations	316.35	266.06	-	-	-	-	365.70	398.90	682.05	664.96
Supranational	-	-	11.15	11.29	-	-	-	-	11.15	11.29
Total	**316.35**	**266.06**	**11.15**	**11.29**	**-**	**-**	**365.70**	**398.90**	**693.20**	**676.25**

The contractual maturity structure of investments at amortized cost as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	2023	2022
1 year or less	54.08	54.88
More than 1 year but less than 2 years	52.56	56.68
More than 2 years but less than 3 years	54.96	54.44
More than 3 years but less than 4 years	29.86	56.72
More than 4 years but less than 5 years	29.29	30.82
More than 5 years	472.45	422.71
Total	**693.20**	**676.25**

Derivative Contracts

Futures Contracts

The Fund has entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at 31 December 2023, the Fund had futures with a notional value and carrying value as summarized in the table below. The net asset position of UA 16.91 million on the futures is presented in the Net Development Resources. The gains/losses on valuation are presented in the Statement of Income and Expenses under fair value losses/gains on treasury trading portfolio and related derivatives.

Notional value and carrying value of futures contracts as at 31 December 2023
(in millions)

			Gross position (in UA)		Net position (asset)
Futures currency	Notional (in CCY)	Notional (in UA)	Receivable	Payable	Fair value (in UA)
Euro	13,788.00	11,324.57	(5.91)	(10.99)	(16.90)
United States dollar	27,487.00	20,487.15	37.10	(5.87)	31.23
Poung sterling	489.00	464.03	5.11	(3.70)	1.41
Canadian dollar	1,954.00	1,098.17	(1.63)	2.80	1.17
Total		**33,373.92**	**34.67**	**(17.76)**	**16.91**

Swaps

Currency Swaps

The Fund entered into currency swap contracts to mitigate risk on its borrowings portfolio. Specifically, the Fund executed a derivative transaction to swap currency from JPY 73.6 billion borrowing into EUR 569.31 million.

As at 31 December 2023, the carrying value of the currency swap was UA 345.19 million (receivable leg) and UA 341.79 million (payable leg), resulting in a net asset position of UA 3.40 million in the Net Development Resources and fair value loss of UA 16.69 million presented under fair value gains from derivatives on concessional donor borrowing in the Statement of Income and Expenses.

Interest Rate Swaps

The Fund entered into interest rate swap contracts to hedge against interest rate risk on investment of proceeds from accelerated encashments. As at 31 December 2023, the carrying value of the CAD interest rate swap was UA 1.28 million (receivable leg) and UA 9.54 million (payable leg) resulting in a net liability position of UA 8.26 million in the Net Development Resources and fair value gains of UA 3.88 million included in the fair value losses on treasury trading portfolio and related derivatives in the Statement of Income and Expenses.

The total net asset position of UA 12.05 million on the derivatives is summarized in the table below and presented in the Net Development Resources as derivative assets (UA 381.14 million) and derivative liabilities (UA 369.09 million), respectively.

Summary of derivatives as at 31 December 2023
(in millions)

Derivatives	Notional (in CCY)	Notional (in UA)	Fair value (in UA)
CCY swap-JPY (receivable leg)	73,601.00	386.45	345.19
Interest rate swap-CAD (receivable leg)	98.12	55.14	1.28
Futures contracts (receivable leg)			34.67
Derivative assets			**381.14**
CCY swap-EUR (payable leg)	(569.31)	(467.59)	(341.79)
Interest rate swap-CAD (payable leg)	(98.12)	(55.14)	(9.54)
Futures contracts (payable leg)			(17.76)
Derivative liabilities			**(369.09)**
			Net Position (in UA)
Net position (asset)			**12.05**

NOTE E – Demand Obligations

Demand obligations represent subscription payments made by participants in accordance with Article 9 of the Agreement. These obligations take the form of non-negotiable, non-interest-bearing notes payable at their par value on demand. The Board of Governors has agreed that the encashment of these notes will be governed by the Fund's disbursement requirements.

As at 31 December 2023, demand obligations totaled UA 2,062.22 million compared with UA 2,017.88 million as at 31 December 2022, representing an increase of UA 44.34 million. This increase is due to receipts of new demand notes during the year.

NOTE F – Development Activities

According to the Fund's loan regulations, loans are expressed in UA and repaid in the currency disbursed.

Project Loans and Lines of Credit

Loans to ADF-only countries are generally granted under conditions that allow for repayment over 40 years, including a 10-year grace period commencing from the date of the loan agreement. Loan principal is generally repayable from years 11 through 20 at a rate of 2 percent per annum and from years 21 through 40 at a rate of 4 percent per annum. A service charge at a rate of 0.75 percent per annum on the principal amount disbursed and outstanding is payable by the borrower semi-annually. Loans approved after June 1996 carry a 0.50 percent per annum commitment charge on the undisbursed portion. Such commitment charge commences to accrue after 120 days from the date of signature of the loan agreement.

With effect from the ADF-12 replenishment, loans to blend, gap, and graduating countries carry differentiated financing terms of 30 years' maturity, including a grace period of 5 years and interest rate of 1 percent, in addition to the existing standard 0.50 percent commitment fee and 0.75 percent service charge.

Under ADF-13, further differentiated lending terms were adopted with the view of preserving the long-term financial sustainability and capacity of the Fund. ADF-only countries are grouped into two subgroups based on their GNI per capita. Countries with GNI per capita below the average for the group are called "ADF-Only Regular Countries" and benefit from the standard terms referred to above. Countries with GNI per capita above the average of the group are called "ADF-Only Advance Countries"; their financing terms differ from the regular subgroup by having a shorter grace period of 5 years and equal and consecutive principal amortization after the grace period. The new lending terms require the acceleration of loan repayment for member countries that fulfil the requirements for graduation to the AfDB window. Financial incentives are also offered to AfDB graduated countries for voluntary loan prepayment to ADF.

ADF lending terms

Category	Sub-groups	Maturity (years)	Grace period (years)	First period (years)	Amorti-zation rate (%)	Second period (years)	Amorti-zation rate (%)	Service charge (%)	Commit-ment fee (%)	Interest rate (%)	Conces-sionality (%)
ADF-only countries	Regular: 40/10	40	10	10	2.0	20	4.0	0.75	0.50	0.0	61
	Advance: 40/5	40	5	–	2.9	–	2.9	0.75	0.50	0.0	51
Blend, gap and graduating countries	Blend/gap/ graduating: 30/5	30	5	–	4.0	–	4.0	0.75	0.50	1.0	35

Of the undisbursed balances of loans signed, the Fund may enter into special irrevocable commitments to pay amounts to borrowers or others in respect of the cost of goods and services to be financed under loan agreements. Outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 2.34 million as at 31 December 2023, compared with UA 10.38 million as at 31 December 2022.

As at 31 December 2023, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 36.96 million (31 December 2022: UA 37.26 million), of which UA 19.27 million (31 December 2022: UA 18.25 million) was overdue, were in non-accrual status.

If the overdue loans had not been in non-accrual status, income from loans for the year ended 31 December 2023 would have been higher by UA 0.28 million (31 December 2022: UA 0.28 million). As at 31 December 2023, the cumulative charges not recognized on the non-accrual loans amounted to UA 6.51 million.

As at 31 December 2023, Zimbabwe is the only country with arrears for more than 6 months.

The Fund also provides innovative financial instruments in the form of partial risk guarantees (PRGs) and partial credit guarantees (PCGs) for the purpose of better leveraging resources by sharing or mitigating risk and crowding-in other sources of financing. ADF guarantees allow borrowers and project companies to get access to new sources of financing and to improve financing terms and conditions.

The PRGs product is a financial guarantee that covers private sector projects against a government`s or a government-owned entity's failure to meet its specified contractual obligations to the project. As at 31 December 2023, guarantees approved by the Fund to private entities on account of its borrowers amounted to UA 242.69 million (31 December 2022: UA 246.75 million[1]). The outstanding approved PRGs as at 31 December 2023 amounted to UA 106.22 million (31 December 2022: UA 110.28 million).

The PCGs cover debt service on scheduled payments of commercial debt against all risks or specific events of defaults by borrowers from both public and private sectors. PCGs support private sector entities, government, and state-owned enterprises in mobilizing debt from commercial lenders/investors to finance their activities and projects. Governments can also use PCGs in the form of Policy-Based Guarantees (PBGs) to raise commercial financing in support of their strategic reforms under the Policy-Based Operations Framework (Budget Support operations). As at 31 December 2023, PCGs provided by the Fund amounted to UA 277.57 million (31 December 2022: UA 185.77 million). The outstanding approved PCGs as at 31 December 2023 were UA 277.57 million (31 December 2022: UA 185.77 million).

Private Sector Credit Enhancement Facility

The Private Sector Credit Enhancement Facility (PSF) was established with the approval of the Board of Governors of the Consultative Meeting on the 13th replenishment (ADF-13 Report) on 31 January 2014. The PSF provides credit enhancement guarantees to eligible private sector loans in ADF eligible countries. This is geared towards catalyzing additional private investment in these countries. The PSF is operationally and financially autonomous from the Fund and its establishing framework explicitly precludes it from having recourse to the Fund for any losses that it may incur.

As at 31 December 2023, the total available resources to the PSF were UA 515 million. This is made up of a UA 165 million grant allocated by the Fund in 2014 for the establishment of the PSF to encourage increased development financing in the ADF countries, an additional contribution of UA 200 million, approved in 2017, under the 14th replenishment (ADF-14), and UA 100 million approved in 2020 under the 15th replenishment (ADF-15). An additional allocation of UA 50 million has been approved under the 16th replenishment cycle (2023–2025). As at 31 December 2023, a total of UA 165 million had been paid to the PSF. The PSF had a signed credit enhancement of UA 513.47 million as at 31 December 2023.

Maturity and Currency Composition of Outstanding Loans

The maturity distribution of outstanding loans as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	2023		2022	
	Amount	%	Amount	%
1 year or less*	284.56	1.90	241.16	1.66
More than 1 year but less than 2 years	293.05	1.96	248.11	1.71
More than 2 years but less than 3 years	319.50	2.14	275.75	1.90
More than 3 years but less than 4 years	346.09	2.32	301.36	2.07
More than 4 years but less than 5 years	360.78	2.42	325.52	2.24
More than 5 years	13,333.80	89.26	13,144.48	90.42
Total	**14,937.78**	**100.00**	**14,536.38**	**100.00**

** Includes the arrears on loans.*

1 *The amount of UA 156 million has been re-categorized from a PRG project to PCG project. The decrease in PRG balance corresponds to an increase in the PCG balance reflecting the re-categorization.*

The currency composition of outstanding loans as at 31 December 2023 and 31 December 2022 was as follows:

(UA millions)

	2023		2022	
Currency	Amount	%	Amount	%
Canadian dollar	4.51	0.03	4.83	0.03
Danish kroner	4.45	0.03	4.69	0.03
Euro	4,387.87	29.37	4,201.53	28.90
Chinese yuan	20.51	0.14	21.74	0.15
Japanese yen	432.59	2.90	478.50	3.29
Norwegian krone	5.32	0.04	6.03	0.04
Pound sterling	591.99	3.96	572.51	3.94
Swedish krona	4.96	0.03	5.17	0.04
Swiss franc	31.90	0.21	31.53	0.22
United States dollar	9,449.04	63.26	9,209.69	63.36
Others	4.63	0.03	0.17	0.00
Total	**14,937.78**	**100.00**	**14,536.38**	**100.00**

Grants and Technical Assistance Activities

Under the Fund's lending policy, 5 percent of the resources available under the third and fourth general replenishments, 10 percent under the fifth and sixth general replenishments, and 7.5 percent under the seventh and eighth general replenishments were allocated as grants and grant-based technical assistance for the identification and preparation of development projects or programs in specified member countries. In addition, amounts in the range of 18–21 percent of the total resources under the ninth replenishment were set aside in the form of grants for permitted uses, including technical assistance and project financing. Grants do not bear charges. The share of grants under the 10th–16th general replenishments is based on a country-by-country analysis of debt sustainability.

As at 31 December 2023, the Fund's allocation to grants and technical assistance activities amounted to UA 9.55 billion (31 December 2022: UA 9.01 billion), reflecting an increase of UA 540.18 million on grants disbursed during the year.

Technical assistance loans do not carry charges.

HIPC Debt Relief Initiative

Under the original framework of HIPC, selected loans to beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the net present value of the loans as calculated using the methodology agreed under the initiative. Following the signature of a HIPC debt relief agreement, loans identified for payment were written down to their estimated net present value. The amount of the write-down, representing the difference between the book value and net present value of the loans, was shown as an allocation of development resources. The amount of UA 71.08 million, which was the write-down in respect of the debt relief granted to Mozambique in 1999 under the original HIPC framework, is included in the amount stated as net debt relief in the Statement of Net Development Resources. The outstanding balance and net present value of the loans owed by Mozambique and sold to the HIPC Trust Fund in 1999 were UA 132.04 million and UA 60.96 million, respectively.

In 1999, the HIPC initiative was enhanced to provide greater, faster, and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 33 African countries are currently eligible, debt relief is delivered through annual debt service reductions which allow the release of up to 80 percent of annual debt service obligations as they come due until the total net present value of debt relief, determined by the debt sustainability analysis, is provided. Interim financing of up to 40 percent of total debt relief is granted between the decision and completion points. Total contributions by the Fund to the HIPC initiative as at 31 December 2023 amounted to UA 184 million and are shown as allocations of development resources in the Statement of Net Development Resources.

Multilateral Debt Relief Initiative

At the Gleneagles Summit on 8 July 2005, the Group of 8 major industrial countries agreed on a proposal for the ADF, the International Development Association (IDA), and the International Monetary Fund (IMF) to cancel 100 percent of their claims on countries that had reached, or would reach, the completion point under the enhanced HIPC initiative. Through the Development Committee communiqué of 25 September 2005, the donor community expressed its support for the Multilateral Debt Relief Initiative (MDRI) and urged the institutions referred to above to proceed with the necessary steps to ensure implementation.

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

The MDRI became effective for ADF on 1 September 2006. Since disbursed and outstanding loans were already excluded from Net Development Resources, the debt cancellation did not have an impact on the Fund's balance of Net Development Resources. Cancellations of ADF debts are effected when other eligible countries reach the HIPC completion point.

As at 31 December 2023, a gross amount of UA 5.68 billion (31 December 2022: UA 5.68 billion) of outstanding loans had been canceled under MDRI for 30 (2022: 30) HIPC completion-point countries. Of this amount, UA 1,225.99 million (2022: UA 1,225.99 million) in nominal terms were converted by the HIPC Trust Fund. The present value of the converted loans was UA 942.71 million (2022: UA 942.71 million). As at 31 December 2023, the present value amounts had been transferred from the HIPC Trust Fund to the ADF.

A summary of debt relief granted under HIPC and MDRI as at 31 December 2023 and 31 December 2022 is as follows:

Debt relief granted under HIPC and MDRI as at 31 December 2023 and 31 December 2022
(UA thousands)

	2023			2022		
	HIPC	MDRI	Total	HIPC	MDRI	Total
Balance as at 31 December	**235,096**	**4,719,976**	**4,955,072**	235,096	4,719,976	4,955,072

Special Arrears Clearance Mechanism

Arrears Clearance Mechanism for the Democratic Republic of Congo

In connection with an internationally coordinated effort between the Bank, the IMF, the World Bank, and other bilateral and multilateral donors to assist the Democratic Republic of Congo (DRC) in its reconstruction efforts, the Board of Directors on 26 June 2002 approved an arrears clearance plan for the DRC. Under the arrears clearance plan, contributions received from the donor community were used immediately for partial clearance of the arrears owed by the DRC. The residual amount of DRC's arrears to the Bank and loan amounts not yet due were consolidated into new contractual receivables, such that the present value of the new loans was equal to the present value of the amounts that were owed under the previous contractual terms. The new loans carry the weighted average interest rate of the old loans.

In approving the arrears clearance plan, the Board of Directors considered the following factors: (i) the arrears clearance plan is part of an internationally coordinated arrangement for the DRC; (ii) the magnitude of DRC's arrears to the Bank ruled out conventional solutions; (iii) the prolonged armed conflict in the DRC created extensive destruction of physical assets, such that the DRC had almost no capacity for servicing its debt; and (iv) the proposed package would result in a significant improvement in its repayment capacity, if appropriate supporting measures were taken. Furthermore, there was no automatic linkage between the arrears clearance mechanism and the debt relief that may be subsequently provided on the consolidated facility. In June 2004, the DRC reached its decision point under the HIPC initiative. Consequently, the consolidated facility has since that date benefited from partial debt service relief under the HIPC initiative.

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

Fragile States Facility Framework

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

Resources from the facility are provided on a case-by-case basis to genuine post-conflict countries not yet receiving debt relief to fill financing gaps after maximum effort by the post-conflict country to clear its arrears to the Bank Group. In this connection, the Board of Governors, by its Resolution B/BG/2004/07 of 25 May 2004, established the PCCF under the administration of the Fund and approved an allocation of UA 45 million from the 2003 net income of the Bank. The Board of Governors, by its resolution B/BG/2005/05 of 18 May 2005, also approved an additional allocation of UA 30 million from the 2004 net income as the second installment of the Bank's contribution to the facility. And the Board of Governors, by its resolution B/BG/2006/04 of 17 May 2006, also approved the third and final installment of the Bank's allocation of UA 25 million from the 2005 net income.

In March 2008, the Board of Directors approved the establishment of the Transition Support Facility (TSF) to take over the activities of the PCCF and provided a broader and integrated framework for assistance to eligible states. The purposes of the TSF are to consolidate peace, stabilize economies, and lay the foundation for sustainable poverty reduction and long-term economic growth of the eligible countries. As a matter of policy, contributions made by the Bank to the PCCF/TSF are not used to clear the debt owed to the Bank by beneficiary countries. As at 31 December 2023, no new arrears were cleared.

NOTE G – Subscriptions and Contributions

The Fund's initial subscriptions were provided by the Bank and the original State Participants to the Agreement and by States acceding to the Agreement since the original signing date. Thereafter, further subscriptions were received from participants in the form of a special general increase and 15 general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note O.

The Board of Governors, by its resolution F/BG/2023/01 of 02 April 2023, approved the 16th general replenishment of the Fund (ADF-16) following the Deputies agreement for a replenishment level of UA 6.19 billion for the three-year operational period, 2023–2025. ADF-16 came into effect on 08 June 2023 after the State Participants deposited with the Fund enough instruments of subscriptions and after the approval by the Board of Directors for the use of the internally generated resources for operational commitments.

For the ADF-16 replenishment cycle, the Fund mobilized the largest ever replenishment in its 50-year history. Development partners agreed to commit a total package of UA 6.5 billion for the Fund's 16th financing cycle (2023–2025), with UA 313 million of that package going towards the newly created Climate Action Window.

As at 31 December 2023, subscriptions to ADF-16 amounted to UA 3.25 billion.

As at 31 December 2023, cumulative contributions pledged on account of the MDRI amounted to UA 5.49 billion (31 December 2022: UA 5.83 billion), of which UA 1.93 billion had been paid and included in total subscriptions and contributions (31 December 2022: UA 1.70 billion). Consistent with the resolution approving MDRI, the contributions paid entitle the State Participants to voting rights, as reflected in Note O.

Gains or losses arising from translation of subscriptions and contributions received into UA are recorded in the Cumulative Exchange Adjustment on Subscriptions account in the Statement of Net Development Resources.

The Climate Action Window

The Climate Action Window was created as part of the ADF-16 replenishment, with an initial funding of UA 313 million (USD 429 million) from 3 donor countries.

The funds mobilized are exclusively for climate action in the continent, with a special focus on adaptation in the 37 poor, fragile, and most vulnerable countries of the continent.

As at 31 December 2023, the Fund received subscriptions of UA 123.20 million towards the Climate Action Window, comprising of UA 31.89 million from Germany, UA 79.72 million from the Netherlands, and UA 11.59 million from Switzerland.

Of the subscribed amount, a total of UA 45.39 million has been paid as at 31 December 2023, with receipt of UA 31.89 million from Germany, UA 11.96 million from the Netherlands, and UA 1.55 million from Switzerland.

The long-term goal of the Climate Action Window is to mobilize resources to scale up climate action in Africa.

NOTE H – Other Resources

In conformity with the findings of the UN General Assembly, the Board of Directors accepted that the former Socialist Federal Republic of Yugoslavia no longer exists as a state under international law and hence is no longer a State Participant in the Fund or a member of the Bank. Pursuant to a decision of the Board of Directors of the Fund in 1993, the subscriptions of the former Socialist Federal Republic of Yugoslavia in the Fund, less the unpaid portion, are deemed to have become part of the permanent patrimony of the Fund and are not returnable to any entity. Accordingly, the amounts of the paid subscriptions are reported as part of other resources in the Statement of Net Development Resources.

Also included in other resources is a total of UA 877.99 million representing contributions by the Bank of UA 875.99 million as at 31 December 2023 and by the Government of Botswana of UA 2 million towards the Fund's activities, in accordance with Article 8 of the Agreement.

NOTE I – Reserves

Reserves as at 31 December 2023 and 31 December 2022 were as follows:

Reserves as at 31 December 2023 and 31 December 2022

(UA thousands)

	2023	2022
Reserves as at 1 January	(834,441)	(804,976)
Surplus/(Deficit) for the year	115,271	(29,465)
Balance	**(719,170)**	**(834,441)**

NOTE J – Borrowings

The Fund's borrowings comprise concessional loans from State Participants. The borrowings are concessional, unsecured, and unsubordinated, and the Fund retains the option to prepay, in part or in whole, the outstanding amounts without penalty. These borrowings are carried and reported at amortized cost. The lenders are allocated voting rights based on the cash paid, computed as the derived grant element. The grant element is recorded as equity and is a function of the agreed discount rate. The grant element is amortized over the life of the borrowing.

As at 31 December 2023, the Fund's outstanding borrowings amounted to UA 1,174.87 million, up from UA 1,165.17 million in 2022. This increase of UA 9.70 million is attributable mainly to additional concessional donor loans of UA 65.71 million from the ADF-16 cycle, offset by the depreciation of the JPY against the UA in the year.

The Fund's borrowings are largely denominated in JPY. As at 31 December 2023, an estimated 65.79 percent (UA 772.90 million) of the Fund's borrowings are in JPY, while 34.21 percent (UA 401.97 million) are made up of CNY, EUR, and USD.

Outstanding Borrowings as at 31 December 2023

Concessional donor loans (currency)	Amount (in CCY)	UA equivalent	% of concessional donor loans
Japanese yen	147,202,000,000	772,900,543	65.79%
Chinese renminbi yuan	606,775,662	63,289,723	5.39%
Euro	385,000,000	316,213,974	26.91%
United States dollar	30,137,526	22,462,696	1.91%
Total concessional donor loans		**1,174,866,936**	**100.00%**

These borrowings have original maturities of 35 years and 40 years, with the final maturity date being 2061.

The interest charges on borrowings for the year ended 31 December 2023 increased to UA 5.40 million (31 December 2022: UA 4.20 million), an increase of UA 1.20 million over 2022, attributable to additional draw-down during the year.

The Fund recorded unrealized fair value losses of UA 16.69 million on the currency swap executed on the JPY borrowing compared to UA 99.87 million unrealized gain in December 2022.

NOTE K – Trust Funds

The Fund has available resourcwes entrusted to it under Article 8 of the Agreement, which empowers the Fund to receive other resources including grants from State Participants, non-participating countries, and any public or private body or bodies.

As at 31 December 2023, the undisbursed balance of trust fund resources was UA 7.26 million (31 December 2022: UA 6.68 million) representing the balance of a grant received from Japan for the development of human resources in Africa.

Resources of the trust funds are kept separate from those of the ADF.

NOTE L – Total Income

Total Income on Loans

Total income on loans for the years ended 31 December 2023 and 31 December 2022 are as follows:

(UA thousands)

	2023	2022
Service charges on loans	117,221	113,585
Commitment charges on loans	16,979	14,879
Total	**134,200**	**128,464**

Total Income from Treasury Investments

Total treasury investment income from interest income and fair value gains and losses on the trading portfolio including derivatives for the year ended 31 December 2023 and 31 December 2022 are as follows:

(UA thousands)

	2023	2022
Interest income	136,687	74,427
Fair value gains/(losses) on treasury investments and related derivatives–Realized	28,061	(12,127)
Fair value gains/(losses) on treasury investments and related derivatives–Unrealized	33,874	(39,020)
Total	**198,622**	**23,280**

NOTE M – Administrative Expenses

Pursuant to Article 31 of the Agreement, the Fund reimburses the Bank for the estimated fair value of its use of the Bank's offices, staff, organization, services, and facilities. The amount of such administrative expenses reimbursed is based on a predetermined cost-sharing formula, which is driven primarily by the allocation of costs on the basis of staff time spent on work program deliverables. The administrative expenses incurred by the Fund for the year ended 31 December 2023 amounted to UA 172.33 million, representing a decrease of UA 73.88 million (30.01 percent) over the UA 246.21 million reported for 31 December 2022. The decrease in the Fund's expenses was due to a decrease in total Bank Group administrative expenses during the year under review.

NOTE N – Related Parties

The general operation of the Fund is conducted by a 14-member Board of Directors, of which 7 members are selected by the Bank. The Bank exercises 50 percent of the ADF's voting power, and the President of the Bank is the ex-officio President of the Fund. In accordance with the Agreement, the Fund utilizes the offices, staff, organization, services, and facilities of the Bank to carry out its functions, for which it reimburses the Bank as disclosed in Note M. In this regard, the Bank administers the resources of the Fund. The Fund also administers trust funds entrusted to it by one of its State Participants.

Note O – Statement of Subscriptions, Contributions, and Voting Power as at 31 December 2023

Statement of Subscriptions, Contributions, and Voting Power as at 31 December 2023

(UA thousands)

	Subscriptions							Payment positions			MDRI	Voting power	
State participants/ donors	Initial & special increase	ADF-1 to ADF-14 installments	ADF-15 installment	ADF-16 installment	Grants compen-sation	Grant element of concessional loans	Total subscrip-tions	Total install-ments paid	Install-ments due	Install-ments not yet payable	Payments received	Number of votes	%
1 ADB	5,987	105,754	-	-	-	-	111,741	111,741	-	-	-	1,000.000	50.000
2 Algeria*	-	-	-	7,292	-	-	7,292	-	-	7,292	-	0.000	0.000
3 Angola	9,691	5,204	5,280	-	-	-	20,175	18,415	-	1,760	-	0.511	0.026
4 Argentina	1,842	16,789	-	-	-	-	18,631	1,842	7,018	9,771	-	0.051	0.003
5 Austria	13,816	564,285	91,868	97,762	7,196	-	774,928	707,060	-	67,868	32,461	20.532	1.027
6 Belgium	2,763	588,921	60,834	63,361	6,991	-	722,870	666,290	-	56,580	42,377	19.676	0.984
7 Brazil	2,763	140,866	-	7,003	289	-	150,921	150,921	-	-	-	4.190	0.210
8 Canada	20,724	1,951,132	187,138	202,873	15,336	-	2,377,203	2,235,923	-	141,280	123,024	65.847	3.292
9 China	13,816	592,495	76,358	85,605	3,941	19,089	791,305	768,556	-	3,659	42,933	23.193	1.160
10 Denmark	6,447	722,660	73,417	80,774	6,144	-	889,441	797,044	-	92,396	29,730	22.966	1.148
11 Egypt*	-	4,056	1,443	1,458	-	-	6,957	5,499	-	1,458	-	0.000	0.000
12 Finland	1,842	609,445	53,082	57,127	7,574	42,486	771,557	604,334	-	124,737	41,008	19.661	0.983
13 France	8,809	2,925,443	368,243	417,429	36,479	64,096	3,820,499	3,465,519	-	290,884	251,532	105.566	5.278
14 Germany	13,816	3,083,771	444,506	488,959	33,662	-	4,064,715	3,727,187	-	337,529	177,661	108.593	5.430
15 India	5,526	96,990	10,661	14,612	702	6,642	135,134	118,499	-	9,993	4,757	3.607	0.180
16 Ireland	52,370	-	-	27,902	-	-	80,273	80,273	-	-	-	2.229	0.111
17 Italy	9,211	1,878,143	222,090	238,272	17,681	-	2,365,398	1,956,388	-	409,010	109,355	56.332	2.817
18 Japan	13,816	2,986,066	251,852	234,040	27,712	139,692	3,653,178	3,348,655	-	164,830	182,674	101.924	5.096
19 Korea	9,211	319,830	69,230	76,153	3,096	-	477,520	425,632	-	51,888	17,387	12.300	0.615
20 Kuwait	4,974	183,172	9,309	-	341	-	197,796	197,796	-	-	14,084	5.848	0.292
21 Luxembourg	14,514	8,356	9,231	9,326	-	-	41,426	41,426	-	-	-	1.150	0.058
22 Morocco*	-	-	-	3,646	-	-	3,646	3,646	-	-	-	0.000	0.000
23 Netherlands	5,526	1,252,820	164,364	180,804	17,333	-	1,620,847	1,338,457	-	282,391	90,220	39.400	1.970
24 Norway	6,908	1,324,562	171,628	179,512	15,399	-	1,698,009	1,572,854	-	125,153	96,780	46.526	2.326
25 Portugal	7,368	182,377	8,413	-	1,294	-	199,452	199,452	-	-	15,453	5.967	0.298
26 Saudi Arabia	8,290	289,676	-	21,877	81	-	319,924	319,924	-	-	5,682	9.171	0.459
27 South Africa*	1,794	53,497	8,741	-	280	-	64,312	64,312	-	-	9,562	0.000	0.000
28 Spain	2,763	614,548	40,887	38,035	9,916	-	706,149	685,421	-	20,728	74,555	21.093	1.055
29 Sweden	8,289	1,484,787	179,519	-	8,180	-	1,680,776	1,680,776	-	-	106,941	49.635	2.482
30 Switzerland	5,701	1,046,245	138,439	147,474	10,047	-	1,347,906	1,246,400	-	101,505	185,272	38.983	1.949
31 Turkey	40,693	713	721	729	-	-	42,857	42,370	-	486	-	1.176	0.059
32 United Arab Emirates	4,145	4,145	-	-	-	-	8,290	8,290	-	-	-	0.230	0.012
33 United Kingdom	7,873	3,041,263	575,112	403,951	40,438	-	4,068,637	3,755,125	-	313,512	224,805	110.501	5.525
34 United States of America	20,724	3,350,394	360,450	-	18,048	-	3,749,615	3,647,660	-	82,728	47,944	103.141	5.157
Supplementary/ Voluntary contributions	-	157,576	57,441	142,489	7,295	-	364,801	541,507	-	54,827	4,464	0.000	0.000
Total	**332,012**	**29,585,982**	**3,640,256**	**3,228,468**	**295,456**	**272,005**	**37,354,179**	**34,535,192**	**7,018**	**2,752,266**	**1,930,663**	**2,000.000**	**100.000**
Supplementary information:													
Supplementary contributions through accelerated encashment to reduce the gap	-	65,321	-	-	-	-	65,321	414,485	-	5,320	6,366		

* *Donors to the Fund.*
Slight differences may occur in totals due to rounding.

Statement of Subscriptions, Contributions, and Voting Power as at 31 December 2022

(UA thousands)

		Subscriptions						Payment positions			MDRI	Voting power	
State participants/ donors	Initial & special increase	ADF-1 to ADF-13 installments	ADF-14 installment	ADF-15 installment	Grants compen- sation	Grant element of concessional loans	Total subscriptions	Total install- ments paid	Install- ments due	Install- ments not yet payable	Payments received	Number of votes	%
1 ADB	5,987	105,754	-	-	-	-	111,741	111,741	-	-	-	1,000.000	50.000
2 Angola	9,691	-	5,204	5,280	-	-	20,175	17,535	-	2,640	-	0.507	0.025
3 Argentina	1,842	16,789	-	-	-	-	18,631	1,842	7,018	9,771	-	0.053	0.003
4 Austria	13,816	472,417	91,868	91,868	3,380	-	673,349	673,349	-	-	28,735	20.311	1.016
5 Belgium	2,763	532,334	56,587	60,834	3,434	-	655,952	638,848	-	17,104	37,512	19.567	0.978
6 Brazil	2,763	140,866	-	-	-	-	143,629	143,629	-	-	-	4.155	0.208
7 Canada	20,724	1,771,970	179,162	187,138	6,289	-	2,165,283	2,165,283	-	-	108,902	66.159	3.308
8 China	13,816	506,203	86,292	76,358	282	19,089	702,040	682,951	-	-	38,274	21.555	1.078
9 Denmark	6,447	656,320	66,340	73,417	3,215	-	805,738	786,947	-	18,791	26,327	23.539	1.177
10 Egypt*	-	2,629	1,427	1,443	-	-	5,499	5,499	-	-	-	0.000	0.000
11 Finland	1,842	560,489	48,956	53,082	3,517	19,088	686,975	591,316	-	76,824	36,301	19.369	0.968
12 France	8,809	2,635,406	290,037	368,243	18,420	64,096	3,385,011	3,320,915	-	-	222,660	104.977	5.249
13 Germany	13,816	2,679,971	403,800	444,506	16,328	-	3,558,421	3,549,350	-	9,071	159,961	107.310	5.365
14 India	5,526	86,333	10,657	10,661	349	6,642	120,168	113,526	-	-	4,211	3.598	0.180
15 Ireland	52,370	-	-	-	-	-	52,370	52,370	-	-	-	1.515	0.076
16 Italy	9,211	1,680,719	197,424	222,090	8,818	-	2,118,262	1,887,917	-	230,345	96,802	56.352	2.818
17 Japan	13,816	2,751,364	234,702	251,852	14,507	139,692	3,405,932	3,266,240	-	-	161,704	103.211	5.161
18 Korea	9,211	257,202	62,628	69,230	1,417	-	399,689	399,688	-	1	15,391	12.008	0.600
19 Kuwait	4,974	174,710	8,462	9,309	341	-	197,796	197,796	-	-	14,084	6.093	0.305
20 Luxembourg	14,514	-	8,356	9,231	-	-	32,101	32,101	-	-	-	0.929	0.046
21 Netherlands	5,526	1,103,398	149,422	164,364	8,484	-	1,431,194	1,307,066	-	124,128	79,864	39.777	1.989
22 Norway	6,908	1,185,399	139,163	171,628	7,612	-	1,510,710	1,510,708	-	-	85,671	46.359	2.318
23 Portugal	7,368	174,766	7,611	8,413	1,294	-	199,452	199,452	-	-	13,679	6.166	0.308
24 Saudi Arabia	8,290	275,409	14,267	-	81	-	298,047	298,047	-	-	5,682	8.813	0.441
25 South Africa*	1,794	45,688	7,809	8,741	280	-	64,312	64,312	-	-	9,562	0.000	0.000
26 Spain	2,763	601,636	12,912	40,887	4,884	-	663,082	663,082	-	-	74,555	21.332	1.067
27 Sweden	8,289	1,313,258	171,529	179,519	8,180	-	1,680,776	1,680,776	-	-	96,802	51.425	2.571
28 Switzerland	5,701	920,450	125,795	138,439	5,260	-	1,195,645	1,195,643	-	2	149,405	38.940	1.947
29 Turkey	40,693	-	713	721	-	-	42,127	42,127	-	-	-	1.219	0.061
30 United Arab Emirates	4,145	4,145	-	-	-	-	8,290	8,290	-	-	-	0.240	0.012
31 United Kingdom	7,873	2,604,221	437,042	575,112	18,163	-	3,642,412	3,642,412	-	-	181,503	110.625	5.531
32 United States of America	20,724	2,989,756	360,638	360,450	18,048	-	3,749,615	3,524,095	-	206,293	47,944	103.895	5.195
Supplementary/ Voluntary contributions	-	110,764	46,812	57,441	6,500	-	221,517	489,103	-	-	1,463	0.000	0.000
Total	**332,012**	**26,360,366**	**3,225,616**	**3,640,256**	**159,083**	**248,607**	**33,965,941**	**33,263,955**	**7,018**	**694,970**	**1,696,993**	**2,000.000**	**100.000**
Supplementary information:													
Supplementary contributions through accelerated encashment to reduce the gap	-	65,321	-	-	-	-	65,321	121,363	-	5,320	6,366		

** Donors to the Fund.*
Slight differences may occur in totals due to rounding.

NOTE P – Approval of Special Purpose Financial Statements

On March 29, 2024, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors at its annual meeting in May 2024.

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Independent Auditor's Report on the Special Purpose Financial Statements
Year ended December 31st, 2023

To the Board of Governors of the African Development Fund

Opinion

We have audited the accompanying special purpose financial statements of the African Development Fund which comprise the statement of net development resources as at December 31, 2023 and the statement of income and expenses and other changes in development resources, the statement of comprehensive income and the statement of cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information as set out in notes A to P.

In our opinion, the accompanying special purpose financial statements have been prepared, in all material respects, in accordance with the accounting and financial reporting matters as set out in the accounting policies in note B to the special purpose financial statements for the year ended December 31, 2023.

Basis for Opinion

Audit Framework

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

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

Independence

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

Justification of Assessments

We inform you that the assessments which, in our professional judgment, were of most significance in our audit of the financial statements, addressed the appropriateness of the accounting principles used, the reasonableness of the significant estimates made and the overall presentation of the financial statements.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

Other information

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the special purpose financial statements in accordance with articles 26(5), 35(1) and 35(3) of the Agreement Establishing the Fund and the accounting policies set out in note B to the special purpose financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Fund or to cease operations.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

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

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

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

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

Paris – La Défense, May 2, 2024

The independent auditor
Deloitte & Associés

Jean-Vincent COUSTEL

ADF Administrative Budget for financial year 2024

(UA thousands)

Management Fees*	267,140
Direct Expenses	2,420
Total	**269,560**

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

NIGERIA TRUST FUND

FINANCIAL MANAGEMENT

NTF Resources

The Nigeria Trust Fund (NTF) is a special fund administered by the Bank. The Fund's resources primarily consist of subscriptions by the Federal Republic of Nigeria. The NTF was established in 1976, for an initial period of thirty (30) years, when an agreement establishing the NTF was executed between the Bank and the Federal Republic of Nigeria, with a provision for extension by mutual agreement. Following a positive evaluation of its performance during the initial thirty (30) years of operation, the Agreement has been extended several times, most recently for five years effective from 25 April 2023.

Loan Products

NTF provides financing to the least developed and low-income Regional Member Countries in the form of loans at concessionary rates to enhance economic development and social progress in Africa. The NTF has previously provided concessional financing exclusively to public sector operations. However, following the expansion of the Fund's mandate in 2008, private sector operations, including microfinance, are also eligible for the Fund's financial support.

Investments

The cash and treasury investments of the NTF, all denominated in US Dollars, increased by UA 1.73 million (1.79 percent) to UA 98.43 million from UA 96.70 million as at 31 December 2022. This increase is attributable to additional treasury investments, mainly from investment interest received. Income from treasury investments increased by UA 3.76 million to UA 5.16 million from UA 1.40 million in December 2022. This represents a return of 5.49 percent, on an average liquidity level of UA 93.88 million, representing a return of 1.53 percent on an average liquidity of UA 91.51 million in 2022. The portfolio performed slightly below its benchmark in 2023 due to challenging market conditions and the lack of access to derivative instruments that can be used to hedge interest rate risk, limiting investment options.

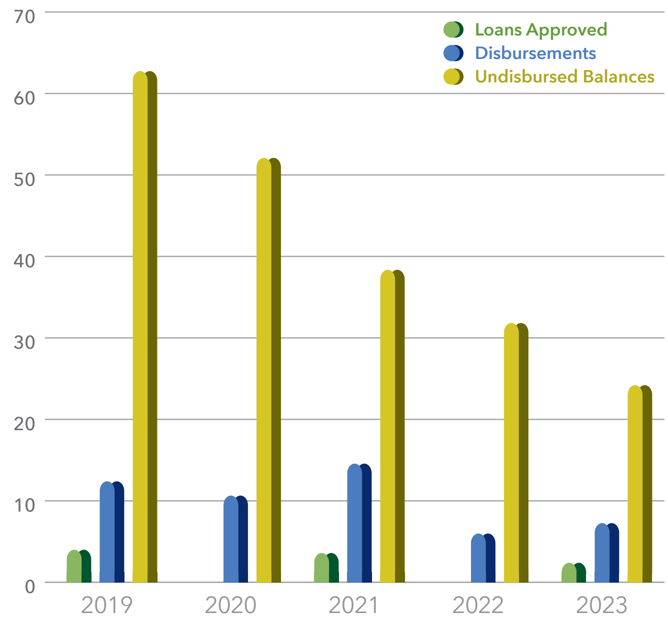
Loan Portfolio

Cumulative loans signed, net of cancellations, as at December 31, 2023 amounted to UA 353.05 million. As at December 31, 2023 there were 35 active loans with an outstanding amount of UA 95.87 million and 57 fully repaid loans amounting to UA 187.15 million. Figure 1.9 below presents the evolution of loans approved, loans disbursed, and the undisbursed balances from 2019 to 2023.

Disbursements

Disbursements in 2023 stood at UA 7.27 million, an increase from UA 5.99 million disbursed in 2022. As at December 31, 2023, cumulative disbursements amounted to UA 328.85 million (2022: UA 321.64 million). 76 loans amounting to UA 270.49 million were fully disbursed as at December 31, 2023, representing 82.25 percent of cumulative disbursements on that date. Figure 1.10 shows the evolution of loan disbursements and repayments over the past five years.

Figure 1.9 Lending Status, 2019–2023
(UA millions)



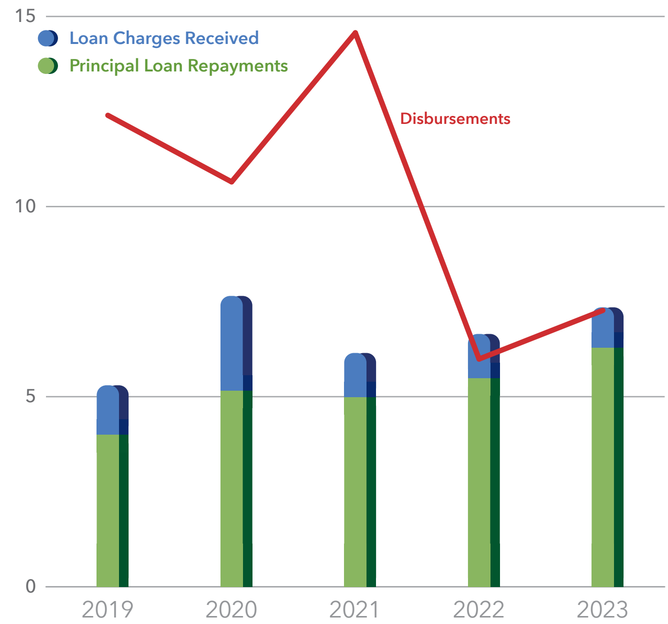
Repayments

Principal loan repayments amounted to UA 6.29 million in 2023 compared to UA 5.49 million in 2022, representing an increase of 14.57 percent over the previous year. Cumulative repayments as of December 2023 stood at UA 222.95 million.

Risk Management Policies and Processes

The NTF, like the Bank, seeks to reduce its exposure to risks that are not essential to its core business of providing development-related assistance. These include liquidity, currency and interest rate risks. The Fund follows stringent risk management procedures in managing these risks. Note D to the Financial Statements of the Fund provides the details of the risk management policies and practices employed by NTF.

Figure 1.10 Loan Disbursements and Repayments, 2019–2023
(UA millions)



FINANCIAL RESULTS

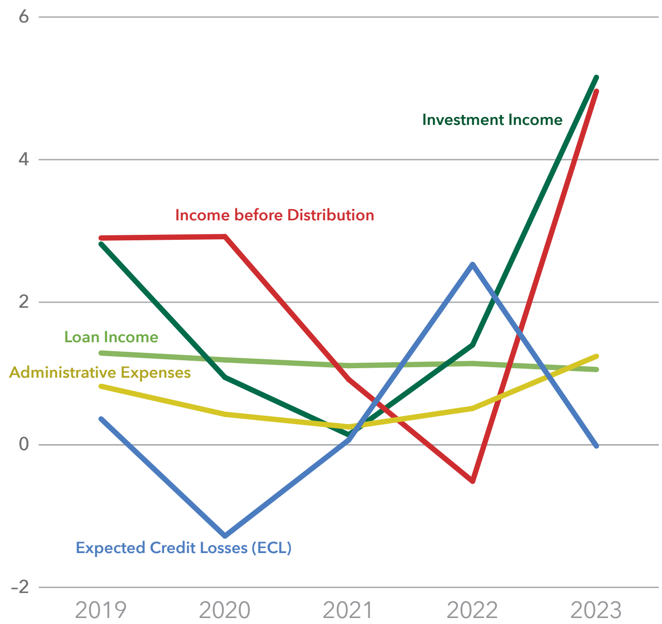
For the year ended 31 December 2023 the Fund reported a net income before distributions approved by the Board of Governors of UA 4.96 million, an increase of UA 5.47 million (1,072.55 percent) compared to Net Loss of UA 0.51 million reported for December 2022. The net income before distributions approved by the Board was primarily attributable to the combined effect of a UA 3.76 million increase in income from treasury investments and a UA 2.55 million decrease in provisions for ECL on loan principal and charges because of the improvement in quality of credit risk of borrowing countries in stage 1 resulting in a write-back partially offset by a UA 0.73 million increase in administrative expenses.

Total Income for the year ended 31 December 2023 increased by UA 3.67 million (144.49 percent) to UA 6.21 million, compared to UA 2.54 million reported for 31 December 2022. The reasons for the increase in total Income are summarized below:

Loan income decreased slightly by UA 0.08 million (7.02 percent) for the year ended 31 December 2023 to UA 1.06 million, compared to UA 1.14 million earned for 31 December 2022. The lower income from loans is attributable to the lower average interest rate on outstanding loans following a reduction of lending rates in 2003 from a flat 4 percent to a range of 2 to 4 percent. Treasury Investment income of UA 5.16 million for the year ended 31 December 2023 represents an increase of UA 3.76 million (268.57 percent) over the UA 1.40 million reported in 2022. This increase is attributable to the combined effect of (i) the increase in USD interest rates and (ii) 4.07 percent increase in treasury investments portfolio, which led to a 150.46 percent increase in interest income; and (iii) the fair value gains of UA 0.77 million in 2023 compared to fair value losses of UA 0.35 million in 2022.

Expenses for the year ended 31 December 2023 increased by UA 0.73 million (137.74 percent) to UA 1.26 million compared to UA 0.53 million for 31 December 2022. This increase arose mainly from the higher administrative expenses of UA 1.24 million charged to the NTF in 2023 compared to UA 0.51 million charged in 2022, representing a 143.14 percent increase year-on-year. The NTF share of the Bank Group administrative expenses with the Bank and ADF is based on a predetermined cost-sharing formula which is driven primarily by the allocation of staff time spent on the respective work program deliverables. In accordance with the Agreement establishing the Fund, the NTF's share of Bank Group administrative expenses is capped at 20 percent of the Fund's total annual Income.

Figure 1.11 Operating Results, 2019–2023
(UA millions)



Impairment on principal and charges for the year ended 31 December 2023 decreased by UA 2.55 million (100.79 percent) to a write-back of UA 0.02 million compared to UA 2.53 million for 31 December 2022. The decrease resulted from the improvement in quality of credit risk of borrowing countries in stage 1, which led to a write-back.

Total Reserves as at 31 December 2023 totaled UA 62.97 million, an increase of UA 3.40 million (5.71 percent) compared to UA 59.57 million as at 31 December 2022. The reserves increased mainly due to the net income reported for the year partially offset by the Cumulative Currency Translation Adjustment (CCTA) increase arising from the translation losses reported during the year.

Retained earnings as at 31 December 2023, increased by UA 4.96 million (3.28 percent) to UA 156.01 million from UA 151.05 million as at 31 December 2022, reflecting the net income earned during the year.

Cumulative Currency Translation Adjustment (CCTA) as at 31 December 2023 increased by UA 1.56 million (1.71 percent) to a loss of UA 93.04 million from a loss of UA 91.48 million as at 31 December 2022, mainly due to the depreciation of the USD against the UA during the year. (The UA was equivalent to 1.341670 and 1.330840 USD as at 31 December 2023 and 2022, respectively).

Nigeria Trust Fund

Financial Statements
For the Year ended 31 December 2023

Balance Sheet
as at 31 December 2023

(UA thousands – Note B)

ASSETS	2023	2022
DUE FROM BANKS	3,500	5,486
TREASURY INVESTMENTS (NOTE F)	94,928	91,216
ACCOUNTS RECEIVABLE		
Accrued income and receivables on loans (net)	277	276
Accrued income on investments	504	438
Other receivables	763	551
	1,544	1,265
LOANS (Notes D & G)		
Disbursed and outstanding (net)	92,542	92,355
TOTAL ASSETS	**192,514**	**190,322**

LIABILITIES & EQUITY	2023	2022
ACCOUNTS PAYABLE	960	2,164
EQUITY (Note H)		
Capital	128,586	128,586
Reserves		
Retained earnings	156,014	151,054
Cumulative currency translation adjustment (Note B)	(93,046)	(91,482)
Total reserves	62,968	59,572
Total equity	191,554	188,158
TOTAL LIABILITIES & EQUITY	**192,514**	**190,322**

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

Income Statement
for the Year Ended 31 December 2023
(UA thousands – Note B)

	2023	2022
INCOME (Note I)		
Income and charges on loans	1,056	1,138
Income from treasury investments	5,155	1,404
Total income	**6,211**	**2,542**
EXPENSES		
Administrative expenses (Note J)	(1,242)	(508)
Financial charges	(17)	(15)
Losses on exchange	(9)	(5)
Total expenses	**(1,268)**	**(528)**
Writeback/(provision) for ECLs on loan principal and charges (Notes B, D & G)	17	(2,525)
Total expenses and provision for impairment	**(1,251)**	**(3,053)**
Net Income/(loss) before distributions approved by the Board of Governors	**4,960**	**(511)**
Distributions of income approved by the Board of Governors (Note H)	-	(92)
NET INCOME/(LOSS) FOR THE YEAR	**4,960**	**(603)**

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

Statement of Other Comprehensive Income
for the Year Ended 31 December 2023
(UA thousands – Note B)

	2023	2022
NET INCOME/(LOSS) FOR THE YEAR	4,960	(603)
Other comprehensive income		
Currency translation (losses)/gains	(1,564)	9,306
Total other comprehensive income	(1,564)	9,306
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**3,396**	**8,703**

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

Statement of Changes in Equity
for the Year Ended 31 December 2023
(UA thousands – Note B)

	Capital	Retained earnings	Cumulative currency translation adjustment	Total equity
BALANCE AT 1 JANUARY 2022	**128,586**	**151,657**	**(100,788)**	**179,455**
Net loss for the year	-	(603)	-	(603)
Currency translation gains	-	-	9,306	9,306
BALANCE AT 31 DECEMBER 2022	**128,586**	**151,054**	**(91,482)**	**188,158**
BALANCE AT 31 DECEMBER 2022 AND 1 JANUARY 2023	**128,586**	**151,054**	**(91,482)**	**188,158**
Net income for the year	-	4,960	-	4,960
Currency translation losses	-	-	(1,564)	(1,564)
BALANCE AS AT 31 DECEMBER 2023	**128,586**	**156,014**	**(93,046)**	**191,554**

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

Statement of Cash Flows
for the Year Ended 31 December 2023

(UA thousands – Note B)

	2023	2022
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income/(loss)	4,960	(603)
Adjustments to reconcile net income/(loss) to net cash provided by operating activities:		
(Writeback)/provision for ECLs on loan principal and charges	(17)	2,525
Unrealized gains on investments	(341)	(359)
Changes in accrued income and receivables on loans	1	27
Changes in net current assets/payables	(1,551)	378
Net cash generated from operating activities	3,052	1,968
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(7,273)	(5,987)
Repayment of loans	6,293	5,486
Treasury investments maturing after 3 months of acquisition:		
At fair value through profit or loss	12,938	(19,032)
Net cash generated/(utilised) in investing, lending and development activities	11,958	(19,533)
Net increase/(decrease) in cash and cash equivalents	15,010	(17,565)
Effect of exchange rate changes on cash and cash equivalents	(688)	4,516
Cash and cash equivalents at the beginning of the year	19,948	32,997
Cash and cash equivalents at the end of the year	**34,270**	**19,948**
COMPOSED OF:		
Treasury investments maturing within 3 months of acquisition	30,770	14,462
Cash	3,500	5,486
Cash and cash equivalents at the end of the year	**34,270**	**19,948**
SUPPLEMENTARY DISCLOSURE		
1. Operational cash flows from interest:		
Interest received	1,055	1,178
2. Movement resulting from exchange rate fluctuations on loans	(807)	4,668

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

Notes to the Financial Statements for the Year Ended 31 December 2023

NOTE A – Nature of Operations

The Nigeria Trust Fund (NTF or the Fund) was established under an agreement signed on 26 February 1976 (the Agreement) between the African Development Bank (ADB or the Bank) and the Federal Republic of Nigeria. The ADB, headquartered in Abidjan, Côte d'Ivoire, manages the resources of the Fund on behalf of the Government of Nigeria. The purpose of the Fund is to assist in the development efforts of the less advantaged ADB Regional Member Countries. The Agreement stipulates that the Fund shall be in effect for 30 years from the date the Agreement became effective and that such sunset date may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. Following the initial expiry of the agreement on 26 April 2006, and the successful completion of independent reviews of its performance, the Agreement has been extended several times, most recently for five years effective from 25 April 2023.

NOTE B – Summary of Material Accounting Policy Information

The financial statements of the Fund are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). The financial statements have been prepared under the historical cost convention except for certain financial assets that are carried at fair value.

The material accounting policy information applied by the Fund are summarized below:

Revenue Recognition

Interest income is accrued and recognized based on the effective interest rate for the time such an instrument is outstanding and held by the Fund. The effective interest rate is the rate that discounts the estimated future cash flows through the expected life of the financial asset to the asset's net carrying amount. Interest income is earned from loans and treasury investments. Commitment fees are accrued for unutilized loan facilities.

Realized and unrealized fair value gains and losses are realized from treasury investments measured at fair value through profit or loss. They are recorded as part of income from treasury investments.

Functional and Presentation Currencies

The Fund conducts its operations in United States Dollars (USD); and has determined that its functional currency is the USD. In accordance with Article VII, section 7.3, of the Agreement establishing the Fund, the financial statements are presented in Units of Account (UA).

The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement establishing the Bank as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF.

As at 31 December 2023, 1 UA was equivalent to 1.341670 USD (31 December 2022: 1.330840 USD).

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated from USD to UA at rates prevailing at the balance sheet date. Translation differences are presented in the other comprehensive income and accumulated in reserves under cumulative currency translation adjustment (CCTA). Changes in CCTA are reported in the statement of changes in equity. Capital replenishments are recorded in UA at the exchange rates prevailing at the time of receipt. Translation gains or losses on the conversion of currencies into UA are included in the determination of net income.

Financial Instruments

Financial assets and financial liabilities are recognized when the Fund assumes related contractual rights or obligations.

1) Financial Assets

In accordance with IFRS 9, the Fund classifies its financial assets into the following categories: financial assets at amortized cost and financial assets at fair value through profit or loss (FVTPL). These classifications are determined based on the Fund's business model. In accordance with the Fund's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. Management determines the classification of its financial assets at initial recognition.

i) Financial Assets at Amortized Cost

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

If either of the two criteria above is not met, the financial asset is classified at fair value through profit or loss.

Financial assets at amortized cost include amounts due from banks, treasury investments, loans and accounts receivable. Loans and accounts receivable are non-derivative financial assets with fixed or determinable payments. They are initially measured at fair value and subsequently classified as measured at amortized cost using the effective interest method.

Loan origination fees are deferred and recognized over the life of the related loan as an adjustment of yield. Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered insignificant.

Cash and cash equivalents include amounts due from banks, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash. These are subject to an insignificant risk of changes in value and have a time to maturity upon acquisition of three months or less.

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

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes. Gains or 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 FVTPL.

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.

Recognition and Derecognition

Regular way purchases and sales of financial assets are recognized and derecognized on a trade-date basis, which is the date on which the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Financial assets not carried at FVTPL 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 when the Fund has transferred substantially all risks and rewards of ownership. On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) is recognized in the income statement.

2) Financial Liabilities

Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancellation or expiration.

Impairment of Financial Assets

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

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

Stage 1: 12-month ECL

The Fund 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 Fund recognizes as a provision on the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

Stage 2: Lifetime ECL – Not Credit Impaired

The Fund assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. The Fund recognizes these exposures as a provision of a lifetime ECL (i.e., reflecting the remaining lifetime of the financial asset). Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

Stage 3: Lifetime ECL – Credit Impaired

The Fund identifies ECLs on those exposures that are assessed as credit-impaired based on whether one or more events that have had 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 a specific provision, and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

Determining the Stage for Impairment

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

An exposure will migrate through the ECL stages as asset quality deteriorates or improves. If, in a subsequent period, asset quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Fund's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk.

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

The Fund assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped based on shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, the geographical location of the borrower and other relevant factors.

Measurement of ECLs

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

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

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

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

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

ECLs are recognized using a loss allowance account and recognized in the profit or loss.

For further details on how the Fund calculates ECLs, including the use of forward-looking information, refer to the Measurement and recognition of expected credit losses section under Risk Management in Note D.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Fair Value Disclosure

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

Considerable judgment is required to distinguish between active and inactive markets.

The fair values of quoted investments in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets or unlisted securities, the Fund establishes fair value by using valuation techniques that incorporate the maximum use of market data inputs. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable.

Management believes that these methodologies and assumptions are reasonable; however, the values actually realized in a sale might be different from the fair values disclosed.

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

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

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

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

Cash and cash equivalents: The carrying amount approximates 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 or through a valuation technique.

Loans: The Fund does not sell its loans, nor does it believe that there is a comparable market for its loans. The fair value of loans reported in these financial statements represents management's best estimates of the expected cash flows of its loans. The fair valuation of loans has been determined using a discounted cash flow model based on year-end market lending rates in USD, including impairment percentages when applicable.

Retained Earnings

Retained earnings of the Fund consist of amounts allocated to reserves from prior years' income and unallocated current year net income.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

The most significant judgments and estimates are summarized below:

i) Impairment of Financial Assets

The measurement of impairment losses under IFRS 9 across all qualifying financial asset categories requires judgment, particularly the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

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

- The Fund's internal credit grading model, which assigns a probability of default (PD) to the individual grades.
- The Fund's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12-month or lifetime ECL basis and the applicable 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 PD, exposure at default (EAD), and loss given defaults (LGD).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs for the ECL models.

ii) Fair Values of Financial Instruments

The fair value of financial instruments that are not quoted in active markets is measured by using valuation techniques. Where valuation techniques (for example, models) are used to measure fair values they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are periodically calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Economic Outlook

In the final quarter of 2023, the global economy continues to grapple with economic challenges posed by elevated market interest rates and inflation, although interest rates have started moderating and inflation has begun to show signs of abating in some economies. However, the effects of these economic factors continue to weigh economic activity down, with cost of borrowings and production costs trending well above normal levels for countries, especially in the more vulnerable emerging market and developing economies.

Accordingly, the outlook for the global economy in 2024 is expected to be characterized by moderate to weak economic growth as geopolitical risks remain high, especially in the Middle East, which could disrupt supply chains and re-ignite commodities price surge. The IMF in its latest World Economic Outlook report released in January 2024, forecasts global economic growth for 2024 at 3.1 percent and thereafter to rise to 3.2 percent in 2025.

For Africa, the Bank Group latest Macroeconomic Performance and Outlook report (MEO 2024) released on 16 February 2024, stated that "growth in Africa's average real GDP fell to an estimated 3.2 percent in 2023, from 4.1 percent in 2022, due largely to multiple shocks, including rising living cost crisis, increasing effects of climate change, health pandemics, and geopolitical tensions." Despite these challenges, the report noted that Africa's economies remain resilient, with growth in 2024 projected to rise to 3.8 percent. As such, sustainable economic growth in 2024 would require a moderation to the high inflation to combat the cost of production and living crises, sound fiscal management policies to optimize revenue and avert debt default and overhang, focus on critical sectors (e.g., health, agriculture, power, and education) and adaptation strategies to minimize disruptions to livelihoods from climate change.

From a financial reporting perspective, the known and estimable effects of the various global events have been recorded in the financial statements for the year ended 31 December 2023, manifesting in **Net income before distribution approved by the Board of Governors** of UA 4.96 million compared to net loss of UA 0.51 million reported in the same period in 2022.

The continuous increase in market interest rates caused total interest income from treasury investments in 2023 to increase by 150.46 percent (UA 2.63 million). Furthermore, the net realized, and unrealized fair value gains on treasury investments in 2023 increased to UA 0.77 million compared to losses of UA 0.35 million in 2022.

On lending operations, income from loans decreased slightly by UA 0.08 million (9.28 percent) to UA 1.06 million, compared to UA 1.14 million earned for the year ended 31 December 2022. The improvement in credit risk quality of borrowing countries in stage 1 which resulted in lower credit risk parameters and other macroeconomic factors (changes in ECL estimation parameters of LGD and PD, higher inflation and interest rate, etc.) led to a 100.67 percent year-to-date decrease in reported ECLs. The lower credit risk of borrowers reflects an improvement in the capacity of borrowers to meet their maturing obligations, reducing concerns for late or delayed payments, or expected or actual defaults. As a result, the ECL allowance decreased by UA 2.55 million to a writeback of UA 0.02 million for the year ended December 2023 compared to a provision of UA 2.53 million for the same period in 2022.

Accordingly, the Fund will continue to monitor and take appropriate actions to manage its business and financial risks, apply risk management adjustments on its exposures, and report the effects of changes in market conditions in its financial statements as they become known and estimable.

Change in Presentation and Comparative Information

In some cases, the Fund may change the presentation of certain line items in the financial statements in the current year to enhance inter-period comparability. When such a change in presentation is made, the comparative information is also adjusted to reflect the new presentation.

NOTE C – The Effect of New and Revised International Financial Reporting Standards

a) New and Amended IFRSs effective from 1 January 2023

A number of new or amended standards and interpretations issued by the International Accounting Standards Board (IASB) became effective for annual periods beginning on or after 1 January 2023 and beyond, earlier application permitted. The Fund has not early adopted any of the new or amended standards or interpretations in preparing these financial statements and none of these new and amended standards and interpretations are expected to have any significant impact on the Fund.

1. **IFRS 17 Insurance Contracts and amendments to IFRS 17 Insurance Contracts –** This Standard was issued in May 2017, and it establishes principles for the recognition, measurement, presentation, and disclosure of insurance contracts. IFRS 17 requires a company to measure insurance liabilities at a current fulfilment value, using estimates and assumptions that reflect the timing of cash flows and any uncertainty relating to insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts. This standard is applicable for annual periods beginning on or after 1 January 2023. The

Fund does not issue insurance contracts, nor does it get exposed to insurance risks. As such, this standard did not have any significant impact on the financial statements of the Fund.

2. **Disclosure of Accounting Policies – Amendments to IAS 1 and IFRS Practice Statement 2 –** The IASB amended IAS 1 to require entities to disclose their material rather than their significant accounting policies. Furthermore, these amendments explain how an entity can identify a material accounting policy, including explanatory guidance and examples. These amendments are applicable from 1 January 2023. These amendments did not have any significant impact on the financial statements of the Fund, except minor changes to the structure of accounting policies.
3. **Definition of Accounting Estimates –** In February 2021 the Board issued amendments to IAS 8 which replace the definition of a change in accounting estimates with a definition of accounting estimates. These amendments clarify the distinction between changes in Accounting Estimates and Changes in Accounting Policies and the correction of errors, and how entities should use measurement techniques and inputs to develop accounting estimates. The amendment is effective 1 January 2023. These amendments did not have any significant impact on the financial statements of the Fund.

b) New IFRSs and amendments applicable from 1 January 2024 and beyond

The following standards and amendments had been issued but are mandatorily applicable for annual reporting periods beginning on or after 1 January 2024.

1. **Amendment to IFRS 16 Leases on Sale and Leaseback –** These amendments include requirements for sale and leaseback transactions in IFRS 16 to explain how an entity accounts for a sale and leaseback after the date of the transaction. Sale and leaseback transactions where some or all the lease payments are variable lease payments that do not depend on an index or rate are most likely to be impacted.

2. **Amendment to IAS 1 Non-current Liabilities with Covenants –** These amendments clarify how conditions with which an entity must comply within 12 months after the reporting period affect the classification of a liability. The amendments also aim to improve information an entity provides related to liabilities subject to these conditions.

3. **Amendment to IAS 7 and IFRS 7 – Supplier Finance –** These amendments require disclosures to enhance the transparency of supplier finance arrangements and their effects on an entity's liabilities, cash flows, and exposure to liquidity risk. The disclosure requirements are the IASB's response to investors' concerns that some companies' supplier finance arrangements are not sufficiently visible, hindering investors' analysis.

4. **Amendments to IAS 21 – Lack of Exchangeability –** An entity is impacted by the amendments when it has a transaction or an operation in a foreign currency that is not exchangeable into another currency at a measurement date for a specified purpose. A currency is exchangeable when there is an ability to obtain the other currency (with a normal administrative delay), and the transaction would take place through a market or exchange mechanism that creates enforceable rights and obligations.

c) International Financial Reporting Sustainability Standards Effective after 1 January 2024

In June 2023, the International Sustainability Standards Board released its first two IFRS Sustainability Reporting Standards. The standards are:

1. **IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information –** sets out overall requirements for sustainability-related financial disclosures with the objective to require an entity to disclose information about its sustainability-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity and

2. **IFRS S2 Climate-related Disclosures –** IFRS S2 sets out the requirements for identifying, measuring, and disclosing information about climate-related risks and opportunities that is useful to primary users of general-purpose financial reports in making decisions relating to providing resources to the entity.

These standards are effective from 1 January 2024, but individual jurisdictions are required to decide whether and when to adopt these standards. The Fund is currently considering the requirements of the IFRS Sustainability standards and would determine when to adopt.

NOTE D – Risk Management Policies and Procedures

As described in Note A, the Bank manages the resources of the Fund on behalf of the Government of Nigeria. In exercising its fiduciary duties, the Bank applies specific risk management policies designed to protect the resources of the Fund through the Bank's General Authority on Asset and Liability Management (the ALM Authority). The ALM Authority sets out the guiding principles for managing the Fund's risks, including interest rate, currency, liquidity, counterparty credit and operational risks.

Under the ALM Authority, the President of the Bank is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO). ALCO is the Bank's most senior management forum on finance and financial risk management issues and is chaired by the Vice President for Finance and Chief Finance Officer.

The ALCO meets regularly to perform its oversight role. Among its functions, the ALCO reviews regular and ad-hoc finance and treasury risk management reports and projections and approves strategies to adjust the balance sheet. ALCO is supported by several standing working groups that report on specific issues, including interest rate risk, currency risk, and financial projections.

In late 2013, a Group Chief Risk Officer position was created reporting directly to the President of the Bank.

Day-to-day operational responsibilities for implementing the Bank's risk management policies and guidelines are delegated to the relevant business units, and the Financial Management Department is responsible for monitoring day-to-day compliance with those policies and guidelines.

The following sections describe in detail the manner in which the Fund manages the individual sources of risk.

Credit Risk

Credit risk is the potential financial loss due to the default of one or more debtors/obligors. Credit risk, made up of sovereign credit risk from lending operations and counterparty credit risk from treasury operations, is the largest source of risk for the Fund.

1) Sovereign Credit Risk

When the Fund lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. Also, in extending credit to sovereign entities, it is exposed to country risk, which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Fund. Country credit risk is managed through financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessment. These include the assessment of each country's macroeconomic performance as well as its socio-political conditions and future growth prospects. As at 31 December 2023, Disbursed and outstanding loans net of provision for ECLs, increased by UA 0.18 million (0.19 percent) to UA 92.54 million from UA 92.36 million in December 2022, as a result of the combined effect of the positive net principal disbursements of UA 0.98 million (i.e., the difference between disbursements of UA 7.27 million and repayments of UA 6.29 million) and the write-back for impairment on loan principal and charges.

Country Exposure in Borrowing Member Countries

The Fund's outstanding loans as at 31 December 2023 and 31 December 2022 were to the following countries:

31 December 2023

(UA thousands)

Country	No. of loans	Total loans*	Unsigned loans	Undisbursed balance	Cumulative provision for impairment	Disbursed and outstanding (net)	% of total outstanding loans (excluding provision)
Benin	2	7,116	-	1,094	(22)	6,000	6.28
Cameroon	1	2,017	-	-	(8)	2,009	2.10
Côte d'Ivoire	1	4,057	-	1,550	(7)	2,500	2.62
Eswatini	1	1,576	-	-	(4)	1,572	1.64
Gambia	3	5,230	-	-	(194)	5,036	5.46
Ghana	1	499	-	-	(4)	495	0.52
Guinea	1	437	-	-	(17)	420	0.46
Guinea-Bissau	1	187	-	-	(12)	175	0.18
Liberia	2	13,189	-	625	(493)	12,071	13.11
Madagascar	1	5,130	-	-	(37)	5,093	5.35
Malawi	3	14,174	-	421	(794)	12,959	14.35
Mali	2	5,683	-	3,458	(610)	1,615	2.32
Mauritania	4	12,643	-	6,735	(31)	5,877	6.16
Namibia**	1	0	-	-	-	0	0.00
Niger	1	7,555	-	4,029	(42)	3,484	3.68
Rwanda	2	7,711	-	912	(24)	6,775	7.09
São Tomé and Príncipe	1	2,400	-	2,400	-	0	0.00
Senegal**	1	0	-	-	-	0	0.00
Sierra Leone	2	6,637	-	158	(251)	6,228	6.76
Togo	2	10,418	-	2,559	(52)	7,807	8.20
Uganda	1	7,916	-	-	(28)	7,888	8.26
Zambia	1	5,488	-	255	(695)	4,538	5.46
Total	**35**	**120,063**	**-**	**24,196**	**(3,325)**	**92,542**	**100.00**

** Excludes fully repaid loans and canceled loans.*
*** Outstanding loans balance value is less than UA 100, at the current exchange rate.*
Slight differences may occur in totals due to rounding.

31 December 2022

(UA thousands)

Country	No. Of loans	Total loans*	Unsigned loans	Undisbursed balance	Cumulative provision for impairment	Disbursed and outstanding (net)	% of total outstanding loans (excluding provision)
Benin	2	7,659	-	1,118	(26)	6,515	6.84
Cameroon	1	4,941	-	2,764	(11)	2,166	2.27
Côte d'Ivoire	1	4,077	-	2,465	(7)	1,605	1.68
Eswatini	1	1,906	-	-	(7)	1,899	1.99
Gambia	3	5,994	-	-	(266)	5,728	6.26
Ghana	1	604	-	-	(6)	598	0.63
Guinea	1	735	-	-	(40)	695	0.77
Guinea-Bissau	1	217	-	-	(16)	201	0.23
Liberia	2	13,605	-	625	(597)	12,383	13.56
Madagascar	1	5,484	-	-	(44)	5,440	5.73
Malawi	3	14,901	-	2,631	(828)	11,442	12.82
Mali	2	5,960	-	3,923	(228)	1,809	2.13
Mauritania	4	13,230	-	7,964	(53)	5,213	5.50
Namibia**	1	0	-	-	-	0	0.00
Niger	1	7,582	-	4,136	(28)	3,418	3.60
Rwanda	2	8,344	-	2,464	(18)	5,862	6.14
Senegal**	1	0	-	-	-	0	0.00
Sierra Leone	2	7,071	-	461	(71)	6,539	6.91
Togo	2	10,838	-	3,020	(48)	7,770	8.17
Uganda	1	8,513	-	-	(35)	8,478	8.90
Zambia	1	5,860	-	255	(1,011)	4,594	5.86
Total	**34**	**127,521**	**-**	**31,826**	**(3,340)**	**92,355**	**100.00**

** Excludes fully repaid loans and canceled loans.*
*** Outstanding loans balance value is less than UA 100, at the current exchange rate.*
Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

As at 31 December 2023, all the Fund's loans were made only to public sector borrowers, and such loans generally carry a full sovereign guarantee or the equivalent from the borrowing member state.

The Fund's credit risk management framework is based on a systematic credit risk assessment using a uniform internal credit risk rating scale that is calibrated to reflect the Fund's statistical loss expectations, as shown in the table below:

	International ratings			
Risk class	Revised rating scale	S&P – Fitch	Moody's	Assessment
Very low risk	1+	A+ and above	A1 and above	Excellent
	1	A	A2	
	1-	A-	A3	
	2+	BBB+	Baa1	Strong
	2	BBB	Baa2	
	2-	BBB-	Baa3	
Low risk	3+	BB+	Ba1	Good
	3	BB	Ba2	
	3-	BB-	Ba3	
Moderate risk	4+	B+	B1	Satisfactory
	4	B	B2	
	4-			
	5+	B-	B3	Acceptable
	5			
High risk	5-	CCC+	Caa1	Marginal
	6+			
	6	CCC	Caa2	Special Attention
	6-			
Very high risk	7	CCC-	Caa3	Substandard
	8			
	9	CC	Ca	Doubtful
	10	C	C	Loss

These sovereign risk credit ratings are derived from a risk assessment on five risk indices that include macro-economic performance, debt sustainability, socio-political factors, business environment and portfolio performance. These five risk indices are combined to derive a composite sovereign country risk index and then converted into separate country risk ratings. These country risk ratings are validated against the average country risk ratings from accredited rating agencies and other specialized international bodies. The Credit Risk Committee reviews the country ratings on a quarterly basis to ensure compliance with country exposure limits, changes in country credit risk conditions, and to approve changes in loss provisioning, if any.

Portfolio Risk Monitoring

It is the Fund's policy that if the payment of principal, interest or other charges becomes 30 days overdue, no new loans to that country, or to any public sector borrower in that country, will be presented to the Board of Directors for approval, nor will any previously approved loans be signed, until all arrears are cleared. Furthermore, for such countries, disbursements on all loans to or guaranteed by that borrower country are suspended until all overdue amounts have been paid.

2) Counterparty Credit Risk

Counterparty credit risk is the potential for loss due to the failure of a counterparty to honor its obligation. Various financial instruments are used to manage the Fund's exposure to fluctuations in market interest and currency rates and to invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Fund.

Given the nature of the Fund's business, it is not possible to completely eliminate counterparty credit risk; however, this risk is minimized by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures. Counterparties for treasury assets must meet the Fund's minimum credit rating requirements and are approved by the Bank's Vice President for Finance. For counterparties that are rated below the minimum rating requirements, approval by ALCO is required.

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

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2			AA-/Aa3	AAA/Aaa
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations, including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
Asset-backed securities/ mortgage-backed securities (ABS/MBS)	AAA Maximum legal maturity of 50 years for ABS/MBS with the underlying collateral originated in the UK and 40-year maximum legal maturity for all other eligible ABS/MBS. Also, the maximum weighted average life for all ABS/MBS at the time of acquisition shall not exceed 5 years.					

The Fund invests in money market mutual funds with a minimum rating of AA-/Aa3.

In addition to these minimum rating requirements, the Fund operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a maximum of 10 percent of the Fund's total liquidity for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and regularly monitored against the Fund's credit limits after considering the benefits of any collateral.

As shown in the following table, the estimated potential counterparty credit exposure of the portfolio continues to be predominantly in the AA- or higher-rated class.

	Credit risk profile of the investment and derivative portfolios		
	AAA	AA+ to AA-	A+ and lower
2023	40%	29%	31%
2022	31%	46%	23%
2021	53%	18%	29%
2020	40%	44%	16%
2019	39%	53%	8%

Expected Credit Risk

Definition of Default

The definition of default for determining ECLs considers indicators that the debtor is unlikely to pay, and it is past due for more than 180 days for sovereign counterparties on any material credit obligation to the Fund.

The Fund rebuts the IFRS 9's 90 days past due rebuttable presumption in the Fund's sovereign loan portfolio because the sanction policy of the Fund defines a non-accrual or non-performing loan 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 significantly larger than for loans that are over 180 days past due, which demonstrates a more lagging effect.

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

Credit Risk Grades

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

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

- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

- Data from credit reference agencies, press articles and changes in external credit ratings.
- Modifications of financial assets and financial liabilities

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention, and other factors not related to 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 accounting policy set out in the Fund's accounting policy.

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

- Its remaining lifetime probability of default at the reporting date based on the modified terms, with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

If the terms of a financial asset are modified, the Fund considers whether the cash flows arising from the modified asset are substantially different. If substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, a new financial asset is recognized at fair value while the original financial asset is derecognized.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recognizes a modification gain/loss in the statement of profit/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 credit risk components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), discounted at the original Effective Interest Rate (EIR).

These credit risk 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 available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

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

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

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

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

- Instrument type;
- Credit risk grading;
- Collateral type;
- Date of initial recognition;

- Remaining term to maturity;
- Industry; and
- Geographic location of the borrower.

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

Assessment of Significant Increase in Credit Risk

When determining whether the risk of default has increased significantly since initial recognition, the Fund considers both quantitative and qualitative information and analysis based on the Fund's historical experience and expert credit risk assessment, including forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk on its sovereign and non-sovereign loan has increased significantly since initial recognition when contractual payments are more than 180 days past due for sovereign loans 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 Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Fund considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

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

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

Incorporation of Forward-looking Information

The Fund has established an expert panel that considers a range of relevant forward-looking macroeconomic 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 macroeconomic conditions that are not captured within the base ECL calculations. Macroeconomic factors taken into consideration include, but are not limited to, unemployment rates, interest rates, gross domestic product, inflation and commodity prices, and these require an evaluation of both the current and forecast direction of the macroeconomic cycle.

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

Calculation of Expected Credit Losses

The Fund calculates ECLs based on three probability-weighted scenarios. The three scenarios are base, optimistic and pessimistic. Each of these scenarios is associated with different PDs, EADs and LGDs parameters.

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

For accounting purposes, the 12-month and lifetime PD represent the expected point-in-time probability of default over the next 12 months and the remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and projected future economic conditions that affect credit risk.

The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money.

The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

The 12-month ECL is equal to the discounted sum over the next 12 months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the remaining life multiplied by LGD and EAD.

The Fund will continue to assess and update the parameters used in the ECL model on an ongoing basis to reflect its loss and recovery experiences and changes in the macroeconomic variables.

Expected Credit Losses

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

Impairment of Financial Instruments, by Stage

Gross Exposure/Impairment Allowance

The table below reconciles the total ECL allowances on principal and charges between 31 December 2023 and 31 December 2022 by stage.

As at 31 December 2023

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 01 Jan 2022	573	263	-	836
Provision on new assets originated or purchased	3	-	-	3
Net provision	1,771	751	-	2,522
At 31 December 2022	**2,347**	**1,014**	**-**	**3,361**
Gross carrying amount as at 01 Jan 2023	2,347	1,014	-	3,361
Transfer from Stage 1 to Stage 2	(229)	229	-	-
Net write back	(85)	68	-	(17)
At 31 December 2023	**2,033**	**1,311**	**-**	**3,344**

The cumulative ECLs allowance on loan principal and charges reported on the balance sheet decreased by UA 0.02 million (0.51 percent) to UA 3.34 million in December 2023 from UA 3.36 million in December 2022. The decrease is attributable to the improvement in credit risk quality of borrowing countries in stage 1 which resulted in lower PD, partially offset by the significant increase in credit risk in countries in stage 2. The lower PD in stage 1 primarily led to the write-back in ECLs for the year.

The tables below show the gross loans by counterparty type and ECL allowances for 31 December 2023 and 31 December 2022 by stage.

As at 31 December 2023

(UA thousands)

	Gross exposure/impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Sovereign loans (gross)	88,409	7,458	-	95,867
Total loans at amortized cost	88,409	7,458	-	95,867
Less: Impairment allowance	(2,019)	(1,306)	-	(3,325)
Total net exposure 31 December 2023	**86,390**	**6,152**	**-**	**92,542**

As at 31 December 2022

(UA thousands)

	Gross exposure/impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Sovereign loans (gross)	90,090	5,605	-	95,695
Total loans at amortized cost	90,090	5,605	-	95,695
Less: Impairment allowance	(2,327)	(1,013)	-	(3,340)
Total net exposure 31 December 2022	**87,763**	**4,592**	**-**	**92,355**

The tables below show the Gross Charges and ECL allowances by stage for 31 December 2023 and 31 December 2022.

As at 31 December 2023

(UA thousands)

	Gross exposure/impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Charges (gross)	289	7	-	296
Total gross charges on loans at amortized cost	289	7	-	296
Less: Impairment allowance	(14)	(5)	-	(19)
Total net exposure 31 December 2023	**275**	**2**	**-**	**277**

As at 31 December 2022

(UA thousands)

	Gross exposure/impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Charges (gross)	296	1	-	297
Total gross charges on loans at amortized cost	296	1	-	297
Less: Impairment allowance	(20)	(1)	-	(21)
Total net exposure 31 December 2022	**276**	**-**	**-**	**276**

The tables below show ECL allowances by instrument type for 31 December 2023 and 31 December 2022 by stage.

As at 31 December 2023

(UA thousands)

	Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance on loans at amortised cost	(2,019)	(1,306)	-	(3,325)
Impairment allowance on charges on loans	(14)	(5)	-	(19)
Total provision at 31 December 2023	**(2,033)**	**(1,311)**	**-**	**(3,344)**

As at 31 December 2022

(UA thousands)

	Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance on loans at amortised cost	(2,327)	(1,013)	-	(3,340)
Impairment allowance on charges on loans	(20)	(1)	-	(21)
Total provision at 31 December 2022	**(2,347)**	**(1,014)**	**-**	**(3,361)**

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. To mitigate liquidity risk, the Fund's investment management policy ensures that it has sufficient liquid assets to meet its disbursement obligations. For 31 December 2023, the Fund's exposures are from short-term account payables, and the Fund has adequate liquid assets to match the obligations as they fall due.

Currency Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. The Fund manages its currency risk by holding all of its investments and loans in US dollars, the currency in which the Fund's resources are denominated. The Fund is not significantly exposed to currency risk from its operations.

Interest Rate Risk

The Fund is exposed to fair value interest rate risk on its portfolio of loans and investments. All of the Fund's loans have fixed interest rates. Investments are managed against the monthly average of 3-month reference rate in order to manage available resources prudently. Re-pricing risk is not considered significant in comparison to the Fund's equity resources and is accordingly not hedged.

As at 31 December 2023, the Fund had UA 24.19 million of loans which were committed but not yet disbursed (2022: UA 31.82 million). The interest rate on these undisbursed loans has been fixed at between 2 to 4 percent per annum.

Interest Rate Benchmark Reform – Update on LIBOR Transition

Following the cessation of the publication of all London Interbank Offered Rate (LIBOR) settings, the Financial Conduct Authority (FCA) UK used it powers to compel the InterContinental Exchange Benchmark Administrator (IBA) to publish the 1-Month, 3-Month and 6-Months USD LIBOR settings under a non-representative "synthetic" methodology from end of June 2023. The FCA notified that publication of these remaining USD LIBOR settings under the "synthetic" methodology would cease on 30 September 2024.

The Bank continues to support its customers towards an orderly transition of the limited number of outstanding LIBOR linked contracts to their alternative reference rates (RFRs). The LIBOR Transition Task Force ("The Taskforce"), established by the Bank to ensure a seamless transition from LIBOR and other IBORs to their designated alternative RFRs, has successfully overseen the project, and a significant portion of the Bank's financial instruments have been transitioned.

The table below provides a disclosure on USD LIBOR contracts by currency settings and nature of financial instruments as at 31 December 2023. Financial instruments maturing on or before 31 December 2023 were excluded.

(In UA thousands)

IBOR linked contracts by benchmark at 31 December 2023	USD LIBOR
Financial assets	
Treasury Asset	13.49
Total IBOR linked contracts	**13.49**

Interest Rate Risk Position as at 31 December 2023

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non-interest bearing funds	Total
Assets								
Due from banks	3,500	-	-	-	-	-	-	3,500
Treasury investments	91,196	3,722	10	-	-	-	-	94,928
Accounts receivable	1,544	-	-	-	-	-	-	1,544
Loans	6,940	6,800	6,900	6,930	6,750	61,547	(3,325)	92,542
	103,180	10,522	6,910	6,930	6,750	61,547	(3,325)	192,514
Liabilities								
Accounts payable	(960)	-	-	-	-	-	-	(960)
Interest rate risk position as at 31 December 2023*	**102,220**	**10,522**	**6,910**	**6,930**	**6,750**	**61,547**	**(3,325)**	**191,554**

** Interest rate risk position represents equity.*

Interest Rate Risk Position as at 31 December 2022

(UA thousands)

	1 Year or Less	More Than 1 Year but Less Than 2 Years	More Than 2 years but Less Than 3 years	More Than 3 years but Less Than 4 years	More Than 4 years but Less Than 5 years	More Than 5 years	Non-interest Bearing Funds	Total
Assets								
Due from banks	5,486	-	-	-	-	-	-	5,486
Treasury investments	70,170	21,036	-	-	-	10	-	91,216
Accounts receivable	1,265	-	-	-	-	-	-	1,265
Loans	6,220	6,847	6,701	6,594	6,621	62,712	(3,340)	92,355
	83,141	27,883	6,701	6,594	6,621	62,722	(3,340)	190,322
Liabilities								
Accounts payable	(2,164)	-	-	-	-	-	-	(2,164)
Interest rate risk position as at 31 December 2022*	**80,977**	**27,883**	**6,701**	**6,594**	**6,621**	**62,722**	**(3,340)**	**188,158**

** Interest rate risk position represents equity.*

Currency and Interest Rate Sensitivity Analysis

The Fund holds all of its investments and loans in US dollars and therefore is exposed only to translation adjustment as the Fund's assets are reported in UA for financial reporting purposes. However, the Fund is moderately exposed to interest rate and asset price risks, which it monitors using sensitivity analysis.

Movements in interest rates have an impact on the reported fair value of the trading portfolio. The table below shows the effect of a parallel yield curve movement +/– 100 basis point as at 31 December 2023 and 2022, respectively.

(UA thousands)

	+100 basis points		–100 basis points	
	2023	2022	2023	2022
(Loss)/gain on investments measured at fair value	(124)	(783)	125	786

NOTE E – Financial Assets and Liabilities

The tables below set out the classification of financial assets and liabilities and their respective fair values as at 31 December 2023 and 31 December 2022.

Analysis of Financial Assets and Liabilities by Measurement Basis

31 December 2023

(UA thousands)

	Financial assets and liabilities through profit or loss				
	Mandatorily at Fair value	Designated at Fair value	Financial assets and liabilities at amortized cost	Total carrying amount	Fair value
Due from banks	-	-	3,500	3,500	3,500
Treasury investments	94,928	-	-	94,928	94,928
Accounts receivable	-	-	1,544	1,544	1,544
Loans (net)	-	-	92,542	92,542	92,542
Total financial assets	**94,928**	**-**	**97,586**	**192,514**	**192,514**
Accounts payable	-	-	960	960	960
Total financial liabilities	**-**	**-**	**960**	**960**	**960**

31 December 2022

(UA thousands)

	Financial assets and liabilities through profit or loss				
	Mandatorily at fair value	Designated at fair value	Financial assets and liabilities at amortized cost	Total carrying amount	Fair value
Due from banks	-	-	5,486	5,486	5,486
Treasury investments	91,216	-	-	91,216	91,216
Accounts receivable	-	-	1,265	1,265	1,265
Loans (net)	-	-	92,355	92,355	92,355
Total financial assets	**91,216**	**-**	**99,106**	**190,322**	**190,322**
Accounts payable	-	-	2,164	2,164	2,164
Total financial liabilities	**-**	**-**	**2,164**	**2,164**	**2,164**

Fair Value of Loans

As at 31 December 2023 and 31 December 2022, the fair value of loans measured at amortized cost are deemed to approximate their net carrying value.

NOTE F – Treasury Investments

As part of its portfolio management strategy, the Fund invests in government and agency obligations, time deposits and asset-backed securities.

For government and agency obligations with final maturities longer than 1 year, the Fund may only invest in obligations with counterparties having a minimum credit rating of AA- issued or unconditionally guaranteed by governments of member countries of the Bank or other official entities. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Investments in money market instruments are restricted to instruments with maturities of not more than 1 year and a minimum rating of A.

As at 31 December 2023, the treasury investment portfolio increased by UA 3.71 million (4.07 percent) to UA 94.93 million from UA 91.22 million as at 31 December 2022.

All treasury investments were held at fair value through profit and loss as at 31 December 2023.

The Fund's treasury investments at FVTPL at 31 December 2023 and 31 December 2022 are summarized below:

(UA thousands)

	2023	2022
Time deposits	30,770	4,154
Asset-backed securities	10	10
Government and agency obligations	64,148	87,052
Total	**94,928**	**91,216**

The table below classifies the Fund's treasury investments as at 31 December 2023 and 31 December 2022 into three levels reflecting the relative reliability of the measurement bases, with level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument (Level 1)		Valuation techniques for which all significant inputs are based on observable market data (Level 2)		Valuation techniques for which any significant input is not based on observable market data (Level 3)		Total	
	2023	2022	2023	2022	2023	2022	2023	2022
Time deposits	30,770	4,154	-	-	-	-	30,770	4,154
Asset-backed securities	-	-	-	-	10	10	10	10
Government and agency obligations	64,148	87,052	-	-	-	-	64,148	87,052
Total	**94,918**	**91,206**	**-**	**-**	**10**	**10**	**94,928**	**91,216**

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at 31 December 2023 and 2022 are made up as follows:

(UA thousands)

	2023	2022
Balance at 1 January	10	14
Losses recognized in the income statement	-	(4)
Balance at 31 December	**10**	**10**

The contractual maturity structure of the Fund's treasury investments as at 31 December 2023 and 31 December 2022 was as follows:

(UA thousands)

	2023	2022
One year or less	91,196	70,170
More than one year but less than two years	3,722	21,036
More than two years but less than three years	10	-
More than three years but less than four years	-	-
More than four years but less than five years	-	-
More than five years	-	10
Total	**94,928**	**91,216**

The notional value of treasury investments as at 31 December 2023 was UA 94.93 million (31 December 2022: UA 91.22 million), while the average year-to-date yield was 5.49 percent (31 December 2022: 1.53 percent). Accrued income on treasury investments as at 31 December 2023 increased by UA 0.06 million (57.31 percent) to UA 0.50 million from UA 0.44 million as at 31 December 2022.

NOTE G – Loans

Loans originated before 22 September 2003 carry an interest rate of four percent (4%) on the outstanding balance. With effect from 22 September 2003, pursuant to the Board of Governors' resolution B/BG/2003/11 3 June 2003 and the protocol agreement between the Government of Nigeria and the Bank, dated 22 September 2003, the interest rate on loans was changed from a flat 4 percent per annum to a range of 2 percent to 4 percent (inclusive) per annum on the outstanding balance and future undisbursed loans. Furthermore, a 0.75 percent commission is payable on undisbursed balances commencing 120 days after the signature of the loan. Loans approved prior to the extension of the Agreement are granted for a maximum period of 25 years, including a grace period of up to 5 years.

Following the extension of the Agreement in April 2008, the terms of the NTF loans were further modified in line with the terms of financing in the operational guidelines of the Fund, approved pursuant to the Board of Directors' resolution ADB/BD/WP/2008/196 of 2 December 2008 which stipulates that the resources of the Fund will henceforth be deployed in accordance with the following three options:

Financial terms for the first option include: (i) no interest charges on NTF loans, (ii) a service charge of 0.75 percent per annum on outstanding balances, (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments and (iv) a 20-year repayment period with a 7-year grace period.

Financial terms for the second option include: (i) no interest charges on NTF loans, (ii) a service charge of 0.75 percent per annum on outstanding balances, (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments and (iv) a 15-year repayment period with a 5-year grace period.

Financial terms for the third option would be the same terms as for the AfDB private sector financing, taking into consideration the risk analysis of the project.

For all the above-mentioned options, the grace period starts from the date of signing of the financing agreement or at a date agreed among co-financiers, in the case of co-financed projects.

For private sector operations, a commitment fee of 0.75 percent per annum on undisbursed balances is effective 120 days after the signing of the loan agreement.

The NTF provides financing to suit the needs of its borrowers.

Loan Ceilings

In order to promote broader coverage of the NTF resources, utilization will be subject to a ceiling for each operation. For both public and private sector operations, a ceiling of USD 10 million per project will apply. Project proposals of more than USD 10 million may be considered if there is strong justification. This will be subject to review, as appropriate, depending on the recommendations of the mid-term reviews of the NTF.

The Fund's loan regulations require that loans be expressed in UA and repaid in the currency disbursed. As at 31 December 2023, all loans disbursed were repayable in United States dollars.

The contractual maturity structure of the Fund's gross loans as at 31 December 2023 and 31 December 2022 was as follows:

(Amounts in UA millions)

	2023		2022	
Periods	Amount	%	Amount	%
One year or less	6.94	7.24	6.22	6.50
More than one year but less than two years	6.80	7.09	6.85	7.16
More than two years but less than three years	6.90	7.20	6.70	7.00
More than three years but less than four years	6.93	7.23	6.59	6.89
More than four years but less than five years	6.75	7.04	6.62	6.92
More than five years	61.55	64.20	62.72	65.53
Total	**95.87**	**100**	**95.70**	**100**

The weighted-average interest yield on outstanding loans for the year ended 31 December 2023 was 0.94 percent (1.01 percent as at 31 December 2022). Borrowers may prepay loans, subject to the terms specified in the loan agreement.

Disbursed and Outstanding Loans

The Fund's loans are disbursed to sovereigns. As at 31 December 2023, no loan made to or guaranteed by borrowing countries was overdue or considered to be impaired. The table below shows the Gross loans and Charges, including their respective impairment provisions and ECL coverage ratio as at 31 December 2023 and 31 December 2022.

Gross Loan Principal and Charges including ECL Allowance

31 December 2023

(UA thousands)

	Gross exposure			
	Stage 1	Stage 2	Stage 3	Total
Loan principal	88,409	7,458	-	95,867
Interest receivables	289	7	-	296
Total	**88,698**	**7,465**	**-**	**96,163**
	Impairment allowance			
Loan principal	2,019	1,306	-	3,325
Interest receivables	14	5	-	19
Total	**2,033**	**1,311**	**-**	**3,344**
	Net outstanding			
Loan principal	86,390	6,152	-	92,542
Interest receivables	275	2	-	277
Total	**86,665**	**6,154**	**-**	**92,819**
	ECL coverage ratio			
Loan principal	2.28%	17.52%	0.00%	3.47%
Interest receivables	4.84%	75.61%	0.00%	6.46%
Total coverage ratio	**2.29%**	**17.56%**	**0.00%**	**3.48%**

31 December 2022

(UA thousands)

	Gross exposure			
	Stage 1	Stage 2	Stage 3	Total
Loan principal	90,090	5,605	-	95,695
Interest receivables	296	1	-	297
Total	**90,386**	**5,606**	**-**	**95,992**
	Impairment allowance			
Loan principal	2,327	1,013	-	3,340
Interest receivables	20	1	-	21
Total	**2,347**	**1,014**	**-**	**3,361**
	Net outstanding			
Loan principal	87,763	4,592	-	92,355
Interest receivables	276	-	-	276
Total	**88,039**	**4,592**	**-**	**92,631**
	ECL coverage ratio			
Loan principal	2.58%	18.08%	0.00%	3.49%
Interest receivables	6.75%	83.56%	0.00%	6.99%
Total Coverage Ratio	**2.60%**	**18.09%**	**0.00%**	**3.50%**

Carrying Amounts and Fair Value

The tables below present the outstanding principal, accrued income and charges receivable on loans and ECL allowance including their fair value as at 31 December 2023 and 31 December 2022.

Loan Principal

(UA thousands)

	2023	2022
	Carrying/fair value	Carrying/fair value
Loan balance	95,867	95,695
Accumulated provision for impairment on loans	(3,325)	(3,340)
Net balance	**92,542**	**92,355**

Accrued Income and Charges

(UA thousands)

	2023	2022
	Carrying/fair value	Carrying/fair value
Accrued income and charges receivable on loans	296	297
Accumulated provision for impairment on interest charges and receivable on loans	(19)	(21)
Net balance	**277**	**276**

NOTE H – Equity

Equity is composed of Fund capital, reserves and retained earnings, and cumulative currency translation adjustments. These are further detailed as follows:

Fund Capital

The initial capital of the Fund was NGN 50 million, which was payable in two equal installments of NGN 25 million each, in freely convertible currencies. The first installment, equivalent to USD 39.90 million, was received by the Bank on 14 July 1976, and the second installment, equivalent to USD 39.61 million, was received on 1 February 1977.

In May 1981, the Federal Republic of Nigeria announced the replenishment of the Fund with NGN 50 million. The first installment of NGN 35 million, equivalent to USD 52.29 million, was received on 7 October 1981. The second installment of NGN 8 million, equivalent to USD 10.87 million, was received on 4 May 1984. The third installment of NGN 7 million, equivalent to USD 7.38 million, was received on 13 September 1985.

Following a request by the Government of Nigeria, on 14 June 2006, a withdrawal of USD 200 million (UA 135.71 million) was made by the Government of Nigeria from the resources of the Fund.

A second request for a withdrawal of USD 200 million (UA 129.04 million) was paid to the Government of Nigeria in July 2009.

During the year ended 31 December 2014, the Government of Nigeria authorized the withdrawal of USD 13 million (UA 8.41 million) from reserves to settle its commitment on the arrears clearance of debt owed by Liberia under the internationally coordinated arrears clearance mechanism for post-conflict countries.

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

The table below presents the Fund's Retained earnings as at 31 December 2023 and 31 December 2022 as follows:

Retained Earnings and CCTA

1. Retained Earnings

(UA thousands)

Balance at 1 January 2022	151,657
Net loss for the year	(603)
Balance at 31 December 2022	**151,054**
Balance at 31 December 2022 and 1 January 2023	**151,054**
Net income for the year	4,960
Balance at 31 December 2023	**156,014**

The Board of Governors of the Bank approves the transfers of part of the Fund's annual income for the year to Heavily Indebted Poor Countries. Transfers approved by the Board of Governors of the Bank are reported within the income statement as expenses in the year the transfer is approved. Prior to 2006, Board of Governors' approved transfer was reported as a reduction in retained earnings.

2. Cumulative Currency Translation Adjustments

Cumulative currency translation adjustments as at 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Balance at 1 January	91,482	100,788
Movements during the year	1,564	(9,306)
Balance at 31 December	**93,046**	**91,482**

NOTE I – Income

Interest and Charges on Loans

Interest and charges on loans for the years ended 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Interest income on loans not impaired	904	967
Commitment charges	152	171
Total	**1,056**	**1,138**

Income from Treasury Investments

Income from investments for the years ended 31 December 2023 and 31 December 2022 were as follows:

(UA thousands)

	2023	2022
Interest income	4,383	1,750
Realized fair value gains/(losses)	431	(706)
Unrealized fair value gains	341	360
Total	**5,155**	**1,404**

NOTE J – Administrative Expenses

According to the Agreement establishing the NTF, the Fund shall pay to the AfDB the expenses incurred in the management of the Fund as follows:

a) Separately identifiable costs incurred by the Bank for the Fund.

b) Indirect costs incurred by the Bank in the management of the Fund.

However, the annual payment for the expenses incurred by the Bank is capped and shall not exceed 20 percent of the Fund's gross income during each period. The administrative cost-sharing formula may be reviewed from time to time by mutual agreement. The administrative expenses recognized for the year ended 31 December 2023 was UA 1.24 million compared to UA 0.51 million for 31 December 2022, representing an increase of 144.49 percent on a year-on-year basis. This amount recognized as administrative expenses represents the Fund's share of the Bank Group expenses for the year.

NOTE K – Related Parties

The Nigeria Trust Fund is administered by the African Development Bank. The AfDB conducts the general operations of the NTF based on the terms of the Agreement and in consultation with the Government of Nigeria. The NTF utilizes the offices, staff, organization, services and facilities of the Bank and reimburses the Bank for its share of the costs of such facilities, based on an agreed-upon cost-sharing formula (see Note J). The amount outstanding as at 31 December 2023 in respect of the Fund's share of administrative expenses was UA 0.85 million (31 December 2022: UA 0.27 million) and is included in accounts payable on the balance sheet.

NOTE L – Segment Reporting

The objective of the Fund is to provide loan funds to the less advantaged AfDB Regional Member Countries for development purposes. The Fund's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers. Management has concluded that the Fund has only one reportable segment in accordance with IFRS 8.

The main products and services from which the Fund derives its revenue are loans to AfDB Regional Member Countries and treasury investments.

Total revenue for the years ended 31 December 2023 and 2022 is detailed as follows:

(UA thousands)

	2023	2022
Interest income and charges on loans with sovereign guarantee	1,056	1,138
Treasury investment income	5,155	1,404
Total revenue	**6,211**	**2,542**

The Fund's development activities are divided into five subregions of the continent of Africa for internal management purposes, Central Africa, East Africa, North Africa, Southern Africa, and West Africa. Treasury investment activities are carried out mainly outside of the continent of Africa and are therefore not included in the table below. In presenting information on the basis of the above geographic areas, revenue is based on the location of customers. The Fund uses AfDB's offices, staff, organization, services and facilities and therefore has no fixed assets of its own.

Geographic information about income from loans for the year ended 31 December 2023 and 2022 is detailed as follows:

(UA thousands)

	Central Africa	Eastern Africa	Northern Africa	Southern Africa	Western Africa	Multi-national	Total
2023							
Income from loans	5	226	-	152	628	45	1,056
2022							
Income from loans	-	259	-	169	665	45	1,138

Revenues derived from transactions with a single borrower country and exceeding 10 percent of the Fund's revenue for one country amounted to UA 0.12 million for the year ended 31 December 2023.

NOTE M – Approval of Financial Statements

On March 29, 2024, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors at its annual meeting in May 2024.

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Independent Auditor's Report on the Financial Statements

Year ended December 31, 2023

To the Board of Governors of the African Development Bank in respect of the Nigeria Trust Fund.

Opinion

We have audited the accompanying financial statements of the Nigeria Trust Fund which comprise the balance sheet as at December 31, 2023 and the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out in notes A to M.

In our opinion, the accompanying financial statements present fairly, in all material respects, and give a true and fair view of the assets and liabilities and of the financial position of the Fund as at December 31, 2023 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

Audit Framework

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

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

Independence

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

Key Audit Matters

We inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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Impairment based on expected credit losses for loans classified in stages 1 and 2

Risk identified

In addition to the impairment methodology for incurred credit loss (stage 3), the IFRS 9 impairment rules related to expected credit losses require the recording of impairments calculated as follows:

- stage 1 representing an expected loss within 1 year from initial recognition of the financial asset;
- stage 2, which represents an expected loss at maturity, in the event of a significant increase in credit risk since initial recognition.

The estimate of expected credit losses requires the exercise of judgment, to determine in particular:

- the rating procedures for loans covered by this impairment model;
- the rules for mapping loans to their appropriate staging;
- criteria for the determination of increase in credit risk;
- key parameters for calculating expected credit losses, such as the probability of default (PD) and loss given default (LGD);
- the methodology for taking into account macroeconomic projections for both increase in credit risk and measurement of expected losses.

These parameters are integrated into the model used by the Fund to determine the amount of expected credit losses.

In addition, these parameters are more sensitive in the current macro-economic environment context which led to a higher uncertainties and volatility that is likely to affect the reimbursement ability of some borrowers, with contrasting situations.

The accounting principles applied and the impact of those IFRS 9 impairment rules are detailed in notes B, D and G.

Thus, the net impairment write-back on outstanding loans classified in stages 1 and 2 amounted to UA 17 thousand for the year ended December 31, 2023 and corresponds to the total amount of net impairment write-back for the year ended December 31, 2023. Consequently, as at December 31, 2023, the accumulated impairment for expected losses on loans classified in stages 1 and 2 amounted to UA 3,344 thousand, corresponding to the total amount of loans impairment given the absence of loans classified in stage 3.

Given the scope of the IFRS 9 standard, the complexity of its implementation and the importance of the accounting estimates, we considered that impairments based on expected credit losses on loans classified in stages 1 and 2 is a key audit matter for the year ended December 31, 2023, more particularly in the context of 2023, which is marked by significant uncertainty linked to the prevailing macroeconomic environment and the absence of a comparable historical situation.

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Our response	We have assessed the adequacy of the level of stages 1 & 2 credit risk coverage and the overall level of the associated cost of risk, as well as the relevance of the internal control system and, in particular, its adaptation to the current economic environment. With the assistance of our experts, our work consisted mainly of: • analyzing the compliance of calculation and calibration methods with the IFRS 9 standards, in particular on: - the loans rating process, the significant increase in credit risk criteria and the rules for mapping loans to their appropriate staging; - calculation of expected losses (review of the models, calibration of PDs and LGDs, review of forward-looking assumptions parameters with regard to the evolution of the macro-economic context, etc.); • carrying out independent calculations with our own tools. Finally, our audit work also included the review of the impact of expected credit losses on the financial statements as at December 31, 2023 and the review of the relevant explanatory information provided in the notes to the financial statements.

Other information

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

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

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Fund or to cease operations.

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

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

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Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion.

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

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

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

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund’s ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

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

Paris – La Défense, May 2, 2024

The independent auditor
Deloitte & Associés

Jean-Vincent COUSTEL

SMARTREADER
Read the Financial Report on your smart device or screen at
https://www.afdb.org/en/documents/financial-report-2023

AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

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