

NOTES TO THE FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007 AND 2006

NOTE A – NATURE OF OPERATIONS

The Nigeria Trust Fund (the Fund or NTF) was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank (ADB or the Bank) and the Federal Republic of Nigeria. The African Development Bank, which is headquartered in Abidjan, Côte d'Ivoire, manages the resources of the Fund on behalf of the Government of Nigeria. The purpose of the Fund is to assist in the development efforts of the poorer ADB regional member countries. The Agreement stipulates that the Fund shall be in effect for a period of 30 years from the date the Agreement became effective and that such a sunset date may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. The Agreement expired on April 25, 2006 and has been extended twice for 1-year periods, to allow for the completion of an independent review of the operation of the Fund. Following the completion of the independent review, both the Government of Nigeria and the Bank have agreed in principle to a renewal of the NTF Agreement 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 of the Fund are summarized below.

Revenue Recognition

Interest income is accrued on a time basis and recognized based on the effective interest method during the time an investment or loan 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 in arrears for unutilized loan facilities.

Income from investments includes realized and unrealized gains and losses on held-for-trading investments.

Functional and Presentation Currencies

The Fund conducts its operations in U.S. dollars, and has determined that its functional currency is the U.S. dollar. In accordance with Article VII, section 7.3, of the Agreement, 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, 2007, 1 UA was equivalent to 1.58025 United States dollars (2006: 1.50440 United States dollars).

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 U.S. dollars 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

The Fund classifies its financial assets in the following categories: held-for-trading financial assets, loans and receivables, and held-to-maturity investments. Management determines the classification of its investments upon initial recognition.

(i) *Held-for-Trading Financial Assets*

All held-for-trading assets are carried at fair value through the income statement. Investments in the held-for-trading portfolio are acquired principally for the purpose of selling in the short term. Held-for-trading financial assets are measured at fair value, with gains and losses arising from changes in fair value included in the income statement in the period in which they arise.

(ii) *Loans and Receivables*

Loans include outstanding balances receivable from borrowers in respect of amounts disbursed. The Fund has also classified accrued income and receivables from loans and investments and other sundry amounts as receivables. 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 borrower with no intention of trading the receivable. Loans and receivables are subsequently measured at amortized cost using the effective interest method.

(iii) *Held-to-Maturity Investments*

The Fund has classified its investments in certain debt securities as held-to-maturity. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method.

Purchases and sales of held-for-trading and held-to-maturity investments 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.

Cash and cash equivalents include amounts due from banks, demand deposits and other short-term, highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value and have a time to maturity upon acquisition of 3 months or less.

Financial assets 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 held-to-maturity investment 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

The fair values of investments that are quoted in active markets are based on current bid prices. Fair values of financial assets listed in inactive markets or unlisted securities, are determined by using valuation techniques that incorporate the maximum use of market data inputs. These valuation techniques 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.

Fair values for financial instruments for which market quotations are not readily available have been determined 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 exchangeable at all, is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realizable in a sale might differ from the fair values disclosed.

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 present value of the loans' expected cash flows. Fair values are estimated using a discounted cash flow model based on the year-end market equivalent lending rate in that currency, adjusted for estimated credit risk.

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

The preparation of financial statements in conformity with IFRS requires management to make 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 held-to-maturity 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 values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Valuation techniques, for example, models that are used to determine fair values, 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, 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.

(iii) Held-to-Maturity Investments

The Fund follows the guidance of IAS 39 on classifying certain financial assets as held-to-maturity. This classification requires significant judgment. In making the judgment to designate an asset as held-to-maturity, the Fund makes a positive determination as to its intention and ability to hold such investments to maturity.

NOTE C – NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

In 2007, the Fund adopted International Financial Reporting Standard (IFRS) 7, *Financial Instruments: Disclosures* and related amendments to International Accounting Standard (IAS) 1, *Presentation of Financial Statements – Capital Disclosures*. IFRS 7 supersedes IAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institution* and IAS 32, *Financial Instruments: Presentation*, and introduces new and enhanced qualitative and quantitative disclosures about exposures to risks arising from financial instruments and how the Bank manages those risks. The amendments to IAS 1 require new disclosures about the Fund's objectives, policies and processes for managing capital. The new disclosures are presented in Note D.

At the date of authorization of these financial statements, certain new and amended International Financial Reporting Standards and Interpretations have been issued but become effective for periods after December 31, 2007 and for which the Fund has elected not to early adopt. IFRS 8, *Operating Segments*, which becomes effective for financial statements for the period beginning January 1, 2009 replaces the segmental reporting requirements of IAS 14, *Segment Reporting*, and requires alignment of the segments in the financial statements with those used internally by management in the allocation of resources and assessing performance. IFRS 8 is not expected to have a significant impact on the Fund's financial statements. The amendments to IAS 1 require the Fund to present in separate statements, changes in equity related to its shareholders and those related to comprehensive income (i.e., non-shareholder related components), including related reclassification adjustments of those components. It also requires the presentation of a balance sheet as at the beginning of the earliest comparative period in a complete set of financial statements when the Fund applies an accounting policy retrospectively or makes a retrospective restatement. None of these new standards and amendments is expected to have a significant impact on the Fund's financial statements.

NOTE D – RISK MANAGEMENT POLICIES AND PROCEDURES

As described in Note A, the African Development Bank (the Bank) manages the resources of the Fund on behalf of the Government of Nigeria. The resources of the Fund comprise funds provided by the Government of Nigeria as described in Note G. The Fund is not exposed to any externally imposed capital requirement. In the course of exercising its fiduciary duties, the Bank applies specific risk management policies designed to protect the resources of the Fund through the Bank's General Authority on Asset and Liability Management (the ALM Authority). The ALM Authority sets out the guiding principles for managing the Fund's risks, including interest rate risk, currency risk, liquidity risk, counterparty credit risk and operational risk.

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

ALCO meets on a regular basis to perform its oversight role. As part of ALCO's key functions pertinent to the administration of the Fund, it reviews regular and ad-hoc finance and risk management reports and projections, approves strategies to adjust the balance sheet, and confirms country credit risk ratings and the associated incurred loss estimates. ALCO is supported by several standing working groups that report on specific issues including country risk, counterparty credit risk, interest rate risk, currency risk, operational risk, financial projections, and financial products and services.

Day-to-day operational responsibility for implementing the Bank's risk management policies and guidelines is delegated to the appropriate 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. These risks are managed within an integrated framework of credit policies, guidelines and processes, which are described in more detail in the following sections.

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. The Fund manages country credit risk 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 sociopolitical conditions and future growth prospects.

Country Exposure

The Fund's loans outstanding at December 31, 2007 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	9,147	-	2,798	6,349	9.84
Burundi	1	88	-	-	88	0.14
Cape Verde	1	2,287	-	-	2,287	3.54
Djibouti	1	2,326	-	-	2,326	3.60
Gambia	2	7,597	-	4,579	3,018	4.68
Ghana	1	3,000	-	3,000	-	-
Guinea	2	6,132	-	1,109	5,023	7.78
Guinea-Bissau	1	3,510	-	3,510	-	-
Lesotho	2	987	-	-	987	1.53
Liberia**	4	21,360	-	-	21,360	33.10
Madagascar	1	4,556	-	63	4,493	6.96
Mali	1	662	-	-	662	1.03
Mauritania	3	10,089	-	6,417	3,672	5.69
Namibia	1	1,677	-	-	1,677	2.60
Rwanda	3	7,424	-	6,000	1,424	2.21
Senegal	2	3,420	-	-	3,420	5.30
Seychelles	3	1,956	-	-	1,956	3.03
Somalia**	1	736	-	-	736	1.14
Swaziland	2	5,052	-	4,950	102	0.16
Tanzania	2	2,473	-	-	2,473	3.83
Togo**	1	360	-	-	360	0.56
Uganda	1	2,123	-	-	2,123	3.29
Total	39	96,962	-	32,426	64,536	100.00

* Excludes fully repaid loans and cancelled loans.

** Countries in arrears as at December 31, 2007. The Board of Directors approved an arrears clearance mechanism for Liberia in December 2007.

Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

The Fund currently lends only to public sector borrowers, and its loans generally carry full sovereign guarantee or the equivalent from the borrowing member state.

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

Risk Rating	Description	Risk Class	International Equivalent
1	Excellent	Very Low Risk	A - BBB
2	Very Good	Low Risk	BB
3	Good	Moderate Risk	B
4	Fair		
5	Acceptable	High Risk	CCC
6	Marginal		
7	Special Attention	Very High Risk	<CCC
8	Substandard		
9	Doubtful		
10	Known Loss		

These sovereign credit risk ratings are derived from a risk assessment on five risk indices that include macroeconomic performance, debt sustainability, sociopolitical 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 ALCO 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 member 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. The Fund utilizes various financial instruments to manage its 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, 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'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	No maturity limit, but repayment projections mandatory					

The Fund invests in mortgage-backed and asset-backed securities with a minimum rating of AAA/Aaa; and 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% 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 AA or higher rated.

Credit Risk Profile of the Investment and Derivative Portfolios			
	AAA	AA	A
2007	14%	85%	1%
2006	42%	54%	4%
2005	77%	19%	4%
2004	71%	25%	4%
2003	60%	34%	6%

Liquidity Risk

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

Currency Risk

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

Interest Rate Risk

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

At December 31, 2007, the Fund had UA 32.43 million of loans which were committed but not yet disbursed (2006: UA 38.36 million). The interest rate on these undisbursed loans has been fixed at between 2% to 4% per annum.

Interest rate risk positions as at December 31, 2007 and 2006 were as follows:

(i) Interest Rate Risk Position at December 31, 2007

(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	6,331	-	-	-	-	-	-	6,331
Investments	190,346	-	-	-	-	-	-	190,346
Accounts receivable	17,885	-	-	-	-	-	(480)	17,405
Loans	20,630	5,560	5,350	5,069	4,858	23,069	(153)	64,383
	235,192	5,560	5,350	5,069	4,858	23,069	(633)	278,465
Liabilities								
Accounts payable	(4,999)	-	-	-	-	-	-	(4,999)
	(4,999)	-	-	-	-	-	-	(4,999)
Interest rate risk position as at December 31, 2007*	230,193	5,560	5,350	5,069	4,858	23,069	(633)	273,466

* Interest rate risk position represents equity.

(ii) Interest Rate Risk Position at December 31, 2006

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non interest bearing funds	Total
Assets								
Cash	2,404	-	-	-	-	-	-	2,404
Investments	191,760	-	-	-	-	-	-	191,760
Accounts receivable	18,438	-	-	-	-	-	(7,704)	10,734
Loans	21,110	5,760	5,510	5,230	4,940	24,676	(2,952)	64,274
	233,712	5,760	5,510	5,230	4,940	24,676	(10,656)	269,172
Liabilities								
Accounts payable	(1,051)	-	-	-	-	-	-	(1,051)
	(1,051)	-	-	-	-	-	-	(1,051)
Interest rate risk position as at December 31, 2006*	232,661	5,760	5,510	5,230	4,940	24,676	(10,656)	268,121

* 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% on these reported values.

Movements in interest rates have an impact on the reported fair value of the trading investment portfolio. The table below shows the effect of a parallel yield curve movement of +/-100bps on the portfolio as of December 31, 2007 and 2006, respectively.

(UA thousands)

	+100 Basis Points		-100 Basis Points	
	2007	2006	2007	2006
(Loss)/gain on held-for-trading investments	(150)	(468)	150	466

The loan portfolio comprises fixed rate loans only and is carried at amortized cost, thus not affected by movements in interest rates.

NOTE E – 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 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, 2007 and 2006, all the Fund's investments are held-for-trading and are summarized below:

(UA thousands)	2007	2006
Time deposits	121,300	7,027
Asset-backed securities	4,950	67,623
Government and agency obligations	40,976	-
Corporate bonds	23,120	117,110
Total	190,346	191,760

The contractual maturity structure of held-for-trading investments as at December 31, 2007 and 2006 were as follows:

(UA thousands)	2007	2006
One year or less	172,840	9,690
More than one year but less than two years	-	8,310
More than two years but less than three years	630	78,260
More than three years but less than four years	-	3,340
More than four years but less than five years	-	19,940
More than five years	16,876	72,220
Total	190,346	191,760

The notional balance of investments as at December 31, 2007 was UA 190.46 million (2006: UA 191.61 million), while the average yield was 5.81% (2006: 5.55%).

NOTE F – 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 four percent (4%) per annum to a range of 2% to 4% (inclusive) per annum on the outstanding balance and future undisbursed loans. Furthermore, a 0.75% commission is payable on undisbursed balances commencing 120 days after the effective date of the loan. Loans are granted for a maximum period of 25 years including grace periods of up to 5 years.

The Fund's loan regulations require that loans be expressed in UA and repaid in the currency disbursed. At December 31, 2007, all loans disbursed were repayable in U.S. dollars.

The contractual maturity structure of outstanding loans as at December 31, 2007 and 2006 was as follows:

(Amounts in UA millions)

Periods	2007		2006	
	Amount	%	Amount	%
One year or less	20.63	31.96	21.11	31.40
More than one year but less than two years	5.56	8.61	5.76	8.57
More than two years but less than three years	5.35	8.29	5.51	8.19
More than three years but less than four years	5.07	7.86	5.23	7.78
More than four years but less than five years	4.86	7.53	4.94	7.35
More than five years	23.07	35.75	24.68	36.71
Total	64.54	100.00	67.23	100.00

The weighted-average interest yield on outstanding loans for the year ended December 31, 2007 was 3.78% (2006: 3.91%).

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, 2007, loans made to or guaranteed by certain borrowing countries with an aggregate principal balance of UA 1.10 million, of which UA 0.89 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, 2007 and 2006 were as follows:

(UA thousands)	2007	2006
Outstanding balance on impaired loans	893	23,588
Less: Accumulated provision for impairment	(153)	(2,952)
Net balance on impaired loans	740	20,636
Charges receivable and accrued income on impaired loans	1,382	16,203
Less: Accumulated provision for impairment	(481)	(7,704)
Net charges receivable and accrued income on impaired loans	901	8,499

The movement in the accumulated provision for impairment on loan principal for the years ended December 31, 2007 and 2006 was as follows:

(UA thousands)	2007	2006
Balance at January 1	2,952	3,452
Provision for impairment on loans for the year	(2,656)	(332)
Translation effects	(143)	(168)
Balance at December 31	153	2,952

The movements in the accumulated provision for impairment on interest and charges receivable on loans for the years ended December 31, 2007 and 2006 were as follows:

(UA thousands)	2007	2006
Balance at January 1	7,704	7,865
Provision for impairment on loan charges for the year	(6,844)	231
Translation effects	(379)	(392)
Balance at December 31	481	7,704

Fair Value of Loans

At December 31, 2007 and 2006, the estimated fair values of loans were as follows:

(UA thousands)	2007		2006	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loan balance at December 31	64,536	65,375	67,226	64,553
Accumulated provision for impairment on loans	(153)	-	(2,952)	-
Net balance	64,383	65,375	64,274	64,553

NOTE G – EQUITY

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

Fund Capital

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

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

Following a request by the Government of Nigeria, on June 14, 2006, a withdrawal of US\$ 200 million (UA 135.71 million) was made by the Government of Nigeria from the resources of the Fund.

Retained Earnings

Retained earnings as at December 31, 2007 and 2006 were as follows:

(UA thousands)

Balance at January 1, 2006	374,183
Net income for the year	12,726
Withdrawal of funds by the Government of Nigeria	(135,708)
Balance at December 31, 2006 and January 1, 2007	251,201
Net income for the current year	18,456
Balance at December 31, 2007	269,657

In May 2007, the Board of Governors of the Bank approved the transfer of part of the income for the year ended December 31, 2006 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 from income was reported as a reduction in retained earnings. The approvals in the years ended December 31, 2007 and 2006 were UA 1.38 million and 1.07 million, respectively.

Cumulative Currency Translation Adjustments (CCTA)

Cumulative currency translation adjustments as at December 31, 2007 and 2006 were as follows:

(UA thousands)	2007	2006
Balance at January 1	111,666	93,693
Movements during the year	13,111	17,973
Balance at December 31	124,777	111,666

NOTE H – INCOME

Interest and Charges on Loans

Interest and charges on loans for the years ended December 31, 2007 and 2006 were as follows:

(UA thousands)	2007	2006
Interest income on loans not impaired	1,421	1,820
Interest income on impaired loans	908	1,212
Commitment charges	265	330
Total	2,594	3,362

Income from investments

Income from investments for the years ended December 31, 2007 and 2006 were as follows:

(UA thousands)	2007	2006
Interest income	9,760	11,719
Realized and unrealized fair value gains	583	302
Total	10,343	12,021

NOTE I – ADMINISTRATIVE EXPENSES

According to the Agreement, 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% of the Fund's gross income during the course of each year.

The administrative cost-sharing formula may be reviewed from time-to-time by mutual agreement. The amount of UA 2.59 million charged for the year ended December 31, 2007 (2006: UA 2.92 million) represents the Fund's share of the Bank group expenses reimbursed by the Fund.

NOTE J – 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 I). The amount outstanding at December 31, 2007 in respect of Fund's share of administrative expenses was UA 0.19 million (2006: UA 0.05 million) and is included in Accounts Payable on the balance sheet.

NOTE K – APPROVAL OF FINANCIAL STATEMENTS

On April 2, 2008, 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 2008.