

THE 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 26 April 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 120.27 million at 31 December 2015, compared to UA 123.71 million at the end of 2014. Investment income for 2015 was UA 0.37 million, representing a return of 0.29 percent, on an average liquidity level of UA 126.93 million, compared to an income of UA 0.42 million, representing a return of 0.35 percent on an average liquidity of UA 121.38 million in 2014. The portfolio marginally underperformed its benchmark in 2015 as the volatility in the global financial markets created a challenging investment context.

Loan Portfolio

Cumulative loans signed, net of cancellations, as at 31 December 2015, increased by UA 12.03 million to UA 320.46 million compared to UA 308.43 million at the end of 2014. During 2015, the new loan approvals amounted to UA 12.50 million compared with UA 11.49 million in 2014. Table 7.7, below, presents the evolution of loans approved, loans disbursed and the undisbursed balances from 2011 to 2015. From the table, the level of loan approvals continues to show an upward trend since 2011.

As at 31 December 2015, there were 34 active loans with an outstanding amount of UA 48.90 million and 49 fully repaid loans amounting to UA 160.23 million.

Disbursements

Disbursements increased from UA 3.13 million in 2014 to UA 7.47 million in 2015. As at 31 December 2015, cumulative disbursements amounted to UA 248.67 million (2014: UA 241.20). A total of 70 loans amounting to UA 238.89 million was fully disbursed as at 31 December 2015, representing 96.07 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 5.09 million in 2015 compared to UA 6.81 million in 2014, representing a decrease of 25.26 percent over the previous year. Cumulative repayments as of December 2015 stood at UA 190.66 million compared to UA 177.34 million at the end of 2014.

Risk Management Policies and Processes

The NTF, like the Bank, seeks to reduce its exposure to risks that are not essential to its core business of providing development-related assistance, 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.

Table 6.7
Lending Status, 2011-2015
(UA millions)

	2011	2012	2013	2014	2015
Loans Approved	10.00	12.90	31.17	11.49	12.50
Disbursements	8.67	1.76	0.96	3.13	7.47
Undisbursed Balances	9.73	22.86	40.70	67.23	71.79

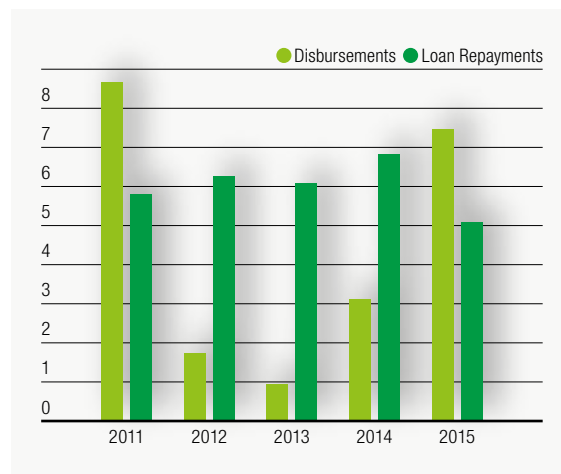
FINANCIAL RESULTS

The highlights of the Nigeria Trust Fund's financial performance in 2015 include the following:

- NTF's income before distributions approved by the Board of Governors decreased by UA 0.10 million from UA 1.49 million in 2014 to UA 1.39 million in 2015, 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 0.01 million from UA 0.37 million in 2015 to UA 0.36 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 39.69 million at the end of 2014 to UA 41.29 million on 31 December 2015, a 4.03 percent increase.

Figure 6.4

Loan Disbursements and Repayments, 2011-2015 (UA millions)



Nigeria Trust Fund

Financial Statements and

Report of the Independent Auditor

Year ended 31 December 2015

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Balance sheet as at 31 December 2015

(UA thousands – Note B)

ASSETS	2015	2014
DUE FROM BANKS	5,053	10,286
INVESTMENTS (Note F)	115,224	113,419
ACCOUNTS RECEIVABLE		
Accrued income and receivables on loans	1,124	1,136
Accrued income on investments	59	45
Other receivables	295	252
	1,478	1,433
LOANS (Notes D & G)		
Disbursed and outstanding	48,903	44,621
Less: Accumulated provision for impairment	(138)	(155)
	48,765	44,466
TOTAL ASSETS	170,520	169,604

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

LIABILITIES & EQUITY	2015	2014
ACCOUNTS PAYABLE	644	1,327
EQUITY (Note H)		
Capital	128,586	128,586
Reserves		
Retained earnings	140,452	146,347
Cumulative Currency Translation Adjustment (Note B)	(99,162)	(106,656)
Total reserves	41,290	39,691
Total Equity	169,876	168,277
TOTAL LIABILITIES & EQUITY	170,520	169,604

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

Income statement for the year ended 31 December 2015

(UA thousands – Note B)

	2015	2014
INCOME (Note I)		
Interest and charges on loans	1,457	1,447
Income from investments	365	417
Total income	1,822	1,864
EXPENSES		
Administrative expenses (Note J)	364	373
Bank charges and sundry losses/(gains)	86	(12)
Total expenses	450	361
Provision for impairment on loan principal and charges (Note G)	(17)	12
Total expenses and provision for impairment	433	373
Income before distributions approved by the Board of Governors	1,389	1,491
Distributions of income approved by the Board of Governors (Note H)	(149)	(158)
NET INCOME FOR THE YEAR	1,240	1,333

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

Statement of comprehensive income for the year ended 31 December 2015

(UA thousands – Note B)

	2015	2014
NET INCOME FOR THE YEAR	1,240	1,333
Other comprehensive income	-	-
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	1,240	1,333

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

Statement of changes in equity for the year ended 31 December 2015

(UA thousands – Note B)

	Capital	Retained Earnings	Cumulative Currency Translation Adjustment	Total Equity
BALANCE AT 1 JANUARY 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 31 DECEMBER 2014 AND 1 JANUARY 2015	128,586	146,347	(106,656)	168,277
Withdrawal of funds by the Government of Nigeria	-	(7,135)	-	(7,135)
Net income for the year	-	1,240	-	1,240
Currency translation adjustment	-	-	7,494	7,494
BALANCE AS AT 31 DECEMBER 2015	128,586	140,452	(99,162)	169,876

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

Statement of cash flows for the year ended 31 December 2015

(UA thousands – Note B)

	2015	2014
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	1,240	1,333
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for impairment on loan principal and charges	(17)	12
Unrealized (gains)/losses on investments	(104)	(22)
Changes in accrued income and receivables on loans	356	(132)
Changes in net current assets	(806)	238
Net cash provided by operating activities	669	1,429
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(7,468)	(3,126)
Repayment of loans	5,093	6,813
Investments maturing after 3 months of acquisition:		
Held at fair value through profit or loss	12,274	(7,662)
Net cash provided by/(used in) investing, lending and development activities	9,899	(3,975)
FINANCING ACTIVITIES:		
Withdrawal of funds by the Government of Nigeria	(7,135)	(8,409)
Net cash used in financing activities	(7,135)	(8,409)
Effect of exchange rate changes on cash and cash equivalents	5,481	(345)
Net increase/(decrease) in cash and cash equivalents	8,914	(11,300)
Cash and cash equivalents at the beginning of the year	13,629	24,929
Cash and cash equivalents at the end of the year	22,543	13,629
COMPOSED OF:		
Investments maturing within 3 months of acquisition	17,490	3,343
Cash	5,053	10,286
Cash and cash equivalents at the end of the year	22,543	13,629
SUPPLEMENTARY DISCLOSURE		
1. Operational cash flows from interest		
Interest received	1,500	1,900
2. Movement resulting from exchange rate fluctuations on loans	1,893	2,456

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

Notes to the financial statements Year ended 31 December 2015

Note A — Nature of operations

The Nigeria Trust Fund (the Fund or NTF) was established under an agreement signed on 26 February 1976 (the Agreement) between the African Development Bank (ADB or the Bank) and the Federal Republic of Nigeria. The 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 26 April 2006 and was extended twice for one-year periods, to allow for the completion of an independent review of the operation of the Fund. Following the successful completion of the independent review, the Agreement has been extended for a period of ten years starting from 26 April 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 31 December 2015, 1 UA was equivalent to 1.38573 United States dollars (2014: 1.44881 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 of 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 measuring 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

Standards, Amendments and Interpretations Issued but not yet effective

At the date of issue of these financial statements, various International Financial Reporting Standards issued by the IASB were not yet effective for application and had not been applied in preparing these financial statements. The new standards which are expected to be relevant to the Fund are discussed briefly below:

IFRS 15: Revenues from Contracts with Customers

IFRS 15 was issued in May 2014, and applies to annual reporting periods beginning on or after 1 January 2017. It specifies how and when entities should recognize revenue from contracts with customers as well as the required disclosures in the financial statements. The standard provides a single, principles-based five-step model to be applied to all contracts with customers.

The Fund has determined that the standard is not applicable to its operations as its contracts with customers are accounted for under IFRS 9.

IFRS 9: Financial Instruments

The Fund has already adopted phase 1 of the IFRS 9 with effect from 1 January 2011. Phase 2, which is the final version of IFRS 9 was issued on 24 July 2014, and is effective for annual periods beginning on or after 1 January 2018. The revisions in the final phase of this standard introduce a third classification and measurement category for financial assets, namely, fair value through OCI, some revisions to hedge accounting and replacement of the incurred loss model in IAS 39 with the expected credit loss impairment model. The final standard also includes the guidance for financial liabilities, as previously issued to the effect that there is no subsequent recycling of realized gains or losses on "own credit" from OCI to profit and loss.

Although preliminary indications are that the 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.

Annual Improvements to IFRS 2012 - 2014 Cycle

In September 2014, the IASB issued Annual Improvements to IFRS 2012-2014 Cycle. This comprises amendments that result in accounting changes for presentation, recognition or measurement purposes as well as terminology or editorial amendments related to a variety of individual IFRS standards. These changes are effective for reporting periods beginning on or after 1 January 2016, with early adoption permitted.

The Fund is currently assessing the impact of the amendments on its financial statements.

Amendments to IAS 1: Presentation of Financial Statements

In December 2014, the IASB issued amendments to IAS 1, as part of an initiative to improve presentation and disclosure in financial reports, to further encourage reporting entities to apply professional judgement in determining what information to disclose in their financial statements and in determining where and in what order information is presented in the financial disclosures. The Amendments have a mandatory effective date of 1 January 2016, with earlier adoption permitted.

The Fund expects that the adoption of these amendments will not have material impact on its Financial Statements.

IFRS 16: Leases

On 13 January 2016, the IASB published IFRS 16, "Leases", which replaces the current guidance on lease accounting in IAS 17. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, with earlier application permitted. The new standard requires far-reaching changes in accounting by lessees in particular. Under IAS 17, lessees were required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 now requires lessees to recognize a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. The IASB has included an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees.

Preliminary indications are that the new standard will affect the Fund. However, the full impact on the financial position and performance is still being assessed.

IAS 7: Statement of Cash Flows (Amendments)

On 29 January 2016, the IASB published some revisions to IAS 7, "Statement of Cash Flows", aimed at improving the effectiveness of disclosures in financial reports. These amendments, which are effective from 1 January 2017, require entities to provide information about changes in their financing liabilities. The amendments are a response to users' demand for information that helps them better understand and evaluate changes in liabilities arising from an entity's financing activities, including changes from cash flows and non-cash changes (such as foreign exchange gains or losses).

Although the Fund is yet to assess the potential impact of adopting this standard, its application is not expected to have an impact on the financial position of the Fund as the new requirements merely involve additional disclosures rather than a change in measurement basis.

Based on the foregoing no new or revised financial reporting standard, applicable to the Fund, became effective in 2015.

Note D — Risk management policies and procedures

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

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

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

In 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 in Borrowing Member Countries

The Fund's outstanding loans at 31 December 2015 were to the following countries:

(Amounts in UA thousands)

Country	N° of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balance	Outstanding Balance	% of Total Outstanding Loans
Benin	3	10,270	-	6,000	4,270	8.73
Cabo Verde	1	412	-	-	412	0.84
Cameroon	1	4,999	-	4,861	138	0.28
Djibouti	1	632	-	-	632	1.29
Gambia	3	10,471	-	-	10,471	21.41
Ghana	1	1,257	-	-	1,257	2.57
Guinea	1	2,682	-	-	2,682	5.49
Guinea-Bissau	1	3,483	-	3,177	306	0.63
Lesotho	1	4	-	-	4	0.01
Liberia	1	6,506	-	5,697	809	1.65
Madagascar	1	6,514	-	5,339	1,175	2.40
Malawi	2	11,549	-	9,701	1,848	3.78
Mali	1	6,493	-	6,322	171	0.35
Mauritania	2	7,069	-	-	7,069	14.45
Namibia	1	688	-	-	688	1.41
Rwanda	2	10,874	-	6,500	4,374	8.94
Senegal	1	308	-	-	308	0.63
Seychelles	1	585	-	-	585	1.20
Sierra Leone	2	7,464	-	6,670	794	1.62
Somalia**	1	840	-	-	840	1.72
Swaziland	1	3,966	-	-	3,966	8.11
Tanzania	1	522	-	-	522	1.07
Togo	1	6,500	-	6,500	-	-
Uganda	2	10,232	-	6,713	3,519	7.20
Zambia	1	6,376	-	4,313	2,063	4.22
Total	34	120,696	-	71,793	48,903	100.00

* Excludes fully repaid loans and canceled loans.

** Country with overdue amounts as at 31 December 2015.

Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

As at 31 December 2015, all the Fund's loans were made only to public sector borrowers, and such loans generally carry full sovereign guarantee or the equivalent from the borrowing member state.

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

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

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

Portfolio Risk Monitoring

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

2) Counterparty Credit Risk

Counterparty credit risk is the potential for loss due to failure of a counterparty to honor its obligation. Various financial instruments are used to manage the Fund's exposure to fluctuations in market interest and currency rates, and to invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Fund.

Given the nature of the Fund's business, it is not possible to completely eliminate counterparty credit risk, however, this risk is minimized by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures. Counterparties for treasury assets must meet the Fund's minimum credit rating requirements and are approved by the Bank's Vice President for Finance. For counterparties that are rated below the minimum rating requirements, approval by ALCO is required.

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

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2			AA-/Aa3	AAA/Aaa
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
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
2015	19%	68%	13%
2014	19%	78%	3%
2013	50%	44%	6%
2012	63%	19%	18%
2011	50%	23%	27%
2010	48%	40%	12%

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-month 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 2015, the Fund had UA 71.79 million of loans which were committed but not yet disbursed (2014: UA 67.23 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 31 December 2015 and 2014 were as follows:

Interest Rate Risk Position as at 31 December 2015

(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	5,053	-	-	-	-	-	-	5,053
Investments	87,675	21,760	4,292	1,436	-	61	-	115,224
Accounts receivable	1,478	-	-	-	-	-	-	1,478
Loans	4,981	3,680	3,190	3,310	3,260	30,482	(138)	48,765
	99,187	25,440	7,482	4,746	3,260	30,543	(138)	170,520
Liabilities								
Accounts payable	(644)	-	-	-	-	-	-	(644)
Interest rate risk position as at 31 December 2015*	98,543	25,440	7,482	4,746	3,260	30,543	(138)	169,876

* Interest rate risk position represents equity.

Interest Rate Risk Position as at 31 December 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 31 December 2014*	36,117	65,281	30,105	7,169	3,029	26,731	(155)	168,277

* 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 31 December 2015 and 2014, respectively.

(UA thousands)

	+100 Basis Points		-100 Basis Points	
	2015	2014	2015	2014
(Loss)/Gain on investments measured at fair value	(261)	(215)	262	204

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)

31 December 2015	Financial Assets and Liabilities through Profit or Loss		Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
	Mandatorily at Fair Value	Designated at Fair Value			
Due from banks	-	-	5,053	5,053	5,053
Treasury investments	115,224	-	-	115,224	115,224
Accounts receivable	-	-	1,478	1,478	1,478
Loans	-	-	48,765	48,765	48,505
Total financial assets	115,224	-	55,296	170,520	170,260
Liabilities	-	-	644	644	644
Total financial liabilities	-	-	644	644	644

(UA thousands)

31 December 2014	Financial Assets and Liabilities through Profit or Loss		Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
	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

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 of the Bank or other official entities. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Investments in money market instruments are restricted to instruments having maturities of not more than 1 year and a minimum rating of A.

As at 31 December 2015, all investments are held at fair value through profit and loss.

The Fund's investments at 31 December 2015 and 2014 (at FVTPL) are summarized below:

(UA thousands)

	2015	2014
Time deposits	17,490	3,343
Asset-backed securities	61	323
Government and agency obligations	85,465	88,422
Corporate bonds	12,208	21,331
Total	115,224	113,419

The table below classifies the Fund's investments at 31 December 2015 and 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		Valuation techniques for which all significant inputs are based on observable market data		Valuation techniques for which any significant input is not based on observable market data		Total	
	(Level 1)		(Level 2)		(Level 3)			
	2015	2014	2015	2014	2015	2014	2015	2014
Time deposits	17,490	3,343	-	-	-	-	17,490	3,343
Asset-backed securities	-	-	-	-	61	323	61	323
Government and agency obligations	85,465	88,422	-	-	-	-	85,465	88,422
Corporate bonds	-	-	12,208	21,331	-	-	12,208	21,331
Total	102,955	91,765	12,208	21,331	61	323	115,224	113,419

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at 31 December 2015 and 2014 are made up as follows:

(UA thousands)

	2015	2014
Balance at 1 January	323	502
Losses recognized in income statement	(30)	(210)
Purchases, issues and settlements (net)	(236)	-
Currency translation adjustments	4	31
Balance at 31 December	61	323

The contractual maturity structure of the Fund's investments as at 31 December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
One year or less	87,675	19,910
More than one year but less than two years	21,760	61,323
More than two years but less than three years	4,292	26,596
More than three years but less than four years	1,436	4,124
More than four years but less than five years	-	-
More than five years	61	1,466
Total	115,224	113,419

The notional balance of investments as at 31 December 2015 was UA 115.22 million (2014: UA 113.42 million), while the average yield was 0.32 % (2014: 0.35%).

Note G — Loans

Loans originated prior to 22 September 2003, carry an interest rate of four percent (4%) on the outstanding balance. With effect from 22 September 2003, pursuant to the Board of Governors' resolution B/BG/2003/11 of 3 June 2003 and the protocol agreement between the Government of Nigeria and the Bank, dated 22 September 2003, the interest rate on loans was changed from a flat 4 percent per annum to a range of 2 percent to 4 percent (inclusive) per annum on the outstanding balance and future undisbursed loans. Furthermore, a 0.75 percent commission is payable on undisbursed balances commencing 120 days after the signature of the loan. Loans approved prior to the extension of the Agreement are granted for a maximum period of 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 2 December 2008 which stipulates that the resources of the Fund will henceforth be deployed in accordance with the following three options:

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

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

Financial terms for the third option would be the same terms as for the 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 USD 10 million per project will apply. Project proposals of more than USD 10 million may be considered if there is strong justification. This will be subject to review as appropriate depending on the recommendations of the mid-term reviews of the NTF.

The Fund's loan regulations require that loans be expressed in UA and repaid in the currency disbursed. At 31 December 2015, all loans disbursed were repayable in United States Dollars.

The contractual maturity structure of outstanding loans as at 31 December 2015 and 2014 was as follows:

(Amounts in UA millions)

Periods	2015		2014	
	Amount	%	Amount	%
One year or less	4.98	10.18	5.81	13.02
More than one year but less than two years	3.68	7.53	3.96	8.87
More than two years but less than three years	3.19	6.52	3.51	7.87
More than three years but less than four years	3.31	6.77	3.05	6.84
More than four years but less than five years	3.26	6.67	3.03	6.79
More than five years	30.48	62.33	25.26	56.61
Total	48.90	100.00	44.62	100.00

The weighted-average interest yield on outstanding loans for the year ended 31 December 2015 was 3.21% (2014: 3.31%).

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

Provision for Impairment on Loan Principal and Charges Receivable

As at 31 December 2015, loans made to or guaranteed by certain borrowing countries with an aggregate principal balance of UA 0.84 million, of which UA 0.84 million was overdue, were considered to be impaired.

The gross amounts of impaired loans and charges receivable and their corresponding impairment provisions at 31 December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
Outstanding balance on impaired loans	840	803
Less: accumulated provision for impairment	(138)	(155)
Net balance on impaired loans	702	648
Charges receivable and accrued income on impaired loans	1,122	1,036
Less: accumulated provision for impairment	(599)	(573)
Net charges receivable and accrued income on impaired loans	523	463

Movements in the accumulated provision for impairment on loan principal for the year ended 31 December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
Balance at 1 January	155	146
Provision for impairment on loan principal for the year	(24)	-
Translation effects	7	9
Balance at 31 December	138	155

Movements in the accumulated provision for impairment on interest and charges receivable on loans for the year ended 31 December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
Balance at 1 January	573	536
Provision for impairment on loan charges for the year	7	12
Translation effects	19	25
Balance at 31 December	599	573

Fair Value of Loans

At 31 December 2015 and 2014, the carrying and estimated fair values of outstanding loans were as follows:

(UA thousands)

	2015		2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Loan balance at 31 December	48,903	48,505	44,621	44,237
Accumulated provision for impairment on loans	(138)	-	(155)	-
Net balance	48,765	48,505	44,466	44,237

Note H — Equity

Equity is composed of Fund capital and 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 USD 39.90 million, was received by the Bank on 14 July 1976, and the second installment, equivalent to USD 39.61 million, was received on 1 February 1977.

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 USD 52.29 million, was received on 7 October 1981. The second installment of Naira 8 million, equivalent to USD 10.87 million, was received on 4 May 1984. The third installment of Naira 7 million, equivalent to USD 7.38 million, was received on 13 September 1985.

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

A second request for a withdrawal of USD 200 million (UA 129.04 million) was paid to the Government of Nigeria in July 2009.

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

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

Reserves including Retained Earnings

Retained Earnings

Retained earnings as at 31 December 2015 and 2014 were as follows:

(UA thousands)

Balance at 1 January 2014	153,423
Liberia arrears clearance	(8,409)
Net income for the year	1,333
Balance at 31 December 2014 and 1 January 2015	146,347
Withdrawal of funds by the Government of Nigeria	(7,135)
Net income for current year	1,240
Balance at 31 December 2015	140,452

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 31 December 2015 and 2014 were UA 0.15 million and UA 0.16 million, respectively.

Cumulative Currency Translation Adjustments

Cumulative currency translation adjustments as at December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
Balance at 1 January	106,656	116,237
Movements during the year	(7,494)	(9,581)
Balance at 31 December	99,162	106,656

Note I — Income

Interest and Charges on Loans

Interest and charges on loans for the year ended 31 December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
Interest income on loans not impaired	1,072	1,179
Interest income on impaired loans	33	31
Commitment charges	352	237
Total	1,457	1,447

Income from Investments

Income from investments for the year ended 31 December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
Interest income	507	448
Realized and unrealized fair value losses	(142)	(31)
Total	365	417

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 0.36 million charged for the year ended 31 December 2015 (2014: UA 0.37 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 31 December 2015 in respect of the Fund's share of administrative expenses was UA 0.05 million (2014: UA 0.05 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 31 December 2015 and 2014 is detailed as follows:

(UA thousands)

	2015	2014
Interest income and charges on loans with sovereign guarantee	1,457	1,447
Treasury investment income	365	417
Total external revenue	1,822	1,864

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 31 December 2015 and 2014 is detailed as follows:

(UA thousands)

	Central Africa	East Africa	North Africa	Southern Africa	West Africa	Multi-national	Total
2015							
Income from Loans	25	271	149	313	608	91	1,457
2014							
Income from Loans	-	311	143	332	661	-	1,447

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 31 December 2015.

Note M — Approval of financial statements

On 30 March 2016, 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 2016.

**KPMG Audit**

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

Year ended 31 December 2015

We have audited the accompanying financial statements of the Nigeria Trust Fund (the Fund) which comprise the balance sheet as at 31 December 2015 and the income statement, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in notes A to M.

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

Management's Responsibility for the Financial Statements

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

KPMG S.A.
Société française membre du réseau KPMG
constitué de cabinets indépendants adhérents de
KPMG International Coopérative, une entité de droit suisse.

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

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Fund as at 31 December 2015, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paris La Défense, 30 March 2016

KPMG Audit
A division of KPMG S.A.



Valéry Foussé
Partner

