Nigeria Trust Fund

Financial Statements and Report of the Independent Auditor Year ended December 31, 2013

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BALANCE SHEET
AS AT DECEMBER 31, 2013
(UA thousands – Note B)

ASSETS	2013	2012
DUE FROM BANKS	13,656	4,905
INVESTMENTS (Note F)	107,097	121,664
ACCOUNTS RECEIVABLE		
Accrued income and receivables on loans	1,286	1,518
Accrued income on investments	49	67
Other receivables	3	3
	1,338	1,588
LOANS (Notes D & G)		
Disbursed and outstanding	45,753	50,986
Less: Accumulated provision for impairment	(146)	(146)
	45,607	50,840
TOTAL ASSETS	**167,698**	**178,997**

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

LIABILITIES & EQUITY	**2013**	2012
ACCOUNTS PAYABLE	1,926	14,376
EQUITY (Note H)		
Capital	128,586	128,586
Reserves		
Retained earnings	153,423	152,060
Cumulative Currency Translation Adjustment (Note B)	(116,237)	(116,025)
Total reserves	37,186	36,035
Total equity	165,772	164,621
TOTAL LIABILITIES & EQUITY	**167,698**	**178,997**

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2013
(UA thousands – Note B)

	2013	2012
INCOME (Note I)		
Interest and charges on loans	1,530	1,700
Income from investments	455	980
Other income	-	51
Total income	1,985	2,731
EXPENSES		
Administrative expenses (Note J)	397	536
Bank charges and sundry gains	(4)	16
Total expenses	393	552
Provision for impairment on loan interest and charges (Note G)	12	11
Total expenses and provision for impairment	405	563
Income before distributions approved by the Board of Governors	1,580	2,168
Distributions of income approved by the Board of Governors (Note H)	(217)	(152)
NET INCOME FOR THE YEAR	**1,363**	**2,016**

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2013
(UA thousands – Note B)

	2013	2012
NET INCOME FOR THE YEAR	1,363	2,016
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,363**	**2,016**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2013
(UA thousands – Note B)

	Capital	Retained Earnings	Cumulative Currency Translation Adjustment	Total Equity
BALANCE AT JANUARY 1, 2012	128,586	150,044	(115,892)	162,738
Net income for the year	-	2,016	-	2,016
Currency translation adjustment	-	-	(133)	(133)
BALANCE AT DECEMBER 31, 2012 AND JANUARY 1, 2013	**128,586**	**152,060**	**(116,025)**	**164,621**
Net income for the current year	-	1,363	-	1,363
Currency translation adjustment	-	-	(212)	(212)
BALANCE AT DECEMBER 31, 2013	**128,586**	**153,423**	**(116,237)**	**165,772**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UA thousands – Note B)

	2013	2012
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	1,363	2,016
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for impairment on loan principal and charges	12	11
Unrealized (gains)/losses on investments	(55)	471
Changes in accrued income and receivables on loans	(192)	(18)
Changes in net current assets	(11,225)	12,665
Net cash (used in)/provided by operating activities	(10,097)	15,145
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(959)	(1,758)
Repayment of loans	6,087	6,276
Investments maturing after 3 months of acquisition:		
Held at fair value through profit or loss	(23,391)	(16,506)
Net cash used in investing, lending and development activities	(18,263)	(11,988)
Effect of exchange rate changes on cash and cash equivalents	(285)	(669)
Net (decrease)/increase in cash and cash equivalents	(28,645)	2,488
Cash and cash equivalents at the beginning of the year	53,574	51,086
Cash and cash equivalents at the end of the year	**24,929**	**53,574**
COMPOSED OF:		
Investments maturing within 3 months of acquisition	11,273	48,669
Cash	13,656	4,905
Cash and cash equivalents at the end of the year	**24,929**	**53,574**
SUPPLEMENTARY DISCLOSURE		
1. Operational cash flows from interest		
Interest received	2,152	2,258
2. Movement resulting from exchange rate fluctuations on loans	(43)	(69)

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2013

NOTE A – NATURE OF OPERATIONS

The Nigeria Trust Fund (the Fund or NTF) was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank (ADB or the Bank) and the Federal Republic of Nigeria. The African Development Bank, which is headquartered in Abidjan, Côte d'Ivoire, manages the resources of the Fund on behalf of the Government of Nigeria. The purpose of the Fund is to assist in the development efforts of the poorer ADB Regional Member Countries. The Agreement stipulates that the Fund shall be in effect for a period of 30 years from the date the Agreement became effective and that such sunset date may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. The Agreement expired on April 26, 2006 and was extended twice for one-year periods, to allow for the completion of an independent review of the operation of the Fund. Following the successful completion of the independent review, the Agreement has been extended for a period of ten years starting from April 26, 2008.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies employed by the Fund are summarized below:

Revenue Recognition

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

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

Functional and Presentation Currencies

The Fund conducts its operations in United States Dollars, and has determined that its functional currency is the United States Dollars (USD). In accordance with Article VII, section 7.3, of the Agreement establishing the Fund, the financial statements are presented in Units of Account (UA).

The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement Establishing the Bank as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF. At December 31, 2013, 1 UA was equivalent to 1.54000 United States dollars (2012: 1.53692 USD).

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated from USD to UA at rates prevailing at the balance sheet date. Translation differences are included in reserves under cumulative currency translation adjustment (CCTA). Changes in CCTA are reported in the statement of changes in equity. Capital replenishments are recorded in UA at the exchange rates prevailing at the time of receipt. Translation gains and losses on conversion of currencies into UA are included in the determination of net income.

Financial Instruments

Financial assets and financial liabilities are recognized when the Fund assumes related contractual rights or obligations.

1) Financial Assets

In accordance with IFRS 9, the Fund classifies its financial assets into the following categories: financial assets at amortized cost; and financial assets at fair value through profit or loss (FVTPL). These classifications are determined based on the Fund's business model. In accordance with the Fund's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. Management determines the classification of its financial assets at initial recognition.

i) Financial Assets at Amortized Cost

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

If either of the two criteria above is not met, the financial asset is classified as at fair value through profit or loss.

Financial assets at amortized cost include loans and receivables on amounts advanced to borrowers and certain investments that meet the criteria of financial assets at amortized cost. Loans and receivables comprise demand obligations, accrued income and receivables from loans and investments and other sundry amounts receivable. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Fund provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at amortized cost using the effective interest method.

Loan origination fees are deferred and recognized over the life of the related loan as an adjustment of yield. Incremental direct costs associated with originating loans are expensed as incurred as such amounts are considered insignificant.

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

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

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

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

Purchases and sales of financial assets are recognized on a trade-date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

2) Financial Liabilities
Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancellation or expiration.

Impairment of Financial Assets
The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss has been incurred on a loan, receivable or held-to-maturity investment carried at amortized cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The estimated impairment loss may arise from delays that may be experienced in receiving amounts due, and the impairment calculations reflect management's best estimate of the effect of such delays.

The impairment loss is reported as a reduction to the carrying amount of the asset through the use of an allowance account and recognized in the income statement. If a loan or other investment held at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

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

Offsetting Financial Instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

Fair Value Disclosure
In liquid or active markets, the most reliable indicators of fair value are quoted market prices. A financial instrument is regarded as quoted in an active market if quoted prices are regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market might be inactive include when there is a wide bid-offer spread or 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.

The fair values of quoted investments in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets or unlisted securities, the Fund establishes fair value by using valuation techniques that incorporate the maximum use of market data inputs. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realized in a sale might be different from the fair values disclosed.

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

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

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

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

Cash and cash equivalents: The carrying amount is the fair value.

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

Loans: The Fund does not sell its loans, nor does it believe there is a comparable market for its loans. The fair value of loans reported in these financial statements represents management's best estimates of the expected cash flows of its loans. The fair valuation of loans has been determined using a discounted cash flow model based on year end market lending rates in USD, including impairment percentages when applicable.

Retained Earnings

Retained earnings of the Fund consist of amounts allocated to reserves from prior years' income and unallocated current year net income.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

The most significant judgments and estimates are summarized below:

i) Impairment Losses on Assets Carried at Amortized Cost

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

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets and can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss on loans and receivables or investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement.

ii) Fair Values of Financial Instruments

The fair value of financial instruments that are not quoted in active markets is measured by using valuation techniques. Where valuation techniques (for example, models) are used to measure fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are periodically calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

Reclassifications

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

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

At the date of issue of these financial statements, certain new and amended International Financial Reporting Standards and Interpretations were effective for application by the Fund and have been applied in preparing these financial statements.

• IFRS 10: "Consolidated Financial Statements"

IFRS 10 is effective for annual periods beginning on or after January 1, 2013. IFRS 10 introduces a new control model to determine whether an investee should be consolidated. This IFRS defines the principle of control and establishes control as the sole basis for determining which entities should be consolidated by the reporting entity. It also establishes principles for the presentation and preparation of consolidated financial statements when an entity has determined that it controls one or more other entities.

The adoption of IFRS 10 does not have any significant impact on the Fund's financial position or performance.

• IFRS 13: "Fair Value"

IFRS 13 is effective for annual periods beginning on or after January 1, 2013. IFRS 13 defines fair value; sets out in a single IFRS a framework for measuring fair value; and requires disclosures about fair value measurements.

IFRS 13 explains how to measure fair value for financial reporting which is a market-based measurement, not an entity-specific measurement. It does not require fair value measurements in addition to those already required or permitted by other standards and is not intended to establish valuation standards or affect valuation practices outside financial reporting. However, this standard expands the concepts and principles behind fair valuation. In addition, extensive disclosures about fair value are required under IFRS 13, and in particular when an entity relies on unobservable valuation inputs under the "level 3" fair valuation hierarchy.

The adoption of IFRS 13 does not have any significant impact on the Fund's financial position or performance.

• IFRS 7: "Financial Instruments: Disclosures" and IAS 32: "Financial Instruments: Presentation"

In December 2011, IASB issued new disclosure requirements in respect of the effect of offsetting arrangements on an entity's financial position, as part of a common project with the US Financial Accounting Standards Board (FASB). The new requirements are set out in Disclosures-Offsetting Financial Assets and Financial Liabilities (amendment to IFRS 7), and are related to financial assets and liabilities that are offset in the statement of financial position or that are subject to master netting arrangements or similar agreements. As part of the same project, the IASB also published Disclosures-Offsetting Financial Assets and Financial Liabilities (amendment to IAS 32) clarifying the offsetting criteria in IAS 32 to address inconsistency in their application.

The amendments to IFRS 7 are to be applied in the financial statements for the annual periods beginning on or after January 1, 2013 with those relating to IAS 32 being effective from annual periods beginning on or after January 1, 2014. The application of IFRS 7 revisions did not impact the financial position or performance of the Fund as the amendments primarily relate to disclosures and presentation of qualifying financial assets in the statement of financial position. The Fund has early adopted

the revisions to IAS 32 but the application has no impact on the financial position of the Fund, as the amendments merely clarify offsetting criteria and how these are to be applied in practice.

NOTE D – RISK MANAGEMENT POLICIES AND PROCEDURES

As described in Note A, the Bank manages the resources of the Fund on behalf of the Government of Nigeria. In the course of exercising its fiduciary duties, the Bank applies specific risk management policies designed to protect the resources of the Fund through the Bank's General Authority on Asset and Liability Management ("the ALM Authority"). The ALM Authority sets out the guiding principles for managing the Fund's risks, including interest rate risk, currency risk, liquidity risk, counterparty credit risk and operational risk.

Under the ALM Authority, the President of the Bank is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO). ALCO is the Bank's most senior management forum on finance and financial risk management issues and is chaired by the Vice President for Finance of the Bank.

The ALCO meet on regular basis to perform its oversight roles. Among its functions, the ALCO reviews regular and ad-hoc finance and treasury risk management reports and projections and approves strategies to adjust the balance sheet. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency risk and financial projections.

In June 2012, the Bank Group created a Credit Risk Committee and in November 2013, the Bank Group also created the position of the Group Chief Risk Officer, reporting directly to the President, to oversee credit issues on the loan portfolio.

Day-to-day operational responsibilities for implementing the Bank's risk management policies and guidelines are delegated to the relevant business units, and the Financial Management Department is responsible for monitoring the day-to-day compliance with those policies and guidelines.

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

Credit Risk

Credit risk is the potential financial loss due to default of one or more debtors/obligors. Credit risk is the largest source of risk for the Fund arising from its lending and treasury operations essentially and it includes sovereign credit risk from lending operations, and counterparty credit risk.

1) Sovereign Credit Risk

When the Fund lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. Also, in extending credit to sovereign entities, it is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Fund. Country credit risk is managed through financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessment. These include the assessment of each country's macroeconomic performance as well as its socio-political conditions and future growth prospects.

Country Exposure

The Fund's loans outstanding at December 31, 2013 were to the following countries:

(Amounts in UA thousands)

Country	No of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Benin	3	5,167	-	-	5,167	11.29
Cabo Verde	1	865	-	-	865	1.89
Cameroun	1	5,000	5,000	-	-	-
Djibouti	1	1,023	-	-	1,023	2.24
Gambia	3	10,220	-	-	10,220	22.34
Ghana	1	1,305	-	-	1,305	2.85
Guinea	2	2,922	-	-	2,922	6.39
Guinea-Bissau	1	3,487	-	3,268	219	0.48
Lesotho	1	16	-	-	16	0.03
Liberia	3	9,105	-	6,500	2,605	5.69
Madagascar	2	7,425	-	6,500	925	2.02
Malawi	1	6,500	-	6,500	-	-
Mauritania	2	7,726	-	1,528	6,198	13.55
Namibia	1	895	-	-	895	1.96
Rwanda	1	4,565	-	-	4,565	9.98
Senegal	1	832	-		832	1.82
Seychelles	2	828	-	-	828	1.81
Sierra Leone	1	714	-	-	714	1.56
Somalia**	1	755	-	-	755	1.65
Swaziland	1	4,118	-	-	4,118	9.00
Tanzania	1	940	-	-	940	2.05
Uganda	2	10,641	-	10,000	641	1.40
Zambia	1	6,400	-	6,400	-	-
Multinational	1	6,670	6,670	-	-	-
Total	**35**	**98,119**	**11,670**	**40,696**	**45,753**	**100.00**

* *Excludes fully repaid loans and canceled loans.*
** *Country with overdue amounts as at December 31, 2013.*

Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

As at December, 2013, all the Fund's loans were made only to public sector borrowers, and such loans generally carry full sovereign guarantee or the equivalent from the borrowing member state.

The Fund's credit risk management framework is based on a systematic credit risk assessment using a uniform internal credit risk rating scale that is calibrated to reflect the Fund's statistical loss expectations as shown in the table below.

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

These sovereign risk credit ratings are derived from a risk assessment on five risk indices that include macro-economic performance, debt sustainability, socio-political factors, business environment and portfolio performance. These five risk indices are combined to derive a composite sovereign country risk index and then converted into separate country risk ratings. These country risk ratings are validated against the average country risk ratings from accredited rating agencies and other specialized international bodies. The Credit Risk Committee reviews the country ratings on a quarterly basis to ensure compliance with country exposure limits, changes in country credit risk conditions, and to approve changes in loss provisioning, if any.

Portfolio Risk Monitoring

It is the Fund's policy that if the payment of principal, interest or other charges becomes 30 days overdue, no new loans to that country, or to any public sector borrower in that country, will be presented to the Board of Directors for approval, nor will any previously approved loan be signed, until all arrears are cleared. Furthermore, for such countries, disbursements on all loans to or guaranteed by that borrower country are suspended until all overdue amounts have been paid.

2) Counterparty Credit Risk

Counterparty credit risk is the potential for loss due to 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 is required by ALCO.

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

	Maturity					
	6 months	**1 year**	**5 years**	**10 years**	**15 years**	**30 years**
Government		A/A2			AA-/Aa3	AAA/Aaa
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
MBS/ABS	AAA Maximum legal maturity of 50 years for ABS/MBS with the underlying collateral originated in the UK and 40-year maximum legal maturity for all other eligible ABS/MBS. Also, the maximum weighted average life for all ABS/MBS at the time of acquisition shall not exceed 5 years.					

The Fund invests in money market mutual funds with a minimum rating of AA-/Aa3.

In addition to these minimum rating requirements, the Fund operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a maximum of 10 percent of the Fund's total liquidity for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the Fund's credit limits after considering the benefits of any collateral.

As shown in the following table, the estimated potential counterparty credit exposure of the investment portfolio continues to be predominantly in the AA- or higher-rated class:

	Credit Risk Profile of the Investment Portfolio		
	AAA	**AA+ to AA-**	**A+ and lower**
2013	50%	44%	6%
2012	63%	19%	18%
2011	50%	23%	27%
2010	48%	40%	12%
2009	60%	37%	3%
2008	55%	34%	11%

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. In order to mitigate liquidity risk, the Fund's investment management policy ensures it has sufficient liquid assets to meet its disbursement obligations.

Currency Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. The Fund manages its currency risk by holding all of its investments and loans in U.S. dollars, the currency in which the Fund's resources are denominated.

Interest Rate Risk

The Fund is exposed to fair value interest rate risk on its portfolio of loans and investments. All of the Fund's loans have fixed interest rates. Investments are managed against the monthly average of three-months LIBOR in order to manage prudently the available resources. Re-pricing risk is not considered significant in comparison to the Fund's equity resources, and is accordingly not hedged.

At December 31, 2013, the Fund had UA 40.70 million of loans which were committed but not yet disbursed (2012: UA 22.86 million). The interest rate on these undisbursed loans has been fixed at between 2 to 4 percent per annum.

Interest rate risk positions as at December 31, 2013 and 2012 were as follows:

Interest Rate Risk Position as at December 31, 2013

(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	13,656	-	-	-	-	-	-	13,656
Investments	29,940	43,510	33,140	-	387	120	-	107,097
Accounts receivable	1,338	-	-	-	-	-	-	1,338
Loans	7,519	4,649	3,656	3,237	2,799	23,893	(146)	45,607
	52,453	48,159	36,796	3,237	3,186	24,013	(146)	167,698
Liabilities								
Accounts payable	(1,926)	-	-	-	-	-	-	(1,926)
Interest rate risk position as at December 31, 2013*	**50,527**	**48,159**	**36,796**	**3,237**	**3,186**	**24,013**	**(146)**	**165,772**

** Interest rate risk position represents equity.*

Interest Rate Risk Position as at December 31, 2012

(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	4,905	-	-	-	-	-	-	4,905
Investments	80,680	40,270	-	-	-	714	-	121,664
Accounts receivable	1,588	-	-	-	-	-	-	1,588
Loans	7,775	5,791	4,641	3,632	3,193	25,954	(146)	50,840
	94,948	46,061	4,641	3,632	3,193	26,668	(146)	178,997
Liabilities								
Accounts payable	(14,376)	-	-	-	-	-	-	(14,376)
Interest rate risk position as at December 31, 2012*	**80,572**	**46,061**	**4,641**	**3,632**	**3,193**	**26,668**	**(146)**	**164,621**

** Interest rate risk position represents equity.*

Currency and Interest Rate Sensitivity Analysis

The Fund holds all of its investments and loans in U.S. dollars and therefore is exposed only to translation adjustment as the Fund's assets are reported in UA for financial statements purposes. Any change in the UA/USD exchange rate would have an impact of approximately 40 percent on these reported values.

Movements in interest rates have an impact on the reported fair value of the trading portfolio. The table below shows the effect of a parallel yield curve movement +/- 100bps as at December 31, 2013 and 2012, respectively.

(UA thousands)

	+100 Basis Points		-100 Basis Points	
	2013	2012	**2013**	2012
(Loss)/Gain on investments measured at fair value	**(198)**	(147)	**199**	148

NOTE E – FINANCIAL ASSETS AND LIABILITIES

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss				
December 31, 2013	**Mandatorily at Fair Value**	**Designated at Fair Value**	**Financial Assets and Liabilities at Amortized Cost**	**Total Carrying Amount**	**Fair Value**
Due from banks	-	-	13,656	13,656	13,656
Treasury investments	107,097	-	-	107,097	107,097
Accounts receivable	-	-	1,338	1,338	1,338
Loans	-	-	45,607	45,607	45,027
Total financial assets	**107,097**	**-**	**60,601**	**167,698**	**167,118**
Liabilities	-	-	1,926	1,926	1,926
Total financial liabilities	**-**	**-**	**1,926**	**1,926**	**1,926**

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss				
December 31, 2012	**Mandatorily at Fair Value**	**Designated at Fair Value**	**Financial Assets and Liabilities at Amortized Cost**	**Total Carrying Amount**	**Fair Value**
Due from banks	-	-	4,905	4,905	4,905
Treasury investments	121,664	-	-	121,664	121,664
Accounts receivable	-	-	1,588	1,588	1,588
Loans	-	-	50,840	50,840	52,101
Total financial assets	**121,664**	**-**	**57,333**	**178,997**	**180,258**
Liabilities	-	-	14,376	14,376	14,376
Total financial liabilities	**-**	**-**	**14,376**	**14,376**	**14,376**

NOTE F – INVESTMENTS

As part of its portfolio management strategy, the Fund invests in government and agency obligations, time deposits, and asset-backed securities.

For government and agency obligations with final maturities longer than 1 year, the Fund may only invest in obligations with counterparties having a minimum credit rating of AA- issued or unconditionally guaranteed by governments of member countries or other official entities. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Investments in money market instruments are restricted to instruments having maturities of not more than 1 year and a minimum rating of A.

As at December 31, 2013, all investments are held at fair value through profit and loss.

The Fund's investments at December 31, 2013 and 2012 (at FVTPL) are summarized below:

(UA thousands)

	2013	2012
Time deposits	11,273	48,670
Asset-backed securities	502	720
Government and agency obligations	77,771	48,953
Corporate bonds	17,551	23,321
Total	**107,097**	**121,664**

The table below classifies the Fund's investments at December 31, 2013 and 2012 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**	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Time deposits	11,273	48,670	-	-	-	-	11,273	48,670
Asset-backed securities	-	-	-	-	502	720	502	720
Government and agency obligations	77,771	48,953	-	-	-	-	77,771	48,953
Corporate bonds		7,665	17,551	15,656	-	-	17,551	23,321
Total	**89,044**	**105,288**	**17,551**	**15,656**	**502**	**720**	**107,097**	**121,664**

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at December 31, 2013 and 2012 are made up as follows:

(UA thousands)

	2013	2012
Balance at January 1	720	1,089
Losses recognized in income statement	(217)	(238)
Purchases, issues and settlements (net)	-	(130)
Currency translation adjustments	(1)	(1)
Balance at December 31	**502**	**720**

The contractual maturity structure of the Fund's investments as at December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
One year or less	29,940	80,680
More than one year but less than two years	43,510	40,270
More than two years but less than three years	33,140	-
More than three years but less than four years	387	-
More than five years	120	714
Total	**107,097**	**121,664**

The notional balance of investments as at December 31, 2013 was UA 107.05 million (2012: UA 121.55 million), while the average yield was 0.23 % (2012: 0.54%).

NOTE G – LOANS

Loans originated prior to September 22, 2003; carry an interest rate of four percent (4%) on the outstanding balance. With effect from September 22, 2003, pursuant to the Board of Governors' resolution B/BG/2003/11 of June 3, 2003 and the protocol agreement between the Government of Nigeria and the Bank, dated September 22, 2003, the interest rate on loans was changed from a flat 4 percent per annum to a range of 2 percent to 4 percent (inclusive) per annum on the outstanding balance and future undisbursed loans. Furthermore, a 0.75 percent commission is payable on undisbursed balances commencing 120 days after the signature of the loan. Loans approved prior to the extension of the Agreement are granted for a maximum period of twenty-five years including grace periods of up to five years.

Following the extension of the Agreement in April 2008, the terms of the NTF loans were further modified in line with the terms of financing in the operational guidelines of the Fund, approved pursuant to the Board of Directors' resolution ADB/BD/WP/2008/196 of December 2, 2008 which stipulates that the resources of the Fund will henceforth be deployed in accordance with the following three options:

Financing Terms

Financial terms for the first option include: (i) no interest charges on NTF loans; (ii) a service charge of 0.75 percent per annum on outstanding balances; (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (iv) a 20-year repayment period with a 7-year grace period.

Financial terms for the second option include: (i) no interest charges on NTF loans; (ii) a service charge of 0.75 percent per annum on outstanding balances; (iii) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (iv) a 15-year repayment period with a 5-year grace period.

Financial terms for the third option would be the same terms as for the ADB private sector financing, taking into consideration the risk analysis of the project.

For all the above mentioned options, the grace period starts from the date of signing of the financing agreement or at a date agreed amongst co-financiers, in the case of co-financed projects.

For private sector operations, a commitment fee of 0.75 percent per annum on undisbursed balances will be charged from 120 days after the signing of the loan agreement.

The NTF shall provide financing to suit the needs of its borrowers.

Loan Ceilings

In order to promote broader coverage of the NTF resources, utilization will be subject to a ceiling for each operation. For both public and private sector operations, a ceiling of US$10 million per project will apply. Project proposals of more than US$10 million may be considered if there is strong justification. This will be subject to review as appropriate depending on the recommendations of the mid-term reviews of the NTF.

The Fund's loan regulations require that loans be expressed in UA and repaid in the currency disbursed. At December 31, 2013, all loans disbursed were repayable in United States Dollars.

The contractual maturity structure of outstanding loans as at December 31, 2013 and 2012 was as follows:

(Amounts in UA millions)

	2013		2012	
Periods	**Amount**	**%**	**Amount**	**%**
One year or less	7.51	16.42	7.78	15.26
More than one year but less than two years	4.65	10.16	5.79	11.36
More than two years but less than three years	3.66	8.00	4.64	9.10
More than three years but less than four years	3.24	7.08	3.64	7.14
More than four years but less than five years	2.80	6.12	3.19	6.25
More than five years	23.89	52.22	25.95	50.89
Total	**45.75**	**100.00**	**50.99**	**100.00**

The weighted-average interest yield on outstanding loans for the year ended December 31, 2013 was 2.02% (2012: 2.03%).

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

Provision for Impairment on Loan Principal and Charges Receivable

As at December 31, 2013, loans made to or guaranteed by certain borrowing countries with an aggregate principal balance of UA 0.76 million, of which UA 0.74 million was overdue, were considered to be impaired.

The gross amounts of impaired loans and charges receivable and their corresponding impairment provisions at December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
Outstanding balance on impaired loans	755	757
Less: Accumulated provision for impairment	(146)	(146)
Net balance on impaired loans	**609**	**611**
Charges receivable and accrued income on impaired loans	975	946
Less: Accumulated provision for impairment	(536)	(525)
Net charges receivable and accrued income on impaired loans	**439**	**421**

Movements in the accumulated provision for impairment on loan principal for the year ended December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
Balance at January 1	146	146
Provision for impairment for the year	-	-
Balance at December 31	**146**	**146**

Movements in the accumulated provision for impairment on interest and charges receivable on loans for the year ended December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
Balance at January 1	525	514
Provision for impairment on loan charges for the year	11	11
Balance at December 31	**536**	**525**

Fair Value of Loans

At December 31, 2013 and 2012, the carrying and estimated fair values of outstanding loans were as follows:

(UA thousands)

	2013		2012	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Loan balance at December 31	45,753	45,027	50,986	52,101
Accumulated provision for impairment on loans	(146)	-	(146)	-
Net balance	**45,607**	**45,027**	**50,840**	**52,101**

NOTE H – EQUITY

Equity is composed of Fund capital, retained earnings, and cumulative currency translation adjustments. These are further detailed as follows:

Fund Capital

The initial capital of the Fund was Naira 50 million which was payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to US$ 39.90 million, was received by the Bank on July 14, 1976, and the second installment, equivalent to US$ 39.61 million, was received on February 1, 1977.

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

Following a request by the Government of Nigeria, on June 14, 2006, a withdrawal of US$ 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 US$ 200 million (UA 129.04 million) was paid to the Government of Nigeria in July 2009.

Retained Earnings

Retained earnings as at December 31, 2013 and 2012 were as follows:

(UA thousands)

Balance at January 1, 2012	150,044
Net income for the year	2,016
Balance at December 31, 2012 and January 1, 2013	**152,060**
Net income for the current year	1,363
Balance at December 31, 2013	**153,423**

The Board of Governors of the Bank approves the transfers of part of the Fund's income for the year to HIPC. Transfers approved by the Board of Governors of the Bank are reported within the income statement as expenses in the year the transfer is approved. Prior to 2006, Board of Governors' approved transfer was reported as a reduction in retained earnings. Approvals during the years ended December 31, 2013 and 2012 were UA 0.22 million and UA 0.15 million, respectively.

Cumulative Currency Translation Adjustments

Cumulative currency translation adjustments as at December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
Balance at January 1	116,025	115,892
Movements during the year	212	133
Balance at December 31	**116,237**	**116,025**

NOTE I – INCOME

Interest and Charges on Loans

Interest and charges on loans for the year ended December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
Interest income on loans not impaired	1,348	1,562
Interest income on impaired loans	31	30
Commitment charges	151	108
Total	**1,530**	**1,700**

Income from Investments

Income from investments for the year ended December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
Interest income	617	559
Realized and unrealized fair value (losses)/gains	(162)	421
Total	**455**	**980**

NOTE J – ADMINISTRATIVE EXPENSES

According to the Agreement establishing NTF, the Fund shall pay to the Bank the expenses incurred in the management of the Fund as follows:

a) Separately identifiable costs incurred by the Bank for the Fund; and

b) Indirect costs incurred by the Bank in the management of the Fund.

However, the annual payment for the aforementioned expenses incurred by the Bank shall not exceed 20 percent of the Fund's gross income during the course of each year. The administrative cost-sharing formula may be reviewed from time-to-time by mutual agreement.

The amount of UA 0.40 million charged for the year ended December 31, 2013 (2012: UA 0.54 million) represents the Fund's share of the Bank Group expenses.

NOTE K – RELATED PARTIES

The Nigeria Trust Fund is administered by the African Development Bank. The ADB conducts the general operations of the NTF on the basis of the terms of the Agreement and in consultation with the Government of Nigeria. The NTF utilizes the offices, staff, organization, services and facilities of the Bank and reimburses the Bank for its share of the costs of such facilities, based on an agreed-upon cost-sharing formula (see Note J). The amount outstanding at December 31, 2013 in respect of Fund's share of administrative expenses was UA 0.03 million (2012: UA 0.23 million) and is included in Accounts Payable on the balance sheet.

NOTE L – SEGMENT REPORTING

The objective of the Fund is to provide loan funds to the poorer ADB Regional Member Countries for development purposes. The Fund's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers. Management has concluded that the Fund has only one reportable segment in accordance with IFRS 8.

The main products and services from which the Fund derives its revenue are mainly loans to ADB Regional Member Countries and treasury investments.

External revenue for the years ended December 31, 2013 and 2012 is detailed as follows:

(UA thousands)

	2013	2012
Interest income and charges on loans	1,530	1,700
Treasury investment income	455	980
Total external revenue	**1,985**	**2,680**

The Fund's development activities are divided into five sub-regions of the continent of Africa for internal management purposes, namely: Central Africa, East Africa, North Africa, Southern Africa, and West Africa. Treasury investment activities are carried out mainly outside of the continent of Africa, and are therefore not included in the table on the next page. In presenting information on the basis of the above geographical areas, revenue is based on the location of customers. The Fund uses ADB's offices, staff, organization, services and facilities and therefore has no fixed assets of its own.

Geographical information about income from loans for the year ended December 31, 2013 and 2012 is detailed as follows:

(UA thousands)

	East Africa	North Africa	Southern Africa	West Africa	Total
2013					
Income from loans	334	138	292	766	**1,530**
2012					
Income from loans	373	143	293	891	**1,700**

There were no revenues deriving from transactions with a single external customer that amounted to 10 percent or more of the Fund's revenues for the year ended December 31, 2013.

NOTE M – APPROVAL OF FINANCIAL STATEMENTS

On March 26, 2014, the Board of Directors of the Bank authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors of the African Development Bank at its annual meeting in May 2014.

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

Year ended 31 December 2013

We have audited the accompanying financial statements of the Nigeria Trust Fund ("the Fund") which comprise the balance sheet as at 31 December 2013 and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in notes A to M.

The financial statements have been prepared in accordance with International Financial Reporting Standards, for the purpose of submitting approved and audited financial statements to the Board of Governors of the African Development Bank, as required by Section 8.2 of the Agreement establishing the Fund. This report is made solely to the Board of Governors of the Bank, as a body, in accordance with Section 8.2 of the Agreement establishing the Fund. Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and the Board of Governors of the Bank as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

KPMG S.A.,
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constitué de cabinets indépendants adhérents de
KPMG International Cooperative, une entité de droit suisse

Société anonyme d'expertise
comptable et de commissariat
aux comptes à directoire et
conseil de surveillance.
Inscrite au Tableau de l'Ordre
à Paris sous le n° 14-30080101
et à la Compagnie Régionale
des Commissaires aux Comptes
de Versailles

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Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paris La Défense, 26th March 2014

KPMG Audit
A division of KPMG S.A.

Valéry Foussé
Partner