AFRICAN DEVELOPMENT BANK GROUP

ANNUAL REPORT 2014

AFRICAN DEVELOPMENT BANK GROUP

REGIONAL AND NON-REGIONAL MEMBER COUNTRIES

ALGERIA
ANGOLA
BENIN
BOTSWANA
BURKINA FASO
BURUNDI
CAMEROON
CABO VERDE
CENTRAL AFRICAN REPUBLIC
CHAD
COMOROS
CONGO
CONGO, DEMOCRATIC REPUPLIC OF
CÔTE D'IVOIRE
DJIBOUTI
EGYPT
EQUATORIAL GUINEA
ERITREA
ETHIOPIA
GABON
GAMBIA, THE
GHANA
GUINEA
GUINEA-BISSAU
KENYA
LESOTHO
LIBERIA
LIBYA
MADAGASCAR
MALAWI
MALI
MAURITANIA
MAURITIUS
MOROCCO
MOZAMBIQUE
NAMIBIA
NIGER
NIGERIA
RWANDA
SÃO TOMÉ & PRÍNCIPE
SENEGAL
SEYCHELLES
SIERRA LEONE
SOMALIA
SOUTH AFRICA
SUDAN
SWAZILAND
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TOGO
TUNISIA
UGANDA
ZAMBIA
ZIMBABWE

ARGENTINA
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INDIA
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KUWAIT
LUXEMBOURG
NETHERLANDS
NORWAY
PORTUGAL
SAUDI ARABIA
SOUTH KOREA
SPAIN
SWEDEN
SWITZERLAND
TURKEY
UNITED ARAB EMIRATES (MEMBER OF THE ADF ONLY)
UNITED KINGDOM
UNITED STATES OF AMERICA

AFRICAN DEVELOPMENT BANK GROUP

AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND

BOARDS OF GOVERNORS

ADB
Fiftieth
Annual Meeting

ADF
Forty-First
Annual Meeting

Abidjan, Côte d'Ivoire
May 25-29, 2015

REPORT

by the
Boards of Directors

of the
African Development Bank

and the
African Development Fund

Covering the period
January 1 to December 31, 2014

ADB-ADF/BG/AR/2014

Acknowledgments

The Annual Report 2014 was prepared by the Development Research Department of the Chief Economist Complex under the guidance of the Board's Annual Report (ANRE) Committee, comprising H. Tuunanen (Chairperson), P.M.N. Mwangala (Vice Chairperson) and Members: M. Bettache, R. Meyer, A. Msa, L. Sentore, and H.S. Tse.

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Contents

Fast Facts
African Development Bank Group

Constituent Institutions	The African Development Bank (ADB) The African Development Fund (ADF) The Nigeria Trust Fund (NTF)
Shareholders	53 African countries (Regional Member Countries) 26 non-African countries (Non-Regional Member Countries)
Mission	To promote sustainable economic growth and reduce poverty in Africa
Authorized Capital as of December 31, 2014 (ADB)	UA 66.98 billion
Subscribed Capital as of December 31, 2014 (ADB)	UA 65.13 billion
Paid-up Capital as of December 31, 2014 (ADB)	UA 4.86 billion
Callable Capital as of December 31, 2014 (ADB)	UA 60.27 billion
Total Reserves as of December 31, 2014 (ADB)	UA 2.82 billion
Approved Operations, 2014	232 operations totaling UA 5.05 billion, financed as follows: ADB: UA 3.20 billion ADF: UA 1.59 billion NTF: UA 11.5 million Special Funds*: UA 244.2 million
Of which:	
Loans	UA 3.89 billion (89 operations)
Grants	UA 613.9 million (93 operations)
Equity Participation	UA 132.6 million (6 operations)
Guarantees	UA 173.1 million (5 operations)
Special Funds*	UA 244.2 million (39 operations)
Loan and Grant Approvals by Sector, 2014	**Infrastructure:** UA 2.50 billion (55.5 percent) **Finance:** UA 806.8 million (17.9 percent) **Agriculture and Rural Development:** UA 488.3 million (10.9 percent) **Social:** UA 366.9 million (8.2 percent) **Multi-sector:** UA 267.4 million (5.9 percent) **Industry, mining and quarrying:** UA 39.1 million (0.9 percent) **Environment:** UA 33.2 million (0.7 percent)
Total Cumulative Loan and Grant Approvals, 1967–2014	4,185 loans and grants totaling UA 71.72 billion

Notes:
* *Special Funds: These are the approvals for the operations of the African Water Facility, the Rural Water Supply and Sanitation Initiative, the Global Environment Facility, the Global Agriculture and Food Security Program, the Climate Investment Fund, the Congo Basin Forest Fund, the Fund for African Private Sector Assistance, the Microfinance Capacity Building Fund, the Governance Trust Fund, the Sustainable Energy Fund for Africa, the Middle East and North Africa Transition Fund, and the Special Climate Change Fund.*

AFRICAN DEVELOPMENT BANK GROUP

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April 22, 2015

The Chairperson,
Boards of Governors
African Development Bank
African Development Fund

Dear Mr. Chairperson,

In accordance with Article 32 of the Agreement Establishing the African Development Bank and Articles 8, 11, and 12 of the General Regulations made thereunder, and pursuant to Article 26 of the Agreement Establishing the African Development Fund and Articles 8, 11, and 12 of the General Regulations made thereunder, I have the honor, on behalf of the Boards of Directors of the Bank and of the Fund, to submit the audited financial statements of the African Development Bank and the audited Special Purpose Financial Statements of the African Development Fund for the financial year ended December 31, 2014.

This joint report includes the administrative budget for the period commencing January 1, 2015 and ending December 31, 2015, as approved by the Boards of Directors, as well as a review of developments in the African economy and in the operational activities of the Bank Group during 2014.

Please accept, Mr. Chairperson, the assurances of my highest consideration.

Donald Kaberuka
President
of the
African Development Bank Group
and
Chairperson of the
Boards of Directors

The President and the Executive Directors
African Development Bank Group

First row from left to right: Mr. Mohamed Samy ZAGHLOUL (Egypt); Mr. Amadou KONE (Côte d'Ivoire); Ms. Mulu KETSELA (Ethiopia); Mr. Moegamat Shahid KHAN (South Africa); Mr. Shehu YAHAYA (Dean of Board Members, Nigeria); Mr. Donald KABERUKA (President of the Bank Group and Chairperson of the Boards of Directors); Mr. Abdelmajid MELLOUKI (Morocco); Mr. François KRUGER (France); Ms. Petronella MWANGALA (Zambia); Mr. Hau Sing TSE (Canada); and Mr. Hadji BABAAMMI (Algeria).

Second row from left to right: Mr. Heikki TUUNANEN (Finland); Mr. Abdul-Magid GADAD (Libya); Mr. Dominic O'NEILL (United Kingdom); Mr. Abdallah MSA (Comoros); Ms. Elizabeth MORRIS (United States); Mr. Mahomed R. J. MAHOMED (Mozambique); Mr. Alieu Momodou NGUM (The Gambia); Mr. Tomoya ASANO (Japan); Mr. Christoph KOHLMEYER (Germany); and Mr. Leonard SENTORE (Burundi).

Composition of the Boards of Directors
as of December 31, 2014

The Board of Directors of the African Development Bank

Chairperson: Donald KABERUKA	
Executive Directors	**Alternate Executive Directors**
Tarik AL-TASHANI (Libya)	M.M. OULD HAMMA KHATTAR (Mauritania)
Tomoya ASANO (Japan)	Abdulrahman ABUBAKR (Saudi Arabia)
Vacant (Algeria)	Alfredo MENDES (Guinea-Bissau)
Vacant (USA)	Elizabeth H. MORRIS (USA)
Mulu KETSELA (Ethiopia)	Vacant
Moegamat Shahid KHAN (South Africa)	Bheki SIBONGAYEBHEMBE (Swaziland)
Amadou KONE (Côte d'Ivoire)	Bernardo ABAGA NDONG MAYIE (Equatorial Guinea)
Mahomed R.J. MAHOMED (Mozambique)	Heinrich Mihe GAOMAB II (Namibia)
Abdelmajid MELLOUKI (Morocco)	Vacant
Ronald MEYER (Germany)	Vacant
Abdallah MSA (Comoros)	Ousman Sougui ABAKAR (Chad)
Mariano MUNOZ-CARPENA (Spain)	Abdenor BRAHMI (France)
Petronella M.N. MWANGALA (Zambia)	Cornelius Karlens DEKOP (Botswana)
Alieu Momodou NGUM (The Gambia)	Miata BEYSOLOW (Liberia)
Dominic O'NEILL (UK)	Erik HILBERINK (Netherlands)
Leonard SENTORE (Burundi)	Félicité C. OMPORO ENOUANY (Congo)
Hau Sing TSE (Canada)	Thamer M. ALFAILAKAWI (Kuwait)
Heikki TUUNANEN (Finland)	Gabriel SAMUELSSON (Sweden)
Shehu YAHAYA (Nigeria)	Maria da Neves C.B. de SOUSA (São Tomé & Príncipe)
Mohamed Samy S. ZAGHLOUL (Egypt)	Ali MOHAMED ALI (Djibouti)

The Board of Directors of the African Development Fund

Chairman: Donald KABERUKA	
Executive Directors	**Alternate Executive Directors**
Tomoya ASANO (Japan)	Abdulrahman ABUBAKR (Saudi Arabia)
Vacant (USA)	Elizabeth H. MORRIS (USA)
Mulu KETSELA (ADB)	Vacant
Ronald MEYER (Germany)	Vacant
Mariano MUNOZ-CARPENA (Spain)	Abdenor BRAHMI (France)
Abdelmajid MELLOUKI (ADB)	Vacant
Abdallah MSA (ADB)	Ousman Sougui ABAKAR (Chad)
Petronella M.N. MWANGALA (ADB)	Cornelius Karlens DEKOP (Botswana)
Alieu Momodou NGUM (ADB)	Miata BEYSOLOW (Liberia)
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Heikki TUUNANEN (Finland)	Gabriel SAMUELSSON (Sweden)
Shehu YAHAYA (ADB)	Maria da Neves C.B. de SOUSA (São Tomé & Príncipe)

Source: AfDB Office of the Secretary General.
Note: Executive Directors Francois Kruger, Abdul-Magid Gadad and Christoph Kohlmeyer spent a total of 8 months each at the Board in 2014.

Message from the President of the African Development Bank Group and Chairperson of the Boards of Directors

Donald Kaberuka
President of the African Development Bank Group

I am pleased to submit the Bank Group's Annual Report for 2014. Despite a challenging global economic environment, the Bank reports a very satisfactory operational outturn with new commitments of USD 7.3 billion for projects and programs—a 15.1% increase over the previous year. The focused approach was maintained with the bulk of funding going to infrastructure and economic integration.

In spite of global financial turbulence, the Bank has maintained excellent financial health and robust risk-bearing capacity, as reaffirmed by all four major rating agencies at AAA for the Bank's senior debt, with a stable outlook. This is largely due to strong shareholder support, prudent financial management, sound capital adequacy and an enhanced risk management framework.

In 2014, most African countries maintained robust economic growth, several of them well above 7%, despite the decline in commodity prices and the Ebola epidemic in three countries of the Mano River Union area. Prospects in the New Year remain solid, driven by investment, private consumption, growing regional trade and sound macroeconomic foundations.

The last 12 months have been a special period for the Bank: the 50th Anniversary and particularly, the return of the Bank to its Headquarters after 11 years of relocation in Tunis. I take this opportunity to express my appreciation to all those who made this possible—the Tunisian and Ivoirian Authorities, the Board of Directors, Management and staff of the Bank. It is thanks to the combined endeavor and commitment that we were able to overcome the logistical challenges while assuring business continuity in this complex process of the return to Abidjan.

The year 2015 will be a crucial one for international development. Decisions taken will influence the development landscape for a long time, from agreement on the post-2015 development goals and, hopefully, a deal on climate change. Of critical importance will be the funding architecture for the Sustainable Development Goals and as well as climate mitigation and adaptation. The Addis Ababa Financing for Development Conference in July 2015 will be a major landmark.

In the next few weeks, I will be handing over the reins of the Institution to my successor, to be elected in May 2015. It has been a singular honor and privilege to lead this great organization over a decade at such a pivotal time for Africa. I thank the shareholders, ADF State Participants, partner institutions in the public and business sectors for their support. Together, we have been able to triple the Bank's capital resources and more than doubled its portfolio.

We were able to provide strong counter-cyclical response during the global financial crisis while avoiding strategic drift.

A special word of thanks to the successive Boards of Directors and staff, with whom we have, together, steered the Institution over the last decade.

Looking forward, let us continue to strive to contribute to building a prosperous continent in accordance with the roadmap, so well articulated in the Bank's Ten-Year Strategy. My best wishes to you all.

Donald Kaberuka
President, African Development Bank Group,
Chairperson of the Boards of Directors

Executive Summary

The Bank's 2014 Report distinguishes itself from previous reports in a number of ways. First, it commemorates the 50th anniversary of the establishment of the Bank, now the premier development finance institution in Africa. At end-2014, the Bank had 1,932 staff, including 574 in the field, and a capitalization of some USD 100 billion.

Second, it reports on an exceptional year in the African economy. Earlier in the year, a number of West African countries were hit by the Ebola epidemic, whose socio-economic repercussions were felt in the rest of Africa and beyond. Later in the year, oil and gas prices collapsed threatening macroeconomic stability in net oil-exporting countries and creating opportunities to net oil-importing economies.

Third, the Report tells the story of how the Bank responded to the multiple challenges the continent faced, even as it returned to Abidjan, maintaining momentum in operations and preserving staff and client morale.

This Executive Summary highlights the Bank's achievements and challenges in the face of these and other scenarios, with candor. It also outlines the operational strategies and policies crafted by the Bank to implement its Ten-Year Strategy anchored on Inclusive Growth and Transition into Green Economy.

High Growth Despite Regional and Global Adversity

Growth in 2014 and mid-term outlook. Africa grew in 2014 by 3.9 percent, a marginal improvement on the 3.5 percent growth recorded in 2013 and higher than the global growth rate of 3.3 percent. There were variations across different country and regional groupings. At 7.1 percent in 2014, compared to 4.7 percent in the previous year, East Africa recorded the highest growth, propelled by rapid growth in Ethiopia, Rwanda, and Tanzania.

Despite the persistence of conflict in parts of the West Africa region, the heavy human and economic toll wrought by the Ebola epidemic, and the sharp decline in oil prices, the region grew on average from 5.7 percent in 2013 to 6.0 percent in 2014, with Côte d'Ivoire and Nigeria growing at 8.3 and 6.3 percent, respectively. The expansion of the non-oil sectors in the Central Africa region helped it post an average growth rate of 5.6 percent, compared with 4.1 percent in 2013. A multitude of bottlenecks in South Africa, the region's major economy, including shortages of electricity and strained industrial relations has seen the slow-down of growth in the Southern African Region as a whole to 2.7 percent from 3.6 percent in 2013. Growth in North Africa edged marginally higher, to 1.7 percent from the 1.6 percent recorded in 2013.

At the continental level, growth was highest in the Low-income Countries. Côte d'Ivoire, the Democratic Republic of Congo (DRC), and Ethiopia, for example, grew by more than 8 percent.

Additionally, the outbreak of the Ebola epidemic in Guinea, Liberia, and Sierra Leone in March 2014, with some cases also reported in Nigeria, Mali, and Senegal, led to severe reversals in the economic growth of the most affected countries.

The sharp decline in global oil prices in the second half of 2014 had both positive and negative impacts on the African economies. Rising deficits in the fiscal balances and the resultant pressure to run down foreign reserves or borrow from external sources could derail growth in oil-exporting countries, particularly Angola, Chad and Nigeria. On the other hand, the fall in oil prices could release much needed foreign exchange, creating a potential for better growth in oil-importing countries.

Projections of Africa's medium-term growth remain favorable. Growth on the continent is forcast at 4.5 percent for 2015, and should strengthen by a further 5.0 percent in 2016. At such high growth rates, Africa will remain the world's second-fastest-growing continent, after Asia.

East Africa is expected to register moderate growth of 5.6 percent in 2015, rising to 6.7 percent in 2016. Central and West African regions are expected to grow by 5.5 percent and 5.0 percent, respectively in 2015, rising to 5.8 and 6.1 percent, respectively, in 2016. Despite the continued turmoil in Libya, growth in North Africa is expected to see a strong rebound, up from 1.7 percent in 2014 to at 4.5 percent in 2015. This will be a significant turnaround from the economic stagnation that has marked the region since 2011, the beginning of the Arab Spring. Meanwhile, growth in Southern Africa is expected to remain weak as its largest economy, South Africa, continues to face major hurdles. However, solid growth in Mozambique and Zambia should lift the region's growth to 3.1 percent in 2015, up from 2.7 percent in 2014.

Macroeconomic stability. Prudent monetary and fiscal policies pursued by most African governments helped sustain macro stability. The result was a marginal increase in inflation in 2014 to 7.2 percent from 7.0 percent in 2013. Although high when compared to other parts of the developing world, inflation on the continent was much lower than it has been in recent years. Projections for the medium term reflect that inflation in Africa will be moderate, underpinned by a continued fall in international food and oil prices.

Meanwhile, Africa saw a decline in its current account balance, due to weak external demand, particularly from China, and lower export earnings due to low commodity prices, including for oil. The average deficit on the continent widened to 3.7 percent of GDP from 2.2 percent in 2013.

External financing. External financial flows to Africa in 2014 grew to a record USD 200 billion, some four times the figure for 2000. Foreign Direct Investment (FDI) was at USD 60.4 billion, up from USD 57.2 billion in 2013. The principal recipients of this FDI were Nigeria (USD 6.5 billion), Morocco (USD 4.8 billion), South Africa (USD 4.8 billion), and Mozambique (USD 4.1 billion). Remittances from the African Diaspora, the largest source of foreign financial flows to the continent, rose by more than 10 percent to USD 67.1 billion. Meanwhile, Official Development Assistance (ODA) was estimated at USD 55.2 billion, marginally lower than the USD 55.8 billion recorded in 2013. This decline reflects a trend that began in 2000. However, ODA remains the largest single source of external financial flows to Africa's Low-Income Countries (LICs).

The Millennium Development Goals (MDGs). Since their adoption at the Millennium Summit of the United Nations in 2000 by Heads of State and Government, the MDGs have been a strong rallying force to significantly reduce extreme poverty, hunger, disease and achieve social progress by 2015. The Bank's support to the MDG agenda in Africa included the implementation, facilitation and hosting of programs designed to improve access to water and sanitation, health and education, and also the preservation of natural habitats and the environment, and building resilience to the effects of climate-change. More recently, following the adoption of its comprehensive gender strategy, this support has included ensuring mainstreaming of gender in all of the Bank's programs and projects in Regional Member Countries. At another level, the Bank worked closely with the African Union Commission (AUC), the Economic Commission for Africa (ECA), and the United Nations Development Program (UNDP) on the Post-2015 Development Agenda. The most important outcome of this collaboration was the articulation of the "Common African Position", approved by the Summit of Africa's Heads of State and Government in Addis Ababa, Ethiopia, in January 2014.

The Quest for Inclusive Growth in Africa. Africa's economic growth in the past decade averaged about 5 percent. However, this rapid growth has not been translated into appreciable reductions in poverty and inequality on the continent. While 40 percent of Africa's population lives on less than USD 1.25 a day, half of the income generated on the continent goes to just 10 percent of its population. The high levels of inequality reflected in these figures underscore the need to intensify the process towards inclusive growth.

Structural transformation is the key to inclusive growth in Africa. Critical elements of that transformation should include competiveness in the global markets and a shift towards global value chains. Such a shift will demand good quality and efficient infrastructure. Equipping Africa's youth with technical vocational education and the skills that match the needs of the labor market will additionally help accelerate such structural transformation. Other conditions include the creation of an enabling environment for private sector investment, strengthening good governance, creation of efficient and robust institutions, and expanding Africa's markets through regional integration. Gains in structural transformation will be reflected in narrower gaps between groups, particularly between urban and rural areas, in access to income generating opportunities and modern services.

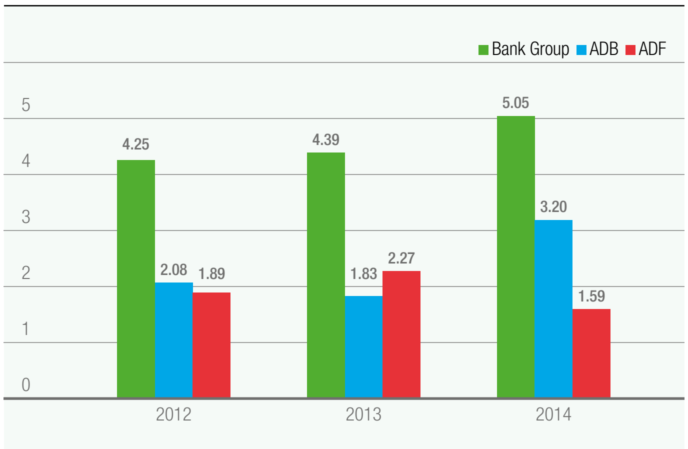
The African Development Bank has adopted policies and interventions to promote inclusive growth in Africa. Indeed, inclusive growth is one of the two principal objectives of its Ten-Year Strategy (TYS) 2013-2022; transitioning Africa to green growth, is the other.

Throughout 2014, the Bank approved a number of strategies and policies that reinforced its commitment to inclusive growth in Africa. They included support to states under fragile situations, policies to promote gender equality, strengthening quality governance and regional integration.

Bank Group Operations in 2014

Overview. Total Bank Group operations in the year amounted to UA 5.05 billion, 15.1 percent higher than the UA 4.39 billion approved in 2013. The value of approvals at the ADB window increased by three-quarters to UA 3.20 billion from UA 1.83 billion in 2013. Approvals for various operations at the ADF window stood at UA 1.59 billion, some 30 percent below the amount recorded in 2013 (Figure 0.1). Other approvals include UA 11.49 million from NTF and UA 244.22 million from Special Funds. The drop in financing by the ADF, the Bank's concessional window, was partly due to the slow take-off of activities in 2014, the first year of the implementation of the ADF-13 Replenishment.

Figure 0.1 Bank Group Approvals by Window*, 2012-2014 (UA billion)



Source: AfDB Statistics Department.
** NTF Approvals not shown*

The Bank's efforts to diversify its client base helped extend ADB public-sector lending to 11 countries, almost double the number in 2013. The ADB private-sector window helped leverage some UA 13.0 billion in co-financing, more than double the year's target of UA 6.0 billion.

Bank Group Disbursements. During 2014, loans and grants disbursed by the Bank Group amounted to UA 3.16 billion, a 0.7 percent rise over 2013 levels. However, this amount excludes financing drawn from Special Funds, equity participation and guarantees. The continued decline in the disbursement rate is of major concern to the Bank Group Management and the Boards of Directors. From a peak of 93.8 percent in 2012, this declined to 88.0 percent in 2013 and in 2014 fell further to 70.1 percent. The decline in the disbursements is linked to weaknesses in some key portfolio performance indicators, including the time lags between loan approval and issue of the first disbursement, the frequency of project supervision, and the "quality at entry" of projects. Slippages in country systems, inadequate policy dialogue, an insufficient field presence, and weak project implementation units are other factors.

The Bank Group's Five Operational Priorities

Bank Group interventions in 2014 focused on the five priorities of the Bank's TYS namely, infrastructure, regional integration, private sector development, skills and technology, and governance and accountability. Total Bank Group loan and grant approvals amounted to UA 4.50 billion in the year. More than half of that amount was allocated for infrastructure projects in energy, transport, and water and sanitation (Figure 0.2). Approvals for finance were at 17.9 percent of loans and grants and mainly targeted at support for the continent's small- and medium-size enterprises (SMEs) in order to ease their financing constraints and promote financial inclusion.

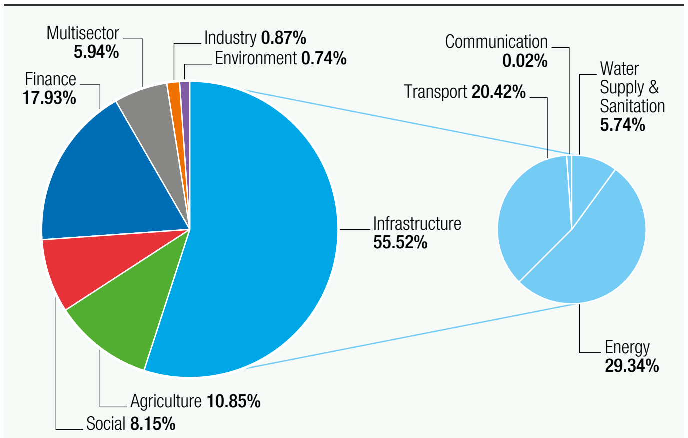
Close to 11% of loans and grants was assigned to enhance food security and productivity in the agricultural sector. The Bank's support to infrastructure, governance and related reforms, particularly through improving markets and services has additional important impacts on agricultural productivity and performance. The social sector took up 8.2 percent of total approvals. The funding was for skills development, technological innovation, and improvement of health-care service delivery.

Regional Economic Integration. Total approvals for regional (multinational) operations amounted to UA 1.08 billion in 2014. Nearly 75 percent of the amount was in loans and grants, 24.5 percent in private guarantees and equity participation, and 1.1 percent in drawdowns on Special Funds. Total approvals for regional projects saw a drop of 18.2 percent from the UA 1.32 billion approved in 2013. This was due to the unavailability of new, large-ticket infrastructure (transport and energy) and regional integration projects in 2014.

The largest share of regional project approvals financed lines of credit to micro-, small-, and medium-size enterprises, trade finance, guarantees and equity participation. A total of 21.5 percent of funding approvals went to the agricultural sector. The social sector took up 19.6 percent of funding approvals and infrastructure 18.6 percent, compared to 51.8 percent in 2013. This drop was due to fewer large transport and energy projects presented for funding in 2014.

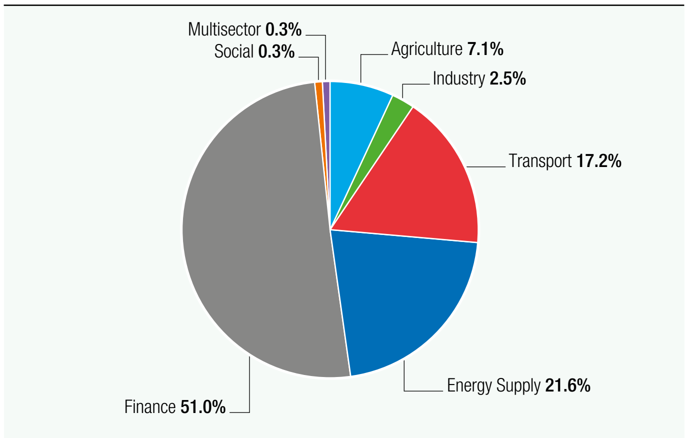
Multinational approvals for the social sector, as a percentage of total approvals, increased nearly tenfold to 19.6 percent in 2014 from 2.3 percent in 2013. This increase was largely due to emergency interventions that the Bank undertook in 2014, notably in the fight against the Ebola epidemic in West Africa, for which it provided, UA 147.9 million, mainly in grants. The

Figure 0.2 Sectoral Distribution of Bank Group Loan and Grant Approvals, 2014 (UA 4.50 billion)



Source: AfDB Statistics Department.

Figure 0.3 Private Sector Operations by Sector, 2014



Source: AfDB Statistics Department.

Bank's investments in epidemic were targeted primarily at the strengthening of public health systems, budget support to fight the Ebola epidemic, and technical assistance to the three most-affected countries to enhance their capacities to respond to the crisis.

Private-Sector Operations. The Bank approved a total of UA 1.59 billion to finance 48 new private-sector operations in 2014. This was a notable increase of 51.4 percent above the UA 1.05 billion approved in 2013. Fifty-one percent of approvals were for the finance sector (Figure 0.3). This was lower than the 65.5 percent of total approvals that went to the sector in 2013. A total of 38.8 percent of approvals were for private sector investment in infrastructure, mainly in energy and transport.

The establishment of Africa50 in 2013, and its eventual incorporation in Morocco, in 2014, was a landmark in the Bank's shift towards mobilizing innovative financing for the development of infrastructure in Africa. The Bank provided UA 86 million to Africa50 as seed money to catalyze additional financing from traditional and non-traditional sources of financing in Africa and abroad.

Management of the Ebola Crisis. The Bank's response to the Ebola epidemic was, as indicated above, both timely and effective, and aimed at supporting those at risk as well as alleviating the socio-economic impact of the disease. The funds were channeled through the World Health Organization and directly to individual governments.

Transitioning to Green Growth. The promotion of green growth is critical to preserving the African environment and ensuring that the continent's natural resources are managed in a sustainable manner. In keeping with its green growth agenda, the Bank approved UA 33.2 million for four climate-change mitigation and adaptation projects in 2014. These included operations to rehabilitate and strengthen the Lake Chad Basin ecosystem and UA 2.1 million to support community work to reduce deforestation in the DRC's Virunga-Hoyo region. Two renewable energy projects approved in 2014 will also promote the transition to green growth. The *Ouarzazate Solar Complex Project (Phase II)* in Morocco (UA 166.4 million) will reduce greenhouse gas emissions by some 522,000 tons, thus mitigating the effects of climate change. Also, the *Xina Solar One Project* in the Republic of South Africa (UA 64.9 million) is expected to produce 6,927 MW power through renewable energy by 2017.

Areas of Special Emphasis

The three areas of special emphasis in the Bank's TYS are agriculture and food security, gender, and countries in fragile situations.

Agriculture. The Bank's total approvals for agriculture and rural development in 2014 amounted to UA 545.4 million, of which UA 488.3 million (89.5 percent) was for loans and grants for 18 multinational and 17 national initiatives. The approvals included programs and projects for emergency relief, food security, and nutrition, including the *Somalia/Sudan/Eritrea/Ethiopia Drought Resilience and Sustainable Livelihood Program* and the CILSS *Program to Build Resilience to Food and Nutrition Insecurity in the Sahel* (P2RS). The program covers Burkina Faso, Chad, The Gambia, Mali, Mauritania, Niger, and Senegal.

Gender. Approval of the Bank's Gender Strategy in January 2014 was a hallmark of the Bank's preparatory work on more targeted gender interventions. The strategy emphasizes the reduction of gender inequalities, by strengthening women's legal and property rights, promoting women's economic empowerment, and enhancing knowledge management and capacity building for gender equality in Bank operations. A number of Bank Group operations address gender in very specific terms. Examples include the *Malawi Sustainable Rural Water and Sanitation Infrastructure for Improved Health and Livelihoods Project,* and the *Mozambique Economic Governance and Inclusive Growth Program.*

States under Fragile Situations. Bank approvals for operations in countries facing fragile situations amounted to UA 365.8 million in 2014. A total of UA 27.8 million was for budget support for countries in fragile situations also affected by the Ebola epidemic. Three multinational (regional) operations of the Bank Group were approved in 2014 to address socio-economic challenges with the aim of assisting countries to move out of states of fragility. These operations are:

- *The Program to Build Resilience in the Sahel (P2RS).* The goal of the program is to address fragility and build the resilience of vulnerable populations against food and nutrition insecurity and other socio-economic challenges in the Sahel;

- *The Drought Resilience and Sustainable Livelihoods Program (DRSLP) in the Horn of Africa.* Among other benefits, this program is to address state fragility and strengthen the capacities of beneficiary countries to enhance resilience to drought; and

- *The Program to Rehabilitate and Strengthen Resilience of the Lake Chad Basin Ecosystems (PRESIBALT).* This is to directly benefit 15.3 million people living in the Lake's impact area.

Institutional Reforms and Corporate Governance

Institutional Reforms. The return of the Bank to its Headquarters in Abidjan was one of its main preoccupations in 2014. Although carefully planned, the shift raised some apprehension among staff and their families, especially with regard to issues of housing, schooling, and health services in Abidjan. By all accounts, however, the shift was much smoother than anticipated, due in large measure to cooperation of the Tunisian and Ivorian Governments, and commendable planning by staff and the Board. By September 2014, the Board of the Bank was able to resume business at the Bank Headquarters in Abidjan, while the numbers of staff arriving at its Headquarters continued to rise each month.

Other institutional reforms during the year included continued budget reforms and implementation of the Bank's decentralization roadmap as well as changes to *the Bank's organizational structure.* The budget reforms aimed to align resource allocation to the Bank's Ten-Year Strategy, as well as provide for flexibility in the implementation of the Bank's work programs. The Bank's far-reaching decentralization effort was subjected to a mid-term review (MTR) in 2014. Management agreed to the its main recommendations and as a follow-up agreed to update the Bank's Decentralization Roadmap Action Plan for consideration by the Board in 2015. The 2013 fine-tuning of the Bank's organizational structure led to the creation of the following key structures in 2014:

- The Business Development Office to launch and operationalize Africa50, and similar business development initiatives, by the Bank, designed to address Africa's infrastructure deficit;
- The Bank Group Risk Management function under a Group Chief Risk Officer, reporting directly to the President;
- The African Natural Resources Center to scale up work in natural resources management;
- The Financial Sector Development Department to guide the initiation and growth of the Bank's business within a rapidly-changing African landscape;
- The Delivery and Performance Management Office to manage the "Executive Dashboard" and provide early warning on areas of slippage; and
- Upgrading of the Fragile States Unit to a fully-fledged department re-named the Transition Support Department.

Policies and Strategies. The Boards of Directors approved the following 7 policies and strategies in 2014: (i) The Governance Strategic Framework and Action Plan (GAP II), 2014-2018; (ii) the Gender Strategy 2014-2018; (iii) the Strategy for Addressing Fragility and Building Resilience in Africa, 2014-2019; (iv) the Policy on Diversifying the Bank's Products to Provide Eligible ADF-only Countries Access to the ADB Sovereign Window; (v) the Bank Group Regional Integration Policy and Strategy, 2014-2023; (vi) the Bank's Human Capital Strategy for Africa, 2014-2018; and (vii) the Financial Sector Development Policy and Strategy, 2014-2019.

Development Effectiveness. With the Boards' approval of the Bank's Integrated Safeguards System (ISS) in December 2013, no effort was spared in 2014 to ensure that its operations are assessed and managed according to this system. The newly adopted ISS is expected to enhance the Bank's ability to identify and minimize the risk of doing harm while working with communities, protect the environment and promote sustainability.

Intermediate Recourse Mechanisms. The Office of the Auditor General during 2014 reviewed a number Bank operations and recommended changes in policies and procedures to Management. The Bank's corporate governance culture remained robust, with due attention given to cases reported to the Staff Integrity and Ethics Office. The latter carried out an intensive awareness program in 2014 to mitigate reputational risks which could arise from lack of information with respect to issues of integrity and ethics in undertaking the Bank's work. With respect to the Independent Review Mechanism, the Bank undertook outreach missions in 2014 to the Democratic Republic of Congo, Kenya, and Mauritania. These improved awareness of the mandate and functions of its Independent Review Mechanism among Bank staff, national officials and other stakeholders.

Operations Evaluation. In 2014, several important evaluations of the Bank's operations were successfully delivered. Two evaluations focused on aspects of the Bank's infrastructure and private sector work. Three Country Strategy and Program Evaluations were delivered for Botswana, Chad and Madagascar, and further, two important corporate evaluations were completed. These were the evaluation of Quality at Entry for CSPs/Regional Integration Strategy Papers (RISPs) and the evaluation of efficiency and effectiveness of the Bank's procurement function.

Boards of Directors. The Boards of Directors continued to exercise their oversight and fiduciary functions relating to various operations, policies and strategies of the Bank. Activities undertaken by the Boards of Directors in 2014 included: (i) the Boards' Response to the Ebola epidemic, including an exceptional virtual meeting during the August 2014 recess, and approving programs aimed at containing the epidemic; and (ii) diversification of Funding Sources by which, in April 2014, the Board approved the establishment of two new and innovative financing vehicles, namely, Africa50, and the Africa Growing Together Fund (AGTF). The Boards also undertook official visits to a number of Regional Member Countries, namely Burundi, Comoros, the DRC, Sudan, Cabo Verde, Lesotho, Liberia, Swaziland and Côte d'Ivoire. In Côte d'Ivoire, members of the Boards familiarized themselves with progress on the Bank's return to its Headquarters.

The Boards emphasized policy and programing frameworks, notably Country Strategy Papers, as the entry points for the Bank's work in Regional Member Countries including the design of inclusive projects, fostering economic diversification and strengthening the countries' focus on agriculture and food security.

Boards of Governors. At the Bank's 2014 Annual Meetings held in Kigali, Rwanda, the Boards of Governors discussed the challenges and opportunities posed by Africa's quest for structural transformation and what the Bank can do to support its RMCs as they seek sustained and inclusive growth. A number of Governors participated in panel discussions on Africa's progress under the theme of *The Next 50 Years: the Africa We Want.* There was a general consensus that there was no single model for Africa's economic transformation but that strong and visionary leadership was critical for success.

Sound Financial Management

Strong financial position. The Bank maintained its sound financial standing under trying global and regional economic conditions. Four major rating agencies (Standard & Poor's, Moody's, Fitch Ratings, and the Japan Credit Rating Agency) reaffirmed the Bank's AAA and AA+ credit ratings for its senior debt, reflecting its strong capital base, the firm support of its shareholders, and its prudent financial and risk management. At the end of 2014, the Bank had paid-up capital amounting to UA 4.86 billion.

Table 0.1 Summary of Bank Group Operations, Resources and Finance, 2005-2014 (UA million)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	Cumulative Total [(a)]
Operations											
Bank Group Approvals [b/]											
Number	102	137	100	133	181	139	184	199	317	**232**	**4,733**
Amount	2,293.63	2,596.88	3,097.64	3,528.73	8,064.49	4,099.75	5,720.29	4,253.75	4,385.78	**5,049.92**	**81,638.46**
of which HIPC	508.68	257.49	153.17	159.87	372.56	202.95	1,350.85	248.00	22.32	**-**	**6,111.32**
Disbursements	1,289.81	1,239.03	1,615.68	1,860.91	4,083.59	2,510.70	3,174.11	3,379.53	3,133.95	**3,156.96**	**48,415.06**
ADB Approvals [b/]											
Number	34	38	29	58	84	59	59	48	65	**79**	**1,510**
Amount	868.73	1,045.37	1,670.06	1,807.01	5,604.07	2,581.13	3,689.43	2,080.46	1,831.70	**3,201.30**	**46,810.95**
of which HIPC	75.99	102.21	-	113.75	112.77	144.14	1,178.04	134.58	9.64	**-**	**3,158.22**
Disbursements	595.35	548.44	884.75	727.53	2,352.29	1,339.85	1,868.79	2,208.17	1,430.78	**1,938.53**	**27,987.86**
ADF Approvals [b/]											
Number	65	84	54	62	77	65	87	98	156	**112**	**2,840**
Amount	1,421.71	1,544.57	1,381.75	1,665.34	2,426.96	1,456.72	1,831.86	1,890.17	2,269.55	**1,592.91**	**33,292.68**
of which HIPC	429.49	155.28	153.17	17.95	259.09	29.99	171.93	112.21	12.68	**-**	**2,889.95**
Disbursements	691.06	685.16	725.00	1,124.92	1,726.43	1,165.84	1,296.65	1,169.60	1,702.21	**1,215.30**	**20,185.62**
NTF Approvals											
Number	3	-	-	2	3	2	3	3	5	**2**	**95**
Amount	3.19	-	-	28.16	5.70	29.53	10.88	14.10	31.17	**11.49**	**438.97**
of which HIPC	3.19	-	-	28.16	0.70	28.83	0.88	1.20	-	**-**	**63.15**
Disbursements	3.39	5.43	5.94	8.45	4.87	5.02	8.67	1.76	0.96	**3.13**	**241.58**
Special Funds Approvals [c/]											
Number	-	15	17	11	17	13	35	50	91	**39**	**288**
Amount	-	6.94	45.83	28.21	27.76	32.38	188.12	269.03	253.36	**244.22**	**1,095.85**
Resources and Finance (at year's end)											
ADB											
Authorized Capital	21,870.00	21,870.00	21,870.00	21,870.00	22,120.00	67,687.46	66,054.50	66,975.05	66,975.05	**66,975.05**	
Subscribed Capital [d/]	21,717.67	21,794.00	21,693.16	21,765.14	21,817.58	23,924.62	37,322.00	65,215.04	65,210.13	**65,133.22**	
Paid-up Portion [d/]	2,269.06	2,357.78	2,351.53	2,356.01	2,359.32	2,375.63	3,289.06	4,962.68	4,962.34	**4,864.52**	
Callable Portion	19,367.00	19,436.76	19,341.63	19,409.14	19,458.25	21,548.99	34,032.95	60,252.36	60,247.80	**60,268.70**	
Borrowing (gross)	6,560.11	6,088.75	6,803.17	7,160.81	10,703.22	12,231.34	12,231.39	13,373.32	13,326.00	**14,353.42**	
Outstanding Debt	5,940.40	5,870.47	6,198.87	6,707.28	10,580.64	11,980.57	12,902.96	13,278.80	12,947.44	**14,375.95**	
Cumulative Exchange Adjustment on Subscriptions	(151.76)	(155.74)	(160.08)	(161.03)	(161.97)	(162.57)	(160.63)	(166.83)	(172.65)	**(173.54)**	
Reserves	2,266.39	2,305.48	2531.8	2475.47	2552.96	2627.28	2536.18	2667.44	2,856.88	**2,815.32**	
Gross Income [e/]	479.61	542.85	578.62	564.45	518.88	519.32	489.18	553.64	479.64	**484.73**	
Net Income [f/]	221.32	194.03	323.67	304.66	231.16	213.66	164.51	198.62	180.33	**151.69**	
ADF											
Subscriptions [g/]	13,261.76	14,314.51	15,218.76	16,566.02	17,854.02	19,030.32	20,428.32	21,622.28	23,084.05	**24,921.04**	
Other Resources [h/]	(476.02)	(776.38)	(703.50)	(656.59)	(493.44)	(437.23)	(375.27)	(400.28)	(401.16)	**(542.91)**	
NTF											
Resources (gross)	409.08	286.12	273.47	286.78	156.73	160.86	162.74	164.62	165.77	**168.28**	

Sources: AfDB Statistics Department for data on operations; AfDB Financial Control Department for data on Resources and Finance.

Notes:

a/ The cumulative figures go back to the initial operations of the three institutions (1967 for ADB, 1974 for ADF and 1976 for NTF).

b/ Approvals include loans and grants, private and public equity investments, emergency operations, HIPC debt relief, loan reallocations, guarantee and Post Conflict Country Facility.

c/ These are approvals on the operations of the African Water Facility and Rural Water Supply and Sanitation Initiative, Global Environment Facility, the Global Agriculture and Food Security Program, the Climate Investment Fund, the Congo Basin Forest Fund, the Fund for African Private Sector Assistance, the Zimbabwe Multi-Donor Trust Fund, and Migration and Development Trust Fund, the Microfinance Capacity Building Fund, the Governance Trust Fund, the Sustainable Energy Fund for Africa, the Middle East and North Africa Transition Fund and the Special Climate Change Fund.

d/ Subscribed capital and paid-up capital for 2005 were restated to exclude shares to be issued upon payment of future installments.

e/ Gross income for the year 2013 has been restated for dividend amounts reclassified from Other Income.

f/ Net income is after distributions approved by the Board of Governors.

g/ Subscriptions = Restated for the year 2005 to be amounts paid instead of amounts pledged.

h/ Other Resources = Accumulated Reserves/Loss + Net Income/Loss for the year + Miscellaneous.

The conversion rates are those for December 31 of each year.
The conversion rates of the ADB, ADF and NTF Unit of Account (UA) to US Dollar for various years are as follows:

2005	1 UA = 1.42927 US dollars	2010	1 UA = 1.54003 US dollars
2006	1 UA = 1.50440 US dollars	2011	1 UA = 1.53527 US dollars
2007	1 UA = 1.58025 US dollars	2012	1 UA = 1.53692 US dollars
2008	1 UA = 1.54027 US dollars	2013	1 UA = 1.54000 US dollars
2009	1 UA = 1.56769 US dollars	2014	1 UA = 1.44881 US dollars

Percentages in the charts and tables of the Report may not add up to 100 due to rounding-up.

Table 0.2 Summary of Bank Group Approvals, 2014 (UA million)

Bank Group Approvals by Sector

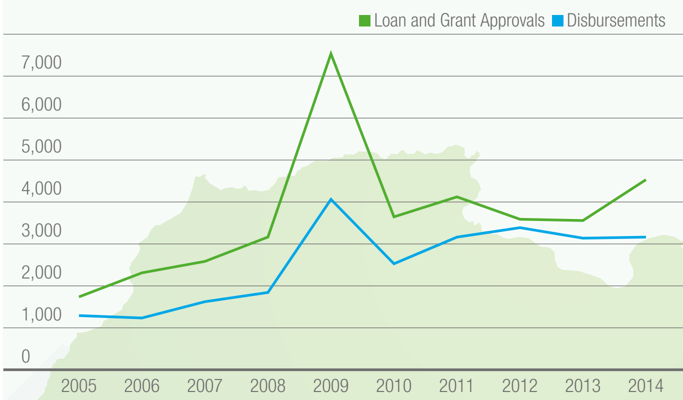
	ADB		ADF		NTF		Bank Group	
Sector	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Agriculture and Rural Development	12	204.71	22	277.14	1	6.49	35	488.34
Social	15	30.04	32	336.90	-	-	47	366.94
Education	2	1.1	5	100.25	-	-	7	101.34
Health	8	9.91	20	144.60	-	-	28	154.51
Other	5	19.04	7	92.05	-	-	12	111.09
Infrastructure	20	1,755.47	29	737.82	1	5.00	50	2,498.30
Water Supply and Sanitation	5	155.23	4	98.30	1	5.00	10	258.53
Energy Supply	6	1,114.59	9	205.67	-	-	15	1,320.27
Communication	1	0.80	-	-	-	-	1	0.80
Transport	8	484.86	16	433.85	-	-	24	918.71
Finance	14	774.19	1	32.59	-	-	15	806.78
Multisector	6	100.38	23	167.01	-	-	29	267.39
Industry, mining and quarrying	2	39.11	-	-	-	-	2	39.11
Urban Development	-	-	-	-	-	-	-	-
Environment	-	-	4	33.20	-	-	4	33.20
A. Total Loans and Grants	**69**	**2,903.89**	**111**	**1,584.67**	**2**	**11.49**	**182**	**4,500.05**
B. Other Approvals	**10**	**297.41**	**1**	**8.25**	**-**	**-**	**50**	**549.87**
HIPC Debt Relief	-	-	-	-	-	-	-	-
Post Conflict Country Facility	-	-	-	-	-	-	-	-
Equity Participation	6	132.58	-	-	-	-	6	132.58
Guarantees	4	164.83	1	8.25	-	-	5	173.07
Loan Reallocation	-	-	-	-	-	-	-	-
Special Funds	-	-	-	-	-	-	39	244.22
Total Approvals (A + B)	**79**	**3,201.30**	**112**	**1,592.91**	**2**	**11.49**	**232**	**5,049.92**

Bank Group Approvals by Financing Instrument

	ADB		ADF		NTF		Bank Group	
Financing Instrument	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**	**Number**	**Amount**
Project Lending	**38**	**1,947.31**	**32**	**787.35**	**2**	**11.49**	**72**	**2,746.15**
Public and Publicly Guaranteed	10	708.51	32	787.35	2	11.49	44	1,507.34
Project Loans	10	708.51	32	787.35	2	11.49	44	1,507.34
Sector Investment and Rehabilitation	-	-	-	-	-	-	-	-
Lines of Credit	-	-	-	-	-	-	-	-
Private Non-Publicly Guaranteed	28	1,238.80	-	-	-	-	28	1,238.80
Project Loans	15	737.79	-	-	-	-	15	737.79
Lines of Credit	13	501.01	-	-	-	-	13	501.01
Policy-Based Lending	**5**	**923.78**	**5**	**85.27**	**-**	**-**	**10**	**1,009.05**
Sector Adjustment	3	826.18	1	12.46	-	-	4	838.64
Structural Adjustment	-	-	-	-	-	-	-	-
Budget Support	2	97.60	4	72.81	-	-	6	170.41
Grants	**25**	**16.43**	**73**	**703.79**			**98**	**720.22**
Technical Assistance	10	6.88	12	53.92	-	-	22	60.80
Project Cycle Activities	-	-	6	29.20			6	29.20
Institutional Support	-	-	6	24.72	-	-	6	24.72
of which Private Sector	-	-	-	-	-	-	-	-
Middle-Income Countries Grant	10	6.88	-	-	-	-	10	6.88
Project Grants	-	-	19	347.57	-	-	19	347.57
Structural Adjustment Grant	-	-	-	-			-	-
Budget Support Grant	-	-	7	47.63	-	-	7	47.63
African Food Crisis Response Grant	-	-	-	-	-	-	-	-
Transition Support Facility Grant	-	-	30	148.38	-	-	30	148.38
Special Relief Fund	15	9.55	-	-	-	-	15	9.55
Emergency Assistance	15	9.55	-	-	-	-	15	9.55
Emergency Post Conflict	-	-	-	-	-	-	-	-
Special Debt Relief Grant	-	-	-	-	-	-	-	-
Loans for Institutional Capacity Building	**1**	**16.37**	**1**	**8.26**	**-**	**-**	**2**	**24.63**
Loan for Transition Support Facility	**-**	**-**	**5**	**106.31**	**-**	**-**	**5**	**106.31**
Project Preparation Facility	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt and Debt Service Reduction	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
SFM Debt Alleviation	-	-	-	-	-	-	-	-
HIPC Debt Relief	-	-	-	-	-	-	-	-
Post Conflict Country Framework	-	-	-	-	-	-	-	-
Equity Participation	**6**	**132.58**	**-**	**-**	**-**	**-**	**6**	**132.58**
Public Equity	-	-	-	-	-	-	-	-
Private Equity	6	132.58	-	-	-	-	6	132.58
Guarantees	**4**	**164.83**	**1**	**8.25**	**-**	**-**	**5**	**173.07**
Public Guarantees	-	-	1	8.25	-	-	1	8.25
Partial Risk Guarantees	-	-	1	8.25	-	-	1	8.25
Private Guarantees	4	164.83	-	-	-	-	4	164.83
Loan Reallocations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Special Funds	**-**	**-**	**-**	**-**	**-**	**-**	**39**	**244.22**
Total Approvals	**79**	**3,201.30**	**112**	**1,592.91**	**2**	**11.49**	**232**	**5,049.92**

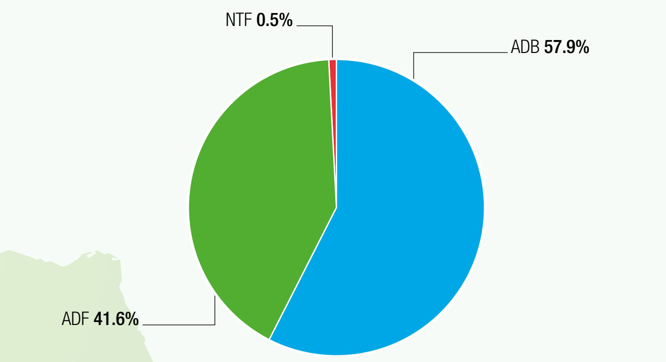
Source: AfDB Statistics Department.
Note: The conversion rate used is that for December 31, 2014 : UA 1 = USD 1.44881

Figure 0.4 Bank Group Loan and Grant Approvals and Disbursements, 2005-2014 (UA million)



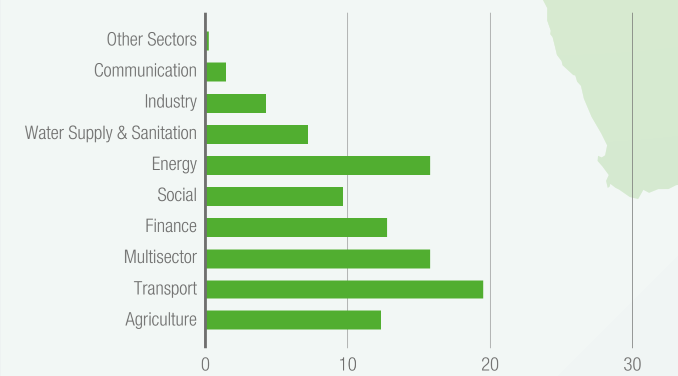
Source: AfDB Statistics Department.

Figure 0.5 Cumulative Bank Group Loan and Grant Approvals by Institution, 1967-2014



Source: AfDB Statistics Department.

Figure 0.6 Cumulative Bank Group Loan and Grant Approvals by Sector, 1967-2014 (%)



Source: AfDB Statistics Department.

Figure 0.7 ADB Net Income, 2005-2014 (UA million)

Source: AfDB Statistics Department.

Part I

Towards Inclusive Growth in Africa: Overcoming the Barriers

Chapter 1

High Growth Despite Regional and Global Adversity

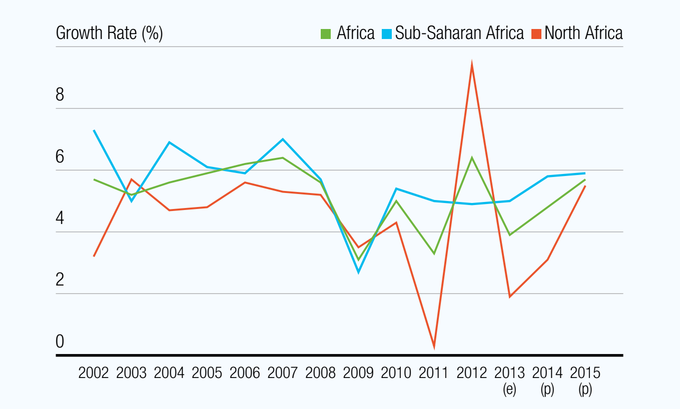
This chapter assesses Africa's economic performance in 2014 as well as its medium-term prospects. It also reviews Africa's progress towards achieving the Millennium Development Goals (MDGs) and the prospects for the new Sustainable Development Goals. Africa's GDP growth in 2014 was 3.9 percent, marginally higher than the 3.5 growth rate achieved in 2013. In light of the many shocks it experienced during 2014, including low commodity prices and the Ebola epidemic in West Africa, the continent maintained a high degree of resilience, but with sharp variations between regions and countries. The medium-term outlook remains positive with growth projected at 4.5 and 5.0 percent in 2015 and 2016, respectively. This outlook is premised on a stronger world economy and political and social stability in Africa's regions. The continent, however, remains sensitive to downside risks emanating from lower commodity prices, tightening global financial conditions, fiscal vulnerabilities, security issues and the lingering effects of the Ebola outbreak in parts of West Africa.

1.1 Recent Performance

Africa's GDP grew at 3.9 percent in 2014, with a better outlook projected for 2015 and 2016. However, the continent faces significant headwinds, including soft commodity prices, that could undermine growth. While inflation rates have remained relatively stable, fiscal and current account balances have deteriorated, particularly among net oil-exporting countries.

Real GDP Growth. African countries grew on average by 3.9 percent in 2014, slightly higher than the growth recorded in 2013 (Figure 1.1). The performance varied considerably among countries and regions, with some doing much better than others.

Figure 1.1 Africa's Economic Growth



Source: AfDB Statistics Department.
Note: (e) estimates; (p) projections

Among growth drivers, domestic demand remained important, largely sustained by infrastructure investment and buoyant service sectors. Agricultural production grew only moderately. Growth was highest among the continent's Low-income Countries, with Côte d'Ivoire, Democratic Republic of Congo (DRC) and Ethiopia growing by more than 8 percent each.

In relative terms, Africa's growth was higher than that of the global economy which stood at 3.3 percent, Western Asia at 2.9 percent, and Latin America and the Caribbean at 1.2 percent. Africa, however, grew slower than the emerging markets and developing economies of the world, which registered growth of 4.4 percent.

The performance of the leading economies of the world also had important implications for Africa's growth and that of other developing regions. For instance, while the US economy performed better than anticipated, growth in the other major economies, especially in China, Russia, the Euro area, and Japan, was lower than expected. China's role in the global economy and in Africa, reflects the country's growing influence, with a shock to its growth having a direct impact on the global economy and investor perception. In 2014, China grew by 7.4 percent, with growth expected to decelerate to 6.8 percent in 2015, and to slow down further later in the decade, as its authorities make changes in economic policy in order meet domestic objectives. These changes include the demand for quality domestic goods and services. The Bank estimates that a 1 percentage point decline in the GDP growth of China, could take away around 0.1 percentage point growth from Africa. The most affected African economies would be those driven by the extractive sector, particularly those that rely on the export of oil.

Performance by Region. A look at Africa by region brings out some of the differences in the growth performance mentioned above. In East Africa, average growth was 7.1 percent in 2014, compared to 4.7 percent in the previous year, with Ethiopia, Rwanda, and Tanzania being the best performers, growing at 10.3, 7.0, and 7.2 percent respectively. Growth in West Africa was 6.0 percent, on average from 5.7 percent in 2013. This was a commendable performance in light of conflicts in the region, the Ebola crisis, and the decline in oil prices. Nigeria, which rebased its economy earlier in the year, posted a growth rate of 6.3 percent.

Central African countries grew at an average of 5.6 percent in 2014, compared with 4.1 percent in 2013, reflecting considerable resilience to shocks, which included military insurrections and the decline in oil prices. Gabon, which grew at 5.1 percent, saw the expansion in non-oil sectors, especially timber processing, making up for the fall in oil prices, while the main drivers of the 8.9 percent growth in the DRC were mining, agriculture and infrastructure investment.

North Africa continued to recover from the slump in previous years, recording an average growth of 1.7 percent in 2014, compared with 1.6 percent in 2013. Algeria witnessed a resurgence of growth to 4 percent, from 2.8 percent in 2013, and Morocco recorded growth of 2.7 percent, from 4.7 percent in 2013. At 2.2 percent, Egypt's growth remained stable. Tunisia's relatively smooth political transition was an important factor in the country's modest growth of 2.4 percent, from 2.3 percent in 2013. Continued instability in neighboring Libya (with growth of -19.8 percent), however, remains a notable downside risk for Tunisia. The figures above underscore the region's resilience in the last three years, notwithstanding the complexity of its underlying social, economic, and political conditions.

At 2.7 percent, from 3.6 percent in 2013, growth in Southern Africa remained sluggish. South Africa, the region's largest and most influential economy, which had to contend with structural bottlenecks, strained industrial relations, and low investor and consumer confidence, posted a growth rate of 1.5 percent, from 2.2 percent in 2013. Growth in other countries in the region was substantially higher. With growth at 7.6 percent, compared with 7.4 percent in 2013, Mozambique continued to be the region's fastest growing economy, driven by foreign investment in mineral, gas and oil prospecting. Similarly, Zambia and Malawi both posted impressive growth rates of 5.7 percent each, (from 6.7 and 6.1 percent, respectively, in 2013). Namibia's economy grew at 5.3 percent from 5.1 percent in 2013.

Major Developments Affecting GDP Growth in 2014

The Ebola Epidemic

The Ebola virus disease (EVD) and its socio-economic impact on the West African countries of Guinea, Liberia, and Sierra Leone dominated the news on Africa in 2014. According to the World Health Organization, 20,200 cases of EVD and 7,904 deaths from the disease had been recorded by the end of December 2014. The epidemic had a significant economic impact. Fears of the spread of the epidemic left agricultural fields untended. The scaling-back of tourist flows led to significantly lower hotel occupancy rates and staff-layoffs, exacerbating unemployment. A scaling-down of mining operations and a decline in related activities led to a major withdrawal of investment inflows. Most affected in this regard were Sierra Leone and Liberia, where mining accounts, respectively for 17 percent and 14 percent of GDP.

The total fiscal shortfall in the three countries due to the EVD in 2014 was over half a billion USD, almost 5 percent of their combined GDP. The lingering indirect effects and investor aversion indicate a bleak picture for growth in 2015, estimated at 0.9 percent for Guinea, 3.8 percent for Liberia, and -2.5

Table 1.1 Forgone Output due to Ebola in Most-Affected Countries

		2015 Growth Forcast (%)		
	Estimated 2014 GDP (USD billion)	in June 2014	in January 2015	GDP Loss (USD billion)
Guinea	6.2	4.3	0.9	0.5
Liberia	2.3	6.8	3.8	0.2
Sierra Leone	5.0	8.9	-2.5	0.9
Total	**13.5**			**1.6**

Source: AfDB, World Bank.

percent for Sierra Leone. These projections imply forgone income across the three countries in 2015 alone of about USD 1.64 billion, or 12 percent of their combined GDP (Table 1.1).

Beyond the three most-affected countries, economic costs due to the Ebola epidemic will also be incurred across West Africa in 2015. Disruptions to travel and cross-border trade due to the epidemic will in 2015 lead to additional losses of more than half a billion US dollars in the regions outside the epicentre. For example, The Gambia's tourism sector was one of the worst hit by news of the epidemic, with 65 percent of hotel bookings and 50 percent of inward flights cancelled, despite the country not having recorded a single case of Ebola. With the tourism sector contributing 3 percent of The Gambia's GDP, the country's growth forcasts for 2015 have been revised downwards from 6 percent to 4.2 percent. Similarly, Senegal's tourism industry declined by between 15 and 20 percent in 2014, with the negative economic impact expected to continue into 2015.

Impact of the Oil Price Decline

The net impact of a fall in oil prices (Figure 1.2) on individual countries depends on a wide range of factors, including the share of oil in their exports or imports, as well as the policy space available to them. The Bank estimates that GDP in Africa's oil-exporting countries could contract by between 0.18 and 5.03 percentage points in 2015, on the back of a drop in the annual average oil price to USD 58 per barrel (Table 1.2). This slowdown could result in substantial fiscal revenue losses in oil-exporting economies.

While net oil-importing countries could benefit from a sharp fall in the price of oil, the overall impact will depend on the level of fiscal discipline exercised by the governments and the existing reserve positions of the countries. Thus, growth prospects for some countries could well deteriorate if the macroeconomic stance is not changed to address the shock (Table 1.3).

Rebasing Africa's GDP

Recent years have seen the rebasing of a number of African economies. This exercise involves replacing an old base year with a more recent one, which then becomes the reference

Table 1.3 Some African Oil-Importing Countries – Change in Growth Projections

Oil-Importing Countries	2015 Growth Projection (%) in June 2014	2015 Growth Projection (%) in January 2015	2015 Growth Difference due to fall in oil prices (%)
Botswana	5.0	3.8	-1.2
Cabo Verde	3.3	3.1	-0.2
Kenya	5.9	6.5	0.6
Mauritius	4.1	3.5	-0.6
Morocco	4.6	4.4	-0.2
Namibia	4.4	5.6	1.2
South Africa	3.0	2.2	-0.8
Tunisia	4.6	3.0	-1.6

Source: AfDB Staff Estimates.

Table 1.2 Impact of a Fall in Oil Prices by 42% (from USD 100/b to USD 58/b) on GDP Growth of Selected Oil-Exporting Countries

Net Oil-Exporting Countries	% Share of Oil in GDP (2013)	2015 Growth Projection (%) in June 2014	2015 Growth Projection (%) in January 2015	2015 Growth Shortfall (%)
Algeria	29.6	4.2	3.9	-0.3
Angola	40.6	8.83	3.8	-5.03
Chad	27.4	8.88	6.3	-2.58
Congo	58.0	6.5	6.8	0.3
Equatorial Guinea	74.1	-8.52	-8.7	-0.18
Gabon	40.0	7.16	4.6	-2.56
Nigeria	32.4	7.31	5.0	-2.31
Sudan	4.8	3.81	3.1	-0.71

Source: AfDB Staff Estimates.

point for future values of the GDP. Under normal circumstances, this should be a regular exercise. However, few countries in Africa have done this regularly, hence the large differences between current and rebased GDP figures seen in a number of African countries.

Kenya's GDP rebasing exercise in 2014 expanded its economy by 25 percent to USD 55 billion, while that of Nigeria doubled its GDP to USD 549 billion, making it Africa's largest economy. A number of other African countries also plan to rebase their economies. A net result is likely to be a significant change in the size and structure of the continent's economy. Africa's share of global GDP is likely to increase.

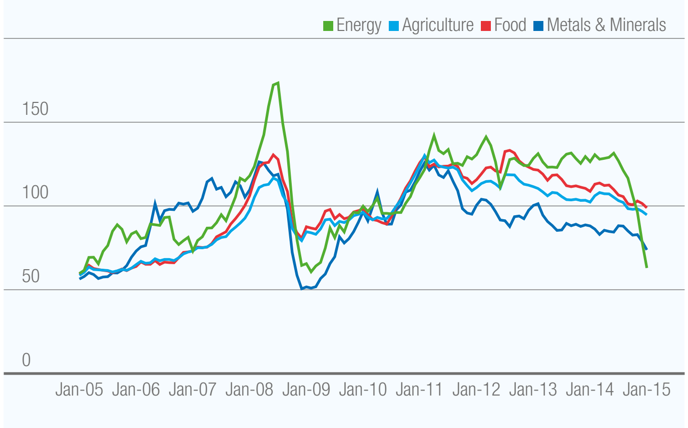
Performance of Other Macroeconomic Aggregates

Inflation. The fall in food and oil prices kept inflation in check, with the average inflation rate rising marginally to 7.2 percent from 7.0 percent in the preceding year (Figure 1.3). Relative to other emerging economies and developing countries, Africa's average inflation remained high. However, over the medium term, a moderation is anticipated, underpinned by a continued fall in international food and fuel prices.

A few countries, including Ghana, Zambia, and Nigeria, experienced significant macroeconomic imbalances in 2014. In Ghana and Zambia, exchange rates depreciated sharply, stoking a rise in inflation, from 11.7 to 17.0 percent for Ghana and 7.0 to 7.9 percent for Zambia during 2013 and 2014, respectively. Due to concerns over deteriorations in their fiscal positions, both countries were downgraded by international credit rating agencies.

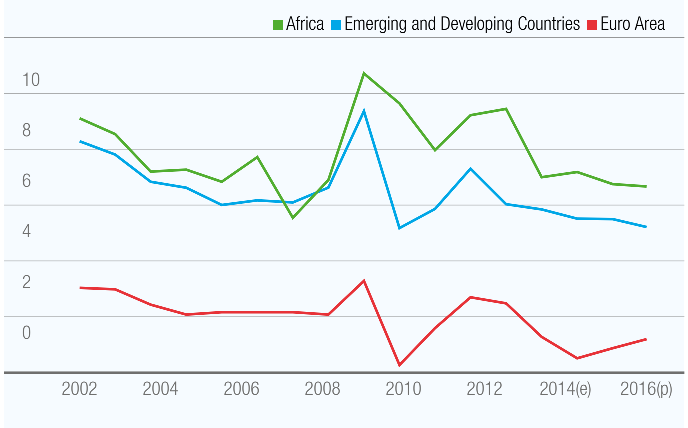
Meanwhile, Nigeria has instituted measures to realign falling oil revenues and shrinking foreign exchange reserves with

Figure 1.2 Changes in International Commodity Prices (January 2010=100)



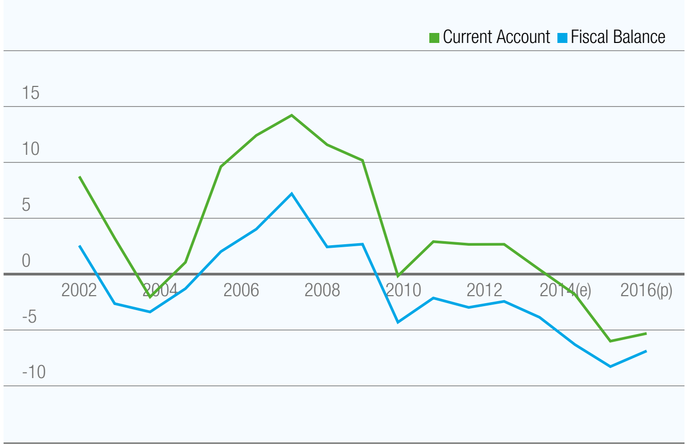
Source: AfDB Statistics Department.

Figure 1.3 Average Inflation in Africa and Other Regions (%)



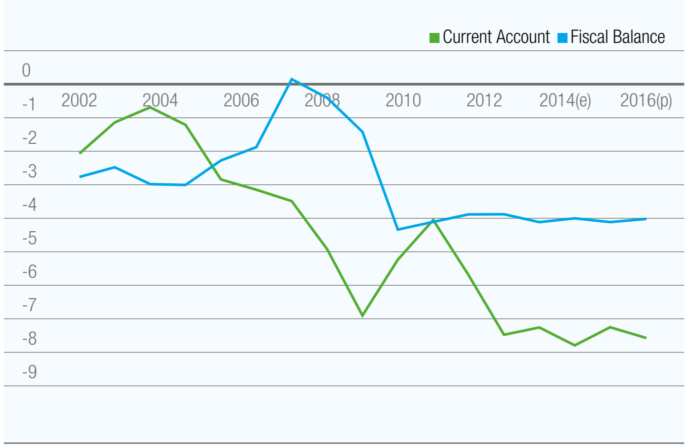
Source: AfDB Statistics Department.
Note: (e) estimates; (p) projections

Figure 1.4 Oil-Exporting African Countries: surplus/deficit (% of GDP)



Source: AfDB Statistics Department.
Note: (e) estimates; (p) projections

Figure 1.5 Oil-Importing African Countries: surplus/deficit (% of GDP)



Source: AfDB Statistics Department.
Note: (e) estimates; (p) projections

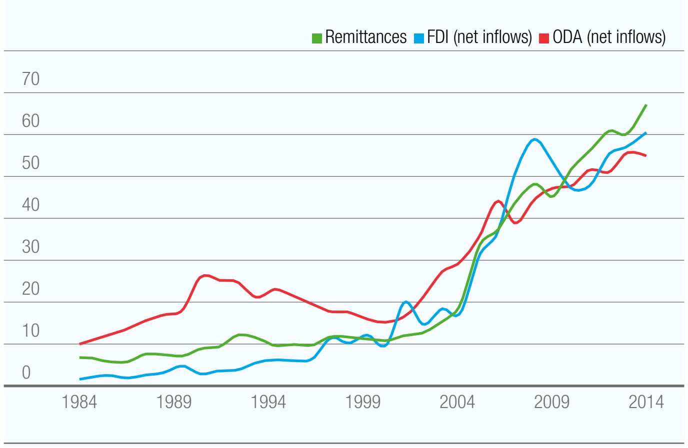
spending priorities. Its central bank devalued the Naira by more than 13 percent in 2014.

Fiscal Balance. Across the continent, fiscal deficits reached an average of 5.0 percent of GDP from 3.5 percent in 2013. However, this aggregate masked variations across individual countries, and in particular differences between oil-exporting and oil-importing countries (Figures 1.4 and 1.5). The fall in oil revenues created fiscal tensions in many oil-exporting countries, leading to a widening of the deficit to 5.7 percent from 3.3 percent in 2013. It also, significantly, reduced fiscal buffers and limited the scope for policy responses in the event of other exogenous shocks. The fiscal balance in oil-importing countries improved marginally to 4.0 percent, from 4.1 percent in 2013.

Current Account Balance. The fall in commodity prices, coupled with weak external demand, particularly from China, weighed down on export receipts for African commodity exporters. On the other hand, strong demand for capital goods due to increased public spending on infrastructure investment led to a rise in the import bill. The result was deterioration in the current account positions, with the average current account deficit widening to 3.7 percent of GDP from 2.2 percent in 2013. However, this outturn masked individual country differences and those between net oil exporters and net oil importers (Figures 1.4 and 1.5). For net oil exporters, the current account saw a deficit of 1.3 percent of GDP from a surplus of 0.9 percent in 2013. Net oil-importing countries recorded a current account deficit of 7.8 percent from 7.3 percent in 2013.

External Financing. External financial flows to Africa in 2014 grew to a record USD 200 billion, some four times the figure for the year 2000.

Figure 1.6 Africa—External Financial Resources (USD billion)



Source: AfDB Statistics Department.

FDI was at USD 60.4 billion, up from USD 57.2 billion in 2013. The principal recipients of this FDI were Nigeria (USD 6.5 billion), Morocco (USD 4.8 billion), South Africa (USD 4.8 billion), and Mozambique (USD 4.1 billion). Remittances from the African Diaspora, the largest source of foreign financial flows to the continent, rose by more than 10 percent to USD 67.1 billion. Here, Middle-Income Countries (MICs) were the major beneficiaries, reflecting differences in the profiles of Africa's Diaspora. Meanwhile, Official Development Assistance (ODA) was estimated at USD 55.2 billion, marginally lower than the USD 55.8 billion recorded in 2013. However, ODA remains the largest single source of external financial flows to Africa's Low-income Countries.

Africa's resource-rich countries received the bulk of the inflows, suggesting that natural-resource endowments remain a major attraction for FDI to Africa.

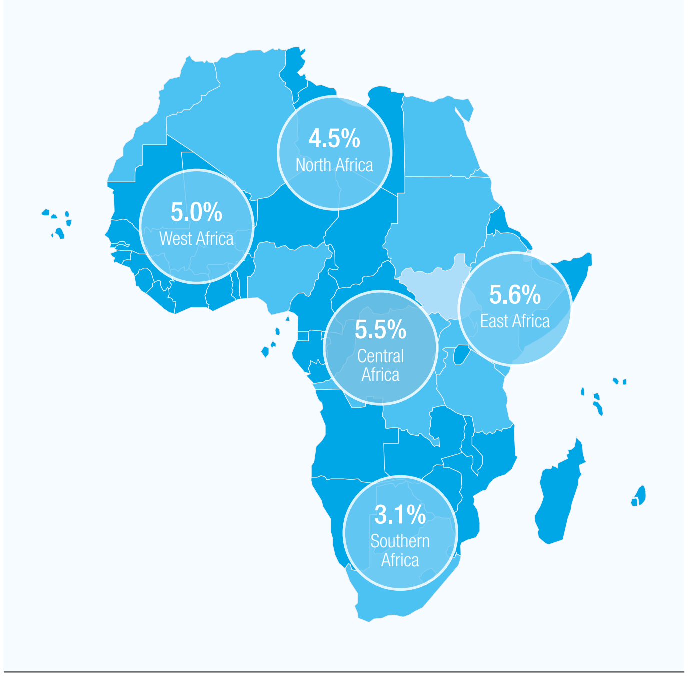
1.2 Economic Prospects

The economic outlook for Africa remains largely positive, with growth and real per capita income projected to rise in the medium term, especially in Low-income Countries and those in fragile situations. Risks to this outlook include the possibility of a further weakening of commodity prices, tighter financial conditions, a rise in inflation rates, deterioration of fiscal and current account balances, security problems and the lingering effects of the Ebola disease outbreak.

Outlook. The medium-term growth prospects for the continent remain favorable as growth is projected to increase to 4.5 percent in 2015, and strengthen to 5.0 percent the following year. East Africa is expected to register growth of 5.6 percent in 2015, rising to 6.7 percent in 2016. Central and West Africa are expected to grow by 5.5 percent and 5.0 percent, respectively, in 2015, rising to 5.8 percent and 6.1 percent, respectively, in 2016. North Africa is projected to grow at 4.5 percent in 2015, a significant increase from the 1.7 percent it achieved in 2014. Southern Africa is forcast to grow by 3.1 percent in 2015, up from 2.7 percent in 2014 (Map 1.1).

Future growth in most African countries will be driven by domestic demand, supported by investments in the natural resources sector, increased investment in infrastructure, and expansion in the agricultural sector. Public expenditure is projected to rise at a moderate rate as many countries, including Nigeria, Senegal, and Ghana make progress on their fiscal consolidation measures designed to rein-in government spending and expand their fiscal buffers. Private consumption is also forcast to remain strong in most countries, supported by continued price stability and improving real per capita incomes. In view of these favorable economic prospects, Africa is expected to remain the world's second-fastest-growing continent, after Asia. However, there is growing concern about the quality of this growth and its inclusiveness, as income inequality on the continent widens, and poverty remains widespread.

Map 1.1 Africa's Growth Projections, 2015, by Sub-region



Source: AfDB Statistics Department.

Growth is also forcast to rise among Low-income Countries and those in fragile situations. However, the outlook for oil exporting and Middle-Income Countries is mixed. Growth in Nigeria, for instance, is projected to be about 5.0 percent in 2015 and to rise to an estimated 6 percent in 2016. The expanding non-oil sector and the recovery in oil production will be key factors. However, the problems of oil theft and vandalism with respect to pipelines and the security situation in the north of the country, which have had a negative impact on agricultural production will require redress to sustain the recovery.

Downside Risks to the Outlook.

Lower Commodity Prices. Lower growth in emerging market economies could result in a decline in demand, and thus, a more rapid fall in commodity prices (Figure 1.2) than assumed in the baseline forcast. In 2014, China's housing market softened considerably, with major developers reducing prices by as much as 15 percent. Heavily reliant on housing investment, China's economic growth is slowing down, and demand for raw materials may weaken further, keeping a lid on, or even pushing down, commodity prices. Such a decline in demand for raw materials would have a negative impact on the exports of a host of African countries.

Tightening Financial Conditions. A rapid rise in capital market volatility, associated with the reduction of quantitative easing in the United States of America, remains a serious downside risk to the continent's economic outlook. Volatility in capital flows had in 2014 already led some African central banks to raise their interest to protect their economies. A sharp and disorderly rise in interest rates or a reversal of capital flows remains a serious concern for many African countries.

Fiscal Vulnerabilities. The fiscal position deteriorated in a number of African countries, notably Ghana and Zambia, although the fiscal deficit in Zambia has started to shrink. Over-optimistic revenue estimates have also led to a build-up of fiscal vulnerabilities in a number of countries, especially the oil exporters. Further, elections in the near-term in countries including Burkina Faso, Burundi, Nigeria, Tanzania, Togo, and Uganda were expected to exert more pressures on public finances.

Security. Social and political unrest, as well as emerging security problems remain a major threat to the economic prospects of a number of African countries. The security situations, caused by ethnic and religious conflicts, in the Central African Republic and northern Mali remain precarious. In South Sudan, the ongoing civil war has continued to disrupt oil production. There is little immediate prospect for a political settlement. In Nigeria, the insurgency by Boko Haram continues to reduce agricultural production in the north. In spite of the neighborhood effects of social strife and civil wars, Africa has shown increasing ability to contain their spread.

1.3 Beyond the Millennium Development Goals: Towards Sustainable Development Goals

Despite a weak start, the pace of progress towards the attainment of the MDGs in Africa has continued to accelerate since 2003. The continent started on a low base on virtually all MDG indicators, requiring large investments and much effort to meet the MDG targets and catch up with comparator regions. However, in a number of countries, progress has been slow. In the Post-2015 Development Agenda, the overarching goal remains one of eradicating poverty and ensuring that growth is more inclusive and people-centered. This will be underpinned by enhancing the capacities of Africans to sustainably manage and leverage their natural resources in an environment of peace and security.

Africa's Progress towards the MDGs. The analysis in this section relies substantially on data from the MDG 2014 report jointly produced by the AfDB, African Union, UNECA, and UNDP.

According to the MDG 2014 report, Africa's progress towards the attainment of the Millennium Development Goals has been mixed. While there are variations across countries and regions, some countries have made significant progress towards the targets while in other countries it has been slow. An assessment of global performance on the MDGs reveals that eight of the best 10 performers (i.e. those experiencing the most rapid acceleration) are in Africa, with Burkina Faso ranked the highest in MDG acceleration. Table 1.4 below highlights the best-performing countries for some selected targets and indicators.

Although poverty in Africa has continued to decline, the pace of progress towards its eradication has been slow. As a result, the continent is likely to miss the MDG target of *eradicating extreme poverty and hunger.* Countries that have made most progress in poverty reduction include Egypt, Guinea and Tunisia.

The continent is, however, on track to achieve the goal of *achieving universal primary education.* Twenty-five African countries have already achieved the prescribed net enrolment ratios of above 80 percent. Only 11 countries, namely, Burkina Faso, Central African Republic, Côte d'Ivoire, Djibouti, Equatorial Guinea, Eritrea, The Gambia, Liberia, Mali, Nigeria, and Niger, have primary school enrolment rates below 75 percent.

Countries that have made strides in achieving the target on universal primary education are also on course to meeting the

Table 1.4 Africa's Recent MDG Performance: Selected Targets and Indicators

Goals	Targets and Indicators	Best-Performing Countries*
Goal 1: Eradicate extreme poverty and hunger	Target 1A: Halve (between 1990 and 2015), the proportion of people whose income is less than USD 1.25 a day per person.	Egypt, Gabon, Guinea, Morocco, Tunisia.
	Target 1B: Achieve full and productive employment and decent work for all, including women and young people.	Burkina Faso, Ethiopia, Togo, Zimbabwe.
	Target 1C: Halve (between 1990 and 2015), the proportion of people who suffer from hunger.	Algeria, Benin, Egypt, Ghana, Guinea-Bissau, Mali, South Africa, Tunisia.
Goal 2: Achieve universal primary education	Indicator 2.1: Net enrolment ratio in primary education increase by 1.5 percent annually.	Algeria, Egypt, Rwanda, São Tomé and Príncipe
	Indicator 2.2: Proportion of pupils starting grade 1 who reach last grade of primary education.	Ghana, Morocco, Tanzania, Zambia.
Goal 3: Promote gender equality and empower women	Indicator 3.1: Ratio of girls to boys in primary, secondary and tertiary education.	The Gambia, Ghana, Mauritius, Rwanda, São Tomé and Príncipe.
	Indicator 3.2: Share of women in wage employment in the non-agricultural sector.	Botswana, Ethiopia, South Africa.
	Indicator 3.3: Proportion of seats held by women in national parliament.	Angola, Mozambique, Rwanda, Seychelles, South Africa.
Goal 4: Reduce child mortality by two-thirds	Indicators 4.1 and 4.2: Under-five mortality and infant (under one) mortality rates.	Egypt, Ethiopia, Liberia, Libya, Malawi, Rwanda, Seychelles, Tanzania, Tunisia.
Goal 5: Improve maternal health	Target 5A: Reduce by three-quarters, the maternal mortality ratio, between 1990 and 2015.	Equatorial Guinea, Egypt, Eritrea, Libya, Mauritius, Rwanda, São Tomé and Príncipe, Tunisia.
	Target 5B: Achieve by 2015, universal access to reproductive health.	Egypt, Ghana, Guinea-Bissau, Rwanda, South Africa, Swaziland.
Goal 6: Combat HIV/AIDS, malaria and other diseases	Target 6A: To have halted by 2015 and begun to reverse the spread of HIV/AIDS and other diseases.	Côte d'Ivoire, Namibia, South Africa, Zimbabwe.
	Target 6B: Achieve by 2010, universal access to treatment of HIV/AIDS for all those who need it.	Botswana, Comoros, Namibia, Rwanda.
	Target 6C: To have halted by 2015 and begun to reverse the incidence of malaria and other major diseases.	Algeria, Cabo Verde, Egypt, Libya Mauritius, São Tomé and Príncipe, Sudan, Tunisia.
Goal 7: Ensure environmental sustainability	Target 7A: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.	Egypt, Gabon, Morocco, Nigeria.
	Target 7C: Reduce by halve, the proportion of people without sustainable access to safe drinking water and basic sanitation, by 2015.	Algeria, Botswana, Egypt, Libya, Mali, Mauritius, Namibia, Rwanda, Swaziland.
Goal 8: Global partnership for development	Target 8F: In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technology.	Kenya, Libya, Rwanda, Seychelles, Sudan, Uganda, Zambia.

Source: AfDB.
*Notes: * Top ranked performing countries with respect to each target/indicator that have made the greatest improvements from their initial conditions (not necessarily those that have reached the targets).*

MDG target of *promoting gender equality and empowering women,* especially in school attendance. For many countries, the gap between boys and girls enrolled in primary school continues to decline. Out of the 49 African countries for which data are available, 18 have already achieved gender parity at the primary level of education, where the enrolment rate of girls is as high as boys, while 28 countries are very close to achieving it. In two countries, Chad and the Central African Republic, the gender parity index remains low, indicating that there are more boys than girls in primary school.

The continent has also made significant progress in increasing the proportion of seats held by women in national parliaments. Rwanda, for instance, now ranks first in the world with regard to the percentage of women in the national parliament (48.8 percent). Ten African countries (Rwanda, Seychelles, Senegal, South Africa, Mozambique, Tanzania, Uganda, Angola, Algeria, and Burundi) have attained the target of having at least 30 percent women in their national parliaments. However, limited economic opportunities for women, and barriers to political participation continue to impede progress on meeting this target.

On average, Africa's progress in achieving the health-related MDGs has been positive, but inadequate to meet the stipulated targets. Despite remarkable improvements, the continent is off-track on the target for maternal mortality reduction. While average under-five mortality rates declined by 45 percent from 177 deaths per 1,000 live births in 1990 to 98 deaths in 2012, progress on this target falls short of the MDG target of a two-thirds reduction by 2015. Improvements on this MDG have been due largely to rising per capita income and maternal education. By 2012, Egypt, Ethiopia, Liberia, Malawi, Tanzania, and Tunisia had met the target. Eleven other countries' progress—namely Algeria, Cabo Verde, Eritrea, Libya, Madagascar, Morocco, Mozambique, Niger, Rwanda, South Sudan, and Uganda—towards meeting the target, was on course. There were, however, some reversals as under-fives' mortality rates increased in Botswana, Lesotho, Swaziland, and Zimbabwe due mainly to HIV/AIDS-related deaths.

There has also been progress in the *reduction of infant mortality rates* with figures falling from 90 deaths per 1,000 live births in 1990 to 54 deaths per 1,000 live births in 2012, a 39 percent decline. Neonatal deaths (children who die within four weeks) remain particularly high in the East, Central, Southern and West Africa sub-regions, which account for 38 percent of the global total. This is due to the lack of access to high quality health care during pregnancy.

Progress on *improving maternal health* has been steady but slow, meaning that Africa as a continent has not been able to meet this MDGs target. The maternal mortality rate in Africa fell by about 50 percent to 460 deaths per 100,000 live births in 2013, from 870 in 1990. This drop in the number of maternal deaths was across the entire continent. With the maternal mortality rate in the region falling by 57 percent between 1990 and 2013, North Africa had the most marked success. In 2013, West and Central Africa still had maternal mortality rates above 500 maternal deaths per 100,000, the highest on the continent. This high rate of maternal mortality is attributed to the limited access to contraceptives, skilled birth attendants and antenatal care in general, on the continent as well as the number of high adolescent pregnancies. Despite these achievements, Africa, as a whole, is unlikely to meet the MDG target on maternal mortality.

The *incidence and prevalence of HIV/AIDS* among adults has fallen in most parts of the continent, a result of the strong political will to fight the illness, focused interventions and increased access to antiretroviral therapy. The incidence of HIV/AIDS declined from 0.85 to 0.32 over the 1995-2012 period, while the prevalence rate fell from 5.8 to 4.7 percent during the 2000-2012 period. Between 2010 and 2011, the proportion of the population with advanced HIV infection with access to antiretroviral drugs increased from 48 to 56 percent in Southern, East, Central, and West Africa. While progress in combatting HIV/AIDS has been commendable, Africa is not on course to meeting the target.

Notable progress has been made in the target to halt, and begin to *reverse the incidence of malaria and other major diseases* by 2015. Between 1990 and 2012, expanded treatment regimes in Africa helped reduce the incidence and death rates from malaria by an average of 31 percent and 49 percent, respectively. Progress was mainly recorded in Southern, East, Central, and West Africa, where the incidence was high. Despite the progress, however, Africa is not on track to meet the MDG target on malaria.

In their bid to meet MDG 7, to *ensure environmental sustainability*, most African countries have registered improvements in the proportion of protected terrestrial and marine areas. By 2012, a total of 32 countries had reached the target of protecting at least 10 percent of their territorial and marine areas, up from 19 countries in 1990. Overall, most African countries have also recorded increased access to improved water and sanitation. Only four countries (Djibouti, Nigeria, Sudan, and Togo) have registered regressions.

Between 2011 and 2012 Official Development Assistance (ODA) to Africa declined by 5 percent. Thus, progress towards the achievement of the MDG 8 which calls for *the development of a global partnership for development,* remains is lagging. Whilst aid flows to Africa have been depressed, trade facilitation and measures to create a level playing field in global production measures have been stepped up. For instance, average tariffs charged by developed nations on primary production are now significantly lower than in the early 2000s, and agricultural subsidies in OECD countries have been declining since 2000. Between 2000 and 2011, tariffs in Turkey and Mexico fell by 50 percent, and by 40 percent in Switzerland, Iceland, and the European Union.

Agenda for Post Millennium Development Goals. Africa has enjoyed high levels of growth, above 5 percent, during the MDG era, but with wide variations at the country level. In 2015 and further ahead, the prospects for Africa are, thus, significantly brighter than they were at the turn of the millennium. However, its performance on individual well-being, as measured by the MDGs has been muted, with the continent being off track in achieving five out of the eight MDGs by 2015. The Post-2015 Development Agenda thus presents a unique opportunity for Africa to articulate its common priorities, opportunities, and challenges.

Looking ahead to the Post-2015 Development Agenda, African governments need to develop a strong vision for monitoring and accountability, with clear plans for financing and implementation of the strategies.

Role of the African Development Bank in MDGs and the Post-MDG Agenda

The Bank remains a significant financier of infrastructure projects, with a cumulative contribution of UA 32 billion over the period of 1967-2014. The Bank's focus with regard to infrastructure development on the continent is on transport, energy, water, and information and communication technology, all critical to Africa's socio-economic development and well-being.

Several of the Bank's transport projects have to do with the development of

regional transport corridors that promote sustainable growth and job creation by reducing the costs of imports, making African producers more competitive on international markets, and thus fostering inclusive growth. An example is the Trans-Saharan Highway which will connect landlocked Niger, Chad, and Mali to growth centers in West and North Africa.

In the last 20 years, the Bank has spent USD 4.5 billion (about 12 percent of its funds) on increasing power generation and improving rural electrification, bringing electricity and its socio-economic benefits to thousands, many in the lower strata of society. At another level, the Bank is fostering the development of regional power pools, helping link the power grids of neighboring countries into single networks that work to provide more reliable electricity supplies.

In the telecommunications sector, the Bank continues to finance regional and national broadband infrastructure through investments in high-speed, high capacity Internet and telephone cables, helping to improve communications and enhance the numerous benefits it brings to the African people in both urban and rural communities.

The Bank remains committed to supporting regional integration on the continent by connecting countries, markets, and peoples which is essential if Africa is to transform its economies and achieve inclusive growth. In the last five years, the Bank has financed more than 70 multinational projects in support of regional integration at a total cost of USD 3.8 billion. Also, 20 percent of its ADF funds are set aside for regional integration projects.

Indeed, the Bank is focused on improving the continent's investment and business climate, expanding access to social and economic infrastructure, and promoting enterprise development. It is working with RMCs to improve the business environment, so that businesses of all sizes can grow and generate jobs.

To support the lower echelons of society and promote inclusive growth, the Bank has in the last three years provided finance for 156,477 microcredits on the continent and provided 10,054 microfinance clients with training in business management. The Bank's direct support to enterprises has resulted in the creation of over one million jobs, with over 4.6 million people (of whom 53 percent are women) benefiting from investee projects and microfinance.

The Bank's vision is to harness the potential of a billion Africans by building skills, creating jobs and promoting equal opportunities. Its human development portfolio includes 77 projects worth USD 1.8 billion, covering education, health, poverty reduction, and social protection.









Chapter 2

The Quest for Inclusive Growth

Africa has grown at an unprecedented pace in the past decade. However, the benefits of this economic resurgence have not been broadly shared. Instead, growth has been concentrated in particular sectors or geographical areas within countries, excluding large sections of people. To lift the majority of Africans out of poverty, growth must be more inclusive. This requires creating employment opportunities through a better business and investment climate that enables the private sector to thrive. More importantly, remote areas must be connected to growth poles through better infrastructure and deeper regional integration, both within countries and across national borders. Achieving inclusive growth will also be underpinned by effective transformation of Africa's natural wealth into created wealth, including building human capital and skills. This calls for prudent, effective, and sustainable management of natural resources for the benefit of all Africans. Climate change is a threat to Africa's sustainable future, and hence undermines prospects for inclusive growth. Addressing climate change will therefore ensure a smooth transition towards an environmentally sustainable growth path. This chapter presents an overview of drivers of Africa's performance with respect to inclusive growth and analyses of some key dimensions of inclusive growth: political economy, rural-urban linkages, the role of the private sector, and regional integration.

2.1 Nature of the Challenge

The African Development Bank Group defines inclusive growth as economic growth that results in a wider access to sustainable livelihood opportunities for a broader number of people, regions, or countries, while protecting the vulnerable, all in an environment of fairness, equity, and political plurality.

Inclusive growth refers to the need for economic and social development to be able to embrace and benefit all segments of the population. Rapid growth is necessary for substantial poverty reduction, but for this growth to be sustainable in the long run, it should be broad-based across sectors, and inclusive in terms of its impact on the wider society. Therefore, inclusive growth refers to the pace and sources of growth, and is concerned with opportunities for the labor force in the low-, middle-, and high-income segments of the economy. This approach focuses on productive employment rather than on direct income distribution, as a means of increasing incomes for excluded groups. It also emphasizes ways of fast-tracking growth by moving those sectors of the labor force that are trapped in activities with low productivity into high productivity and dynamic sectors, and empowering those completely excluded from the growth process.

To measure and track progress towards inclusive growth, the Bank has, in recent analyses, noted the importance of considering several dimensions including economic opportunity, social, spatial, and political inclusion. Consistent with the definition adopted, the Bank has developed an Inclusive Growth Dashboard for Africa which covers the following components:

(i) the pace of growth in per capita GDP; reductions in extreme poverty and inequality (economic inclusion);
(ii) governance indicators (political inclusion);
(iii) diversification and economic sophistication (economic opportunity);
(iv) health indicator: index combining infant mortality, life expectancy, etc. (social and economic inclusion);
(v) education indicator: index combining secondary enrolment, tertiary enrolment, quality of the educational system, etc. (social and economic inclusion);
(vi) women's participation in the labor market: this indicator considers the proportion of women aged 15 years and older who are in the labor market (social inclusion);
(vii) employment growth: this indicator measures the effectiveness of economic growth in generating jobs (economic inclusion);
(viii) spatial inclusion: an indicator that captures connectivity, access to the nearest market, and public services.

The evidence suggests that Africa's progress towards inclusive growth between 2010 and 2014 has been mixed. Between 2010 and 2014, the proportion of the poor in Africa declined from 40.1 percent to 39.7 percent. However, the number of poor people has swelled from 384 million in 2010 to 397 million in 2014, suggesting the fragility of recent growth in making a deep impact on poverty. Income and gender inequality remains high although the growth in Africa's middle class has narrowed asset-based inequality. On the other hand, the mobile telecommunication revolution has transformed the African landscape, widening connectivity. However, progress in accessing basic services, notably in education, sanitation and health, has been modest while the proportion of people trapped in fragile situations has increased. The increase in the volume of intra-Africa trade provides scope for deeper regional integration but the cost of trading across borders remains a major hindrance.

2.2 Political Economy of Inclusive Growth

Rapid social, economic and environmental change is placing African societies under considerable strain. When national institutions are resilient enough to manage such stress, the impetus for resolute domestic action that supports development could result. However, where countries lack inclusive political systems and robust institutions to manage these pressures, the changes can lead to fragility and conflict. Consequently, capable, accountable, and responsive governance is a precondition for inclusive growth.

Africa has, in recent years, generally made steady progress in building capable and responsive states. Indeed an increasing number of countries have seen peaceful transfers of power through the ballot box, with growing voter registration and turnout rates being evidence of a consolidation of democracy. Only a handful of countries do not have multi-party systems and/or fail to hold regular elections. In fact, in 2011, 18 countries in Africa were considered electoral democracies, compared to only four in 1991. The shift towards more democracy can be a force that fosters inclusive growth. Similarly, the African media is now more vibrant while the civil society is increasingly engaging with governments on public policies, including those concerned with the use of public resources. There is growing evidence that more open and democratic countries tend to also have better governance and are more inclusive than less democratic ones.

Devolution of decision-making and power from central government to local authorities offers an opportunity for more enhanced inclusion. This view is supported by evidence that decentralization benefits local populations and promotes socio-economic inclusion as central governments delegate authority to local authorities. Thus, strengthening sub-national governments and granting them control over resources from the center could significantly improve delivery of health, education, and basic social services.

A decade of conscientious reforms to improve public financial management is yielding dividends. Most countries in Africa now boast of relatively robust legal and policy frameworks for budgeting and public expenditure management. There has also been marked progress on institutional reforms across a large number of countries. For example, the new constitution of Kenya articulates core principles for devolution of resource use and sound public financial management. It also guarantees the autonomy of the Auditor General. Similarly, Ethiopia has brought greater clarity into revenue assignments across different tiers of government. Over the past decade, many countries have managed a sustained period of sound macroeconomic management, which has delivered lower budget deficits and stabilized exchange rates. On aggregate, there is sufficient room for further enhancement of policy reforms, focusing largely on those that improve service delivery, and better targeting of cash transfers and other social protection mechanisms.

The Bank's Country Policy and Institutional Assessment (CPIA), which tracks performance outcomes across a range of policy dimensions, shows that a number of countries have made important strides. The average CPIA score has increased from 3.7 in 2005 to 4.02 in 2010, out of a possible 6.0. On average, many countries have witnessed a gradual increase in revenue collection from traditional activities, thanks to the introduction of automated business processes for revenue capture. However, the quest for enhanced domestic resource mobilization is hampered by the challenges in taxing the natural resource sector. In particular, due to transfer pricing and munificent concessions, coupled with the effect of the global crisis which significantly reduced commodity prices, the revenue take from the natural resource sector has been lower than it could have been. As a result, there has been a slight decline in the share of tax and non-tax revenues to GDP from 28 percent in 2006 to 23 percent in 2014. Accordingly, the Bank is building capacity in a number of countries to enhance their ability to monitor the flow of revenues from their natural resources.

Governance indicators also show Africa's progress. According to the Mo Ibrahim Index of African Governance, which looks at the rule of law, security, and accountability, average scores have gradually risen from 47 in 2000 to 52 in 2014, out of 100, the maximum possible score. While the continent's average score has improved, there is little evidence on effective and accountable governments. The index which tracks effectiveness and accountable government, shows a deterioration in this area, although women's representation in national parliaments and leadership has improved. Ten African parliaments have achieved 30 percent women's representation, compared to 18 percent women's representation in the US Congress in 2012. This augurs well for gender inclusion, but more needs to be done, particularly in removing barriers to land and property ownership among women.

Fragility remains another hindrance to inclusive growth. An estimated 280 million people, representing a quarter of the continent's population live in states under fragile situations. Conflict-affected countries are unable to mobilize sustained investment and resources for nation building. As a result, a majority of them are excluded from Africa's growth and also lag in the implementation of the Millennium Development Goals. Improving political participation and levelling the playing field is critical to addressing key drivers of conflict and overcoming political exclusion.

The High Level Panel on Fragile States constituted by the Bank identified five drivers of fragility on the continent: poverty and exclusion, urbanization and the growing informal sector, the youth bulge, extractive industries, and climate disruption and resource conflicts. The Panel recommended that to address these sources of fragility, African governments need to build and strengthen alliances with their development partners in order for them to leverage different mandates and expertise.

2.3 Towards Productive Rural-Urban Linkages

Africa is currently experiencing the world's fastest rate of urbanization, with more than 40 percent of its people living in urban environments. The figure is expected to exceed 50 percent by 2030 when Africa will cease to be a predominantly rural continent. This rapid pace of urbanization is drawing a large number of rural migrants to the urban areas, leading to the question of how to maintain an economically inclusive and mutually beneficial relationship between urban and rural areas.

Africa's lack of inclusive growth is as much about a sectoral as well as a spatial concentration of growth. The benefits of growth have been unevenly distributed across the continent and largely concentrated in and around urban centers. A large segment of the rural population remains trapped in poverty, and in general, Africa has a low population density and limited connectivity. These factors present obstacles to the spread of economic opportunities. African cities have expanded at an unprecedented pace and attracted rural migrants and businesses. Thus, although growth in the informal sector is transforming the continent's cities into growth poles, many of the jobs created in the sector are low-paying, menial and vulnerable. Thus, while a large middle class has emerged, inequality has also deepened within cities and between urban and rural zones, with rural economies stagnating due to the lack of investment in agriculture.

Indeed, spatial inequality has worsened over time in Africa despite substantial progress in infrastructure development and rapid urbanization. Analysis based on a large household survey of 40 African countries showed that close to 37 percent of asset/wealth inequality is due to differences in regions of residence within a country, while 13 percent is due to household-specific characteristics such as age, education, and sex. Robust institutions reinforce the impact of these factors on reducing spatial inequality.

Box 2.1 illustrates regional disparities in Tunisia and discusses their underlying causes, with the aim of drawing policy lessons.

The rapid population growth in urban locations in Africa has stretched the capacity of existing infrastructure and facilities, resulting in a decline in the quality of services in these areas. In some cases, urban infrastructure and services have simply buckled under the intense pressure. While there is a growing consensus that urbanization cannot be reversed, it remains important to address the paucity of social and infrastructure services to meet the demands of expanding urban populations, without neglecting rural populations. In particular, governments must fast-track investments in basic infrastructure, social services, and affordable housing.

One of the building blocks of inclusive growth is to strengthen connections within and between countries and regions through infrastructure. This enables producers to join with each other in more-productive value chains, such as enabling farmers to bring their produce to the market, and consumers to access markets and public services. It also facilitates more efficient use of natural resources. Therefore, improving infrastructure has the potential to boost overall economic growth while helping those areas lagging behind to catch up.

The continent's largest infrastructure investment needs are in electric power. Almost half of the USD 93 billion needed annually to improve Africa's infrastructure is focused on boosting power supply. African countries, with over one billion people, generate only as much power as Germany, which has a population of only 80 million people. It is also estimated by the Bank that over 30 countries in Africa now face regular power outages, at an economic cost of 1-2 percent of GDP. To compensate for inadequate capacity, many countries are forced to turn to small-scale diesel-powered generation, which costs twice as much as coal or hydro-power. Tariffs for businesses in Africa are often three times higher than those in other parts of the developing world.

Another major deficit is found in the number of all-season roads, which play a key role in enabling communities to engage in economic activity and to access services. Roads reduce the time and cost involved in transporting goods and have

Box 2.1 Addressing Regional Disparities: The Tunisian Case

In Tunisia, coastal regions have a comparative advantage given their access to the sea. Coastal regions have also received preferential access to government-financed investment and services, with Tunisian coastal regions consequently exhibiting better indicators of social welfare. For instance, poverty rates in the inland south are about double those in Tunis, on the coast, while unemployment rates are about 50 percent higher. These disparities were an important factor for the eruption of the 2010-2011 "revolution", with differences in unemployment rates reflecting both the benefits of agglomeration and the provision of services. Tunisian cities that are further away from a port, an airport, or the major commercial centers (Tunis, Sousse, and Sfax) have higher rates of unemployment.

Human development indicators also differ significantly across regions, with those near the coast recording better health status indices than those in the interior. For example, life expectancy at birth was 77 years in Tunis and Sfax in 2009, compared to 70 in the inland towns of Kasserine and Tataouine, with these differences reflecting, among other things, unequal levels of health service delivery. In short, the poorer, more isolated regions have inadequate access to health services, compared to the richer, coastal regions. Boosting national income while narrowing inequalities will require the promotion of labor creating industrial activities in coastal regions and increasing the productive capacity of the less diversified, more isolated ones. Coastal regions should capitalize on their existing advantages, principally a skilled and diversified labor force and the benefit of a learning process driven by the pressure of foreign competition. The more disadvantaged regions in the interior have more limited possibilities for economic diversification. As with the coastal regions, policies should focus on existing advantages, in this case, either improving existing industries or promoting industries in which synergies with coastal regions can be achieved. An important example is the production of labor-intensive goods to serve coastal markets.

a direct impact on the poor, especially in rural areas. Africa's road density (length of road per sq. km), although improving, was only 7.9 km in 2014, which represent only 30 percent of Asia's road density. Further, three-quarters of these roads were unpaved and often unusable in the rainy season. To increase investment in roads, most African countries have established autonomous road agencies and road funds, supported by fuel levies. By providing adequate infrastructure such as transport, communication, energy and other basic services, mobility problems between rural and urban areas can be eased and access to markets, employment and other income earning opportunities improved, thereby enhancing inclusive growth.

Access to clean water in Africa in 2014 reached, on average, 67 percent of the population, up by 6 percent over the past decade. Access to improved sanitation increased more slowly from 37 percent to 40 percent. However, at the current rate of investment, most African countries are still half a century away from achieving universal access to clean water. The lack of coverage, particularly in rural areas, increases the burden of disease. It also negatively affects women and girls, who bear the primary responsibility of fetching water. A number of countries have, nonetheless, made outstanding progress. Mozambique, for example, has given priority to developing its water-related infrastructure, with major schemes

for harvesting rainwater in dry regions. Benin has, similarly, invested heavily in simple water systems for small towns and rural areas, achieving an increase in rural drinking water coverage from 57 percent in 1990 to 76 percent in 2012, as noted in the WHO/UNICEF Joint Monitoring Programme Report. One of the policy challenges, however, is that public subsidies for residential water and sanitation services tend to be regressive, benefiting the more privileged segments of the population that have connections to public utilities, mainly in urban areas.

The spread of information and communication technology (ICT) is one of Africa's biggest success stories, with huge potential for inclusive growth. In 2000, there were fewer than 20 million fixed phone lines in Africa—a 2 percent penetration rate. Since then Africa has leap-frogged landline development and gone straight to mobile networks. By 2013, it had over 823 million mobile phone subscriptions—more than either the United States or the European Union. The Bank estimates that by 2020, the mobile phone industry in Africa will generate 8 percent of GDP, 6.6 million direct jobs and USD 42 billion in government revenues.

The spread of ICT has opened up access, not only to "mobile money", such as Kenya's famous M-Pesa service, but also to a wide range of new solutions to development challenges, from tracking livestock to training teachers and managing pharmaceutical supply chains. Mobile phones have connected individuals, fostered the development of information and knowledge-networks, markets, and services, thereby bridging rural/urban gaps and also making economic information readily available to individuals and firms, at reduced cost.

The above section has demonstrated that strengthening rural-urban linkages is crucial for inclusive growth and sustained development. The urban bias inherent in infrastructure development and the rolling out of new technologies must be addressed. It will require the coordinated efforts of both the public and private sector as well as national and local governments. This will entail broadening opportunities in the productive sectors, including the range of actors involved in infrastructure development. Broader coalitions will often be required, including partnerships with community-based organizations, non-governmental organizations, and the private sector. In many cases, more efficient local level bureaucracies and empowered local communities will greatly contribute to effective service delivery and development activities.

2.4 Role of the Private Sector

Africa's wealth lies primarily in its people—a young and growing population in search of opportunity. To realize this wealth, the private sector must be re-engaged to unleash people's untapped potential. Inclusive enterprises integrate low-income people into their value chain, thus creating opportunities for this group in a targeted way. There has been considerable innovation and entrepreneurial drive in creating inclusive enterprise in Africa, yet several constraints in the business environment mean that these enterprises often struggle to upscale. Supportive environments with appropriate information, incentives, investment, and implementation support can stimulate development of more inclusive enterprises that have greater impact.

Although market conditions remain challenging in many places, the regulatory frameworks and availability of capital are improving, thus driving significant economic growth. Africa's private sector has an important role to play in fostering inclusive growth. A recent study by the UNDP shows that inclusive enterprises integrate low-income individuals into value chains, thereby bringing previously excluded people into the marketplace. Rather than just being driven by a profit motive, inclusive enterprises also take their corporate social responsibility seriously. They protect the environment, make an effort to address social issues, such as hunger and poverty, and maintain high ethical standards.

An inclusive business environment is made up of a network of interconnected, interdependent players, whose actions help inclusive enterprises succeed, generate impact and grow. The Inclusive Business Environment Diamond outlines the four

Figure 2.1 Inclusive Business Environment Diamond

Source: AfDB, UNDP.

primary functions required to support inclusive enterprises (Figure 2.1). First, information provides enterprises with the awareness, knowledge, technology, and know-how required to operate in low-income markets. Second, incentives are required to spur enterprise engagement with low-income communities, by reducing the cost of doing business and generating positive externalities. Third, investment provides the financial backing that enables enterprises to venture into challenging low-income markets. Finally, implementation support provides the logistics, transaction, marketing and communication as well as micro-business mechanisms that allow inclusive enterprises to function in different environments.

There are several examples of inclusive enterprises in Africa that have proven that this model is profitable and beneficial for a wide range of stakeholders. According to the UNDP, most inclusive enterprises are found in the agribusiness, fishing, energy, financial services, and ICT sectors, mainly operating as micro-, small-, and medium-size enterprises (MSMEs). Kenya and South Africa are emerging as leaders in the area of inclusive enterprises. Kenya's M-Pesa mobile money transfer service is one example. In Kenya alone, M-Pesa reaches 15 million people, widening access to financial services. Similarly, Equity Bank of Kenya also provides financial services to 8 million customers in East Africa, while South African brewer SAB Miller sources raw materials from about 50,000 smallholders in Zambia, Zimbabwe, South Sudan, Uganda, Mozambique, and Tanzania. Several local businesses are also creating significant positive change in this regard. For example, Tiviski Dairy in Mauritania sources milk from more than 1,000 camel herders, while in Kenya, Ecotact, a social enterprise, provides toilets for over 50,000 slum dwellers, and in South Africa Eduloan provided study loans to over 600,000 tertiary-level students, with the aim of unlocking potential among its client base.

Inclusive enterprises, however, operate in a challenging environment, with low-income markets lacking many of the conditions that enable functioning markets. According to the Growing Inclusive Markets Initiative, reliable market information is often absent, the regulatory environment is usually inadequate, physical infrastructure is often dismal in many places, low-income people initially lack the knowledge and skills required to participate in value chain productivity, while access to financial services is frequently minimal. When enabling conditions are absent or insufficient, transaction costs rise, forcing enterprises to fill the gap themselves. Therefore, despite the enormous potential awaiting inclusive enterprises in Africa, the challenges remain enormous.

Environment-building initiatives that coordinate different actors at several levels to ensure that individual activities build on and reinforce each other have been very successful in providing inclusive business environments. For example, the Competitive African Cotton Initiative brings agribusiness, textile companies, development partners, and smallholder cotton farmers together to create sustainable and inclusive cotton supply chains in Benin, Burkina Faso, Côte d'Ivoire, Malawi, Mozambique, and Zambia. Similarly, Kenya's Financial Sector Deepening Initiative works with various government agencies, banks, microfinance institutions, and educational and research bodies to deepen access to financial services, especially for low-income groups. Lighting Africa provides a platform that enables lighting solution companies to have their products quality checked and certified, and works to improve the conditions for sale of these products in several countries (Kenya, Ghana, Ethiopia, Mali, Senegal, and Tanzania), and in the process improving access to lighting for low-income consumers.

Businesses and entrepreneurs can develop inclusive strategies by investing in new business approaches, conducting market research, testing the delivery of innovative services and products at affordable prices, building technical skills, implementing strategies for integrating low-income communities into value chains, and providing logistical and other services that support other enterprises. They can cooperate in the initial stages of a business venture by helping to conduct market research or develop innovative business models. They can also innovate by buying goods and services from informal businesses owned by people in low-income communities, and by increasing the local content of inputs and other supplies.

Governments can also play a key supporting role by providing incentives for inclusive enterprises and developing regulation that removes bottlenecks to business activity. Kenya, for example, attracted investment in building renewable energy capacities and increasing access to modern energy services by improving the regulatory environment and creating incentives, such as adjustments to feed-in tariffs. Investing in infrastructure, information technology, and education also creates additional incentives for inclusive businesses, enabling them to integrate low-income communities into broader value chains. Equally important, development partners and private foundations can encourage the creation of local support institutions that are lacking by documenting and analysing best practices, sharing insights, and facilitating public-private dialogues. They could also promote the inclusive-enterprise approach by providing assistance to governments to support development of enabling policies.

Civil society organizations can promote the development of inclusive enterprises by facilitating access for businesses to low-income communities, acting as watch-dogs for the interests of these communities, helping local entrepreneurs set up inclusive businesses, and by raising awareness and building capacity. Potential exists for research institutions to offer support by providing detailed analysis of context-specific information about what works for inclusive enterprises in Africa. They can also gather and disseminate information on inclusive-enterprise models, while advocating for inclusive business approaches. Further, they can educate and train current and future entrepreneurs, and develop better measures of how inclusive an enterprise is and what results have been achieved, and in this way providing the information needed for policy makers and equally impact investors.

2.5 Regional Integration and Socio-Economic Inclusion

Globalization has seen the world economy become increasingly integrated. Spurred by free-market economic systems and advances in technology and cross-border economies, global value chains have become important parts of advanced economies, with this interconnectivity promoting an important part of their economic growth and development. Although African economies need to develop and sustain profitable links to the global economy, they must first foster integration at the regional level before they can become fully integrated into the global economy. Regional integration will thus, enable Africa to realize its full growth potential and become a fully inclusive continent.

Many African countries are still held back by their small market size, with domestic producers not able to become more efficient by achieving economies of scale. The continent's policy makers have long recognized that regional economic integration is imperative for improving competitiveness, with cross-border trade creating a virtuous circle, by increasing competition in domestic markets, lowering the costs of goods and services, and enabling firms to join with each other in more-sophisticated regional value chains. However, while inter-African trade increased from USD 125 billion in 2010 to USD 148 billion in 2014, it represents only 12 percent of the continent's total exports compared to 25 percent for the Association of Southeast Asian Nations (ASEAN), 49 percent for the North America Free Trade Agreement (NAFTA), and 65 percent for the European Union (EU). A challenge is that leading African exporters such as Angola, Algeria, Egypt, Libya, Morocco, Nigeria, and South Africa have stronger economic ties with the rest of the world than with their regional neighbors. This represents a lost economic opportunity for the continent.

In order to promote regional economic integration, African countries need to simplify cross-border trade, reduce non-tariff barriers such as restrictive rules of origin, and streamline immigration processes. It is unfortunate that shipping a container across Africa's national boundaries costs an average of USD 2,290 in administrative fees and charges, and entails delays of 37 days on the average, compared to 20 days in Southeast Asia. The landlocked countries are the worst affected, with a truck driver travelling on the Koutiala-Dakar corridor between Mali and Senegal having to pass through about 100 checkpoints and pay an average of USD 437. Thus, further improvements in the movement of goods and people can have a significant contribution to growth.

Regional integration should thus focus on creating larger and more attractive markets, linking landlocked countries to international markets and supporting intra-African trade to foster the continent's development. It should also emphasize industrial development as well as "soft" infrastructure issues like trade facilitation, policy reforms and regional harmonization of policies and regulations. Despite some progress, commitments made at the regional level have not always been implemented by Regional Member States.

Regional integration also requires the free movement of people from one country to another. Africa's laws on free movement have been generally restrictive despite political commitments to bring down borders and barriers. Some African countries fail to provide even for strategic regional preferences in the issuance of visas. North Americans, followed by Europeans enjoy the most liberal entry into the continent by benefiting from visa-free travel, or being able to obtain a visa on arrival, in at least half of Africa's countries.

Regional integration is a means to enhance inclusive growth by mobilizing skills and creating a seamless geographical and social space for economic interaction, as well as a gateway for opening up markets, especially for landlocked countries. Regions that are well connected by road transportation, ICT, power supply and water systems will therefore, experience enhanced inclusion. Furthermore, regions and cities that have natural resources for exports or natural advantages such as proximity to rivers, coasts, and transportation networks, are likely to benefit more from external trade, whereas those that lack these assets in remote areas will not. However, the benefits of regional integration or globalization are not always spread evenly, with globalization having the potential to induce regional disparities and inequality if some regions benefit more from external trade than others. This is because regions and their cities have unequal exposure to trade and dissimilar comparative advantage, and this has the potential of causing friction at national and regional levels.

As regional integration improves the competitiveness of African producers and brings millions more consumers within their reach, the continent will see a swelling of intra and inter-regional trade as a share of all trade. African countries also need to simplify cross-border trade, reduce non-tariff barriers, support regional infrastructure, and streamline immigration processes. These will go a long way in helping the continent overcome some of the barriers to inclusive growth.

2.6 Why Muted Progress Towards Inclusion?

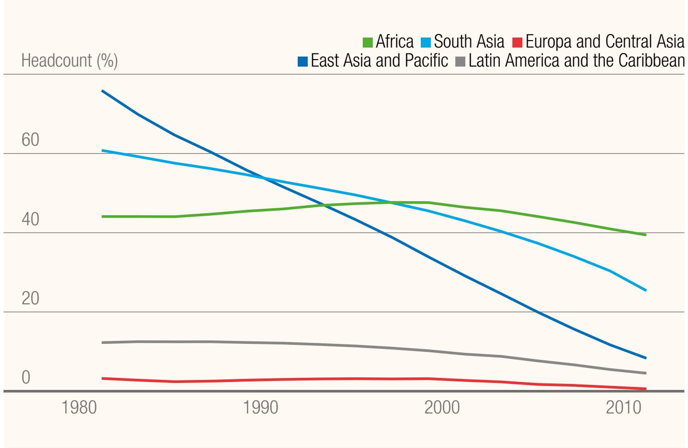
By historical comparison, Africa's recent economic growth is unprecedented. For the first time since the late 1980s, growth has been high and sustained over a longer spell, creating optimism for transformed lives. Although growth has accelerated at historically high rates, the benefits of this rapid *growth have not been equitably shared among the population with majority of Africa's poor still trapped at the lower end of the pyramid. Thus, although poverty rates are declining in some countries, the basic needs of many Africans are not yet being satisfied.*

For more than a decade, economic growth in Africa has been high, averaging above 5 percent. The continent hosts some of the fastest growing economies in the world. As a result, the size of the middle class has expanded. This increase has created dynamic changes in consumer patterns across a number of countries. Bank estimates show that consumer spending is expected to increase three-fold from USD 680 billion in 2008 to USD 2.2 trillion in 2030. If growth is sustained at such high rates, and the middle class continues to expand, most African countries will have attained middle-income status by 2025. Besides the commodity boom, the acceleration in Africa's growth has been underpinned by a quadrupling in foreign direct investment in the past decade. Foreign direct investment flows rose to USD 60.4 billion in 2014, from USD 17.4 billion in 2004. Over the same period, remittances have seen their largest increase, reaching USD 67.1 billion from USD 19.5 billion. The rise in consumer spending and opportunities for high investment returns is increasingly making Africa an attractive market for investors.

Whilst Africa's growth has been phenomenal in historical terms, many parts of the continent and many segments of the population suffer from historically high poverty levels. Disturbingly, across the region, income inequality is widening. In the now common parlance, Africa's growth has not been inclusive. Unemployment, especially among the youth and women, remains high, with poverty and inequality widespread. The average poverty rate in Africa stands at 39.7 percent, with over 400 million people still living on less than USD 1.25 per day (the world's highest rate of extreme poverty). Relative to other regions of the world, the pace of poverty reduction in Africa has been significantly slow (Figure 2.2). Furthermore, although the size of the middle class has increased, many remain vulnerable to economic shocks and are at high risk of relapsing into poverty should the economic situation suddenly deteriorate.

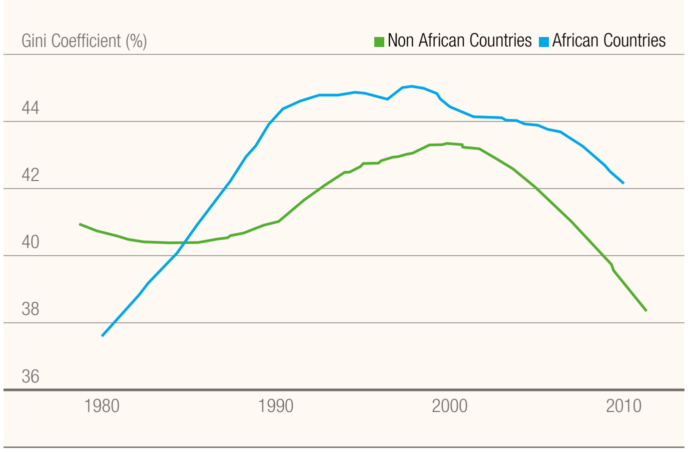
Although Africa's Gini coefficient (a standard measure of income inequality) has improved in recent years, it remains markedly high, at 42.6. Africa is thus the world's second-most-unequal continent, after Latin America. Six of the 10-most-unequal countries are in Africa with evidence suggesting that the rich, who account for less than 5 percent of the population, hold about 20 percent of the continent's total income. In contrast, the poor, who account for 60.8 percent of Africa's population, hold only 36.5 percent of this income. Africa's high rate of inequality is evident from Figure 2.3. Although

Figure 2.2 Trends in Extreme Poverty in Developing Regions



Source: AfDB.

Figure 2.3 Trends in Inequality in African and Other Developing Countries



Source: AfDB.

inequality is falling, its rate of decline in Africa is slower than that of other region.

The unemployment challenge in Africa is exacerbated by the "youth bulge". The youth, aged between 15 and 25 and representing more than 60 percent of the continent's total population, account for 45 percent of the total labor force. It is expected that by 2020, an additional 112 million workers, comprising mainly youth, will join the labor force.

Indeed, the problem of unemployment is intrinsically tied to the nature of African growth itself—that of dominance of the extractive sector, lack of economic diversification, and the relative absence of growth in manufacturing. For instance, reflecting a lack of diversification, the extractive sector accounts for more than half of Africa's exports, reaching 90 percent in some countries. This is markedly less than the 10 percent in

Figure 2.4 Average Employment and GDP Growth in Africa (2000-2011)

Source: AfDB.

Asia. This depicts a lack of diversification in Africa. However, Africa's extractive sector is largely capital-intensive with fewer employment-creating opportunities. As can be seen from Figure 2.4, despite high real GDP growth on the continent, employment has not responded correspondingly.

A lack of growth in productive employment, despite high growth rates, is what has led to Africa's growth being characterized as jobless growth. To make growth more inclusive, Africa needs to create more opportunities for quality and productive employment. This entails removing barriers to the full participation of individuals, groups, and regions in income-generating and welfare-enhancing activities. Access to economic opportunities must also not be defined by age, gender, religion, ethnicity, culture, or geographic location.

2.7 Conclusion

Africa is changing at a remarkable pace, becoming one of the world's most economically dynamic continents and recording impressive economic growth rates over the past decade. With increasingly stable governments, more-conducive business environments and a rapidly growing middle class, the continent is attracting ever greater amounts of foreign investment, and gradually becoming the destination of choice for investors. However, serious economic, social, and political challenges remain, and may be escalating in some countries. To ensure that this economic resurgence is sustained over the long run, and is also widely shared, the continent needs to continue along the path of economic transformation that engenders inclusive growth.

It is imperative that African countries tackle critical infrastructural bottlenecks by investing in major transport networks to open up their rural areas and link their economies with each other and with the global market, as well as in rural roads to support inclusive growth. Their investments in power, water, and telecommunications will help businesses to grow, and working closely with each other, they will be able to provide the hard and soft infrastructure that is required for regional economic integration and inclusive growth.

It is imperative that African countries tackle critical infrastructural bottlenecks by investing in major transport networks to open up their rural areas, and ink their economies with each other and with the global markets. Critical too, is the development of rural roads to support inclusive growth. Government investments in power, water, telecommunications will help businesses to grow. Working closely with each other will enable them to provide the hard and soft infrastructure that is required for regional economic integration and inclusive growth.

Chapter 3

Bank's Response to Africa's Quest for Inclusion

This chapter examines the Bank's response to the need for inclusive growth in Africa, in the belief that inclusion will not happen without a supportive political and economic policy environment. Accordingly, the Bank has been providing support for public-sector reforms, especially those targeted at the development of institutions that help link disadvantaged areas and groups to markets, public services, and productive off-farm activities. The Bank's Ten-Year Strategy is the most important recent example of its policy thrust in this regard. The Bank has also undertaken analytical work on structural transformation, rural and urban development, supported capacity building, and data generation and management. The Bank's report on development effectiveness provides useful feedback loops that help to determine whether its inclusive-growth objective is being met, as does its report on the independent evaluation function.

3.1 Fostering Inclusion in Bank Policies and Strategies

Sustainable development requires a well-defined policy framework. The Bank's Ten-Year Strategy, 2013-2022, is based on the objectives of inclusive growth and transition to green growth. The former implies growth that ensures equal access to economic opportunities across age, gender, ethnicity and geography. This also requires the provision of social safety nets that mitigate the effects of transitory shocks to livelihoods and prevent the prevalence of extreme poverty. On the other hand, the transition to green growth will ensure that African countries preserve the environment and the natural-resource base on which their economies depend.

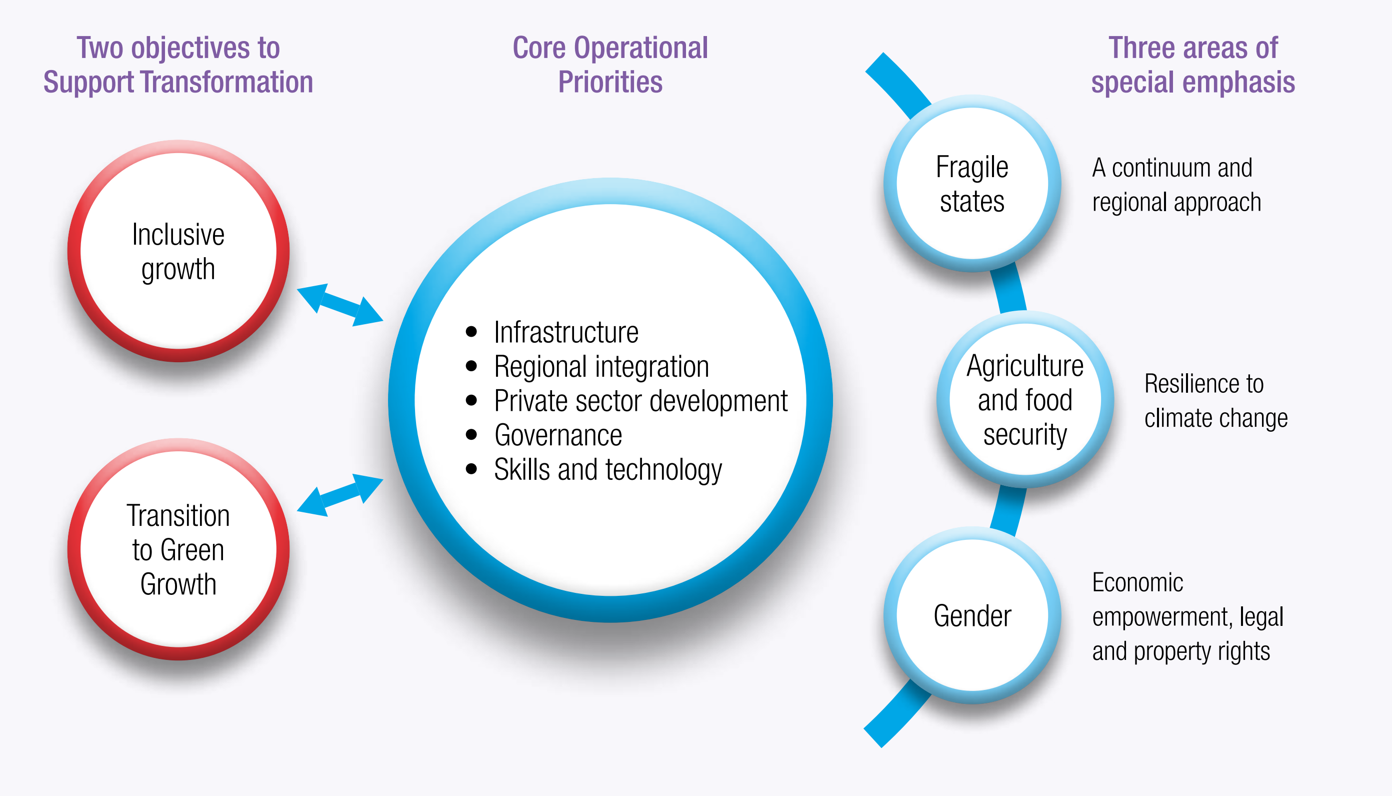
The Bank's *Ten-Year Strategy, 2013-2022 (TYS),* is its overarching approach to achieve sustainable growth and development in Africa over the next decade. The strategy is anchored on two objectives, namely, inclusive growth and the transitioning of African economies to green growth (Figure 3.1). The Strategy identifies five operational priorities: (i) infrastructure development, (ii) regional economic integration, (iii) private-sector development, (iv) governance and accountability, and (v) skills and technology. The strategy also underlines three areas of special emphasis: states in fragile situations, agriculture and food security, and gender.

The path to inclusive growth will demand greater investment in infrastructure to help to unlock the potential of Africa's private sector, raise competitiveness and enhance broad community participation, including that of youth and women. Inclusion also requires that vulnerable communities and groups are given the skills they need to remain competitive, while the capacity of policymakers for policy formulation is enhanced by, among others, training and policy dialogue. More broadly, the Bank envisages increased support for the development of effective institutions, good governance and robust regulatory environments, with an emphasis on the protection of property rights, ensuring equal access to justice, and participation in decision-making. The Bank envisages the private sector playing a key role in the promotion of inclusive growth and sees the micro-, small-, and medium-size enterprises as engines for important job creation. Fragility is a threat to sustainable growth and inclusion. It will be important, therefore, to adopt flexible approaches in assisting communities and countries in fragile situations to help them become more robust, especially in light of their often-weak institutional environments.

Within the framework of the TYS, the Bank has a number of more specific strategies that cover various aspects of inclusion. The *Policy for Addressing Fragility and Building Resilience in Africa, 2014-2019,* was developed in 2014 to ensure that countries in fragile/transition situations can be assisted to enhance their institutional capacities and their ability to return to sustainable growth paths. On the other hand, the *Gender Strategy 2014-2018* seeks to improve women's social, legal, and economic status, and to strengthen the knowledge management and capacity-building aspects related to gender issues in Regional Member Countries (RMCs), and within the Bank itself.

The Bank's *Human Capital Strategy for Africa 2014-2018* aims to support equitable access to quality basic social services, including those in which there is emphasis on skills and technology development, youth employment, and economic

Figure 3.1 Pillars of the Ten-Year Strategy: Inclusive Growth and Transition to Green Growth



Source: AfDB.

productivity. This strategy also sets out to ensure that gender equality is a mainstream issue. In a continent known for the paucity of its credit and financial markets, the Bank's *Financial Development Policy and Strategy 2014-2019* reflects a seminal effort to expand access to financial services for the under-served, notably in the informal sectors and rural areas. The Bank's new *Regional Integration Policy and Strategy 2014-2023* focuses on support to regional infrastructure, the promotion of intra-African trade and industrial development through the economics of agglomeration.

3.2 Promoting Inclusiveness in Bank Operations

The effectiveness of the Bank's strategies and policies must be reflected in real impacts on the ground. Recent Bank projects and programs have included, in both design and implementation, priorities aimed at maximizing the impact on economic sustainability and inclusion. These projects cover such areas as financial markets, infrastructure development–notably ICT—and the private sector. Specific examples include programs to support recovery in North Africa in the wake of the Arab Spring and, more recently, those targeted at containing the spread and impact of the Ebola virus disease in parts of West Africa.

Ideally, all Bank operations should be designed and implemented with a view to maximizing their impact on economic sustainability and inclusion. This section examines the extent to which recent projects and programs have been inclusive. It examines projects and programs with the potential of positive impact on growth that benefits all segments of society.

Overall Infrastructure. For the Bank, infrastructure comprises operations in transport, ICT, energy, water, and sanitation. A question now frequently posed is whether or not modern infrastructure is inclusive in terms of its promotion of sustainable development and social equity. The Bank believes that improved infrastructure facilities can have a positive impact on inclusive growth by facilitating access to income-generating activities, creating employment opportunities, and enhancing the welfare of the people, especially women, youth, (both boys and girls) and the marginalized.

Transport. The Bank's portfolio for the transport sector includes large-scale projects for the development of highways, railways, and regional corridors that have the potential to promote spatial inclusion. These projects are critical to the opening up of trade routes, including one-stop border posts that ease business transactions for border communities and other businesses, especially small entrepreneurs and farmers. Transport infrastructure

also links landlocked economies, which are often more vulnerable than their coastal neighbors, to regional economic hubs.

A good example is the Bank-funded Kankan-Kourémalé-Bamako transnational interurban network, completed in 2013. This is an extension of Mali's road network and links Mali to the corridor that connects it with Guinea. The project has spurred important transformation through positive health, security, and economic impacts. The road has reduced travel time and lowered accident rates. It has also reduced transport costs and the prices of goods. First-hand accounts from beneficiaries confirm that vehicle maintenance and repair costs have dropped by approximately 60 percent. Its importance to inclusive growth is also reflected in its provision of easier access to health, educational, and administrative facilities; improved school enrolment rates, in particular those of girls; easier access to water supplies; access to increased economic activity and jobs, and the establishment of new businesses.

The Information and Communication Technology (ICT) Revolution. The Internet and related communication facilities have produced economic benefits for a number of African countries, including raising productivity in a range of sectors, such as the informal economy. The Bank's support for ICT development on the continent in recent years has included the financing of cable systems, satellites, broadband services and backbone systems.

An assessment of the Bank-funded East African Submarine Cable System (EASSy), for example, shows that it greatly improved the affordability of ICT services in the region, reducing wholesale bandwidth prices by 60 percent and up to 90 percent in Tanzania and Kenya, respectively. The utilization of international bandwidth in the two countries doubled within six months. Uptake in previously marginalized rural areas and other under-served areas rose, often from a zero or a minimal service base. Some rural schools were also able to introduce computers in their classrooms. Mobile phones and associated technologies became a common staple, boosting commerce in the informal sector and allowing farmers to obtain real-time information on market prices in their neighborhoods or farther afield.

Energy. Electricity and other forms of energy are an essential prerequisite for much economic activity. The Bank's support of the sector in Africa has had a positive impact on inclusive growth. Approved in 2014, the Southern Tunisia Gas Pipeline Project, for example, will create 1,000 employment opportunities during construction and 102 jobs during the operation phase. In another example, the Mozambique Energy Reform and Access Program will contribute towards improving productivity, and the quality of life of peri-urban and rural communities by providing them with electricity that will help them establish or expand income generation activities, including irrigated agriculture, agro-industries and small businesses.

Water and Sanitation. The Bank's water and sanitation projects have helped bring critical services to populations across Africa. They have improved food security as well as sanitary conditions in underprivileged and densely populated neighborhoods of Africa's rapidly expanding cities, and those in under-served rural areas. Where wells and other sources of water were far, women's security has been enhanced by bringing water closer to their homes. Better access to water has helped free up time for women and girls, normally responsible for fetching water, and enables girls to attend school more regularly.

Agriculture and Agro-Business. The Bank sees agriculture in Africa as an area of special emphasis, with broad potential for inclusiveness. The Bank is committed to supporting initiatives aimed at promoting integrated agricultural value chains, improving market linkages and agribusiness, supporting youth entrepreneurship in agriculture, and encouraging a paradigm shift that sees agriculture as a business. Accordingly, the Bank has financed a number of innovative initiatives to support the growth of agriculture in Africa. These include support for the establishment of modern markets (Uganda), food and nutrition enhancement (Mali), initiatives to kick-start industrialization through agro-processing (Côte d'Ivoire), and supporting the establishment of modern irrigation to create employment opportunities for youth in the countryside (Malawi).

Financial Sector Development and Support to Small- and Medium-size Enterprises (SMEs) and Under-served Groups. The Bank has developed a number of products to support the lower levels of the business sector in Africa. These include direct investments into smaller enterprises for demonstration effects and lending to dedicated funds active in microfinance. An example is the Bank's USD 12 million line of credit to Nigeria's LAPO Microfinance Bank in 2014. LAPO Microfinance has 1.1 million clients and 327 branches. LAPO bank has a unique group-lending model based on a community-insurance approach. It specializes in support for women, who comprise over 90 percent of its total client base.

Operations Targeted at Transition Economies. Conflicts, epidemics, and natural disasters have prevented many countries in Africa from reaching their full socio-economic potential. Conflicts in the Horn of Africa, the Great Lakes Region, the Sahel, and the Mano River area, have retarded growth. In response, the AfDB has initiated a number of programs to address the challenges of fragility and the socio-economic impacts of the conflicts and natural disasters in these areas (Box 4.3). In the Mano River region, the recent Ebola epidemic has slowed down the return to sustained growth. In the latter part of 2014, for example, the Bank embarked on projects to help countries in the area deal with the effects of Ebola and help launch a reconstruction process.

Human Development Projects. The AfDB's projects for human capital development in Africa range from enhancing the quality of skills, science, technology and innovation, to the promotion of new education models that ensure that young school graduates have skills that match the needs of the labor market. At the tertiary level, the Bank supports the African Virtual University and the Pan-African University. Both exist to provide opportunities for higher education to as many people in Africa as possible, at a reasonable cost. Another notable project supported by the AfDB is the Social Inclusion and Cohesion Enhancement Support Program in Côte d'Ivoire. This project aims at integrating ex-combatants into the job market by addressing the social and psychological damage caused by the past civil conflict. The project also aims at nipping all conflicts in the bud in order to guarantee greater political stability and more equitable economic growth.

Governance and Strengthening of Public Institutions. Governance and inclusive growth are intertwined. In the absence of effective public institutions, African countries cannot make much progress on the inclusive growth agenda. To support governance through effective institutions, the Bank has in recent years provided a number of policy-based loans aimed at enhancing the performance of Africa's public sector. Across the continent, streamlined government functions have helped reduce the cost of doing business, which in turn boosts private-sector participation in the economy and growth. The Mozambique Economic Governance and Inclusive Growth Program, and the Sierra Leone Inclusive Economic Management Program, both approved in 2014,

are examples of governance-related programs showing a positive impact on inclusive growth. In all, the Bank in 2014, provided support for public-sector reforms and governance to close to 50 percent of its RMCs.

Strengthening the Bank as a Gender-Responsive Institution. The Bank's Gender Strategy is a response to the reality that gender equality is critical to Africa's economic and social development. The strategy recognizes the need to strengthen the legal and property rights of African women, promote their economic empowerment, and enhance gender-related knowledge management and capacity building in the Bank's operations. In line with its TYS and Gender Strategy, the mainstreaming of gender in the Bank's corporate policies, practices and operations has improved considerably. Gender indicators, for example, are now included in the Bank's Corporate Key Performance Indicators (KPIs) and are monitored monthly through the Executive Dashboard. Initiatives in the pipeline designed for a high impact in promoting women's empowerment include: (i) The Busara Micro-, Small-, and Medium-size Enterprises (MSME) Facility to invest in African Women led/managed SMEs with high growth and impact potential; (ii) The Ebola Social Investment Fund that aims to address the socio-economic impact of the Ebola epidemic on women in the Mano River Union, and (iii) the establishment of African Digital Marketplace for women that provides access to information, markets and finance, and provides them with a safe place to make transactions.

Bank Operations Approved in 2014 that have Potential Positive Impact on Inclusive Growth

A few examples of the Bank's interventions in various sectors that show how inclusive growth is being fostered in Bank Group operations are presented below.

- *The Malawi Sustainable Rural Water and Sanitation Infrastructure for Improved Health and Livelihoods Project* was approved in April 2014. The project will contribute to inclusive growth by improving access to clean water and sanitation and improving watershed management in the project locations. The improvement in access to water will free up the time spent by women and girls in fetching water and free up their time for more productive activities such as agriculture and off-farm activities. By eradicating water-borne diseases, the project will enable the population to become more productive and take advantage of various economic opportunities.

- *The Mozambique Economic Governance and Inclusive Growth Program,* approved in September 2014, aims to promote inclusive and sustainable growth by consolidating transparent and accountable public financial management and improving the enabling environment for private-sector development in the country. Expected outcomes include: (i) improved efficiency and transparency in the management of natural resources; and (ii) expanded opportunities for business creation, growth, and employment which will ultimately be reflected in new jobs.

- *The Horn of Africa Drought Resilience and Sustainable Livelihoods Program (DRSLP), Phase II.* This multinational program aims to address the impacts of severe droughts and chronic food insecurity in the region. Phase II of the program (USD 153 million), approved in 2014, will cover Ethiopia, Eritrea, Somalia and Sudan. A large proportion of the 20 million agro-pastoralists in the region are food insecure, exposed to drought and institutional weaknesses that lead to debilitating cyclical poverty. This innovative, multi-phase program enhances inclusiveness through infrastructure programs for water mobilization and management, livestock health and production, and marketing. Communities will have direct access to these services. Women will benefit from specialized training. Overall, the project will enhance the resilience of rural households and communities against the impacts of climate change.

- *The Multinational Program to Build Resilience to Food and Nutrition Insecurity in the Sahel (P2RS).* This program was approved in October 2014 for the benefit of Mauritania and other Sahel Countries in West Africa (Burkina Faso, Chad, The Gambia, Mali, Niger, and Senegal). The program's overall objective is to contribute to inclusive growth by reducing poverty and improving food and nutrition security in the Sahel. Its specific objective is to increase, on a sustainable basis, agro-pastoral and fishery productivity. The program will improve the living conditions of over three million people, 51 percent of whom are women.

3.3 The Bank's Knowledge Management, Capacity Building and Advocacy

In keeping with its knowledge generation and management mandate, the Bank produced a number of flagship publications in 2014. These include the African Development Bank Group Annual Report 2013, the African Economic Outlook Report 2014 on the theme of *global value chains,* and the *African Development Report 2014 on Regional Integration and Inclusive Growth.*

The *African Development Report 2014* focused on how economic integration could contribute to inclusive growth, a relatively new notion in development. The publication identified competitiveness, regional value chains, broadening market access, and allowing the mobility of populations as key aspects of regional integration that could improve inclusiveness. The four editions of the *African Development Review* produced in 2014 and 20 Working Papers also addressed the issue of inclusiveness.

The theme of the African Economic Conference for 2014, held in Addis Ababa, Ethiopia, was *Knowledge and Innovation for Africa's Transformation,* while *Inclusive Economies* was the theme of the forum co-sponsored by the Bank, the Rockefeller Foundation, and the United Nations Economic Commission for Africa, in Nairobi, Kenya. These knowledge products and events provided opportunities for African and other stakeholders to benefit from the Bank's leadership of the discourse on promoting inclusive growth in Africa.

The core research in the Bank has also gravitated towards sustainable and inclusive growth. The Bank's research on affordable housing in Africa is one such example. This research indicates that the bulk of the interventions in Africa's housing markets by international finance institutions and the private sector, by default, target the upper middle classes who are seen as creditworthy. The Bank's research on trade finance shows that small businesses are seriously rationed and require a mechanism to sustain them, as current lending rates on the parallel markets are prohibitively high.

Further, the Bank partnered with the Korean Development Institute in undertaking a study on inclusive growth in Africa. It also carried out a joint study with the World Bank and Cornell University on "Agriculture in Africa: Myths and Realities and Inclusive Growth".

In view of the importance of training and capacity development for the attainment of inclusive growth, the Bank developed the eInstitute Knowledge Portal (http://einstitute.afdb.org) in 2013. The platform now contains over 40 training and knowledge products that cover inclusive growth, green growth, and value for money in the social sector. The eInstitute aims to become the lead platform for distance learning and eLearning for generating and sharing knowledge for capacity development in Africa. In pursuit of improved access to knowledge and new ideas, the Bank has facilitated networking opportunities among African think tanks to enhance their engagement in its policy dialogue for inclusive growth and economic transformation.

Inclusive growth requires high quality and reliable statistics and tools for analysis. It is broadly acknowledged that good data are vital to policymaking and policy implementation, monitoring, evaluation, and review. In this regard, the Bank has undertaken measures to strengthen its Statistics Department and ensure it provides statistical leadership in the inclusive growth debate. In particular, the statistics function has focused on strengthening the development effectiveness of the Bank's operations and statistical capacity building in RMCs. A result has been a significant improvement in data coverage, quality, reliability and harmonization in RMCs. The re-launching in 2014 of the Bank's *Africa Information Highway (AIH) Initiative* has made it possible for virtually anyone with Internet access to obtain detailed official data on African economies. The Bank's data-gathering platforms include those for agricultural and rural statistics, labor force surveys, and regionally comparable consumer price indices. Publications based on the Bank's statistical work have included those on gender, poverty, environmental indicators, the Africa Tourism Monitor, and a volume on Africa's middle class.

3.4 Looking Ahead

The inclusive-growth agenda calls for vigorous action. While policy options are well known, effective implementation has sometimes fallen short of expectations. Political will, accompanied by effective bureaucracies, will be needed to ensure progress in the future.

Although the Bank has made progress in incorporating elements of inclusiveness in its operational work and knowledge products, there are undoubtedly some challenges still to overcome. The development process is complex and dynamic and involves many components. As such, there is certainly no silver bullet to tackling these challenges. As experience has shown, Bank lending alone, even when accompanied by capacity-building efforts, might not be sufficient to push countries on to a sustainable and inclusive growth path. Rather, fostering inclusion calls for dedicated policymaking and strong leadership and participation of all citizens, if desired results are to be attained.

One important area on which the Bank needs to focus in the coming years is the strengthening of its capacity to learn from its past operations through impact evaluation (IE). As noted earlier, IE is important in determining whether or not an intervention works and under what contexts it works and will therefore help in scale-ups and redesign of similar new projects. First, IE needs to be institutionalized in the Bank so that it is conducted under a clear framework, with clear incentives for projects that have an IE component. Incentives could include having a score for IE in the project preparation process (readiness review, for instance). Second, more resources, including human and financial, need to be dedicated to IE to ensure quality analyses of the impact of Bank interventions and to ensure that the Bank gets value for money from the projects implemented.

Knowledge generation, skills, and technology—key ingredients for achieving inclusive growth and poverty reduction—will continue to be a major area of focus for the Bank. Through dedicated research and the provision of advisory services, the Bank will help countries boost their capacity-building initiatives and support their provision of quality education, especially vocational training and skills development.

Private-sector development activities promote inclusive growth across all economic sectors and firms, ranging from micro-enterprises to large corporations, generating growth, jobs and economic opportunities for all, especially the poor. In Africa, the private-sector accounts for over 80 percent of total production, two-thirds of total investment, three-quarters of total credit to the African economy, and 90 percent of the labor force. Given its important role in the economy, the current levels of the Bank's support to the private sector must be sustained.

Further, the Bank should broaden the coverage of both its sovereign and non-sovereign investments and operations. This will give it greater headroom to support financial sector activities in Low-Income Countries (LICs), as well as states in fragile situations. The Bank should prudently deploy its diverse range of financial products—guarantees, risk capital/equity investments, and grants—to respond to market needs and context while also balancing the associated risks. The most appropriate way to proceed will be to pilot solutions in each region. Successes should be replicated and scaled up in other countries that share similar economic and/or regulatory constraints.

Access to markets is central to inclusive growth and ensuring the broad creation of economic opportunities. More competitive/flexible agricultural commodity markets should be promoted to create opportunities that enable poor farmers to access domestic and export markets. This should be complemented by adequate regulatory frameworks. Further, it is imperative that access to agricultural markets is promoted by providing production-side investments that improve productivity and product quality, while responding to the challenges of poorly functioning domestic and regional markets and costly transport systems that significantly increase farmers' costs and crowd them and African traders out of domestic and regional markets.

By global standards, African women are both economically active and highly entrepreneurial. They form the bulk of the agricultural labor force and also own and operate the majority of businesses in the informal sector. However, they are concentrated in low-productivity occupations. Closing the productivity gap for African women could make a huge contribution to inclusive growth.

Addressing the challenges of multinational programs on issues of fragility and socio-economic problems (see Box 4.3 in Chapter 4) requires significant resources, and a concerted effort from development partners and national entities. It calls for effective and well-coordinated partnerships and capacity building. The relevant program-coordinating institutions, in particular regional organizations such as the Intergovernmental Authority on Development (IGAD), the Economic Community of West African States (ECOWAS), and the Permanent Interstate Committee for Drought Control in the Sahel (CILSS), can be strengthened to coordinate regional programs, in close collaboration with national agencies. For example, the Common Programs developed by countries in the Horn of Africa to build resilience against drought and promote sustainable livelihoods, can provide a good common framework for interventions that also coincide with national priorities. Such programs can be replicated elsewhere on the continent.

The next three chapters outline how the challenges noted above were addressed by the Bank through its delivery of projects and advisory services in 2014.

Further Reading

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Part II

Bank Operations, Effectiveness and Governance

Chapter 4
Bank Group Operations

The Bank's lending activities are conducted through three windows of the Bank Group: the African Development Bank (ADB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF). In the charged calendar for 2014, which included the Bank's return to Abidjan, particular attention was paid to project quality as well as to project alignment to the Bank's Ten-Year Strategy, which entered its second year of implementation. Bank Group operations amounted to UA 5.05 billion in 2014, an increase of 15.1 percent over 2013. An overview of the overall Bank Group performance in its operations is followed by a review of performance by sector. The Bank's operations are also presented according to Africa's five sub-regions. Further, the chapter looks at other non-lending areas of intervention, including partnerships and HIPC/MDRI debt-relief operations.

4.1 Overview

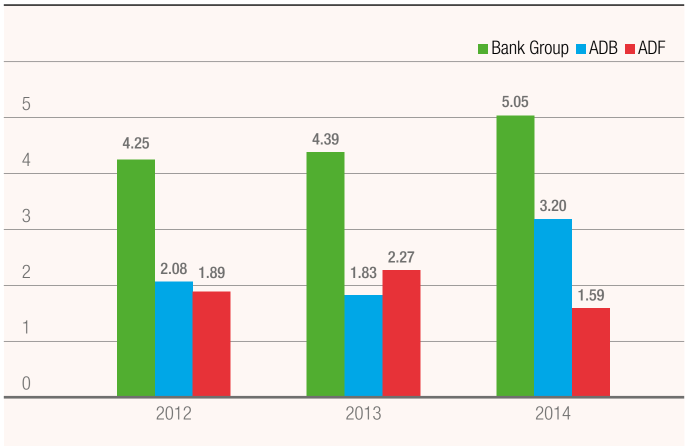
In 2014, Bank Group operations increased by 15.1 percent over 2013. As in previous years, and in line with the TYS, infrastructure operations, mainly in energy and transport, received the bulk of Bank Group resources. For the ADB window, operations rose by 74.8 percent to UA 3.20 billion with both the sovereign and private-sector operations exceeding their targets. Although ADF lending met its target for 2014, there was a decline of 29.8 percent in operations in comparison with 2013. The slow take-off of ADF activities in 2014, the first year of the ADF-13 Replenishment was an important factor. At the ADF window, the social and agricultural sectors showed strong performance, as did lines of credit to SMEs and trade finance under the ADB window.

Bank Group operations in 2014 were aligned with the Bank's Ten-Year Strategy (TYS), which emphasizes infrastructure investments (energy, transport, water and sanitation, and ITC). Infrastructure investments during the year accounted for over 55 percent of the Bank's operations. Bank interventions in the social sector included support for Ebola emergency relief operations. These took up about 40 percent of the Bank's loan and grant resources invested in social sector interventions. Despite the impact of the Ebola outbreak, the mixed impact of depressed oil prices and other head and tailwinds, continued implementation of the Bank's TYS, which entered its second year in 2014, is expected to contribute to Africa's accelerated and inclusive growth in the years ahead.

Overview of Bank Group Operations by window. Total Bank Group operations (including loans and grants, equity participation, guarantees and Special Funds) amounted to UA 5.05 billion in 2014, an increase of 15.1 percent over 2013. Both the private and public sector operations of the ADB window exceeded their targets for 2014. Operations at the ADB window increased by 74.8 percent to UA 3.20 billion over the previous year while ADF window operations fell by 29.8 percent to UA 1.59 billion (Figure 4.1), although they still exceeded the lending target for 2014. The weaker performance at the ADF window was partly due to the slow take-off of activities in 2014, the first year of the implementation of the ADF-13 Replenishment.

Closing the infrastructure gap is vital to Africa's economic progress. Accordingly, the demand for the financing of power and transport was high at the ADB private-sector window. The ADB public-sector window saw a similar trend, with strong demand for the financing of water projects. A UA 8.95 million provision for business development and diversification of the client base in the 2014 budget had positive results as it helped increase the ADB's public-sector lending to 11 countries from

Figure 4.1 Bank Group Approvals by Window, 2012-2014 (UA Billion)



Source: AfDB Statistics Department.

Table 4.1 Bank Group Approvals by Sector, 2014
(UA million)

Sector	ADB		ADF		NTF		Bank Group	
	Number	Amount	Number	Amount	Number	Amount	Number	Amount
Agriculture and Rural Development	**12**	**204.71**	**22**	**277.14**	**1**	**6.49**	**35**	**488.34**
Social	**15**	**30.04**	**32**	**336.90**	**-**	**-**	**47**	**366.94**
Education	2	1.1	5	100.25	-	-	7	101.34
Health	8	9.91	20	144.60	-	-	28	154.51
Other	5	19.04	7	92.05	-	-	12	111.09
Infrastructure	**20**	**1,755.47**	**29**	**737.82**	**1**	**5.00**	**50**	**2,498.30**
Water Supply and Sanitation	5	155.23	4	98.30	1	5.00	10	258.53
Energy	6	1,114.59	9	205.67	-	-	15	1,320.27
Communication	1	0.80	-	-	-	-	1	0.80
Transport	8	484.86	16	433.85	-	-	24	918.71
Finance	**14**	**774.19**	**1**	**32.59**	**-**	**-**	**15**	**806.78**
Multisector	**6**	**100.38**	**23**	**167.01**	**-**	**-**	**29**	**267.39**
Industry, Mining and Quarrying	**2**	**39.11**	**-**	**-**	**-**	**-**	**2**	**39.11**
Urban Development	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Environment	**-**	**-**	**4**	**33.20**	**-**	**-**	**4**	**33.20**
A. Total Loans and Grants	**69**	**2,903.89**	**111**	**1,584.67**	**2**	**11.49**	**182**	**4,500.05**
B. Other Approvals	**10**	**297.41**	**1**	**8.25**	**-**	**-**	**50**	**549.87**
HIPC Debt Relief	-	-	-	-	-	-	-	-
Post Conflict Country Framework	-	-	-	-	-	-	-	-
Equity Participation	6	132.58	-	-	-	-	6	132.58
Guarantees	4	164.83	1	8.25	-	-	5	173.07
Loan Reallocation	-	-	-	-	-	-	-	-
Special Funds*	-	-	-	-	-	-	39	244.22
Total Approvals (A + B)	**79**	**3,201.30**	**112**	**1,592.91**	**2**	**11.49**	**232**	**5,049.92**

Source: AfDB Statistics Department.

* *Special Funds included the African Water Facility, the Rural Water Supply and Sanitation Initiative, the Global Environment Facility, the Global Agriculture and Food Security Program, the Climate Investment Funds, the Climate Technology Fund, the Sustainable Energy Fund for Africa, the Middle East and North Africa Transition Fund, the Nigeria Technical Cooperation Trust Fund, the Congo Basin Forests Fund, the Special Climate Change Fund, the Fund for African Private Sector Assistance, the Microfinance Capacity Building Fund, and the Governance Trust Fund.*

six in 2013. Further, the ADB private-sector window helped leverage approximately UA 13.0 billion in co-financing, more than double the year's UA 6.0 billion target.

The Nigeria Trust Fund approved two projects, a UA 6.5-million agricultural project and UA 5.0 million water supply project. This brought its total approvals in 2014 to UA 11.5 million (Table 4.1), a 63.2 percent decline on 2013 figures.

A total of UA 4.50 billion (89.1 percent) of the Bank Group's total approvals were for loans and grants, while UA 549.9 million (10.9 percent) were for private-sector equity participation, guarantees, and resources from Special Funds (Table 4.1).

Approvals from Special Funds amounted to UA 244.2 million, a decline of 3.6 percent from 2013. Special Funds included the African Water Facility, the Rural Water Supply and Sanitation Initiative, the Global Agriculture and Food Security Program, the Middle East and North Africa Transition Fund, the Nigeria Technical Cooperation Trust Fund, the Fund for African Private Sector Assistance, the Microfinance Capacity Building Fund, and the Governance Trust Fund. Other Special Funds, specifically related to climate change, were the Global Environment Facility, the Climate Investment Funds, the Climate Technology Fund, the Sustainable Energy Fund for Africa, the Congo Basin Forest Fund, and the Special Climate Change Fund.

While Africa's economic growth continues to rise, the continent's large infrastructure deficit remains a major constraint. An AfDB study, "Infrastructure Deficit and Opportunities in Africa" states that only 34 percent of Africa's population has access to roads, compared to 50 percent in other parts of the developing world. Transport costs on the continent are 100 percent higher than they are in other parts of the developing world. The study also notes that only 30 percent of Africa's population has access to electricity, compared to 70-90 percent in other parts of the developing world. Further, Africa's water resources are underutilized, with only 5 percent of the continent's agriculture under irrigation. Similarly, Internet penetration on the continent is at a mere 6 percent, compared to an average of 40 percent elsewhere in the developing world.

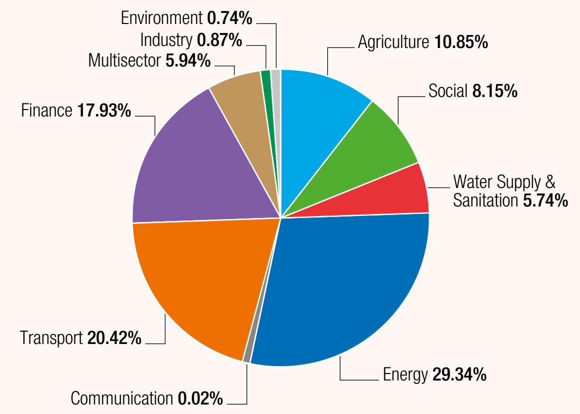
Given these gaps, a priority of the Bank's TYS is to close the continent's infrastructure deficit. This is in the belief that improved infrastructure in Africa will facilitate increased intra-regional and international trade, reduce the cost of doing business, and enhance Africa's competitiveness in the global economy. It will also act as a catalyst for Africa's economic diversification and transformation. The sectoral distribution of Bank Group operations in 2014, illustrated below (Figure 4.2a), is in line with the TYS emphasis on infrastructure development.

Summary of Bank Group Operations by Sector. Figure 4.2a shows that Bank Group approvals for infrastructure stood at UA 2.50 billion (55.5 percent of total approvals). Of this total, energy (29.3 percent) and transport (20.4 percent) accounted for the largest share of approvals while water and sanitation took up 5.7 percent. The relatively large share of approvals for infrastructure underscores the emphasis that the Bank has placed on narrowing Africa's infrastructure deficit, a barrier to inclusive growth.

Figure 4.2a also shows that approvals for Africa's finance sector were at 17.9 percent of the total. These approvals were targeted primarily at alleviating credit constraints faced by small- and medium-size enterprises and fostering financial inclusion. The chart shows that agriculture took up 10.9 percent of total approvals. The Bank's goals in the sector are to enhance food security and raise farm productivity and rural incomes. The chart also shows that the social sector received 8.2 percent of total approvals. Here, the focus continues to be on skills development, technological innovation and improving health sector infrastructure. There were also smaller approvals for multi-sector, industry and environment operations.

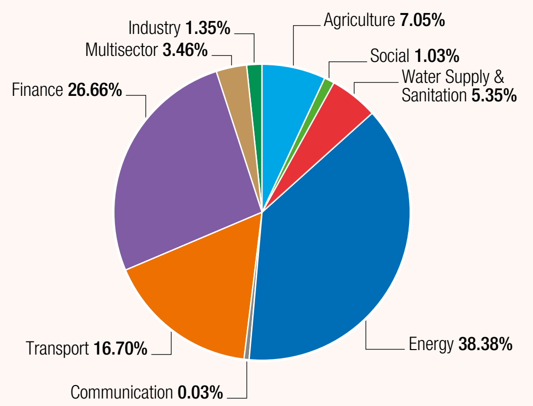
Figures 4.2b and 4.2c show that infrastructure approvals by window, ADB and ADF, were significant. However, approvals for social sector-related activities, agriculture, and multi-sector activities (for governance-related operations) from the ADF

Figure 4.2a Bank Group Loan and Grant Approvals by Sector, 2014 (UA 4.50 billion)



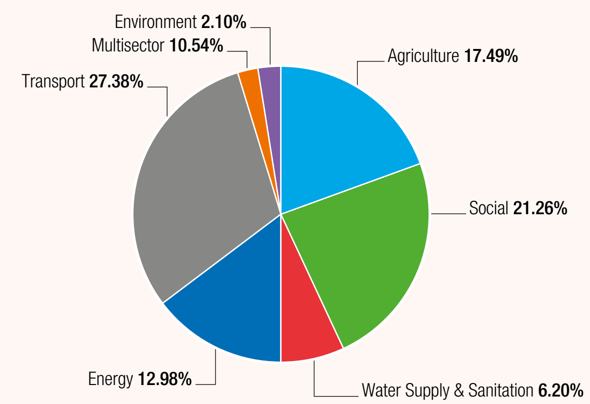
Source: AfDB Statistics Department.

Figure 4.2b ADB Loan and Grant Approvals by Sector, 2014 (UA 2.90 billion)



Source: AfDB Statistics Department.

Figure 4.2c ADF Loan and Grant Approvals by Sector, 2014 (UA 1.58 billion)



Source: AfDB Statistics Department.

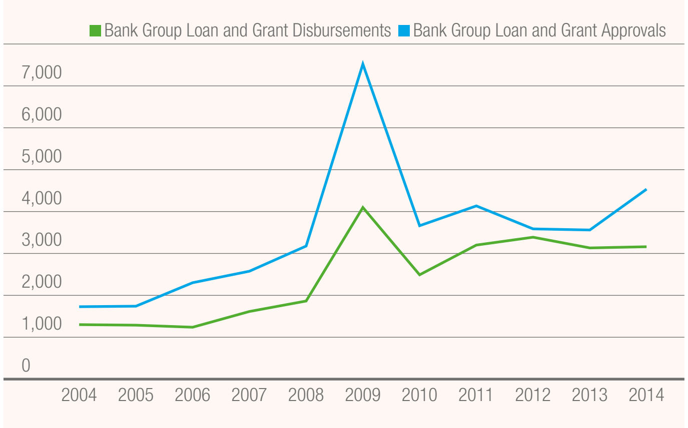
window were larger than those for the ADB. For the ADB window, on the other hand, finance operations for lines of credit, trade finance, and support to micro-, small-, and medium-size enterprises were significant.

Bank Group Approvals and Disbursements. During 2014, Bank Group loan and grant disbursements, excluding Special Funds, equity participation and guarantees, amounted to UA 3.16 billion, a 0.7 percent increase over 2013 (Figure 4.3). However, the ratio of total disbursements to total approvals, declined to 70.1 percent in 2014, compared to 88.0 percent in 2013, and 93.8 percent in 2012. The high volume of approvals in 2014, at UA 4.50 billion, a 26.5 percent increase over approvals in 2013, was a key factor in the drop in this disbursement ratio to 70.1 percent in 2014. The increasing lag between loan approval and first disbursement, infrequent project supervision, the inadequate quality at entry of some projects, and other slippages were also factors in the decline in the disbursement rate. The weaknesses in portfolio performance that led to the lower disbursement rate in 2014, compared with 2012 and 2013, needs to be addressed in order to raise both the level and rate of disbursement in the years ahead.

With regard to the Bank's financing windows, the total disbursements in 2014 for the ADB were UA 1.94 billion (61.4 percent of the Bank Group total); UA 1.22 billion (38.5 percent) for the ADF, and UA 3.1 million (0.1 percent) for the NTF.

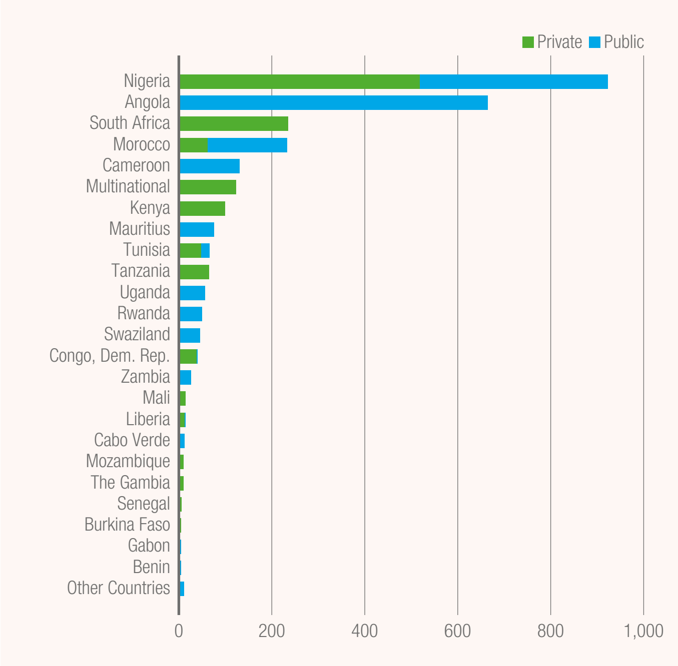
The Bank Group's loan and grant approvals and actual disbursements (Figure 4.3) peaked in 2009. This is explained by the Bank's response to extraordinary and unusually high demand for resources from RMCs at the height of the 2008/2009 global financial crisis, as their other sources had dried up. To meet this demand for financing, the Bank devised counter-cyclical measures in the form of quick disbursing budget support operations and short-term trade and liquidity facilities.

Figure 4.3 Bank Group Loan and Grant Approvals* and Disbursements, 2004-2014 (UA million)



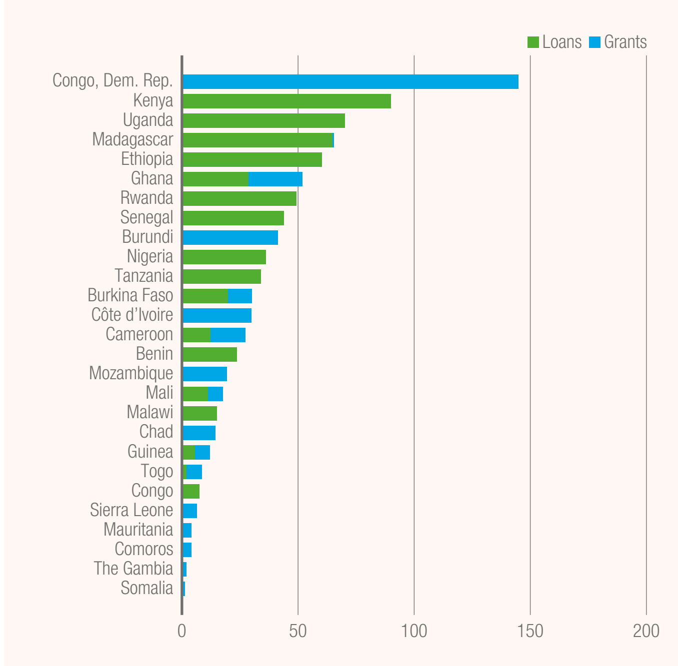
Source: AfDB Statistics Department.
* *Total loan and grant approvals exclude Special Funds,equity participation, and guarantees.*

Figure 4.4 ADB Loan and Grant Approvals by Country, 2014 (UA million)



Source: AfDB Statistics Department.

Figure 4.5 ADF Loan and Grant Approvals by Country, 2014 (UA million)



Source: AfDB Statistics Department.

Bank Group loan and grant approvals have since returned to normal levels, with total annual approvals at between UA 3 and 5 billion. For total Bank Group approvals, including equity participation, guarantees, and drawdowns from Special Funds, the normal range is between UA 4 and 6 billion.

ADB Approvals by Country. In 2014, ADB approvals stood at UA 2.90 billion, 57.7 percent for public-sector operations and 42.3 percent for private-sector operations. Figure 4.4 illustrates this distribution.

ADF Approvals by Country. Of the total ADF approvals (UA 1.58 billion), 44.6 percent went to multinational operations while the remaining 55.4 percent went to 30 ADF recipients. This distribution is illustrated in Figure 4.5.

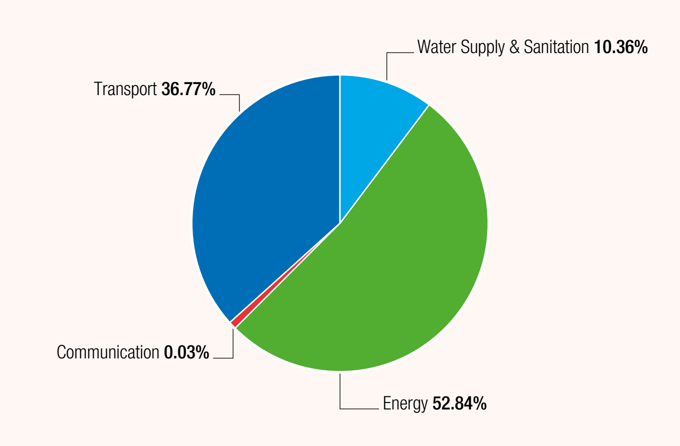
4.2 Bank Group Operations by Priority and Areas of Special Emphasis (including Management of the Ebola Crisis)

This section looks at Bank operations with regard to the priorities and areas of special emphasis in its TYS. The analysis highlights the operations approved by the Bank in 2014. These include infrastructure in its main components, namely energy, transport, water and sanitation; private-sector development; regional integration; governance, and skills and human development. This section also reviews the three areas of special emphasis under the TYS: gender, agriculture and food security, and states under fragile situations. Two subsections review the Bank's budget support, relief operations and the socio-economic impact and management of the Ebola epidemic and the Bank's programs to address fragility and other socio-economic challenges in the Sahel Region, Horn of Africa, and Lake Chad Basin.

Transport. Loan and grant approvals for 24 transport sector operations in 2014 stood at UA 918.7 million, representing 36.8 percent of the UA 2.50 billion approvals for infrastructure. (Figure 4.6). West and Central Africa were the main beneficiaries. During the year, there was one large private-sector transport project in South Africa (Transnet) and a few smaller public-sector projects in Eastern Africa.

The largest of the public-sector operations financed by the Bank in 2014 was the multinational Road Development and Transport Facilitation Program (UA 140.9 million) in the Mano River Union (MRU) in West Africa. The program seeks to help the three MRU countries, namely Côte d'Ivoire, Guinea and Liberia, to overcome fragility and will benefit road users, transporters, farmers, and some 2.83 million people, especially disadvantaged groups, women and children. The program is financed from the countries' ADF loan allocations and grants from the Transition Support Facility. Another large public-sector operation approved by the Bank was the UA 136.1 million to finance Cameroon's Batschenga-Ntui-Yoko-Tibati-Ngaoundéré road project under the country's Transport Sector Support

Figure 4.6 Bank Group Loan and Grant Approvals for Infrastructure, 2014



Source: AfDB Statistics Department.

Program (Phase I). This road will handle national and international traffic between Cameroon's northern and southern regions, and also provide a link to neighboring Chad.

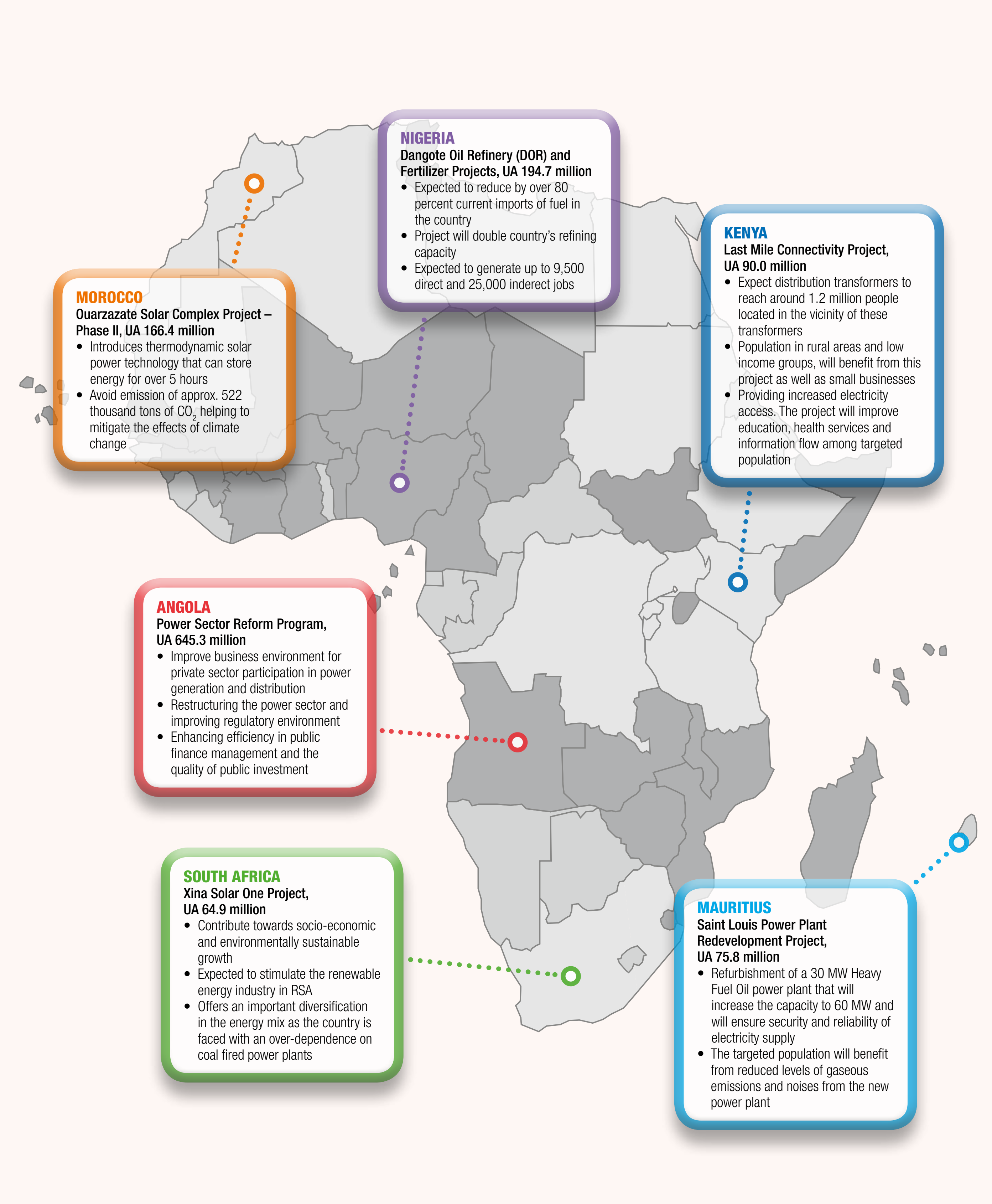
The Bank's private-sector arm lent UA 170.7 million to Transnet, South Africa's national rail transport company, for its modernization program. The project will boost transport infrastructure, support regional economic integration, provide a platform for private-sector development, reduce carbon dioxide (CO_2) emissions and promote the transfer of new rail technology skills to local workers. In particular, the operation will deliver the efficient transportation of agricultural produce to markets.

Energy. Bank Group approvals to the energy sector in 2014 stood at UA 1.46 billion, of which UA 1.32 billion was in loans and grants, UA 127.8 in million Special Funds, and UA 8.2 million in guarantees. Public-sector financing took up UA 1.01 billion (76.5 percent) while private-sector financing stood at UA 310.0 million (23.5 percent). Map 4.1 presents major public and private-sector energy projects approved in 2014.

The single largest approval for the sector was the UA 645.3 million, 48.9 percent of total energy approvals, for the Angola Power Sector Reform Program, a public-sector initiative. The program will expand access to electricity at affordable rates for the rural communities, especially who comprise 45.2 percent of Angola's population. It will also cover a restructuring of Angola's power sector, and regulatory environment.

Another major approval for the sector was the UA 194.7 million loan for the private-sector-financed Dangote Oil Refinery and

Map 4.1 Highlights of Public and Private Sector Energy Projects Approved in 2014



Source: AfDB Energy, Environment and Climate Change Department.

Fertilizer program. This aims to reduce Nigeria's current fuel imports by 80 percent and address the country's high oil import bill by doubling refining capacity. Further, the construction of the refinery will create temporary jobs during construction, and 2,900 full-time jobs when it is fully operational.

Other approvals included two renewable energy projects, namely, the Ouarzazate Solar Complex Project (Phase II), a public-private partnership in Morocco (UA 166.4 million); and South Africa's private-sector-funded Xina Solar One operation (UA 64.9 million). This project is a key component in the South African government's renewable energy program (Map 4.1 and Box 4.1).

Environment and Climate Change. During the year, the Bank approved four operations in the environment and social change sector totaling UA 33.2 million, representing 0.74 percent of the total Bank Group loan and grant approvals (Figure 4.2a). The approvals were for Cameroon, Chad, Niger and the Central African Republic to rehabilitate and strengthen the resilience of their common Lake Chad Basin habitat. There was also an approval for a UA 2.1 million Special Fund operation for work with communities to reduce deforestation in the Virunga-Hoyo region in the Democratic Republic of Congo. These climate-financing operations support the TYS's transition to green growth agenda.

Box 4.1 highlights some attributes of other projects that promote Africa's transition to green growth.

Box 4.1 Transition to Green Growth Operations

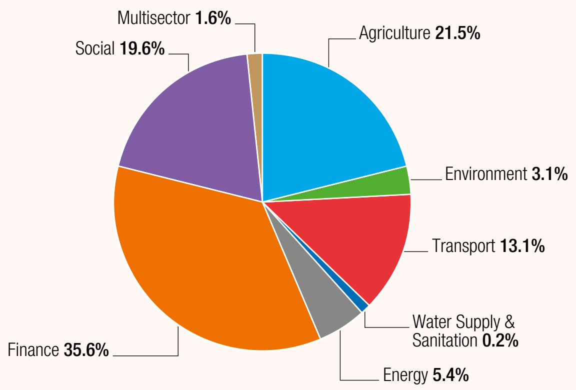
The Ouarzazate Solar Complex Project (Phase II) in Morocco was approved in December 2014 to achieve a power generating capacity of approximately 500 MW by developing two power plants (NOORo II and NOORo III) under a public-private partnership. The plants will use thermodynamic solar power technology that can store energy for more than five hours. The project will reduce greenhouse gas emissions by some 522,000 tons, thus mitigating the effects of climate change. The knowledge generated by the project will enable Morocco and other RMCs to better design and leverage similar ventures.

The Xina Solar One Project in the Republic of South Africa was approved in October 2014 as a key component in the government's renewable energy program which aims to produce 6,927 MW power through renewable energy by 2017. The project, in keeping with South Africa's energy diversification strategy, will help reduce the country's current over-dependence on coal-fired power plants. This project is fully in line with the Bank's emphasis on renewable energy projects.

Water Supply and Sanitation. In 2014, the Bank Group approved 17 water and sanitation projects of UA 290.1 million. These projects, mainly in water, will promote inclusive growth by improving access to water and freeing up time for girls to attend school more regularly, and for women to invest their time in more productive activities such as agriculture. Six of the 17 projects were financed by loans and grants totaling UA 258.5 million (89.1 percent) while the 11 others were funded exclusively through Special Funds (UA 31.6 million (10.9 percent). The single largest approval was UA 132.5 million (51.2 percent of loans and grants) for Nigeria's Urban Water Sector Reform and Port-Harcourt Water and Sanitation Project. Nearly all the loans and grants were used to finance operations in ADF-eligible RMCs.

The African Water Facility (AWF) funded eight of 13 Special Funds operations, while five others were financed from Rural Water Supply and Sanitation Initiative (RWSSI) sources. The funds will support (i) the sustainable development of requisite infrastructure for water supply and sanitation; (ii) coordination of water-related activities within the Bank and in RMCs; (iii) the creation of an enabling environment for water and sanitation sector development at national and regional levels; and (iv) management of water-related knowledge activities.

Figure 4.7 Sectoral Composition of Multinational Approvals Financed in 2014



Source: AfDB Statistics Department.

As in previous years, water and sanitation sector activities were implemented with the support of three complementary initiatives hosted by the Bank: The African Water Facility (AWF), Rural Water Supply and Sanitation Initiative (RWSSI), and the Multi-Donor Water Partnership Program (MDWPP) (Box 4.2).

Regional Economic Integration. Total approvals for multinational (regional) operations in 2014 amounted to UA 1.08 billion, an 18.2 percent decline from the 2013 approvals of UA 1.32 billion. The largest share (35.6 percent) went to lines of credit to MSMEs, trade finance, guarantees and equity participation. This was followed by regional agriculture projects (21.5 percent), the social sector (19.6 percent), and infrastructure (18.6 percent), particularly transport and energy (Figure 4.7).

Box 4.2 The Three Water Initiatives

African Water Facility (AWF). This is an initiative of the African Ministers' Council on Water (AMCOW) which is hosted and administered by the African Development Bank. It was established in 2004 as a Special Water Fund to help African countries achieve the Africa Water Vision 2025 objectives. In 2014, eight AWF projects and one multinational studies program were approved for six countries, with a combined cumulative commitment of UA 13.7 million. These initiatives comprise three project preparation interventions (Nigeria, Mozambique and Somalia), two small strategic investments (Kenya), and one knowledge management project (South Africa). The Somalia project is in support of a state under transition. All six approvals emphasize the role of women, youth and the poor. Notably, sanitation services will be improved for the urban poor while employment opportunities will be created through small businesses for women and the youth. As part of its efforts to mainstream climate-change activities in all of its projects, the AWF in 2014 launched a *Call for Proposals* for the preparation of Climate Resilient Water Resources Development Operations program in Africa. Approval of the program is expected to provide up to EUR 16 million for the financing of new projects in Africa. The program expects to leverage EUR 600 million in downstream co-financed investments to strengthen enabling environments for adaptation/mitigation actions.

Rural Water Supply and Sanitation Initiative (RWSSI). This initiative was conceived by the Bank in 2003 as a regional framework for mobilizing partners, knowledge and the investments needed to meet water supply and sanitation development goals in rural Africa. In line with the African Water Vision, it aims to provide full and equitable access to safe, adequate and affordable water supply and sanitation in rural Africa by 2025. Five of the nine projects approved by RWSSI in 2014 (UA 105 million) were for Guinea, Senegal, Ethiopia, Malawi and Zambia and focused on rural water supply and sanitation. Preparations for operationalization of the Kigali Action Plan (KAP), an African Union Commission initiative to be implemented within the framework of the RWSSI, started in 2014. The action plan, and its resources, will be managed under the RWSSI Trust Fund. The RWSSI increased its visibility and outreach in 2014 through enhanced communication efforts.

Multi-Donor Water Partnership Program (MDWPP). The MDWPP, launched in 2002, aims to promote effective water management policies and practices at regional and country levels, and to operationalize the Bank's Integrated Water Resources Management (IWRM) policy in RMCs. It catalyzed the establishment of the AWF and RWSSI that have strengthened Bank and RMC capacities for integrated water resource management. The program's active portfolio in 2014 comprised 16 initiatives with a total budget of EUR 2.83-million. Notable products and activities that were prepared and/or completed under MDWPP in 2014 include: (i) a study on the AfDB's role in achieving regional integration through trans-boundary basin development and management; (ii) climate change mainstreaming guidelines for the water and sanitation sector, and (iii) a framework and business plan for operationalization of the Permanent Interstate Committee for Drought Control in the Sahel (CILSS).

Box 4.3 The Bank's Programs in the Sahel, Horn of Africa, and Lake Chad Basin

The Sahel Program. The Bank's assistance to the Sahel is centered primarily on building climate resilience, promoting regional integration and trade facilitation through infrastructure and capacity development. The Bank has pledged USD 4 billion for the Sahel over the next few years. The funding is to help make the Sahel a region of stability and economic growth. In October 2014, the Bank approved a UA 155.8 million flagship Program to Build Resilience to Food and Nutrition Insecurity in the Sahel (P2RS) that covers seven countries: Burkina Faso, Chad, The Gambia, Mali, Mauritania, Niger, and Senegal. The program's goals are to address fragility and build the resilience of vulnerable populations against food and nutrition insecurity, as well as cope with uncertainty, and adapt to climate change in a sustainable manner.

The Horn of Africa Initiative. The Drought Resilience and Sustainable Livelihoods Program (DRSLP) is a multi-phased program which covers eight vulnerable Horn of Africa countries (Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda). In November 2014, the Bank approved USD 153 million for Phase II of the project. This phase will benefit four countries, namely, Eritrea, Ethiopia, Somalia, and Sudan. The project will develop infrastructure for water mobilization and management, and livestock production, health, and marketing. It will also build the capacity of the region's populations and governments to better cope with the effects of climate change. An estimated 20 million agro-pastoralists affected by drought and land degradation will benefit directly from the project. Other direct beneficiaries will include the governments of the region by strengthening their capacities to enhance drought resilience and regional integration.

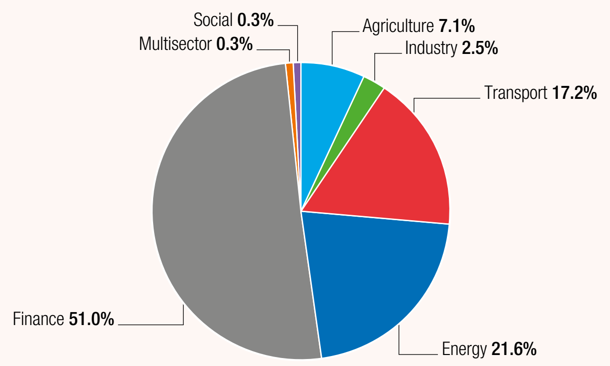
Program to Rehabilitate and Strengthen Resilience of Lake Chad Basin Ecosystems (PRESIBALT). In December 2014, the Bank approved UA 33.2 million for PRESIBALT. The program is aligned with the Bank's TYS and emphasizes inclusive and green growth. It is also in line with the Bank's 2014-2019 Strategy for addressing fragility and strengthening resilience, as well as the Bank's Action Plan on Climate Change. It aims to improve resilience of vulnerable populations in Cameroon, Niger, Nigeria, the Central African Republic and Chad, who depend on the Lake Chad Basin's natural resources for their livelihoods. Specifically, the program will (i) strengthen the resilience of the basin's socio-ecological systems, (ii) develop key products to support adaptation to climate-change impacts, and (iii) strengthen social peace through sound governance of shared resources. The program will directly benefit 15.3 million people living within the lake area, 52 percent of whom are women, by improving their incomes, food security, and access to basic social infrastructure. The lake had shrunk from 25,000 sq. km in the 1960s to some 2,500 sq. km in 2014.

Worthy of note is the significant rise in social sector approvals from 2.3 percent in 2013 to 19.6 percent in 2014, largely due to the Bank's multinational emergency response to the Ebola virus disease (EVD) epidemic in West Africa. Social Sector anti-EVD approvals in 2014 stood at UA 147.9 million, mostly as grants to strengthen West Africa's public health systems, as budget support to fight the epidemic, and technical assistance to the three most affected countries.

Two other large regional operations included the loan to the African-Export-Import Bank (UA 180.7 million) to cover lines of credit, trade finance and risk participation, and a UA 86.0 million equity participation in Africa50—the new fund created by the Bank to mobilize up to USD 100 billion for Africa's infrastructure development. Another major multinational operation was a UA 140.9 million loan for the regional Road Development and Transport Facilitation Program within the Mano River Union that comprises Côte d'Ivoire, Guinea and Liberia.

Besides the provision of financial support and technical assistance, the Bank was also an active participant in multinational programs seeking solutions to the socio-economic challenges in the Sahel region, the Horn of Africa, the Mano River Region and the Lake Chad Basin, among others. In October 2014, the Bank Group President and Senior Management together with global figures went on a joint field mission to the Mano River Union (MRU) countries to gain a first-hand picture of the impact of the Ebola crisis. There was also a similar mission to the Horn of Africa to obtain a fuller understanding of the most urgent issues there. Box 4.3 presents the Bank's programs in the Sahel, Horn of Africa, and Lake Chad Basin.

Figure 4.8 Private Sector Operations by Sector, 2014



Source: AfDB Statistics Department.

Private-Sector Operations. The Bank in 2014 approved UA 1.59 billion to finance 48 new private-sector operations, 34 national and 14 multinational operations. The amount represented an impressive 51.4 percent increase over the UA 1.05 billion approved for private sector operations in 2013. Approvals to the financial sector, mainly in the form of trade finance, lines of credit, guarantees and equity participation, represented 51.0 percent of the total for the private sector (Figure 4.8). However, this was relatively lower than the sector's 65.5 percent share in 2013. Private-sector investments in infrastructure, which accounted for 38.8 percent of total private sector approvals, were in energy and transport operations, while smaller amounts were approved for agriculture, social and multi-sector operations.

The Dangote Oil Refinery and Fertilizer Projects (UA 194.7 million) in Nigeria, and Transnet expansion project (UA 170.7 million) in South Africa were the largest private-sector projects approved. Another major approval was that for the Bank's UA 86.0 million equity participation in Africa50, a fund to catalyze and draw innovative financing from African and other sources in support of Africa's infrastructure development (Box 4.4).

The African Legal Support Facility (ALSF). The ALSF has continued to grow and deliver on its mandate of supporting African states to address creditor litigation issues and negotiate better agreements, especially in the natural resource sector and on major infrastructure projects. In 2014, the facility was able to intervene in some major projects with the potential for long-lasting development impact (Box 4.5).

African Natural Resources Center (ANRC). The ANRC was established in December 2013 to scale up work in Africa's natural-resource management. Its long-term goal is to improve inclusive growth from renewable resources management (fisheries, forestry, land and water) and non-renewable resources (oil, gas and minerals) in Africa. In particular, the center seeks to promote effective public and private-sector governance and institutional frameworks to support poverty reduction, contain potentially adverse physical and social environmental impacts, protect renewable resources, and foster sound revenue management practices, among others.

During the year, the ANRC provided technical support to the Fisheries Committee of the West Central Gulf of Guinea (FCWC).

Box 4.4 Africa50 Incorporated

In April 2014, the Board of Directors approved the Bank's UA 86 million aggregate equity participation in Africa50's project finance and project development entities. In September 2014, Africa50 was incorporated in Casablanca, Morocco, after a competitive selection process among RMCs. The fund has since drawn interest from diverse investors including pension funds and development finance institutions as well as several African governments. Africa50 expects to reach a capitalization of close to USD 1 billion by the end of 2015.

Africa50 is a new, landmark investment vehicle, focused exclusively on Africa's infrastructure opportunities. It was incubated by the AfDB as an independent, profit driven, and commercially managed entity. The fund will provide attractive risk adjusted returns to its investors throughout the project value chain, from project development to equity and debt investments in infrastructure assets. Africa50 has a triple bottom line. This is to achieve commercial returns, create business opportunities for all market players, and make an impact on building the Africa of the future.

The public-private nature of the fund means that it has the benefits of private sector rigor, the convening power of the AfDB and the political commitment of its early capital providers, African governments. Commitment from African governments creates a perfect alignment of interests between investors and countries, significantly reducing investment risk. Africa50 will be a true catalyst, mobilizing further private sector funding to provide infrastructure investments at scale for both countries and regions.

The vehicle is specifically designed to tap into the USD 50 billion annual market opportunity in African infrastructure. The Program for Infrastructure Development in Africa (PIDA), launched by the African Union, is a program designed to develop a vision and strategic framework for the development of regional and continental infrastructure. PIDA alone presents an opportunity of USD 68 billion in projects to which Africa50 will have privileged access.

Africa50 is targeting USD 3 billion in equity, coupled with an international single-A credit rating. This will enable it to tap into international capital markets with an appropriate level of flexibility, provide leverage to boost returns on equity, and scale up investment. The objective is to increase Africa50's capital base to USD 10 billion through single A-rated bonds, which will mobilize African resources such as those of African central banks and pension funds, as well as international capital markets. Through its strategic partnership and specific design, Africa50 aims to create USD 100 billion of project opportunities for global market players.

Box 4.5 African Legal Support Facility (ALSF) in 2014

The activities of the ALSF in 2014 were supported by its major funders, namely the African Development Bank, Canada, UK, France, Norway, the Netherlands, USAID, and the Islamic Development Bank. The facility approved 24 projects for capacity building in the negotiation of complex commercial agreements with external investors in RMCs.

During the year, the facility successfully defended the Democratic Republic of Congo (DRC) against a major vulture fund (FG Hemisphere) before the United States' Ninth Circuit Court of Appeal. The DRC's victory in the case meant huge savings for the country in the suit for which it would have been required to pay over USD 100 million claimed by the vulture fund.

Another major success story for the facility in 2014 was the support provided to Niger, which successfully negotiated a new uranium mining concession with Areva subsidiaries following the expiry of Areva's concession at the end of 2013. With the support of the facility, and through the work carried out by selected legal counsel, Niger and Areva agreed on several key issues, thereby avoiding potential litigation, and leading to increased returns for Niger.

Through provision of support to their defense against vulture funds, the facility ensures that RMCs' resources are preserved for development operations. The ALSF is also facilitating negotiations in at least 15 RMCs, helping them to resolve issues in major natural-resource contracts. Further, the Facility has been supporting negotiations on a variety of infrastructure deals, thereby facilitating investment.

The facility has, meanwhile, enhanced partnerships intended to generate key knowledge instruments necessary for African negotiators. These include participation in the development of a handbook, "Understanding Power Purchase Agreements", in partnership with the Natural Resource Governance Institute and Columbia Center for Sustainable Investment for the Resource Contracts initiative, as well as the launch of the African Mining Legislation Atlas with the World Bank (access material at: http://a-mla.org).

At the FCWC's request, the ANRC worked with a consultant to assist the FCWC's six member countries with the ratification and implementation of the Food and Agriculture Organization (FAO) "Agreement on Port States Measures", and with compliance to EU anti-illegal fishing regulations. Also, following a request from its government, the ANRC embarked on discussions with internal and external partners to coordinate the Bank's technical support to the Simandou South Iron Ore and Infrastructure Project in Guinea, the world's largest mining development and private-sector investment in Africa. With the ALSF, the ANRC also coordinated the Bank's participation in the 2015 Mining 'Indaba', Africa's largest mining investment conference. As the regional development financial institution in natural-resource management, the Bank's participation in the annual event is aimed at increasing its visibility to mining investors, governments and civil society organizations.

Supporting Economic and Governance Reforms. The Bank's work in governance is guided by the Governance Strategic Framework and Action Plan (GAP II) 2014-2018, approved by the Bank's Boards in 2013. The Bank's work towards implementation of the GAP II is organized around three main pillars: (i) public-sector and economic management (PSEM); (ii) sector governance; and (iii) investment and business climate. There are also three cross-cutting issues—anti-corruption, gender and regional integration—which intersect and support the three GAP II pillars. In 2014, a total of 18 operations of UA 885 million were approved in support of good governance initiatives across 16 countries. Some of the key projects and programs approved in 2014 under Governance are highlighted under the three GAP II pillars below.

Public Sector and Economic Management (PSEM) Interventions. The Bank's interventions in the area of PSEM have centered on strengthening governments' capacity for transparent and accountable use of public resources and citizens' ability to hold governments to account. Examples of such interventions in 2014 included: (i) a UA 5 million institutional support project in Togo to modernize the country's Revenue Authority and increase transparency in the extractive industries; (ii) a UA 12 million program-based operation (PBO) in Guinea for modernizing taxation and enhancing transparency and revenue collection from extractive industries; and (iii) a UA 2.3 million institutional support project in Sierra Leone co-financed with the World Bank, the United Kingdom's Department for International Development, and the European Union, aimed at strengthening fiscal control, accountability, and oversight through various instruments, including support to parliament and civil society organizations.

The Bank continues to lay special emphasis on states under fragile situations, which in 2014 constituted half of the countries that benefited from its new governance interventions. The Bank also demonstrated flexibility and responsiveness in situations of crisis and emergency. For example, in early 2014, the Bank responded to the socio-political crisis in Central African Republic with an urgent UA 15 million PBO to support policy measures focused the restoration of public service delivery and improving conditions for economic recovery. Further, the Bank responded to the protracted political crisis in Madagascar by providing a UA 25 million PBO for policy measures targeted at strengthening domestic resource mobilization and budget management.

Sector Governance. In 2014, the Bank continued to scale up interventions aimed at improving sector governance, focusing specifically on strengthening transparency, accountability and tackling procurement-related corruption at the sector level, while leveraging policies, legal frameworks, institutions, and incentives to deliver high quality services. Special emphasis was given to the natural resources and infrastructure sectors, as well as critical social services.

Investment and Business Climate. Interventions aimed at promoting private investment and sound business climates involved strengthening legal and institutional frameworks to foster private-sector development. Examples include: UA 40 million support to Burkina Faso to promote SME and MSME growth by supporting business incubators, credit guarantee schemes and export promotion agencies, and a UA 13 million PBO to Cabo Verde to support the establishment of one-stop shops for investors, as well as the creation of an incentive scheme for micro- and small businesses, simplifying registration, licensing, and taxation procedures, and amending laws to better cater for small businesses. These interventions are aimed at fostering financial inclusion by broadening access to finance and financial services by MSMEs, and enabling women-owned businesses to become beneficiaries.

Promoting Skills and Human Development. A milestone in the Bank's skills and human development in Africa was the approval of the first Human Capital Strategy, 2014-2018. This defines priorities for the Bank's work on human development in the continent and opens up new initiatives in this field. This strategy was instrumental in informing the Bank's swift and effective response to the Ebola epidemic.

In 2014, the Bank Group approved UA 366.9 million in loans and grants for 47 operations to support skills and human development on the projects and programs in various countries. This included 22 national projects and programs for the core operations in skills and technology, employment, training, and technical vocational education for a total of UA 225.2 million (61.4 percent of total loans and grants). The other 25 operations, for a total of UA 141.7 million (38.6 percent), comprised 20 multinational and five national operations specifically focused on Ebola epidemic relief and emergency assistance.

The largest, amongst the core sector national operations approved in 2014, the largest was the UA 49.3 million Skills, Employability and Entrepreneurship Program (SEEP II) in Rwanda. The program's goal is to support policy reform efforts that promote inclusive growth and poverty reduction. The expected outcomes are (i) enhanced employable skills and attitudes for the labor market; and (ii) increased entrepreneurship and business development sustained over time.

Other major approvals included the Technical Vocational Education, Training, and Teacher Education Project in Tanzania (UA 34.0 million), and the Social Cohesion and Enhancement Support Program in Côte d'Ivoire (UA 30.0 million).

The 25 multinational operations for alleviating the effects of the Ebola epidemic were mostly grant funding to strengthen West Africa's public health systems, provide budget support to fight back the epidemic, and crisis response technical assistance in the three most affected countries Guinea, Sierra Leone and Liberia.

Bank Support and Management of the Ebola Crisis. The outbreak of the Ebola virus disease (EVD) epidemic in West Africa was first reported in Guinea, West Africa, in March 2014. The outbreak quickly became the deadliest pandemic of its kind since the first case of Ebola was reported in the DRC in 1976, then known as Zaire. According to World Health Organization (WHO) estimates, reported cases in Africa were estimated at 20,200, including 7,904 deaths by the end of 2014. Most of these deaths occurred in the Bank's three most-affected RMCs, namely Liberia (3,423), Sierra Leone (2,748), and Guinea (1,708). Two others—Nigeria and Mali—recorded eight and six deaths, respectively. These two countries have since been declared Ebola-free. Senegal reported one case and no death. Outside Africa, six cases were recorded in the USA, UK, and Spain, with one reported death in the USA.

Since the outbreak, the Bank has approved UA 147.9 million for 25 operations to fight the epidemic, covering the three most-affected countries and also Côte d'Ivoire, Nigeria, Senegal, Mali and the DRC. The support has included multinational operations comprising (i) UA 100.2 million for 10 operations under the Ebola Sector Budget Support Fight Back Program (EFBP); (ii) UA 37.4 million for four operations under the Strengthening West Africa's Public Health Systems Response to the Ebola Crisis (SWAPHS) program; (iii) UA 5 million for five Crisis Response—Technical Assistance Support operations; and (iv) one multinational and five national emergency assistance operations to fight the EVD in Guinea, Sierra Leone, Liberia, Nigeria, and DRC. The funds were channeled through the WHO and the respective country governments. There were also four additional operations under preparation. These were (i) the establishment of an Africa Center for Disease Control; (ii) a preventive regional program for Central Africa; (iii) the Ebola Social Investment Project; and (iv) support for the establishment of medical laboratories in the ECOWAS countries.

The crisis response technical assistance component was implemented in association with the African Union and ECOWAS and involved: (i) deploying health workers from across Africa to Guinea, Sierra Leone, and Liberia; (ii) a motivational/incentivized scheme designed to supplement the salaries of over 2,000 health workers in the three countries; (iii) training local health extension and community workers; and (iv) deepening cooperation with the private sector—both national and international—in the fight against Ebola.

The Bank's support to the fight against Ebola has been commended for significantly contributing towards addressing the impact of the epidemic in the affected countries. In particular, in Mali, the Head of the UN Mission for Emergency Action against Ebola hailed the Bank's support as exceptional in terms of speed and level of resources mobilized to stop the spread of the epidemic. The Bank's support covered critical activities such as capacity building, recruitment and deployment of 20 field epidemiologists. It also strengthened logistics (including the purchase of vehicles) and functioning of the Emergency Operations Center in Mali.

The national and international responses to the Ebola epidemic have resulted in a number of improvements in public health within the three most-affected West African countries and some neighboring countries in the sub-region. These improvements are in the form of safe burial practices, early case detections, an increased number of health workers and treatment facilities, public awareness campaigns, and better contact tracing, among others. The policy and behavior responses have contributed to a lower risk of the disease spreading across borders.

Despite improvements in the fight against Ebola, there is ongoing work in the Bank on the socio-economic impact of the Ebola epidemic. A Bank study recently reported that the epidemic had destabilized livelihoods and economic activities. Apart from the death toll, collective fear of the epidemic literally cut off the most affected countries from the rest of the world and significantly weakened the resilience of their economies. The AfDB Statistics Department thus downgraded economic growth forcasts for 2014 from 4.5 percent to 0.6 percent for Guinea, 6.8 percent to 1.8 percent for Liberia, and 11.3 percent to 6.0 percent for Sierra Leone. These estimates were based on the assumption that Ebola in the region would be fully contained only in 2015.

The Bank's study further noted that the epidemic would have long-term implications far beyond the immediate short-term social and economic effects. In particular, the very poor in society were likely to have borne the brunt of the epidemic. Projections were that in Liberia, for instance, the Ebola outbreak was likely to have left at least a quarter of a million more people in poverty by 2018 than would have been the case had incomes continued to grow at pre-Ebola levels. In Guinea and Sierra Leone, the figure was close to 300,000 and over half-a million, respectively. The Bank's study estimated that as a result of the Ebola epidemic, nearly five out of 10 Sierra Leoneans would live under extreme poverty by 2017, compared to four out of 10 if the epidemic had not occurred. In Liberia, the figure was eight out of 10 and seven out of 10 if the epidemic had not occurred.

These projections underscore the importance of (i) Ebola and broader pandemic preparedness in African countries; and (ii) reaching the goal of zero new cases in the three most-affected countries, as soon as possible.

At a historic meeting on November 8, 2014, in Addis Ababa, Ethiopia, the Bank, together with the African Union, the Economic Commission for Africa, and leading businesses in Africa, committed to joining forces to create and support a funding mechanism to deal with the Ebola outbreak and its consequences. The Ebola response fund will be used to support an African medical corps—including doctors, nurses, and laboratory technicians—to care for those infected with Ebola, and strengthen the capacities of local health services and staff at Ebola treatment centers in the three most-affected countries. The resources mobilized will, partly, be invested in a longer-term program to build Africa's capacity to deal with the likelihood of similar epidemics in the future.

TYS Areas of Special Emphasis

Besides the five operational priorities as addressed above, the TYS also focuses on support to agriculture and food security, gender mainstreaming, and addressing fragility in states under fragile situations. Operational activities in these areas during 2014 are reviewed below.

Agriculture. Approvals for operations in agriculture and rural development amounted to UA 545.4 million. This includes UA 488.3 million in loans and grants (89.5 percent) and UA 57.0 million from Special Funds (10.5 percent). There were 35 loan and grant operations, 30 of which were public-sector operations totaling UA 376.5 million (77.1 percent) while the rest were private-sector operations of UA 111.8 million (22.9 percent).

Eighteen of the 35 operations were multinational (UA 230.8 million, 47.3 percent) while 17 were national projects (UA 257.5 million, 52.7 percent). Multinational operations were mainly for emergency relief, food security and nutrition projects and programs, and included approvals for (i) the Somalia/Sudan/Eritrea/Ethiopia Drought Resilience and Sustainable Livelihood Program; and (ii) the CILSS Program to Build Resilience to Food and Nutrition Insecurity in the Sahel, covering Burkina Faso, Chad, The Gambia, Mali, Mauritania, Niger, and Senegal (Box 4.3).

At UA 57.5 million, the sector's largest single operation was Phase II of Uganda's Markets and Agricultural Improvement Program (MATIP-2). This program, an extension of MATIP-1, is designed to revamp markets in 21 municipalities and town councils in Uganda. Impacts expected from the program include improved marketing conditions, value addition/processing and trading capacity, and increased employment and incomes. The primary beneficiaries include 16,950 registered vendors. Indirect beneficiaries are estimated at 900,000 households within the catchment areas of the markets.

Gender. *Approval of the Gender Strategy.* The Gender Strategy, *Investing in Gender Equality for Africa's Transformation, 2014-2018,* was approved in January 2014. The Strategy emphasizes the reduction of gender inequalities by strengthening women's legal and property rights, promoting their economic empowerment, and enhancing knowledge management and capacity building on gender equality in the Bank's operations. Several Bank Group operations approved in 2014 have built-in components that address the issue of gender equality, promoting women's empowerment and providing opportunities to enhance the well-being of women and girls. Some examples include:

- The Malawi Sustainable Rural Water and Sanitation Infrastructure for Improved Health and Livelihoods Project, approved in April 2014, in which the improvement in access to water will free up the time spent by women and girls fetching water for more productive activities such as agriculture; and
- The Mozambique Economic Governance and Inclusive Growth Program, approved in September 2014, which will create new jobs through support for micro-, small-, and medium-size enterprises (MSMEs), with an emphasis on the inclusion of women and youth.

Strengthening Gender Mainstreaming. A number of initiatives were put in place in 2014 to operationalize gender mainstreaming in the Bank. These include a roster of gender experts and a coordination committee to review the Bank's knowledge development functions for gender equality. As part of its advocacy work, the Office of the Special Envoy on Gender (SEOG) and the Bank President in March 2014 led Bank staff and elected officers in the commemoration of International Women's Day. The Office of the SEOG also mobilized Bank staff to mark the International Day for the Elimination of Violence Against Women. There is now improved gender mainstreaming in the Bank's corporate policies and practices.

Regional and Global Advocacy, and Bank Positioning. With support from the South Korean and Norwegian governments, the Bank organized the third African Women's Economic Summit

(AWES) in Zambia. The summit focused on promoting and strengthening women's access to finance, in particular, and on strengthening the ability of women-owned businesses to grow from micro- to small, small to medium, and medium to large enterprises. Following the summit, several institutions made pledges to increase women's access to finance.

Other gender initiatives, led by the Bank's President, included joining hands with African Heads of State to find solutions to the Ebola crisis. The Ebola Social Investment Fund is a product of this initiative. The Fund seeks to address the social and economic impacts of Ebola, more generally, and those that affect women, specifically.

Progress was also made during the year in the design of the African Gender Equality Index, to be launched in 2015. This index will not only support the measurement of gender inequalities in development outcomes, such as education and employment, but will enable policy-makers and others to make appropriate adjustments.

States Under Fragile Situations. The Fragile States Unit was upgraded to a fully-fledged department—the Transition Support Department (ORTS)—at the end of 2013. The change was meant to ensure that the Bank's interventions in fragile situations obtain the highest possible levels of attention. The Bank's lending and non-lending engagements in fragile situations thus emphasize (i) strengthening state capacity and establishing effective institutions; and (ii) promoting resilient societies through inclusive and equitable access to employment, basic services and shared benefits from natural-resource endowments.

The ORTS is charged with responsibility for coordinating the implementation of the Bank's Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019) and managing the Transition Support Facility (TSF)—formerly the Fragile States Facility. The 2013 strategy marks a new phase of Bank support in addressing fragility.

In 2014, the Bank approved UA 365.8 million for operations in countries under fragile situations. Of this amount, UA 123.9 million was to be drawn from Pillar I (supplemental top-up resources to ADF performance-based allocations), and Pillar III (critical capacity-building interventions) of the Transition Support Facility. Most of the resources approved under the TSF were channeled towards capacity building, social services, and infrastructure development. In addition, UA 27.8 million of TSF resources helped bridge budget gaps in countries facing emergencies arising from the Ebola epidemic.

Three multinational (regional) operations of the Bank Group (presented in Box 4.3 above) were approved in 2014 to address socio-economic challenges and enhance regional integration objectives, with the aim of assisting countries to move out of states of fragility. These operations are:

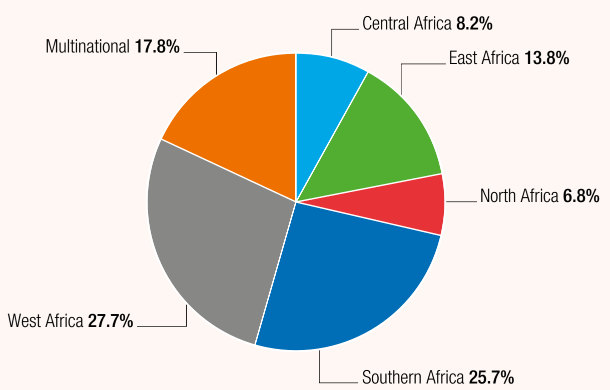
- The Program to Build Resilience in the Sahel (P2RS). The goal of the program is to address fragility and build the resilience of vulnerable populations against food and nutrition insecurity and other socio-economic challenges in the Sahel;

- The Drought Resilience and Sustainable Livelihoods Program (DRSLP) in the Horn of Africa. Among other benefits, this program is to address state fragility and strengthen the capacities of beneficiary countries to enhance resilience to drought, and

- The Program to Rehabilitate and Strengthen Resilience of the Lake Chad Basin Ecosystems (PRESIBALT). This is to directly benefit 15.3 million people living in the Lake's impact area.

An ambitious transition support program for non-operational activities was developed in 2014 as part of the Bank's deliverables under the mandate of ORTS. Key deliverables included the new strategy document approved in June 2014 as well as accompanying operational guidelines. In addition, the department produced two knowledge products in 2014: "Scaling up AfDB's Development Impact in States under Fragile Situations" and "Peace and State-building in Post-2015 Context".

Figure 4.9 Bank Group Loan and Grant Approvals by Sub-region, 2014



Source: AfDB Statistics Department.

4.3 Bank Group Operations by Sub-Region

The year under review was characterized by significant variations in Bank Group operations by sub-region. For example, in 2014, the Bank had public-sector commitments in 11 countries as opposed to six countries in 2013. In view of the Ebola epidemic in 2014, Bank Group operations increased in West Africa to accommodate the socio-economic impact of the crisis. Bank Group operations in both East and Central Africa also increased, in view of improved socio-economic conditions.

Bank Group Approvals by Sub-region. A summary distribution of operations by sub-region is shown in Figure 4.9 while Table 4.2 provides a more detailed overview. West Africa received the largest share of operational approvals, representing 27.7 percent of the total, while approvals for Southern Africa stood at 25.7 percent, the share for East Africa was 13.8 percent, and that for Central Africa 8.2 percent. At 6.8 percent, North Africa had the lowest share of total approvals. For all sub-regional operations, the single largest approval was the UA 645.3 million to support the power sector reform program in Angola. This amount bolstered the share of approvals for Southern Africa, significantly. The share of approvals to sub-regional operations was somewhat low in view of the relatively large share (17.8 percent) for multinational operations.

Central Africa. Among the sub-region's eight countries, Gabon and Equatorial Guinea are ADB-eligible countries, Cameroon is a blend, eligible for both ADB and ADF resources, and Congo will become ADB-eligible by 2016. The other four countries—the Central African Republic, Chad, DRC, and Sâo Tomé and Príncipe are ADF-eligible (Table 4.2), although they can also borrow from the ADB window, largely to finance private-sector operations and enclave projects (projects specially designed to avoid indebtedness). Congo and the four ADF-eligible countries are also states under fragile situations, and are partly funded from the TSF. For the region as a whole, loan and grant approvals amounted to UA 369.2 million. This represented an increase of more than 50 percent of the amount approved in 2013, reflecting an improvement in the region's socio-economic conditions that served as a catalyst for enhanced funding for infrastructure operations. Infrastructure approvals accounted for 77.3 percent of all approvals for the sub-region. These comprised transport operations, with Cameroon's Transport Sector Support Program (Phase I) taking up the largest amount of UA 143.0 million while UA 55.6 million was for the financing of the Batshamba-Tshikapa Road Improvement Project in the DRC.

East Africa. Of the 13 countries in the sub-region, only the Seychelles is eligible for borrowing from the ADB's sovereign

Table 4.2 Bank Group Loan and Grant Approvals by Sub-region, 2013-2014

Sub-regions	Countries			2013 UA million	2013 Share	2014 UA million	2014 Share	% Change in Approvals 2014
Central Africa	Cameroon** Central African Rep. Chad	Congo *** Congo, Dem. Rep. Equatorial Guinea	Gabon* São Tome & Príncipe	**243.9**	6.8%	**369.2**	8.2%	**51.4%**
East Africa	Burundi Comoros Djibouti Eritrea Ethiopia	Kenya Rwanda Seychelles* Somalia	South Sudan Sudan Tanzania Uganda	**597.3**	16.8%	**623.1**	13.8%	**4.3%**
North Africa	Algeria* Egypt*	Libya* Mauritania	Morocco* Tunisia*	**228.8**	6.4%	**304.2**	6.8%	**32.9%**
Southern Africa	Angola* Botswana* Lesotho Madagascar	Malawi Mauritius* Mozambique Namibia*	South Africa* Swaziland* Zambia** Zimbabwe	**615.2**	17.3%	**1,157.0**	25.7%	**88.1%**
West Africa	Benin Burkina Faso Cabo Verde*** Côte d'Ivoire Gambia, The	Ghana Guinea Guinea-Bissau Liberia Mali	Niger Nigeria*** Senegal Sierra Leone Togo	**991.0**	27.8%	**1,244.5**	27.7%	**25.6%**
Multinational				**884.9**	24.8%	**802.0**	17.8%	**-9.4%**
Total				**3,561.0**	100.0%	**4,500.1**	100.0%	**26.4%**

Source: AfDB Statistics Department.
*Notes: * ADB countries ** Blend countries *** in transition to ADB in 3-5 yrs*

Box 4.6 Nairobi-Thika Highway Improvement Project – 2014 Presidential Award Winner

The Nairobi-Thika Highway comprises a 45 km eight-lane highway and nine related interchanges between Nairobi's central business district and the town of Thika. The road's improvement has benefited 100,000 residents in Kasarani, Kiambu and Thika by reducing their commuting time from three hours to just 30 minutes. It has decongested traffic, improved connectivity, and opened up opportunities for people and businesses. More than 3,600 unskilled and semi-skilled workers and 600 technicians and engineers were employed during its construction, with strong multiplier effects along the road corridor. Sustainability is being addressed through a credible road fund. An important gender dimension reveals that a large proportion of the project's beneficiaries are women who sell food items sourced from Thika and beyond. In addition, most operators in the roadside markets, including the Masai Market at Nairobi's Globe Cinema, are women. Half of the students attending the universities served by the new highway are female.

Total financing for the project amounted to USD 438 million. The Bank Group contributed the largest share of the USD 186 million invested in the project, including a USD 4.8 million grant. The project also leveraged USD 168 million additional financing from the Government of China and a USD 84 million counterpart fund contribution from the Government of Kenya.

window. Six countries in the sub-region—Burundi, Comoros, Eritrea, Somalia, South Sudan, and Sudan—are classified as countries under fragile situations and therefore receive support from the TSF. By the end of 2014, financing approvals for East Africa amounted to UA 623.1 million, a 4.3-percent increase over 2013 (Table 4.2). Of the total approvals for the sub-region, half were for infrastructure development. Agriculture and rural development accounted for a fifth of total approvals for the year while finance, comprising a private-sector line of credit to Equity Bank in Kenya of UA 100.1 million, accounted for 16.1 percent. The share for the social sector was 13.6 percent. The Nairobi-Thika Highway improvement project won first prize in the 2014 AfDB Presidential Awards for its innovation and excellence (Box 4.6).

North Africa. Of the six countries in North Africa, five are ADB-eligible and only one country (Mauritania) is eligible for ADF funding. Libya does not borrow from the Bank while Algeria has not borrowed from the Bank or other multilateral/bilateral donors since 2006. In 2014, the Bank's main operational activities for the sub-region focused on two core priority areas: supporting governance, and infrastructure operations. In support of these operations, the Bank approved 17 new operations worth UA 304.2 million, a third higher than approvals in 2013. Three of these operations were from the private-sector window (40.5 percent) while the other 14 were public-sector operations, accounting for 59.5 percent of the total.

The Bank's strategies in the region were sustained by a high-level policy dialogue around the findings of Economic and Sector Works (ESWs), particularly the Country Strategy Paper and Country Portfolio Performance Rating (CSP and CPPR) joint review for Morocco and the (Interim-Country Strategy Paper (i-CSP)) for 2014-2015 in Egypt and Tunisia. In Libya, the Bank was innovative, adapting its assistance to the country's particular needs. Notably, the Bank focused on strengthening institutional capacity and leadership capabilities and specialized secondment schemes that support the Libya-Africa Partnership.

Given the region's tumultuous three years since the Arab Spring, Bank lending to eligible countries has been constrained. For instance, Egypt's elevated risk status in 2014 did not support the Bank's lending objectives. Instead, the Bank's support took the form of grants and resources from the Clean Technology Fund, one of the Bank's Special Funds, to promote development of renewable energy resources. Thus, Morocco remains the country with the largest share of Bank operations, with three large projects approved in 2014: (i) Financial Sector Development Project—Phase III (UA 84.9 million), (ii) Ouarzazate Solar Complex Project—Phase II (UA 166.4 million), and (iii) Attijariwafa Bank Line of Credit (UA 62.4 million). The Ain Beni Mathar Thermosolar Plant project, which inspired development of Ouarzazate Solar Project, was among three projects that received the 2014 Presidential Award for innovation and excellence in Bank operations (Box 4.7).

Box 4.7 Morocco: Ain Beni Mathar Thermosolar Plant

The Ain Beni Mathar Thermosolar Plant project was one of three recipients of the Bank's 2014 Presidential Awards, recognized for innovation and excellence in Bank operations. Initiated in 2005, this project demonstrates how the Bank supports Middle-Income Countries (MICs) in promoting inclusive and green growth. With strong commitment from Morocco's Government, the Bank financed 62 percent of the plant, which cost a total of UA 400.7 million. This gas and solar thermal power plant has increased Morocco's power capacity by 470 MW and reduced CO_2 emissions by 33,500 tons. Local road and bridge construction around the project site has benefited 1,128 rural households. In terms of inclusive growth, the project has facilitated access to social services, increased school attendance and promoted local commerce. The project has also provided valuable lessons on quality at entry and procurement. These lessons are currently being integrated into Morocco's Ouarzazate Solar Power Complex project, approved in 2014.

Southern Africa. Six of the 12 countries in this sub-region are ADB-eligible countries; five are ADF-eligible countries, and one (Zambia) is a blend eligible for both ADB and ADF resources (Table 4.2). All 12 RMCs are members of the Southern African Development Community (SADC). Mozambique was among the fastest growing economies in Africa, recording over 7 percent real GDP growth in 2014. Approvals for the sub-region for 2014 stood at UA 1,157.0 million, a significant increase of 88.1 percent over the UA 615.2 million approved in 2013. At 88.8 percent, the share of infrastructure dominated the Bank's operations in this sub-region, with 67.6 percent of the approvals for energy, 17.3 percent for transport and 3.9 percent for water and sanitation infrastructure. About 55.5 percent of 2014 approvals for the sub-region went to the largest project, the UA 645.3 million power sector reform support program in Angola which also contributed to the 89.1 percent increase in total approvals in 2014. The project's beneficiaries will include public-sector institutions, Angola's population in general, and the private sector, all of whom will benefit from better access to reliable and affordable electricity as well as the transparent and efficient management of public finance and procurement practices.

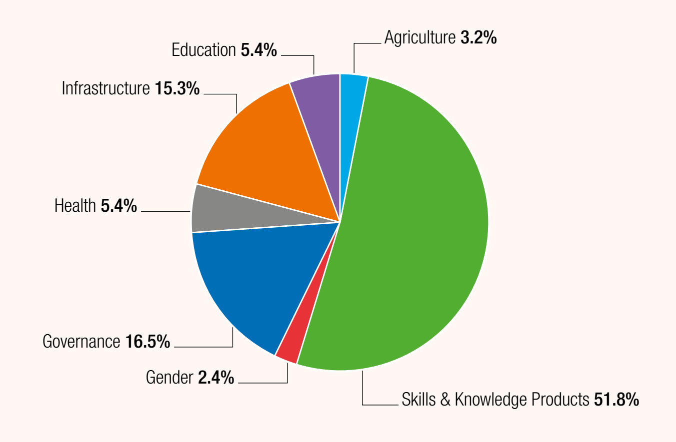
West Africa. Among 15 countries in this sub-region, seven (Côte d'Ivoire, Guinea, Guinea-Bissau, Liberia, Mali, Sierra Leone and Togo) are considered states under fragile situations, with access to the Bank's Transition Support Facility (TSF). All the countries, except two, are ADF-eligible RMCs while two—Cabo Verde and Nigeria—are transitioning to becoming ADB-eligible countries in three to five years, respectively. At the end of December 2014, approvals for the region stood at UA 1,244.5 million, a 25.6 percent increase over 2013 approvals. This excludes over UA 147 million in Ebola-related multinational approvals for Guinea, Liberia and Sierra Leone and for general strengthening public health systems in West Africa. Of the UA 1,244.5 million national project approvals, infrastructure took the lead with 43.9 percent, followed closely by finance (41.3 percent) for lines of credit to MSMEs and trade finance, with smaller shares allocated to multi-sector (6.5 percent), agriculture (4.9 percent), and the social sector (3.4 percent) for skills and technology development.

The two largest approvals for this sub-region, highlighted earlier, were: (i) the private-sector-financed Dangote Oil Refinery and Fertilizer Projects in Nigeria for UA 194.7 million, and (ii) the publicly funded multinational Road Development and Transport Facilitation Program for UA 140.9 million, for the benefit of Côte d'Ivoire, Guinea and Liberia.

Leveraging Resources and Partnerships in 2014

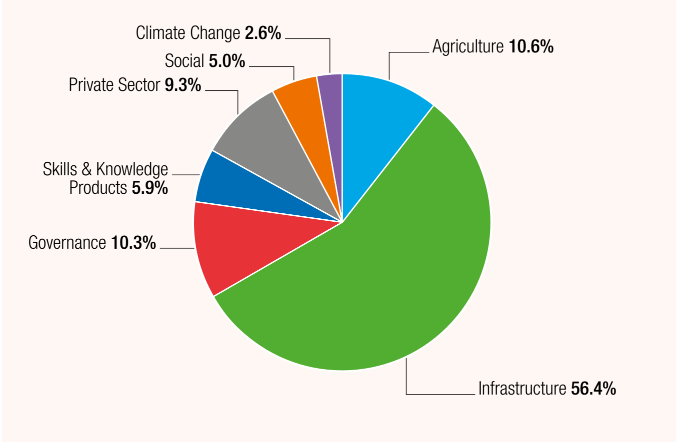
The resource envelope for the financing of Bank Group operations is finite. Accordingly, the Bank has been exploring opportunities to leverage financial and technical assistance

Figure 4.10 Sectoral Distribution of Bilateral Trust Fund Approvals, 2014



Source: AfDB Resource Mobilization and External Finance Department.

Figure 4.11 Sectoral Distribution of Thematic Trust Fund Approvals, 2014



Source: AfDB Resource Mobilization and External Finance Department.

resources through co-financing, mainly with bilateral and multilateral development partners. The Bank Group also mobilizes additional resources through Special Funds and technical cooperation trust funds. These resources are channeled mainly towards financing pre-investment feasibility studies, enhanced project cycle work, and capacity building.

In 2014, the Bank expanded its engagement with the Bill and Melinda Gates Foundation and the Rockefeller Foundation. The Bill and Melinda Gates Foundation Trust Fund was established for collaboration on issues related to water and sanitation, agriculture, and health, among others.

The establishment of the Gates Foundation Trust Fund adds to a sizeable number of trust funds that the Bank currently managed by the Bank, held in various currencies, but totaling UA 796.4 million. At the end of 2014, thematic trust funds representing funds linked to themes aligned with the TYS operational priorities, accounted for 85 percent of total trust fund resources, with bilateral trust funds accounting for the rest. During the year in review, several resource mobilization activities were initiated by the Bank. These included the Africa Growing Together Fund (AGTF) which was established with China (USD 2 billion) for the co-financing public and private-sector projects on regional integration, private-sector operations and infrastructure development.

In 2014, approvals from bilateral trust funds amounted to UA 15.9 million. These approvals were fully reflective of the TYS (Figure 4.10), focusing mainly on skills development and knowledge products, governance, and infrastructure. Other smaller approvals were for social, agricultural and gender-related operations.

Approvals for thematic trust funds stood at UA 32.6 million, with support for infrastructure taking up the largest share. This was followed closely by approvals for governance reforms, agriculture, and private-sector development. Funds were also allocated for knowledge products, social sector and climate-change operations (Figure 4.11).

The Bank Group and the HIPC Process. Africa's debt burden has been significantly reduced, as a result of the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). At the end of 2014, 29 of 33 countries eligible under the HIPC Initiative had reached completion point and qualified for irrevocable debt relief and MDRI debt cancellation. However, Chad is still in the interim period of the HIPC Initiative, between decision and completion points, and has made some progress in recent years. It is on target to attain the HIPC completion point in 2015. Although the Bank continues to participate in debt-relief programs, there was minimal activity on this front in 2014.

Three pre-decision point countries—Eritrea, Somalia, and Sudan—are yet to start the process of qualifying for debt relief under the HIPC Initiative. Zimbabwe (not yet HIPC-eligible) remains in debt distress, but has made some progress towards meeting the technical requirements for arrears clearance under the Bank's Transition Support Facility. This should enable the country to achieve full re-engagement with the Bank and the broader international community in 2015.

Chapter 5
Institutional Reforms and Corporate Management

Africa has seen considerable change over the past few decades. For its part, the Bank has adapted to these changes and undertaken a number of internal reforms to ensure that it remains agile and responsive to the needs of its clients on the continent. This chapter discusses the institutional reforms and other corporate decisions implemented by the Bank during 2014, a year that marked the beginning of its return to Abidjan. The chapter reports, in particular, on the Bank's development effectiveness and quality assurance, and outlines the activities of its independent operations evaluation function. Further, it outlines how the previous decisions of the Board, notably with respect to the adjustments to the institutional structure, were implemented. It also discusses the progress made towards implementation of the commitments made as part of the ADF-13 Replenishment. In addition, it looks at the Bank's deployment of human resources during 2014. The latter sections of the chapter discuss the activities of the institutions providing intermediate recourse mechanisms, including the units for Audit, Integrity, Compliance, and the Administrative Tribunal.

5.1 Institutional Reforms and Related Adjustments

The Bank returned to its statutory Headquarters in Abidjan in 2014, after over 11 years of operating from the Temporary Relocation Agency in Tunis. The implementation of this undertaking was bound to impact on the Bank's other activities. However, with planning and foresight, the Bank managed to continue with a broad range of initiatives, uninterrupted, and without compromising the overall objective of relocation to Abidjan or its ability to respond to the growing and complex needs of its clients. This section provides an update on the performance of key structures established during the Bank's organizational restructuring in 2013. It reaches the conclusion that the Bank has been both resilient and innovative, using its enhanced brand value to attract resources and new ideas for the continent's development.

Return to Abidjan

The Bank's return to Abidjan in 2014 was an important test of the strength and resilience of the Institution in the face of major challenges posed by this relocation. The shift was fraught with major risks which, if ill-managed, would have led to major disruptions in the Bank's operations. There was, therefore, the need to ensure that despite any unforeseen challenges, the Bank would continue to meet all its obligations and deliver its 2014 operations program. The Bank's greatest challenge during the year, however, was coping with the Ebola epidemic that struck a number of countries in West Africa. Concerned that the epidemic could spread to Côte d'Ivoire, to where it had just relocated, the Bank's Management took robust measures to protect staff and their families from infection, and and thus mitigated the risks of disruption of the Bank's business.

Aligning the Budget to the Ten-Year Strategy. One of the Bank's key strategic objectives in 2014 continued to be the realignment of resource allocation to the new priorities in its TYS. To this effect, the Bank completed the design of a new cost accounting system to facilitate its determination of the full cost of providing products and services to clients. The system is also designed to provide cost information that should strengthen the link between resource allocation and results. This should also strengthen the Bank's budgeting system. Bank staff now record, on a regular basis, the amount of time they spend on activities associated with the Bank's key performance indicators (KPIs). These KPIs are tracked through quarterly, mid-year and retrospective reviews of budget and work program performance.

To ensure the sustainability of the Bank's financial health, the Bank, also implemented a variety of cost rationalization measures in 2014. A number of business development initiatives were also undertaken. In keeping with its budget reforms of 2008, the Bank was able to respond to urgent and unplanned demands for its resources rather timeously. This was most evident in the Bank's response to the 2014 Ebola crisis..

Decentralization. The Bank's decentralization program underwent a mid-term review (MTR) in 2014. It assessed the

Bank's 15-point Decentralization Roadmap Action Plan, adopted in 2011, and noted the progress made so far. Management agreed to the MTR's main recommendations. The Bank, during the year, also undertook a review of fiduciary risks and safeguards in its Field Offices. This was aimed at strengthening the decentralization effort and improving operational risk management. The outcomes of both the MTR and the fiduciary risks and safeguards review will inform the updates to the Decentralization Roadmap Action Plan to be delivered in mid-2015, for consideration by the Board of Directors.

The number of Regional Member Countries in which the Bank has a field presence reached 38 in 2014, with the creation of a customized presence in Congo. Customized offices have a limited staff whose role is to strengthen policy dialogue and improve aid coordination with Regional Member Countries. In addition to the two Regional Resource Centers, the Bank currently has 29 Field Offices, and seven customized offices (Benin, Guinea, Guinea-Bissau, Mauritania, Mauritius, Congo, and São Tomé and Príncipe). At the end of 2014, 49.6 percent of the Bank's operations staff was based in the field. This is a notable achievement, given the target of 40 percent for 2014. In 2014, field-based staff managed 51 percent of Bank operations, above the target of 50 percent. Similarly, field-based staff supervised 52.2 percent of projects, above the target of 45 percent for the year.

Return to the Headquarters. The return of the Bank to its Headquarters in Abidjan was a prime preoccupation in 2014. Although carefully planned, the shift raised some apprehension among staff and their families, especially with regard to issues of housing, schooling, and health services in Abidjan. The shift has, however, by all accounts, been much smoother than anticipated, due in large measure to cooperation of the Tunisian and Ivorian Governments, and commendable planning by staff, management and the Board. By September 2014, the Board was able to resume business at the Bank Headquarters in Abidjan, Côte d'Ivoire, while the numbers of staff arriving at Headquarters continued to rise each month. By March 2014, the Bank had 442 staff in Abidjan. In the following nine months a total of 982 staff and Board members arrived in Abidjan. During the first half of 2015, a further 83 members of staff were expected to join others at Headquarters. The full complement of arrivals by June 2015 is expected to be 1,507. The renovation of the Bank's Headquarters building is expected to be complete during 2015. Meanwhile, the Ivorian Government has put a major office block, the *Immeuble du Centre de Commerce International d'Abidjan (CCIA),* at the disposal of the Bank. The building has been fully refurbished and is of appropriate quality.

The African Development Bank: 50 Years in the Service of Africa

Origins. The African Development Bank was created on August 4, 1963 in Khartoum, Sudan, when 23 newly Independent African states signed the Agreement establishing the Institution. At the time, only independent African countries were eligible for shareholding and were the sole providers of the Bank's capital. The Bank was created in the belief by a number of African leaders that the continent needed its own development finance institution. The founders wished to create an African Bank for Africans and ensure that the poorest countries on the continent were able to finance infrastructure, education, health and other vital projects of long-term maturities and non-financial returns.

From Humble Beginnings. The inaugural meeting of the Board of Governors of the Bank was held in Lagos, Nigeria, in November 1964. Fifty years ago, the Bank began operations in rented offices in Abidjan, its Headquarters. There were initially 10 members of staff while the Bank had a meagre initial authorized capital of UA 250 million. By 1966, the Bank's operations had taken off in earnest and were largely focused on transport.

Concessional resources. The Agreement Establishing the African Development Fund (ADF) was signed on November 29, 1972 by the African Development Bank and 13 Non-Regional countries (State Participants). This establishment of the ADF introduced a soft window within the AfDB from which the low-income members of the Bank could borrow funds at concessional interest rates with a high grant element. The ADF began operations in 1974. In 1976, a second soft window, the Nigeria Trust Fund, was established by an agreement between the Government of the Federal Republic of Nigeria and the Bank Group for an initial period of 30 years, with a provision for extension, by mutual agreement. The Agreement was signed on April 25, 1976.

Reforms. The Bank's 1994 Annual Meetings in Nairobi, Kenya, were marked by the release of the Knox Report on the Bank's future and reorganization of its structure. The Knox Report revealed an institution crippled by management problems, a lack of accountability, and boardroom dysfunction. The release of the report kindled the onset of major reforms in the Bank when a new President took office.

Relocation and Return to Headquarters. Following political and civil strife in Côte d'Ivoire the Bank was forced to relocate to Tunis, Tunisia, in February 2003, where it was based for 11 years. It returned to its Abidjan Headquarters in 2014.

Highlights from 50 Years of Operations. In the five decades of its existence, the Bank has attained a number of milestones and any choice of the most important would be rather subjective. However, in terms of impact on its operations, four key landmarks, presented in chronological order, are worth mentioning:

- The vision of the Founders for a soft window of the AfDB to mobilize and lend concessional resources was realized when the African Development Fund (ADF) was created in 1972. This soft window for low-income members of the Bank lends at concessional interest rates, with a high grant element. The ADF has been replenished several times since its creation. Total investment in the fund was UA 22.8 billion, prior to the commencement of the 13th Replenishment in January 2014, and with additional UA 5.35 billion agreed by ADF Deputies covering the 3-year ADF-13 operational period, 2014-2016. The ADF has provided resources to over 40 countries, the latest being South Sudan. It has contributed to economic development and poverty reduction in Africa while its support to regionally significant infrastructure projects has boosted regional integration on the continent. This contribution has come from its financing and co-financing of projects in transport and energy infrastructure, water and sanitation, information and communication technology (ICT), health, and education facilities.
- Second, the Bank provided innovative and unwavering support to its Regional Member Countries in the wake of the unprecedented global financial meltdown of 2008-2009. The AfDB was quick to deploy strong countercyclical measures to address the crisis and also partner with leading global agencies to confront the threats to Africa's trade finance. Measures taken by the Bank included the establishment of quick disbursing budgetary support and short-term trade and liquidity facilities to help African countries meet their demand for financing, as their traditional sources had dried up. A result was that total Bank Group lending peaked, the highest ever, at UA 8.06 billion in 2009, at the height of the global financial crisis. Further, the Bank created the Committee of 10 (C-10), comprising five finance ministers and five central bank governors, to undertake periodic assessments of the global situation and galvanize Africa's response to the crisis, and also make recommendations to, among others, the G-20 Summit.

- Third, in response to the global financial crisis, it became clear that the Bank needed more capital to meet the needs of its regional members. The Bank, therefore, argued successfully for an early increase of its capital base. At its Annual Meetings of May 2010, in Abidjan, Côte d'Ivoire, the Bank's Board of Governors approved the Sixth General Capital Increase, which raised the Bank's callable capital to USD 100 billion, an increase of 200 percent. The increase now allows the Bank Group to sustain a higher level of lending including to the private sector.
- Fourth, in the past decade, the Bank launched two key strategies, in both cases after broad consultation within and outside the Bank. The launch of the Medium-Term Strategy (MTS) in December 2008, for the period 2008-2012, coincided with the onset of the global economic and financial crisis and provided a critical compass for prioritizing the Bank's operations. Notably, infrastructure became a key feature of Bank Group operations, as did governance and private-sector development. A number of salient features of the MTS have been included in the Bank's Ten-Year Strategy for 2013-2022. This Strategy has two pillars, inclusive growth and transitioning Africa to green growth. It also has five priority areas, namely infrastructure, technology and skills, regional integration, the private sector, and governance and accountability. Further, the TYS places a special emphasis on gender, states under fragile situations, and agriculture and food security.

Innovative Instruments for Bank Operations. In recent years the Bank has introduced a range of innovative instruments for development financing both in response to demand from its clients but also in line with internal requirements for more agile and efficient operations. These changes demonstrate that the Bank has learnt lessons from its long period of operations on the continent and can respond with confidence to the needs of its regional membership, within the structures of the market in which it operates.

- In 2014, with guidance and support from the Board, the Bank launched the Africa50 facility in Casablanca. Africa50 is as an autonomous entity whose role is to provide finance for the continent's infrastructure development, mainly from private sources. Africa50 is expected to garner resources from within Africa, including those from insurance and pension funds, and the rest of the world. The emphasis will be on "game-changing" infrastructure projects. It is innovative in its emphasis on the need to support project pipeline development together with lending.
- The Bank's recent amendment of its credit policy, approved in May 2014, is already having a positive impact on its client base. Countries eligible for borrowing from the ADF, but with moderate and low risk of debt distress, can now also access the ADB window. A number of countries, notably Uganda and Rwanda, are already taking advantage of the Bank's new credit policy.
- The Bank has established a new Private Sector Credit Enhancement Facility (PSF) with seed money of approximately UA 165 million from the ADF-13 Replenishment. The PSF will scale up ADB private-sector financing in low-income ADF countries and provide credit enhancement to the ADB when lending to these countries. The facility will mitigate the risks related to lending and enable its risk capital to be "stretched" over more non-sovereign-guaranteed projects, including those in states under fragile situations.
- The Bank's Partial Risk Guarantee (PRG) covers private lenders against the risk of a government or a state-owned enterprise failing to meet its obligations toward a private project. The Bank used the PRG in 2013 to support the Lake Turkana Wind Power (transmission line) project in Kenya and independent power producers in Nigeria to help them generate an additional 1,380 megawatts of power by 2016. A related Partial Credit Guarantee (PCG) is designed to enable performing Low-income Countries with low risk of debt distress, and state-owned enterprises in ADF countries with low or moderate risk of debt distress, to attract non-Bank sources of financing on the basis of a risk guarantee provided by the ADF.

The milestones cited above and the innovative financing instruments introduced over the last decade provide a favorable impression of the Bank's achievements. The Bank now faces the challenge of accelerating the progress it has made so far to reaffirm its status as the premier development financing agency for the continent.

Update on the 2013 Fine-Tuning of the Organizational Structure. In September 2013, the Bank undertook institutional reforms to fine-tune the Bank's organizational structure. The reform was designed to enhance the Bank's capacity to implement its Ten-Year Strategy. Among the key changes made were the following:

- Creation of the Business Development Office (COBD) to launch and operationalize Africa50 and similar business development initiatives that address Africa's infrastructure deficit;
- Creation of a Bank Group Risk Management Function under a Group Chief Risk Officer (GCRO), reporting directly to the President;
- Creation of the African Natural Resources Center (ANRC) to enable the Bank to scale up work in natural resources management;
- Establishment of a Financial Sector Development Department (OFSD) to guide the initiation and growth of the Bank's business within a rapidly-changing African financial sector landscape;

- Creation of a Delivery and Performance Management Office (DPMO) to manage the "Executive Dashboard" and provide early warning on areas of slippage, and
- Upgrading of the Fragile States Unit to a fully-fledged department, renamed the Transition Support Department (ORTS).

The Transition Support Department is operational and is the Bank's focal point on all issues related to Bank Group operations in states under fragile situations. The department in 2014 prepared the project documents for the Bank's provision of the much needed support, totaling UA 365.4 million, to states under fragile situations through the Transition Support Facility (TSF), as discussed above in Chapter 4.

In 2014 the Business Development Department (COBD) led the design, fund raising and operationalization of Africa50, relying on a task force established for that purpose. In consultation with key stakeholders, COBD elaborated a business model and structure for Africa50, following the approval of the Bank's cornerstone investment in Africa50 and the strong interest created in the market. Africa50 was incorporated in Casablanca Financial City on September 1, 2014. It is expected to be fully operational in 2015.

The Group Chief Risk Officer discharged the Bank Group risk management mandate in 2014 through several initiatives that included (i) a policy review of the Bank's capital adequacy framework to assess the relationship between the risks the Bank assumes and its risk-bearing capacity; (ii) undertaking credit risk management to monitor the loan portfolio and provide periodic reports on credit and investment risks; (iii) co-leadership of the review of the Bank's annual market risk report and the design of the Private Sector Credit Enhancement Facility (PSF) framework; and (iv) active engagement in strengthening the Bank's reporting, operations, and compliance objectives through operational risk management.

During the year, the African Natural Resources Center (ANRC) provided technical support to the Fisheries Committee of West Central (FCWC), Gulf of Guinea by assisting its secretariat and six member countries in the ratification and implementation of the FAO's 'Agreement on Port States Measures' and with compliance to the EU anti-illegal-fishing regulation. In response to a request from the Government of Guinea, ANRC also coordinated the Bank's technical support to the country's Simandou South Iron Ore and Infrastructure Project.

The Financial Sector Development Department prepared the Financial Sector Development Policy and Strategy (FSDPS) 2014-2019 that replaced the 2003 Financial Sector Policy. Approved in October 2014, this new policy and strategy rests on two pillars: it increases access of Africa's under-served populations to a full range of financial services and broads and deeps of Africa's financial systems.

Meanwhile, results supported by the Delivery and Performance Management Office in 2014 include: (i) a full delivery of lending targets across the three Bank Group financing windows; (ii) a granular review of portfolio performance through the Portfolio Flashlight; (iii) a gradual improvement of corporate data integrity through enhanced transparency and accountability for data quality; (iv) a reversal of the upward trend of the cost-to-income ratio, through a reflection on expense rationalization measures; and (v) a close follow-up and mobilization of additional staff capacity for strategic institutional initiatives, including the return to Headquarters, operationalization of new departments, and reform of procurement.

Information Technology. During 2014, the Bank continued to pursue key priority projects in keeping with its IT Strategy. In light of the Bank's return to Abidjan, the focus was on enhancing IT infrastructure and services to support a smooth systems transition and to ensure business continuity. Key achievements were:

- The Bank installed modern communication infrastructure at its Headquarters and in all its Field Offices and Regional Resource Centers. This has improved communications among all staff and also between staff and member countries and business partners. Connectivity to information systems has also been improved, making it easier for staff to share documents and for staff to collaborate on Bank activities. This has led to significant efficiency gains in Bank operations
- Managerial tools were enhanced in a variety of ways. A robust and flexible staff performance evaluation management system was successfully launched. Initial components were implemented in 2014 while others will be put in place in 2015. The Executive Dashboard Project for the reporting of strategic key performance indicators was completed during 2014. This is a key tool that Senior Management of the Bank now uses to measure performance.
- The MapAfrica Project, which has enabled the geocoding of the Bank's projects on a map, was launched. The project's initial results were shown to participants at the Bank's 2014 Annual Meetings in Kigali, Rwanda.
- The Data Center at the Bank's Temporary Headquarters in the center of Tunis was successfully migrated to the Zahrabed building in the city's suburbs, without any negative impact on the Bank's business.

Business Continuity Management. The Bank's return to Abidjan was an important test of its business continuity management plan. The relocation was a critical challenge fraught with major risks that were, however, well managed. Key was the early development of a business continuity plan used to manage the risks and ensure that the Bank would continue to meet all its obligations.

There were, however, challenges in RMCs that required the Bank to trigger its business continuity plan. Examples include the impact of civil strife in the Central African Republic, South Sudan, and Burkina Faso. However, the most important challenge to business continuity in 2014 was the onset of the Ebola virus disease (EVD) in Guinea, Liberia, and Sierra Leone, and to a lesser extent, Nigeria, Senegal, and Mali. The Bank has a field presence in all six countries. There was also a real risk that the disease could spread to neighboring countries, including Côte d'Ivoire, to where the Bank had just relocated. Strong measures were taken at Headquarters and in all the Bank's offices in the field to prevent the risk of infection of staff and their families and also prevent the risks of disrupting the Bank's operations.

The Bank's business continuity preparedness plays a key role in its evaluation by the rating agencies, providing them the assurance of the Institution's capacity to continue operations in the face of disruptions in its business environment.

5.2 Policies and Strategies

The implementation of the Bank's Ten-Year Strategy entered its second year in 2014, focusing on policies and strategies that support inclusive growth and Africa's transition to green growth. In view of the changing global aid architecture, policies and strategies that enhance the financing of Africa's development, as well as innovative means to administer development assistance received special attention. These factors influenced the design of seven new policies and strategies that were reviewed and approved by the Boards in 2014.

The Governance Strategic Framework and Action Plan (GAP II), 2014-2018. The Boards approved GAP II in May 2014. This marked an important milestone for the Bank's interventions on governance during 2014-2018. The strategy seeks to build strong, transparent and accountable institutions in Regional Member Countries to enhance their capacity to deliver on the agenda for inclusive and sustainable growth. It is anchored on three pillars, namely, public sector and economic management, sector governance, and improvement of the investment and business climate. It, however, also emphasizes the importance of the cross-cutting areas of anti-corruption, gender equality, and regional integration. Further, the strategy addresses the issues of political economy and capacity building in state bureaucracies.

GAP II will be implemented by leveraging the Bank's presence and visibility in Regional Member Countries through its Field Offices, and by stepping up country-level policy dialogue and advice. The Bank's interventions will be informed by careful diagnostic assessment of the drivers and impediments to reforms, so as to mitigate risk of failure.

Gender Strategy 2014-2018. This strategy was approved by the Boards in January 2014. Gender plays a critical role in the Bank's TYS. Women and girls in Africa are among the poorest and most illiterate in the world. Strengthening women's legal and property rights and promoting their economic empowerment is therefore central to accelerating Africa's inclusive development, as is knowledge creation and management and capacity building on issues of gender equality. The Gender Strategy was designed, under the guidance of the Boards, with the mandate to ensure that the Bank's country and regional strategies and operations reflect gender mainstreaming, building equally on external and internal transformation.

External transformation emphasizes (i) gender-focused governance; (ii) legal reforms and property rights; (iii) a reduction in gender-based violence; (iv) ensuring women's economic empowerment through increased access to and control over financial resources and services; and (v) knowledge management and capacity building on issues related to reporting of results on progress towards gender equality.

Internal transformation reflects the Bank's ability to demonstrate leadership and commitment to gender equality within its own structures. The goal is for the Bank to become a more supportive, gender-responsive institution, sensitive to the different needs of male and female staff by treating them equally and ensuring they are protected from all forms of discrimination and harassment, including violence.

Strategy for Addressing Fragility and Building Resilience in Africa, 2014-2019. This strategy to address fragility in Africa was approved by the Boards in June 2014, replacing that of 2008. The new strategy followed findings and recommendations of the High Level Panel on Fragile States constituted by the Bank to investigate the causes and consequences of fragility in Africa. The Panel noted that fragility is reflected in elevated risks of institutional failure, societal collapse, or—the most common factor—violent conflict. The strategy has strong pillars for fostering inclusive development in Africa, stressing that fragility could stem from any source and arise in any country.

To enhance the Bank's response in states under fragile situations, the Fragile States Unit (OSFU) was upgraded to a fully-fledged department, the Transition Support Department (ORTS), with the mandate to oversee all operational activities related to fragility, including a specialized financing vehicle, the Transition Support Facility (TSF), which replaced the Fragile States Facility (FSF).

Diversifying the Bank's Products to Provide Eligible ADF-Only Countries with Access to the ADB Sovereign Window. This much anticipated policy by low-income Regional Member Countries was approved by the Board in May 2014. It includes provisions for a case-by-case consideration of each country's access to ADB sovereign resources. Four conditions will have to be met: (i) the country must be at low or moderate risk of debt distress, as determined by a debt sustainability assessment (DSA) of the IMF; (ii) it must have headroom for non-concessional borrowing, again as determined by the IMF's DSA, and in compliance with the IMF's sustainable lending limit (SLL) policy for countries under Fund-supported programs and the Bank Group's Policy on Non-Concessional Debt Accumulation; (iii) the country must have a sustainable macroeconomic position; and (iv) the country's request for financing must be approved by the Bank's Credit Risk Committee, based on the country's risk assessment. The Bank Group's Risk Management Framework will be the paramount screening tool to guide Management's decisions with regard to eligibility and loan amounts.

The Bank Group Regional Integration Policy and Strategy, 2014-2023. This policy and strategy was considered and approved by the Board in November 2014. It is anchored on two pillars: regional infrastructure development, and enhancing trade and industrial development on the continent. The new policy and strategy will be implemented at national and regional levels through Regional Integration Strategy Papers and Country Strategy Papers. Bank support to regional infrastructure development is to be guided by continental and regional priorities, especially the Program for Infrastructure Development in Africa's (PIDA) Priority Action Plan. The Bank will also promote public-private partnerships in regional infrastructure development—from planning, design, preparation and construction to operations, management and monitoring.

The Bank's Human Capital Strategy for Africa (HCS), 2014-2018. This strategy, the first for the Bank on human capital development, was approved by the Boards in May 2014.

It will be the basis for the Bank's support to investments in skills and technology development in all RMCs through knowledge work, policy dialogue and lending operations. Interventions will address the challenges of unemployment and underemployment among the youth and women, labor market-skills mismatches, and low productivity in the informal sector, where many youth and women are employed. In addition, Bank operations focusing on human capital will increasingly be underpinned by economic and sector work and also integrate impact evaluations. The Bank will foster such analytical work through joint effort with other development partners, as it prepares its operations. It will also adopt a systemic approach to project evaluation, including building on current practice. The implementation of the HCS will leverage other Bank strategies—including those for gender, private-sector development, governance, and fragility—to build human capital in Africa. It will underscore the human capital dimension in all core operational priority areas of the TYS, emphasizing skills and technology as crucial for development of a productive workforce and competitive economies, within the inclusive and green growth agenda.

The Financial Sector Development Policy and Strategy (FSDPS), 2014-2019. The FSDPS, was approved by the Board in October 2014 and replaces the 2003 Financial Sector Policy. It has two pillars: one is increasing access of the under-served to the full range of financial services, and the other is the broadening and deepening of Africa's financial systems.

In implementing the FSDPS, the Bank will aim to ensure further geographic diversification of both its sovereign and non-sovereign investments and operations. To increase the proportion of the Bank's financial sector activities in Low-Income Countries (LICs) as well as in states under fragile situations, the Bank will continue to prudently deploy products such as guarantees, risk capital/equity investments and grants to respond to market demand and context while balancing the associated risk. The Bank will also combine and complement its lending activities with advisory and technical assistance services. These services will be geared towards supporting development of financial markets, financial service providers and relevant institutions in the low-income areas and in states under fragile situations.

5.3 Development Effectiveness and Quality Assurance

During the year, the Bank Group enhanced the quality of its operations. It established quality, social and environmental safeguards, and strengthened its ability to measure and manage for development results.

Enhancing the Quality of Operations. Since 2013, the Bank has put in place a systematic, harmonized and integrated operational rating system, capturing the performance of all of the Bank's public sector operations: (i) at entry in the Readiness Review which assesses the compliance of the project documentation with the Bank's quality at entry standards; (ii) during implementation in "the Implementation Progress and Results Report which adopts a new evidence-based and results-focused method to monitor and rate operational performance"; and (iii) at exit in "the Project Completion Report which rates project performance based on an assessment of the relevance, the effectiveness, the efficiency, and the sustainability of the operation, highlighting lessons learnt in these various aspects". Throughout the cycle, the results-based logical framework is used to plan, track and report progress towards operational outcomes and outputs, forming the backbone of the results-based rating system.

The rating system has three essential features: (i) it is focused on results (i.e. progress towards outcomes and outputs as set out in logical frameworks); (ii) it is based on evidence gathered on the field; and (iii) it facilitates issues identification so as to prompt corrective action. Ultimately, the rating system aims at maximizing the Bank's operational results and impact. It will deliver its intended benefits facilitated results tracking and reporting, identification of problem areas, proactive project management—only if rigor and candor are exercised in rating and assessing performance. The introduction of operational quality assurance tools is a major step towards enhancing a culture of results across the Bank.

Compliance with the new system is monitored through quarterly progress reports and the Quality Assurance Dashboard (QAD) "annual report" which aims at monitoring progress made by the Bank in mainstreaming operational quality assurance tools throughout the project cycle. The QAD does not assess or re-assess project performance itself, but rather looks at the quality of the reports and the way the ratings are derived. As of end-December 2014, overall, the new integrated rating system has been successfully introduced in Bank operations.

Ensuring Social and Environmental Safeguards. The Bank acknowledges that its vision of a developing Africa must adhere to well-formulated environmental, social and climate-change safeguards. With the approval in December 2013 of the Bank's Integrated Safeguards System (ISS), no effort is spared to ensure that its operations are assessed and managed according to these stipulations. The newly adopted ISS is expected to further enhance the Bank's ability to identify and minimize risks of Bank-funded projects doing harm while working in or with communities, to protect the environment and promote sustainability.

The Bank's Climate Change Action Plan (CCAP), 2011-2015, approved by its Boards in 2012, provides guidelines for attainment of the Bank's objectives with regard to climate change. The CCAP is designed to help African countries strengthen their capacity to respond to climate change, including the mobilization of necessary resources from current and proposed sources of climate finance, the private sector and market mechanisms. The three pillars of the CCAP are: (i) low-carbon development; (ii) climate resilient development; and (iii) a funding platform. Close to USD 6.51 billion for financing the activities of the CCAP has been mobilized in the past three years to support adaptation and low-carbon development in Africa. For each activity in the CCAP, specific agencies are earmarked for its financing. The resources for financing the activities of CCAP are drawn from ADF replenishments and the Sixth General Capital Increase, bilateral trust funds and existing, or new climate finance instruments, including the Climate Investment Fund (CIF), the Global Environmental Facility (GEF), the Congo Basin Forest Fund (CBFF) and the ClimDev-Africa Special Fund. Based on the climate finance tracking, USD 5.41 billion was allocated at the rate of 70.3 percent and 29.7 percent, respectively, to financing mitigation and adaptation operations.

In the past three years, after its approval of the CCAP, the Bank has provided training to more than 600 development experts on issues related to climate change in Africa. Further, eight countries have benefited from the assistance provided by the Bank to mainstream climate-change issues in their Country Strategy Papers as well as their own policies.

At the international level, the Bank provided technical and logistical assistance to its RMCs during the United Nations Framework Convention on Climate Change (UNFCCC) negotiation processes leading to the 20th session of the Conference of the Parties (COP 20) from December 1 to 12, 2014 in Lima, Peru. The Bank has continued to support up to 50 African delegates to these annual negotiations, at an annual cost of up to USD 2 million.

The Bank continues to play an important role as a climate change knowledge bank, with a stock of over 60 climate change related knowledge products, including books, working papers, and briefs produced over in the last three years.

Tables 5.1 and 5.2 below use a traffic light system to depict scores on the progress made at four levels: (i) development progress in Africa (Level 1); (ii) Bank's contribution to development in Africa (Level 2); (iii) Bank's operational performance (Level 3); and (iv) AfDB's organizational efficiency (Level 4).

Table 5.1 Summary Performance Scorecard 2014

LEVEL 1:
IS AFRICA MAKING DEVELOPMENT PROGRESS?

Inclusive growth	Transition towards green growth
🟡 Economic inclusion	🟡 Building resilience
🟢 Spatial inclusion	🟡 Managing natural assets
🟡 Social inclusion	🟢 Reducing waste and pollution
🟢 Political inclusion	
🟢 Sustaining growth	

LEVEL 2:
ARE AfDB OPERATIONS MAKING AN IMPACT?

Private sector development	Regional integration
🟢 Private sector	🟢 Cross-border transport
🟢 Agriculture	⚫ Cross-border energy

Infrastructure development	Skills & technology	Governance & accountability
🟢 Transport	🟡 Vocational training	🟢 Financial management
🟢 Water	🟡 Education	🟡 Public sector transparency
🟢 Energy	🟡 Health	🟡 Competitive environment
🟢 ICT		

LEVEL 3:
ARE AfDB OPERATIONS MANAGED EFFECTIVELY?

Country-level results	Effective & timely operations	Gender & climate change
🟢 Country engagement	🟡 Learning from operations	🟢 Gender-informed operations
🟢 Aid effectiveness	🟡 Portfolio performance	🟡 Climate-informed operations
	🟢 Quality of operations	

LEVEL 4:
IS AfDB AN EFFICIENT ORGANISATION?

Moving closer to our clients	Engaging & mobilizing staff	Value for money
🟢 Decentralisation	🟡 Human resources	🟢 Cost-efficiency
🟢 Connectivity	🟢 Gender	🟢 IT services

Source: AfDB Department for Quality Assurance and Results.

Legend:

🟢 ***Good progress:*** *On average the group improved over baselines or reference groups.*
🟡 ***Moderate progress:*** *Results are mixed, on average the group of indicators show moderate improvement.*
🔴 ***Progress stalled or regressed:*** *on average the group of indicators stalled or regressed.*
⚫ ***Progress could not be measured.***

Table 5.2 How Well AfDB is Contributing to Africa's Development (Level 2)

	2012-2014			2015-2017
	Expected	Delivered		Expected
INFRASTRUCTURE DEVELOPMENT				
Transport-Roads constructed, rehabilitated or maintained (km)	6,184	5,126	83%	21,529
Transport-Staff trained/recruited for road maintenance	9,142	9,376	103%	26,814
Transport-People educated in road safety, etc.	663,243	859,403	130%	1,505,762
Transport-People with improved access to transport	19,510,544	19,350,394	99%	43,593,284
of which women[2]	9,897,520	9,816,277	99%	15,479,312
Energy-Power capacity installed (MW)	1,334	1,334	100%	3,982
of which renewable (MW)	142	142	100%	1,849
Energy-Staff trained/recruited in the maintenance of energy facilities	20	20	100%	3,982
Energy-People with new or improved electricity connections	9,669,468	10,869,727	112%	22,087,748
of which women[2]	5,839,812	6,452,065	110%	7,535,486
Energy-CO_2 emissions reduced (tons per year)	635,028	706,704	111%	6,208,738
Water-Drinking water capacity created (m^3/day)	76,894	58,940	77%	1,213,459
Water-Workers trained in maintenance of water facilities	5,391	5,234	97%	88,121
Water-People with new or improved access to water and sanitation	4,010,340	4,234,652	106%	41,036,125
of which women[2]	2,568,574	2,712,243	106%	27,315,524
ICT-People benefiting from improved access to basic ICT services	602,783	602,783	100%	4,616,958
of which women[2]	-	-		-
REGIONAL INTEGRATION				
Transport-Cross-border roads constructed or rehabilitated (km)	695	680	98%	5,279
Energy-Cross-border transmission lines constructed or rehabilitated (km)	-	-		1,215
PRIVATE SECTOR DEVELOPMENT				
Government revenue from investee projects and sub-projects (USD million)	1,095	1,680	153%	1,085
SME effect (turnover from investments) (USD million)	345	386	112%	1,392
Microcredits granted (number)	20,198	17,958	89%	50,607
Microfinance clients trained in business management	312	311	100%	35,130
Jobs created	1,260,945	1,239,672	98%	1,194,743
of which jobs for women[2]		338,038		439,810
People benefiting from investee projects and microfinance	2,903,384	2,989,176	103%	3,801,339
of which women[2]		1,395,905		
Agriculture-Land with improved water management (ha)	76,644	53,004	69%	181,766
Agriculture-Land whose use has been improved: replanted, reforested (ha)	452,090	441,267	98%	393,051
Agriculture-Rural population using improved technology	1,188,682	2,305,673	194%	1,306,330
Agriculture-People benefiting from improvements in agriculture	9,762,938	9,696,307	99%	41,726,070
of which women[2]	4,219,804	4,191,004	99%	19,521,820

Table 5.2 How Well AfDB is Contributing to Africa's Development (Level 2) (Continued)

	2011-2013			2014-2016
	Expected	Delivered		Expected
SKILLS & TECHNOLOGY				
People benefiting from vocational training	8,695	5,435	63%	78,747
of which women[2]	5,868	3,669	63%	34,008
Classrooms and educational support facilities constructed	1,871	1,478	79%	1,025
Teachers and other educational staff recruited/trained	40,390	33,747	84%	22,661
People benefiting from better access to education	2,196,600	2,159,209	98%	1,116,688
of which female[2]	1,046,877	1,029,057	98%	502,510
Primary, secondary and tertiary health centers	807	755	94%	260
Health workers trained	13,879	14,661	106%	30,417
People with access to better health services	55,326,351	48,557,857	88%	12,930,393
of which female[2]	31,649,582	27,777,647	88%	6,992,410
GOVERNANCE AND ACCOUNTABILITY				
Countries with improved quality of budgetary and financial management	19	16	84%	
Countries with improved quality of public administration	6	6	100%	
Countries with improved transparency, accountability and corruption mitigation in the public sector	19	13	68%	
Countries with improved procurement systems	3	3	100%	
Countries with improved competitive environment	13	7	54%	

Source: AfDB Department for Quality Assurance and Results.

.. = data not available
ha = hectares
km = kilometers
MW = megawatts
m^3 = cubic meters
SME = small- or medium-size enterprise;
USD = United States dollars
ICT = information and communication technology

Notes:

1. *The performance indicator for governance applies different thresholds. Given the nature and attribution distance, the levels for the traffic lights are different from other indicators: green, 75% and above, amber, 50%-75%, and red, below 50%.*
2. *Gender-disaggregated figures are extrapolated from a subset of projects that have available data with baseline and actual data built in. As more projects have started to include gender-informed design, these data are expected to become increasingly robust and complete.*
3. *UA figures from material converted at UA 1 = USD 1.53.*
4. *The table presents the contribution the Bank is making to development through its operations in Africa. The Bank's performance is measured by comparing expected and actual achievements for all operations that have been completed:*

Legend:

- *Bank operations achieved 95% or more of their targets[1]* (green)
- *Bank operations achieved 60-94% of their targets* (yellow)
- *Bank operations achieved less than 60% of their targets* (red)
- *Data are not available to measure performance* (grey)

5.4 Update on Implementation of ADF-13 Replenishment

The ADF-13 Replenishment is now effective following the adoption of the ADF-13 Resolution and approval of the ADF-13 Deputies Report by postal ballot in January 2014.

At the end of the ADF-13 Replenishment consultations in September 2013, ADF Deputies agreed on a replenishment of UA 4.831 billion for the Fund. This comprised (i) donor contributions of UA 3.789 billion; (ii) an advance commitment capacity from the Bank Group of UA 976 million; (iii) UA 66 million from an initial subscription from Angola (UA 10 million); and (iv) supplementary contributions of UA 56 million.

Total resources expected to be available for the ADF13 period (2014-2016) will amount to UA 5.375 billion, comprising the above replenishment of UA 4.831 billion and carry-over resources from the ADF-12 of UA 544 million. However, contingencies for exchange rate risk and for qualified and late contributions, which together amount to UA 404 million, are netted out, leaving total allocable resources at UA 4.971 billion. Three allocations (for Pillars I, II, and III) have been made for the Transition Support Facility (TSF) envelope (UA 662 million), the Private Sector Credit Enhancement Facility (PSF), (with a contribution of UA 165 million discussed above), and the Regional Operations (RO) envelope, (21 percent of allocable resources). After netting out for these set-asides, UA 3.100 billion is left over for country allocations through the performance-based allocation (PBA) methodology over the three years of the ADF-13 cycle (2014-2016).

A quarterly monitoring report tracks the ADF-13 resource utilization by country and by envelope or set-aside. The report also includes information on the utilization of resources available from cancellations of Bank projects.

5.5 Independent Evaluation of Bank Operations

The name of the Operations Evaluation Department (OPEV) was changed to Independent Development Evaluation (IDEV) to reflect the department's independence. Its functions, however, will continue to be guided by the AfDB Independent Evaluation Strategy, 2013–2017, which focuses on the complementary objectives of learning, accountability and the promotion of an evaluation culture, in support of the overarching goal of improving development effectiveness.

In 2014, several important evaluations were successfully delivered. Highlights included:

- Two thematic evaluations that focus on the areas of infrastructure and the private sector, including an evaluation of the transport sector, and an evaluation of the Bank's Additionality and Development Outcomes Assessment (ADOA) Framework for private-sector operations.

- Three Country Strategy and Program Evaluations for Botswana, Madagascar, and Chad were delivered, and directly informed the development of the new Bank strategies for these countries. The evaluations noted that the tendency for Country Strategy Papers (CSPs) to focus on individual projects, rather than their linkages to the broader economy, requires redress, towards a more programmatic approach.

- Two important corporate evaluations were completed in 2014. These were the evaluation of Quality at Entry for CSPs/Regional Integration Strategy Papers (RISPs) and the evaluation of efficiency and effectiveness of the Bank's procurement function. These evaluations informed the development of new policies and guidelines in these two key corporate areas. The first evaluation underscored that the CSP and RISP preparation processes were cumbersome and would benefit from streamlining. The second evaluation recommended a clearer and stronger delegation of authority to the field in areas of procurement, better use of post-reviews and audits, and greater attention to capacity building and use of country systems. A joint Evaluation of Multilateral Development Bank (MDB) Support to the Climate Investment Funds was also completed in 2014.

The evaluations above provided credible, evidence-based information that can help inform the Bank's strategic direction on inclusive growth and the transition to green growth.

Other evaluations, begun in 2014, are expected to be completed in 2015. These include: (i) an evaluation of Bank support to microfinance; (ii) an evaluation of Bank support to SMEs; (iii) an evaluation of the Bank's Private Equity Investments; (iv) impact evaluations of Rural Water Supply and Sanitation programs in Ethiopia and Tanzania, and (vi) evaluations that will contribute to the evaluation of the Bank's GCI and ADF commitments and the comprehensive evaluation of the Bank's development results.

During the course of the year, IDEV continued to strengthen the dissemination of the lessons learnt from its evaluations through various forms of Bank outreach and knowledge sharing. The Bank during the year published four editions of its quarterly knowledge magazine 'eVALUation Matters'. A number of dissemination and learning events were conducted throughout the Bank and in the field, including a regional dissemination and learning event in Senegal and a training program for knowledge management practitioners at the annual conference of the African Evaluation Association (AfrEA). IDEV is implementing two initiatives to further institutionalize evaluation and maximize the use of evaluation results in the Bank. These are: (i) development of the Management Action Record System (MARS); and (ii) roll-out of the Evaluation Results Database which consolidates evaluation findings, recommendations and lessons from past projects, policies, and programs.

5.6 Procurement and Fiduciary Services

Procurement and Fiduciary Services are key management and governance functions of the Bank. Regional Member Countries have received direct assistance through well designed capacity building in public financial management, including procurement, with positive impacts on other areas of the Bank's work such as project implementation and financial governance.

As in previous years, the Bank's Procurement and Fiduciary Services contributed to the design, preparation, appraisal, supervision and completion of projects and programs financed by the Bank. Capacity-building efforts continued in RMCs through innovative programs such as Fiduciary Clinics provided by the Bank's African Development Institute (EADI). Direct and focused assistance was provided in public financial management and procurement, among other areas. These efforts had a positive impact on project delivery and financial governance and also enhanced public sector capacities in public finance management in the RMCs. Internal capacity building continued with training on procurement issues provided to some 100 Bank staff.

The Bank's emphasis on timely submission of project audits yielded results with on-time submission of reports remaining at the level of 90 percent in 2014 as in 2013.

5.7 Intermediate Recourse Mechanisms and Administrative Tribunal

The Bank's intermediate recourse mechanism units continued to play significant roles in 2014 as agencies of corporate restraint and responsibility. Their work was particularly demanding during the Bank's recent preparations for its return to Abidjan. By playing their roles as intermediaries in resolving conflicts and disputes, harmonizing and improving working relations among staff, management and the Bank, the Recourse Mechanisms and Administrative Tribunal contributed, indirectly, to enhancing the effectiveness of the Bank's operations and implementation of the TYS's priorities.

Audit. The Office of the Auditor General in 2014 reviewed a number of areas of Bank operations that required changes in policies and procedures by management. The reviews covered the Bank's equity fund operations, application of environmental and social policies and procedures, credit risk in treasury operations, IT strategy and governance, and the Bank's operational risk framework. The Office continued to help enhance the Bank Group's capacity to bring about a systematic and disciplined approach to the evaluation and improvement of risk management and control and governance processes.

Staff Integrity and Ethics. The Bank's corporate governance culture remained positive in 2014. Due attention was paid to the few cases reported to the Staff Integrity and Ethics Office, which had put in place an intensive awareness program to mitigate reputational risks. The ethics function continued to provide advice to staff and management to ensure that Bank operations and staff-to-staff relations were conducted in the most ethical manner possible. The Bank's staff integrity function will continue to investigate allegations of staff misconduct, including violations of staff rules, and ensure appropriate measures are taken.

Ombudsman. During the year the Office of the Ombudsman received a number of grievances, ranging from abuse of authority to concerns about career development. As at end-December 2014 the Office had handled a total of 77 cases, of which 48 percent were on career development and job security. Almost 50 percent of the total number of cases was brought to closure almost immediately. In 2014, as part of the Outreach and Needs-Based Mission, the Office undertook back-to-back field missions to the Chad Field Office (TDFO) and to the Department Overseeing the Return to Abidjan (DIRA) in Côte d'Ivoire, to attend to a number of grievances that staff there had raised. This exercise demonstrated the importance of proximity as well as that of good understanding of the rules and regulations of the Bank. In its continued efforts to reduce staff work-related grievances in the Field Offices and the Resource Centers, the office initiated the election of 15 new values promotion champions (VPCs) and later held a training session for 25 VPCs at the Bank's Headquarters. The aim of the exercise was to equip the VPCs with various skills required for them to perform their roles more effectively.

Integrity and Anti-Corruption. The Bank's sanctions regime comprises the Sanctions Office, headed by the Sanctions Commissioner, and the Sanctions Appeals Board and considers cases as they are received. At the beginning of 2014, the number of cases brought forward from the previous year stood at 81. After new cases were registered, some were closed after first review and others opened for preliminary and full investigation, resulting in a total number of cases in progress in 2014 of 94. Of these, 18 cases were closed. The findings on four sanctionable practices were submitted to the Sanctions Commissioner's Office. Seven entities entered into a Negotiated Settlement Agreements (NSA) with the Bank, while five cases were transferred to the Staff Integrity and Ethics Office (SIEO).

The Bank Group operates a two-tier process in deciding on the penalties for proven sanctionable practices in projects administered, financed or supported by the Bank. As at end-December 2014, eight entities had been debarred by the Bank's Sanctions Commission and cross-debarred by other MDBs. This brought the number of entities that had been cross-debarred by the Bank Group, in line with the Cross-debarment Agreement with other MDBs, to 98.

In early 2014 the Bank concluded its first set of Negotiated Settlement Agreements (NSA) with four multinationals that had engaged in corrupt practices in the context of a Bank-financed project in Nigeria. In June 2014, the Bank also resolved a case of fraudulent practices in the context of a technical and vocational education training project in Eritrea with a UK-based supplier of educational equipment. Similarly, in November 2014, the Bank concluded a case of collusive and fraudulent practices in connection with a road project in the Democratic Republic of Congo (DRC). Further, the Bank allowed a multinational corporation to enter into a self-reporting agreement regarding public allegations of corrupt practices in connection with Bank-financed projects in Uganda and Mozambique.

Compliance Review and Mediation. The Bank's Independent Review Mechanism (IRM) is administered by the Compliance Review and Mediation Unit. The IRM receives and responds to complaints from people adversely affected by Bank-financed projects.

A request was received in February 2014 regarding the Bank-funded project on the Improvement of Health Services Delivery at Mulago Hospital in Kampala, Uganda. Those making the request for review claimed that they owned the plot of land on which the Bank-financed hospital is being built. This case is being handled through problem solving. Other cases relating to the construction of the Marrakech-Agadir Motorway in Morocco, and the Road Support Project II in Tanzania, were brought to a satisfactory conclusion through the problem-solving method.

In 2014, the Bank undertook outreach missions to the Democratic Republic of Congo, Kenya and Mauritania. These missions improved awareness of the mandate and functions of the IRM among Bank staff and national officials as well as other stakeholders, including the private sector and civil society organizations. In the Democratic Republic of Congo, a total of 205 participants benefited from these seminars.

Administrative Tribunal. The Bank's Administrative Tribunal held its 23rd Judicial Session in Tunis in June 2014 during which it disposed of two applications. This session also marked the end of its activities from the Bank's Temporary Relocation Agency in Tunis, Tunisia. Subsequently, in December 2014, the Tribunal held its 24th Judicial Session and a plenary at the Bank's Headquarters in Abidjan, where three applications were heard and disposed of. In the first quarter of 2014, the Tribunal's Secretariat undertook outreach programs in Field Offices, in collaboration with the Staff Council and the Staff Appeals Committee. These training and information sharing events were conducted in the Zambia, Zimbabwe, and Madagascar Field Offices and the Southern Africa Resource Center. Similar missions followed in Sierra Leone, Liberia, Mali and Morocco during the second quarter of 2014.

5.8 Deployment of Human Resources

The Human Resources Development function has been at the center of institutional reforms at the Bank and also played a pivotal role in the Bank's return to its Headquarters in Abidjan. The Bank has devised a People Strategy aimed at making it the employer of choice for those working on African development. The Human Resources Action Plan is the business plan for the management of human resources, focusing on establishing an attractive culture of professional satisfaction and personal advancement.

People Strategy. The Bank's People Strategy 2013-2017 was approved by the Board in 2013. During the year, four champions were identified for each of the strategy's four pillars: (i) for Priority I on *Leadership* – the Director of Strategy and Operational Policies; (ii) for Priority II on *Performance and Accountability* – the Vice-President of Finance; (iii) for Priority III on *Employee Engagement and Communication* – the Secretary General and Vice-President, and (iv) for Priority IV on *Developing a Workforce of the Future* – the Vice-President of Sector Operations. Under the leadership pillar, the strategic staffing exercise and the skills audit launched in the latter part of 2014 will provide a robust foundation for talent development and career planning.

To improve employee engagement, a new onboarding program was designed and launched in Abidjan and a web version was planned for 2015. The performance management tools and processes were revamped to facilitate improved interactions and dialogue between staff and their supervisors, and establish a credible and congruent performance management culture. Progress made in staff engagement will be monitored through staff surveys.

Under the 'Workforce of the Future' initiative, key targets set towards streamlining and improving recruitment initiatives were met. There was a renewed focus on improving work arrangements and the work environment to attract and maintain a workforce of the future. A rest and relaxation guideline was developed for staff working in hardship locations, while a pilot project was launched to test remote work arrangements. Through the Office of the Special Envoy on Gender, the Bank launched a gender study that examines and identifies gender gaps, and propose strategies for gender mapping.

Human Resource Action Plan. Under the Human Resources Action Plan, the Bank's Performance Management process and tool was revised and launched in December 2014. During the year the Bank also embarked on a strategic staffing exercise across the institution. Results of the exercise were to be compiled and analyzed in early 2015. For better information sharing, the Bank piloted a platform through SharePoint collaboration software with a few users and a larger roll-out was planned for 2015.

With the Bank's return to Abidjan, a temporary hold was placed on recruitment. However, key positions that could affect business continuity continued to be filled. The 2014 intake of the Young

Professionals Cohort was deferred to 2015 while the Bank staff complement declined by 6.4 percent from 2,065 at the end of 2013 to 1,932 at end-December 2014. The total staff of 1,932 included 1,263 professional staff, 340 (26.9 percent female), and 631 general service staff with 431 at Headquarters (64.3 percent female) and 200 in the Field Offices (44.5 percent female). Of the 631 general service staff, 366 (58.0 percent) were female. Female managerial staff (including two Vice-Presidents) totaled 50 (30.7 percent of 163 managerial staff). See Table 5.3 below for the details.

During 2014 the Bank embarked on the creation of a talent management and learning/development infrastructure. This will involve leader-led learning, business-aligned learning investments, the strengthening of professional practice groups, a focus on results, and ensuring impact and value for money with regards to investment in staff. In-house and online training, available to a broad spectrum of staff members, continued to be delivered in 2014. To enhance bilingualism, virtual language classes were reactivated. With a large number of staff having moved to Abidjan by the fourth quarter, language classes also commenced in Abidjan.

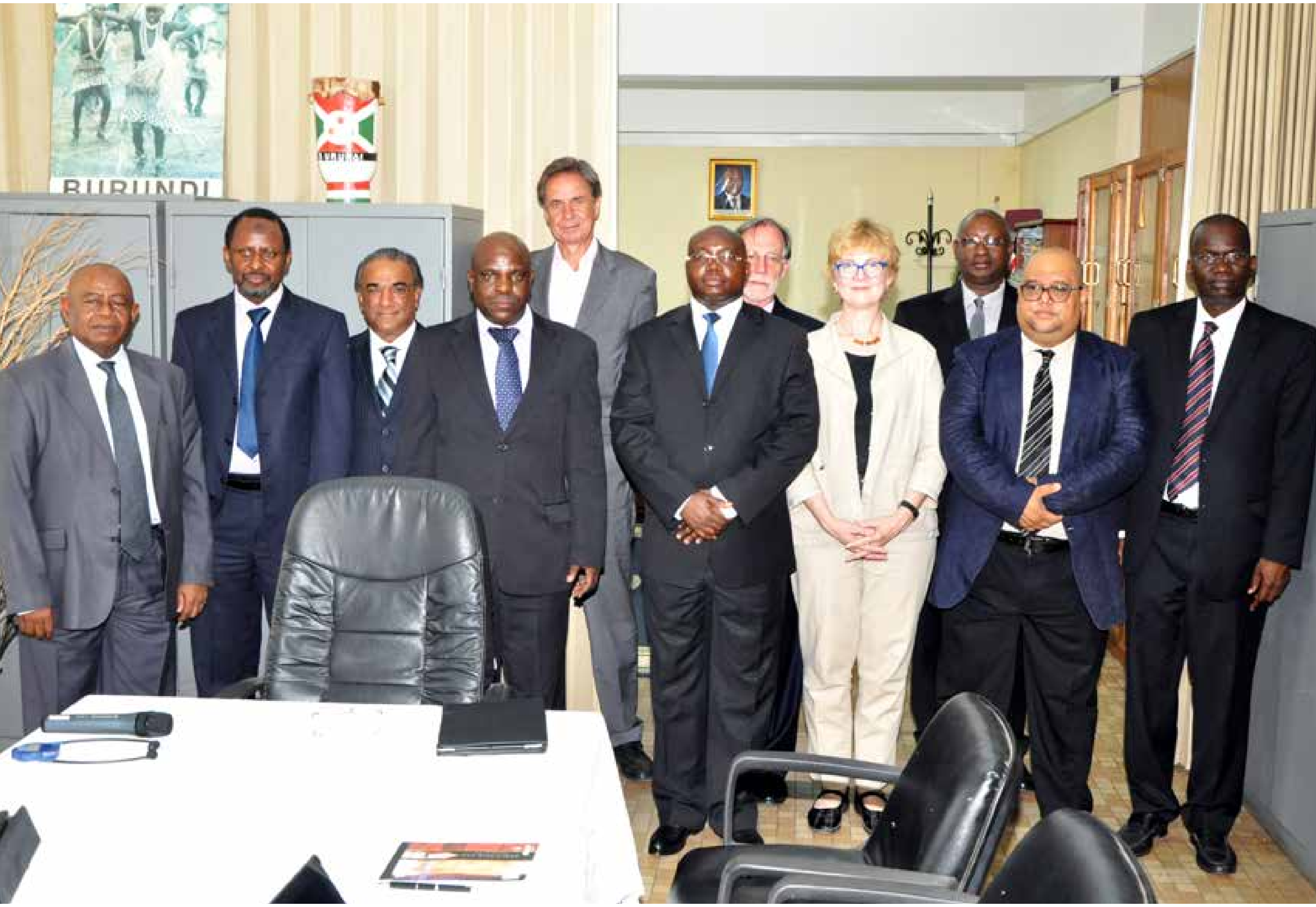
Table 5.3 Staffing Ratio by Country (Management, Professional and General Services Staff) as of December 31, 2014

	Management and Professional Staff									Other Bank Staff		
					Field Office Based Staff					GS Staff		
					International							
Non-Regional Member Countries	VP/EL3	Dir.	Man.	Other PL	FO ResRep	FO Intnl. PL Staff	Field Office LP	Total EL & PL & LP	% of total PL	HQ Reg GS	FO Local GS	SABD Advisors to EDs
Argentina								0	0.0%			1
Austria				1				1	0.1%			1
Belgium		1	1	5		1		8	0.6%			1
Canada	1	1	2	27	1	4		36	2.9%	1		
China				5				5	0.4%			1
Denmark		1		3		1		5	0.4%			1
Finland				2				2	0.2%			
France		2	5	51	2	6		66	5.2%	8		1
Germany				7		2		9	0.7%	1		
India	1	2		11		3		17	1.3%			
Italy				7				7	0.6%			1
Japan				9				9	0.7%		2	
Netherlands			1	3				4	0.3%			1
Norway						1		1	0.1%			
Portugal				2		1		3	0.2%			1
South Korea				2		1		3	0.2%			1
Spain			1	2				3	0.2%			
Sweden		1		1	1			3	0.2%			1
Switzerland				4		1		5	0.4%			1
United Kingdom	1	2	3	11				17	1.3%	1	1	
United States of America		2	6	28		6		42	3.3%			2
TOTAL NON-REGIONAL MEMBERS	**3**	**12**	**19**	**181**	**4**	**27**	**0**	**246**	**19.5%**	**11**	**3**	**14**

Table 5.3 Staffing Ratio by Country (Management, Professional and General Services Staff) as of December 31, 2014 (continued)

	Management and Professional Staff									Other Bank Staff		
					Field Office Based Staff					GS Staff		
					International							
Regional Member Countries	VP/EL3	Dir.	Man.	Other PL	FO ResRep	FO Intnl. PL Staff	Field Office LP	Total EL & PL & LP	% of total PL	HQ Reg GS	FO Local GS	SABD Advisors to EDs
Algeria				8	1		3	12	1.0%	6	4	1
Angola				1			2	3	0.2%		4	
Benin			3	21		6		30	2.4%	18		
Botswana		1		5		5		11	0.9%			
Burkina Faso		1		36		4	5	46	3.6%	19	7	
Burundi			3	8			3	14	1.1%		4	
Cabo Verde					1		1	2	0.2%	1		
Cameroon	1	3	6	30	3	4	8	55	4.4%	9	9	1
Central African Republic		1		2			2	5	0.4%		5	
Chad				9	1	2	5	17	1.3%	6	7	
Comoros				2				2	0.2%			
Congo		1	1	8		1		11	0.9%			
Côte d'Ivoire		2	4	75	1	5		87	6.9%	109		1
Democratic Republic of Congo		1	1	4		1	7	14	1.1%	4	7	1
Djibouti			2	4		2		8	0.6%			
Egypt	1	1		9		1	6	18	1.4%		7	2
Eritrea						1		1	0.1%	1		
Ethiopia			4	12		10	10	36	2.9%	4	8	
Gabon				4		3	4	11	0.9%	2	6	1
Gambia, The		2	3	12	1	3		21	1.7%			
Ghana	2	1	3	23		10	7	46	3.6%	24	7	1
Guinea				8	1	4		13	1.0%	6		1
Guinea-Bissau				3		2		5	0.4%		2	
Kenya			4	31	1	9	11	56	4.4%	8	8	
Lesotho				3		1		4	0.3%			1
Liberia				4			2	6	0.5%	1	5	
Libya								0	0.0%			1
Madagascar				8			5	13	1.0%	1	8	1
Malawi				11	1	7	6	25	2.0%	1	7	1
Mali		1	4	15	1	6	8	35	2.8%	6	8	
Mauritania	1			7	2	2		12	1.0%	1		
Mauritius		1	1	5				7	0.6%			1
Morocco		1	1	8			7	17	1.3%	3	6	
Mozambique					1	2	6	9	0.7%		8	
Namibia				1				1	0.1%			
Niger			2	8	1	3		14	1.1%	2		1
Nigeria	1	4	6	34		5	7	57	4.5%	21	8	2
Rwanda			2	16		5	5	28	2.2%	3	7	1
São Tomé & Príncipe								0	0.0%		1	
Senegal		1	5	28	1	6	8	49	3.9%	11	8	
Sierra Leone				8		2	8	18	1.4%	7	5	1
Somalia				1				1	0.1%			
South Africa	1		1	9		3	3	17	1.3%		6	
South Sudan							2	2	0.2%		3	
Sudan		1	2	4		2	3	12	1.0%		3	
Swaziland						1		1	0.1%			1
Tanzania			1	11		6	8	26	2.1%	3	6	1
Togo			1	6		1	2	10	0.8%	7	5	1
Tunisia				29	1	2		32	2.5%	133		1
Uganda	1	3	3	12	1	14	7	41	3.2%	2	6	
Zambia		1	5	9	1	8	6	30	2.4%		6	
Zimbabwe			1	18	1	5	1	26	2.1%	1	6	1
TOTAL REGIONAL MEMBERS	**8**	**27**	**69**	**570**	**21**	**154**	**168**	**1,017**	**80.5%**	**420**	**197**	**24**
GRAND TOTAL	**11**	**39**	**88**	**751**	**25**	**181**	**168**	**1,263**	**100.0%**	**431**	**200**	**38**
Number of Female Staff per Category	4	9	30	229	7	32	29	340		277	89	14
Percentage of Female Staff per Category	36.4%	23.1%	34.1%	30.5%	28.0%	17.7%	17.3%	26.9%		64.3%	44.5%	36.8%

Source: AfDB Human Resources Management Department.
Note: VP/EL3 = including 8 Vice Presidents and 3 employees with grade EL3.



Chapter 6

The Boards’ Oversight Functions and Strategic Responsibilities

The Boards of Governors and the Boards of Directors are, respectively, the highest decision-making organs of the Bank Group. The Bank activities described in the previous chapters were undertaken by Management under their purview. This chapter describes briefly how the oversight or accountability functions of the Boards were discharged in 2014, and provides a flavor of the discussions relating specifically to their key decisions, including returning the Bank to its statutory headquarters in Abidjan.

6.1 Roles of the Boards

This section provides an overview of the roles of the Boards of Governors and Boards of Directors the two apex decision-making organs of the Bank Group.

The Boards of Governors are the highest decision-making organs of the Bank and the Fund. Each member country is represented on the Board by a Governor, usually a Minister of Finance, Planning or a Central Bank Governor, or a duly designated alternate. The Governors execute their mandate with the support of five subsidiary organs: (i) the Bureau, (ii) the Joint Steering Committee, (iii) the Steering Committee on the Election of the President of the Bank, (iv) the Standing Committee on the Conditions of Service of Elected Officers, and (v) the Governors' Consultative Committee.

The day-to-day decision-making organs are the resident Boards of Directors, which act on delegated authority from the Boards of Governors. As such, they are entrusted with the conduct of general operations, including approval of strategies, policies, loans and grants, equity investments, guarantees, and the administrative budget. In the discharge of their duties, the Boards of Directors exercise all the powers of the Bank and the Fund, except those expressly reserved for the Boards of Governors by each entity's constitutive instrument.

The 20 Executive Directors of the Bank are elected by the Board of Governors for a period of three years, renewable once. The 53 regional (African) member states are represented in the Bank by 13 Executive Directors (EDs), while the remaining seven represent the non-regional (non-African) member states. The Board of Directors of the Fund is composed of 14 Executive Directors, half of whom are appointed by the State Participants of the Fund, and the other half designated by the Bank from among regional Executive Directors.

In 2014, the work of the Boards of Directors was supported by seven standing committees; (i) The Committee on Administrative Affairs and Human Resource Policy Issues (CAHR); (ii) the Audit and Finance Committee (AUFI); (iii) the Committee on Operations and Development Effectiveness (CODE); (iv) the Committee on Administrative Matters Concerning the Board of Directors (AMBD); (v) the Committee of the Whole on the Budget (CWHOLE); (vi) the Committee for the Enforcement of the Code of Conduct for Executive Directors (Ethics Committee); and (vii) the Committee for the Preparation of the Bank Group Annual Report (ANRE). In addition, an ad-hoc committee—the Working Group on the Return to the Headquarters—oversaw the effective return of the Bank's operations to Abidjan, Côte d'Ivoire.

During the year, the Boards oversaw in particular the work of the following units which worked independently from the rest of the Bank: Office of the Auditor General (OAGL), Integrity and Anti-Corruption (IACD), Independent Evaluation (IDEV), Compliance Review and Mediation Unit (CRMU) and Administrative Tribunal (TRIB).

6.2 Highlights of Activities of the Boards of Directors

The Boards of Directors of the Bank Group commenced their 2014 activities in January in Tunis at the Temporary Relocation Agency but the year was concluded in Abidjan, following the Bank's return. The Board insisted on minimal disruption to Bank operations during the transition, a goal largely achieved. The Bank, as noted above, required quick action to combat Ebola, bringing a project document to the Board during its August recess and cleared at a virtual meeting by the Board of Directors. In all, 144 formal and informal meetings, seminars and briefings were held by the Boards. This section highlights some of the major decisions and activities undertaken by the Boards during the year, listed in five broad categories: business continuity and responding to urgent and unexpected needs; budget, effectiveness and return to Abidjan; strategies and policies to enhance operations; emphasizing the developmental thrust of country strategy papers; and implementing the TYS.

Business Continuity and Unexpected Events

Return to Headquarters. In the context of the Bank's return to its statutory Headquarters, the Board oversaw the implementation of the roadmap for the effective return of the Bank's operations to Abidjan, Côte d'Ivoire. The Board provided guidance relating to measures to safeguard the interests of staff while sustaining their morale. Members also provided guidance on the adoption of realistic yet robust schedules for the timely delivery of renovation works to avoid cost overruns.

During the year, the Board's Working Group on the Return to Headquarters undertook several missions to Abidjan, Côte d'Ivoire, to assess progress on preparations for the return, including renovations to the Headquarters building.

Response to the Outbreak of the Ebola Hemorrhagic Fever Epidemic. The Board responded strongly to the Ebola crisis that seriously affected parts of West Africa and required timely intervention by the Bank. The Board of Directors held an exceptional virtual meeting during the August recess to discuss a project to fight the disease. The project it approved provided affected countries, most particularly Guinea, Liberia and Sierra-Leone, access to quick-disbursing resources, including budget support, and emergency and technical assistance to strengthen health systems. To limit contagion, support was also extended to neighboring countries.

Budget, Institutional Reforms and Effectiveness

Budget Framework 2014-2016 and Three-Year Rolling Program and Budget Document (PBD). The Board in December approved both the Budget Framework and the PBD and also welcomed the proposed prudent management of Bank Group resources they contained. It was noted that the budget framework and PDB would enable the Bank Group to expand operations without substantially raising its current administrative costs. The Board also expressed satisfaction with improvements in the Bank's efficiency ratio (cost-to-income ratio). Nevertheless, the Board called on Management to take all measures necessary to ensure the financial sustainability of Bank Group operations, including increasing Bank revenue and budget cuts. It also advised Management that the desired budget cuts should not be at the cost of quality, operational effectiveness and longer-term human resource goals like training and knowledge development. Further, the Board emphasized the need to ensure that budget reductions did not impair the ability of the Bank's independent oversight departments to discharge their responsibilities.

Total Compensation Framework. In 2014, the Board held extensive discussions on proposals for a comprehensive review of the Staff Total Compensation Framework designed to position the Bank as the employer of choice for top talent that will deliver on African growth and development in the context of the Bank's TYS. The Board called on Management to ensure that the final proposals for the framework are not only equitable but also sustainable in the long run, and that they were strongly linked to staff performance. The Board will conclude its deliberations on the proposals in 2015.

The One-Bank Results Measurement Framework 2013-2016. To underscore the importance of managing for results, the Board approved this framework in January 2014, and welcomed the level of attention it paid to gender and capacity building, particularly with regard to data collection, given the importance of data in the results measurement process. The Board also considered proposed revisions to the framework later in the year and recommended that the framework should be harmonized with similar approaches in other Multilateral Development Banks (MDBs).

Mid-Term Review (MTR) of the Implementation of the Decentralization Roadmap. The Board noted the results of the decentralization process that had been carried out, and advised on the need to avoid duplication of positions and tasks in Regional Resource Centers and Field Offices with those at Headquarters. It proposed a review of the skillsmix required to ensure the effective functioning of Field Offices and emphasized the importance of a change in behavior at Headquarters and more-effective delegation of authority to decentralized offices. In addition, the Board called for the development of outcome indicators and their periodic reporting to the Board. Management promised to develop a proposal on the revision of the decentralization roadmap, which will be discussed by the Board in 2015.

Strategies and Policies to Enhance Operations

The Bank Group Regional Integration Policy and Strategy, 2014-2023. Noting that regional integration is at the heart of the Bank's mandate and remains a priority for the continent, the Board in November 2014, approved a policy and strategy to foster regional and economic integration on the continent by increasing the effectiveness of the Bank Group support to RMCs, the private sector and sub-regional and regional organizations. Board members noted with satisfaction the wide level of consultation undertaken in preparing the document and stressed the need to ensure ownership by RMCs as well as the importance of coordination to achieve results. The Board also affirmed its earlier approval, in April, of the *Revised Regional Operations Selection and Prioritization Framework* which underlined the importance of working together with Regional Economic Communities (RECs) to secure unwavering commitment for deeper regional integration.

Gender Strategy 2014-2018. The Board approved this strategy aimed at "Investing in Gender Equality for Africa's Transformation" in January 2014. It welcomed the initiative as timely, ambitious and important for the Bank's implementation of its Ten-Year Strategy. Board members called for strong leadership for the attainment of gender parity within the Bank and for the allocation of adequate resources to facilitate the implementation of commitments and coordination with other organizations working on gender issues.

The Governance Strategic Framework and Action Plan (GAP II), 2014-2018. This was approved in May, and outlines the Bank's strategic intervention in strengthening governance and accountability on the continent. The Board underscored that the Bank needs to: (i) ensure robust and consistent policy dialogue with Regional Member Countries (RMCs), and other development partners; (ii) build the capacity of Field Offices to enable them to play a key role in policy dialogue; (iii) track the implementation of the Action Plan and document key lessons; (iv) prioritize combating corruption and illicit financing; and (v) mobilize resources to ensure long-term technical assistance to RMCs.

In furtherance of the governance objective, the Board also approved the first phase of an Economic Governance and Inclusive Growth Program (EGIGP) which aims to promote inclusive and sustainable growth in Mozambique through two complementary and mutually-reinforcing components, namely, improving public finance and natural-resource management, and creating a conducive environment for private-sector development. The Board called upon the Bank's African Natural Resource Center to: (i) support the authorities in the country in ensuring equitable distribution of natural-resource revenues; and (ii) support human capital development as well as policies to foster macroeconomic stability and better management of risks associated with natural-resource booms.

Strategy for Addressing Fragility and Building Resilience in Africa, 2014-2019. In June 2014, the Board approved this strategy, which is aimed at addressing fragility in Africa in all its forms and to help pave the way for a more resilient and inclusive development for the continent. The Strategy highlights that fragility knows no borders and could affect all countries on the continent. The Board urged the need for adoption of a realistic implementation timetable and a well-defined results framework. It underscored the need for the Bank to provide strong leadership and to enhance collaboration with and coordination of the efforts of other development partners for timely interventions that achieve the expected impact.

Financial Sector Development Policy and Strategy 2014-2019. The Board approved this policy and strategy, the objectives of which are to open up access to financial services for a greater number of people, deepen and expand the African financial markets, and preserve the stability of the African financial system. Board members advised on the need for coordination, selectivity, strategic partnerships, and greater inclusion in the delivery of financial services, in order to reach under-served groups. It also urged for the strengthening of thematic areas such as gender, governance, green growth and support to small- and medium-size enterprises (SMEs).

Amendments to the Bank's Credit Policy: Diversifying the Bank's Products to Provide Eligible ADF-only Countries Access to the ADB Sovereign Window. In May 2014, the

Board approved a proposal to amend the Bank's credit policy to also provide eligible ADF-only countries access to the ADB resources for public-sector operations. Before this decision, ADF countries had access to ADB resources for only private-sector projects. The eligibility for ADF countries is now based on a track record of good economic performance, low or moderate risk of debt distress, positive growth prospects and headroom for non-concessional borrowing. The Board cautioned Management to be mindful of debt sustainability issues. It directed that an evaluation to identify the risks involved and necessary adjustments made after three years of implementation.

Diversification of Funding Sources. In recognition of the global decline in development assistance brought about by tight fiscal positions especially those of traditional development partners, the Bank has been exploring opportunities to diversify its sources of funding in order to provide additional resources to meet the growing financing needs of its RMCs and private-sector clients. In April 2014, the Board approved the establishment of two new and innovative financing vehicles. The first vehicle is the *Africa Growing Together Fund (AGTF),* supported by the People's Bank of China. The Board welcomed this trust fund and advised Management to ensure that projects to be financed through this facility remained fully compliant with all Bank policies, procedures, and standards. It also emphasized the need for the Bank to recover its costs for managing trust funds such as the AGTF.

The second, named *Africa50,* is an innovative financing vehicle sponsored by the Bank and specifically designed to narrow Africa's infrastructure finance gap. The Board welcomed the innovative proposal and requested for regular updates on its development. The Board authorized the Bank to take the necessary action for the incorporation of Africa50, with the Bank's equity participation in its project finance business line for an amount not exceeding USD 100 million. Board members advised Management to identify and fully exploit areas of complementarity between the Bank and Africa50, and to be cognizant, of and address the risk of debt distress that the fund could pose to Low-income Countries.

Developmental Thrust of Country Strategy Papers

Country Strategy Papers (CSPs). These are the central tools that guide the Bank's support for the development of Regional Member Countries. As a general rule, the Board ensures that CSPs are closely aligned with the Bank's Ten-Year Strategy. In 2014, the Board ensured that each CSP that it approved was well tailored to a country's specific needs and circumstances. Furthermore, that it focused on regional integration, emphasized strong policy dialogue, addressed gender equality and economic diversification, and was underpinned by a strong fragility analysis. Moreover, inclusion would be a major component of each CSP's analysis and thrust. For instance, in considering the CSP for Kenya (2014-2018), the Board called for a strong policy dialogue with the Government, noting the need for close monitoring of Bank interventions, particularly in connection with implementation of the devolution process and provision of advisory services. For Cabo Verde (2014-2018), the Board stressed the need to address informality in the labor market and the need for stronger support to SMEs. In the Board's consideration of Swaziland's CSP (2014-2018), it called for urgent action to address the problem of widening inequalities, paying particular attention to the gender dimension of income disparities.

Mauritius has been hailed as a leader in economic management. However, the country's CSP (2014-2018) highlighted growing geographical and gender inequalities. The Board called on the Bank's interventions to address the two interrelated issues. On Namibia's CSP (2014-2018), the Board emphasized enhanced business development and stronger engagement with the Government.

The Board also considered the Interim Assistance Paper for Transition (2014-2016) for the Central African Republic (CAR). In its deliberations, it called for stronger inclusiveness, increased transparency, and the Bank's strong presence to ensure a close follow-up of activities, to address the country's fragility and enduring socio-political challenges.

Implementing the Ten-Year Strategy

Enhancing Development Impacts in Private Sector Interventions. The Board restated its support for the Bank's operations aimed at fostering the growth of the private sector, a pillar of the TYS, particularly SMEs. It called for determination of the development impact of projects supported by lines of credit. In keeping with this approach, a number of lines of credit were approved for disbursement to financial intermediaries for on-lending to SMEs, commonly seen as Africa's engine of growth and job creation. The Board emphasized the need for the Bank to study the impact of these interventions on job creation, economic transformation and the potential risks to market distortion. Accordingly, the Board called on Management to include such indicators in future proposals of a similar nature.

Strengthening Agriculture and Food Security. The Bank has made agricultural development and food security one of the three areas of special emphasis in its TYS for Africa's long-term development. Thus in 2014, the Board approved a number of projects in support of this priority. The Board welcomed Zambia's Agriculture Productivity and Market Enhancement Project (APMEP) as critical to fostering economic diversification, improving livelihoods and attainment of the Millennium Development Goals (MDGs). The Board encouraged Management to conduct similar projects in other RMCs. It urged the Bank to closely monitor the implementation of this project to ensure its long-term viability.

Food insecurity remains a major concern in Africa, especially in the Sahel region and the Board has been supporting the Bank's initiatives aimed at reversing this state of affairs on the continent. In this regard, the Board in 2014 approved a *Multinational Programme to Build Resilience to Food and Nutritional Insecurity in the Sahel.* This program is expected to benefit Burkina Faso, Chad, The Gambia, Mali, Mauritania, Niger and Senegal. The Board emphasized the need for a robust coordination and monitoring mechanism to ensure that the program addresses the issue of rapid population growth that tends to overwhelm food production efforts. The Board also called for the rigorous application of a fragilitylens in such interventions paying close attention to the sensitivity of the region to conflict, and to putting in place adequate preventive, as well as remedial measures.

Enhancing Skills and Technology. Africa's high rate of youth unemployment is partly attributed to the lack of appropriate skills. The Board recommended that the Bank must work on regional integration with regard to higher education, including harmonization of rules and diplomas. The Board also approved Phase I of the program for the establishment of *Centers of Excellence for Skills and Tertiary Education in Biomedical Sciences in East Africa.* The purpose of these centers is to develop skills in biomedical sciences in Kenya, Rwanda, Uganda, and Tanzania. This approval demonstrated the Board's support for the development of scientific and technical skills as a means of reducing the continent's youth unemployment. The Board emphasized the importance of ensuring that such training programs receive international accreditation and that their graduates would find employment in the labor market. The Board also underscored the importance of financial sustainability in the program to ensure that it continued long after the Bank's exit.

In the Field

Boards' Consultative Missions. Within the framework of annual consultations, members of the Board undertook missions to Burundi, Comoros, the Democratic Republic of Congo (DRC), Cabo Verde, Lesotho, Liberia, Swaziland and Sudan. The visits were fielded to engage governments, development partners, the business community and civil society actors on the relevance and effectiveness of the Bank's strategy and presence, and the extent to which this was helping the countries address economic and development challenges. Board members also visited projects financed by the Bank Group to assess progress on the ground. Following the missions, the Board recommended that the Bank: (i) gives greater focus to policy dialogue with governments and civil society; (ii) strengthens coordination with other development partners; (iii) supports the creation of strong national institutions; (iv) builds capacity in economic governance; and (v) develops the infrastructure necessary for social, spatial and economic inclusion.

6.3 Highlights of Activities of the Boards of Governors

The Boards of Governors meet once a year at the Annual Meetings during which they participate in the Governors' Dialogue to examine issues and address the challenges facing the African continent, approve major Bank policies, and exercise their statutory duties by adopting resolutions on key decisions and conclusions of the Annual Meetings.

The 49th Annual Meeting of the Board of Governors of the African Development Bank and the 40th Annual Meeting of the Board of Governors of the African Development Fund were held in Kigali, Rwanda, from May 19 to 23, 2014. The theme of the events was *The Next 50 Years: The Africa We Want.* As mandated by the respective constitutive instruments, the Boards of Governors considered the importance of innovative financing through strategic partnerships. In this regard, they approved the Africa Growing Together Fund, discussed earlier.

At the Annual Meetings, the Governors' Dialogue examined causes, effects and possible solutions to various challenges faced by the African continent in the five decades after the Bank was established. The discussions centered on four sub-themes: (i) strategic leadership; (ii) regional integration; (iii) productive employment; and (iv) conflict and fragility.

The Governors encouraged African countries to intensify efforts to remove all physical and non-physical barriers to regional integration. They also underscored the importance of strategic and visionary leadership that will lead the identification and exploitation of opportunities on the continent, particularly in agriculture and natural resources, for Africa's economic transformation and industrialization. They said they were optimistic that the next 50 years would see a fully integrated Africa in which growth was both inclusive and sustainable. They also expressed their optimism about the future of the continent as one that would be at the service of its people and at peace with itself. To this end, they urged the Bank to partner with other development institutions and the private sector to address the continent's infrastructure and other challenges. Further, the Governors recognized that, if left unaddressed, the threat of conflicts and fragility could derail Africa's transition to inclusive development. In this respect, they welcomed the report of the High Level Panel on Fragile States and urged the Bank to urgently finalize and implement the proposed Strategy for Addressing Fragility and Building Resilience in Africa (2014-2019).

The Governors also acknowledged the tremendous opportunities for job creation, wealth generation, and environmental preservation offered by emerging blue economy initiatives, and encouraged the Bank to develop a fund to support these initiatives.

The Governors also welcomed the Bank's Gender Strategy as a vehicle to foster gender equality and women's empowerment. They called for full implementation of the strategy across country, regional and sector operations, and in the Bank's budgeting and programming, in order to foster inclusive growth.

In addition, the Boards of Governors exercised their statutory duties and adopted resolutions on the following: (i) The Annual Report and Audited Financial Statements for the ADB and ADF for the Financial Year Ended December 2013; (ii) The Annual Report and Audited Special Purpose Financial Statements for the Year Ended December 31, 2013; (iii) The Timetable and Procedure for the Election of the next President of the Bank Group; (iv) The Accession of the Republic of South Sudan to the African Development Bank Agreement; (v) The Allocation and Distribution of the Allocable Income of the ADB for the Financial Year Ended December 31, 2013; (vi) The distribution of part of the income of the Nigeria Trust Fund for the financial Year Ended December 31, 2013; (vii) The establishment of The Africa Growing Together Fund (AGTF); and (viii) The Thirteenth General Replenishment of the Resources of the African Development Fund.

Part III

Financial Management and Financial Statements

Chapter 7

ADB, ADF, and NTF Financial Management and Financial Statements

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

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

African Development Bank

Financial Management

Financial Results

Financial Statements and Report of the Independent Auditor

Administrative Budget for Financial Year 2015

African Development Fund

Financial Management

Financial Results

Special Purpose Financial Statements and Report of the Independent Auditor

Administrative Budget for Financial Year 2015

Nigeria Trust Fund

Financial Management

Financial Results

Financial Statements and Report of the Independent Auditor

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

Date: March 25, 2015

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

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

Management is responsible for establishing and maintaining effective internal controls over external financial reporting in conformity with the basis of accounting. The system of internal control includes 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 "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, 2014. Management is not aware of any material control weakness that could affect the reliability of the 2014 financial statements.

In addition to providing an audit opinion on the fairness of the financial statements for 2014, the external auditors of the Bank Group conducted an independent assessment of the effectiveness of the Bank Group's internal control over financial reporting as of December 31, 2014 and their opinion thereon is presented separately in this annual report.

Donald Kaberuka
PRESIDENT

Charles O. Boamah
VICE PRESIDENT, FINANCE

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

Year ended December 31, 2014

Scope
We have examined the internal control over financial reporting of the African Development Bank (ADB), the African Development Fund (ADF) and the Nigeria Trust Fund (NTF) (together the "Bank Group") as of December 31, 2014, based on criteria established in "*Internal Control – Integrated Framework*" (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibilities
The management of the Bank Group is responsible for implementing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of such internal control. Management has asserted the effectiveness of internal controls over financial reporting as of December 31, 2014.

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

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

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

Inherent limitation

An entity's system of internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. An entity's system of internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

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

Opinion

In our opinion, the Bank Group, in all material respects, maintained effective internal control over financial reporting as of December 31, 2014, based on criteria established in *"Internal Control – Integrated Framework"* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have audited the financial statements of the African Development Bank, the African Development Fund and the Nigeria Trust Fund as of and for the year ended December 31, 2014, in accordance with the International Standards on Auditing, and we have expressed unqualified opinions on those financial statements.

Paris La Défense, March 25, 2015

KPMG Audit
A division of KPMG S.A.

Valéry Foussé
Partner

THE AFRICAN DEVELOPMENT BANK

Financial Management

Capital Subscription

The capital stock of the Bank is composed of paid-up and callable capital. The paid-up capital is the amount of capital payable over a period determined by the Board of Governors' resolution approving the relevant General Capital Increase. The Bank's callable capital is subject to payment as and when required by the Bank to meet its obligations on borrowing of funds for inclusion in its ordinary capital resources or guarantees chargeable to such resources. This acts as protection for holders of bonds and guarantees issued by the Bank in the unlikely event that it is not able to meet its financial obligations. There has never been a call on the callable capital of the Bank.

Following the Board of Governors' approval of a 200 percent increase of the Bank's capital base in 2010, the authorized capital of the African Development Bank was increased to UA 67.69 billion with the creation of 4,374,000 new shares with a par value of UA 10,000 each. Six percent of the shares created under this Sixth General Capital Increase (GCI-VI), (UA 2.62 billion), are paid-up, while 94 percent (UA 41.12 billion) are callable. In accordance with the resolution governing this capital increase, the GCI-VI shares were allocated to regional and non-regional members in such proportions that, when fully subscribed, the regional group holds 60 percent of the total capital stock and the non-regional group 40 percent.

The paid-up portion of the GCI-VI subscription is payable in eight equal annual installments for non-regional member as well as Regional Member Countries eligible to borrow from ADB, and 12 equal annual installments for Regional Member Countries eligible to borrow only from ADF. Some member countries have elected to pay their subscription in fewer installments, opting for an advance payment scheme, and will receive a discount on their GCI-VI subscription payment accordingly.

Prior to the GCI-VI and by resolutions B/BG/2008/07 and B/BG/2009/05, the Board of Governors authorized two special capital increases to allow the Republic of Turkey and the Grand Duchy of Luxembourg to become members of the Bank. On October 29, 2013, the Republic of Turkey was formally admitted as the 78th member country of the Bank (the 25th Non-Regional Member Country) after completing the formalities specified in the Agreement establishing the Bank and in the General Rules Governing the admission of Non-Regional Countries to membership of the Bank. On May 29, 2014, the Grand Duchy of Luxembourg became the 79th member country of the Bank – the 26th Non-Regional Member Country.

On May 31, 2012, by its Resolution B/BG/012/04, the Board of Governors approved a special capital increase to permit the membership of South Sudan. The country is finalizing the formalities for its formal admission as a member of the Bank.

A member country's payment of the first installment triggers the issuance of the shares corresponding to the entire callable capital portion, and shares representing the paid-up portion of subscriptions are issued only as and when the Bank receives the actual payments for such shares.

As at December 31, 2014, the paid-up capital of the Bank amounted to UA 4.86 billion, with a paid-in capital (i.e. the portion of paid-up capital that has been actually paid) of UA 3.44 billion, compared with UA 4.96 billion and UA 3.15 billion of paid-up and paid-in capital, respectively, at the end of 2013. The Bank's callable capital at December 31, 2014 stood at UA 60.27 billion including UA 21.57 billion from non-borrowing member countries rated A- and higher, compared with UA 60.25 billion and UA 21.25 billion, respectively, as at the end of the previous year. The evolution of the Bank's capital over the past four years is shown in Table 7.1 below.

In accordance with the Bank's Share Transfer Rules, shares for which payment have become due and remain unpaid are forfeited after a prescribed period and offered for subscription

Table 7.1 Bank Authorized and Subscribed Capital, 2011-2014 (in UA millions)

	2011	2012	2013	2014
Authorized Capital	**66,055**	**66,975**	**66,975**	**66,975**
Paid-up Capital	3,289	4,963	4,962	4,865
Callable Capital	34,033	60,252	60,248	60,268
Total Subscribed Capital	**37,322**	**65,215**	**65,210**	**65,133**

to member countries within the same membership group (i.e. regional or non-regional).

Details of the Bank's capital subscriptions at December 31, 2014 are shown in the Statement of Subscriptions to the Capital Stock and Voting Powers, which forms part of the Financial Statements included elsewhere in this Report.

Bank Rating

The Bank monitors and manages its key financial strength metrics in a stringent manner and is rated by four major international rating agencies. The Bank continues to attract high rating by all these agencies. For 2014, the rating agencies, Standard & Poor's, Moody's, Fitch Ratings, and the Japan Credit Rating Agency have reaffirmed their AAA and AA+ rating of the African Development Bank's senior and subordinated debts respectively, with a stable outlook. Their rating reflects and confirms the Bank's strong liquidity and capital position, strong membership support, its preferred creditor status, sound capital adequacy and prudent financial management and policies.

Borrowings

The top-notch credit ratings enjoyed by the Bank enables it to issue securities at attractive interest rates. Its borrowing activities are guided by client and cash flow requirements, asset and liability management guidelines, and risk management policies.

The 2014 borrowing program in the capital markets was approved on December 4, 2013 for a maximum amount of UA 3,188 million including an envelope of up to UA 130 million under the Enhanced Private Sector Assistance (EPSA) for Africa Facility. On July 7, 2014, the Board approved an increase in the 2014 borrowing program to UA 3,258 million in order to accommodate an increase of UA 70 million on the EPSA envelope. Under both components including the EPSA facility, the Bank raised a total of UA 3,219 million.

Targeted efforts were made to canvass new investors, new currencies and new markets throughout the year. Borrowings in 2014 were in line with the Bank's funding strategy to maintain a regular presence in the Global benchmark market and strategic domestic markets. Notably, the Bank issued two new USD 1 billion dollar global transactions for 3-years and 7-years, the latter being its first-ever offering at this tenor. It also issued its maiden transactions in Swedish krona through the green bond market, and continued to build its curve in Australian dollars while returning to both the Sterling and New Zealand dollar markets after a long absence. The year also saw the Bank issue its inaugural Naira bond in the domestic market of Nigeria, as well.

The Bank has also been active with various private placements, African currency-linked notes and uridashi transactions in Japan. Euro Commercial Paper borrowings complete the range of markets utilized during the year.

As at December 31, 2014, the Bank's outstanding borrowing portfolio stood at UA 14.38 billion.

The borrowing program for 2015 was approved by the Board of Directors for a maximum amount of UA 4,507 million, made up of two components: up to UA 4,302 million to be raised in the capital markets, and an envelope of UA 205 million under the EPSA facility.

Green Bonds

The Bank is committed to supporting climate-smart and low carbon investments that produce visible and sustainable outcomes on the continent. It is in this context that the Bank launched its green bond program in 2013, targeting socially responsible investors (SRI) across the globe who wanted to make a difference with their investments by helping to finance climate change solutions in Africa.

In February 2014, the Bank executed a SEK 1 billion five-year floating-rate green bond benchmark, fully-placed with a Swedish life insurance and asset management company. The transaction was the Bank's inaugural issue in the SEK market and the second green bond to be issued off its green bond program. The success and positive momentum of the initial offering led to a follow-on transaction in March 2014, with the Bank executing a second five-year SEK 1 billion (UA 100 million) fixed-rate green bond. Swedish domestic demand accounted for 65 percent of the investors in the transaction. Proceeds of the Bank's green bonds support the financing of low carbon and climate resilient projects. The total amount of ADB green bonds outstanding at the end of 2014 (including past private placement/uridashi issuance) stands at USD 864 million (UA 577 million). Full details of the Bank's eligible projects benefiting from green bond proceeds can be found on its green bond website and annual newsletter.

Themed Bonds

In addition to its green bond program, the Bank is also active in issuing bonds linked to various social themes. Demand from Japanese retail investors in 2014 has been focused around the theme of food security with the Bank successfully issuing the first food security-linked uridashi bond in Brazilian Real and raising UA 79 million in the process. The Bank also issued an infrastructure bond to institutional investors in Japan. The proceeds of these themed bonds are included in the ordinary capital resources of the Bank and under the terms of the bonds, an amount equal to the net proceeds of the issues are directed on a "best-efforts" basis to lending to projects related to the relevant theme, subject to and in accordance with the Bank's lending standards and guidelines.

Table 7.2 below provides a snapshot of the Bank's activity in the sectors financed.

Financial Products

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

Loans

The ADB provides loans to its clients on non-concessional terms. The Bank's standard loans are categorized either as Sovereign Guaranteed Loans (SGLs) or Non-Sovereign Guaranteed Loans (NSGLs). SGLs are made to Regional Member Countries (RMCs) or public sector enterprises from RMCs supported by the full faith and credit of the RMC in whose territory the borrower is domiciled. Multinational institutions are eligible for SGLs if they are guaranteed by an RMC or by the RMCs in whose territory or territories the projects will be executed.

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

The Bank's standard loan product has evolved over time, with terms that are increasingly more responsive to client needs. The current standard loan product offered to sovereign and sovereign-guaranteed clients is the Enhanced Variable Spread Loan (EVSL) which gives borrowers some degree of flexibility to manage their interest rate risks. For non-sovereign-guaranteed clients the loan product offered is the Fixed Spread Loan (FSL).

The lending rate on the EVSL comprises a floating base rate (6-month LIBOR for USD and YEN, 6-month EURIBOR for Euro and 3 month JIBAR for ZAR), a funding margin that is a function of the Bank's cost of funding relative to LIBOR, EURIBOR or JIBAR computed every six months, and a contractual spread, that was set at 60 basis points (bps) with effect from January 1, 2011. At a borrower's request, the EVSL offers a free option to convert the floating base rate into a fixed base rate (amortizing interest rate swap rate set at borrower's request for disbursed and outstanding loan balances). The repayment period for sovereign and sovereign guaranteed loans is up to 20 years, including a grace period not exceeding 5 years.

The lending rate on the FSL comprises a floating base rate (6-month LIBOR for USD and YEN, 6-month EURIBOR for Euro and 3 month JIBAR for ZAR) which remains floating until maturity date or a fixed base rate plus a risk-based credit spread. NGSLs have a repayment period of 15 years including a grace period not exceeding 5 years.

In December 2013, the ADB Board of Directors approved the introduction of the Fully Flexible Loan (FFL) product to the suite of products available to sovereign and sovereign-guaranteed borrowers. The FFL embeds risk management features currently offered through the Bank's risk management products in SGLs, thereby providing full customization flexibility in interest rate and currency conversion to borrowers. It also introduces a maturity-based pricing structure due to the lengthening of the maximum tenor, grace period and average loan maturity (i.e. the weighted average time to repay a loan which considers both repayment dates and amounts in order to provide a better estimation of how quickly a loan is repaid) of SGLs from the current 20, 5 and 12.75 years to 25, 8 and 17 years, respectively to allow borrowers to select loan profiles that match their funding needs and debt management capacities.

The lending rate of the FFL product is consistent with that of the EVSL plus a maturity premium, where applicable. With maturity-based pricing, loans with maturity less than or equal to 12.75 years will not attract a maturity premium. However, loans with average loan maturity greater than 12.75 years but less than or equal to 15 years will attract a 10 bps maturity

Table 7.2 Overview of Themed Bond Activity in Each Sector (Amounts in UA millions)

	Pipeline/ Undisbursed Amounts	Cumulative Disbursements	Total Bonds Issued	Total Bonds Outstanding	Maturity Range of Bonds Issued
Education	667.4	128.8	310.3	220.1	3 to 6 years
Food Security	860.6	207.7	78.7	78.7	3 years
Infrastructure	1,717.5	256.8	129.3	129.3	7 years
Water	1,253.0	92.9	39.5	-	4 years
Total	**4,498.5**	**686.2**	**557.8**	**428.1**	

premium, while loans with an average maturity greater than 15 years will attract a 20 bps maturity premium.

The FFL will be available as the Bank's standard loan product offered to sovereign and sovereign-guaranteed borrowers in respect of all loans signed on or after an effective date to be communicated by Management in 2015.

Other loan structures offered by the Bank include parallel and A/B loan syndications, and local currency loans. The Bank can provide local currency loans in the following RMC currencies: Egyptian pound, CFA Franc (XOF and XAF), Ghanaian cedi, Kenyan shilling, Nigerian naira, Tanzanian shilling, Ugandan shilling and Zambian kwacha. Lending in these currencies is only offered if the Bank is able to fund efficiently in the relevant local currency market. These local currency loans are offered under the FSL pricing framework with a cost-pass-through principle to ensure that the overall cost of funds is fully covered.

Lines of Credit

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

Agency Lines

The Bank makes resources available for SMEs under agency arrangements with local financial intermediaries. The selection of individual projects for Bank support is largely delegated to the intermediaries, which draw on Bank resources to make loan or equity investments for the Bank's account in projects meeting pre-agreed criteria. As part of an agency agreement, financial intermediaries are required to commit their own funds in each investment in parallel with the Bank and to supervise the investee companies. The financial intermediary acts only in an agency capacity for the Bank when investing the latter's funds and assumes no risk in this regards. The credit risk of the borrower is borne by the Bank.

Guarantees

Through the guarantee product, the Bank seeks to leverage its preferred creditor status to assist eligible borrowers to obtain financing from third-party lenders, including capital markets. Guarantees also enable borrowers to obtain financing in their own local currency where the Bank is not able to provide such financing directly from its own resources. The Bank's guarantees can generally be classified into two categories: Partial Credit Guarantees (PCGs) and Partial Risk Guarantees (PRGs). PCGs cover a portion of scheduled repayments of private loans or bonds against all risks. PRGs cover private lenders against the risk of a government, or a government owned agency, failing to perform its obligations vis-à-vis a private project.

Risk Management Products

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

Equity and Quasi-Equity Participations

In addition to its participation in ADF the Bank takes equity positions in qualifying business enterprises in its RMCs as part of its strategic development financing mandate. The Bank's ability to provide risk capital through equity and quasi-equity is a key element of its resource mobilization role. The use by the Bank of equity and quasi-equity participation as instruments of investment have 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. The Bank may invest in equities either directly or indirectly, through appropriate funds and other investment vehicles. Additionally, it may choose to invest via quasi-equity instruments including redeemable preference shares, preferred stock, subordinated loans or convertible loans.

Trade Finance Program

In February 2013, the Board approved a Trade Finance Program (the "Program") of up to USD 1 billion dollars for a 4-year initial phase, to address the shortage of trade finance for Regional Member Countries (RMCs) and to address the structural gap between the demand for trade finance and the market supply through the provision of liquidity and risk mitigation solutions to financial institutions actively involved in trade finance in Africa.

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

Risk Participation Agreement

The Risk Participation Agreement (RPA) is both a funded and a non-funded trade finance product that enables the Bank to share risk with a select group of international and regional confirming banks, who provide documentary credit confirmation services to African issuing banks, with the objective of supporting and expanding trade in Africa. Under this product the Bank shares trade finance credit risk (generally no more than 50% of a trade transaction exposure) on a portfolio of eligible issuing bank trade transactions of partner confirming banks. RPAs operate on a portfolio basis and do not require the Bank to sign direct agreements with the local issuing banks.

Trade Finance Lines of Credit

The Trade Finance Line of Credit (TFLOC) is similar to the conventional line of credit offered by the Bank to local financial institutions except that the TFLOC will be used to finance exclusively trade-related transactions in RMCs. Trade transactions financed by 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 3.5 years. The facility is available to local banks engaged in trade finance in Africa.

Soft Commodity Finance Facility (SCFF)

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

Other Financial Services

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

Risk Management Policies and Processes

The Bank's development operations are undertaken within a risk management framework which includes: (i) a clearly defined risk appetite statement for lending credit risk, (ii) a capital adequacy and exposure management policy (iii) credit policy; (iv) risk management governance framework; (v) credit risk management guidelines; and (vi) an end-to-end credit process.

The Bank seeks to minimize its exposure to risks that are not essential to its core business of providing development finance and related assistance. Accordingly, the Bank's risk management policies, guidelines and practices are designed to reduce exposure to interest rate, currency, liquidity, counterparty, legal and other operational risks, while maximizing the Bank's capacity to assume credit risks to public and private sector clients, within approved risk limits.

Over the past few years the Bank has considerably enhanced its risk management framework and end-to-end credit processes to ensure that its risk management functions remain robust. Some of the specific measures taken have included: (i) creation of the office of Group Chief Risk Officer, reporting directly to the President of the Bank; (ii) strengthening of the Credit Risk Committee; (iii) enhancement of the credit risk assessment skills of Bank staff through training and hiring of experienced and competent credit officers; (iv) implementation of robust and optimized credit risk assessment models; (v) strengthening of the credit risk infrastructure by improving quality at entry; (vi) continuous efforts to fully implement the operational risk management framework which was recently approved by the Board; and (vii) implementation of best of breed solutions in the form of an integrated and workflow-driven software platform that allows all stakeholders involved in the credit risk assessment process to streamline their work in order to enhance efficiency. The Bank has, additionally, strengthened the monitoring of the current portfolio and continued to proactively undertake portfolio restructuring measures including cancellation of long-standing "signed but not disbursed" loans to free up capital for new lending.

The Bank continues to serve all its member countries, including those under stress. To support such continued engagement, the Bank maintains capital buffers to provide some flexibility in continuing its countercyclical financing role, while covering any potential unexpected losses. Close collaboration with sister institutions (the World Bank and IMF) has helped to improve the coordination of current and future interventions in those countries. Above all, the Bank has continued to explore measures to increase portfolio diversification, an important step in its efforts to mitigate concentration risks within its current portfolio. The Bank also improved its collateral management framework to ensure that an adequate collateral value is maintained.

The Bank continues to be well capitalized. The stress testing of its capital adequacy shows that it can adequately withstand a number of extreme shock scenarios. The risks to the Bank's balance sheet are actively monitored on a risk dashboard developed in 2012.

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

Financial Reporting

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

Based on the COSO internal control framework, senior management has put in place a robust and functioning mechanism to be able to certify the effectiveness of the Bank's internal controls over external financial reporting. This annual certification statement is signed by the President and Vice President – Finance, as well as the Financial Controller. A separate attestation is also provided by the Bank's external auditors. The Bank has a comprehensive system of reporting to the Board of Directors and its committees which includes periodic reporting by the Office of the Auditor General to the Audit and Finance (AUFI) Committee of the Board of Directors.

External Auditors

The Bank's external auditors are appointed by the Board of Governors, on the recommendation of the Board of Directors, for a five-year term. Under Bank rules, no firm of auditors can serve for more than two consecutive 5-year terms.

The external audit function is statutory and is regulated by the International Standards on Auditing (ISA), issued by the International Federation of Accountants (IFAC) through the International Auditing and Assurance Standards Board. The external auditors perform an annual audit to enable them to express an opinion on whether the financial statements of the Bank present fairly the financial position and the results of the operations of the Bank. They also examine whether the statements have been presented in accordance with International Financial Reporting Standards. In addition, as described above, the external auditors also carry out a comprehensive review and provide opinion on the effectiveness of the Bank's internal controls over financial reporting. This attestation is provided by the external auditors as a report separate from the audit opinion. At the conclusion of their annual audit, the external auditors prepare a management letter for Senior Management and the Board of Directors, which is reviewed in detail and discussed with the Audit and Finance Committee of the Board. The management letter sets out the external auditors' observations and recommendations for improvement on internal controls and other matters, and it includes management's responses and actions for implementation of the auditors' recommendations.

The performance and independence of the external auditors is subject to periodic review by the 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 5-year period. The external auditors are prohibited from providing non-audit related services, subject to certain exceptions if it is judged to be in the interest of the Bank and if such services do not compromise the external auditors' independence. In any case, the provision of such services requires the specific approval by the Audit and Finance Committee.

Anti-Corruption Regime within the Bank

The Bank has a robust regime for discouraging corruption. The prohibited practices under the Bank's anti-corruption regime include not only bribery but also receiving bribes, fraud, coercive practices and collusion.

The Bank has three main anti-corruption legal instruments – its Procurement Rules, the Guidelines for Preventing and Combating Corruption and Fraud in Bank's Operations, and the International Financial Institutions' Uniform Framework for Preventing and Combating Fraud and Corruption. Each of these instruments defines the prohibited practices and prescribes mechanisms for implementing anti-corruption measures. The Procurement Rules prohibit the use of Bank funds to finance corruption and the financing by the Bank of contracts corruptly procured. The Guidelines prescribe preventive measures to be taken throughout the lending cycle. The Uniform Framework also prescribes preventive measures and investigation procedures.

The Bank's anti-corruption implementation mechanisms include the Integrity and Anti-Corruption Department which has an investigative and a preventive role, a Whistleblower and Complaints Handling mechanism including a hotline administered by the Integrity and Anti-Corruption Department, and protection for whistleblowers.

The Bank has implemented the International Financial Institutions' cross-debarment agreement by which it will apply the sanctions of the other institutions and have its sanctions applied by these institutions. A key step in this process has been the appointment of a Sanctions Commissioner, an Alternate Sanctions Commissioner and the members of the Sanctions Appeals Board.

Finally, the Bank is collaborating with the OECD in an ongoing initiative to support business integrity and anti-bribery efforts in its Regional Member Countries.

Performance Management and Monitoring

In managing its operations the Bank uses quantified performance measures and indicators that reflect the critical success factors in its business. These are monitored on a continuous basis and results achieved are used to assess progress attained against stated objectives and to inform required action in order to improve future performance. Management uses a wide array of measures both at the corporate and business unit level to monitor and manage performance. Some of the key financial measures and indicators used by management are discussed in Table 7.3, together with their relevance to the operations of the Bank.

Financial Results

The highlights of the Bank's financial performance in 2014 include the following:

- Net interest margin (NIM) improved in 2014, largely due to the replacement of certain matured fixed-rate interest borrowings with lower floating-rate borrowings during the year. Interest income from loans increased marginally. Similarly, investment income increased during the year with the overall treasury portfolio continuing to perform well, and sometimes above the set benchmark. Net interest income increased by 12.65 percent in the year, in line with increases in gross earning assets of 13.17 percent. Income on loans increased by 2.12 percent while income from treasury investments increased by 4.71 percent during the period.

- In 2014 the Bank earned income, before allocation and distributions approved by the Board of Governors, of UA 151.69 million, compared to UA 180.33 million in 2013. Adjusted for the effects of the fair valuation of borrowings and derivatives, income before allocation and distributions amounted to UA 181.52 million for the current year compared to UA146.22 million in 2013. The fair valuation of borrowings and derivatives amounted to a loss of UA 29.83 million in the current year compared to a gain of UA 34.11 million in 2013.

- Total Bank Group's administrative expenses increased to UA 372.10 million in 2014 from UA 337.24 million in 2013. Total manpower expenses (excluding actuarial valuation effects of benefit plans) increased by UA 34.44 million (15.07 percent) from UA 228.50 million in 2013 to UA 262.94 million in 2014, mainly due to the additional one-time costs associated with the return of the Bank's operations to its Headquarters in Abidjan, Côte d'Ivoire. The Bank's share of the total Bank Group administrative expenses amounted to UA 123.16 million for 2014 compared to UA 110.97 million in the previous year, an increase of 10.99 percent. Bank Group administrative expenses are shared between the Bank, the ADF, and the NTF, based on a predetermined

Table 7.3 Key Financial Performance Indicators, 2014 and 2013

Definition	Importance to the business and management	Achievement 2014	Achievement 2013
Average Return on Liquid Funds	This is a measure of the average return generated or lost due to the investment of liquid funds. In other words, it is a measure of how profitable the liquid assets are in generating revenue to the Bank, pending disbursement for project financing.	1.76%	1.88%
Total Debt to Usable Capital	This is a measure of the Bank's financial leverage calculated by dividing its total debt by usable capital. It indicates what proportion of equity and debt the Bank is using to finance its operations.	52.00%	47.79%
Settlement Failure Rate	This measures the efficiency of the funds' transfer process. Timely settlement of financial obligations is important as a measure of the efficiency of the Bank's processes.	0.18%	0.22%
Timeliness of Preparation of Financial Highlights	Reporting of key financial performance metrics in a timely manner aids decision making by management and facilitates the required corrective action to improve performance.	Within one month of period end	Within one month of period end
Impairment Loss Ratio – Non-Sovereign Portfolio only	This KPI represents the impairment on loans as a proportion of the period-end balances. The granting of credit is the main purpose of the Bank and is also one of the Bank's principal sources of income and risk. The loan loss ratio is an indicator of the quality and recoverability of loans granted to non-sovereign borrowers.	1.79%	2.06%

cost-sharing formula driven primarily by the relative levels of certain operational volume indicators and relative balance sheet size.

- The Bank continues to maintain a strong capital position. Despite the ongoing challenges in its operating environment, the Bank continues to generate sufficient levels of income to facilitate contributions on behalf of its shareholders to other development initiatives in Africa. The Bank's reserves, plus accumulated loss provisions on outstanding loan principal and charges, stood at UA 3.19 billion at the end of 2014 compared to UA 3.21 billion at the end of 2013.

Distributions Approved by the Board of Governors

In 2014, the Board of Governors approved distributions from the 2013 income to various development initiatives in Africa amounting to UA 120 million. The beneficiaries of these distributions are listed under Note N to the financial statements. In accordance with the Bank's accounting policies, such distributions are reported as expenses in the year they are approved by the Board of Governors. The Boards of Directors have also agreed to recommend to the Board of Governors, at its Annual Meetings in May 2015, distributions totaling UA 124 million from the 2014 income to various development initiatives in RMCs. If approved by the Board of Governors, such distributions and any others that may be approved by the Board of Governors during 2015, will be reported as expenses in the 2015 financial statements.

Control of Administrative Expenses

In order to maximize the resources available for development financing and technical assistance activities in its member countries, the Bank has an ongoing responsibility and commitment to ensure maximum efficiency in the management of its administrative and capital expenditures. Accordingly, in the management of its administrative and capital expenses, the Bank continues to focus on a high level of budgetary discipline, effective cost controls and proactive cost-recovery programs. For the year ended December 31, 2014, the Bank Group's general administrative expenses, excluding the expenses related to the return of its operations to its Headquarters in Abidjan, charges for depreciation and amortization, were UA 321.46 million, compared to UA 334.92 million in 2013. For 2015, the Bank's administrative expenditure is budgeted at UA 306.34 million. Management will continue to explore and implement effective and transparent cost management strategies in order to ensure that cost outcomes are effectively tracked against the Bank's long-term strategic objectives.

Investments

The Bank maintained a robust investment strategy in 2014, consistent with a frequently changing global financial market environment which has been characterized by low interest rates. The Bank continued to adopt a prudent investment strategy prioritizing capital preservation and liquidity over attempting to generate higher income by taking on additional risks. As such, the Bank continued to target high-quality liquid assets with short maturities with a focus on secured investments where possible. As a result, the credit quality and liquidity profile of the Bank's treasury investments remained very strong, whilst volatility of returns was limited. During the year, the Bank's treasury trading portfolios benefited from a tightening of credit spreads, a function of ample liquidity provided by the various quantitative easing programs of the major central banks. This has translated into mark-to-market gains, which produced an overall outperformance against the benchmark.

The Bank's cash and treasury investments (net of repurchase agreements) as of December 31, 2014 totaled UA 7.35 billion, compared to UA 7.04 billion at the end of 2013. Investment income for 2014 amounted to UA 132.41 million or a return of 1.62 percent on an average liquidity level of UA 8.17 billion, compared to an income of UA 126.45 million, or a return of 1.69 percent, on an average liquidity level of UA 7.50 billion in 2013. All key portfolios at fair value outperformed their benchmarks during the year with total investment income generated exceeding the 2013 levels by UA 5.96 million. This was largely due to the higher average liquidity invested in 2014 compared with 2013. The reduced return in 2014 compared to 2013 was as a result of lower interest rates during the year.

The ADB's liquid assets are tranched into 3 portfolios, namely operational portfolio, prudential portfolio, and equity-backed portfolio, each with a different 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 marked-to-market LIBOR, resetting on February 1 and August 1 for the prudential portfolio. The operational and prudential portfolios are held for trading. The equity-backed portfolio is managed against a repricing profile benchmark with 10 percent of the Bank's net assets repricing uniformly over a period of 10 years, and is held at amortized cost.

Loan Portfolio

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

Cumulative loans signed, net of cancellations, as at December 31, 2014 amounted to UA 32.24 billion. This is UA 1.13 billion higher than the balance at December 31, 2013 when the cumulative loans signed stood at UA 31.11 billion. Table 7.4 presents the evolution of loans approved, disbursed and undisbursed balances from 2010 to 2014.

Table 7.4 Lending Status, 2010-2014 (UA millions)

	2010	2011	2012	2013	2014
Loans approved*	2,236.15	2,446.72	1,801.47	1,705.04	3,052.29
Disbursements	1,339.85	1,868.79	2,208.17	1,430.78	1,938.53
Undisbursed Balances	4.855.33	5,301.02	4,463.23	4,490.13	3,751.22

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

Total disbursed and outstanding loans as at December 31, 2014 was UA 12.65 billion, an increase of UA 1.06 billion over the UA 11.59 billion outstanding as at the end of 2013. Undisbursed balances of signed loans at December 31, 2014 totaled UA 3.75 billion, a decrease of UA 0.74 billion over the UA 4.49 billion of undisbursed loans at December 31, 2013.

As at December 2014, the number of active loans was 315 while 696 loans amounting to UA 12.68 billion had been fully repaid. A breakdown of the outstanding loan portfolio by product type is presented in Figure 7.1.

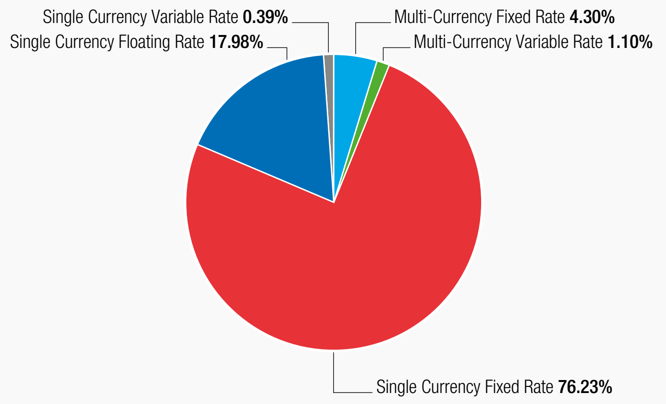
Disbursements

Loan disbursements during 2014 amounted to UA 1.94 billion, compared to UA 1.43 billion in 2013. At December 31, 2014, cumulative disbursements (including non-sovereign loans) amounted to UA 28.49 billion. A total of 895 loans were fully disbursed amounting to UA 24.50 billion, representing 85.99 percent of cumulative disbursements. Loan disbursements in 2014 by country are shown in Table 7.5.

Repayments

Principal loan repayments amounted to UA 795.56 million in 2014 compared to UA 767.03 million realized in 2013, representing an increase of 3.72 percent over the previous year. Cumulative repayments as of December 31, 2014 were UA 15.69 billion compared to UA 15.06 billion at December 31, 2013. Figure 7.2 shows the evolution of loan disbursements and repayments for the period, 2010-2014.

Figure 7.1 Outstanding Loan Portfolio by Product Type at December 31, 2014 (Percentages)



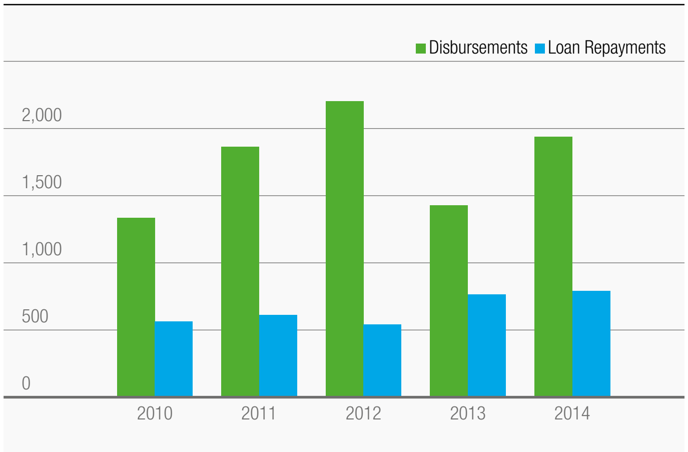
Outlook for 2015

The continuing turbulence in the global macroeconomic, political and financial markets is expected to impact the Bank's financial results given their sensitivity to changes in these domains. The Bank will continue to diligently monitor such impacts on the volume of its lending and the timing of repayment of its loans to ensure that it continues to deliver on its development mandate. The new 10-year strategy of the

Table 7.5 Loan Disbursements by Country in 2014 (UA millions)

Country	Amount Disbursed
Angola	411.89
Botswana	7.22
Cabo Verde	12.78
Côte d'Ivoire	59.16
Egypt	164.79
Equatorial Guinea	3.53
Gabon	40.42
Ghana	8.89
Kenya	1.35
Mauritius	96.39
Morocco	300.76
Namibia	39.10
Niger	2.57
Nigeria	256.80
Rwanda	3.91
Senegal	10.58
Seychelles	6.86
Sierra Leone	3.27
South Africa	205.13
Togo	21.45
Tunisia	68.70
Uganda	3.21
Zambia	1.01
Multinational	208.75
TOTAL	**1,938.53**

Figure 7.2 Loan Disbursements and Repayments, 2010-2014 (UA millions)



Bank approved in 2013 is expected to continue to shape its interventions and operations over the ten years planning horizon to 2022. The strategic focus on two overarching objectives of inclusive growth and transition to green growth, with five operational priorities including infrastructure development, regional integration, private sector development, governance and accountability, and skills and technology provides the Bank with a unifying framework for effective management of its operational activities in 2015 and beyond.

With the Bank's move back to its statutory headquarters in Abidjan Côte d'Ivoire having been virtually completed in 2014 stability and therefore efficiency in the Bank's operational set up has been restored in the short-term. In the long term, the completion of the move is expected to result in the stabilization of the level of administrative expenses which spiked somewhat at the peak of the move, particularly in 2014 and 2015. A positive consequence of this is that the achievement of the target cost/income ratio of 30 percent will be possible in the medium term.

Managing the Dynamics of a Turbulent Economic Environment

The high rates of economic growth in many African countries are expected to continue, against the backdrop of the global economic recovery. This growth is in spite of the continued volatility in the global financial markets and the Ebola epidemic in West Africa. Indeed, the economic outlook for Africa remains largely positive, with growth projected to rise from the average of 3.9 percent in 2014 to 4.5 percent in 2015 and 5 percent in 2016. In order to leverage the opportunities that these economic developments provide for the growth of its support to RMCs, the Bank must ensure that its strategic initiatives are clearly prioritized while it also maintains focused policies with the resilience and the flexibility necessary to deliver on its mandate in a variety of market conditions.

Meanwhile, the Bank has taken significant steps to ensure that it has the necessary flexibility and responsiveness to not only sustain growth in its business operations, but that it is also capable of meeting the other challenges that it may encounter in the external environment.

African Development Bank
Financial Statements and Report of the Independent Auditor Year ended December 31, 2014

BALANCE SHEET
AS AT DECEMBER 31, 2014
(UA thousands – Note B)

ASSETS		2014	2013
CASH		406,709	954,133
DEMAND OBLIGATIONS		3,801	3,801
SECURITIES PURCHASED UNDER RESALE AGREEMENTS		34,511	-
TREASURY INVESTMENTS (Note F)		7,341,624	6,085,451
DERIVATIVE ASSETS (Note G)		1,143,678	985,959
NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL (Note H)		739	1,204
ACCOUNTS RECEIVABLE			
Accrued income and charges receivable on loans (Note I)	190,662		188,374
Other accounts receivable	449,497		655,481
		640,159	843,855
DEVELOPMENT FINANCING ACTIVITIES			
Loans, net (Notes D & I)	12,496,518		11,440,695
Hedged loans – Fair value adjustment (Note G)	112,704		32,494
Equity participations (Note J)	596,818		525,013
Other securities (Note K)	94,111		82,901
		13,300,151	12,081,103
OTHER ASSETS			
Property, equipment and intangible assets (Note L)	78,834		40,672
Miscellaneous	626		543
		79,460	41,215
TOTAL ASSETS		**22,950,832**	**20,996,721**

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

LIABILITIES & EQUITY		2014	2013
ACCOUNTS PAYABLE			
Accrued financial charges	261,564		432,341
Other accounts payable	950,249		813,773
		1,211,813	1,246,114
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE		429,317	-
DERIVATIVE LIABILITIES (Note G)		853,735	971,852
BORROWINGS (Note M)			
Borrowings at fair value	13,481,627		12,127,916
Borrowings at amortized cost	894,326		819,528
		14,375,953	12,947,444
EQUITY (Note N)			
Capital			
Subscriptions paid	3,438,232		3,147,084
Cumulative Exchange Adjustment on Subscriptions (CEAS)	(173,538)		(172,654)
Subscriptions paid (net of CEAS)	3,264,694		2,974,430
Reserves	2,815,320		2,856,881
Total equity		6,080,014	5,831,311
TOTAL LIABILITIES & EQUITY		**22,950,832**	**20,996,721**

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
OPERATIONAL INCOME & EXPENSES		
Income from:		
Loans (Note O)	342,128	335,012
Investments and related derivatives (Note O)	132,414	131,242
Equity investments (Dividends)	6,335	9,435
Other securities	3,851	3,949
Total income from loans and investments	484,728	479,638
Borrowing expenses (Note P)		
Interest and amortized issuance costs	(375,961)	(302,992)
Net interest on borrowing-related derivatives	221,207	111,850
Unrealized (losses)/gains on borrowings, related derivatives and others	(29,830)	34,108
Loss on sale of investments at amortized cost	-	(4,796)
Net impairment charge (Note I)		
Loan principal	(1,566)	(22,886)
Loan charges	(16,451)	(18,249)
Impairment recovery on equity investments (Note J)	748	758
Net impairment recovery on investments	-	9,191
Translation (losses)/gains	(4,071)	13,334
Other income	3,391	3,021
Net operational income	282,195	302,977
OTHER EXPENSES		
Administrative expenses (Note Q)	(123,157)	(110,969)
Depreciation – Property, equipment and intangible assets (Note L)	(7,608)	(6,697)
Sundry income/(expenses)	262	(4,982)
Total other expenses	(130,503)	(122,648)
Income before distributions approved by the Board of Governors	151,692	180,329
Distributions of income approved by the Board of Governors (Note N)	(120,000)	(107,500)
NET INCOME FOR THE YEAR	**31,692**	**72,829**

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
NET INCOME FOR THE YEAR	31,692	72,829
OTHER COMPREHENSIVE INCOME		
Items that will not be reclassified to profit or loss		
Net gains on financial assets at fair value through “other comprehensive income”	20,596	24,629
Unrealized (loss)/gain on fair-valued borrowings arising from “own credit”	(32,136)	46,083
Remeasurements of defined benefit liability	(61,713)	45,905
Total items that will not be reclassified to profit or loss	(73,253)	116,617
Total other comprehensive income	(73,253)	116,617
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(41,561)**	**189,446**

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

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

			Reserves				
	Capital Subscriptions Paid	Cumulative Exchange Adjustment on Subscriptions	Retained Earnings	Remeasurements of Defined Benefit Liability	Net Gains 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 JANUARY 1, 2013	2,839,475	(166,825)	2,891,914	(259,050)	18,096	16,475	5,340,085
Net income for the year	-	-	72,829	-	-	-	72,829
Other comprehensive income							
Net gains on financial assets at fair value through "other comprehensive income"	-	-	-	-	24,629	-	24,629
Unrealized gains on fair-valued borrowings arising from "own credit"	-	-	-	-	-	46,083	46,083
Remeasurement of defined benefit liability	-	-	-	45,905	-	-	45,905
Total other comprehensive income	-	-	-	45,905	24,629	46,083	116,617
Net increase in paid-up capital	307,609	-	-	-	-	-	307,609
Net conversion losses on new subscriptions	-	(5,829)	-	-	-	-	(5,829)
BALANCE AT DECEMBER 31, 2013 AND JANUARY 1, 2014	**3,147,084**	**(172,654)**	**2,964,743**	**(213,145)**	**42,725**	**62,558**	**5,831,311**
Net income for the year	-	-	31,692	-	-	-	31,692
Other comprehensive income							
Net gains on financial assets at fair value through "other comprehensive income"	-	-	-	-	20,596	-	20,596
Unrealized losses on fair-valued borrowings arising from "own credit"	-	-	-	-	-	(32,136)	(32,136)
Remeasurement of defined benefit liability	-	-	-	(61,713)	-	-	(61,713)
Total other comprehensive income	-	-	-	(61,713)	20,596	(32,136)	(73,253)
Net increase in paid-up capital	291,148	-	-	-	-	-	291,148
Net conversion losses on new subscriptions	-	(884)	-	-	-	-	(884)
BALANCE AT DECEMBER 31, 2014	**3,438,232**	**(173,538)**	**2,996,435**	**(274,858)**	**63,321**	**30,422**	**6,080,014**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	31,692	72,829
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	7,608	6,697
Provision for impairment on loan principal and charges	18,017	41,135
Unrealized losses on investments and related derivatives	35,333	23,294
Amortization of discount or premium on treasury investments at amortized cost	(2,767)	(4,670)
Provision for impairment on treasury investments	-	(9,191)
Provision for impairment on equity investments	(748)	(758)
Amortization of borrowing issuance costs	2,971	26,277
Unrealized losses/(gains) on borrowings, related derivatives and others	27,195	(65,995)
Translation losses/(gains)	4,071	(13,334)
Share of profits in associate	633	489
Net movements in derivatives	146,574	3,914
Changes in accrued income on loans	(21,612)	(1,683)
Changes in accrued financial charges	(170,779)	(8,463)
Net change in reverse repurchase agreements and cash collateral on securities borrowed	394,806	-
Changes in other receivables and payables	289,538	(811,180)
Net cash provided by/(used in) operating activities	762,532	(740,639)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(1,938,532)	(1,430,781)
Repayments of loans	795,557	767,028
Investments maturing after 3 months of acquisition:		
Investments at amortized cost	(420,879)	(209,494)
Investments at fair value through profit and loss	(826,847)	400,855
Acquisition of fixed assets	(45,837)	(16,952)
Disposal of fixed assets	67	5
Disbursements on equity participations	(68,515)	(85,875)
Repayments on equity participations	32,664	19,252
Net cash used in investing, lending and development activities	(2,472,322)	(555,962)
FINANCING ACTIVITIES:		
New borrowings	4,515,243	4,892,935
Repayments on borrowings	(3,688,517)	(4,050,175)
Cash from capital subscriptions	290,264	301,780
Net cash provided by financing activities	1,116,990	1,144,540
Effect of exchange rate changes on cash and cash equivalents	(24,039)	7,738
Decrease in cash and cash equivalents	(616,839)	(144,323)
Cash and cash equivalents at the beginning of the year	1,267,520	1,411,843
Cash and cash equivalents at the end of the year	**650,681**	**1,267,520**
COMPOSED OF:		
Investments maturing within 3 months of acquisition:		
Investments at fair value through profit and loss	243,972	313,387
Cash	406,709	954,133
Cash and cash equivalents at the end of the year	**650,681**	**1,267,520**
SUPPLEMENTARY DISCLOSURE:		
1. Operational cash flows from interest and dividends:		
Interest paid	(325,533)	(199,605)
Interest received	477,439	499,001
Dividend received	6,165	4,394
2. Movement resulting from exchange rate fluctuations:		
Loans	92,075	89,841
Borrowings	209,017	(852,269)
Currency swaps	(220,261)	803,065

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

NOTE A – OPERATIONS AND AFFILIATED ORGANIZATIONS

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

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue Recognition

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

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

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

Functional and Presentation Currencies

The Bank conducts its operations in the currencies of its member countries. As a result of the application of IAS 21 revised, "The Effects of Changes in Foreign Exchange Rates", the Bank prospectively changed its functional currency from the currencies of all its member countries to the Unit of Account (UA) effective January 1, 2005, as it was concluded that the UA most faithfully represented the aggregation of economic effects of events, conditions and the underlying transactions of the Bank conducted in different currencies. The UA is also the currency in which the financial statements are presented. The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement establishing the Bank (the Agreement) as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF.

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 December 31, 2014 and 2013 are reported in Note V-1. Non-monetary assets and liabilities are translated into UA at historical rates. Translation differences are included in the determination of net income. Capital subscriptions are recorded in UA at the rates prevailing at the time of receipt. The translation difference relating to payments of capital subscriptions is reported in the financial statements as the Cumulative Exchange Adjustment on Subscriptions (CEAS). This is composed of the difference between the UA amount at the predetermined rate and the UA amount using the rate at the time of receipt. When currencies are converted into other currencies, the resulting gains or losses are included in the determination of net income.

Member Countries' Subscriptions

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 indicated to the Bank that it intends to do so. The stability in the membership reflects the fact that the members are African and non-African countries, 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 December 31, 2014, the Bank did not expect to distribute any portion of its net assets due to member country withdrawals.

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

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

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

Employee Benefits

1) Pension Obligations

The Bank operates a contributory defined benefit pension plan for its employees. The Staff Retirement Plan (SRP) provides benefit payments to participants upon retirement. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and remuneration. An actuarial valuation of the cost of providing benefits for the SRP is determined using the Projected Unit Credit Method. Upon reaching retirement age, pension is calculated based on the average remuneration for the final three years of pensionable service and the pension is subject to annual inflationary adjustments. Actuarial gains and losses as well as the differences between expected and real returns on assets are recognized immediately in other comprehensive income in the year they occur. When benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The pension liability is recognized as part of other accounts payable in the balance sheet. The liability represents the present value of the Bank's defined benefit obligations, net of the fair value of plan assets.

2) Post-Employment Medical Benefits

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

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

Financial Instruments

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

1) Financial Assets

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

i) Financial Assets at Amortized Cost

A financial asset is classified as at "amortized cost" only if the asset meets two criteria: the objective of the Bank's business model is to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in debt investment 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 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 fees are deferred and recognized over the life of the related loan as an adjustment of yield. However, incremental direct costs associated with originating loans are expensed as incurred; as such amounts are considered insignificant. The amortization of loan origination fee is included in income from loans.

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 IFRS9. The fair value is determined using the expected cash flows model with inputs including interest rates and the borrower's credit spread estimated based on the Bank's internal rating methodology for non-sovereign loans.

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

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

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

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

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

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

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

Recognition and Derecognition of Financial Assets

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

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

Securities purchased under resale agreements, securities lent under securities lending agreements, and securities sold under repurchase agreements are recorded at market rates. The Bank receives securities purchased under resale agreements, monitors the fair value of the securities and, if necessary, closes out transactions and enters into new repriced transactions. The securities transferred to counterparties under the repurchase and security lending arrangements and the securities transferred to the Bank under the resale agreements do not meet the accounting criteria for treatment as a sale. Therefore, securities transferred under repurchase agreements and security lending arrangements are retained as assets on the Bank balance sheet, and securities received under resale agreements are not recorded on the Bank's balance sheet. In cases where the Bank enters into a "reverse repo"—that is, purchases an asset and simultaneously enters into an agreement to resell the same at a fixed price on a future date—a receivable from reverse repurchase agreement is recognized in the statement of financial position and the underlying asset is not recognized in the financial statements.

Cash and Cash Equivalents

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

2) Financial Liabilities

i) Borrowings

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

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

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

ii) Financial Liabilities at Fair Value through Profit or Loss

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

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

iii) Other Liabilities

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

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

Derivatives

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

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

The Bank assesses its hybrid financial assets (i.e. the combined financial asset host and embedded derivative) in its entirety to determine their classification. A hybrid financial asset is measured at amortized cost if the combined cash flows represent solely principal and interest on the outstanding principal; otherwise it is measured at fair value. As at December 31, 2014, the Bank had hybrid financial assets that were measured at fair value in accordance with IFRS 9.

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

Hedge Accounting

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

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

Impairment of Financial Assets

Assets Carried at Amortized Cost

The Bank first assesses whether objective evidence of impairment exists individually for financial assets. If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, that asset is included in a group of financial assets with similar credit characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Bank determines that there is objective evidence that an impairment loss on loans and receivables or investments carried at amortized cost has been incurred, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. For sovereign-guaranteed loans, the estimated impairment representing present value losses arises from delays that may be experienced in receiving amounts due. For non-sovereign-guaranteed loans, the impairment reflects management's best estimate of the non-collectability, in whole or in part, of amounts due as well as delays in the receipt of such amounts.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or investment carried at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. Interest and charges are accrued on all loans including those in arrears. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Offsetting of Financial Instruments

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

Fair Value Disclosure

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

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

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

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

The Bank uses widely recognized valuation models for measuring the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgment and estimation. Availability of observable market prices and model inputs reduces the need for management judgment and estimation and also reduces the uncertainty associated with the measurement of fair value. Observable market prices and inputs available vary depending on the products and markets and are subject to changes based on specific events and general conditions in the financial markets.

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

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

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

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

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

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

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

Cash: The carrying amount is the fair value.

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

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

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

Equity Investments: The underlying assets of entities in which the Bank has equity investments are periodically fair valued by fund managers or independent valuation experts using market practices. The fair value of investments in listed enterprises is based on the latest available quoted bid prices. The fair value of investments in unlisted entities is assessed using appropriate methods, for example, discounted cash flows. The fair value of the Bank's equity participations is measured as the Bank's percentage ownership of the net asset value of the funds.

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 Bank also uses valuation tools based on industry standard pricing models and valuation techniques to value derivative financial instruments. The models use market-sourced inputs such as interest rates, yield curves, exchange rates and option volatilities. All financial models used for valuing the Bank's financial instruments are subject to both internal and periodic external reviews.

Loans: The Bank does not sell its sovereign loans, nor does it believe there is a comparable market for these loans. The Bank's loan assets, except for those at fair value, are carried on the balance sheet at amortized cost. The fair value of loans carried at amortized cost are reported in these financial statements for disclosure purposes only and represents Management's best measures of the present value of the expected cash flows of these loans. The fair valuation of loans has been measured using a discounted cash flow model based on year-end market lending rates in the relevant currency including impairment, when applicable, and credit spreads for non-sovereign loans. In arriving at its best estimate Management makes certain assumptions about the unobservable inputs to the model, the significant ones of which is 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 forcast 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 forcast cash flows would lead to a decrease in the fair value of loans. Changes in fair value of loans carried at fair value through profit and loss are reported in the income statement. The estimated fair value of loans is disclosed in Note I.

Valuation Processes Applied by the Bank

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

Where third-party information from brokers or pricing experts are used to measure fair value, documents are independently assessed and the evidence obtained from the third parties to support the conclusions.

The assessment and documentation involves ensuring that (i) the broker or pricing service provider is duly approved for use in pricing the relevant type of financial instrument, (ii) the fair value arrived at reasonably represents actual market transactions, (iii) where prices for similar instruments have been adopted, that the same have been, where necessary, adjusted to reflect the characteristics of the instrument subject to measurement and where a number of quotes for the same financial instrument have been obtained, fair value has been properly determined using those quotes.

Day One Profit and Loss

The fair value of a financial instrument at initial recognition is based on fair value as defined under IFRS 13. A gain or loss may only be recognized on initial recognition of a financial instrument if the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. On initial recognition, a gain or loss may not be recognized when using a fair value which is not defined under IFRS 13. The Bank only recognizes gains or losses after initial recognition to the extent that they arise from a change in a factor (including time) that market participants would consider in setting a price.

The Bank holds financial instruments, some maturing after more than ten years, where fair value is not based on quoted prices in an active market at the measurement date. Such financial instruments are initially recognized at the transaction price, although the value obtained from the relevant market participants may differ. The difference between the transaction price and the fair value measurement that is not evidenced by a quoted price in an active market or by a valuation technique that uses only observable market data, commonly referred to as "day one profit and loss", is either: (a) amortized over the life of the transaction; or (b) deferred until the instrument's fair value can be measured using market observable inputs or is realized through settlement. The financial instrument is subsequently measured at fair value, adjusted for the deferred day one profit and loss. Subsequent changes in fair value are recognized immediately in the income statement without immediate reversal of deferred day one profits and losses.

Investment in Associate

Under IAS 28, "Investments in Associates and Joint Ventures", the ADF and any other entity in which the Bank has significant influence are considered associates of the Bank. An associate is an entity over which the Bank has significant influence, but not control, over the entity's financial and operating policy decisions. The relationship between the Bank and the ADF is described in more detail in Note J. IAS 28 requires that the equity method be used to account for investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's income statement. The subscriptions by the Bank to the capital of the ADF occurred between 1974 and 1990. At December 31, 2014, such subscriptions cumulatively represented less than 1 percent of the economic interest in the capital of the ADF.

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

Property and Equipment

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

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

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

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

Intangible Assets

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

Leases

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

Allocations and Distributions of Income Approved by the Board of Governors

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

Retained Earnings

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

The most significant judgments and estimates are summarized below:

1) Significant Judgments

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

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

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

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

2) Significant Estimates

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

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

Fair Value of Financial Instruments – The fair value of financial instruments that are not quoted in active markets is measured by using valuation techniques. Where valuation techniques (for example, models) are used to measure fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All valuation models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, valuation models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect the reported fair value of financial instruments. Assessing the significance of a particular input to the fair value measurement in its entirety requires judgment, considering factors specific to the asset or liability. The determination of what constitutes "observable" requires significant judgment by the Bank.

Post-employment Benefits – The present value of retirement benefit obligations is sensitive to the actuarial and financial assumptions used, including the discount rate. At the end of each year, the Bank determines the appropriate discount rate and other variables to be used to determine the present value of estimated future pension obligations. The discount rate is based on market yields at the end of the year of high-quality corporate bonds in the currencies comprising the Bank's UA, and the estimates for the other variables are based on the bank best judgment.

Events After the Reporting Period

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

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

Reclassification and Restatement

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

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

The Bank early adopted in 2013 the revisions to IAS 32 which became effective on January 1, 2014. The revisions clarified the circumstances in which netting is permitted; in particular what constitutes a currently legally enforceable right of offset and the circumstances in which gross settlement systems may be considered equivalent to net settlement. The application has no impact on the financial position of the Bank as the amendments merely clarify the offsetting criteria and how these are to be applied in practice.

Standards, Amendments and Interpretations Issued but not yet effective

At the date of issue of these financial statements, a new and amended International Financial Reporting Standard IFRS 9 was not yet effective for application and had not been applied in preparing these financial statements. The new standard which is expected to be relevant to the Bank is discussed briefly below:

IFRS 9: Financial Instruments

The final version of IFRS 9 Financial Instruments was issued on July 24, 2014 and is effective for annual periods beginning on or after January 1, 2018. The revisions in this standard introduce a third classification and measurement category for financial assets, require the expected credit loss impairment model in place of the IAS 39 incurred loss model and some revisions to hedge accounting.

Although preliminary indications are that the Bank will be affected by the new standard, the Bank is still assessing the full impact of this new pronouncement on its financial position and performance.

The Bank has already adopted phase 1 of the IFRS 9 with effect from January 1, 2011.

No other new or revised financial reporting standard, applicable to the Bank, became effective in 2014.

NOTE D – RISK MANAGEMENT POLICIES AND PROCEDURES

In carrying out its development mandate, the Bank seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless critical to the execution of its mandate.

Risk Governance and Risk Appetite

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

Three management level committees perform monitoring and oversight roles: the Asset and Liability Management Committee (ALCO), the Credit Risk Committee (CRC) and the Operations Committee (OPSCOM). The ALCO is the oversight and control organ of the Bank's finance and treasury risk management activities. It is the Bank's most senior management forum on finance and treasury risk management issues and is chaired by the Vice President for Finance. The Credit Risk Committee (CRC) ensures effective implementation of the Bank's credit policies and oversees all credit risk issues related to sovereign and non-sovereign operations, prior to their submission to OPSCOM. OPSCOM is chaired by the First Vice President and Chief Operating Officer and reviews all operational activities before they are submitted to the Board of Directors for approval.

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

In late 2013, a Group Chief Risk Officer position was created reporting directly to the President of the Bank. Day-to-day operational responsibility for implementing the Bank's financial and risk management policies and guidelines are delegated to the appropriate business units. The Financial Management Department and the office of the Group Chief Risk Officer are responsible for monitoring the day to-day compliance with those policies and guidelines.

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

Policy Framework

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

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

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

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

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

Credit Risk

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

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

The Bank's maximum exposure to credit risk before collateral received or other credit enhancements for 2014 and 2013 is as follows:

(UA thousands)

Assets	2014	2013
Cash	406,709	954,133
Demand obligations	3,801	3,801
Securities purchased under resale agreements	34,511	-
Treasury investments at amortized cost	3,617,995	3,110,539
Treasury investments at fair value	3,723,629	2,974,912
Derivative assets	1,143,678	985,959
Non-negotiable instruments on account of capital	739	1,204
Accrued income and charges receivable on loans	416,311	394,699
Other accounts receivable	477,066	683,950
Loans	12,647,806	11,585,840
Equity participations	645,288	574,656
Other securities	94,111	82,901

1) Sovereign Credit Risk

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

Country Exposure

The Bank's exposures as at December 31, 2014 to borrowing member countries as well as the private sector and enclave projects from its lending activities are summarized below:

(Amounts in UA thousands)

Country	N° of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Angola	2	707,375	17,153	276,089	414,133	3.27
Botswana	3	1,028,414	-	19,929	1,008,485	7.97
Cabo Verde	7	123,467	-	50,523	72,944	0.58
Cameroon	2	154,781	129,103	18,279	7,399	0.06
Democratic Republic of Congo	10	465,942	-	-	465,942	3.68
Egypt	12	1,561,684	-	439,429	1,122,255	8.87
Equatorial Guinea	3	61,057	-	53,917	7,140	0.06
Ethiopia	1	90	-	-	90	0.00
Gabon	8	330,792	-	81,886	248,906	1.97
Mauritius	9	457,233	-	80,549	376,684	2.98
Morocco	51	3,404,365	83,800	874,397	2,446,168	19.34
Namibia	5	200,298	-	139,524	60,774	0.48
Nigeria	4	448,644	138,044	207,066	103,534	0.82
Rwanda	1	51,401	-	51,401	-	-
Seychelles	3	26,459	-	-	26,459	0.21
Somalia**	3	4,132	-	-	4,132	0.03
South Africa	7	1,696,805	-	568,481	1,128,324	8.92
Sudan** (1)	4	50,789	-	-	50,789	0.40
Swaziland	7	75,457	47,565	-	27,892	0.22
Tunisia	36	2,090,112	-	315,510	1,774,602	14.03
Zambia	2	26,219	26,219	-	-	-
Zimbabwe**	12	198,151	-	-	198,151	1.57
Multinational	2	17,267	-	-	17,267	0.14
Total Public Sector	**194**	**13,180,934**	**441,884**	**3,176,980**	**9,562,070**	**75.60**
Total Private Sector	**121**	**4,423,586**	**763,606**	**574,244**	**3,085,736**	**24.40**
Total	**315**	**17,604,520**	**1,205,490**	**3,751,224**	**12,647,806**	**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 December 31, 2014.*

(1) *The outcome of the referendum conducted in South Sudan in January 2011 supported the creation of an independent state of South Sudan. After the split of the state of Sudan into two separate nations became effective in July 2011, the number and amounts of loans shown against Sudan in this statement would be split between the emerging states, on a basis agreed upon following the ongoing negotiations between Sudan and South Sudan. At the end of December 2014, no decision has been taken by the states of Sudan and South Sudan regarding the terms and conditions of such exchange.*

Slight differences may occur in totals due to rounding.

The Bank is also exposed to some of its borrowers on account of trade finance and repayment guarantees for an amount of UA 164.11 million of which UA 156.76 million related to trade finance as at December 31, 2014.

Systematic Credit Risk Assessment

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

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

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

		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 4-	B	B2	
	5+ 5	B-	B3	Acceptable
High Risk	5- 6+	CCC+	Caa1	Marginal
	6 6-	CCC	Caa2	Special Attention
Very High Risk	7 8	CCC-	Caa3	Substandard
	9	CC	Ca	Doubtful
	10	C	C	Loss

Portfolio Risk Monitoring

The weighted average risk rating of the Bank's sovereign and sovereign-guaranteed portfolio was 2.60 at the end of December 2014, compared to 2.73 as of December 31, 2013. The distribution of the sovereign portfolio across the Bank's five risk classes is shown in the table below:

Risk Profile of the Outstanding Sovereign-Guaranteed Loan Portfolio

	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2014	54%	27%	12%	7%	-
2013	54%	24%	12%	9%	1%
2012	73%	15%	1%	10%	1%
2011	70%	15%	1%	13%	1%
2010	76%	2%	5%	13%	4%
2009	44%	33%	6%	13%	4%

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

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

To cover potential Expected Losses (EL) and Unexpected Losses (UL) related to credit, the Bank maintains a prudent risk capital cushion for credit risks. The Bank's capital adequacy policy articulates differentiated risk capital requirements for public sector and private sector credit-sensitive assets (loans and equity investments), as well as for contingent liabilities (guarantees and client risk management products) in each risk class. Risk capital requirements are generally higher for private sector operations which have a higher probability of default and loss-given default than public sector operations. At the end of December 2014, the Bank's public sector loan portfolio used up to 32.8 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. Callable capital is not included in the computation of risk capital.

2) Non-Sovereign Credit Risk

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

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

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

a) Project Finance

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

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

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

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

b) Financial Institutions

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

c) Private Equity Funds

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

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

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

Since 2009, the Bank has been increasing its non-sovereign loan and equity exposures. The weighted-average risk rating was 3.73 at the end of 2014 compared to 3.58 at the end of 2013. 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 Outstanding Non-Sovereign Loan and Equity Portfolio

	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2014	31%	21%	31%	14%	3%
2013	36%	17%	31%	14%	2%
2012	33%	19%	36%	9%	3%
2011	36%	20%	35%	5%	4%
2010	24%	20%	30%	24%	2%
2009	27%	18%	28%	24%	3%

In compliance with IFRS, the Bank does not make general provisions to cover the expected losses in the performing non-sovereign portfolio. For the non-performing portfolio, the Bank makes a specific provision based on an assessment of the credit impairment, or incurred loss, on each loan. At the end of 2014, the cumulative impairment allowance to cover the incurred loss on impaired loan principal in the non-sovereign portfolio was UA 55.39 million compared to UA 52.49 million in 2013.

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

To cover potential unexpected credit-related losses due to extreme and unpredictable events, the Bank maintains a risk capital cushion for non-sovereign credit risks derived from Basel II Advanced Internal Rating-Based Approach (IRB). At the end of December 2014, the Bank's non-sovereign portfolio required as risk capital approximately 22.2 percent of the Bank's total on-balance sheet risk capital sources. This level is still below the limit of 45 percent determined by the Bank for total non-sovereign operations. Out of the Bank's non-sovereign portfolio, equity participations required as risk capital approximately 9.1 percent of the Bank's total on-balance sheet risk capital sources. This is still below the statutory limit of 15 percent established by the Board of Governors for equity participations.

Credit Exposure Limits

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

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

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

3) Counterparty Credit Risk

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

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

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

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

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

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2			AA-/Aa3	AAA/Aaa
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
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 Bank may also invest in money market mutual funds with a minimum rating of AA-/Aa3 and enters into collateralized securities repurchase agreements.

The Bank uses derivatives in the management of its borrowing portfolio and for asset and liability management purposes. As a rule, the Bank executes an ISDA master agreement and netting agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated AA-/Aa3 by at least two approved rating agencies or A-/A3 for counterparties with whom the Bank has entered into a collateral exchange agreement. Lower rated counterparties may be used exceptionally for local currency transactions. These counterparties require the approval of ALCO. Approved transactions with derivative counterparties include swaps, forwards, options and other over-the-counter derivatives.

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

(Amounts in UA millions)

	Derivatives			Credit Risk Profile of Net Exposure		
	Notional Amount	Fair Value*	Net Exposure**	AAA	AA+ to AA-	A+ and lower
2014	16,882	565	132	0%	90%	10%
2013	15,898	544	134	0%	90%	10%
2012	15,209	1,047	109	0%	54%	46%
2011	15,393	1,192	146	0%	68%	32%
2010	14,504	1,090	96	0%	80%	20%
2009	13,503	288	84	13%	45%	42%

* *Fair value net of collateral.*
** *After collateral received in cash or securities.*

The financial assets and liabilities that are subject to offsetting, enforceable master netting arrangement as at December 31, 2013, are summarized below:

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

(UA millions)

	Gross Amounts of Recognized Financial Assets	Gross Amounts of Recognized Financial Liabilities Set Off in the Statement of Financial Position	Net Amounts of Financial Assets Presented in the Statement of Financial Position	Related Amounts not Set Off in the Statement of Financial Position		
				Financial Instruments	Collateral Received	Net Amount
2014	902	(337)	565	-	(455)	110
2013	654	(110)	544	-	(408)	136

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

(UA millions)

	Gross Amounts of Recognized Financial Liabilities	Gross Amounts of Recognized Financial Assets Set Off in the Statement of Financial Position	Net Amounts of Financial Liabilities Presented in the Statement of Financial Position	Related Amounts not Set Off in the Statement of Financial Position		
				Financial Instruments	Cash Collateral Pledged	Net Amount
2014	704	(419)	285	-	-	285
2013	880	(290)	590	-	3	593

In addition to the minimum rating requirements for derivative counterparties, the Bank operates within a framework of exposure limits to different counterparties based on their credit rating and size, subject to a maximum of 12 percent of the Bank's total risk capital (equity and reserves) for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the Bank's credit limits after considering the benefits of any collateral.

The credit exposure of the investment and related derivative portfolios continues to be dominated by highly rated counter-parties as shown in the table below. The proportion of exposure to AAA-rated entities decreased from the previous year as a result of the downgrade of some agencies.

Credit Risk Profile of the Investment and Derivative Portfolios

	AAA	AA+ to AA-	A+ and lower
2014	48%	50%	2%
2013	51%	44%	5%
2012	62%	31%	7%
2011	58%	33%	9%
2010	69%	24%	7%
2009	65%	25%	10%

The Bank's exposure to the stressed Eurozone economies remains very limited at approximately UA 0.5 million or less than 0.1 percent of the portfolio.

To cover potential unexpected credit losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for counterparty credit risks in line with the current BIS standards. At the end of December 2014, the Bank's counterparty credit portfolio including all investments and derivative instruments required as risk capital 2.1 percent of the Bank's total on-balance sheet risk capital sources.

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. Liquidity risk arises when there is a maturity mismatch between assets and liabilities. The Bank's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for a rolling 1-year horizon without additional financing from the capital markets for an extended period. In order to minimize this risk, the Bank maintains a prudential minimum level of liquidity (PML) based on the projected net cash requirement for a rolling 1-year period. The PML is updated quarterly and computed as the sum of four components: 1) 1-year debt service payments; 2) 1-year projected net loan disbursements (loans disbursed less repayments) if greater than zero; 3) loan equivalent value of commit-ted guarantees; and 4) undisbursed equity investments.

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

The contractual maturities of financial liabilities and future interest payments at December 31, 2014 and 2013 were as follows:

Contractual Maturities of Financial Liabilities and Future Interest Payments at December 31, 2014

(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	268,332	1,061,998	273,209	166,645	155,601	116,162	55,425	294,956
Borrowings at fair value	13,481,627	15,029,513	1,289,865	3,453,437	2,455,470	2,711,271	835,093	4,284,377
	13,749,959	16,091,511	1,563,074	3,620,082	2,611,071	2,827,433	890,518	4,579,333
Financial liabilities without derivatives								
Accounts payable	1,211,813	1,211,813	1,211,813	-	-	-	-	-
Borrowings at amortized cost	894,326	1,331,174	390,423	63,072	63,950	82,971	208,791	521,967
	2,106,139	2,542,987	1,602,236	63,072	63,950	82,971	208,791	521,967
Total financial liabilities	**15,856,098**	**18,634,498**	**3,165,310**	**3,683,154**	**2,675,021**	**2,910,404**	**1,099,309**	**5,101,300**
Represented by:								
Derivative liabilities	268,332	1,061,998	273,209	166,645	155,601	116,162	55,425	294,956
Accounts payable	1,211,813	1,211,813	1,211,813	-	-	-	-	-
Borrowings	14,375,953	16,360,687	1,680,288	3,516,509	2,519,420	2,794,242	1,043,884	4,806,344

Contractual Maturities of Financial Liabilities and Future Interest Payments at December 31, 2013

(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	20,939	321,036	(5,879)	225,641	37,294	25,705	(75,190)	113,465
Borrowings at fair value	12,127,916	13,836,576	2,705,544	1,004,655	2,915,874	1,394,405	2,517,315	3,298,783
	12,148,855	14,157,612	2,699,665	1,230,296	2,953,168	1,420,110	2,442,125	3,412,248
Financial liabilities without derivatives								
Accounts payable	1,246,114	1,246,114	1,246,114	-	-	-	-	-
Borrowings at amortized cost	819,528	1,260,612	89,778	364,180	52,024	44,045	80,605	629,980
	2,065,642	2,506,726	1,335,892	364,180	52,024	44,045	80,605	629,980
Total financial liabilities	**14,214,497**	**16,664,338**	**4,035,557**	**1,594,476**	**3,005,192**	**1,464,155**	**2,522,730**	**4,042,228**
Represented by:								
Derivative liabilities	20,939	321,036	(5,879)	225,641	37,294	25,705	(75,190)	113,465
Accounts payable	1,246,114	1,246,114	1,246,114	-	-	-	-	-
Borrowings	12,947,444	15,097,188	2,795,322	1,368,835	2,967,898	1,438,450	2,597,920	3,928,763

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in its risk-bearing capacity, the Bank's principal currency risk management objective is to protect its risk capital from translation risk due to fluctuations in foreign currency exchange rates by matching the currency composition of its net assets to the currency composition of the SDR (UA). The agreement establishing the Bank explicitly prohibits it from taking direct currency exchange exposures by requiring liabilities in any one currency to be matched with assets in the same currency. This is achieved primarily by holding or lending the proceeds of its borrowings (after swap activities) in the same currencies in which they were borrowed (after-swap activities). To avoid creating new currency mismatches, the Bank requires its borrowers to service their loans in the currencies disbursed.

Because a large part of its balance sheet is funded by equity resources, which are reported in Units of Account (equivalent to the SDR), the Bank has a net asset position that is potentially exposed to translation risk when currency exchange rates fluctuate. The Bank's policy is to minimize the potential fluctuation of the value of its net worth measured in Units of Account by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR. In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a misalignment or when there is a revision to the SDR currency composition.

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

Net currency position at December 31, 2014 and 2013 was as follows:

Net Currency Position at December 31, 2014

(UA thousands)

	Euro	United States Dollar	Japanese Yen	Pound Sterling	Other	Subtotal	Units of Account	Total
Assets								
Cash	95,976	38,021	45,360	8,176	219,460	406,993	(284)	406,709
Demand obligations	-	-	-	-	3,801	3,801	-	3,801
Securities purchased under resale agreements	-	34,511	-	-	-	34,511	-	34,511
Investments – measured at fair value [a]	1,085,704	2,446,380	542	18,860	193,754	3,745,240	-	3,745,240
Investments at amortized cost	1,170,763	1,551,128	174,462	721,642	-	3,617,995	-	3,617,995
Non-negotiable instruments on account of capital	-	739	-	-	-	739	-	739
Accounts receivable	623,262	319,345	36,864	42,763	(413,543)	608,691	31,468	640,159
Loans	5,416,541	5,912,478	230,835	2,412	1,046,956	12,609,222	-	12,609,222
Equity participations	59,637	437,833	-	-	37,136	534,606	62,212	596,818
Other securities	-	34,511	-	-	59,600	94,111	-	94,111
Other assets	-	-	-	-	-	-	79,460	79,460
	8,451,883	10,774,946	488,063	793,853	1,147,164	21,655,909	172,856	21,828,765
Liabilities								
Accounts payable	(140,962)	(74,846)	(117,180)	(479)	(477,404)	(810,871)	(400,942)	(1,211,813)
Securities sold under agreements to repurchase	-	(429,317)	-	-	-	(429,317)	-	(429,317)
Borrowings	(126,805)	(8,166,440)	(1,054,062)	(379,395)	(4,649,251)	(14,375,953)	-	(14,375,953)
Currency swaps on borrowings and related derivatives [b]	(5,726,967)	1,087,130	1,118,265	379,169	3,410,735	268,332	-	268,332
	(5,994,734)	(7,583,473)	(52,977)	(705)	(1,715,920)	(15,347,809)	(400,942)	(15,748,751)
Currency position of equity as at December 31, 2014	**2,457,149**	**3,191,473**	**435,086**	**793,148**	**(568,756)**	**6,308,100**	**(228,086)**	**6,080,014**
% of subtotal	**38.95**	**50.60**	**6.90**	**12.57**	**(9.02)**	**100.00**	**-**	**100.00**
SDR composition as at December 31, 2014	**35.49**	**45.61**	**6.93**	**11.97**	**-**	**100.00**	**-**	**100.00**

(a) Investments measured at fair value comprise:	
Investments measured at fair value	3,723,629
Derivative assets	24,924
Derivative liabilities	(3,313)
Amount per statement of net currency position	3,745,240
(b) Currency swaps on borrowings comprise:	
Derivative assets	1,118,754
Derivative liabilities	(850,422)
Net swaps on borrowings per statement of net currency position	268,332

Net Currency Position at December 31, 2013

(UA thousands)

	Euro	United States Dollar	Japanese Yen	Pound Sterling	Other	Subtotal	Units of Account	Total
Assets								
Cash	75,461	3,444	-	8,437	866,791	954,133	-	954,133
Demand obligations	-	-	-	-	3,801	3,801	-	3,801
Investments – measured at fair value [(a)]	1,085,492	1,836,259	14,700	27,470	46,037	3,009,958	-	3,009,958
Investments at amortized cost	1,110,603	1,254,194	69,973	675,769	-	3,110,539	-	3,110,539
Non-negotiable instruments on account of capital	-	1,204	-	-	-	1,204	-	1,204
Accounts receivable	216,282	341,457	38,384	42,990	219,279	858,392	(14,537)	843,855
Loans	5,402,723	4,749,216	284,405	2,399	1,034,446	11,473,189	-	11,473,189
Equity participations	66,382	354,154	-	-	42,379	462,915	62,098	525,013
Other securities	-	20,998	-	-	61,903	82,901	-	82,901
Other assets	-	-	-	-	-	-	41,215	41,215
	7,956,943	8,560,926	407,462	757,065	2,274,636	19,957,032	88,776	20,045,808
Liabilities								
Accounts payable	139,145	35,487	(90,124)	(668)	(1,057,128)	(973,288)	(272,826)	(1,246,114)
Borrowings	(53,696)	(7,909,731)	(1,007,961)	-	(3,976,056)	(12,947,444)	-	(12,947,444)
Currency swaps on borrowings and related derivatives [(b)]	(6,012,085)	2,103,779	1,070,138	-	2,817,229	(20,939)	-	(20,939)
	(5,926,636)	(5,770,465)	(27,947)	(668)	(2,215,955)	(13,941,671)	(272,826)	(14,214,497)
Currency position of equity as at December 31, 2013	**2,030,307**	**2,790,461**	**379,515**	**756,397**	**58,681**	**6,015,361**	**(184,050)**	**5,831,311**
% of subtotal	**33.75**	**46.39**	**6.31**	**12.57**	**0.98**	**100.00**	**-**	**100.00**
SDR composition as at December 31, 2013	**37.84**	**42.84**	**7.46**	**11.86**	**-**	**100.00**	**-**	**100.00**

(a) Investments measured at fair value comprise:	
Investments measured at fair value	2,974,912
Derivative assets	35,659
Derivative liabilities	(613)
Amount per statement of net currency position	3,009,958
(b) Currency swaps on borrowings comprise:	
Derivative assets	950,300
Derivative liabilities	(971,239)
Net swaps on borrowings per statement of net currency position	(20,939)

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 four currencies, namely the US dollar, Euro, Japanese yen and Pound sterling. The weight of each currency in the basket is determined and reviewed by the International Monetary Fund (IMF) every five years and the last revision became effective on January 1, 2011 based on the value of exports of goods and services and international reserves. The SDR rate represents the sum of specific amounts of the four 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 December 31, 2014 and 2013, respectively. The sensitivity analysis shown assumes a separate 10 percent appreciation/depreciation for each currency in the basket against the US dollar. Due to a moderate change in the African currency holdings the table also includes the effect of a 10 percent appreciation/depreciation of each African currency against the SDR. Under the different scenarios, the currency risk management strategy of the Bank shows a minimal change in net assets as a result of currency mismatches.

Sensitivity of the Bank's Net Assets to Currency Fluctuations at December 31, 2014

(Amounts in UA millions)

	United States Dollar	Euro	Japanese Yen	Pound Sterling	Other Currencies	Net Assets	Change in Net Assets Gain/(Loss)	Basis Point Change of Total Net Assets
Net assets resulting from a 10% appreciation against the USD								
EUR	2,750.04	2,280.66	424.79	711.24	4.96	6,171.69	(4.19)	7bps
GBP	2,814.03	2,121.58	434.68	800.57	4.96	6,175.82	(0.06)	0bp
JPY	2,827.87	2,132.01	480.50	731.37	4.96	6,176.70	0.82	1bp
Net assets resulting from a 10% appreciation of each African currency against the SDR	2,847.65	2,146.92	439.87	736.48	5.46	6,176.38	0.50	1bp
Net assets resulting from a 10% depreciation against the USD								
EUR	2,942.60	2,016.83	454.54	761.04	4.96	6,179.96	4.08	7bps
GBP	2,878.91	2,170.49	444.70	676.88	4.96	6,175.94	0.06	0bp
JPY	2,865.87	2,160.66	402.44	741.20	4.96	6,175.13	(0.75)	1bp
Net assets resulting from a 10% depreciation of each African currency against the SDR	2,847.65	2,146.92	439.87	736.48	4.51	6,175.43	(0.45)	1bp
Assumptions:								
Base net assets	2,975.26	1,948.58	403.78	737.04	15.36	6,080.02		
Currency weight	0.66	0.42	12.10	0.11	-	-	-	-
Base exchange rate	1.45	1.19	172.99	0.93	-	-	-	-

Sensitivity of the Bank's Net Assets to Currency Fluctuations at December 31, 2013

(Amounts in UA millions)

	United States Dollar	Euro	Japanese Yen	Pound Sterling	Other Currencies	Net Assets	Change in Net Assets Gain/(Loss)	Basis Point Change of Total Net Assets
Net assets resulting from a 10% appreciation against the USD								
EUR	2,391.23	2,292.90	418.62	682.29	(1.27)	5,783.77	(2.28)	4bps
GBP	2,452.40	2,137.77	429.33	769.72	(1.27)	5,787.94	1.88	3bps
JPY	2,463.17	2,147.16	474.33	702.82	(1.27)	5,786.21	0.15	0bp
Net assets resulting from a 10% appreciation of each African currency against the SDR	2,481.59	2,163.22	434.44	708.08	(1.40)	5,785.92	(0.13)	0bp
Net assets resulting from a 10% depreciation against the USD								
EUR	2,569.88	2,036.52	449.89	733.27	(1.27)	5,788.28	2.23	4bps
GBP	2,508.75	2,186.89	439.19	650.75	(1.27)	5,784.30	(1.75)	3bps
JPY	2,498.58	2,178.03	397.65	712.92	(1.27)	5,785.91	(0.14)	0bp
Net assets resulting from a 10% depreciation of each African currency against the SDR	2,481.59	2,163.22	434.44	708.08	(1.16)	5,786.17	0.12	0bp
Assumptions:								
Base net assets	2,688.45	2,117.72	317.58	708.08	(0.52)	5,831.31		
Currency weight	0.66	0.42	12.10	0.11	-	-	-	-
Base exchange rate	1.54	1.12	161.77	0.93	-	-	-	-

Interest Rate Risk

The Bank's interest rate risk sensitivity is comprised of the following two elements:

1. the sensitivity of the interest margin between the rate the Bank earns on its assets and the cost of the borrowings funding such assets; and

2. the sensitivity of the income on assets funded by equity resources to changes in interest rates.

The Bank's principal interest rate risk management objective is to generate a stable overall net interest margin that is not overly sensitive to sharp changes in market interest rates, but yet adequately responsive to general market trends.

Interest rate risk position as at December 31, 2014 and 2013 was as follows:

Interest Rate Risk Position as at December 31, 2014

(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	406,709	-	-	-	-	-	-	406,709
Demand obligations	3,801	-	-	-	-	-	-	3,801
Securities purchased under resale agreements	34,511	-	-	-	-	-	-	34,511
Treasury investments [(a)]	4,214,783	300,730	347,400	479,600	347,430	1,681,430	(8,138)	7,363,235
Non-negotiable instruments on account of capital	480	112	72	52	23	-	-	739
Accounts receivable	865,809	-	-	-	-	-	(225,650)	640,159
Loans – disbursed and outstanding	9,689,894	300,870	336,253	293,916	318,536	1,709,279	(942)	12,647,806
Hedged loans – fair value adjustment	-	-	-	-	-	-	112,704	112,704
Accumulated impairment for loan losses	-	-	-	-	-	-	(151,288)	(151,288)
Equity participations	-	-	-	-	-	-	596,818	596,818
Other securities	94,111	-	-	-	-	-	-	94,111
Other assets	-	-	-	-	-	-	79,460	79,460
	15,310,098	601,712	683,725	773,568	665,989	3,390,709	402,964	21,828,765
Liabilities								
Accounts payable	(1,211,813)	-	-	-	-	-	-	(1,211,813)
Securities sold under agreements to repurchase	(429,317)	-	-	-	-	-	-	(429,317)
Borrowings [(b)]	(13,735,089)	(248,695)	(215)	(215)	(36,656)	(98,666)	11,915	(14,107,621)
Macro-hedge swaps	(214,500)	99,437	97,321	-	-	17,742	-	-
	(15,590,719)	(149,258)	97,106	(215)	(36,656)	(80,924)	11,915	(15,748,751)
Interest rate risk position as at December 31, 2014*	**(280,621)**	**452,454**	**780,831**	**773,353**	**629,333**	**3,309,785**	**414,879**	**6,080,014**

** Interest rate risk position represents equity.*

(a) Treasury investments comprise:	
Treasury investments	7,341,624
Derivative assets – investments	24,924
Derivative liabilities – investments	(3,313)
Amount per statement of interest rate risk	7,363,235
(b) Borrowings comprise:	
Borrowings	14,375,953
Derivative assets – borrowings	(1,118,754)
Derivative liabilities – borrowings	850,422
Net borrowings per statement of interest rate risk	14,107,621

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	954,133	-	-	-	-	-	-	954,133
Demand obligations	3,801	-	-	-	-	-	-	3,801
Treasury investments [(a)]	3,350,819	460,040	312,310	340,640	451,430	1,199,600	5,658	6,120,497
Non-negotiable instruments on account of capital	509	451	105	68	49	22	-	1,204
Accounts receivable	1,050,180	-	-	-	-	-	(206,325)	843,855
Loans – disbursed and outstanding	8,549,417	253,591	308,916	269,864	275,029	1,930,165	(1,142)	11,585,840
Hedged loans – fair value adjustment	-	-	-	-	-	-	32,494	32,494
Accumulated impairment for loan losses	-	-	-	-	-	-	(145,145)	(145,145)
Equity participations	-	-	-	-	-	-	525,013	525,013
Other securities	20,998	-	-	-	-	61,903	-	82,901
Other assets	-	-	-	-	-	-	41,215	41,215
	13,929,857	714,082	621,331	610,572	726,508	3,191,690	251,768	20,045,808
Liabilities								
Accounts payable	(1,246,114)	-	-	-	-	-	-	(1,246,114)
Borrowings [(b)]	(12,738,108)	(5,918)	(234,001)	(235)	(235)	(154,085)	164,199	(12,968,383)
Macro-hedge swaps	(312,286)	104,544	97,067	91,558	-	19,117	-	-
	(14,296,508)	98,626	(136,934)	91,323	(235)	(134,968)	164,199	(14,214,497)
Interest rate risk position as at December 31, 2013*	**(366,651)**	**812,708**	**484,397**	**701,895**	**726,273**	**3,056,722**	**415,967**	**5,831,311**

** Interest rate risk position represents equity.*

(a) Treasury investments comprise:

Treasury investments	6,085,451
Derivative assets – investments	35,659
Derivative liabilities – investments	(613)
Amount per statement of interest rate risk	6,120,497

(b) Borrowings comprise:

Borrowings	12,947,444
Derivative assets – borrowings	(950,300)
Derivative liabilities – borrowings	971,239
Net borrowings per statement of interest rate risk	12,968,383

Interest Rate Risk on Assets Funded by Debt

Two thirds of the Bank's interest-rate-sensitive assets are funded by debt. The Bank seeks to generate a stable net interest margin on assets funded by debt by matching the interest rate characteristics of each class of assets with those of the corresponding liabilities.

In 1990, the Bank began offering "variable rate" loans. The interest rate on these loans resets semi-annually based on the average cost of a dedicated pool of the Bank's borrowings. These pools are funded with a mix of fixed rate and floating rate borrowings to provide borrowers with broadly stable interest rates that gradually track changes in market interest rates. The cost of funds pass-through formulation incorporated in the lending rates charged on the Bank's pool-based loans has traditionally helped to minimize the interest rate sensitivity of the net interest margin on this part of its loan portfolio. In view of declining demand for this product in favor of market-based loans, the Bank is carefully managing the gradual winding down of the designated funding pools.

Since 1997, the Bank offers fixed and floating rate loans whose interest rate is directly linked to market interest rates (market-based loans). For the market-based loan products, the Bank's net interest margin is preserved by using swaps to align the interest rate sensitivity of the loans with that of the Bank's underlying funding reference (six-month Libor floating rate). The Bank may also provide borrowers with risk management products such as swaps to modify the currency and interest rate terms of its market-based loan products. Although it retains the credit risks of the borrower, the Bank eliminates the associated market risk on these risk management products by simultaneously laying off market risks with an approved derivative counterparty.

For the portfolio of liquid assets funded by borrowings, the Bank protects its net interest margin by managing its investments within limits around benchmarks that replicate the interest rate characteristics of the underlying funding for each portfolio tranche. The portfolio of liquid assets funded by borrowings is currently divided into two tranches to reflect the different business purposes and underlying funding. The core part of the investment portfolio is held to comply with the Bank's liquidity policy and uses a 6-month Libor floating rate benchmark. The operational liquidity portfolio is managed to meet projected operational cash flow needs and uses a one-month Libor floating rate benchmark.

The Bank diversifies the sources of its funding by issuing debt in a variety of markets and instruments. Unless fixed rate funding is required for one of its pool-based loan products, the Bank protects its net interest margin by simultaneously swapping all new borrowings into floating rate in one of the Bank's active currencies on a standard 6-month Libor rate reference. Where the Bank issues structured debt, the Bank simultaneously enters into a swap with matching terms to synthetically create the desired 6-month Libor-based floating rate funding. For risk management purposes, callable funding is considered as one alternative to issuing short-term debt such as Euro Commercial Paper. The Bank manages refinancing risk by: (i) limiting the amount of debt that will mature or is potentially callable within one year to 25 percent of the outstanding debt portfolio; and (ii) trying to match the average maturity of loans priced with a fixed spread with borrowing with similar lifetime.

Interest Rate Risk on Assets Funded by Equity

The second principal source of interest rate risk is the interest rate sensitivity of the income earned from funding a significant portion of the Bank's assets with equity resources. These assets are mostly made up of fixed rate loans and investments with a lifetime of 10 years. Changes in market interest rates in the currencies of the Bank's equity resources (the SDR) affect the net interest margin earned on assets funded by equity. In general, lower nominal market interest rates result in lower lending and investment rates, which in the long term reduce the nominal earnings on the Bank's equity resources.

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

At the end of 2013 and 2014, the Bank's overall repricing profile was closely aligned to the benchmark in almost all annual buckets.

Net Interest Margin Sensitivity

A parallel upward shift in the SDR curve of 100 bps would have generated a maximum gain in income statement of UA 5.96 million and UA 5.66 million as of December 31, 2014 and 2013, respectively.

Fair Value Sensitivity

Movements in interest rates also have an impact on the values of assets and liabilities that are reported in the financial statements at fair value through profit or loss. The table below shows the effect of a parallel yield curve movement of +/- 100 bps of each of the currencies in the investment portfolio and the borrowings and derivative portfolios as of December 31, 2014 and 2013, respectively. However, due to the low level of interest rates across the Japanese Yen yield curve, the sensitivity analysis in 2014 and 2013 for assets and liabilities denominated in Japanese Yen reflect a parallel movement in the yield curve of +/- 10 bps.

(UA thousands)

	Upward Parallel Shift		**Downward Parallel Shift**	
	2014 Gain/(Loss)	2013 Gain/(Loss)	**2014 Gain/(Loss)**	2013 Gain/(Loss)
Investments at fair value through profit or loss	(7,403)	(9,511)	8,765	11,706
Fair-valued borrowings and derivative portfolios	(149,845)	(149,795)	122,221	149,428

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 2014 amounted to UA 50.59 million compared to prepayments of UA 96.73 million realized in 2013, none of which related to loans committed prior to 1997.

Operational Risk

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

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

The office of the Group Chief Risk Officer (GCRO) of the Bank is responsible for implementing the Integrated Internal Control Framework (IICF) which consists of two phases. Phase one relates to the implementation of Internal Control over Financial Reporting (ICFR) based on the COSO Framework as a means of regularly evaluating the effectiveness and efficiency of the Bank's internal controls in all significant business processes with financial statement impact. As part of this process, Management's attestation on the adequacy of internal controls over financial reporting is published in the Bank's annual report.

Phase two of the IICF entails the implementation of Operational Risk Management Framework which is intended to address risks inherent in other business processes not covered by ICFR. The Operational Risk Management Framework (ORM) was approved by the Board of Directors in March 2012 as the first step in addressing risks related to business processes and the implementation process is ongoing. Full implementation of ORM will ensure a structured and well-coordinated approach to risk identification and assessment, risk mitigation and control as well as risk reporting across the Bank. It will also provide the basis for applying advanced measurement approach in measuring operational risk capital. Currently, the Bank's Capital Adequacy and Exposure Management Framework provides for an operational risk capital charge of 15 percent of the average operating income for the preceding 3 years, in line with Basel II recommendations for operational risk.

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

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

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

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

NOTE E – FINANCIAL ASSETS AND LIABILITIES

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values as at December 31, 2014 and 2013:

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss					
December 31, 2014	**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	-	-	-	406,709	406,709	406,709
Demand obligations	-	-	-	3,801	3,801	3,801
Securities purchased under resale agreements	-	-	-	34,511	34,511	34,511
Treasury investments	3,723,629	-	-	3,617,995	7,341,624	7,507,638
Derivative assets	1,143,678	-	-	-	1,143,678	1,143,678
Non-negotiable instruments on account of capital	-	-	-	739	739	739
Accounts receivable	-	-	-	640,159	640,159	640,159
Loans	18,807	-	-	12,477,711	12,496,518	12,555,923
Equity participations	-	-	596,818	-	596,818	596,818
Other securities	-	-	-	94,111	94,111	94,111
Total financial assets	**4,886,114**	**-**	**596,818**	**17,275,736**	**22,758,668**	**22,984,087**
Accounts payable	-	-	-	1,211,813	1,211,813	1,211,813
Securities sold under agreements to repurchase	-	-	-	429,317	429,317	429,317
Derivative liabilities	853,735	-	-	-	853,735	853,735
Borrowings	-	13,481,627	-	894,326	14,375,953	14,503,792
Total financial liabilities	**853,735**	**13,481,627**	**-**	**2,535,456**	**16,870,818**	**16,998,657**

(UA thousands)

December 31, 2013	Financial Assets and Liabilities through Profit or Loss: Mandatorily at Fair Value	Financial Assets and Liabilities through Profit or Loss: Designated at Fair Value	Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	954,133	954,133	954,133
Demand obligations	-	-	-	3,801	3,801	3,801
Treasury investments	2,974,912	-	-	3,110,539	6,085,451	6,217,886
Derivative assets	985,959	-	-	-	985,959	985,959
Non-negotiable instruments on account of capital	-	-	-	1,204	1,204	1,204
Accounts receivable	-	-	-	843,855	843,855	843,855
Loans	16,466	-	-	11,424,229	11,440,695	11,155,856
Equity participations	-	-	525,013	-	525,013	525,013
Other securities	-	-	-	82,901	82,901	82,901
Total financial assets	**3,977,337**	**-**	**525,013**	**16,420,662**	**20,923,012**	**20,770,608**
Accounts payable	-	-	-	1,246,114	1,246,114	1,246,114
Derivative liabilities	971,852	-	-	-	971,852	971,852
Borrowings	-	12,127,916	-	819,528	12,947,444	13,073,058
Total financial liabilities	**971,852**	**12,127,916**	**-**	**2,065,642**	**15,165,410**	**15,291,024**

The table below classifies the Bank's financial instruments that were carried at fair value at December 31, 2014 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Treasury investments	2,030,960	1,710,782	1,477,165	1,085,275	215,504	178,855	3,723,629	2,974,912
Derivative assets	4,437	3,790	1,106,050	976,322	33,191	5,847	1,143,678	985,959
Loans	-	-	18,807	16,466	-	-	18,807	16,466
Equity participations	9,216	12,597	-	-	587,602	512,416	596,818	525,013
Total financial assets	**2,044,613**	**1,727,169**	**2,602,022**	**2,078,063**	**836,297**	**697,118**	**5,482,932**	**4,502,350**
Derivative liabilities	-	-	(800,895)	(917,812)	(52,840)	(54,040)	(853,735)	(971,852)
Borrowings	(6,952,951)	(6,449,233)	(6,250,150)	(5,435,277)	(278,526)	(243,405)	(13,481,627)	(12,127,916)
Total financial liabilities	**(6,952,951)**	**(6,449,233)**	**(7,051,045)**	**(6,353,089)**	**(331,366)**	**(297,445)**	**(14,335,362)**	**(13,099,768)**

The Bank's policy is to recognize transfers out of level 3 as of the date of the event or change in circumstances that caused the transfer.

Investments whose values are based on quoted market prices in active markets, and are therefore classified within Level 1, include active listed equities, exchange-traded derivatives, US government treasury bills and certain non-US sovereign obligations. The Bank does not adjust the quoted price for these instruments.

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

Investments classified within Level 3 have significant unobservable inputs, as they trade infrequently or do not trade at all. Instruments in Level 3 include loans to Regional Member Countries, private equity and corporate debt securities including some structured asset and mortgage backed instruments. As observable prices are not available for these securities, the Bank has used valuation techniques to derive the fair value. However, as noted earlier, the fair values for loans and some securities are derived merely for disclosure purposes rather than for reporting on the balance sheet.

The primary products classified at Level 3 are as follows:

Debt Securities – Asset and Mortgage-Backed Securities

Due to the lack of liquidity in the market and the prolonged period of time under which many securities have not traded, obtaining external prices is not a strong enough measure to determine whether an asset has an observable price or not. Therefore, once external pricing has been verified, an assessment is made whether each security is traded with significant liquidity based on its credit rating and sector. If a security is of low credit rating and/or is traded in a less liquid sector, it will be classified as Level 3. Where third party pricing is not available, the valuation of the security will be estimated from market standard cash flow models with input parameter assumptions which include prepayment speeds, default rates, discount margins derived from comparable securities with similar vintage, collateral type, and credit ratings. These securities are also classified as Level 3.

Equity Shares – Private Equity

The fair value of investments in unlisted entities is assessed using appropriate methods, for example, discounted cash flows or net asset value (NAV). The fair value of the Bank's equity participations is estimated as the Bank's percentage ownership of the net asset value of the investments.

Derivatives

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

Reconciliation of Level 3 Fair Value Balances

Reconciliation of fair value balances measured using valuation techniques with no significant input from observable market data (level 3 hierarchy) at December 31, 2014 and 2013 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
2013					
Balance at January 1, 2013	126,324	432,082	21,002	(2,621)	(225,114)
Unrealized (losses)/gains recognized in income statement	(13,950)	-	3,802	(10,919)	(12,643)
Gains recognized in the statement of comprehensive income	-	24,629	-	-	-
Purchases, issues and settlements (net)	67,013	66,623	(8,317)	(37,520)	(37,449)
Reclassification	-	-	-	-	-
Translation effects	(532)	(10,918)	(8,651)	(4,969)	31,800
Transfer between assets and liabilities	-	-	(1,989)	1,989	-
Balance at December 31, 2013	**178,855**	**512,416**	**5,847**	**(54,040)**	**(243,406)**
2014					
Balance at January 1, 2014	178,855	512,416	5,847	(54,040)	(243,406)
Unrealized (losses)/gains recognized in income statement	(10,931)	-	44,498	16,681	(41,254)
Gains recognized in the statement of comprehensive income	-	20,596	-	-	-
Purchases, issues and settlements (net)	47,369	35,851	(4,199)	(3,418)	10,465
Reclassification	-	-	-	-	-
Translation effects	211	18,739	(2,021)	(22,997)	(4,331)
Transfer between assets and liabilities	-	-	(10,934)	10,934	-
Balance at December 31, 2014	**215,504**	**587,602**	**33,191**	**(52,840)**	**(278,526)**

Fair Value of Financial Assets and Liabilities at Amortized Cost Based on Three-Level Hierarchy

The table below classifies the fair value of the Bank's financial instruments that were carried at amortized cost at December 31, 2014 and 2013 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	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Treasury investments	3,567,756	2,907,454	63,150	161,054	153,103	174,466	3,784,009	3,242,974
Loans	-	-	-	-	12,537,116	11,139,390	12,537,116	11,139,390
Total financial assets	**3,567,756**	**2,907,454**	**63,150**	**161,054**	**12,690,219**	**11,313,856**	**16,321,125**	**14,382,364**
Borrowings	-	-	(884,322)	(865,691)	(137,843)	(80,609)	(1,022,165)	(946,300)
Total financial liabilities	**-**	**-**	**(884,322)**	**(865,691)**	**(137,843)**	**(80,609)**	**(1,022,165)**	**(946,300)**

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	N/A	N/A
Derivative liabilities	Discounted cash flow	Volatility of credit Credit spreads	
Borrowings	Consensus pricing	Offered quotes Own credit	

Significant Unobservable Inputs

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

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

Comparable Pricing

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

Yield

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

Correlation

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

Liquidity Discount

A liquidity discount is primarily applied to unlisted firms to reflect the fact that these stocks are not actively traded. An increase in liquidity discount in isolation will result in 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 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 UA 0.01 million or 0.002 percent. (2013: UA 0.25 million or 0.14 percent).

Borrowings and Derivatives

The table below shows the effect of a parallel yield curve movement of +/- 100 bps of each of the currencies in the level 3 borrowings and derivative portfolios as of December 31, 2014 and 2013. However, due to the low level of interest rates across the Japanese Yen yield curve, the sensitivity analysis in 2014 and 2013 for liabilities denominated in Japanese Yen reflect a parallel movement in the yield curve of +/- 10 bps:

(UA thousands)

	Upward Parallel Shift Gain/(Loss)		Downward Parallel Shift Gain/(Loss)	
	2014	2013	**2014**	2013
Fair-valued level 3 borrowings and derivative portfolios	(42,873)	(37,195)	24,859	38,293

Day One Profit and Loss – Unrecognized Gains/Losses as a Result of the Use of Valuation Models Using Unobservable Inputs

The unamortized balances of day one profit and loss at December 31, 2014 and 2013 were made up as follows:

(UA thousands)

	2014	2013
Balance at January 1	146,542	129,017
New transactions	38,848	52,706
Amounts recognized in income statement during the year	(40,559)	(12,677)
Translation effects	(5,787)	(22,504)
Balance at December 31	**139,044**	**146,542**

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 December 31, 2014, the Bank had received collateral with fair value of UA 455 million in connection with swap agreements. Of this amount, a total UA 257 million was in the form of cash and has been recorded on the balance sheet with a corresponding liability included in “Other accounts payable”. The balance of UA 198 million was in the form of liquid financial assets and is kept in custody by the Bank.

The composition of treasury investments as at December 31, 2014 and 2013 was as follows:

(UA thousands)

	2014	2013
Treasury investments mandatorily measured at fair value through profit or loss	3,723,629	2,974,912
Treasury investments at amortized cost	3,617,995	3,110,539
Total	**7,341,624**	**6,085,451**

Treasury Investments Mandatorily Measured at Fair Value through Profit or Loss (FVTPL)

A summary of the Bank’s treasury investments mandatorily measured at FVTPL as at December 31, 2014 and 2013 was as follows:

(UA millions)

	US Dollar		**Euro**		**GBP**		**Other Currencies**		**All Currencies**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Time deposits	56.53	121.28	92.71	-	18.86	27.80	75.87	46.04	243.97	195.12
Asset-backed securities	81.82	86.11	133.60	88.29	-	-	-	-	215.42	174.40
Government and agency obligations	1,146.57	984.24	412.10	408.11	-	-	83.13	-	1,641.80	1,392.35
Corporate bonds	338.04	152.27	83.13	37.80	-	-	-	14.57	421.17	204.64
Financial institutions	701.10	392.23	352.83	491.45	-	-	2.04	-	1,055.97	883.68
Supranational	101.63	70.83	8.38	53.89	-	-	35.29	-	145.30	124.72
Total	**2,425.69**	**1,806.96**	**1,082.75**	**1,079.54**	**18.86**	**27.80**	**196.33**	**60.61**	**3,723.63**	**2,974.91**

The nominal value of treasury investments mandatorily measured at FVTPL as at December 31, 2014 was UA 3,708.41 million (2013: UA 2,966.30 million). The average yield of treasury investments mandatorily measured at FVTPL for the year ended December 31, 2014 was 0.81% (2013: 0.79%).

The contractual maturity structure of treasury investments mandatorily measured at FVTPL as at December 31, 2014 and 2013 was as follows:

(UA millions)

	2014	2013
One year or less	1,334.54	1,328.49
More than one year but less than two years	998.77	663.45
More than two years but less than three years	728.33	754.46
More than three years but less than four years	112.13	23.40
More than four years but less than five years	377.53	49.94
More than five years	172.33	155.17
Total	**3,723.63**	**2,974.91**

Treasury Investments at Amortized Cost

A summary of the Bank's treasury investments at amortized cost at December 31, 2014 and 2013 was as follows:

(UA millions)

	US Dollar		**Euro**		**GBP**		**Other Currencies**		**All Currencies**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Asset-backed securities	146.02	160.65	-	-	-	-	-	-	146.02	160.65
Government and agency obligations	842.99	660.87	699.39	687.18	438.42	359.84	174.34	69.97	2,155.14	1,777.86
Corporate bonds	5.49	18.11	-	-	12.93	12.83	-	-	18.42	30.94
Financial institutions	11.75	15.00	20.96	77.90	10.70	32.49	-	-	43.41	125.39
Supranational	545.00	399.57	450.41	345.53	259.59	270.60	-	-	1,255.00	1,015.70
Total	**1,551.25**	**1,254.20**	**1,170.76**	**1,110.61**	**721.64**	**675.76**	**174.34**	**69.97**	**3,617.99**	**3,110.54**

The nominal value of treasury investments at amortized cost as at December 31, 2014 is UA 3,626.13 million (2013: UA 3,104.88 million). The average yield of treasury investments at amortized cost for the year ended December 31, 2014 was 3.16% (2013: 3.33%).

The contractual maturity structure of treasury investments at amortized cost as at December 31, 2014 and 2013 was as follows:

(UA millions)

	2014	2013
One year or less	468.79	340.28
More than one year but less than two years	301.38	456.89
More than two years but less than three years	349.47	303.56
More than three years but less than four years	473.87	353.53
More than four years but less than five years	344.87	445.18
More than five years	1,679.61	1,211.10
Total	**3,617.99**	**3,110.54**

The fair value of treasury investments at amortized cost as at December 31, 2014 was UA 3,784.01 million (2013: UA 3,242.97 million).

NOTE G – DERIVATIVE ASSETS AND LIABILITIES

The fair values of derivative financial assets and financial liabilities at December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014		2013	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Borrowings-related:				
Cross-currency swaps	1,000,960	678,461	746,184	824,365
Interest rate swaps	108,869	17,701	179,625	50,629
Loan swaps	8,925	154,260	24,491	96,008
Embedded derivatives	-	-	-	237
	1,118,754	850,422	950,300	971,239
Investments-related:				
Asset swaps	3,607	3,313	3,016	613
Macro-hedge swaps and others	21,317	-	32,643	-
	24,924	3,313	35,659	613
Total	**1,143,678**	**853,735**	**985,959**	**971,852**

The notional amounts of derivative financial assets and financial liabilities at December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Borrowings-related:		
Cross-currency swaps	10,504,252	9,875,479
Interest rate swaps	4,613,585	4,320,644
Loan swaps	1,623,896	1,706,174
Embedded derivatives	-	11,100
	16,741,733	15,913,397
Investments-related:		
Asset swaps	134,445	105,923
Macro-hedge swaps and others	430,088	466,216
	564,533	572,139
Total	**17,306,266**	**16,485,536**

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 December 31, 2014, the Bank had 3,640 contracts in Euro and 14,755 contracts in US Dollars. The nominal value of each contract is one million of each currency unit, except for 200 contracts with a nominal value of Euro 100,000 for each contract.

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, TND and USD vis-à-vis the UA, the Bank executed forward exchange transactions to economically hedge its administrative expenses. As at December 31, 2014 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 December 31, 2014 was a liability of UA 145.48 million. The fair value loss on these loan swaps for the year ended December 31, 2014 was UA 76.52 million. The fair value gain on the hedged loans attributable to the hedged risk was UA 77.31 million. Therefore, the hedge ineffectiveness recognized in profit or loss was a gain of UA 0.78 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 2014, the amortization of fair value adjustment on the hedged risk amounted to UA 5.17 million.

NOTE H – NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL

Prior to May 1981, all payments in respect of paid-up capital had been made in convertible currencies. However, for the capital increases authorized in May 1979 (but effective December 1982) and May 1981, regional members had the following two options for making their payments:

1. Five (5) equal annual installments, of which at least 50 percent is payable in convertible currency and the remainder in local currency; or

2. Five (5) equal annual installments, of which 20 percent is payable in convertible currency and 80 percent in non-negotiable, non-interest-bearing notes. Such notes are redeemable by the Bank solely in convertible currency in installments commencing on the fifth anniversary of the first subscription payment date.

Non-regional members were required to make their payments solely in convertible currencies.

The paid-up portion of subscriptions, authorized in accordance with Board of Governors' Resolution B/BG/87/11 relating to the Fourth General Capital Increase (GCI-IV), is to be paid as follows:

1) **Regional Members –** 50 percent in five (5) equal annual installments in cash in freely convertible currency or freely convertible currencies selected by the member state, and 50 percent by the deposit of five non-negotiable, non-interest-bearing notes of equal value denominated in Units of Account. Such notes are redeemable by the Bank solely in convertible currency in five (5) equal annual installments commencing on the fifth anniversary of the first subscription payment date.

2) **Non-Regional Members –** five (5) equal annual installments in their national currencies, where such currencies are freely convertible or in notes denominated in freely convertible currencies encashable on demand.

Under the Fifth General Capital Increase (GCI-V), there is no distinction in the payment arrangements between regional and non-regional members. Each member is required to pay for the paid-up portion of its subscribed shares in eight (8) equal and consecutive annual installments. The first installments shall be paid in cash and in a freely convertible currency. The second to the eighth installments shall be paid in cash or notes encashable on demand in a freely convertible currency.

Under the Sixth General Capital Increase (GCI-VI), approved in accordance with the Board of Governors' Resolution B/BG/2010/08 of May 27, 2010 each member eligible to receive financing exclusively from the African Development Fund only shall pay for the paid-up portion of its subscribed shares in twelve (12) equal and consecutive annual installments; while Middle Income Countries, Blend countries and Non-Regional Member Countries shall pay for the paid-up portion of their respective subscribed shares in eight (8) equal and consecutive annual installments.

Payments for shares under GCI-VI are to be made in freely convertible currencies in cash or promissory notes encashable on or before the due date for payment.

At December 31, 2014 and 2013, the non-negotiable notes' balances were as follows:

(UA thousands)	**2014**	2013
Balance at January 1	1,204	1,974
Net movement for the year	(465)	(770)
Balance at December 31	**739**	**1,204**

NOTE I – LOANS AND GUARANTEES

Loans

The Bank's loan portfolio comprises loans granted to, or guaranteed by borrowing member countries as well as certain other non-sovereign-guaranteed loans. Amounts disbursed on loans are repayable in the currency or currencies disbursed by the Bank or in other freely convertible currency or currencies approved by the Bank. The amount repayable in each of these currencies shall be equal to the amount disbursed in the original currency. Loans are granted for a maximum period of 20 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 multi-currency and single currency terms—that is, offered in multi-currency 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 December 31, 2014 and 2013, outstanding loans were as follows:

(UA thousands)	**2014**	2013
Outstanding balance of loans – amortized cost	12,628,999	11,569,374
Outstanding balance of loans – fair value	18,807	16,466
	12,647,806	11,585,840
Less: accumulated provision for impairment	(151,288)	(145,145)
Balance at December 31	**12,496,518**	**11,440,695**

Fair Value of Loans

At December 31, 2014 and 2013, the carrying and estimated fair values of outstanding loans were as follows:

(UA thousands)

	2014		2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loans at amortized cost				
Fixed rate loans	10,186,538	10,121,368	9,107,483	8,759,406
Floating rate loans	2,254,402	2,234,853	2,252,117	2,174,023
Variable rate loans	188,059	180,895	209,774	205,961
Subtotal	12,628,999	12,537,116	11,569,374	11,139,390
Loans at fair value	18,807	18,807	16,466	16,466
Total	12,647,806	12,555,923	11,585,840	11,155,856
Accumulated provision for impairment on loans at amortized cost	(151,288)	-	(145,145)	-
Net loans	**12,496,518**	**12,555,923**	**11,440,695**	**11,155,856**

The Bank is exposed to a loan that is measured at FVTPL due to the existence of a conversion option in the loan that could potentially change the future cash flows to no longer represent solely payments of principal and interest as required by IFRS 9. Accordingly, the fair value of this loan, and similar loans, is determined using the expected cash flows model with inputs including interest rates and the borrower's credit spread estimated based on the Bank's internal rating methodology for non-sovereign loans.

Maturity and Currency Composition of Outstanding Loans

The contractual maturity structure of outstanding loans as at December 31, 2014 and 2013 was as follows:

(UA millions)

	2014				2013
Periods	**Fixed Rate**	**Floating Rate**	**Variable Rate**	**Total**	Total
One year or less	655.84	479.88	180.32	1,316.04	1,007.41
More than one year but less than two years	647.59	282.25	3.70	933.54	1,039.20
More than two years but less than three years	781.83	249.45	2.95	1,034.23	891.68
More than three years but less than four years	801.83	319.88	1.08	1,122.79	887.97
More than four years but less than five years	829.16	178.79	-	1,007.95	894.02
More than five years	6,470.29	762.96	0.01	7,233.26	6,865.56
Total	**10,186.54**	**2,273.21**	**188.06**	**12,647.81**	**11,585.84**

Borrowers may repay loans before their contractual maturity, subject to the terms specified in the loan agreements.

The currency composition and types of outstanding loans as at December 31, 2014 and 2013 were as follows:

(Amounts in UA millions)

			2014		2013	
			Amount	**%**	**Amount**	**%**
Fixed Rate:	Multi-Currency	Euro	154.17		190.78	
		Japanese Yen	212.70		260.85	
		Pound Sterling	2.62		2.60	
		Swiss Franc	3.68		3.85	
		US Dollar	170.69		173.99	
		Others	0.02		0.02	
			543.88	4.30	632.09	5.46
	Single Currency	Euro	4,721.70		4,681.59	
		Japanese Yen	3.44		5.18	
		South African Rand	861.03		879.34	
		US Dollar	3,997.27		2,902.84	
		Others	59.22		6.45	
			9,642.66	76.24	8,475.40	73.15
Floating Rate:	Single Currency	Euro	412.93		456.80	
		Japanese Yen	10.20		12.68	
		South African Rand	125.55		147.28	
		US Dollar	1,724.53		1,651.81	
			2,273.21	17.97	2,268.57	19.58
Variable Rate:	Multi-Currency	Euro	31.57		40.22	
		Japanese Yen	0.71		1.00	
		US Dollar	107.08		101.20	
			139.36	1.10	142.42	1.23
	Single Currency	Euro	13.75		21.89	
		Japanese Yen	13.90		15.41	
		Swiss Franc	0.94		1.17	
		US Dollar	20.11		28.89	
			48.70	0.39	67.36	0.58
Total			**12,647.81**	**100.00**	**11,585.84**	**100.00**

The weighted average yield on outstanding loans for the year ended December 31, 2014 was 2.86% (2013: 3.00%).

A comparative summary of the currency composition of outstanding loans at December 31, 2014 and 2013 was as follows:

(Amounts in UA millions)

	2014		2013	
	Amount	**%**	**Amount**	**%**
Euro	5,334.12	42.17	5,391.28	46.53
Japanese Yen	240.95	1.91	295.12	2.55
Pound Sterling	2.62	0.02	2.60	0.02
South African Rand	986.58	7.80	1,026.62	8.86
Swiss Franc	4.62	0.04	5.02	0.04
US Dollar	6,019.68	47.59	4,858.73	41.94
Others	59.24	0.47	6.47	0.06
Total	**12,647.81**	**100.00**	**11,585.84**	**100.00**

Accrued Income and Charges Receivable on Loans

The accrued income and charges receivable on loans as at December 31, 2014 and 2013 were as follows:

(UA thousands)	2014	2013
Accrued income and charges receivable on loans	416,311	394,699
Less: accumulated provision for impairment	(225,649)	(206,325)
Balance at December 31	**190,662**	**188,374**

Provision for Impairment on Loan Principal and Charges Receivable

At December 31, 2014, outstanding loans with an aggregate principal balance of UA 396.79 million (2013: UA 330.35 million), of which UA 265.34 million (2013: UA 260.32 million) was overdue, were considered to be impaired.

The gross amounts of loans and charges receivable that were impaired and their cumulative impairment at December 31, 2014 and 2013 were as follows:

(UA thousands)	2014	2013
Outstanding balance on impaired loans	396,789	330,347
Less: accumulated provision for impairment	(151,288)	(145,145)
Net balance on impaired loans	**245,501**	**185,202**
Charges receivable and accrued income on impaired loans	311,362	287,271
Less: accumulated provision for impairment	(225,649)	(206,325)
Net charges receivable and accrued income on impaired loans	**85,713**	**80,946**

The movements in the accumulated provision for impairment on outstanding loan principal for the years ended December 31, 2014 and 2013 were as follows:

(UA thousands)	2014	2013
Balance at January 1	145,145	128,508
Provision for impairment on loan principal for the year	1,566	22,886
Provision reversal for loan written off	-	(4,728)
Translation effects	4,577	(1,521)
Balance at December 31	**151,288**	**145,145**

Accumulated provisions for impairment on outstanding loan principal included the provisions relating to public and private sector loans. During the year ended December 31, 2014, a net reversal of provision for impairment made on private sector loans amounted to UA 0.37 million (2013: UA 22.32 million). The accumulated provisions on private sector loans at December 31, 2014 amounted to UA 55.39 million (2013: UA 52.49 million).

The movements in the accumulated provision for impairment on loan interest and charges receivable for the year ended December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Balance at January 1	206,325	197,804
Provision for impairment on loan principal for the year	16,451	18,249
Provision reversal for loan written off	-	(5,171)
Translation effects	2,873	(4,557)
Balance at December 31	**225,649**	**206,325**

Accumulated provisions for impairment on loan interest and charges receivable included the provisions relating to public and private sector loans. During the year ended December 31, 2014, a provision for impairment was made on interest and charges receivable on private sector loans in the amount of UA 2.55 million (2013: UA 4.69 million). The accumulated provision on interest and charges receivable on private sector loans at December 31, 2014 amounted to UA 18.22 million (2013: UA 14.61 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 December 31, 2014, outstanding irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 0.63 million (no outstanding irrevocable reimbursement guarantees issued by the bank in 2013).

Also, the Bank provides trade finance and repayment guarantees to entities within its Regional Member Countries for development loans granted to such entities by third parties. Guarantees represent potential risk to the Bank if the payments guaranteed for an entity are not made. Guarantees provided by the Bank outstanding at December 31, 2014 amounted to UA 164.11 million (2013: UA 73.78 million).

NOTE J – EQUITY PARTICIPATIONS

Investment in ADF

The ADF was established in 1972 as an international institution to assist the Bank in contributing to the economic and social development of African countries, to promote cooperation and increased international trade particularly among the African countries, and to provide financing on highly concessional terms for such purposes. The Fund's original subscriptions were provided by the Bank and the original State Participants to the ADF Agreement, and State Participants acceding to the Agreement since the original signing date. Thereafter, further subscriptions were received from participants in the form of Special General Increases and General Replenishments.

The ADF has a 14-member Board of Directors, made up of 7 members selected by the African Development Bank and 7 members selected by State Participants. The Fund's Board of Directors reports to the Board of Governors made up of representatives of the State Participants and the ADB. The President of the Bank is the ex-officio President of the Fund.

To carry out its functions, the Fund utilizes the offices, staff, organization, services and facilities of the Bank, for which it pays a share of the administrative expenses. The share of administrative expenses paid by the Fund to the Bank is calculated annually on the basis of a cost-sharing formula, approved by the Board of Directors, which is driven in large part by the number of programs and projects executed during the period. Based on the cost-sharing formula, the share of administrative expenses incurred by ADF for the year ended December 31, 2014 amounted to UA 248.57 million (2013: UA 225.87 million), representing 67.32 percent (2013: 68.69 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 December 31, 2014, the Bank's pro-rata or economic share in ADF was 0.51 percent (2013: 0.54 percent).

Notwithstanding the exercise of 50 percent voting power in the Fund by the Bank, the conditions for control under IFRS 10, Consolidated Financial Statements, are not met since the Bank does not have absolute voting interest to control ADF, no rights to variable returns from its relationship with ADF and has an economic interest of less than 1 percent in the Fund. Consequently, the Fund cannot be consolidated in the Bank's Financial Statements.

As a result of the implementation in 2006 of the Multilateral Debt Relief Initiative described in Note V-2, the net asset value of ADF which is the basis for determining the value of the Bank's investment in the Fund declined, resulting in impairment loss on the Bank's investment. The net assets of ADF is made up of its net development resources less outstanding demand obligations plus disbursed and outstanding loans excluding balances due from countries that have reached their 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 May 13, 2009, total equity investment by the Bank shall not at any time exceed 15 percent of the aggregate amount of the Bank's paid-in capital and reserves and surplus (risk capital) included in its ordinary capital resources.

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

The Bank's equity interests at the end of 2014 and 2013 are summarized below:

(Amounts in UA thousands)

Institutions	Year Established	Callable Capital	Carrying Value 2014	Carrying Value 2013
African Development Fund	1972	-	111,741	111,741
Accumulated share of profit/(loss) & impairment on January 1			(49,643)	(49,912)
Share of loss for the year			(633)	(489)
Reversal of provision for the year			748	758
		-	62,213	62,098
DIRECT INVESTMENTS				
Development Finance Institutions				
African Export and Import Bank	1993	10,353	29,723	25,711
African Guarantee Fund	2011	-	6,641	6,248
Central African Development Bank (BDEAC)	1975	2,300	718	748
East African Development Bank	1967	9,663	12,609	11,381
Eastern and Southern African Trade and Development Bank	1985	37,548	37,432	27,403
Great Lakes Development Bank (BDEGL)*	1980	-	-	-
Shelter Afrique	1982	-	12,838	12,048
TCX Investment Company Mauritius Limited	2007	153	20,327	19,758
West African Development Bank (BOAD)	1973	2,044	3,272	3,359
		62,061	123,560	106,656
Commercial Banks				
United Bank for Africa	1961	-	9,216	12,597
		-	9,216	12,597
Microfinance Institutions				
AB Microfinance Bank Nigeria Limited	2007	-	1,191	1,127
Access Bank Liberia Limited	2008	-	971	968
Access Bank Tanzania Limited	2007	-	844	663
Advans Banque Congo	2008	-	1,016	933
K-REP Bank Limited	1997	-	-	3,086
MicroCred Côte d'Ivoire S.A.	2013	-	727	488
		-	4,749	7,265
Insurance				
Africa Trade Insurance Agency	2013	-	10,353	9,740
Africa-Re	1977	-	38,122	33,356
Eastern and Southern African Reinsurance Company (ZEP-RE)	2011	-	13,554	8,117
		-	62,029	51,213
TOTAL DIRECT INVESTMENTS		**62,061**	**199,554**	**177,731**
FUNDS				
Africa Capitalization Fund	2010	9,916	23,151	20,335
Africa Health Fund LLC	2009	4,712	8,088	5,737
Africa Joint Investment Fund	2010	3,881	8,709	8,109
Africa Renewable Energy Fund L.P	2014	15,485	1,301	-
African Agriculture Fund LLC	2010	8,636	14,884	9,362
African Infrastructure Investment Fund 2	2009	409	16,966	3,072
AfricInvest Fund II LLC	2008	-	11,294	16,711
Agri-Vie Fund PCC	2008	460	8,560	7,654
Argan Infrastructure Fund	2010	8,522	4,048	3,054
Atlantic Coast Regional Fund LLC	2008	6,014	10,496	7,855
Aureos Africa Fund LLC	2007	1,601	17,858	17,192
Business Partners International Southern Africa SME Fund	2014	3,814	953	-
Carlyle Sub-Saharan Africa Fund (CSSAF)	2012	18,910	8,389	1,895
Catalyst Fund I LLC	2010	4,989	4,158	2,646
Cauris Croissance II Fund	2012	4,164	2,190	2,133
ECP Africa Fund I LLC	1998	82	5	941
ECP Africa Fund II PCC	2005	6,989	26,815	23,740
ECP Africa Fund III PCC	2008	3,617	39,512	27,656
Eight Miles LLP	2012	6,531	5,952	1,663
Enko Africa Private Equity Fund	2014	9,035	1,192	-
Evolution One Fund	2010	818	1,877	1,953
GEF Africa Sustainable Forestry Fund	2011	1,091	12,759	9,942
GroFin Africa Fund	2008	2,228	4,652	4,850
Helios Investors II (Mauritius) Limited	2011	7,610	16,307	15,954
I & P Afrique Entrepreneurs	2012	3,657	1,383	1,176
Investment Fund for Health in Africa	2010	1,854	4,086	7,206
KIBO Fund II	2014	8,472	51	-
Maghreb Private Equity Fund II (Mauritius) PCC	2008	102	19,618	19,490
Maghreb Private Equity Fund III (Mauritius) PCC	2012	3,050	10,258	9,808
New Africa Mining Fund II	2010	13,345	360	708
Pan African Housing Fund (PAHF)	2013	4,201	359	27
Pan African Infrastructure Development Fund	2007	5,420	21,622	23,907
Pan African Infrastructure Development Fund II	2014	7,232	821	-
Pan-African Investment Partners II Limited	2008	721	327	5,246
South Africa Infrastructure Fund	1996	700	24,467	23,444
West Africa Emerging Market Fund	2011	3,915	1,583	1,718
TOTAL FUNDS		**182,183**	**335,051**	**285,184**
TOTAL DIRECT INVESTMENTS AND FUNDS		**244,244**	**534,605**	**462,915**
GRAND TOTAL		**244,244**	**596,818**	**525,013**

* *Amounts fully disbursed, but the value is less than UA 100, at the current exchange rate.*

** *The cost of equity investments (excluding ADF) carried at fair value at December 31, 2014 amounted to UA 455.47 million (2013: UA 402.50 million)*

NOTE K – OTHER SECURITIES

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

These investments are classified as financial assets at amortized cost.

The carrying amount of “Other securities” at December 31, 2014 was UA 94.11 million (2013: UA 82.90 million).

NOTE L – PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(UA thousands)

	Property and Equipment						Intangible Assets	Grand Total
2014	**Land**	**Capital Work in Progress**	**Building and Improve-ments**	**Furniture, Fixtures & Fittings**	**Equipment & Motor Vehicles**	**Total Property & Equipment**	**Computer Software**	**Property, Equipment & Intangible Assets**
Cost:								
Balance at January 1	480	23,028	22,856	14,314	61,284	121,962	21,798	**143,760**
Additions during the year	-	33,317	458	5,664	5,528	44,967	870	**45,837**
Disposals during the year	-	-	-	(1,135)	(770)	(1,905)	-	**(1,905)**
Balance at December 31	480	56,345	23,314	18,843	66,042	165,024	22,668	**187,692**
Accumulated Depreciation:								
Balance at January 1	-	-	21,995	11,196	49,308	82,499	20,589	**103,088**
Depreciation during the year	-	-	126	1,669	4,954	6,749	859	**7,608**
Disposals during the year	-	-	-	(1,085)	(753)	(1,838)	-	**(1,838)**
Balance at December 31	-	-	22,121	11,780	53,509	87,410	21,448	**108,858**
Net Book Values: December 31, 2014	**480**	**56,345**	**1,193**	**7,063**	**12,533**	**77,614**	**1,220**	**78,834**

(UA thousands)

2013	Land	Capital Work in Progress	Building and Improve-ments	Furniture, Fixtures & Fittings	Equipment & Motor Vehicles	Total Property & Equipment	Computer Software	Property, Equipment & Intangible Assets
	Property and Equipment						Intangible Assets	Grand Total
Cost:								
Balance at January 1	480	11,341	22,753	13,282	58,170	106,026	20,835	**126,861**
Additions during the year	-	11,687	103	1,032	3,167	15,989	963	**16,952**
Disposals during the year	-	-	-	-	(53)	(53)	-	**(53)**
Balance at December 31	480	23,028	22,856	14,314	61,284	121,962	21,798	**143,760**
Accumulated Depreciation:								
Balance at January 1	-	-	21,893	10,094	44,528	76,515	19,925	**96,440**
Depreciation during the year	-	-	102	1,102	4,829	6,033	664	**6,697**
Disposals during the year	-	-	-	-	(49)	(49)	-	**(49)**
Balance at December 31	-	-	21,995	11,196	49,308	82,499	20,589	**103,088**
Net Book Values: December 31, 2013	**480**	**23,028**	**861**	**3,118**	**11,976**	**39,463**	**1,209**	**40,672**

The land on which the HQ building stands was originally granted for the unlimited use by the Bank, but with ownership retained by the Government of Côte d'Ivoire. However, in 2013 the Government of Côte d'Ivoire agreed to transfer the title to the land to the Bank and the relevant processes to perfect the transfer of title to the Bank are underway.

NOTE M – BORROWINGS

As at December 31, 2014 and 2013, the Bank's borrowings were as follows:

(UA millions)

	2014	2013
Borrowings at fair value	13,481.63	12,127.91
Borrowings at amortized cost	894.32	819.53
Total	**14,375.95**	**12,947.44**

The Bank's borrowings as at December 31, 2014 included subordinated borrowings in the amount of UA 489.33 million (2013: UA 462.20 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 December 31, 2014 was UA 27.60 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 December 31, 2014 and 2013 was as follows:

Borrowings and Swaps at December 31, 2014

(Amounts in UA millions)		Direct Borrowings				Currency Swap Agreements [a]			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Wgtd. Avg. Cost [b] (%)	Wgtd. Average Maturity (Years)	Amount Payable/ (Receivable)	Wgtd. Avg. Cost [b] (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Wgtd. Avg. Cost [b] (%)	Average Maturity (Years)
Euro	Fixed	126.81	-	0.28	2.3	244.58	6.38	5.9	-	-	-
		-	-	-	-	-	-	-	(125.70)	0.28	2.3
	Adjustable	-	-	-	-	5,555.92	0.09	4.6	125.70	0.03	2.3
		-	-	-	-	(272.35)	(0.08)	2.4	-	-	-
Japanese Yen	Fixed	574.44	117.32	1.36	29.4	-	-	-	-	-	-
		-	-	-	-	(624.90)	1.21	31.7	-	-	-
	Adjustable	362.30	-	4.50	4.4	-	-	-	-	-	-
		-	-	-	-	(394.89)	3.41	9.4	-	-	-
US Dollar	Fixed	7,363.16	628.10	1.82	3.2	-	-	-	-	-	-
		-	-	-	-	(3,761.71)	1.79	3.1	(3,594.67)	1.95	3.2
	Adjustable	175.99	-	1.25	1.3	3,732.99	0.08	8.5	3,850.91	0.31	3.1
		-	-	-	-	(828.11)	(0.18)	4.4	(241.36)	2.00	1.0
Others [d]	Fixed	4,721.14	146.52	3.23	4.4	5.44	3.92	0.5	-	-	-
		-	-	-	-	(4,254.40)	3.43	4.3	(651.86)	1.68	4.7
	Adjustable	157.79	3.11	1.96	3.7	816.81	5.40	3.9	551.23	3.34	4.4
		-	-	-	-	(367.31)	1.07	4.0	-	-	-
Total	Fixed	12,785.55	891.94	2.28	4.8	250.02	6.33	5.8	-	-	-
		-	-	-	-	(8,641.01)	2.56	5.8	(4,372.23)	1.86	3.4
	Adjustable	696.08	3.11	3.10	3.5	10,105.72	0.52	6.0	4,527.84	0.67	3.2
		-	-	-	-	(1,862.66)	0.84	5.1	(241.36)	2.00	1.0
Principal at face value		13,481.63	895.05	2.32	4.7	(147.93)	-	-	(85.75)	-	-
Net unamortized premium/ (discount)		-	(0.73)	-	-	526.33	-	-	80.45	-	-
		13,481.63	894.32	2.32	4.7	378.40	-	-	(5.30)	-	-
Fair valuation adjustment		-	-	-	-	(55.90) [c]	-	-	96.47 [c]	-	-
Total		**13,481.63**	**894.32**	**2.32**	**4.7**	**322.50**	-	-	**91.17**	-	-

Supplementary disclosure (direct borrowings):
The notional amount of borrowings at December 31, 2014 was UA 14,347.92 million and the estimated fair value was UA 14,503.79 million.

a. Currency swap agreements include cross-currency interest rate swaps.
b. The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at December 31, 2014.
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 December 31, 2013

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements (a)			Interest Rate Swaps		
Currency	**Rate Type**	**Carried at Fair Value**	**Carried at Amortized Cost**	**Wgtd. Avg. Cost (b) (%)**	**Wgtd. Average Maturity (Years)**	**Amount Payable/ (Receivable)**	**Wgtd. Avg. Cost (b) (%)**	**Average Maturity (Years)**	**Notional Amount Payable/ (Receivable)**	**Wgtd. Avg. Cost (b) (%)**	**Average Maturity (Years)**
Euro	Fixed	53.70	-	0.00	0.0	277.17	6.18	5.5	-	-	-
		-	-	-	-	(12.33)	2.60	0.6	-	-	-
	Adjustable	-	-	-	-	(5,970.20)	0.13	4.4	-	-	-
		-	-	-	-	(277.45)	0.05	1.4			
Japanese Yen	Fixed	445.02	126.42	1.72	22.7	-	-	-	-	-	-
		-	-	-	-	(456.31)	0.91	31.1	-	-	-
	Adjustable	425.43	11.10	3.74	4.0	-	-	-	-	-	-
		.	-	-	-	(403.92)	3.54	9.0	-	-	-
US Dollar	Fixed	6,633.14	590.91	2.39	3.3	-	-	-	-	-	-
		-	-	-	-	(3,323.62)	2.00	3.4	(3,312.46)	2.00	3.0
	Adjustable	686.90	-	0.66	0.9	2,837.85	0.09	7.9	3,595.86	0.40	2.9
		-	-	-	-	(1,454.64)	0.11	3.4	(370.12)	0.93	1.2
Others (d)	Fixed	3,812.68	89.04	3.28	4.6	5.68	3.92	1.5	-	-	-
		-	-	-	-	(3,635.13)	3.28	4.7	(638.06)	1.37	6.0
	Adjustable	71.05	3.22	4.35	4.1	802.73	4.45	4.4	517.86	2.57	4.6
		-	-	-	-	(312.06)	1.21	5.6	-	-	-
Total	Fixed	10,944.54	806.37	2.65	4.6	282.85	6.13	6.4	-	-	-
		-	-	-	-	(7,427.39)	2.56	5.7	(3,950.52)	1.90	3.4
	Adjustable	1,183.38	14.32	2.01	2.3	9,610.78	0.48	5.4	4,113.72	0.67	3.1
		-	-	-	-	(2,488.07)	0.81	4.4	(370.12)	0.93	1.2
Principal at face value		12,127.92	820.69	2.59	4.4	18.17	-	-	(206.92)	-	-
Net unamortized premium/ (discount)		-	(1.16)	-	-	711.25	-	-	205.86	-	-
		12,127.92	819.53	2.59	4.4	729.42	-	-	(1.06)	-	-
Fair valuation adjustment		-	-	-	-	(641.81) (c)	-	-	(127.94) (c)	-	-
Total		**12,127.92**	**819.53**	**2.59**	**4.4**	**87.61**	-	-	**(129.00)**		

Supplementary disclosure (direct borrowings):
The notional amount of borrowings at December 31, 2013 was UA 13,320.27 million and the estimated fair value was UA 13,073.06 million.

a. *Currency swap agreements include cross-currency interest rate swaps.*
b. *The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at December 31, 2013.*
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 December 31, 2014 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	699.51	281.33	980.84
More than one year but less than two years	3,238.80	-	3,238.80
More than two years but less than three years	2,288.69	-	2,288.69
More than three years but less than four years	2,563.28	-	2,563.28
More than four years but less than five years	750.79	1.26	752.05
More than five years	3,641.32	16.65	3,657.97
Total	**13,182.39**	**299.24**	**13,481.63**

ii) Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	309.23	-	309.23
More than one year but less than two years	5.54	-	5.54
More than two years but less than three years	6.60	-	6.60
More than three years but less than four years	22.51	-	22.51
More than four years but less than five years	158.13	-	158.13
More than five years	393.04	-	393.04
Subtotal	**895.05**	**-**	**895.05**
Net unamortized premium and discount	(0.73)	-	(0.73)
Total	**894.32**	**-**	**894.32**

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at December 31, 2013 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	2,194.74	239.52	2,434.26
More than one year but less than two years	744.42	23.55	767.97
More than two years but less than three years	2,771.98	-	2,771.98
More than three years but less than four years	1,286.24	-	1,286.24
More than four years but less than five years	2,384.10	-	2,384.10
More than five years	2,483.05	0.31	2,483.36
Total	**11,864.53**	**263.38**	**12,127.91**

ii) Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	10.38	11.10	21.48
More than one year but less than two years	296.58	-	296.58
More than two years but less than three years	7.71	-	7.71
More than three years but less than four years	-	-	-
More than four years but less than five years	28.27	-	28.27
More than five years	466.65	-	466.65
Subtotal	**809.59**	**11.10**	**820.69**
Net unamortized premium and discount	(1.16)	-	(1.16)
Total	**808.43**	**11.10**	**819.53**

The fair value of borrowings carried at fair value through profit or loss at December 31, 2014 was UA 13,481.63 million (2013: UA 12,127.91 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at December 31, 2014 was UA 13,452.87 million (2013: UA 12,499.58 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per Note P, there was a net loss of UA 36.73 million on fair-valued borrowings and related derivatives for the year ended December 31, 2014 (2013: net gain of UA 46.82 million). The fair value loss attributable to changes in the Bank's credit risk included in the other comprehensive income for the year ended December 31, 2014 was UA 32.14 million (2013 : gain of UA 46.08 million).

Fair value changes attributable to changes in the Bank's credit risk are determined by comparing the discounted cash flows for the borrowings designated at fair value through profit or loss using the Bank's credit spread on the relevant liquid markets for ADB quoted bonds versus LIBOR both at the beginning and end of the relevant period. The Bank's credit spread was not applied for fair value changes on callable borrowings with less than 1-year call date.

For borrowings designated at fair value through profit or loss at December 31, 2014, the cumulative unrealized fair value losses to date were UA 828.27 million (2013: losses of UA 611.04 million).

NOTE N – EQUITY

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

Capital

Capital includes subscriptions paid-in by member countries and cumulative exchange adjustments on subscriptions (CEAS). The Bank is not exposed to any externally imposed capital requirements.

Subscriptions Paid In

Subscriptions to the capital stock of the Bank are made up of the subscription to the initial capital, a voluntary capital increase and the six General Capital Increases (GCI) made so far. The Fifth General Capital Increase (GCI-V) was approved by the Board of Governors of the Bank on May 29, 1998 and became effective on September 30, 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 six percent (6%) paid-up and ninety-four percent (94%) callable. The GCI-V shares were allocated to the regional and non-regional members such that, when fully subscribed, the regional members shall hold 60 percent of the total stock of the Bank and non-regional members shall hold the balance of 40 percent.

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

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

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

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

Upon conclusion of the GCI VI capital increase and following the Board of Governors' resolutions, the temporary non-voting callable shares of Canada and Korea described above were effectively retired in 2011 and 2012, respectively thereby reducing the authorized capital of the Bank for each of these periods by 163,296 and 19,414.

Following its Resolution B/BG/2012/04 of May 31, 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 shall be available for subscription by the Republic of South Sudan, and 44,588, 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, 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. The membership of the Republic of South Sudan shall become effective upon completion of the formalities specified in the Agreement establishing the Bank and in the General Rules Governing Admission of Regional Countries to Membership of the Bank. As at December 31, 2014, such formalities had not been completed.

The Bank's capital as at December 31, 2014 and 2013 was as follows:

(UA thousands)

	2014	2013
Capital Authorized (in shares of UA 10,000 each)	66,975,050	66,975,050
Less: Unsubscribed	(1,841,828)	(1,764,919)
Subscribed Capital	65,133,222	65,210,131
Less: Callable Capital	(60,268,705)	(60,247,795)
Paid-up Capital	4,864,517	4,962,336
Shares to be issued upon payment of future installments	(1,426,520)	(1,815,390)
Add: Amounts paid in advance	354	359
	3,438,351	3,147,305
Less: Amounts in arrears	(119)	(221)
Capital at December 31	**3,438,232**	**3,147,084**

Included in the total unsubscribed shares of UA 1,841.83 million at December 31, 2014 was an amount of UA 38.83 million representing the balance of the shareholding of the former Socialist Federal Republic of Yugoslavia (former Yugoslavia).

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

Subscriptions by member countries and their voting power at December 31, 2014 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	269,575	4.232	139,247	2,556,520	270,201	4.209
2	Angola	73,988	1.161	36,467	703,412	74,613	1.162
3	Benin	12,393	0.195	6,402	117,532	13,018	0.203
4	Botswana	69,277	1.087	59,930	632,845	69,902	1.089
5	Burkina Faso	25,648	0.403	13,715	242,775	26,273	0.409
6	Burundi	15,214	0.239	8,643	143,496	15,808	0.246
7	Cabo Verde	4,894	0.077	2,844	46,100	5,519	0.086
8	Cameroon	69,602	1.092	35,755	660,281	70,227	1.094
9	Central African Republic	2,843	0.045	1,607	26,822	3,468	0.054
10	Chad	4,511	0.071	2,380	42,740	5,136	0.080
11	Comoros	542	0.009	601	4,826	1,167	0.018
12	Congo	28,779	0.452	14,585	273,220	29,404	0.458
13	Côte d'Ivoire	236,085	3.706	125,803	2,235,050	236,710	3.687
14	Democratic Republic of Congo	65,265	1.024	36,872	615,785	65,890	1.026
15	Djibouti	1,213	0.019	1,517	10,618	1,838	0.029
16	Egypt	344,717	5.411	181,606	3,265,570	345,342	5.379
17	Equatorial Guinea	10,192	0.160	5,873	96,057	10,817	0.169
18	Eritrea	2,003	0.031	2,506	17,522	2,628	0.041
19	Ethiopia	101,285	1.590	49,915	962,940	101,910	1.587
20	Gabon	76,520	1.201	44,463	720,758	77,145	1.202
21	Gambia, The	9,730	0.153	4,902	92,413	10,355	0.161
22	Ghana	136,619	2.145	65,227	1,300,871	137,164	2.137
23	Guinea	25,827	0.405	13,312	244,961	26,452	0.412
24	Guinea Bissau	1,547	0.024	810	14,660	2,172	0.034
25	Kenya	91,208	1.432	44,832	867,250	91,833	1.430
26	Lesotho	3,721	0.058	4,011	33,210	4,346	0.068
27	Liberia	12,360	0.194	6,981	116,637	12,986	0.202
28	Libya	235,853	3.702	120,463	2,238,067	236,446	3.683
29	Madagascar	41,243	0.647	20,325	392,120	41,868	0.652
30	Malawi	17,780	0.279	9,387	168,420	18,405	0.287
31	Mali	27,768	0.436	13,802	263,881	28,393	0.442
32	Mauritania	3,701	0.058	4,093	32,915	4,326	0.067
33	Mauritius	41,822	0.656	28,000	390,230	42,447	0.661
34	Morocco	223,941	3.515	129,075	2,110,340	224,566	3.498
35	Mozambique	40,091	0.629	19,771	381,157	40,716	0.634
36	Namibia	21,764	0.342	12,845	204,800	22,389	0.349
37	Niger	16,093	0.253	8,568	152,363	16,718	0.260
38	Nigeria	595,213	9.343	316,303	5,635,853	595,838	9.281
39	Rwanda	8,451	0.133	4,205	80,303	9,076	0.141
40	São Tomé & Príncipe	4,335	0.068	2,312	41,054	4,960	0.077
41	Senegal	67,077	1.053	32,541	638,241	67,702	1.055
42	Seychelles	1,818	0.029	1,686	16,499	2,443	0.038
43	Sierra Leone	15,482	0.243	8,747	146,081	16,107	0.251
44	Somalia	1,941	0.030	2,427	16,986	2,566	0.040
45	South Africa	312,075	4.899	138,309	2,982,450	312,700	4.871
46	Sudan	22,789	0.358	12,758	215,127	23,414	0.365
47	Swaziland	7,305	0.115	8,300	64,750	7,930	0.124
48	Tanzania	49,048	0.770	24,271	466,217	49,672	0.774
49	Togo	9,517	0.149	5,331	89,841	10,142	0.158
50	Tunisia	89,718	1.408	52,924	844,260	90,343	1.407
51	Uganda	32,091	0.504	16,875	304,047	32,716	0.510
52	Zambia	79,978	1.255	39,809	759,945	80,532	1.255
53	Zimbabwe	131,136	2.058	67,619	1,243,748	131,761	2.052
	Total Regionals	**3,793,588**	**59.548**	**2,011,552**	**35,924,566**	**3,826,500**	**50.604**

Slight differences may occur in totals due to rounding.

(Amounts in UA thousands)

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
	Total Regionals	**3,793,588**	**59.548**	**2,011,552**	**35,924,566**	**3,826,500**	**50.604**
54	Argentina	5,847	0.092	6,108	52,364	6,472	0.101
55	Austria	28,623	0.449	15,570	270,660	29,248	0.456
56	Belgium	40,946	0.643	20,288	389,180	41,571	0.647
57	Brazil	28,343	0.445	14,051	269,386	28,969	0.451
58	Canada	243,449	3.821	157,930	2,276,560	244,074	3.802
59	China	71,652	1.125	38,975	677,550	72,277	1.126
60	Denmark	75,636	1.187	54,625	701,740	76,261	1.188
61	Finland	31,335	0.492	17,045	296,310	31,960	0.498
62	France	240,751	3.779	130,955	2,276,560	241,376	3.760
63	Germany	264,290	4.148	143,760	2,499,140	264,915	4.126
64	India	14,330	0.225	7,800	135,500	14,955	0.233
65	Italy	155,228	2.437	84,435	1,467,850	155,853	2.428
66	Japan	352,069	5.526	191,510	3,329,180	352,694	5.494
67	Korea	28,623	0.449	15,570	270,660	29,248	0.455
68	Kuwait	29,208	0.458	21,420	270,660	29,833	0.465
69	Luxembourg	12,560	0.197	994	124,610	13,185	0.205
70	Netherlands	55,044	0.864	29,480	520,970	55,669	0.867
71	Norway	74,211	1.165	40,370	701,740	74,836	1.166
72	Portugal	15,343	0.241	7,682	145,750	15,968	0.249
73	Saudi Arabia	12,356	0.194	6,125	117,440	12,981	0.202
74	Spain	69,220	1.086	48,768	643,440	69,845	1.088
75	Sweden	99,051	1.555	53,875	936,640	99,676	1.553
76	Switzerland	94,008	1.476	51,135	888,950	94,633	1.474
77	Turkey	6,473	0.102	1,018	63,720	7,098	0.110
78	United Kingdom	107,785	1.692	58,630	1,019,220	108,410	1.689
79	United States of America	420,691	6.604	208,561	3,998,359	421,316	6.563
	Total Non-Regionals	**2,577,072**	**40.452**	**1,426,680**	**24,344,139**	**2,593,323**	**40.396**
	Grand Total	**6,370,660**	**100.000**	**3,438,232**	**60,268,705**	**6,419,823**	**100.000**

The subscription position including the distribution of voting rights at December 31, 2014 reflects the differences in the timing of subscription payments by member countries during the allowed subscription payment period for GCI-VI. After the shares have been fully subscribed, the regional and non-regional groups are expected to hold 60% and 40% 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 increase 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 July 1, 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 December 31, 2014 and 2013, the Cumulative Exchange Adjustment on Subscriptions was as follows:

(UA thousands)	**2014**	2013
Balance at January 1	172,654	166,825
Net conversion losses on new subscriptions	884	5,829
Balance at December 31	**173,538**	**172,654**

Reserves

Reserves consist of retained earnings, fair value gains/losses on investments designated at fair value through other comprehensive income, gains/losses on fair-valued borrowings arising from "own credit" and remeasurements of defined liability.

Retained Earnings

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

The movements in retained earnings during 2013 and 2014 were as follows:

(UA thousands)

Balance at January 1, 2013	2,891,914
Net income for the year	72,829
Net gains recognized directly in equity	-
Balance at December 31, 2013	**2,964,743**
Net income for the current year	31,692
Net gains recognized directly in equity	-
Balance at December 31, 2014	**2,996,435**

During the year, the Board of Governors approved the distribution of UA 120 million (2013: UA 107.50 million) from income and the surplus account to certain entities for development purposes.

With effect from 2006, Board of Governors' approved distributions to entities for development purposes are reported as expenses in the Income Statement in the year such distributions are approved.

The movement in the surplus account during 2013 and 2014 is as follows:

(UA thousands)

Balance at January 1, 2013	35,292
Distribution to Middle Income Country Technical Assistance Fund	8,150
Distribution to Special Relief Fund	(10,000)
Balance at December 31, 2013	**33,442**
Distribution to Special Relief Fund	(5,000)
Distribution to Africa 50	(20,000)
Balance at December 31, 2014	**8,442**

Distributions to entities for development purposes, including those made from the surplus account, for the year ended December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
African Development Fund (ADF)	42,000	35,000
Post Conflict Assistance – DRC	53,000	62,500
Africa 50	20,000	-
Special Relief Fund	5,000	10,000
Total	**120,000**	**107,500**

NOTE O – INCOME FROM LOANS AND INVESTMENTS AND RELATED DERIVATIVES

Income from Loans

Income from loans for the years ended December 31, 2014 and 2013 was as follows:

(UA thousands)	**2014**	2013
Interest income on loans not impaired	301,711	302,533
Interest income on impaired loans	28,502	22,832
Commitment charges	11,648	9,371
Statutory commission	267	276
Total	**342,128**	**335,012**

Income from Investments and Related Derivatives

Income from investments for the years ended December 31, 2014 and 2013 was as follows:

(UA thousands)	**2014**	2013
Interest income	169,869	171,756
Realized fair value losses on investments	(83)	(17,220)
Unrealized fair value losses on investments	(37,372)	(23,294)
Total	**132,414**	**131,242**

Total interest income on investments at amortized cost for the year ended December 31, 2014 was UA 106.01 million (2013: UA 102.61 million).

NOTE P – BORROWING EXPENSES

Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the years ended December 31, 2014 and 2013 were as follows:

(UA thousands)	**2014**	2013
Charges to bond issuers	375,624	308,602
Amortization of issuance costs	337	(5,610)
Total	**375,961**	**302,992**

Total interest expense for financial liabilities not at fair value through profit or loss for the year ended December 31, 2014 was UA 66.70 million (2013: UA 101.06 million).

Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the years ended December 31, 2014 and 2013 was as follows:

(UA thousands)

	2014	2013
Interest on derivatives payable	143,678	160,770
Interest on derivatives receivable	(364,885)	(272,620)
Total	**(221,207)**	**(111,850)**

Unrealized Gains/Losses on Borrowings, Related Derivatives and Others

Unrealized gains/losses on borrowings, related derivatives and others for the years ended December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Unrealized (losses)/gains on fair-valued borrowings and related derivatives	(36,728)	46,824
Unrealized gains/(losses) on derivatives on non-fair valued borrowings and others	6,898	(12,716)
Total	**(29,830)**	**34,108**

Fair value loss attributable to changes in the Bank's "own credit" for the year ended December 31, 2014 amounted to UA 32.14 million (2013: gain of UA 46.08 million) and was included in the other comprehensive income.

The net unrealized gain on derivatives on non-fair valued borrowings and others for the year ended December 31, 2014 amounted to UA 6.90 million (2013: loss of 12.72 million). This included the income statement effects of the hedge accounting, consisting of unrealized gain of UA 0.78 million, representing hedge ineffectiveness and UA 5.17 million of amortization of fair value adjustments on the hedged risk (See Note G).

Valuation adjustment loss in respect of counterparty risk of derivative financial assets (CVA) for the year ended December 31, 2014 amounted to UA 0.42 million (2013: loss of UA 4.48 million), whilst valuation adjustment loss relating to credit risk in derivative financial liabilities (DVA) for the year ended December 31, 2014 was UA 3.51 million (2013: gain of UA 13.91 million).

NOTE Q – ADMINISTRATIVE EXPENSES

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

Administrative expenses comprised the following:

(UA thousands)

	2014	2013
Manpower expenses*	295,502	261,219
Other general expenses	76,594	76,021
Total	**372,096**	**337,240**
Reimbursable by ADF	(248,566)	(225,874)
Reimbursable by NTF	(373)	(397)
Net	**123,157**	**110,969**

* *Share of ADB manpower expenses amount – UA 101.44 million (2013: UA 87.87 million).*

Included in general administrative expenses is an amount of UA 11.68 million (2013: UA 10.11 million) incurred under operating lease agreements for offices in Tunisia and in certain other member countries, where the Bank has offices.

At the balance sheet date, the Bank had outstanding commitments under operating leases which fall due as follows:

(UA thousands)

	2014	2013
Within one year	4,699	8,551
In the second to fifth years inclusive	3,862	8,048
Total	**8,561**	**16,599**

Leases are generally negotiated for an average term of one (1) to five (5) years and rentals are fixed for an average of one (1) year. Leases may be extended for periods that are not longer than the original term of the leases.

NOTE R – EMPLOYEE BENEFITS

Staff Retirement Plan

The Staff Retirement Plan (SRP), a defined benefit plan established under Board of Governors' Resolution 05-89 of May 30, 1989, became effective on December 31, 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 January 1, 2012. Participants of the Plan as of May 11, 2011 were given up to December 31, 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 January 1, 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 December 31, 2011.

All contributions to the SRP are irrevocable and are held by the Bank separately in a retirement fund to be used in accordance with the provisions of the SRP. Neither the contributions nor any income thereon shall be used for or diverted to purposes other than the exclusive benefit of active and retired participants or their beneficiaries or estates, or for the satisfaction of the SRP's liabilities. At December 31, 2014, virtually all of the SRP's investments were under external management and these were invested in indexed funds, with the following objectives: a) Equity portfolio—to track as closely as possible, the returns of the Morgan Stanley Capital International World Index as well as hedging the currency exposure of the SRP's anticipated future liabilities; b) Bond portfolio—to track as closely as possible, the returns of the Citigroup World Government Bond Index as well as hedge the currency exposure of the SRP's anticipated future liabilities.

Post-Employment Medical Benefit Plan

The Medical Benefit Plan (MBP) was created under the Board of Directors' resolution B/BD/2002/17 and F/BD/2002/18 of July 17, 2002 and became effective on January 1, 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.

The pension and post-employment medical benefit expenses for 2014 and 2013 for the Bank, the ADF and the NTF combined (the Bank Group) comprised the following:

(UA millions)

	Staff Retirement Plan		Medical Benefit Plan	
	2014	2013	**2014**	2013
Current service cost – gross	41.63	43.85	17.83	15.47
Less: estimated employee contributions	(9.71)	(9.35)	(2.35)	(2.33)
Net current service cost	31.92	34.50	15.48	13.14
Interest cost	22.39	19.31	5.92	5.38
Expected return on plan assets	(19.04)	(15.36)	-	-
Expense for the year	**35.27**	**38.45**	**21.40**	**18.52**

At December 31, 2014, the Bank had a liability to the SRP amounting to UA 180.55 million (2013: UA 96.30 million) while the Bank's liability to the post-employment aspect of the MBP amounted to UA 140.81 million (2013: UA 130.80 million).

At December 31, 2014 and 2013 the determination of these liabilities, which are included in "Other accounts payable" on the Balance Sheet is set out below:

(UA millions)

	Staff Retirement Plan		Medical Benefit Plan	
	2014	2013	**2014**	2013
Fair value of plan assets:				
Market value of plan assets at beginning of year	454.01	415.84	30.80	25.85
Actual return on assets	46.27	22.03	0.30	0.30
Employer's contribution	19.42	19.42	4.70	4.67
Plan participants' contribution during the year	9.71	9.71	2.35	2.34
Benefits paid	(20.48)	(12.99)	(3.60)	(2.36)
Market value of plan assets at end of year	**508.93**	**454.01**	**34.55**	**30.80**
Present value of defined benefit obligation:				
Benefit obligation at beginning of year	550.31	523.13	161.60	158.85
Current service cost	31.92	34.50	15.48	13.14
Employee contributions	9.71	9.71	2.35	2.33
Interest cost	22.39	19.31	7.30	6.23
Actual loss/(gain)	95.63	(23.35)	(7.77)	(16.59)
Benefits paid	(20.48)	(12.99)	(3.60)	(2.36)
Benefit obligation at end of year	**689.48**	**550.31**	**175.36**	**161.60**
Funded status:				
Liability recognized on the balance sheet as December 31, representing excess of benefit over plan asset	**(180.55)**	**(96.30)**	**(140.81)**	**(130.80)**

There were no unrecognized past service costs at December 31, 2014 and 2013. At December 31, 2014, the cumulative net actuarial losses recognized directly in equity through other comprehensive income for the SRP were UA 235.04 million (2013: losses of UA 166.61 million). The cumulative net actuarial losses recognized directly in equity through other comprehensive income for MBP were UA 39.87 million (2013: losses of UA 46.53 million).

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

(UA millions)

	2014	2013	2012	2011	2010
Staff Retirement Plan:					
Fair value of Plan assets	508.93	454.01	415.84	364.94	345.40
Present value of defined benefit obligation	(689.48)	(550.31)	(523.13)	(411.01)	(338.25)
(Deficit)/Excess funding	**(180.55)**	**(96.30)**	**(107.29)**	**(46.07)**	**7.15**
Experience adjustments on plan assets	0.89	(26.37)	(33.05)	(48.95)	(41.48)
Experience adjustments on plan liabilities	(235.93)	(140.24)	(163.59)	(90.98)	(35.84)
Net	**(235.04)**	**(166.61)**	**(196.64)**	**(139.93)**	**(77.32)**

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

(UA millions)

	2014	2013	2012	2011	2010
Medical Benefit Plan:					
Fair value of Plan assets	34.55	30.81	25.85	22.14	18.67
Present value of defined benefit obligation	(175.36)	(161.60)	(158.85)	(110.15)	(74.22)
Deficit funding	**(140.81)**	**(130.79)**	**(133.00)**	**(88.01)**	**(55.55)**
Experience adjustments on plan assets	(3.96)	(2.89)	(2.18)	(1.90)	(1.22)
Experience adjustments on plan liabilities	(35.86)	(43.64)	(60.23)	(24.59)	2.05
Net	**(39.82)**	**(46.53)**	**(62.41)**	**(26.49)**	**0.83**

Assumptions used in the latest available actuarial valuations at December 31, 2014 and 2013 were as follows:

(Percentages)

	Staff Retirement Plan		**Medical Benefit Plan**	
	2014	2013	**2014**	2013
Discount rate	3.07	4.12	3.07	4.12
Rate of salary increase	3.73	3.80	3.73	3.80
Future pension increase	2.23	2.30		
Health care cost growth rate				
– at end of fiscal year			5.00	6.00
– ultimate health care cost growth rate			5.00	5.00
Year ultimate health cost growth rate reached			2015	2014

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.

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 initial medical cost inflation rate was assumed at 6 percent per annum between January 1, 2014 and December 31, 2014, thereafter a constant rate of 5 percent per annum will be used.

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

The average duration of SRP and MBP is 17.9 years and 24 years, respectively.

The following table shows projected benefit-cash-flow outgo:

(UA millions)

	2015	2016	2017	2018	2019	2020 to 2024
Cash flow for MBP	3.77	3.96	4.16	4.37	4.58	26.61
Cash flow for SRP	22.02	24.04	27.44	28.95	31.40	181.51

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	
	2014	2013	**2014**	2013
Effect on total service and interest cost	7,001	6,169	(5,172)	(4,498)
Effect on post-retirement benefit obligation	52,374	40,874	(39,270)	(31,607)

The following table shows the effect of a one-percent-point change in the discount rate for the SRP:

(UA thousands)

	1% Increase		1% Decrease	
	2014	2013	**2014**	2013
Effect on total service and interest cost	8,062	7,121	(10,733)	(8,741)
Effect on post-retirement benefit obligation	99,505	79,735	(127,892)	(94,219)

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 December 31, 2014 and 2013 for the Staff Retirement Plan:

(UA thousands)

	2014	2013
Debt securities	235,383	202,152
Equity securities	179,284	166,255
Property	78,847	68,362
Others	8,141	-
Total	**501,655**	**436,769**

At December 31, 2014 and 2013, 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 December 31, 2015, are UA 44.46 million and UA 16.19 million, respectively.

NOTE S – RELATED PARTIES

The following related parties have been identified:

The Bank makes or guarantees loans to some of its members who are also its shareholders, and borrows funds from the capital markets in the territories of some of its shareholders. As a multilateral development institution with membership comprising 53 African states and 25 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 of the Bank, who exercise the voting power of the appointing member country. Member country subscriptions and voting powers are disclosed in Note N. The Board of Directors, which is composed of twenty (20) Directors elected by the member countries, is responsible for the conduct of the general operations of the Bank, and for this purpose, exercises all the powers delegated to it by the Board of Governors. The Bank also makes or guarantees loans to certain of the agencies of its Regional Member Countries and to public and private enterprises operating within such countries. Such loans are approved by the Board of Directors.

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

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

The Bank's investment in the ADF is included in Equity Participations and disclosed in Note J. In addition to the amount reported as equity participation, the Bank periodically makes allocations from its income to the Fund, to further its objectives. Net income allocations by the Bank to ADF are reported as Other Resources in the Fund's financial statements. Net income allocation to the Fund in 2014 amounted to UA 42 million (2013: UA 35 million).

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

Grant resources administered by the Bank on behalf of other donors, including its member countries, agencies and other entities are generally restricted for specific uses, which include the co-financing of Bank's lending projects, debt reduction operations and technical assistance for borrowers including feasibility studies. Details of the outstanding balance on such grant funds at December 31, 2014 and 2013 are disclosed in Note V-5.

The Bank charges fees for managing some of these funds. Management fees received by the Bank for the year ended December 31, 2014 amounted to UA 2.12 million (2013: UA 2.05 million).

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

Management Personnel Compensation

Compensation paid to the Bank's management personnel and executive directors during the years ended December 31, 2014, and 2013 was made up as follows:

(UA thousands)

	2014	2013
Salaries	22,095	20,203
Termination and other benefits	14,155	8,310
Contribution to retirement and medical plan	4,461	4,075
Total	**40,711**	**32,588**

The Bank may also provide personal loans and advances to its staff, including those in management. Such loans and advances, guaranteed by the terminal benefits payable at the time of departure from the Bank, are granted in accordance with the Bank's rules and regulations. At December 31, 2014 outstanding balances on loans and advances to management staff amounted to UA 6.48 million (2013: UA 6.71 million).

NOTE T – SEGMENT REPORTING

The Bank is a multilateral development finance institution dedicated to the economic and social progress of its Regional Member States. The Bank's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers.

Based on the evaluation of the Bank's operations, management has determined that ADB has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers.

The products and services from which the Bank derives its revenue are mainly loans, treasury and equity investments.

External revenue for the years ended December 31, 2014 and 2013 is detailed as follows:

(UA thousands)

	2014	2013
Interest income from loans:		
Fixed rate loans	265,278	252,005
Variable rate loans	13,849	15,749
Floating rate loans	51,086	57,612
	330,213	325,366
Commitment charges and commissions	11,915	9,646
Total income from loans	**342,128**	**335,012**
Income from investments	132,414	131,242
Income from other debt securities	3,851	3,949
Other income	9,726	12,456
Total external revenue	**488,119**	**482,659**

Revenues earned from transactions with a single borrower country of the Bank and exceeding 10 percent of the Bank's revenue for two countries amounted to UA 127.53 million for the year ended December 31, 2014 (2013: three countries with revenues exceeding 10 percent of bank's revenue amounted to UA 175.74 million).

The Bank'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. 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 December 31, 2014 and 2013 is detailed as follows:

(UA thousands)	Central Africa	East Africa	North Africa	Southern Africa	West Africa	Multinational	Total
2014							
Income from sovereign loans	48,786	4,183	94,201	70,944	1,543	283	219,940
Income from non-sovereign loans	4,327	11,629	14,925	41,638	28,323	21,346	122,188
	53,113	**15,812**	**109,126**	**112,582**	**29,866**	**21,629**	**342,128**
2013							
Income from sovereign loans	55,640	4,292	95,912	68,806	1,687	385	226,722
Income from non-sovereign loans	4,919	10,921	14,254	36,671	21,976	19,549	108,290
	60,559	**15,213**	**110,166**	**105,477**	**23,663**	**19,934**	**335,012**

As of December 31, 2014, 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 the former Bank's Temporary Relocation Facilities in Tunis.

NOTE U – APPROVAL OF FINANCIAL STATEMENTS

On March 25, 2015, 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 2015.

NOTE V – SUPPLEMENTARY DISCLOSURES

NOTE V–1: EXCHANGE RATES

The rates used for translating currencies into Units of Account at December 31, 2014 and 2013 were as follows:

		2014	2013
1 UA = SDR =	Algerian Dinar	127.415000	120.349000
	Angolan Kwanza	148.600548	150.322000
	Australian Dollar	1.766400	1.737170
	Botswana Pula	13.771900	13.473300
	Brazilian Real	3.848310	3.624860
	Canadian Dollar	1.679980	1.638560
	Chinese Yuan	8.865250	9.397700
	CFA Franc	782.766607	732.914000
	Danish Krone	8.866110	8.335560
	Egyptian Pound	10.374856	10.719000
	Ethiopian Birr	29.426552	29.560900
	Euro	1.193320	1.142710
	Gambian Dalasi	65.239914	60.768400
	Ghanaian Cedi	4.638039	3.328790
	Guinean Franc	10,468.426300	10,688.000000
	Indian Rupee	91.754900	95.484500
	Japanese Yen	174.733000	162.162000
	Kenyan Shilling	131.258926	133.553000
	Korean Won	1,592.530000	1,625.620000
	Kuwaiti Dinar	0.424211	0.434665
	Libyan Dinar	1.932400	1.932400
	Mauritian Rupee	45.967900	46.392700
	Moroccan Dirham	13.073772	12.551900
	New Zambian Kwacha	9.231626	8.475380
	New Zealand Dollar	1.850560	1.886330
	Nigerian Naira	242.607000	238.993000
	Norwegian Krone	10.769300	9.413980
	Pound Sterling	0.928247	0.935148
	São Tomé & Principe Dobra	28,745.095780	27,664.500000
	Saudi Arabian Riyal	5.433010	5.775010
	South African Rand	16.778600	16.154400
	Swedish Krona	11.317600	10.022900
	Swiss Franc	1.433010	1.372910
	Tanzanian Shilling	2,500.143300	2,467.288659
	Tunisian Dinar	2.697480	2.554380
	Turkish Lira	3.239119	3.099970
	Ugandan Shilling	4,019.426339	3,875.620000
	United States Dollar	1.448810	1.540000
	Vietnamese Dong	30,781.417260	32,606.400000

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

NOTE V–2: OTHER DEVELOPMENT ASSISTANCE ACTIVITIES

i) Democratic Republic of Congo (DRC)

In connection with an internationally coordinated effort between the Bank, the International Monetary Fund (the IMF), the World Bank and other bilateral and multilateral donors to assist the Democratic Republic of Congo (DRC) in its reconstruction efforts, the Board of Directors on June 26, 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/Fragile 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 May 25, 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 May 18, 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 May 17, 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 the 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 2014, the implementation of the HIPC initiative shows that out of the 33 eligible countries, 29 RMCs have reached their completion points while Chad is still in interim period. Three countries, Somalia, Sudan and Eritrea (pre-point decision) are yet to reach the decision point.

iv) Multilateral Debt Relief Initiative (MDRI)

At the Gleneagles Summit on July 8, 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 September 1, 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 V–3: SPECIAL FUNDS

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

At December 31, 2014 and 2013, the following funds were held separately from those of the ordinary capital resources of the Bank:

i) The NTF was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank and the Federal Republic of Nigeria. The Agreement stipulates that the NTF shall be in effect for a period of 30 years from the date the Agreement became effective and that the resources of the NTF shall be transferred to the Government of Nigeria upon termination. However, the 30-year sunset period may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. At the expiry of the initial 30-year period on April 25, 2006, the Bank and the Federal Republic of Nigeria agreed to 2 interim extensions (each for 12 months) to allow for further consultations and an independent evaluation of the NTF.

Following the positive result of the independent evaluation, the NTF Agreement was renewed for a period of ten years starting from April 26, 2008. The initial capital of the NTF was Naira 50 million payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to US$ 39.90 million, was received by the Bank on July 14, 1976, and payment of the second installment, equivalent to US$ 39.61 million, was made on February 1, 1977.

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

During the year ended December 31, 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.

The resources of the NTF at December 31, 2014 and 2013 are summarized below:

(UA thousands)	**2014**	2013
Contribution received	128,586	128,586
Funds generated (net)	146,347	153,423
Adjustment for translation of currencies	(106,656)	(116,237)
	168,277	**165,772**
Represented by:		
Due from banks	10,286	13,656
Investments	113,419	107,097
Accrued income and charges receivable on loans	1,136	1,286
Accrued interest on investments	45	49
Other amounts receivable	252	3
Loans outstanding	44,466	45,607
	169,604	**167,698**
Less: Current accounts payable	(1,327)	(1,926)
	168,277	**165,772**

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 December 31, 2014 and 2013 follows:

(UA thousands)

	2014	2013
Fund balance	87,464	82,462
Funds generated	5,197	4,718
Funds allocated to Social Dimensions of Structural Adjustment (SDA)	1	1
Less: Relief disbursed	(87,088)	(80,076)
	5,574	**7,105**
Represented by:		
Due from bank	2,192	1,780
Investments	3,382	5,324
Interest receivable	-	1
	5,574	**7,105**

At December 31, 2014, a total of UA 3.31 million (2013: UA 2.60 million) had been committed but not yet disbursed under the Special Relief Fund.

iii) Africa Growing Together Fund (AGTF): Pursuant to the Board of Governors resolution B/BG/2014/06 of May 22, 2014, the agreement establishing the Africa Growing Together Fund was signed between the Bank and the Peoples Bank of China on May 22, 2014 to co-finance alongside the ADB 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 November 28, 2014.

NOTE V–4: TRUST FUNDS

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

i) The Mamoun Beheiry Fund was established under Board of Governors' Resolution 11-70 of October 31, 1970, whereby Mr. Mamoun Beheiry, former President of the Bank, agreed to set up a fund, which could be used by the Bank to reward staff members who had demonstrated outstanding performance in fostering the objectives of the Bank.

ii) The Arab Oil Fund (contribution of Algeria) was established following Board of Governors' Resolution 19-74 of July 4, 1974. Under a protocol agreement dated November 15, 1974, the Bank received the sum of US$ 20 million from the Government of Algeria to be kept as a Trust Fund from which loans could be granted to member countries affected by high oil prices. On August 11, 1975, an amount of US$ 5.55 million was refunded to Algeria upon request, leaving a balance of US$ 14.45 million, from which loans refundable directly to Algeria have been made. Following the approval by the Government of Algeria of the request from Guinea Bissau in their letter dated January 29, 2014, loan balance due and outstanding from Guinea Bissau, amounting to US$ 1,000,000 was canceled and written off the books. The accounts of the Fund have, therefore, been closed definitively at the end of the first quarter of 2014.

iii) 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 November 12 to 15, 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 December 31, 2014 and 2013 are summarized below:

(UA thousands)

		2014	2013
i)	**Mamoun Beheiry Fund**		
	Contribution	151	151
	Income from investments	202	200
		353	351
	Less: Prize awarded	(46)	(29)
	Gift	(25)	(25)
		282	297
	Represented by:		
	Short-term deposits	-	282
	Due from banks	282	15
		282	297
ii)	**Arab Oil Fund (contribution of Algeria)**		
	Net contribution	-	649
	Represented by:		
	Loans disbursed net of repayments	-	649
iii)	**Special Emergency Assistance Fund for Drought and Famine in Africa**		
	Contributions	22,075	20,768
	Funds generated	5,902	5,551
		27,977	26,319
	Relief granted	(25,359)	(23,370)
		2,618	2,949
	Represented by:		
	Due from banks	623	1,072
	Investments	1,995	1,877
		2,618	2,949
	Total Resources & Assets of Trust Funds	**2,900**	**3,895**

NOTE V–5: GRANTS (Donor Funds)

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

The undisbursed balances of the grant resources at December 31, 2014 and 2013 were as follows:

(UA thousands)	**2014**	2013
Africa Water Facility Fund	63,967	67,757
African Trade Fund	8,205	9,251
African Legal Support Facility	16,271	12,189
African Economic Outlook	53	298
African Community of Practice	2,628	1,739
Agriculture Fast Track Fund	14,852	1,313
AMINA	1,529	1,439
Canada	1,271	1,355
Chinese Government Grant	225	365
Clean Technology Fund	72,559	2,520
Congo Basin	50,462	70,125
Climate Development	9,723	-
Fertilizer Financing Mechanism	8,390	8,961
Finland	4,261	6,389
France-BAD (Fonds d'Assistance Technique)	1,031	1,101
Global Agriculture and Food Security Program (GAFSP)	19,882	22,596
Global Environment Facility (GEF)	22,281	4,933
Global Strategy to improve Agriculture and Rural Statistics (GARS)	3,175	1,946
Governance Trust Fund (GTF)	1,586	2,364
ICA-Infrastructure Consortium for Africa	1,436	1,869
International Comparison Program – Africa (ICP-Africa)	22	25
IMDE (Initiative Migration and Development)	5,529	6,157
India	2,409	3,058
Investment Climate Facility for Africa	21,130	23,803
Italy	824	1,406
Japan (FAPA)	25,682	20,656
Korea Trust Fund	19,403	16,164
Lake Turkana Wind Power Project	8,379	-
Making Finance Work for Africa	949	1,360
MENA Transition Fund	14,018	4,617
Microfinance Trust Fund	4,296	4,588
Multi-donor Water Partnership Program	928	1,236
Nepad Infrastructure	34,021	32,621
Norway	1,556	1,352
Portuguese Technical Cooperation Trust Fund	892	1,095
Programme for Infrastructure Development in Africa (PIDA)	171	189
Rural Water Supply and Sanitation Initiative	76,312	77,780
SFRD (Great Lakes)	409	713
South South Cooperation Trust Fund	2,923	3,433
Statistical Capacity Building (SCB)	4,814	4,438
Strategic Climate Fund	21,231	8,533
Sustainable Energy Fund for Africa	34,805	28,842
Swedish Trust Fund for Consultancy Services	182	205
Switzerland Technical Assistance Grant	218	434
The Nigeria Technical Cooperation Fund	12,389	12,972
The United Kingdom	2,031	1,406
The United Nations Development Programme	38	37
Trust Fund for Countries Transition	3,935	2,940
Value for Money Fund	837	404
Zimbabwe Multi-donor Trust Fund	51,705	68,870
Others	40	39
Total	**655,865**	**547,883**

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Independent Auditor's Report to the Board of Governors of the African Development Bank

Year ended December 31, 2014

We have audited the accompanying financial statements of the African Development Bank (the Bank) which comprise the balance sheet as at December 31, 2014 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 V.

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 as required by Article 32(d) of the Agreement establishing the Bank. This report is made solely to the Bank's Board of Governors, as a body, in accordance with Article 32(d) of the Agreement establishing the Bank. Our audit work has been undertaken so that we might state to the Bank's members 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 Bank and the Bank's members 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.

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 Bank as at December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paris La Défense, March 25, 2015

KPMG Audit
A division of KPMG S.A.

Valéry Foussé
Partner

ADB ADMINISTRATIVE BUDGET FOR FINANCIAL YEAR 2015

(UA thousands)

Description	
Personnel Expenses	
Salaries	136,484
Benefits	73,250
Other Employee Expenses	7,829
Short-Term and Technical Assistance Staff	1,000
Consultants	19,361
Staff Training	3,414
	241,338
General Expenses	
Official Missions	17,131
Accommodation	14,892
Equipment Rental, Repairs and Maintenance	7,678
Communication Expenses	11,011
Printing, Publishing and Reproduction	1,376
Office Supplies and Stationery	579
Library	299
Other Institutional Expenses	12,038
	65,004
Total Administrative Expenses	**306,342**
Depreciation	16,490
Total	**322,832**
Less: Management Fees*	(200,460)
Net Administrative Budget	**122,372**

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

THE AFRICAN DEVELOPMENT FUND

Financial Management

Subscriptions

ADF Replenishments

The resources of the African Development Fund (the ADF or the Fund) primarily consist of subscriptions by the Bank, subscriptions and contributions by State Participants, as well as other resources received by the Fund. The cumulative subscriptions to the ADF amounted to UA 26.24 billion at December 31, 2014.

Subsequent to the initial subscriptions, additional resources have been provided to the ADF in the form of periodic general replenishments, typically done every three years. The thirteenth (ADF-13) replenishment was adopted by the Board of Governors on January 31, 2014 and became effective on March 31, 2014 with the total resource envelope amounting to UA 5.35 billion, comprising donor subscriptions of UA 3.80 billion, supplementary contributions of UA 0.06 billion, Advanced Commitment Capacity or internally generated resources of UA 0.98 billion, and a technical gap of UA 0.51 billion. The replenishment covers the 2014-2016 operational period. As of December 31, 2014, State participants had subscribed a total amount of UA 3.35 billion, representing 88 percent of the ADF-13 pledged amount.

Commitments under the Multilateral Debt Relief Initiative

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

As of December 31, 2014, the Fund had received from donors aggregate commitments of UA 4.68 billion, representing 82 percent of the MDRI cost of UA 5.69 billion for the period, 2006-2054.

Financial Products

The ADF is the concessional financing window of the Bank Group that provides Low-Income Regional Member Countries with concessional loans as well as grants for projects and programs, risk guarantees and support through technical assistance for studies and capacity building.

Loans

Prior to the ADF-13 Replenishment, the ADF was operating under differentiated lending terms for ADF-eligible countries classified as blend, gap and graduating versus ADF-only countries. Accordingly, loans extended to blend, gap and graduating countries had a maturity period of 30 years, including an 8-year grace period with an interest rate of 1 percent per annum. For ADF-only countries, their loans had a maturity period of 50 years, including a grace period of 10 years, with no interest rate. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum on outstanding balances, were still applicable for all ADF loans.

With the view to preserving the long-term financial sustainability and capacity of the ADF, the ADF-13 Replenishment introduced (i) hardened and differentiated lending terms; and (ii) two sub-groups of ADF-only countries: the “regular” or the “advance” group. The financing terms for regular and advance ADF-only countries, as well as for blend, gap and graduating countries, were hardened. An accelerated repayment clause and a voluntary prepayment framework were also introduced.

Accordingly, new loans extended under ADF-13 to regular ADF countries have a maturity of 40 years, including a grace period of 10 years; and loans extended to advance ADF countries have a maturity of 40 years, including a grace period of 5 years. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum in outstanding balances remain applicable. Loans to blend, gap and graduating countries have a maturity of 30 years including a 5-year grace period, and an interest rate charge of 1 percent per annum in addition to the standard commitment and service fees.

Guarantees

As a means of stimulating additional private sector investments in Low-income Countries, the ADF Partial Risk Guarantee (ADF-PRG) instrument was introduced as part of ADF-12 to leverage resources from the private sector and other co-financiers for ADF countries, including fragile states. The ADF-PRG protects private lenders against well-defined political risks related to the failure of a government or a government-related entity to honor certain specified commitments and incentivize governments to undertake policy and fiscal reforms necessary to mitigate performance-related risks.

Starting with the ADF-13 Replenishment, the Partial Credit Guarantee (PCG) has been added to the suite of ADF instruments. The ADF-PCG is an instrument designed to address the challenges faced by well performing ADF only countries and State Owned Enterprises (SOEs), in their quest to mobilize both domestic and external commercial financing

Table 7.6 Lending Status, 2010-2014
(UA millions)

	2010	2011	2012	2013	2014
Loans approved*	1,316.00	1,475.74	1,659.51	2,054.48	1,338.23
Disbursements	1,165.45	1,296.65	1,169.60	1,702.21	1,215.30
Undisbursed Balances	5,556.59	5,415.36	6,921.62	6,327.68	6,558.66

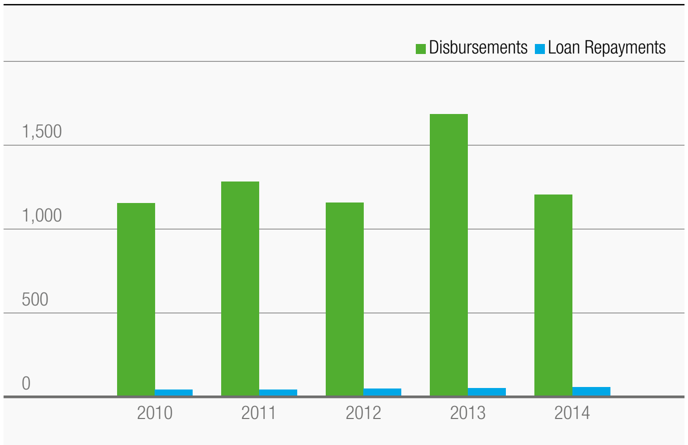
* *Excludes approvals of Special Funds but includes guarantees and grants.*

for developmental purposes. The product will serve to partially guarantee debt service obligations of Low-Income Countries (LICs) and well performing SOEs in LICs. The ADF-PCG is available only to; (1) ADF countries with low risk of debt distress (green light countries) and adequate debt management capacity; and (2) SOEs in ADF countries with low risk and moderate risk of debt distress (green and yellow light countries, respectively), subject to meeting certain defined eligibility criteria. Similar to the ADF-PRG, the ADF-PCG will enable well performing LICs and SOEs to catalyze larger volumes of development financing at more attractive terms.

Investments

ADF cash and treasury investments amounted to UA 3.38 billion at December 31, 2014 compared to UA 3.24 billion at the end of 2013. Investment income for the year amounted to UA 76.35 million, representing a return of 2.31 percent, on an average liquidity level of UA 3.31 billion, compared with an income of UA 67.33 million, representing a return of 1.94 percent on an average liquidity level of UA 3.47 billion in 2013. All key portfolios at fair value outperformed their benchmarks during the year. The higher income and return in 2014 is related to the increase in the fair value of derivatives put in place in 2014 to hedge the discount granted to donor countries for acceleration of their subscription payments as part of the ADF-13 Replenishment. This was partially offset by lower liquidity and a lower level of interest rates in 2014 compared to 2013.

Figure 7.3 Loan Disbursements and Repayments, 2010-2014
(UA millions)



Development Activities

Cumulative loans and grants signed, net of cancellations, at December 31, 2014, amounted to UA 26.67 billion, compared to UA 25.24 billion at the end of 2013. Table 7.6 presents the evolution of loans approved, disbursed and undisbursed balances from 2010 to 2014.

Total outstanding loans, as at December 31, 2014 was UA 8.97 billion, UA 0.79 billion higher than the UA 8.18 billion outstanding as at the end of 2013.

At the end of 2014, there were a total of 1,163 active loans and grants and a total of 697 loans amounting to UA 5.55 billion had been fully repaid or canceled through MDRI.

Disbursements

Loans and grants disbursed by the Fund decreased by 28.23 percent to stand at UA 1.22 billion in 2014 from UA 1.70 billion in 2013. As at December 31, 2014, cumulative disbursements on loans and grants amounted to UA 20.11 billion compared to UA 18.80 billion at the end of the previous year. A total of 2,053 loans and grants were fully disbursed for an amount of UA 15.39 billion, representing 76.49 percent of cumulative disbursements. Figure 7.3 tracks the evolution of loan disbursements and repayments over the past five years.

Repayments

Principal loan repayments for the Fund amounted to UA 62.87 million in 2014 compared to UA 56.77 million in 2013, representing an increase of 10.74 percent over the previous year. Cumulative repayments as of December 31, 2014 stood at UA 6.85 billion.

Risk Management Policies and Processes

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

Financial Results

The following are the highlights of the Fund's financial performance in 2014.

- The Fund reported a deficit of UA 125.35 million in 2014, compared to a deficit of UA 123.52 million in 2013. The persistent losses over recent years are principally due to some structural changes to the Fund, including the cancellation of loans to certain beneficiaries under the MDRI initiative (described in Note F to the financial statements) and the increased grant elements in the recent ADF resource allocation methodology. Although these changes are not reported as income in the Fund's financial statements, their impact does not adversely affect the commitment capacity or the financial sustainability of the Fund because the Fund is expected to be compensated through additional donor subscriptions, payable over the life of the cancelled loans.

- The generally low level of interest rates prevailing globally continued to have the dual effect of lowering the Fund's investment income and increasing the impact of the accelerated encashment of promissory notes deposited towards the payment of subscriptions to the Fund.

- The Fund's share of the total shareable administrative expenses of the ADB Group increased by UA 22.70 million from UA 225.87 million in 2013 to UA 248.57 million in 2014 due to increases in operational expenses of the Bank Group and the additional expenses relating to the return of the Bank to its Headquarters in Abidjan, Côte d'Ivoire. As noted earlier, the Fund's share of the total shareable expenses is based on a predetermined cost-sharing formula, which is driven primarily by the relative levels of certain operational volume indicators and relative balance sheet size. The Fund's share of these expenses was 67.32 percent for 2014, compared to 68.69 percent for 2013.

- Investment income increased from UA 67.33 million in 2013 to UA 76.35 million in 2014. Loan income also increased, driven primarily by a higher average outstanding loan balance in 2014. The discount on the accelerated encashment of promissory notes amounted to UA 34.33 million in 2014 compared to UA 38.94 million in 2013.

According to the Fund's non-accrual policy, service charges on loans made to or guaranteed by borrowers are excluded from loan income, if principal installments or service charges on any such loans are in arrears for six months or more, until such time that payment is received. As a result of this policy, UA 2.06 million of non-accrued loan income was excluded from 2014 income compared to UA 2.07 million in 2013. The number of borrowers in non-accrual status at December 31, 2014 remained three, which was the same level as at the end of December 2013.

The Fund continued to cancel qualifying debts under MDRI as the relevant countries reached HIPC completion point. A summary of the cumulative loan cancellations under MDRI and HIPC is presented in Note F to the Special Purpose Financial Statements of the Fund.

Performance Management and Monitoring

As with the African Development Bank (the Bank) management monitors performance measures and indicators which reflect the critical success factors in the ADF's business. To the extent that the ADF extends grants in addition to lending at highly concessional rates, the conventional profitability and financial ratios are not deemed to be an appropriate means of determining its effectiveness in delivering development resources to Regional Member Countries. One proxy that the Fund applies for measuring effective delivery of development resources is the level of disbursements made to RMCs from one period to another. As already noted previously, during the year under review a total of UA 1.22 billion was disbursed for loans and grants as compared to UA 1.70 billion made in 2013.

African Development Fund

Special Purpose Financial Statements and Report of the Independent Auditor Year ended December 31, 2014

STATEMENT OF NET DEVELOPMENT RESOURCES AS AT DECEMBER 31, 2014
(UA thousands – Note B)

		2014	2013	
DEVELOPMENT RESOURCES				
DUE FROM BANKS		368,702		165,394
INVESTMENTS (Note D)				
Treasury investments, mandatorily at fair value	1,452,412		1,004,275	
Treasury investments at amortized cost	1,557,501		2,067,836	
Total investments		3,009,913		3,072,111
DEMAND OBLIGATIONS (Note E)		2,801,319		2,389,924
RECEIVABLES				
Accrued income on loans and investments	54,925		56,011	
Other receivables	70,888		30,024	
		125,813		86,035
LIABILITIES		(154,342)		(111,618)
NET DEVELOPMENT RESOURCES		**6,151,405**		**5,601,846**
FUNDING OF DEVELOPMENT RESOURCES				
SUBSCRIPTIONS AND CONTRIBUTIONS (Notes G & M)				
Amount subscribed including contributions through accelerated encashment of subscriptions	26,175,035		22,766,462	
Less: Portion of accelerated encashment not yet effected	(31,586)		(1,503)	
	26,143,449		22,764,959	
Less: Installments not yet payable	(1,963,439)		(341,133)	
	24,180,010		22,423,826	
Less: Installments due	(7,018)		(7,018)	
	24,172,992		22,416,808	
Contributions paid on Multilateral Debt Relief Initiative	748,051		667,239	
	24,921,043		23,084,047	
Less: Unamortized discounts on subscriptions and contributions (Note B)	(112,202)		(127,726)	
	24,808,841		22,956,321	
Cumulative exchange adjustment on subscriptions and contributions (Note B)	(291,641)		(279,301)	
Total subscriptions and contributions		24,517,200		22,677,020
OTHER RESOURCES (Note H)		551,960		509,960
RESERVES (Note I)		(257,267)		(131,915)
CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B)		(332,021)		(285,959)
		24,479,872		22,769,106
ALLOCATION OF DEVELOPMENT RESOURCES				
GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note F)		(4,379,817)		(4,001,175)
HIPC GRANTS DISBURSED (Note F)		(184,000)		(184,000)
NET DEBT RELIEF (Note F)		(4,799,441)		(4,799,441)
LOANS DISBURSED AND OUTSTANDING (Note F)		(8,965,209)		(8,182,644)
NET DEVELOPMENT RESOURCES		**6,151,405**		**5,601,846**

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

STATEMENT OF INCOME AND EXPENSES AND OTHER CHANGES IN DEVELOPMENT RESOURCES FOR THE YEAR ENDED DECEMBER 31, 2014

(UA thousands – Note B)

	2014	2013
INCOME AND EXPENSES		
Service charges on loans	61,905	58,054
Commitment charges on loans	18,751	19,524
Income on investments	76,350	67,334
Other income	90	179
Administrative expenses (Note K)	(248,566)	(225,874)
Discount on accelerated encashment of participants' demand obligations	(34,332)	(38,937)
Financial charges	(135)	(184)
Gain/(Loss) on exchange	585	(3,621)
Deficit	**(125,352)**	**(123,525)**
CHANGE IN DEVELOPMENT RESOURCES FUNDING		
Increase in paid-up subscriptions	1,756,184	1,378,047
Contributions received on account of Multilateral Debt Relief Initiative	80,812	83,716
Increase in other resources	42,000	84,690
Changes in accumulated exchange adjustment on subscriptions and contributions	(12,340)	(5,378)
Changes in unamortized discounts on subscriptions and contributions	15,524	1,129
Changes in accumulated translation adjustment	(46,062)	19,482
	1,836,118	**1,561,686**
CHANGE IN DEVELOPMENT RESOURCES ALLOCATION		
Disbursement of grants	(378,642)	(642,189)
Disbursement of loans	(836,659)	(1,060,019)
Repayment of loans	62,867	56,770
Recoveries on account of Multilateral Debt Relief Initiative	-	43,406
Translation adjustment on loans	(8,773)	15,040
	(1,161,207)	**(1,586,992)**
Change in Net Development Resources	549,559	(148,831)
Net Development Resources at the beginning of the year	5,601,846	5,750,677
NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR	**6,151,405**	**5,601,846**

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
DEFICIT	(125,352)	(123,525)
OTHER COMPREHENSIVE INCOME		
Changes in accumulated translation adjustment	(46,062)	19,482
COMPREHENSIVE LOSS	**(171,414)**	**(104,043)**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Deficit	(125,352)	(123,525)
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized losses on investments	4,143	3,199
Discount on accelerated encashment of participants' demand obligations	34,332	38,937
Changes in accrued income on loans and investments	1,086	(7,140)
Changes in net current assets	(2,722)	(14,443)
Net cash used in operating activities	(88,513)	(102,972)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursement of grants	(378,642)	(642,189)
Disbursement of loans	(836,659)	(1,060,019)
Repayment of loans	62,867	56,770
Recoveries on account of Multilateral Debt Relief Initiative	-	43,406
Investments maturing after 3 months of acquisition:		
Treasury investments, mandatorily at fair value	(250,828)	112,918
Treasury investments at amortized cost	529,300	94,945
Net cash used in investing, lending and development activities	(873,962)	(1,394,169)
FINANCING ACTIVITIES:		
Subscriptions and contributions received in cash	258,164	429,211
Participants' demand obligations encashed	1,057,423	936,407
Increase in other resources	42,000	84,690
Net cash provided by financing activities	1,357,587	1,450,308
Effect of exchange rate changes on cash and cash equivalents	(9,047)	9,695
Net increase/(decrease) in cash and cash equivalents	386,065	(37,138)
Cash and cash equivalents at the beginning of the year	250,752	287,890
Cash and cash equivalents at the end of the year	**636,817**	**250,752**
COMPOSED OF:		
Cash	368,702	165,394
Investments maturing within 3 months of acquisition:		
Treasury investments, mandatorily at fair value	268,115	85,358
Cash and cash equivalents at the end of the year	**636,817**	**250,752**
SUPPLEMENTARY DISCLOSURE:		
Movements resulting from exchange rate fluctuations on:		
Loans	8,773	(15,040)
Subscriptions and contributions	(12,340)	(5,378)

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

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

NOTE A – PURPOSE, ORGANIZATION AND RESOURCES

Purpose and Organization

The African Development Fund (ADF or the Fund) was established in 1972 as an international institution to assist the African Development Bank (ADB or the Bank) in contributing to the economic and social development of the Bank's regional members, promote cooperation and increased international trade particularly among the Bank's members, and to provide financing on concessional terms for such purposes.

By its resolution F/BG/2010/03 of May 27, 2010, the Board of Governors increased the membership of the Board of Directors of ADF from twelve (12) to fourteen (14), made up of seven (7) members selected by the Bank and seven (7) members selected by State Participants. The Board of Directors reports to the Board of Governors, which is made up of representatives of the State Participants and the ADB. The ADB exercises fifty percent (50%) of the voting powers in the ADF and the President of the Bank is the ex-officio President of the Fund.

The ADB, the Nigeria Trust Fund (NTF), which is a special fund administered by the ADB, and the ADF are collectively referred to as the Bank Group. The principal purpose of the ADB is to promote economic and social development in its Regional Member Countries. The ADB finances development projects and programs in its Regional Member States. The ADB also participates in the selection, study and preparation of projects contributing to the development of its member countries and where necessary provides technical assistance. The NTF was established under an agreement between the Bank and the Federal Republic of Nigeria to further support the development efforts of ADB Regional Member Countries, particularly the lesser-developed countries. The assets and liabilities of the ADB and of the NTF are separate and independent of those of the ADF. Furthermore, the ADF is not liable for their respective obligations. Transactions with these affiliates, where there are, are disclosed in the notes that follow.

Resources

The resources of the Fund consist of subscriptions by the Bank, subscriptions and contributions by State Participants, other resources received by the Fund and funds derived from operations or otherwise accruing to the Fund. The initial resources of the Fund consisted of subscriptions by the Bank and the original State Participants to the Agreement Establishing the Fund (the Agreement). Thereafter, the resources have been replenished through Special and General increases of subscriptions and contributions.

NOTE B – BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Due to its nature and organization, the Fund presents its financial statements on a special purpose basis. The Special Purpose Financial Statements are prepared for the specific purpose of reflecting the net development resources of the Fund and are not intended to be a presentation in accordance with International Financial Reporting Standards. Net development resources represent resources available to fund loan and grant commitments and comprise primarily cash, marketable investments and demand obligations of State Participants. These special purpose financial statements have been prepared to comply with Article 35(1) of the Agreement establishing the Fund, which requires that the Fund circulates, at appropriate intervals, a summary of its financial position and income and expenditure statement showing the results of its operations.

The significant accounting policies used in the preparation of the Fund's special purpose financial statements are as follows:

Monetary Basis of the Special Purpose Financial Statements

The special purpose financial statements are expressed in Units of Account (UA). Article 1 of the Agreement defined a Unit of Account as having a value of 0.81851265 grams of fine gold.

On April 1, 1978, when the second amendment to the Articles of the Agreement of the International Monetary Fund (IMF) came into effect, gold was abolished as a common denominator of the international monetary system. Computations relating to the currencies of IMF members were thereafter made on the basis of the Special Drawing Right (SDR) for purposes of applying the provisions of the Articles of the IMF. The Fund's Unit of Account was therefore based on its relationship to the SDR at the time of establishment of the Fund. This was 1 Unit of Account equal to SDR 0.921052.

Subsequently, on November 16, 1992, the Board of Governors decided by Resolution F/BG/92/10 to redefine the Fund's Unit of Account to be equivalent to the UA of the ADB, which is defined as equivalent to the Special Drawing Right of the IMF. In compliance with this Resolution, the Board of Directors, on June 22, 1993, adopted January 1, 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 Fund conducts its operations in the currencies of its State Participants. Income and expenses are converted into UA at the rate prevailing on the date of the transaction. Assets and liabilities are translated into UA at rates prevailing at the date of the Statement of Net Development Resources. Translation differences are debited or credited to the Cumulative Currency Translation Adjustment. Translation gains and losses on subscriptions received are credited or debited to the Cumulative Exchange Adjustment on Subscriptions and contributions. Where currencies are converted into any other currency, the resulting gains or losses are included in income.

The rates used for translating currencies into UA at December 31, 2014 and 2013 are as follows:

	2014	2013
1 Unit of Account equals:		
Argentinian Peso	12.416800	9.397020
Brazilian Real	3.848310	3.624860
Canadian Dollar	1.679980	1.638560
Danish Krone	8.866110	8.335560
Euro	1.193320	1.142710
Indian Rupee	91.754900	95.484500
Japanese Yen	174.733000	162.162000
Korean Won	1,592.530000	1,625.620000
Kuwaiti Dinar	0.424210	0.434665
Norwegian Krone	10.769300	9.413980
Pound Sterling	0.928250	0.935148
South African Rand	16.778600	16.154400
Swedish Krona	11.317600	10.022900
Swiss Franc	1.433010	1.372910
Turkish Lira	3.239120	3.099970
United States Dollar	1.448810	1.540000

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

Participants' Subscriptions and Contributions

Subscriptions committed by State Participants for each replenishment are recorded in full as subscriptions receivable from participants upon submission of an instrument of subscription by the participants. A replenishment becomes effective when the ADF receives instruments of subscription from participants for a portion of the intended replenishment level as specified in the replenishment resolution. The portion of subscribed amounts for which payments are not yet due from State Participants are recorded as installments on subscriptions not yet payable, and are not included in the net development resources of the Fund. The subscriptions not yet payable become due throughout the replenishment period (generally three years) in accordance with an agreed payment schedule. The actual payment of subscriptions when they become due from certain participants is conditional upon the respective participant's budgetary appropriation process.

The subscriptions receivable are settled through payment of cash or deposit of non-negotiable, non-interest-bearing demand notes. The notes are encashed by the Fund as provided in an encashment program agreed to at the time of the replenishment.

Starting with the ADF-9 replenishment, participants were given the option of an early payment of cash in an amount equivalent to the net present value of their entire subscriptions and contributions. Upon receipt of such cash payments, participants are credited with the full face value of their entire subscriptions, and in agreement with the Fund, such cash amounts received are invested and the income generated thereon is retained by the Fund. A discount, calculated as the difference between the face value of the subscriptions and the cash amount received, is initially recorded to represent the interest expected to be earned on the cash received from State Participants who opted for the accelerated encashment program. Such discount is amortized over the projected encashment period, to recognize the effective contributions to equity by the relevant participant over and above the initial cash advanced.

By its resolutions F/BG/2006/12 and F/BG/2006/13 of May 18, 2006 and August 31, 2006 respectively, the Board of Governors of the Fund authorized the Board of Directors to approve the participation of the ADF in the Multilateral Debt Relief Initiative (MDRI) and in that regard the Board of Governors also authorized an increase in the resources of the ADF to provide full and timely compensation for the debt cancellation under the MDRI subject to the attainment of the following effectiveness thresholds:

1) Receipt of Instruments of Commitment from donors covering an aggregate amount equivalent to at least seventy per-cent (70%) 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 seventy five percent (75%) of the total cost of debt relief incurred during the remainder of ADF-10 period.

Upon satisfaction of the above two thresholds, the Board of Directors of the Fund approved the effectiveness of the MDRI with effect from September 1, 2006. To ensure full compensation for foregone reflows as a result of the upfront debt cancellation, the ADF governing bodies endorsed Management's proposal for a compensation scheme over the 50-year period of the Initiative. Donors will contribute additional resources to ADF, equivalent to the foregone debt service (service charges and principal) for each replenishment period, by submitting pledges over the life of the initiative. The compensatory financing arrangements will take the form of a general increase in the contribution of State Participants pursuant to Article 7 of the Agreement Establishing ADF. The contributions received from State Participants under the compensatory financing arrangements shall not be counted as part of the burden share for the replenishment period in which such resources are received, but shall carry voting rights in the same manner as normal subscriptions. Such contributions are separately disclosed within the total of subscriptions and contributions in the Statement of Net Development Resources.

Maintenance of Value of Currency Holdings

Prior to the second general replenishment, subscriptions were denominated in UA and were subject to Article 13 of the Agreement which provided that, whenever the par value in the IMF of the currency of a State Participant is reduced in terms of the UA or its foreign exchange value has, in the opinion of the Fund, depreciated to a significant extent within that participant's territory, that participant shall pay to the Fund within a reasonable time an amount of its currency required to maintain the value, as of the time of subscription, of the amount of such currency paid into the Fund by that participant and which has not been disbursed or exchanged for another currency.

Conversely, if the currency of a State Participant has increased in par value or appreciated in its foreign exchange value within that participant's territory, the Fund shall return to that participant an amount of such currency equal to the increase in the value of the Fund's holding of that currency which was received by it in payment of subscriptions, to the extent that these amounts have not been disbursed or exchanged for another currency.

In accordance with Board of Governors' successive Resolutions governing the second through to the thirteenth general replenishments of the Fund, which stipulated that Article 13 shall not apply to these general replenishments, subscribers to these replenishments fixed the amount of their subscriptions payable in national currencies in terms of agreed parities ruling at the date these replenishments came into force. Gains or losses arising on translating these subscriptions, when received, into UA are applied against subscriptions, with the offsetting debits or credits recorded as Cumulative Exchange Adjustment on Subscriptions (CEAS).

Financial Assets

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

i) Financial Assets at Amortized Cost

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

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

Financial assets at amortized cost include mainly demand obligations and accrued income on loans and receivables and certain investments that meet the criteria of financial assets at amortized cost. Demand obligations are non-negotiable, non-interest-bearing notes payable on demand deposited for subscription payment.

The Fund also classifies at amortized cost, investments of the proceeds of accelerated encashment of notes. This is consistent with the business model of the Fund of collecting contractual cash flows. The primary objective of such financial assets is to recoup the discount granted to State Participants on the accelerated encashment program.

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

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

Cash and cash equivalents include amounts due from banks, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value and have a time to maturity 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. Income on investments includes interest earned and unrealized gains and losses on financial assets at FVTPL.

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

Investments

The Fund's investment securities are classified either as financial assets at amortized cost or as at fair value. Investments classified as financial assets at amortized cost include non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method. All other investment securities are classified as investments at fair value through profit or loss and measured at market value.

Income on investments includes interest earned and unrealized gains and losses on the portfolio held at fair value through profit or loss. Purchases and sales of investments are recognized on a trade-date basis, which is the date on which the Fund commits to purchase or sell the investments.

Loans

The Fund provides concessional funding for development purposes to the least developed countries in Africa. Country eligibility is determined by assessing gross national income per capita, creditworthiness and performance. Annual Debt Sustainability Analysis is used to determine the risk of debt distress of each beneficiary country and set appropriate financing terms.

The following categories of countries are eligible to ADF loans:

- Category A countries that are not deemed creditworthy for non-concessional financing and whose income levels are below the operational cut-off.
- Category A countries that are not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off (blend countries) have access to ADF funds with modified financing terms at par with those of blend countries.
- Category B countries are those deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off with access to a blend of ADB and ADF resources.

Graduating countries are those that are graduating from the category of ADF borrowing countries to the category of ADB borrowing countries and the graduating policies are determined for each new ADF replenishment.

Disbursed and outstanding loans are reported at amortized cost and not included in Net Development Resources in the special purpose financial statements as they represent an allocation of development resources. Accordingly, no provision for possible loan losses is required.

Loan income arising from interest, service and commitment charges is recognized on an accrual basis. The Fund places all loans to a borrower country in non-accrual status if the principal installments, interest or service charges on any of the loans to such member country are overdue by 6 months or more, unless the Fund's management determines that the overdue amount will be collected in the immediate future. Further, management may place a loan in non-accrual status even if it is not yet overdue by 6 months, if the specific facts and circumstances, including consideration of events occurring subsequent to the balance sheet date, warrant such action. On the date a borrower's loans are placed in non-accrual status, unpaid interests and charges that had previously been accrued on loans to the borrower are deducted from income on loans for that period. Interests and charges on loans in non-accrual status are included in income only to the extent that payment of such charges has been received by the Fund.

Partial Risk Guarantee

The Fund provides guaranties, through the Partial Risk Guarantees (PRGs) program, for credits issued in support of projects located within a member county that are undertaken by private entities. Under the PRGs program, the Fund provides financial guaranties for private lenders to a member country in the event that a member country fails to honor its contractual obligations with respect to private lenders to a project. The PRGs insure private lenders against well-defined political risks related to the failure of a government or government-related entity to honor certain specified commitments such as political force majeure, currency inconvertibility, regulatory risks and various forms of breach of contract.

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

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

Grants

In addition to loans, the Fund is authorized to provide development financing in the form of grants. Prior to the ninth replenishment of the resources of the Fund, grant funds were granted for technical assistance activities only. With effect from the ninth replenishment, grants may be used for technical assistance as well as project financing. Grants, like loans, represent allocations of development resources and are accordingly treated as such in the Statement of Net Development Resources of the Fund.

HIPC Debt Initiative

The Fund participates in a multilateral debt relief initiative for addressing the debt problems of countries identified as heavily indebted poor countries (HIPCs) to help ensure that their reform efforts are not compromised by unsustainable external debt burdens. Under this initiative, creditors provide debt relief for those countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. As a part of this process, the HIPC Debt Initiative Trust Fund, (the Trust Fund) constituted by funds from donors, including the Bank Group, was established to help beneficiaries reduce their overall debt, including those debts owing to the Fund.

Under the original framework of the debt relief initiative, upon signature of a HIPC Debt Relief Agreement by the Fund, the beneficiary country and the Trust Fund, loans or repayment installments identified for sale to the Trust Fund are written down to their estimated net present value. On the settlement date, the estimated write-down is adjusted to reflect the actual difference between the cash received and the carrying value of the loans sold.

Under the enhanced HIPC framework, the implementation mechanism comprises a partial payment of ADF debt service as it falls due with funds received from the Trust Fund.

Multilateral Debt Relief Initiative (MDRI)

Under the MDRI, loans due from eligible HIPCs are canceled when the countries attain the completion point under the HIPC framework. The Fund is expected to be fully compensated for loans canceled under MDRI by additional contributions to be made by donors over the previously scheduled repayment periods of the canceled loans. When MDRI becomes effective for a country, certain amounts previously disbursed to that country as loans are no longer repayable by the country and effectively take on the character of grants made by the Fund. Accordingly, loans canceled under the MDRI are included in "Net Debt Relief" and reported in the Statement of Net Development Resources as allocation of development resources, with a corresponding offset to loans outstanding.

Financial Liabilities

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

Impairment of Financial Assets

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

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

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

Loans are not included in Net Development Resources and are therefore not subject to impairment.

Fair Value Disclosure

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

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

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

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

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

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

Investments: Fair values for investment securities are based on quoted market prices, where available, using the bid prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Government and agency obligations include marketable bonds or notes and other government obligations issued or unconditionally guaranteed by governments of member countries or other official entities with a minimum credit rating of AA-. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Money market instruments include time deposits, certificates of deposit and other obligations with a maturity period of less than 1 year, issued or unconditionally guaranteed by banks and other financial institutions with a minimum rating of A.

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

Events After the Reporting Period

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

Events that are indicative of conditions that arose after the date of the Statement of Net Development resources are disclosed, but do not result in an adjustment of the financial statements themselves.

Reclassification

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

NOTE C – RISK MANAGEMENT POLICIES AND PROCEDURES

In carrying out its development mandate, the Fund seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless critical to the execution of its mandate.

The degree of risk the Fund is willing to assume to achieve its development mandate is limited by its commitment capacity. The Fund's overall risk management strategy is to minimize the exposure of its replenishment resources (the Commitment

Capacity) to the risk of over-commitment and also to protect its Net Development Resources from currency translation losses that could negatively affect the Fund's long-term capacity to meet its development needs.

The policies, processes and procedures which the Fund uses to manage its risk profile continually evolve in response to market, credit, product, and other developments. The highest level of risk management oversight is assured by the Fund's Board of Executive Directors, which is chaired by the President. The Board of Directors is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the Board of Directors regularly reviews trends in the Fund's risk profiles and performance to ensure compliance with the underlying policies.

The guiding principles by which the Fund manages its core and non-core risks are governed by the General Authority on Asset Liability Management (the ALM Authority) approved by the Board of Directors of the Fund.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Fund's liquid assets and liabilities within defined parameters. The ALM Authority sets out the guiding principles for managing the Fund's interest rate risk, currency exchange rate risk, liquidity risk, counterparty credit risk and operational risk. The ALM Authority covers the Fund's entire array of ALM activities.

Under the umbrella of the ALM Authority, the President is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO). The ALCO, chaired by the Vice President for Finance, is the oversight and control organ of the Fund's finance and treasury risk management activities.

The ALCO meets on a regular basis to perform its oversight role. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency risk, operational risk, financial projections, and financial products and services. In June 2012 the Bank Group also created the Credit Risk Committee (CRC), to ensure effective implementation of the Fund's credit policies and oversee all credit risk issues related to loan operations.

Day-to-day operational responsibility for implementing the Fund's financial and risk management policies and guidelines are delegated to the appropriate business units. The Financial Management Department is responsible for monitoring the day-to-day compliance with those policies and guidelines.

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

Credit Risk

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

The Fund's credit risk arises from two principal sources: (i) sovereign credit risk arising from lending to its qualifying RMCs; and (ii) counterparty credit risk on its portfolio of treasury investments and derivative transactions.

Sovereign Credit Risk

The Fund provides concessional loans in order to fund economic and social development of its member countries which generally have a lower credit quality than ADB borrowers. Although loans are included in the financial statements as resources already allocated for development and therefore not included in the Net Development Resources, the Fund still manages sovereign credit risks to ensure equitable allocation of resources to eligible beneficiaries and ensure that expected reflows from loan repayments are properly monitored and managed. Country eligibility for loans is determined by assessing among other things, gross national income per capita, credit worthiness and performance. The Fund uses the International Monetary Fund/World Bank Debt Sustainability Framework (DSF) for Low-income Countries, to make performance-based allocation (PBA) of ADF resources among the many competing needs in the continent and to ensure the funds are directed to areas they will be used most effectively. The PBA process, which is reviewed regularly, is also used to determine the proportion of ADF resources that is allocated in the form of grants to each qualifying borrower. On the basis of the debt sustainability analysis, certain countries are allocated grants-only resources, while others may receive a combination of loan and grant resources or loan resources only.

Country Exposure

The Fund's exposures as at December 31, 2014 from its lending activities are summarized below:

SUMMARY OF LOANS AS AT DECEMBER 31, 2014

(Amounts in UA thousands)

Country	No. of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Angola	14	77,877	-	44,499	33,378	0.37
Benin	32	352,116	-	141,584	210,532	2.35
Botswana	12	46,071	-	-	46,071	0.51
Burkina Faso	34	418,942	12,725	78,413	327,804	3.66
Burundi	6	23,647	-	142	23,505	0.26
Cabo Verde	28	95,025	-	6,171	88,854	0.99
Cameroon	32	582,664	12,456	266,299	303,909	3.39
Central African Republic	1	1,040	-	1,040	-	-
Chad	41	280,668	-	46,235	234,433	2.61
Congo	4	55,071	7,500	40,490	7,081	0.08
Côte d'Ivoire	3	36,856	998	5,650	30,208	0.34
Democratic Republic of Congo	7	89,147	-	2,383	86,764	0.97
Djibouti	17	75,825	-	269	75,556	0.84
Egypt	17	128,022	-	-	128,022	1.43
Equatorial Guinea	11	23,784	-	-	23,784	0.27
Eritrea	6	65,833	-	-	65,833	0.73
Ethiopia	27	1,390,777	60,000	461,736	869,041	9.69
Gabon	1	1,132	-	-	1,132	0.01
Gambia, The	10	29,586	-	-	29,586	0.33
Ghana	40	768,287	28,600	161,860	577,827	6.45
Guinea	15	106,796	5,610	37,733	63,453	0.71
Guinea-Bissau	8	21,332	-	2,598	18,734	0.21
Kenya	55	1,722,377	90,000	696,509	935,868	10.44
Lesotho	35	133,740	-	10,005	123,735	1.38
Liberia	5	86,176	-	86,071	105	0.00
Madagascar	23	316,132	16,140	78,391	221,601	2.47
Malawi	25	267,723	-	111,453	156,270	1.74
Mali	44	554,640	8,263	144,197	402,180	4.49
Mauritania	15	62,123	-	8,147	53,976	0.60
Mauritius	2	1,780	-	-	1,780	0.02
Morocco	5	28,545	-	-	28,545	0.32
Mozambique	37	727,245	-	240,376	486,869	5.43
Namibia	2	11,136	-	-	11,136	0.12
Niger	23	272,129	14,480	116,848	140,801	1.57
Nigeria	26	768,851	5,300	349,867	413,684	4.61
Rwanda	22	291,763	-	110,730	181,033	2.02
São Tomé & Principe	4	4,373	-	553	3,820	0.04
Senegal	39	500,243	22,250	119,561	358,432	4.00
Seychelles	3	5,083	-	-	5,083	0.06
Sierra Leone	15	111,015	-	38,955	72,060	0.80
Somalia **	17	63,944	-	-	63,944	0.71
Sudan ** +	15	174,449	-	-	174,449	1.95
Swaziland	8	30,089	-	-	30,089	0.34
Tanzania	43	1,433,536	-	459,922	973,614	10.86
Togo	3	22,361	-	14,010	8,351	0.09
Uganda	33	1,009,745	70,000	327,934	611,811	6.83
Zambia	22	392,903	-	178,493	214,410	2.39
Zimbabwe **	10	34,201	-	-	34,201	0.38
Multinational	10	88,800	71,945	5,000	11,855	0.13
Total	**907**	**13,785,600**	**426,267**	**4,394,124**	**8,965,209**	**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 end of December 2014, 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 December 31, 2014.*

Slight differences may occur in totals due to rounding.

Counterparty Credit Risk

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

Counterparties must meet the Fund's minimum credit rating requirements and are approved by the Bank Group's Vice President for Finance. ALCO approves counterparties that are rated below the minimum rating requirements.

Counterparties are classified as investment counterparties, derivative counterparties, and trading counterparties. Their ratings are closely monitored by the Financial Management Department.

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

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

	Maturity					
	6 months	**1 year**	**5 years**	**10 years**	**15 years**	**30 years**
Government		A/A2			AA-/Aa3	AAA/Aaa
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
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 uses derivatives in the management of its assets and liabilities. As a rule, the Fund executes an ISDA master agreement and collateral exchange agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated AA-/Aa3 by at least two approved rating agencies or A-/A3 for counterparties with whom the Fund has entered into a collateral exchange agreement. These counterparties require the approval of ALCO. Approved transactions with derivative counterparties include swaps, forwards, options and other over-the-counter derivatives.

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

	Credit Risk Profile of the Investment and Derivative Portfolios		
	AAA	**AA+ to AA-**	**A+ and lower**
2014	40%	49%	11%
2013	48%	48%	4%
2012	61%	33%	6%

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. The Fund's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for between 50 and 75 percent of the three years' moving average of expected disbursements.

To strike a balance between generating adequate investment returns and holding securities that can be easily sold for cash if the need arises, the Fund divides its investment portfolio into two tranches with different liquidity objectives and benchmarks. The Fund's core liquidity portfolio, which is fair valued, is invested in highly liquid securities that can be readily liquidated if the need arises to meet the Fund's short-term liquidity needs. In addition to the trading portfolio, the Fund maintains a second tranche of liquidity under the broad category of amortized cost portfolio, which is held in a portfolio of fixed income securities intended to earn contractual cash flows.

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in the Fund's Net Assets, including its Net Development Resources (NDR) and outstanding loans, the Fund's principal currency risk management objective is to ensure that it is able to provide the disbursement currencies requested by borrowers while minimizing the exposure of its NDR to adverse exchange rate movements. To the extent possible, the Fund shall maintain the alignment of the currency composition of its Net Assets with the UA as the primary benchmark of its currency composition. The Fund may conduct currency exchange transactions for the following two reasons: (1) to align the currency composition of its Net Assets (loan and investment portfolios) with the UA, (2) for the purpose of providing ADF borrowers with the disbursement currencies requested.

Interest Rate Risk

Interest rate risk is the potential for loss due to adverse movements in market interest rates. In seeking to earn a stable and reasonable return on invested liquidity, the Fund's principal interest rate risk management is to reduce the sensitivity of the Fund's investment returns to changes in market interest rates. To achieve this objective, the Fund's investments are managed in two portfolios: (1) an actively managed portfolio (the "Operational" Portfolio); and (2) a passively managed portfolio (the "Investment" Portfolio).

The Operational Portfolio provides a readily available source of liquidity to cover both expected and unexpected disbursements as well as any other probable cash outflows. The Operational Portfolio is managed against a 3-month LIBOR reference benchmark in each currency. Generally, investments in the Operational Portfolio are held for trading and are regularly marked to market.

The Investment Portfolio consists of funds that are not immediately required for loan disbursements and therefore may be invested for a longer horizon. Generally, investments in the Investment Portfolio are purchased with the intention to hold them until their maturity and are not marked to market. The Investment Portfolio comprises two sub-portfolios, (1) an investment portfolio for income stabilization for the purpose of generating a stable income for the Fund and reducing the Fund's investment income sensitivity to interest rates. This portfolio is managed against a 10-year uniform repricing profile for each invested currency, and (2) an investment portfolio for accelerated encashments for the purpose of investing proceeds from accelerated encashments to recoup the discount granted to State Participants, minimizing or eliminating interest rate risk on accelerated encashments. This portfolio is managed against a target rate, which is the discount rate agreed with State Participants.

Interest Rate Risk Position as at December 31, 2014

(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	368,702	-	-	-	-	-	368,702
Investments	1,177,061	493,420	578,111	283,790	258,650	218,881	3,009,913
Demand obligations	743,822	703,154	446,676	282,171	252,957	372,539	2,801,319
Accounts receivable	125,813	-	-	-	-	-	125,813
	2,415,398	1,196,574	1,024,787	565,961	511,607	591,420	6,305,747
Liabilities							
Accounts payable	(154,342)	-	-	-	-	-	(154,342)
	(154,342)	-	-	-	-	-	(154,342)
Net Development Resources at December 31, 2014	**2,261,056**	**1,196,574**	**1,024,787**	**565,961**	**511,607**	**591,420**	**6,151,405**

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	Total
Assets							
Cash	165,394	-	-	-	-	-	165,394
Investments	1,032,335	749,467	295,405	301,331	238,063	455,510	3,072,111
Demand obligations	678,047	547,256	436,977	286,479	192,138	249,027	2,389,924
Accounts receivable	86,035	-	-	-	-	-	86,035
	1,961,811	1,296,723	732,382	587,810	430,201	704,537	5,713,464
Liabilities							
Accounts payable	(111,618)	-	-	-	-	-	(111,618)
	(111,618)	-	-	-	-	-	(111,618)
Net Development Resources at December 31, 2013	**1,850,193**	**1,296,723**	**732,382**	**587,810**	**430,201**	**704,537**	**5,601,846**

NOTE D – FINANCIAL ASSETS AND LIABILITIES

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

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

December 31, 2014	Financial Assets and Liabilities through Profit or Loss: Mandatorily at Fair Value	Financial Assets and Liabilities through Profit or Loss: Designated at Fair Value	Fair Value through Other Compre-hensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	368,702	368,702	368,702
Treasury investments	1,452,412	-	-	1,557,501	3,009,913	3,086,614
Demand obligations	-	-	-	2,801,319	2,801,319	2,801,319
Accounts receivable	-	-	-	125,813	125,813	125,813
Total financial assets	**1,452,412**	**-**	**-**	**4,853,335**	**6,305,747**	**6,382,448**
Liabilities	-	-	-	154,342	154,342	154,342
Total financial liabilities	**-**	**-**	**-**	**154,342**	**154,342**	**154,342**

(UA thousands)

December 31, 2013	Financial Assets and Liabilities through Profit or Loss: Mandatorily at Fair Value	Financial Assets and Liabilities through Profit or Loss: Designated at Fair Value	Fair Value through Other Compre-hensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	165,394	165,394	165,394
Treasury investments	1,004,275	-	-	2,067,836	3,072,111	3,151,184
Demand obligations	-	-	-	2,389,924	2,389,924	2,389,924
Accounts receivable	-	-	-	86,035	86,035	86,035
Total financial assets	**1,004,275**	**-**	**-**	**4,709,189**	**5,713,464**	**5,792,537**
Liabilities	-	-	-	111,618	111,618	111,618
Total financial liabilities	**-**	**-**	**-**	**111,618**	**111,618**	**111,618**

The composition of investments as at December 31, 2014 and 2013 was as follows:

(UA thousands)

	2014	2013
Treasury investments mandatorily measured at fair value through profit or loss	1,452,412	1,004,275
Treasury investments at amortized cost	1,557,501	2,067,836
Total	**3,009,913**	**3,072,111**

Treasury Investments Mandatorily Measured at Fair Value through Profit or Loss (FVTPL)

A summary of the Fund's treasury investments measured at FVTPL at December 31, 2014 and 2013 follows:

(UA millions)

	US Dollar		Euro		GBP		CAD		All Currencies	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Time deposits	-	10.28	108.94	-	159.18	75.08	-	-	268.12	85.36
Asset-backed securities	13.53	26.10	29.59	23.32	35.86	33.90	-	-	78.98	83.32
Government and agency obligations	267.08	144.52	158.97	151.71	163.33	223.42	60.95	-	650.33	519.65
Corporate bonds	225.88	107.42	29.60	78.55	126.95	65.03	-	-	382.43	251.00
Supranational	34.80	20.47	14.52	5.38	23.23	39.10	-	-	72.55	64.95
Total	**541.29**	**308.79**	**341.62**	**258.96**	**508.55**	**436.53**	**60.95**	**-**	**1,452.41**	**1,004.28**

The contractual maturity structure of investments measured at FVTPL at December 31, 2014 and 2013 was as follows:

(UA millions)

	2014	2013
One year or less	805.05	505.36
More than one year but less than two years	261.75	380.16
More than two years but less than three years	281.61	66.48
More than three years but less than four years	47.75	4.01
More than four years but less than five years	4.13	-
More than five years	52.12	48.27
Total	**1,452.41**	**1,004.28**

Treasury Investments at Amortized Cost

A summary of the Fund's treasury investments at amortized cost at December 31, 2014 and 2013 follows:

(UA millions)

	US Dollar		Euro		GBP		CAD		All Currencies	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
Asset-backed securities	13.71	12.82	-	-	-	-	-	-	13.71	12.82
Government and agency obligations	572.04	647.88	325.63	406.60	110.30	120.57	-	-	1,007.97	1,175.05
Corporate bonds	33.51	146.07	59.23	155.24	10.67	32.87	-	-	103.41	334.18
Supranational	256.62	347.89	141.98	153.65	33.81	44.25	-	-	432.41	545.79
Total	**875.88**	**1,154.66**	**526.84**	**715.49**	**154.78**	**197.69**	**-**	**-**	**1,557.50**	**2,067.84**

The contractual maturity structure of investments at amortized cost at December 31, 2014 and 2013 was as follows:

(UA millions)

	2014	2013
One year or less	372.01	526.98
More than one year but less than two years	231.67	369.31
More than two years but less than three years	296.50	228.92
More than three years but less than four years	236.04	297.32
More than four years but less than five years	254.52	238.06
More than five years	166.76	407.25
Total	**1,557.50**	**2,067.84**

Futures Contracts

The Fund has also entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at December 31, 2014, the Fund had 277 contracts in Euro, 1,246 contracts in Pound Sterling and 2,111 contracts in US Dollars. The nominal value of each contract is one million of each currency unit, except for 1,246 GBP contracts with a nominal value of 500,000 for each contract.

NOTE E – DEMAND OBLIGATIONS

Demand obligations represent subscription payments made by participants, in accordance with Article 9 of the Agreement, in the form of non-negotiable, non-interest-bearing notes payable at their par value on demand. The Board of Governors has agreed that the encashment of these notes will be governed by the Fund's disbursement requirements.

NOTE F – DEVELOPMENT ACTIVITIES

According to the Fund's loan regulations, loans are expressed in UA and repaid in the currency disbursed.

Project Loans and Lines of Credit

Loans are generally granted under conditions that allow for repayment over 40 years after a 10-year grace period commencing from the date of the loan agreement. Loan principal is generally repayable from years 11 through 20 at a rate of 1 percent per annum and from years 21 through 50 at a rate of 3 percent per annum. A service charge at a rate of 0.75 percent per annum on the principal amount disbursed and outstanding is payable by the borrower semi-annually. Loans and lines of credit approved after June 1996 carry a 0.5 percent per annum commitment charge on the undisbursed portion. Such commitment charge commences to accrue after 90 days from the date of signature of the loan agreement. With effect from the ADF-12 replenishment, loans to blend, gap and graduating countries carry differentiated financing terms of thirty (30) years' maturity, grace period of 8 years and interest rate of 1 percent, in addition to the existing standard 0.50 percent commitment fee and 0.75 percent service charge. Under ADF-13, further differentiated lending terms were adopted with the view of preserving the long-term financial sustainability and capacity of the Fund. The new lending terms require the acceleration of loan repayment by regular and advanced ADF-only countries, and also to blend, gap and graduating countries; and the granting of financial incentives for voluntary loan repayment.

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

Of the undisbursed balances of loans signed, the Fund may enter into special irrevocable commitments to pay amounts to borrowers or others in respect of the cost of goods and services to be financed under loan agreements. As at December 31, 2014, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 6.44 million (2013: UA 33.40 million).

The Fund also provides Partial Reimbursement Guarantees (PRGs) to private entities for development exposures on projects located in Regional Member Countries. Such guarantees represent potential risk to the Fund if amounts guaranteed for an entity are not reimbursed. As at December 31, 2014, guarantees provided by the Fund to private entities on account of its borrowers amounted to UA 145.75 million (2013: UA 137.50 million).

As at December 31, 2014, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 272.59 million (2013: UA 275.79 million) of which UA 110.05 million (2013: UA 103.17 million) was overdue, were in non-accrual status. If these loans had not been in non-accrual status, income from loans for the year ended December 31, 2014, would have been higher by UA 2.06 million (2013: UA 2.07 million). At December 31, 2014, the cumulative charges not recognized on the non-accrual loans amounted to UA 40.42 million, compared to UA 38.79 million at December 31, 2013.

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

At December 31, 2014, outstanding loans amounted to UA 8,965.21 million (2013: UA 8,182.64 million).

Maturity and Currency Composition of Outstanding Loans

The maturity distribution of outstanding loans as at December 31, 2014 and 2013 was as follows:

(Amounts in UA millions)

	2014		2013	
Period	**Amount**	**%**	**Amount**	**%**
One year or less*	187.18	2.09	173.83	2.12
More than one year but less than two years	81.87	0.91	77.39	0.95
More than two years but less than three years	89.42	1.00	82.10	1.00
More than three years but less than four years	98.69	1.10	89.32	1.09
More than four years but less than five years	111.78	1.25	98.07	1.20
More than five years	8,396.27	93.65	7,661.93	93.64
Total	**8,965.21**	**100.00**	**8,182.64**	**100.00**

* *Include the arrears on loans.*

The currency composition of outstanding loans as at December 31, 2014 and 2013 was as follows:

(Amounts in UA millions)

	2014		2013	
Currency	**Amount**	**%**	**Amount**	**%**
Canadian Dollar	11.20	0.12	11.69	0.14
Danish Krone	10.33	0.12	11.28	0.14
Euro	3,080.75	34.36	3,120.98	38.14
Japanese Yen	609.61	6.80	660.34	8.07
Norwegian Krone	17.31	0.19	21.05	0.26
Pound Sterling	569.09	6.35	369.31	4.51
Swedish Krona	12.16	0.14	14.24	0.18
Swiss Franc	52.57	0.59	56.92	0.70
United States Dollar	4,601.86	51.33	3,916.51	47.86
Others	0.33	0.00	0.32	0.00
Total	**8,965.21**	**100.00**	**8,182.64**	**100.00**

Slight differences may occur in total due to rounding.

Grants and Technical Assistance Activities

Under the Fund's lending policy, 5 percent of the resources available under the third and fourth general replenishments, 10 percent under the fifth and sixth general replenishments, and 7.5 percent under the seventh and eighth general replenishments were allocated as grants and grant-based technical assistance for the identification and preparation of development projects or programs in specified member countries. In addition, amounts in the range of 18 to 21 percent of the total resources under the ninth replenishment were set aside in the form of grants for permitted uses, including technical assistance and project financing. Grants do not bear charges. The share of grants under the tenth, eleventh and twelfth general replenishments is based on a country-by-country analysis of debt sustainability. Under the seventh, eighth and ninth general replenishments, technical assistance may also be provided on a reimbursable basis.

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

(i) where the loan is granted for the preparation of a pre-investment study and the study proves that the project is not feasible, the grace period is extended to 45 years with a repayment period of 5 years thereafter.

(ii) where the loan is granted for strengthening Regional Member Countries' cooperation or for the improvement of the operations of existing institutions and is not related to specific projects or programs, the grace period is 45 years with a repayment period of 5 years thereafter.

Technical assistance loans do not carry charges.

HIPC Debt Relief Initiative

Under the original framework of HIPC, selected loans to beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the net present value of the loans as calculated using the methodology agreed under the initiative. Following the signature of a HIPC debt relief agreement, loans identified for payment were written down to their estimated net present value. The amount of the write-down, representing the difference between the book value and net present value of the loans, was shown as an allocation of development resources. The amount of UA 71.08 million which was the write-down in respect of the debt relief granted to Mozambique in 1999 under the original HIPC framework is included in the amount stated as net debt relief in the Statement of Net Development Resources. The outstanding balance and net present value of the loans owed by Mozambique and sold to the HIPC Trust Fund in 1999 were UA 132.04 million and UA 60.96 million, respectively.

In 1999, the HIPC initiative was enhanced to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 33 African countries are currently eligible, debt relief is delivered through annual debt service reductions which allow the release of up to 80 percent of annual debt service obligations as they come due until the total net present value (NPV) of debt relief, determined by the debt sustainability analysis (DSA), is provided. Interim financing of up to 40 percent of total debt relief is granted between the decision and completion points. Total contributions by the Fund to the HIPC initiative at December 31, 2014 amounted to UA 184 million and are shown as allocation of development resources in the Statement of Net Development Resources.

Multilateral Debt Relief Initiative

At the Gleneagles Summit on July 8, 2005, the Group of 8 major industrial countries agreed on a proposal for the ADF, the International Development Association (IDA), and the International Monetary Fund (IMF) to cancel 100 percent of their claims on countries that have reached, or will reach, the completion point under the enhanced HIPC initiative. Through the Development Committee Communiqué of September 25, 2005, the donor community expressed its support for the MDRI, and urged the institutions referred to above to proceed with the necessary steps to ensure implementation.

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

The MDRI became effective for the ADF on September 1, 2006. Since disbursed and outstanding loans are already excluded from net development resources, the debt cancellation did not have an impact on the Fund's balance of net development resources. Cancellation of ADF debts are effected when other eligible countries reach the HIPC completion point.

At December 31, 2014, a gross amount of UA 5.53 billion (2013: UA 5.53 billion) of outstanding loans had been canceled under MDRI for 29 (2013: 29) HIPC completion-point countries. Of this amount, UA 1,225.99 million (2013: 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 (2013: UA 942.71 million). As of December 31, 2014, the present value amounts have been transferred from the HIPC Trust Fund to ADF.

A summary of debt relief granted under HIPC and MDRI as at December 31, 2014 and 2013 follows:

(UA thousands)

	2014			2013		
	HIPC	**MDRI**	**Total**	**HIPC**	**MDRI**	**Total**
Balance at January 1	235,096	4,564,345	4,799,441	235,096	4,588,201	4,823,297
Loans canceled*	-	-	-	-	19,550	19,550
Cash received*	-	-	-	-	(43,406)	(43,406)
Balance at December 31	**235,096**	**4,564,345**	**4,799,441**	**235,096**	**4,564,345**	**4,799,441**

** Upon implementation of MDRI.*

Special Arrears Clearance Mechanism

Arrears Clearance Mechanism for DRC – In connection with an internationally coordinated effort including the ADB Group, the IMF, the World Bank and other bilateral and multilateral donors to assist the Democratic Republic of Congo (DRC) in its reconstruction efforts, the Board of Directors on June 26, 2002 approved an arrears clearance mechanism for the DRC. Under the arrears clearance mechanism, representatives of ADF State Participants (the Deputies) authorized an allocation of approximately UA 36.50 million of grant resources from the ninth replenishment of the ADF (ADF-9) to clear the entire stock of the DRC's arrears to the Fund. The Deputies also authorized the use of approximately UA 11.77 million of the residual Supplementary Financing Mechanism (SFM) resources from ADF-8 as a partial payment against the DRC's arrears on charges to the ADB.

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

NOTE G – SUBSCRIPTIONS AND CONTRIBUTIONS

The Fund's initial subscriptions were provided by the Bank and the original State Participants to the Agreement, and states acceding to the Agreement since the original signing date. Thereafter, further subscriptions were received from participants in the form of a special general increase and 12 general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note M.

The Board of Governors, by its resolution F/BG/2014/01 of January 31, 2014, approved the thirteenth general replenishment of the Fund (ADF-13), following the Deputies agreement for a replenishment level of UA 5.35 billion, of which UA 0.98 billion represents internally generated resources, for the three-year operational period, 2014 to 2016. ADF-13 came into effect in March 2014 after the State Participants had deposited with the Fund, enough instruments of subscriptions and the approval by the Board of Directors for the use of the internally generated resources for operational commitments. At December 31, 2014, subscriptions to ADF-13 amounted to UA 3.36 billion.

The Grand Duchy of Luxembourg was admitted to the ADF on May 29, 2014, becoming the Fund's 27th State Participant. As per the Board of Governors' Resolution F/BG/2009/04, Luxembourg's initial subscription amount was set to UA 14.51 million. This subscription amount was paid in full on May 16, 2014, and included in the Fund's resources.

At December 31, 2014, cumulative contributions pledged on account of the MDRI amounted to UA 5.68 billion of which UA 748.05 million had been paid and included in total subscriptions. Consistent with the resolution approving MDRI, the contributions paid entitle the State Participants to voting rights, as reflected in Note M.

Gains or losses arising from translation of subscriptions and contributions received into UA are recorded in the Cumulative Exchange Adjustment on Subscriptions account in the Statement of Net Development Resources.

NOTE H – OTHER RESOURCES

In conformity with the findings of the UN General Assembly, the Board of Directors accepted that the former Socialist Federal Republic of Yugoslavia no longer exists as a state under international law and hence is no longer a State Participant in the Fund or a member of the Bank. Pursuant to a decision of the Board of Directors of the Fund in 1993, the subscriptions of the former Socialist Federal Republic of Yugoslavia in the Fund less the unpaid portion, are deemed to have become part of the permanent patrimony of the Fund and are not returnable to any entity. Accordingly, the amounts of the paid subscriptions are reported as part of other resources in the Statement of Net Development Resources.

Also included in other resources is a total of UA 538.99 million representing contributions by the Bank of UA 536.99 million, and by the Government of Botswana of UA 2 million towards the Fund's activities, in accordance with Article 8 of the Agreement.

NOTE I – RESERVES

Reserves as at December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Reserves at January 1	(131,915)	(8,390)
Deficit for the year	(125,352)	(123,525)
Reserves at December 31	**(257,267)**	**(131,915)**

NOTE J – TRUST FUNDS

The Fund has available resources entrusted to it under Article 8 of the Agreement, which empowers the Fund to receive other resources including grants from State Participants, non-participating countries, and from any public or private body or bodies.

At December 31, 2014, the undisbursed balance of trust fund resources was UA 4.11 million (2013: UA 3.22 million) representing the balance of a grant received from Japan for the development of human resources in Africa.

Resources of the trust funds are kept separate from those of the ADF.

NOTE K – ADMINISTRATIVE EXPENSES

Pursuant to Article 31 of the Agreement, the Fund reimburses the ADB for the estimated fair value of its use of the latter's offices, staff, organization, services and facilities. The amount of such administrative expenses reimbursed is based on a predetermined cost-sharing formula, which is driven, in large part, by the Fund's relative share of the number of programs and projects executed during the year by the Bank Group. The administrative expenses incurred by the Fund for the year amounted to UA 248.57 million (2013: UA 225.87 million).

NOTE L – RELATED PARTIES

The general operation of the Fund is conducted by a 14-member Board of Directors, of which 7 members are selected by the Bank. The Bank exercises 50 percent of the ADF's voting power and the President of the Bank is the ex-officio President of the Fund. In accordance with the Agreement, the Fund utilizes the offices, staff, organization, services and facilities of the ADB (the Bank) to carry out its functions, for which it reimburses the Bank as disclosed in Note K. In this regard, the Bank administers the resources of the Fund. The Fund also administers trust funds entrusted to it by one of its State Participants.

NOTE M – STATEMENT OF SUBSCRIPTIONS, CONTRIBUTIONS AND VOTING POWER AS AT DECEMBER 31, 2014

(Amounts in UA thousands)

		Subscriptions						Payment Positions			MDRI	Voting Power	
	Participants	Initial	Special Increase	ADF-1 to ADF-12 Installments	ADF-13 Install-ment	Grants Compen-sation	Total Subscrip-tions	Total Install-ments Paid	Install-ments Due	Install-ments not yet Payable	Payments Received	Number of Votes	%
1	ADB	4,605	1,382	105,754	-	-	111,741	111,741	-	-	-	1,000.000	50.000
2	Argentina	1,842	-	16,789	-	-	18,631	1,842	7,018	9,771	-	0.076	0.004
3	Austria	13,816	-	379,318	93,099	203	486,436	424,184	-	62,252	10,429	18.045	0.902
4	Belgium	2,763	-	442,331	90,003	278	535,375	476,399	-	55,162	13,615	20.266	1.013
5	Brazil	1,842	921	140,866	-	-	143,629	143,629	-	-	-	5.964	0.298
6	Canada	13,816	6,908	1,557,485	214,485	773	1,793,467	1,649,709	-	134,242	95,664	72.271	3.614
7	China	13,816	-	421,923	84,280	282	520,301	520,301	-	-	14,423	22.190	1.110
8	Denmark	4,605	1,842	581,148	75,172	418	663,185	661,654	-	-	9,555	25.021	1.251
9	Egypt	-	-	1,303	1,326	-	2,629	1,745	-	884	-	-	-
10	Finland	1,842	-	451,107	109,382	259	562,590	561,901	-	-	13,175	20.518	1.026
11	France	8,809	-	2,271,239	364,167	1,355	2,645,570	2,378,883	-	250,651	80,807	101.795	5.090
12	Germany	6,860	6,956	2,277,291	402,680	1,347	2,695,134	2,425,244	-	269,890	58,057	103.112	5.156
13	India	5,526	-	73,969	624	3	80,122	80,122	-	-	1,817	3.402	0.170
14	Italy	9,211	-	1,478,382	202,337	724	1,690,654	1,690,654	-	-	36,724	55.640	2.782
15	Japan	13,816	-	2,457,987	293,377	1,407	2,766,587	2,569,746	-	196,840	81,427	110.072	5.504
16	Korea	9,211	-	199,661	57,541	109	266,522	228,090	-	38,432	6,520	9.740	0.487
17	Kuwait	4,974	-	166,846	7,864	29	179,713	179,713	-	-	13,118	8.006	0.400
18	Luxembourg	14,514	-	-	-	-	14,514	14,514	-	-	-	0.603	0.030
19	Netherlands	3,684	1,842	936,792	166,606	643	1,109,567	1,108,987	-	580	28,985	46.750	2.337
20	Norway	4,605	2,303	983,880	201,519	608	1,192,915	1,058,018	-	134,897	31,093	44.935	2.247
21	Portugal	7,368	-	166,191	-	1	173,560	143,995	-	29,565	4,964	6.185	0.309
22	Saudi Arabia	8,290	-	252,207	23,202	81	283,780	283,780	-	-	5,508	12.008	0.600
23	South Africa	1,794	-	29,493	16,195	20	47,502	47,502	-	-	9,562	-	-
24	Spain	1,842	921	557,923	-	2	560,688	523,492	-	37,196	48,167	23.736	1.187
25	Sweden	4,605	3,684	1,105,956	207,302	687	1,322,234	1,183,577	-	138,657	35,134	50.592	2.530
26	Switzerland	2,763	2,938	789,377	131,073	493	926,644	838,935	-	87,709	32,549	36.178	1.809
27	Turkey	40,693	-	-	-	-	40,693	40,693	-	-	-	1.690	0.084
28	United Arab Emirates	4,145	-	4,145	-	-	8,290	8,290	-	-	-	0.344	0.017
29	United Kingdom	4,800	3,073	1,992,671	611,550	1,047	2,613,141	2,204,488	-	408,653	68,813	94.385	4.719
30	United States of America	12,434	8,290	2,603,776	-	12	2,624,512	2,516,455	-	108,057	47,945	106.476	5.324
	Supplementary/ voluntary contributions	-	-	94,709	-	-	94,709	94,709	-	-	-	-	-
	Total	**228,891**	**41,060**	**22,540,519**	**3,353,784**	**10,781**	**26,175,035**	**24,172,992**	**7,018**	**1,963,439**	**748,051**	**2,000.000**	**100.000**
	Supplementary information: Supplementary contributions through accelerated encashment to reduce the gap	-	-	60,001	5,320	-	65,321	60,001	-	5,320	6,195	-	-

NOTE N – APPROVAL OF SPECIAL PURPOSE FINANCIAL STATEMENTS

On March 25, 2015, 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 2015.

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Independent Auditor's Report on the special purpose financial statements of the African Development Fund to the Board of Governors of the African Development Fund

Year ended December 31, 2014

We have audited the accompanying special purpose financial statements of the African Development Fund (the Fund) prepared in compliance 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, 2014.

These special purpose financial statements have been prepared for the purposes of submitting approved and audited special purpose financial statements to the Board of Governors as required by Article 26(v), 35(l) and 35(3) of the Agreement establishing the Fund, and are not intended to be a presentation in conformity with a recognised accounting framework, such as, International Financial Reporting Standards.

This report is made solely to the Fund's Board of Governors, as a body, in accordance with Article 26(v), 35(l) and 35(3) of the Agreement establishing the Fund. Our audit work has been undertaken so that we might state to the Fund's 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 its Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Annual Financial Statements

Management is responsible for the preparation and presentation of these financial statements in accordance with articles 26(v), 35(l) and 35(3) of the Agreement Establishing the Fund and the accounting policies set out in note B to the special purpose financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risks assessments, the auditor considers internal control relevant to the entity's preparation and presentation of the special purpose 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 special purpose financial statement presentation.

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

Opinion

In our opinion, the special purpose financial statements of the Fund 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, 2014.

Paris La Défense, March 25, 2015

KPMG Audit
A division of KPMG S.A.

Valéry Foussé
Partner

ADF ADMINISTRATIVE BUDGET FOR FINANCIAL YEAR 2015

(UA thousands)

Management fees*	200,460
Direct Expenses	150
Total	**200,610**

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

NIGERIA TRUST FUND

Financial Management

NTF Replenishment

The Nigeria Trust Fund (NTF) is a special fund administered by the Bank. The Fund's resources primarily consist of subscriptions by the Federal Republic of Nigeria. The NTF was established in 1976, for an initial period of thirty (30) years, when an agreement establishing the NTF was executed between the Bank and the Federal Republic of Nigeria, with a provision for extension by mutual agreement. After two annual extensions in 2006 and 2007, the operation of the NTF was extended for ten years with effect from April 26, 2008, following a positive evaluation of its performance during the initial 30 years of operation.

Loan Products

NTF provides financing in the form of loans to the least developed and Low-Income Regional Member Countries at concessionary rates in order to enhance economic development and social progress in Africa. In the past the NTF has provided concessional financing exclusively to public sector operations. However, for the extension period to 2018, the Fund's mandate has been expanded to cover financial support to private sector operations as well, including the microfinance subsector.

Investments

The cash and treasury investments of the NTF, all denominated in US Dollars, amounted to UA 123.71 million at December 31, 2014, compared to UA 120.75 million at the end of 2013. Investment income for 2014 was UA 0.42 million, representing a return of 0.35 percent, on an average liquidity level of UA 121.38 million, compared to an income of UA 0.45 million representing a return of 0.38 percent on an average liquidity of UA 117.89 million in 2013. The portfolio's outperformance against its benchmark in 2014 remains similar to 2013 and the lower income in 2014 compared to 2013 is primarily attributable to the lower level of interest rates.

Loan Portfolio

Cumulative loans signed, net of cancellations, as at December 31, 2014, increased by UA 29.66 million to UA 308.43 million compared to UA 278.77 million at the end of 2013. During 2014, the new loan approvals amounted to UA 11.49 million compared with UA 31.17 million in 2013. Table 7.7 below presents the evolution of loans approved, disbursed and undisbursed balances from 2010 to 2014.

As at December 31, 2014, there were 37 active loans with an outstanding amount of UA 44.62 million and 44 fully repaid loans amounting to UA 124.14 million.

Disbursements

Disbursements increased from UA 0.96 million in 2013 to UA 3.13 million in 2014. As at December 31, 2014, cumulative disbursements amounted to UA 241.20 million (2013: UA 238.07 million). A total of 69 loans amounting to UA 235.06 million were fully disbursed as at December 31, 2014, representing 97.45 percent of cumulative disbursements on that date. Figure 7.4 shows the evolution of loan disbursements and repayments over the past five years.

Repayments

Principal loan repayments amounted to UA 6.81 million in 2014 compared to UA 6.09 million in 2013, representing an increase of 11.82 percent over the previous year. Cumulative repayments as of December 31, 2014 stood at UA 177.34 million.

Figure 7.4 Loan Disbursements and Repayments, 2010-2014 (UA millions)

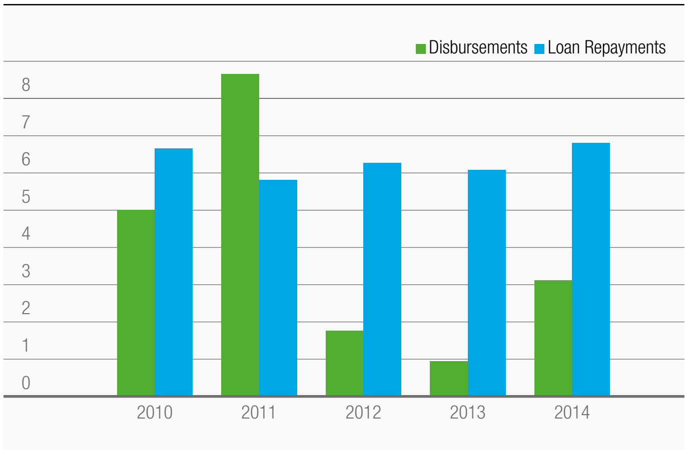

Table 7.7 Lending Status, 2010-2014 (UA millions)

	2010	2011	2012	2013	2014
Loans approved	0.70	10.00	12.90	31.17	11.49
Disbursements	5.02	8.67	1.76	0.96	3.13
Undisbursed Balances	18.94	9.73	22.86	40.70	67.23

Risk Management Policies and Processes

The NTF, similar to the Bank, seeks to reduce its exposure to risks that are not essential to its core business of providing development related assistance, such as liquidity, currency and interest rate risks. The Fund follows stringent risk management procedures in managing these risks. Note D to the Financial Statements of the Fund provides the details of the risk management policies and practices employed by NTF.

Financial Results

The highlights of the Nigeria Trust Fund's financial performance in 2014 include the following:

- NTF's income before distributions approved by the Board of Governors decreased by UA 0.09 million from UA 1.58 million in 2013 to UA 1.49 million in 2014, mainly due to a decrease in investment income, owing to low interest rates.
- Administrative expenses, representing the NTF's share of the total shareable expenses of the ADB Group, decreased by UA 0.03 million from UA 0.40 million in 2013 to UA 0.37 million in 2014. As noted earlier, the NTF's share of the total shareable expenses of the ADB Group is based on a predetermined cost-sharing formula, which is driven by the relative levels of certain operational volume indicators and relative balance sheet-size. However, the NTF's share of the total administrative expenses is capped at no more than 20 percent of its gross income in any year.
- The NTF's reserves net of cumulative currency translation adjustments increased from UA 37.19 million at the end of 2013 to UA 39.69 million on December 31, 2014, a 6.72 percent increase.

Nigeria Trust Fund

Financial Statements and Report of the Independent Auditor Year ended December 31, 2014

BALANCE SHEET
AS AT DECEMBER 31, 2014
(UA thousands – Note B)

ASSETS	2014	2013
DUE FROM BANKS	10,286	13,656
INVESTMENTS (Note F)	113,419	107,097
ACCOUNTS RECEIVABLE		
Accrued income and receivables on loans	1,136	1,286
Accrued income on investments	45	49
Other receivables	252	3
	1,433	1,338
LOANS (Notes D & G)		
Disbursed and outstanding	44,621	45,753
Less: Accumulated provision for impairment	(155)	(146)
	44,466	45,607
TOTAL ASSETS	**169,604**	**167,698**

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

LIABILITIES & EQUITY	**2014**	2013
ACCOUNTS PAYABLE	1,327	1,926
EQUITY (Note H)		
Capital	128,586	128,586
Reserves		
Retained earnings	146,347	153,423
Cumulative Currency Translation Adjustment (Note B)	(106,656)	(116,237)
Total reserves	39,691	37,186
Total Equity	168,277	165,772
TOTAL LIABILITIES & EQUITY	**169,604**	**167,698**

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
INCOME (Note I)		
Interest and charges on loans	1,447	1,530
Income from investments	417	455
Total income	1,864	1,985
EXPENSES		
Administrative expenses (Note J)	373	397
Bank charges and sundry gains	(12)	(4)
Total expenses	361	393
Provision for impairment on loan interest and charges (Note G)	12	12
Total expenses and provision for impairment	373	405
Income before distributions approved by the Board of Governors	1,491	1,580
Distributions of income approved by the Board of Governors (Note H)	(158)	(217)
NET INCOME FOR THE YEAR	**1,333**	**1,363**

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
NET INCOME FOR THE YEAR	1,333	1,363
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**1,333**	**1,363**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	Capital	**Retained Earnings**	**Cumulative Currency Translation Adjustment**	**Total Equity**
BALANCE AT JANUARY 1, 2013	128,586	152,060	(116,025)	164,621
Net income for the year	-	1,363	-	1,363
Currency translation adjustment	-	-	(212)	(212)
BALANCE AT DECEMBER 31, 2013 AND JANUARY 1, 2014	**128,586**	**153,423**	**(116,237)**	**165,772**
Withdrawal of funds by the Government of Nigeria	-	(8,409)	-	(8,409)
Net income for the year	-	1,333	-	1,333
Currency translation adjustment	-	-	9,581	9,581
BALANCE AT DECEMBER 31, 2014	**128,586**	**146,347**	**(106,656)**	**168,277**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2014
(UA thousands – Note B)

	2014	2013
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	1,333	1,363
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for impairment on loan principal and charges	12	12
Unrealized gains on investments	(22)	(55)
Changes in accrued income and receivables on loans	(132)	(192)
Changes in net current assets	238	(11,225)
Net cash provided by/(used in) operating activities	1,429	(10,097)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(3,126)	(959)
Repayment of loans	6,813	6,087
Investments maturing after 3 months of acquisition:		
Held at fair value through profit or loss	(7,662)	(23,391)
Net cash used in investing, lending and development activities	(3,975)	(18,263)
FINANCING ACTIVITIES:		
Withdrawal of funds by the Government of Nigeria	(8,409)	-
Net cash used in financing activities	(8,409)	-
Effect of exchange rate changes on cash and cash equivalents	(345)	(285)
Net decrease in cash and cash equivalents	(11,300)	(28,645)
Cash and cash equivalents at the beginning of the year	24,929	53,574
Cash and cash equivalents at the end of the year	**13,629**	**24,929**
COMPOSED OF:		
Investments maturing within 3 months of acquisition	3,343	11,273
Cash	10,286	13,656
Cash and cash equivalents at the end of the year	**13,629**	**24,929**
SUPPLEMENTARY DISCLOSURE		
1. Operational cash flows from interest		
Interest received	1,900	2,152
2. Movement resulting from exchange rate fluctuations on loans	2,456	(43)

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

NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2014

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, 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 1-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, 2014, 1 UA was equivalent to 1.44881 United States dollars (2013: 1.54000 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

The Fund early adopted in 2013 the revisions to IAS 32 which became effective on January 1, 2014. The application has no impact on the financial position of the Fund as the amendments merely clarify the offsetting criteria and how these are to be applied in practice.

IFRS 9: Financial Instruments

The final version of the second part of IFRS 9 Financial Instruments was issued on July 24, 2014 and is effective for annual periods beginning on or after January 1, 2018. The standard introduces a third classification and measurement category for financial assets, require the expected credit loss impairment model in place of the IAS 39 incurred loss model and some revisions to hedge accounting.

Although preliminary indications are that Fund will be affected by the new standard, the Fund is still assessing the full impact of this new pronouncement on its financial position and performance.

No other new or revised financial reporting standard, applicable to the Fund, became effective in 2014.

NOTE D – RISK MANAGEMENT POLICIES AND PROCEDURES

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

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

The ALCO meets 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 late 2013, a Group Chief Risk Officer position was created reporting directly to the President of the Bank.

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

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

Credit Risk

Credit risk is the potential financial loss due to 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, 2014 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	4,702	-	-	4,702	10.54
Cabo Verde	1	656	-	-	656	1.47
Cameroon	1	5,000	-	5,000	-	-
Djibouti	1	846	-	-	846	1.90
Gambia, The	3	10,439	-	-	10,439	23.39
Ghana	1	1,294	-	-	1,294	2.90
Guinea	1	2,835	-	-	2,835	6.35
Guinea-Bissau	1	3,487	-	3,268	219	0.49
Lesotho	1	10	-	-	10	0.02
Liberia	4	7,032	-	6,500	532	1.19
Madagascar	2	6,827	-	6,500	327	0.73
Malawi	2	11,506	-	10,816	690	1.55
Mali	1	6,491	-	6,491	-	-
Mauritania	2	7,726	-	471	7,255	16.26
Namibia	1	805	-	-	805	1.80
Rwanda	2	11,018	-	6,500	4,518	10.13
Senegal	1	590	-	-	590	1.32
Seychelles	1	700	-	-	700	1.57
Sierra Leone	2	7,429	-	6,670	759	1.70
Somalia**	1	803	-	-	803	1.80
Swaziland	1	4,086	-	-	4,086	9.16
Tanzania	1	749	-	-	749	1.68
Uganda	2	10,421	-	8,615	1,806	4.05
Zambia	1	6,400	-	6,400	-	-
Total	**37**	**111,852**	**-**	**67,231**	**44,621**	**100.00**

* *Excludes fully repaid loans and canceled loans.*
** *Country with overdue amounts as at December 31, 2014.*

Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

As at December 31, 2014, 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.

		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 macroeconomic 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
2014	19%	78%	3%
2013	50%	44%	6%
2012	63%	19%	18%
2011	50%	23%	27%
2010	48%	40%	12%
2009	60%	37%	3%

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 3-months LIBOR in order to manage prudently the available resources. Repricing risk is not considered significant in comparison to the Fund's equity resources, and is accordingly not hedged.

At December 31, 2014, the Fund had UA 67.23 million of loans which were committed but not yet disbursed (2013: UA 40.69 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, 2014 and 2013 were as follows:

Interest Rate Risk Position as at December 31, 2014

(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	10,286	-	-	-	-	-	-	10,286
Investments	19,910	61,323	26,596	4,124	-	1,466	-	113,419
Accounts receivable	1,433	-	-	-	-	-	-	1,433
Loans	5,815	3,958	3,509	3,045	3,029	25,265	(155)	44,466
	37,444	65,281	30,105	7,169	3,029	26,731	(155)	169,604
Liabilities								
Accounts payable	(1,327)	-	-	-	-	-	-	(1,327)
Interest rate risk position as at December 31, 2014*	**36,117**	**65,281**	**30,105**	**7,169**	**3,029**	**26,731**	**(155)**	**168,277**

** Interest rate risk position represents equity.*

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.*

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, 2014 and 2013, respectively.

(UA thousands)

	+100 Basis Points		-100 Basis Points	
	2014	2013	**2014**	2013
(Loss)/Gain on investments measured at fair value	**(215)**	(198)	**204**	199

NOTE E – FINANCIAL ASSETS AND LIABILITIES

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

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss		Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
December 31, 2014	**Mandatorily at Fair Value**	**Designated at Fair Value**			
Due from banks	-	-	10,286	10,286	10,286
Treasury investments	113,419	-	-	113,419	113,419
Accounts receivable	-	-	1,420	1,420	1,420
Loans	-	-	44,466	44,466	44,237
Total financial assets	**113,419**	**-**	**56,172**	**169,591**	**169,362**
Liabilities	-	-	1,327	1,327	1,327
Total financial liabilities	**-**	**-**	**1,327**	**1,327**	**1,327**

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss		Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
December 31, 2013	**Mandatorily at Fair Value**	**Designated at 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**

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, 2014, all investments are held at fair value through profit and loss.

The Fund's investments at December 31, 2014 and 2013 (at FVTPL) are summarized below:

(UA thousands)

	2014	2013
Time deposits	3,343	11,273
Asset-backed securities	323	502
Government and agency obligations	88,422	77,771
Corporate bonds	21,331	17,551
Total	**113,419**	**107,097**

The table below classifies the Fund's investments at December 31, 2014 and 2013 into three levels reflecting the relative reliability of the measurement bases, with level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument		**Valuation techniques for which all significant inputs are based on observable market data**		**Valuation techniques for which any significant input is not based on observable market data**			
	(Level 1)		**(Level 2)**		**(Level 3)**		**Total**	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013
Time deposits	3,343	11,273	-	-	-	-	3,343	11,273
Asset-backed securities	-	-	-	-	323	502	323	502
Government and agency obligations	88,422	77,771	-	-	-	-	88,422	77,771
Corporate bonds	-	-	21,331	17,551	-	-	21,331	17,551
Total	**91,765**	**89,044**	**21,331**	**17,551**	**323**	**502**	**113,419**	**107,097**

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at December 31, 2014 and 2013 are made up as follows:

(UA thousands)

	2014	2013
Balance at January 1	502	720
Losses recognized in income statement	(210)	(217)
Purchases, issues and settlements (net)	-	-
Currency translation adjustments	31	(1)
Balance at December 31	**323**	**502**

The contractual maturity structure of the Fund's investments as at December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
One year or less	19,910	29,940
More than one year but less than two years	61,323	43,510
More than two years but less than three years	26,596	33,140
More than three years but less than four years	4,124	387
More than five years	1,466	120
Total	**113,419**	**107,097**

The notional balance of investments as at December 31, 2014 was UA 113.42 million (2013: UA 107.05 million), while the average yield was 0.35 % (2013: 0.23%).

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:

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, 2014, all loans disbursed were repayable in United States Dollars.

The contractual maturity structure of outstanding loans as at December 31, 2014 and 2013 was as follows:

(Amounts in UA millions)

	2014		2013	
Periods	**Amount**	**%**	**Amount**	**%**
One year or less	5.81	13.02	7.51	16.42
More than one year but less than two years	3.96	8.87	4.65	10.16
More than two years but less than three years	3.51	7.87	3.66	8.00
More than three years but less than four years	3.05	6.84	3.24	7.08
More than four years but less than five years	3.03	6.79	2.80	6.12
More than five years	25.26	56.61	23.89	52.22
Total	**44.62**	**100.00**	**45.75**	**100.00**

The weighted-average interest yield on outstanding loans for the year ended December 31, 2014 was 3.31% (2013: 2.02%).

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, 2014, loans made to or guaranteed by certain borrowing countries with an aggregate principal balance of UA 0.80 million, of which UA 0.78 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, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Outstanding balance on impaired loans	803	755
Less: Accumulated provision for impairment	(155)	(146)
Net balance on impaired loans	**648**	**609**
Charges receivable and accrued income on impaired loans	1,036	975
Less: Accumulated provision for impairment	(573)	(536)
Net charges receivable and accrued income on impaired loans	**463**	**439**

Movements in the accumulated provision for impairment on loan principal for the year ended December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Balance at January 1	146	146
Translation effects	9	-
Balance at December 31	**155**	**146**

Movements in the accumulated provision for impairment on interest and charges receivable on loans for the year ended December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Balance at January 1	536	525
Provision for impairment on loan charges for the year	12	11
Translation effects	25	-
Balance at December 31	**573**	**536**

Fair Value of Loans

At December 31, 2014 and 2013, the carrying and estimated fair values of outstanding loans were as follows:

(UA thousands)

	2014		2013	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Loan balance at December 31	44,621	44,237	45,753	45,027
Accumulated provision for impairment on loans	(155)	-	(146)	-
Net balance	**44,466**	**44,237**	**45,607**	**45,027**

NOTE H – EQUITY

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

Fund Capital

The initial capital of the Fund was Naira 50 million which was payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to 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.

During the year ended December 31, 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.

Reserves including Retained Earnings

Retained Earnings

Retained earnings as at December 31, 2014 and 2013 were as follows:

(UA thousands)	
Balance at January 1, 2013	152,060
Net income for the year	1,363
Balance at December 31, 2013 and January 1, 2014	**153,423**
Liberia arrears clearance	(8,409)
Net income for the current year	1,333
Balance at December 31, 2014	**146,347**

The Board of Governors of the Bank approves the transfers of part of the Fund's annual 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, 2014 and 2013 were UA 0.16 million and UA 0.22 million, respectively.

Cumulative Currency Translation Adjustments

Cumulative currency translation adjustments as at December 31, 2014 and 2013 were as follows:

(UA thousands)	**2014**	2013
Balance at January 1	116,237	116,025
Movements during the year	(9,581)	212
Balance at December 31	**106,656**	**116,237**

NOTE I – INCOME

Interest and Charges on Loans

Interest and charges on loans for the year ended December 31, 2014 and 2013 were as follows:

(UA thousands)	**2014**	2013
Interest income on loans not impaired	1,179	1,348
Interest income on impaired loans	31	31
Commitment charges	237	151
Total	**1,447**	**1,530**

Income from Investments

Income from investments for the year ended December 31, 2014 and 2013 were as follows:

(UA thousands)

	2014	2013
Interest income	448	617
Realized and unrealized fair value losses	(31)	(162)
Total	**417**	**455**

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 period. The administrative cost-sharing formula may be reviewed from time-to-time by mutual agreement.

The amount of UA 0.37 million charged for the year ended December 31, 2014 (2013: UA 0.40 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, 2014 in respect of Fund's share of administrative expenses was UA 0.05 million (2013: UA 0.03 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, 2014 and 2013 is detailed as follows:

(UA thousands)

	2014	2013
Interest income and charges on loans with sovereign guarantee	1,447	1,530
Treasury investment income	417	455
Total external revenue	**1,864**	**1,985**

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 below. In presenting information on the basis of the above geographical areas, revenue is based on the location of customers. The Fund uses ADB's offices, staff, organization, services and facilities and therefore has no fixed assets of its own.

Geographical information about income from loans for the year ended December 31, 2014 and 2013 is detailed as follows:

(UA thousands)

	East Africa	**North Africa**	**Southern Africa**	**West Africa**	**Total**
2014					
Income from loans	311	143	332	661	**1,447**
2013					
Income from loans	334	138	292	766	**1,530**

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, 2014.

NOTE M – APPROVAL OF FINANCIAL STATEMENTS

On March 25, 2015, 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 2015.

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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 December 31, 2014

We have audited the accompanying financial statements of the Nigeria Trust Fund (the Fund) which comprise the balance sheet as at December 31, 2014 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.

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 December 31, 2014, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paris La Défense, March 25, 2015

KPMG Audit
A division of KPMG S.A.

Valéry Foussé
Partner

Annexes

Annex I

Bank Group Loan and Grant Approvals by Sub-region, 2010-2014, and cumulative 1967-2014

(UA million)

Sub-region/Country	2010	2011	2012	2013	2014	1967-2014
Central Africa						
Cameroon	71.7	85.6	47.3	42.8	143.8	1,335.2
Central African Republic	-	4.6	34.0	-	15.6	232.5
Chad	0.7	21.1	21.5	6.4	14.9	504.5
Congo	3.4	0.1	10.6	2.2	7.5	341.1
Congo, Democratic Republic	158.3	70.2	63.6	185.5	185.0	2,122.0
Equatorial Guinea	-	-	-	-	0.8	131.5
Gabon	0.5	272.3	145.4	-	1.6	1,448.7
São Tome & Príncipe	5.0	-	0.5	7.0	-	117.1
Central Africa Approvals	**239.6**	**453.8**	**323.0**	**243.9**	**369.2**	**6,232.6**
East Africa						
Burundi	34.1	49.0	17.8	15.5	41.8	515.3
Comoros	0.6	0.4	2.6	13.6	4.0	103.4
Djibouti	-	1.4	5.9	3.9	-	190.4
Eritrea	12.9	12.0	-	-	-	105.7
Ethiopia	224.4	67.1	166.0	85.7	60.0	2,441.1
Kenya	116.7	104.9	28.0	239.5	190.1	1,811.6
Rwanda	41.1	61.0	-	53.8	99.4	793.4
Seychelles	0.3	8.2	-	14.3	0.6	127.5
Somalia	-	1.1	-	3.3	0.3	156.2
South Sudan	-	-	4.8	27.4	0.7	32.8
Sudan	0.7	-	1.1	25.6	-	388.2
Tanzania	129.6	155.0	154.0	41.7	98.7	2,075.9
Uganda	-	151.1	67.0	72.9	127.5	1,914.0
East Africa Approvals	**560.3**	**611.2**	**447.2**	**597.3**	**623.1**	**10,655.5**
North Africa						
Algeria	-	0.5	0.8	-	0.8	1,892.3
Egypt	651.4	0.6	-	-	0.4	3,761.9
Libya	0.6	-	-	-	-	0.6
Mauritania	3.6	-	6.2	1.7	4.5	513.2
Morocco	519.7	355.3	754.0	204.6	232.3	7,183.7
Tunisia	296.6	545.7	354.6	22.6	66.2	5,449.4
North Africa Approvals	**1,471.9**	**902.2**	**1,115.5**	**228.8**	**304.2**	**18,801.1**

Annex I (Continued)

Bank Group Loan and Grant Approvals by Sub-region, 2010-2014, and cumulative 1967-2014
(UA million)

Sub-region/Country	2010	2011	2012	2013	2014	1967-2014
Southern Africa						
Angola	-	4.9	-	22.9	662.1	1,059.3
Botswana	2.1	0.6	-	-	-	1,514.5
Lesotho	-	-	-	17.3	-	351.0
Madagascar	-	0.6	2.3	76.9	65.9	947.9
Malawi	14.7	10.0	52.5	31.1	20.0	868.2
Mauritius	0.3	-	-	99.0	76.8	927.0
Mozambique	37.9	60.0	57.5	26.5	25.2	1,350.0
Namibia	0.6	5.0	0.5	199.4	-	373.9
South Africa	403.7	301.0	273.1	-	235.7	3,994.2
Swaziland	0.3	0.5	0.5	-	45.8	347.1
Zambia	32.6	15.0	61.6	133.3	25.6	1,049.1
Zimbabwe	0.7	6.1	16.1	8.8	-	759.9
Southern Africa Approvals	**492.8**	**403.7**	**464.0**	**615.2**	**1,157.0**	**13,542.0**
West Africa						
Benin	43.0	-	30.0	40.5	25.2	690.5
Burkina Faso	35.2	50.0	-	79.5	32.2	938.1
Cabo Verde	20.5	30.0	-	67.1	12.7	347.6
Côte d'Ivoire	23.0	101.1	104.3	62.3	30.0	1,809.3
Gambia, The	-	2.0	3.5	0.6	6.3	255.5
Ghana	111.0	70.0	168.8	13.3	51.7	1,801.7
Guinea	-	50.6	-	22.4	12.7	804.0
Guinea-Bissau	5.7	-	0.7	-	0.6	208.4
Liberia	31.2	36.2	7.1	43.4	13.7	329.6
Mali	66.5	52.0	0.7	136.0	38.7	1,072.8
Niger	54.2	25.3	31.6	11.2	-	525.6
Nigeria	67.8	453.6	63.9	410.6	957.9	4,875.9
Senegal	70.8	35.4	4.7	82.1	47.4	1,109.3
Sierra Leone	29.2	37.8	23.3	21.0	7.0	445.9
Togo	32.5	77.7	2.7	1.3	8.6	337.6
West Africa Approvals	**590.8**	**1,021.8**	**441.2**	**991.0**	**1,244.5**	**15,551.7**
Multinational	**319.1**	**735.2**	**812.0**	**884.9**	**802.0**	**6,940.9**
Total Approvals	**3,674.5**	**4,127.9**	**3,602.8**	**3,561.1**	**4,500.1**	**71,723,9**

Source: AfDB Statistics Departmen.
Notes:
- Magnitude zero.

Annex II

Overview of Key Decisions by the Boards of Directors in 2014

The One-Bank Results Measurement Framework 2013-2016
Bank Group Gender Strategy 2014-2018 (Revised Version)
Financial Aspects of ADF-13 Implementation and approval of the Advance Commitment Capacity (ACC)
REGIONAL—Revised Regional Operations Selection and Prioritization Framework
Establishment of the Africa Climate Change Fund (ACCF)
Establishment of the Africa Growing Together Fund (AGTF)
Diversifying the Bank's Products to Provide Eligible ADF-Only Countries Access to the ADB Sovereign Window
LIBYA—Country Re-Engagement Note 2014-2016
Governance Strategic Framework and Action Plan (GAP II) 2014-2018
The Bank's Human Capital Strategy for Africa, 2014-2018
Addressing Fragility and Building Resilience in Africa – The African Development Bank Group Strategy 2014-2019
Bank Group Regional Integration Policy and Strategy (RIPoS) 2014-2023
2015-2017 Rolling Plan and Budget Document
Proposal for an Upstream Discussion of Country Strategy Papers (CSPs) by the Executive Directors
Application of Angola to Become a State Participant in the African Development Fund

Source: Office of the Secretary General, AfDB.

Annex III

A – List of Tables, Maps, Figures and Boxes

Tables

Maps

Figures

Boxes

Annex III

B – Abbreviations and Acronyms

ACC	Advance Commitment Capacity
ACCF	Africa Climate Change Fund
ADB	African Development Bank
ADF	African Development Fund
ADOA	Additionality and Development Outcomes Assessment
AfDB	African Development Bank Group
AfrEA	African Evaluation Association
AGTF	Africa Growing Together Fund
ALSF	African Legal Support Facility
AMBD	Committee on Administrative Matters Affecting the Boards of Directors
AMCOW	African Ministers' Council on Water
ANRC	African Natural Resource Center
ANRE	Annual Report Committee
ASEAN	Association of Southeast Asian Nations
AU	African Union
AUC	African Union Commission
AUFI	Audit and Finance Committee
AWF	African Water Facility
CAR	Central African Republic
CBFF	Congo Basin Forest Fund
CCAP	Climate Change Action Plan
CCIA	Immeuble de Centre de Commerce International d'Abidjan
CIF	Climate Investment Funds
CILSS	Permanent Interstate Committee for Drought Control in the Sahel
CLSG	Côte d'Ivoire, Liberia, Sierra Leone, Guinea
CO_2	Carbon Dioxide
COBD	The Business Development Department
CODE	Committee on Operations and Development Effectiveness
COP 20	20th session of the Conference of the Parties of the UNFCCC
CPIA	Country Policy and Institutional Assessment
CPPR	Country Portfolio Performance Review
CRMU	Compliance Review and Mediation Unit
CSP	Country Strategy Paper
CWHOLE	Committee of the Whole
DFID	Department for International Development
DIRA	Department Overseeing the Return to Abidjan
DRC	Democratic Republic of Congo
DPMO	The Delivery and Performance Management Office
DRSLP	The Drought Resilience and Sustainable Livelihoods Program
DSA	Debt Sustainability Assessment
EAC	East African Community
EADI	Bank's African Development Institute
ECA	Economic Commission for Africa
ECOWAS	Economic Community of West African States
EGIGP	Economic Governance and Inclusive Growth Program
ESTA	Statistics Department
EU	European Union
EVD	Ebola virus disease
FAO	Food and Agricultural Organisation
FCWC	Fisheries Committee of West Africa
FDI	Foreign Direct Investment
FFL	Fully Flexible Loan
FO	Field Office
FSF	Fragile States Facility
FSDPS	Financial Sector Development Policy and Strategy
FSL	Fixed Spread Loan
GAFSP	Global Agriculture and Food Security Program
GAP	Governance Strategic Framework and Action Plan
GCI	General Capital Increase
GCI-VI	Sixth General Capital Increase
GDP	Gross Domestic Product
GEF	Global Environment Facility
HCS	Human Capital Strategy for Africa
HIPC	Heavily Indebted Poor Countries
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HQ	African Development Bank Headquarters
HR	Human Resources
IACD	Integrity and Anti-Corruption Department
ICA	Infrastructure Consortium for Africa
i-CSP	Interim Country Strategy Paper
ICT	Information and Communications Technology
IDEV	Independent Development Evaluation
IE	Impact Evaluation
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
IPPF	Infrastructure Project Preparation Facility
IPR	Implementation Progress and Results Report
IRM	Independent Review Mechanism
ISPs	Institutional Support Programs
ISS	Integrated Safeguards System
IT	Information Technology
ITS	Information Technology Strategy
IWRM	Integrated Water Resources Management
KOAFEC	Korea-Africa Economic Cooperation
KPIs	Key Performance Indicators
LIBOR	London Interbank Offered Rate
LICs	Low-Income Countries
LOC	Line of Credit
MARS	Management Action Record System
MDBs	Multilateral Development Banks

MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
MDWPP	Multi-Donor Water Partnership Program
MICs	Middle-Income Countries
MNCs	Multinational Companies
MRU	Mano River Union
MSMEs	Micro-, Small-, and Medium-sized Enterprises
MTR	Mid-Term Review
MW	Megawatt
NEPAD	New Partnership for Africa's Development
NSA	Negotiated Settlement Agreements
NSO	Non-Sovereign Operations
NTF	Nigeria Trust Fund
OAGL	Office of the Auditor General
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OPEV	Operations Evaluation Department
ORTS	Transition Support Department
OSFD	Financial Sector Development Department
P2RS	Program to Build Resilience in the Sahel
PASEL	Electricity Access Support Project
PBA	Performance-Based Allocation
PBO	Policy-Based Operation
PCG	Partial Credit Guarantee
PDB	Programme and Budget Document
PECOD	Permanent Committee on the Review and Implementation of Decentralization of the Bank's Activities
PSEM	Public Sector and Economic Management
PIDA	Programme for Infrastructure Development in Africa
PPP	Public Private Partnership
PRESIBALT	Programme to Rehabilitate and Strengthen Resilience of the Lake Chad Basin Ecosystems
PRG	Partial Risk Guarantee
PSF	Private Sector Credit Enhancement Facility
QAD	Quality Assurance Dashboard
RECs	Regional Economic Communities
RIPoS	Regional Integration Policy and Strategy
RISP	Regional Integration Strategy Paper
RMCs	Regional Member Countries
RPA	Risk Participation Agreements
RR	Readiness Review
RRC	Regional Resource Centers
RWSSI	Rural Water Supply and Sanitation Initiative
SAB	Sanctions Appeal Board
SADC	Southern African Development Community
SCO	Staff Council
SEOG	Office of the Special Envoy on Gender
SLL	Sustainable Lending Limit
SMEs	Small- and Medium-sized Enterprises
SSA	Sub-Saharan Africa
STI	Science Technology and Innovation
SWAPHS	Strengthening West Africa's Public Health System Response to the Ebola Crisis
TDFO	Chad Field Office
TF	Trust Fund
TRA	Temporary Relocation Agency
TRIB	Administrative Tribunal
TSF	Transition Support Facility
TYS	Ten-Year Strategy
UA	Unit of Account
UK	United Kingdom
UNDP	United Nations Development Programme
UNECA	United Nations Economic Commission for Africa
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
USA	United States of America
USD	United States Dollar
VP	Vice President
VPCs	Values Promotion Champions
WHO	World Health Organization
Zim-Fund	Zimbabwe Multi-Donor Trust Fund

Annex IV

A – Thematic Trust Funds/Special Funds Resources Available for Commitment, as of December 31, 2014

Trust Fund	Amount in the Agreement: Donor	Amount in the Agreement: UA	Area of intervention	Activities
Africa Legal Support Facility (ALSF)		**25,875,663**	• Legal Support	• Commercial creditor litigation • Negotiations of complex commercial transactions; • Enhancing the capacity of RMCs to carry out those services themselves
Belgium	USD 713,812			
BIDC	USD 50,000			
BOAD	USD 199,371			
Canada	USD 4,535,970			
UK-DFID	USD 726,464			
France	USD 5,000,000			
Netherland	USD 5,022,316			
Norway	USD 2,441,570			
USAID	USD 3,000,000			
World Bank	USD 50,000			
AfDB	USD 16,148,678			
Africa Trade Fund (AfTRA)		**9,221,973**	• Trade • Economic Growth • Regional Integration • Infrastructure (water and energy)	• Technical Assistance • Training • Capacity Building • Preparation of Policy and Sector Studies
Canada	CAD 15,000,000			
African Community Practice (AfCOP)		**4,620,144**	• Regional Integration • Capacity building • Technical assistance	• Knowledge sharing on MfDR • Linking MfDR knowledge to regional processes • Synergies between regional and national processes • Project management
ADF	USD 6,765,000			
African Water Facility (AWF)		**134,392,187**	• Water Sector	• Technical Assistance • Studies • Operational Support
Algeria	EUR 100,000			
Austria	EUR 6,900,000			
Australia	EUR 6,009,290			
AfDB	EUR 11,271,800			
Bill & Belinda Gates Foundation	EUR 7,349,358			
Burkina Faso	EUR 82,222			
Canada	EUR 25,441,047			
Denmark	EUR 5,361,083			
DFID	EUR 17,052,415			
European Union	EUR 25,000,000			
Egypt	EUR 15,000			
France	EUR 12,000,000			
Norway	EUR 16,788,685			
Senegal	EUR 174,963			
Sweden	EUR 12,195,623			
Spain	EUR 12,000,000			
Agriculture Fast Track Fund (AFT)		**14,809,155**	• Agricultural infrastructure • Health	• Market research • Financial modeling • Business plan development • Environmental and social impact studies.
SIDA	USD 7,837,175			
USAID	USD 12,024,325			
Denmark	USD 1,822,656			

Annex IV (Continued)

A – Thematic Trust Funds/Special Funds Resources Available for Commitment, as of December 31, 2014

Trust Fund	Amount in the Agreement – Donor	Amount in the Agreement – UA	Area of intervention	Activities
Congo Basin Forest Fund (CBFF) UK DFID Norway Canada	 EUR 37,679,513 EUR 61,251,956 EUR 14,226,775	**100,230,476**	• Environment: • Reduce deforestation and degradation • Poverty reduction • Sustainable forest management • Sustainable development • Capacity building	• Assessment and funding of Projects, establishment of CBFF secretariat and systems, Governing Council meetings. • Preparation of annual work plan, monitoring missions of CBFF projects. • Sensitization workshops and seminars. • Establish Monitoring & Evaluation system.
Fund for African Private Sector Assistance (FAPA) Japan Austria ADB	 USD 44,465,708 USD 2,648,047 USD 10,645,670	**40,709,342**	• Private Sector Development	• Technical Assistance • Capacity building
Global Strategy to Improve Agriculture & Rural Statistics	 USD 5,819,710	**3,974,560**	• Agricultural statistics	• Technical assistance • Training • Improvements in the coverage and quality of the minimum core data set, focusing on both national and regional priority data needs; • Greater integration of agricultural statistics into the NSSs;
Governance Trust Funds (GTF) Transfer from Nordic Trust for Governance: Finland Denmark Norway Donor Contributions: Norway Sweden Switzerland	 USD 84,068 USD 84,308 USD 76,882 USD 1,124,986 USD 2,286,789 USD 3,131,525	**4,653,976**	• Governance	• Measures to analyze and improve governance and reduce corruption. • Promotion of credible audit. • Accountability mechanisms and oversight institutions • Good financial management including public procurement • Support to investment climate and business environment—2014 Work Plan approved, new call for proposals in April 2015 pending replenishment
Infrastructure Consortium for Africa (ICA) DFID Russia Canada Italy USAID EIB Germany / KFW South Africa	 USD 3,020,990 USD 200,000 USD 1,147,871 USD 472,749 USD 81,840 USD 400,570 USD 130,613 USD 99,900	**3,618,093**	• Help improve the lives and economic well-being of Africa's people through encouraging, supporting, and promoting increased investment in infrastructure in Africa, from both public and private sources.	

Annex IV (Continued)

A – Thematic Trust Funds/Special Funds Resources Available for Commitment, as of December 31, 2014

	Amount in the Agreement			
Trust Fund	**Donor**	**UA**	**Area of intervention**	**Activities**
Making Finance Work for Africa (MFW4A) AfD DFID EIB Germany / GIZ Netherlands SIDA DANIDA USAID MinBuza AfDB	 EUR 500,000 EUR 166,298 EUR 369,950 EUR 1,564,960 EUR 300,000 EUR 143,315 EUR 120,464 EUR 758,266 EUR 580,678 (Contribution in kind)	**4,503,931**	• Financial sector development ranging from access to finance to Capital Markets.	
Microfinance Capacity Building Fund (MCBTF) Spain UNCDF	 EUR 5,000,000 EUR 119,550	**4,533,946**	• Microfinance	• Consultancy services • Training • Capacity Building • Preparation of policy and sector studies
Migration & Development Initiative Fund France IFAD USAID	 EUR 7,000,000 EUR 162,615 EUR 154,906	**6,480,500**	• Migration and Development	• Studies • Technical Assistance
Multi-Donor Water Partnership Programme (MDWPP) Canada Denmark SIDA Support to the First African Water Week IsDB Support to the First African Water Week	 EUR 3,302,815 EUR 2,010,841 EUR 10,524 EUR 13,690	**4,727,293**	• Water Sector	• Policies • Workshops • Conferences • Training • Studies and Seminars
NEPAD Infrastructure Project Preparation Facility Fund (NEPAD-IPPF) Denmark Canada Norway UK-DEFID Germany / BMZ SPAIN ABD Contribution Danish Fund for Technical Assistance DFID Co-financing Project USAID	 DKK 17,700,000 CAD 19,750,000 NOK 45,000,000 GBP 9,000,000 EUR 12,000,000 EUR 2,001,194 UA 6,300,000 DKK 5,000,000 USD 193,670 USD 1,000,000	**48,710,464**	• ICT • Transport • Energy • Water and Sanitation	• Regional Project identification • Preparation, Workshops, Seminars in line with NEPAD Agenda • RECs Capacity Building

Annex IV (Continued)

A – Thematic Trust Funds/Special Funds Resources Available for Commitment, as of December 31, 2014

Trust Fund	Amount in the Agreement Donor	Amount in the Agreement UA	Area of intervention	Activities
Rural Water Supply & Sanitation Initiative Grants (RWSSI) Burkina Faso Canada Denmark France Italy Swiztherland The Netherlands	 EUR 82,571 EUR 26,404,626 EUR 30,829,647 EUR 66,000,000 EUR 500,000 EUR 23,085,654 EUR 9,287,804	**133,070,614**	• Water Sector	• Policy and strategy • Capacity building • Training • Programs and project preparation
South—South Cooperation Trust Fund (SSCTF) Brazil	 USD 5,999,802	**3,908,131**	• Agriculture and Agribusiness • Private Sector Development • Clean Energy • Governance • Health • Social Development	• Technical Assistance • Capacity Building • Human Resources Development • Seminars • Workshops
Special Fund for Reconstruction & Development for the Great Lakes Region (SFRD) Angola Burundi Democratic Republic of Congo Congo Kenya Rwanda Uganda Zambia	 USD 500,000 USD 80,606 USD 1,000,000 USD 967,500 USD 1,027,355 USD 100,000 USD 250,000 USD 500,000	**3,022,360**	• Security • Democracy and good governance • Economic development • Regional integration • Humanitarian, social and environmental issues.	• Address the specific needs and circumstances of the Great Lakes Region
Sustainable Energy Fund For Africa (SEFA) Denmark USAID	 USD 51,933,100 USD 5,000,000	**38,882,355**	• Renewable Energy • Energy Efficiency	• Project preparation for projects of total investment needs of USD 30-200 million (Support of projects with an independent power producer or within a PPP structure; sovereign entities are not eligible as project sponsors) • Contribution of equity to a Private equity fund • Creation of an enabling environment for private investments in sustainable energy
Trust Fund for Countries Transition (TFT) DFID DANIDA	 Euro 3 258 244 Euro 2 719 335	**5,092,762**	• Finance • Trade • Governence	• Technical Assistance • Fosters partnerships for technical cooperation Projects

Annex IV (Continued)

A – Thematic Trust Funds/Special Funds Resources Available for Commitment, as of December 31, 2014

Trust Fund	Amount in the Agreement Donor	 UA	Area of intervention	Activities
Value for Money Sustainability & Accountability in Social Sectors (VfM) NORAD GAVI	 USD 1,403,465 USD 400,000	**465,253**	• Health • Education • Social protection	• Evidence-based sector policies and strategies; • Systems' results orientation and performance; • Stakeholder cooperation, • Value for money, sustainability and accountability for health results; • Planning and budgeting for results, governance and accountability structures and tools
Zimbabwe Multi-Donor Trust Fund (Zim-Fund) Denmark Germany UK Switzerland Sweden Norway Australia	 USD 139,802,263	**95,477,697**	• Infrastructure investments in water & sanitation • Energy	• Rehabilitation of infrastructure projects
MENA Trust Fund IBRD	 USD 21,543,900	**14,713,366**	• Finance • Trade • Governance	• Investing in Sustainable Growth; • Inclusive Development and Job Creation; • Enhancing Economic Governance; and • Competitiveness and integration
Clim-dev Fund Sweden European Commission Nordic Development Fund	 SEK 75,000,000 EUR 27,380,000 EUR 5,000,000	**34,482,083**	• Climate change	• Generation, wide dissemination and use of reliable and high quality climate information for development in Africa; • Capacity enhancement of policy makers and policy support institution through the generation fo quality analysis and evidence on climate change and its implications for Africa; • Implementation of pilot adaptation practices that demonstrate the value of mainstreaming climate information in development planning and practices, for subsequent awareness raising and advocacy to inform decision-making
Africa Climate Change Fund (ACCF) Germany / GIZ	 USD 6,191,640	**3,995,406**	• Climate finance readiness • Climate change • Green growth mainstreaming	• Capacity building, Technical assistance, Ci-financing climate resilient and low carbon projects and programs; knowledge management and information sharing, analytical work related to green growth and advocacy. • Recruitment of national and international consultants, training, consultations workshops, regional and international meetings, communication, advocacy, translation services
Total		**744,171,729**		

Source: AfDB Resource Mobilization and External Finance Department.

Annex IV

B – Bilateral Trust Funds Resources Available for Commitment, as of December 31, 2014

Donor Country	Amount in the Agreement Donor Currency	UA	Area of intervention	Activities
Canada Canadian Grant for Technical Assistance (TCA 2008)	CAD 5,023,528 CAD 573,187 from the CATF	**3,592,299**	• Activities that will strengthen the Bank's capacity in the following sectors: Development effectiveness, Gender, Good Governance, Natural resource management and Private sector development	• Policy articulation • Studies • Capacity building
China Chinese Trust Fund	USD 2,000,000	**1,348,538**	• All sectors	• Project identification, Preparation, Studies
Finland Finnish Consultancy Trust Fund II	EUR 14,426,305	**12,698,260**	• Environment • Climate Change Adaptation and Mitigation • Science and Technology related to Renewable and Clean Energy • Forestry Management • Water and Irrigation • Education	• Technical Assistance
France Programme de Coopération BAD/France Fonds d'assistance Technique	EUR 3,350,000	**3,638,845**	• All sectors	• Technical Assistance
India Indian Trust Fund	USD 6,753,685.85	**4,172,096**	• Infrastructure • Private sector • Information and Communication Technology • Trade • Science and Technology	• Technical Assistance • Capacity Building • Training, Seminars • Workshops • Consultation and Knowledge sharing on policy issues
Italy Cooperation Programme AfDB/Italy	EUR 2,783,573.01	**2,913,176**	• Risk Mitigation	• Fully earmarked for IRMA
Japan The Policy and Human Resources Development Grant of JAPAN (PHRDG)	JPY 2,783,888,691	**16,134,183**	• Trade and Customs • Social Business • Higher Education (Work Programme agreed in TICAD V)	• Analytical work • Capacity Building and Workshops
Korea Korea-Africa Economic (KOAFEC) Technical Cooperation Trust Fund	USD 46,723,727 USD 2,000,000 (Amount for old Korea Technical Cooperation Fund (KTCF))	**33,275,779**	• Infrastructure and natural resources • Information and communication technology • Knowledge sharing on Korea's economic development experience • Human resources development	• Implementation of Korea-Africa Economic Cooperation (KOAFEC) Action Plan

Annex IV (Continued)

B – Bilateral Trust Funds Resources Available for Commitment, as of December 31, 2014

Donor Country	Amount in the Agreement: Donor Currency	Amount in the Agreement: UA	Area of intervention	Activities
Nigeria Nigeria Technical Cooperation Fund (NTCF)	USD 25,000,000 Maximum of USD 2.5 million can be committed per year.	**18,783,044**	• Capacity Building & Regional Integration in the areas of: • Science & Technology • Human Development (Health & Education) • Agriculture • Public Administration • Business & Finance	• Pre-feasibility and feasibility studies • Project identification • Preparation • Appraisal • Post-evaluation • Mid-term review • Rehabilitation of existing projects experiencing difficulties • Training • Capacity building
Norway Norway Technical Cooperation Agreement (Financial status as of September 2014)	NOK 21,000,000	**2,100,998**	• Gender and provision of Technical Assistants balance earmarked for AWIB	• Fully programmed
Portugal Portugal Technical Cooperation	EUR 2,336,236	**1,990,420**	• Private sector development • Infrastructure • Renewable Energy and Energy Efficiency • Good governance and Capacity building • Agriculture • Water • Promotion of Portuguese language in the Bank's operations"	• Project cycle activities including pre-feasibility and feasibility studies • Capacity building and human resource development • Policy and sector studies • Institution and policy dialogue
Sweden Swedish Technical Cooperation Fund	SEK 47,543,711	**4,370,871**	• All sectors	• Earmarked for Private Sector Strategy
Switzerland Swiss grant for Technical Assistance	CHF 5,576,413	**4,061,747**	• Resources available only for the payment of TA position	
UK-DFID TCA Technical Cooperation Arrangement	GBP 13,000,000	**13,978,900**	• Infrastructure • Private Sector Development • Governance • Climate Change • Fragile States • Institutional Strengthening • Knowledge Management"	• Consulting services and technical assistance in support of project cycle activities, policy and sector studies • Training, capacity building and provision of institutional support
UK-DFID (New agreement) DFID – Technical Cooperation Framework Arrangement	GBP 2,000,000	**2,156,899**	• Consulting services and technical assistance in support of project cycle activities, policy and sector studies • Training, capacity building and provision of institutional support	• Gender • Fragile States • Climate Change • Results Management • Helping the Bank improve its procedures and processes, such as procurement and budgeting; • Deliver commitments on institutional effectiveness
Total		**125,216,057**		

Source: AfDB Resource Mobilization and External Finance Department.

Annex V
The African Development Bank Group

African Development Bank (ADB). Resources for this Facility are generally raised from the capital market for onward lending on non-concessional terms to the Bank's regional member countries (RMCs). The ADB window is also used to support private sector projects in all RMCs through direct loans, lines of credit, trade finance facilities, equity and quasi-equity participations, guarantees to financially sound and viable private enterprises, and multinational projects that promote regional integration.

The standard loan product of the ADB has evolved over time, with terms that are increasingly more responsive to client needs. The current standard loan product provided to sovereign and sovereign-guaranteed clients is called the Enhanced Variable Spread Loan (EVSL). The EVSL gives borrowers a high degree of flexibility to manage interest rate risks. For non-sovereign-guaranteed clients, the loan product offered is the Fixed Spread Loan (FSL).

The lending rate on the EVSL comprises of a floating base rate (6-month LIBOR for USD and YEN, 6-month EURIBOR for Euro, and 3-month JIBAR for ZAR), a funding margin that is a function of the Bank's cost of funding relative to LIBOR, EURIBOR, or JIBAR computed every six months, and a contractual spread that has been set at 60 basis points (bps) since January 1, 2011. At a borrower's request, the EVSL offers a free option to convert the floating base rate into a fixed component (amortizing swap rate set at borrower's request for disbursed loan balances). The repayment period for sovereign and sovereign-guaranteed loans (SGLs) is up to 20 years, including a grace period not exceeding 5 years.

The lending rate on the FSL comprises a floating base rate as for the EVSL and remains floating until maturity date, or a fixed base rate plus a risk-based credit spread. Non-sovereign-guaranteed loans (NSGLs) have repayment periods of up to 15 years including a grace period not exceeding 5 years.

In December 2013, the ADB Board of Directors approved the introduction of the Fully Flexible Loan (FFL) to a suite of products available to sovereign and sovereign-guaranteed borrowers. The FFL embeds risk management features currently offered through the Bank's Risk Management Products in SGLs, thereby providing fully customized flexibility in interest rate and currency conversion to borrowers. It also has a maturity-based pricing structure that has increased the maximum tenor, grace period and average maturity (weighted average time to repay a loan) of SGLs from the previous 20, 5, and 12.75 years to 25, 8, and 17 years, respectively to allow borrowers to select loan profiles that match their funding needs and debt management capacities.

The lending rate on the FFL is also consistent with that of the EVSL plus a maturity premium, where applicable. With maturity-based pricing, loans with average maturity less than or equal to 12.75 years will not attract a maturity premium. However, loans with average maturity greater than 12.75 years but less than or equal to 15 years will attract a 10 basis points (bps) maturity premium, while loans with an average maturity greater than 15 years attract a 20 bps maturity premium.

The resources from the ***African Development Fund (ADF)*** financing window emanate from contributions and periodic replenishments by ADF-State Participants, usually on a 3-year basis. Prior to the current 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 a grace period of 8 years with an interest rate of 1 percent per annum. For ADF-only countries, loans had a maturity period of 50 years, including a grace period of 10 years, with no interest rate. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum on outstanding balances, were still applicable for all ADF loans.

In order to preserve the long-term financial sustainability and capacity of the ADF facility, the ADF-13 Replenishment introduced two main accessibility criteria: (i) hardened and differentiated lending terms; and (ii) two sub-groups of ADF-only countries: the "regular" or the "advance" group. The financing terms for regular and advance ADF-only countries, as well as for blend, gap and graduating countries, were hardened. An accelerated repayment clause and a voluntary prepayment framework were also introduced.

Accordingly, new loans extended under ADF-13 to regular ADF countries have a maturity of 40 years, including a grace period of 10 years, and loans extended to advance ADF countries have a maturity of 40 years, including a grace period of 5 years. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum in outstanding balances remain applicable. Loans to blend, gap, and graduating countries have a maturity of 30 years including a 5-year grace period, and an interest rate charge of 1 percent per annum in addition to the standard commitment and service fees.

The ***Nigeria Trust Fund (NTF)*** resources are provided entirely by the Federal Republic of Nigeria under an Agreement signed with the Bank in 1976 for an initial period of 30 years. Following its revision in April 2008, the Agreement provides that resources from the NTF shall be used in accordance with the terms of the following three options.

- First option: (a) no interest charges on NTF loans; (b) a service charge of 0.75 percent per annum on outstanding balances; (c) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (d) a 20-year repayment period, including a grace period of 7 years.

- Second option: (a) no interest charges on NTF loans; (b) a service charge of 0.75 percent per annum on outstanding balances; (c) a commitment fee of 0.5 percent per annum on undisbursed commitments; and (d) a 15-year repayment period including a 5-year grace period.

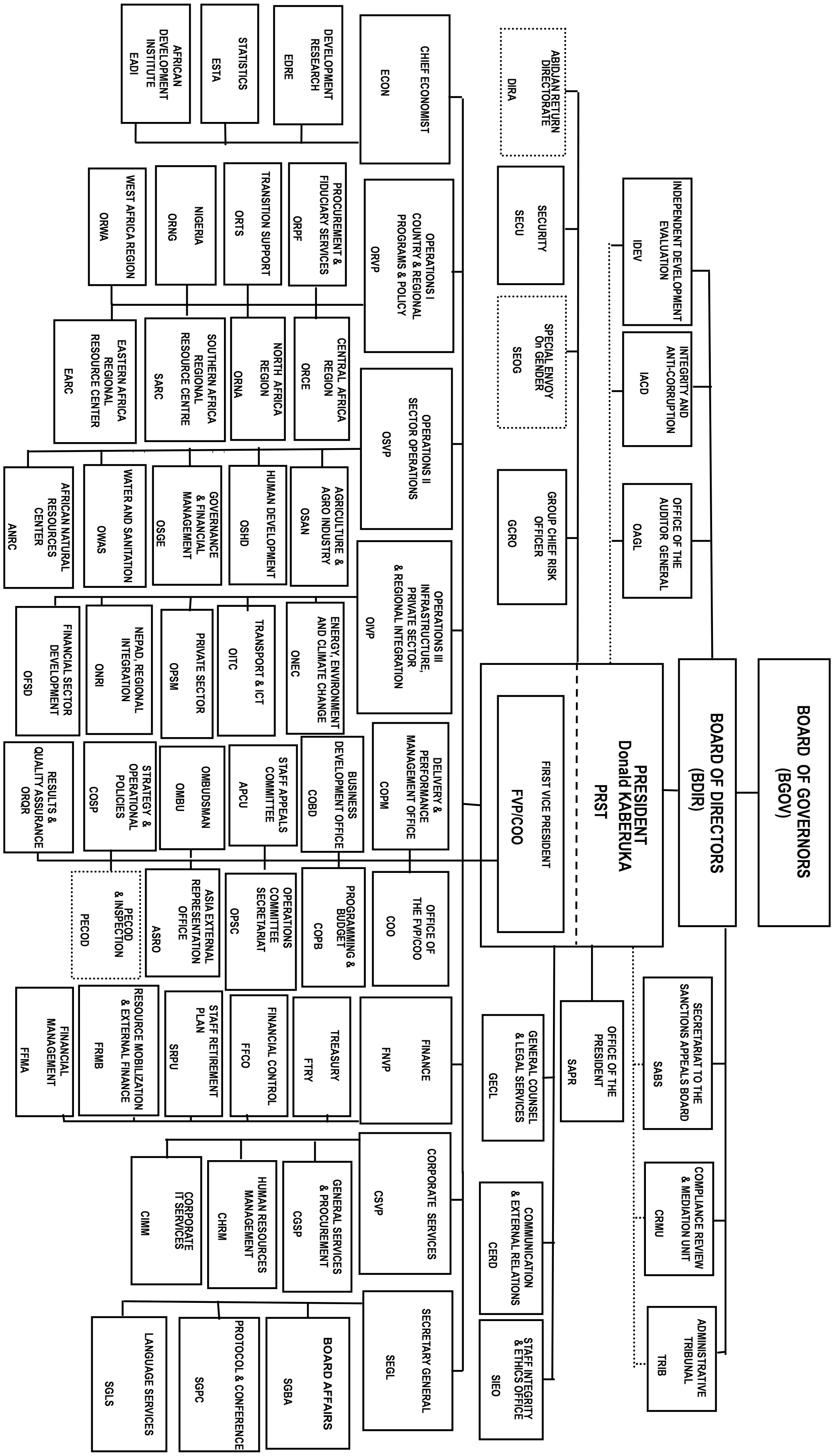
- Third option: Same terms as for the ADB private sector loans, taking into consideration provisions of the guidelines for the Bank's private sector financing as well as the risk analysis of the project.

Loans granted prior to the revision of the Agreement carried interest at rates ranging from 2 percent to 4 percent, with a commission of 0.75 percent on undisbursed portions.

Appendices

Appendix I-1

ADB Organizational Chart as of December 31, 2014



Appendix I-2

Principal Officers of the Bank Group as of December 31, 2014

PRESIDENCY, UNITS REPORTING TO THE PRESIDENT, AND UNITS REPORTING TO THE BOARDS			
President	KABERUKA	Donald	PRST
Director of Cabinet/Chief of Staff	KABAGAMBE	Anne Namara	PRST
Group Chief Risk Officer	TURNER	Timothy	GCRO
Special Envoy on Gender	FRASER-MOLEKETI	Geraldine Joslyn	SEOG
General Counsel & Director	GADIO	Kalidou	GECL
Director, Communication & External Relations	KIBAZO	Joel Serunkuma	CERD
Head, Security Unit	GODBOUT	William John	SECU
Director, Staff Integrity & Ethics	KISUBI	Mohammad Ali Mubarak	SIEO
Auditor General	ROUCHDY	Tarek	OAGL
Director, Integrity & Anti-Corruption	BOSSMAN	Anna	IACD
Director, Compliance Review & Mediation	TOURE	Sekou	CRMU
Evaluator General	NANGIA	Rakesh	IDEV
Acting Director, Abidjan Return Directorate	NIANE	Aminata	DIRA
Head, Administrative Tribunal	LIPOU MASSALA	Albertine A.H.	TRIB
FIRST VICE PRESIDENCY/COO			
First Vice President, Chief Operating Officer	MBI	Emmanuel Ebot	COO
Director, Office of First Vice President/COO	FAAL	Ebrima	COO
Head, Asia External Representation	TAMAGAWA	Masayuki	ASRO
Director, Strategy & Operational Policies	KAPOOR	Kapil	COSP
Director, Business Development	ANVARIPOUR	Neside Tas	COBD
Director, Programming & Budget	NWABUFO	Nnenna Lily	COPB
Director, Operations Committee Secretary	DINGA-DZONDO	Antoinette	OPSC
Director, Results & Quality Assurance	MIZRAHI	Simon	ORQR
Officer in Charge for Director, PECOD & Inspection	KURUNERI	Patience	PECOD
Head, Delivery & Performance Management Office	OLAYÉ	Ralph Ajeran	COPM
Ombudsman	ORRACA-NDIAYE	Amabel	OMBU
SECRETARY GENERAL			
Secretary General & Vice President	AKINTOMIDE	Cecilia	SEGL
Director, Language Services	PINZI	Ossey Olivier Litumba	SGLS
Officer in Charge for Director, Board Affairs	BAUMONT-KEITA	Catherine	SGBA
Officer in Charge for Director, Protocol & Conference	BATUMUBWIRA	Antoinette	SGPC
OFFICE OF THE CHIEF ECONOMIST			
Acting Chief Economist & Vice President	KAYIZZI-MUGERWA	Steve	ECON
Acting Director, Africa Development Institute	DIA KAMGNIA	Bernadette	EADI
Acting Director, Development Research	ABEBE	Shimeles	EDRE
Director, Statistics	LUFUMPA	Charles Leyeka	ESTA
CORPORATE SERVICES			
Vice President	WARDELL	Susan	CSVP
Director, General Services & Procurement	BILE	Jean-Baptiste	CGSP
Director, Human Resources Management	BADAKI	Joseph Oluwafemi	CHRM
Director, Corporate IT Services	WU	Zhi Huan	CIMM
FINANCE			
Vice President	BOAMAH	Charles Owusu	FNVP
Director, Financial Control	ODUKOMAIYA	Anthony Odusole	FFCO
Officer in Charge for Director, Financial Management	DE KOCK	Trevor Neil	FFMA
Director, Treasury	VAN PETEGHEM	Pierre	FTRY
Director, Resource Mobilization & External Finance	VENCATACHELLUM	Desiré Jean-Marie	FRMB
Head, Staff Retirement Plan	BABALOLA	Clement Abioye	SRPU
OPERATIONS I: COUNTRY & REGIONAL PROGRAMS & POLICY			
Acting Vice President	LITSE	Janvier Kpourou	ORVP
Director, Eastern Africa Regional Resource Center	NEGATU	Gabriel	EARC
Director, Central Africa Region	KANGA	Marlene Eva	ORCE
Director, Special Programs	PITAMBER	Sunita	ORSP
Director, North Africa Region	KOLSTER	Jacob	ORNA
Director, Nigeria Country Office	DORE	Ousmane	ORNG
Director, Procurement & Fiduciary Services	SHARMA	Vinay	ORPF
Director, West Africa Region	PERRAULT	Franck Joseph Marie	ORWA
Director, Transition Support	TAPSOBA	Sibry	ORTS
Officer in charge for Director, Southern Africa Regional Resource Center	MBEKEANI	Kennedy	SARC
OPERATION II: SECTOR OPERATIONS			
Vice President	ABOU-SABAA	Aly Abdel-Hamed	OSVP
Director, Africa Natural Resources Center	KHAMA	Sheila	ANRC
Director, Agriculture & Agro Industry	OJUKWU	Chiji Chinedum	OSAN
Director, Governance & Financial Management	LOBE NDOUMBE	Isaac Samuel	OSGE
Director, Human Development	SOUCAT	Agnes	OSHD
Director, Water & Sanitation	EL AZIZI	Mohamed	OWAS
OPERATIONS III: INFRASTRUCTURE, PRIVATE SECTOR & REGIONAL INTEGRATION			
Vice President	ASAMOAH	Solomon	OIVP
Director, Transport & ICT	OUMAROU	Amadou	OITC
Director, Energy, Environment & Climate Change	RUGAMBA	Alex	ONEC
Acting Director, NEPAD, Regional Integration & Trade	MALIKO	Sylvain	ONRI
Director, Private Sector	DIALLO	Kodeidja Malle	OPSM
Director, Financial Sector Development	NALLETAMBY	Stefan Luis	OFSD

Source: AfDB, Human Resources Management Department.

Appendix II-1

Resolutions Adopted by the Board of Governors in 2014 for the ADB

B/BG/2014/01	By-election of Executive Directors of the African Development Bank
B/BG/2014/02	Amending Resolution B/BG/2012/05 adopted on May 31, 2012 authorizing the Accession of the Republic of South Sudan to the African Development Bank Agreement
B/BG/2014/03	Annual Report and Audited Financial Statements for the Financial Year Ended December 31, 2013 for the Bank, NTF, and Special and Trust Funds
B/BG/2014/04	Allocation and Distribution of the Allocable Income of the African Development Bank for the Financial Year Ended December 31, 2013
B/BG/2014/05	Distribution of part of the Income of the Nigeria Trust Fund for the Financial Year Ended December 31, 2013
B/BG/2014/06:	Establishment of the Africa Growing Together Fund (AGTF)

Source: Office of the Secretary General, AfDB.

Appendix II-2

Board of Governors of ADB: Voting Powers of Member Countries as of December 31, 2014

Country	Governor	Alternate	Total Votes	Voting Powers %
1. Algeria	Mohamed Djellab	Miloud Boutabba	270,201	4.209
2. Angola	Job Graça	Armando Manuel	74,613	1.162
3. Benin	Marcel A. De Souza	Komi Koutche	13,018	0.203
4. Botswana	Vincent T. Seretse	Taufila Nyamadzabo	69,902	1.089
5. Burkina Faso	Jean Gustave Sanon	Lassane Kabore	26,273	0.409
6. Burundi	Tabu Abdallah Manirakiza	Ir Virginie Ciza	15,808	0.246
7. Cabo Verde	Cristina Duarte	Carlos Furtado	5,519	0.086
8. Cameroon	Emmanuel Nganou Djoumessi	Charles Assamba Ongodo	70,227	1.094
9. Central African Republic	Florence Limbio	Remy Yakoro	3,468	0.054
10. Chad	Mariam Mahamat Nour	Kordje Bedoumra	5,136	0.080
11. Comoros	Mohamed Ali Soilihi	Alfeine Sitti Soifiat Tadjiddine	1,167	0.018
12. Congo	Gilbert Ondongo	Raphael Mokoko	29,404	0.458
13. Côte d'Ivoire	Albert Toikeusse Mabri Abdallah	Niale Kaba	236,710	3.687
14. Democratic Republic of Congo	*	Lamy Lamiel	65,890	1.026
15. Djibouti	Ilyas Moussa Dawaleh	Ahmed Osman Ali	1,838	0.029
16. Egypt	Hisham Ramez	*	345,342	5.379
17. Equatorial Guinea	Marcelino Owono Edu	Hermes Ela Mifumu	10,817	0.169
18. Eritrea	Berhane Habtemariam	Martha Woldegiorghis	2,628	0.041
19. Ethiopia	Sufian Ahmed	Ahmed Shide	101,910	1.587
20. Gabon	Regis Immongault	Christian Magnagna	77,145	1.202
21. Gambia, The	Kebba Satou Touray	Abdoulie Jallow	10,355	0.161
22. Ghana	Seth Terkper	Henry Kofi Wampah	137,164	2.137
23. Guinea	Mohamed Diare	Sekou Traore	26,452	0.412
24. Guinea-Bissau	Geraldo Joao Martins	Degol Mendes	2,172	0.034
25. Kenya	Henry Kiplagat Rotich	Kamau Thugge	91,833	1.430
26. Lesotho	Leketekete Victor Ketso	Mosito Khethisa	4,346	0.068
27. Liberia	Amara M. Konneh	Sebastian T. Muah	12,986	0.202
28. Libya	El Kilani Abdulkarim El Kilani	Ali Mohamed Salem	236,446	3.683
29. Madagascar	Jean Razafindravonona	Orlando Robimanana	41,868	0.652
30. Malawi	Goodall E. Gondwe	Ted Sitima-Wina	18,405	0.287
31. Mali	Bouare Fily Sissoko	Moustapha Ben Barka	28,393	0.442
32. Mauritania	Thiam Diombar	Cheikh El Kebir Ould Chbih	4,326	0.067
33. Mauritius	Navinchandra Ramgoolam	Dharam Dev Manraj	42,447	0.661
34. Morocco	Mohammed Boussaid	Driss El Azami El Idrissi	224,566	3.498
35. Mozambique	Aiuba Cuereneia	Ernesto Gouveia Gove	40,716	0.634
36. Namibia	Saara Kuugongelwa-Amadhila	Ericah B. Shafudah	22,389	0.349
37. Niger	Amadou Boubacar Cisse	Baillet Gilles	16,718	0.260
38. Nigeria	Ngozi Okonjo-Iweala	Anastasia Mabi Daniel-Nwaobia	595,838	9.281
39. Rwanda	Claver Gatete	Uzziel Ndagijimana	9,076	0.141
40. São Tomé & Príncipe	Americo D'Oliveira Ramos	Maria do Carmo Trovoada Pires de Carvalho Silveira	4,960	0.077
41. Senegal	Amadou Ba	Lat Diop	67,702	1.055
42. Seychelles	Pierre Laporte	Caroline Abel	2,443	0.038
43. Sierra Leone	Kaifala Marah	Edmund Koroma	16,107	0.251
44. Somalia	Hussein Halane	Bashir Isse	2,566	0.040
45. South Africa	Nhlanhla Nene	Lungisa Fuzile	312,700	4.871
46. Sudan	Badr Eldien Mahmoud Abbas	Magdi Hassan Yassin	23,414	0.365
47. Swaziland	Martin G. Dlamini	Hlangusemphi Dlamini	7,930	0.124
48. Tanzania	Saada Mkuya Salum	Servacius Beda Likwelile	49,672	0.774
49. Togo	Adji Oteth Ayassor	Mawussi Djossou Semodji	10,142	0.158
50. Tunisia	Noureddine Zekri	*	90,343	1.407
51. Uganda	Maria Kiwanuka	Keith Muhakanizi	32,716	0.510
52. Zambia	Alexander B. Chikwanda	Fredson K. Yamba	80,532	1.255
53. Zimbabwe	Patrick Anthony Chinamasa	Willard L. Manungo	131,761	2.052
TOTAL REGIONALS			**3,826,500**	**59.604**

Appendix II-2 (continued)

Board of Governors of ADB: Voting Powers of Member Countries as of December 31, 2014

	Country	Governor	Alternate	Total Votes	Voting Powers %
1.	Argentina	Axel Kicillof	Juan Carlos Fábregas	6,472	0.101
2.	Austria	Johann Georg Schelling	Edith Frauwallner	29,248	0.456
3.	Belgium	Johan Van Overtveldt	Franciscus Godts	41,571	0.647
4.	Brazil	Miriam Aparecida Belchior	João Guilherme Rocha Machado	28,969	0.451
5.	Canada	John Baird	Rob Stewart	244,074	3.802
6.	China	Zhou Xiaochuan	Yi Gang	72,277	1.126
7.	Denmark	Martin Bille Hermann	Birgitte Markussen	76,261	1.188
8.	Finland	Anne Sipiläinen	Pekka Puustinen	31,960	0.498
9.	France	Bruno Bézard	Anthony Requin	241,376	3.760
10.	Germany	Thomas Silberhorn	Claus-Michael Happe	264,915	4.126
11.	India	Arun Jaitley	Arvind Mayaram	14,955	0.233
12.	Italy	Pier Carlo Padoan	Carlo Monticelli	155,853	2.428
13.	Japan	Taro Aso	Haruhiko Kuroda	352,694	5.494
14.	Korea	Kyunghwan Choi	Juyeol Lee	29,248	0.455
15.	Kuwait	Anas K. Al-Saleh	Hesham Al-Waqayan	29,833	0.465
16.	Luxembourg	Pierre Gramegna	Arsene Jacoby	13,185	0.205
17.	Netherlands	Lilianne Ploumen	Rob Swartbol	55,669	0.867
18.	Norway	Hans Brattskar	Henrik Harboe	74,836	1.166
19.	Portugal	Maria Luis Albuquerque	Manuel Rodrigues	15,968	0.249
20.	Saudi Arabia	Yousef I. Albassam	Ahmed M. Al-Ghannam	12,981	0.202
21.	Spain	Luis De Guindos Jurado	Inigo Fernandez De Mesa	69,845	1.088
22.	Sweden	Ulrika Modéer	Per Örnéus	99,676	1.553
23.	Switzerland	Beatrice Maser Mallor	Maya Jaouhari Tissafi	94,633	1.474
24.	Turkey	Cavit Dağdaş	Burhanettin Aktaş	7,098	0.110
25.	United Kingdom	Hon Justine Greening	Lynne Featherstone MP	108,410	1.689
26.	United States of America	Jacob J. Lew	Catherine Novelli	421,316	6.563
	TOTAL NON-REGIONALS			**2,593,323**	**40.396**
	GRAND TOTAL			**6,419,823**	**100.000**

Source: AfDB Treasury Department.
*Note: * Vacant*

Appendix II-3

Board of Directors of ADB: Voting Powers and Countries Represented as of December 31, 2014

Executive Director	For	Total Votes	Voting Power %
Vacant	Algeria	270,201	
Alfredo Mendes (Alternate)	Guinea-Bissau	2,172	
	Madagascar	41,868	
		314,241	4.895
Petronella M.N.Mwangala	Zambia	80,532	
Cornelius Karlens Dekop (Alternate)	Botswana	69,902	
	Malawi	18,405	
	Mauritius	42,447	
		211,286	3.291
Tarik Al-Tashani	Libya	236,446	
M.M. Ould Hamma Khattar (Alternate)	Mauritania	4,326	
	Somalia	2,566	
		243,338	3.790
Alieu Momodou Ngum	Gambia,The	10,355	
Miata Beysolow (Alternate)	Liberia	12,986	
	Ghana	137,164	
	Sierra Leone	16,107	
	Sudan	23,414	
		200,026	3.116
Moegamat Shahid Khan	South Africa	312,700	
Bheki Sibongayebhembe (Alternate)	Swaziland	7,930	
	Lesotho	4,346	
		324,976	5.062
Mohamed Samy S. Zaghloul	Egypt	345,342	
Ali Mohamed Ali (Alternate)	Djibouti	1,838	
		347,180	5.408
Abdelmajid Mellouki	Morocco	224,566	
Vacant	Tunisia	90,343	
	Togo	10,142	
		325,051	5.063
Amadou Kone	Côte d'Ivoire	236,710	
Bernardo Abaga Ndong Mayie (Alternate)	Equatorial Guinea	10,817	
	Guinea	26,452	
		273,979	4.268
Leonard Sentore	Burundi	15,808	
Félicité C. Omporo Enouany (Alternate)	Congo	29,404	
	Cameroon	70,227	
	Central African Republic	3,468	
	Democratic Republic of Congo	65,890	
		184,797	2.879

Appendix II-3 (continued)

Board of Directors of ADB: Voting Powers and Countries Represented as of December 31, 2014

Executive Director	For	Total Votes	Voting Power %
Abdallah Msa	Comoros	1,167	
Ousman Sougui Abakar (Alternate)	Chad	5,136	
	Benin	13,018	
	Burkina Faso	26,273	
	Cabo Verde	5,519	
	Gabon	77,145	
	Mali	28,393	
	Niger	16,718	
	Senegal	67,702	
		241,071	3.755
Mahomed R. J. Mahomed	Mozambique	40,716	
Heinrich Mihe Gaomab II (Alternate)	Namibia	22,389	
	Angola	74,613	
	Zimbabwe	131,761	
		269,479	4.198
Shehu Yahaya	Nigeria	595,838	
Maria da Neves C.B. de Sousa (Alternate)	São Tome & Principe	4,960	
		600,798	9.358
Mulu Ketsela	Ethiopia	101,910	
Vacant	Eritrea	2,628	
	Kenya	91,833	
	Rwanda	9,076	
	Seychelles	2,443	
	Tanzania	49,672	
	Uganda	32,716	
		290,278	4.522
Mariano Munoz-Carpena	Spain	69,845	
Abdenor Brahmi (Alternate)	France	241,376	
	Belgium	41,571	
		352,792	5.495
Vacant	United States of America	421,316	
Elizabeth H. Morris (Alternate)	United States of America		
		421,316	6.563
Tomoya Asano	Japan	352,694	
Abdulrahman Abubakr (Alternate)	Saudi Arabia	12,981	
	Argentina	6,472	
	Austria	29,248	
	Brazil	28,969	
		430,364	6.704
Ronald Meyer	Germany	264,915	
Vacant	Portugal	15,968	
	Switzerland	94,633	
		375,516	5.849

Appendix II-3 (continued)

Board of Directors of ADB: Voting Powers and Countries Represented as of December 31, 2014

Executive Director	For	Total Votes	Voting Power %
Hau Sing Tse	Canada	244,074	
Thamer M. Alfailakawi (Alternate)	Kuwait	29,833	
	China	72,277	
	Korea	29,248	
	Turkey	7,098	
		382,530	5.959
Heikki Tuunanen	Finland	31,960	
Gabriel Samuelsson (Alternate)	Sweden	99,676	
	Denmark	76,261	
	India	14,955	
	Norway	74,836	
		297,688	4.637
Dominic O'Neill	United Kingdom	108,410	
Erik Hilberink (Alternate)	Netherlands	55,669	
	Italy	155,853	
		319,932	4.984
	Luxembourg	13,185	
		13,185	0.205
REGIONAL TOTAL:		**3,826,500**	**59.604**
NON-REGIONAL TOTAL:		**2,593,323**	**40.396**
GRAND TOTAL:		**6,419,823**	**100.000**

Source: AfDB Treasury Department.

Appendix III-1

Resolutions Adopted by the Board of Governors in 2014 for the ADF

F/BG/2014/01:	The Thirteenth General Replenishment of the Resources of the African Development Fund
F/BG/2014/02:	Selection of Executive Directors of the African Development Fund
F/BG/2014/03:	Annual Report and Audited Special Purpose Financial Statements for the Financial Year ended December 31, 2013

Source: Office of the Secretary General, AfDB.

Appendix III-2

Board of Governors of ADF: Voting Powers of State Participants and of the ADB as of December 31, 2014

Country	Governor	Alternate	Total Votes	Voting Power %
1. African Development Bank			1,000.000	50.000
2. Argentina	Axel Kicillof	Juan Carlos Fábregas	0.076	0.004
3. Austria	Johann Georg Schelling	Edith Frauwallner	18.045	0.902
4. Belgium	Johan Van Overtveldt	Franciscus Godts	20.266	1.013
5. Brazil	Miriam Aparecida Belchior	João Guilherme Rocha Machado	5.964	0.298
6. Canada	John Baird	Rob Stewart	72.271	3.614
7. China	Zhou Xiaochuan	Yi Gang	22.190	1.110
8. Denmark	Martin Bille Hermann	Birgitte Markussen	25.021	1.251
9. Finland	Anne Sipiläinen	Pekka Puustinen	20.518	1.026
10. France	Bruno Bézard	Anthony Requin	101.795	5.090
11. Germany	Thomas Silberhorn	Claus-Michael Happe	103.112	5.156
12. India	Arun Jaitley	Arvind Mayaram	3.402	0.170
13. Italy	Pier Carlo Padoan	Carlo Monticelli	55.640	2.782
14. Japan	Taro Aso	Haruhiko Kuroda	110.072	5.504
15. Korea	Kyunghwan Choi	Juyeol Lee	9.740	0.487
16. Kuwait	Anas K. Al-Saleh	Hesham Al-Waqayan	8.006	0.400
17. Luxembourg	Pierre Gramegna	Arsene Jacoby	0.603	0.030
18. Netherlands	Lilianne Ploumen	Rob Swartbol	46.750	2.337
19. Norway	Hans Brattskar	Henrik Harboe	44.935	2.247
20. Portugal	Maria Luis Albuquerque	Manuel Rodrigues	6.185	0.309
21. Saudi Arabia	Yousef I. Albassam	Ahmed M. Al-Ghannam	12.008	0.600
22. Spain	Luis De Guindos Jurado	Inigo Fernandez De Mesa	23.736	1.187
23. Sweden	Ulrika Modéer	Per Örnéus	50.592	2.530
24. Switzerland	Beatrice Maser Mallor	Maya Jaouhari Tissafi	36.178	1.809
25. Turkey	Cavit Dağdaş	Burhanettin Aktaş	1.690	0.084
26. United Arab Emirates	*	*	0.344	0.017
27. United Kingdom	Hon Justine Greening	Lynne Featherstone	94.385	4.719
28. United States of America	Jacob J. Lew	Catherine Novelli	106.476	5.324
TOTAL			**2,000.000**	**100.000**

Source: AfDB Treasury Department.
*Note: * Vacant*

Appendix III-3

Board of Directors of ADF: Voting Powers and Countries Represented as of December 31, 2014

Executive Directors / Alternates	Participants	Voting Powers in % *	Voting Powers by constituency in %
Mulu Ketsela**	ADB	7.143	
Abdelmajid Mellouki **	ADB	7.143	
Abdallah Msa**	ADB	7.143	
Petronella M. N. Mwangala**	ADB	7.143	
Alieu Momodou Ngum**	ADB	7.143	
Leonard Sentore**	ADB	7.143	
Shehu Yahaya**	ADB	7.143	
			50.000
Vacant	United States of America	5.324	
Elizabeth H. Morris	United States of America		
			5.324
Tomoya Asano	Japan	5.504	
Abdulrahman Abubakr	Saudi Arabia	0.600	
	Argentina	0.004	
	Austria	0.902	
	Brazil	0.298	
			7.308
Heikki Tuunanen	Finland	1.026	
Gabriel Samuelsson	Sweden	2.530	
	Denmark	1.251	
	India	0.170	
	Norway	2.247	
			7.224
Ronald Meyer	Germany	5.156	
Vacant	Portugal	0.309	
	Switzerland	1.809	
			7.274
Hau Sing Tse	Canada	3.614	
Thamer M. Alfailakawi	Kuwait	0.400	
	China	1.110	
	Korea	0.487	
	Turkey	0.084	
			5.695
Mariano Munoz-Carpena	Spain	1.187	
Abdenor Brahmi	France	5.090	
	Belgium	1.013	
			7.290
Dominic O'Neill	United Kingdom	4.719	
Erik Hilberink	Netherlands	2.337	
	Italy	2.782	
			9.838
	Luxembourg	0.030	0.030
	United Arab Emirates	0.017	0.017
GRAND TOTAL			**100.000**

Source: AfDB Treasury Department.
* Slight differences may occur in totals due to rounding.
** For the period beginning April 1, 2014 through December 31, 2014.

Appendix III-4

Subscriptions of State Participants and of the ADB to the ADF as of December 31, 2014

Participants	Contribution in UA
1. African Development Bank	111,740,678
2. Argentina	18,631,870
3. Austria	486,232,779
4. Belgium	535,095,203
5. Brazil	143,629,532
6. Canada	1,792,693,959
7. China	520,020,932
8. Denmark	662,767,032
9. Egypt	2,628,702
10. Finland	562,332,431
11. France	2,644,215,425
12. Germany	2,693,787,078
13. India	80,119,224
14. Italy	1,689,929,624
15. Japan	2,765,179,778
16. Korea	266,413,961
17. Kuwait	179,683,998
18. Luxembourg	14,514,309
19. Netherlands	1,108,923,791
20. Norway	1,192,306,898
21. Portugal	173,560,750
22. Saudi Arabia	283,700,140
23. South Africa	47,482,400
24. Spain	560,685,707
25. Sweden	1,321,545,910
26. Switzerland	926,150,626
27. Turkey	40,693,468
28. United Arab Emirates	8,289,468
29. United Kingdom	2,612,094,189
30. United States of America	2,624,498,918
Sub-Total	**26,069,548,779**
Supplementary Contributions through accelerated encashment to reduce the Gap	**109,161,178**
Supplementary Contributions through cash to reduce the Gap	**50,869,711**
GRAND TOTAL	**26,229,579,668**

Note: Subscriptions do not include grant compensation amounts totaling UA 10.78 million.
Source: AfDB Treasury Department.

Appendix IV

Classification of Regional Member Countries

Category A – Countries Eligible for ADF Resources Only*	
1. Benin*	18. Liberia*
2. Burkina Faso*	19. Madagascar*
3. Burundi	20. Malawi*
4. Central African Republic*	21. Mali*
5. Chad*	22. Mauritania*
6. Comoros	23. Mozambique*
7. Congo, Democratic Republic of	24. Niger*
8. Côte d'Ivoire*	25. Rwanda*
9. Djibouti	26. São Tomé & Principe
10. Eritrea	27. Senegal*
11. Ethiopia*	28. Sierra Leone*
12. Gambia*, The	29. Somalia
13. Ghana*	30. Sudan
14. Guinea*	31. Tanzania*
15. Guinea-Bissau*	32. Togo*
16. Kenya*	33. Uganda*
17. Lesotho*	34. Zimbabwe
Category B – Countries Eligible for a Blend of ADB and ADF Resources	
1. Cameroon	
2. Zambia	
Category C – Countries Eligible for ADB Resources only	
1. Algeria	
2. Angola	
3. Botswana	
4. Cabo Verde**	
5. Congo**	
6. Egypt	
7. Equatorial Guinea	
8. Gabon	
9. Libya	
10. Mauritius	
11. Morocco	
12. Namibia	
13. Nigeria**	
14. Seychelles	
15. South Africa	
16. Swaziland	
17. Tunisia	

* *Except for limited ADB lending for enclave and private sector projects and countries which are assessed on a case-by-case basis to have access to ADB resources as permitted by IMF non-concessional headroom and internal available resource.*

** *Countries in transition to ADB.*

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