This chapter discusses the management of the financial resources of the Bank Group's windows—the African Development Bank (ADB), the African Development Fund (ADF), and the Nigeria Trust Fund (NTF)—during the year. It also presents the Audited Financial Statements for 2009 for the three windows, as well as the ADB and ADF Administrative Budgets for the financial year 2010.

THE AFRICAN DEVELOPMENT BANK

Financial Management

Capital Subscription

The authorized capital stock of the Bank stood at UA 22.12 billion as of December 31, 2009. The latest increases in the authorized capital of the Bank were the two special increases approved by the Board of Governors, raising the authorized capital from UA 21.87 billion to UA 22.12 billion to allow the Republic of Turkey and the Grand Duchy of Luxembourg to become members of the Bank. The memberships of these two countries shall become effective upon completion of the formalities specified in the Agreement establishing the Bank and in the General Rules governing the admission of non-regional countries to membership of the Bank. Authorized capital is allocated to regional and non-regional members in such proportion that, when fully subscribed, the regional members of the Bank as a group would hold 60 percent of the total capital stock and the non-regional members would have 40 percent.

The capital stock of the Bank is composed of paid-up and callable capital. The paid-up capital is the amount of capital payable over a period determined by the relevant General Capital Increase (8 years for the fifth General Capital Increase (GCI-V), 10 years for regional members and 5 years for non-regional members under GCI-IV). A member country's payment of the first installment triggers the subscription to the entire callable capital portion. However, shares representing the paid-up portion of subscriptions are issued only as and when the Bank receives the actual payments for such shares. As of December 31, 2009, the paid-up capital amounted to UA 2.36 billion, with a paid-in capital (i.e. the portion of paid-up capital that has been actually paid) level of UA 2.35 billion. The Bank's callable capital was UA 19.46 billion including UA 7.65 billion from non borrowing member countries rated A- and higher. The callable capital is subject to payment as and when required by the Bank to meet its obligations incurred, (a) by making or participating in direct loans out of funds borrowed or otherwise acquired by the Bank for inclusion in its ordinary capital resources or in special resources; or (b) by guaranteeing in whole or in part, loans made by other entities. It is a protection of the Bank's creditors and holders of Bank's guarantees in the event that it is not able to meet its financial obligations. There has never been a call on the capital of the Bank.

In accordance with the Shares Transfer Rules, shares for which payments have become due and remain unpaid by a member country are forfeited after a prescribed period and offered for subscription to other member countries.

The position of capital subscriptions at December 31, 2009 is shown in the Statement of Subscriptions to the Capital Stock and Voting Power, which forms part of the Financial Statements included in this Report.

The financial crisis that started in 2008 has had a substantial impact on Africa. Demand for lending from the Bank has scaled up. The expected increase in operations and the faster than anticipated utilization of the financial resources in response to the crisis could constrain some of the Bank's prudential limits. As a result, the Board of Governors has decided to examine and consider the necessity for a Sixth General Capital Increase (GCI-VI). In the interim, Canada and Korea have offered to provide additional non-voting callable capital by tripling their subscription to the capital of the Bank.

Bank Rating

The rating agencies Standard & Poor's, Moody's, Fitch Ratings, and the Japan Credit Rating Agency reaffirmed their AAA and AA+ rating of the African Development Bank's senior and subordinated debts respectively, with a stable outlook. Their rating reflects the Bank's strong membership support, its preferred creditor status, sound capital adequacy and prudent financial management and policies.

Borrowings

The Bank strives to raise funds from the capital markets at the lowest possible cost to support its lending activities. The top-notch credit ratings enjoyed by the Bank enable it to issue securities at low interest rates. Its borrowing activities are guided by client and cash flow requirements, assets and liability management goals, and risk management policies.

The impact of the financial crisis was fully felt on the continent in 2009 and as the Bank stepped up to play its countercyclical role, the borrowing program envelope increased during the year. The 2009 funding program in capital markets was initially approved for a maximum amount of UA 2.50 billion. In July 2009, the Board approved an increase of the amount to be funded in the capital

market by UA 3.90 billion to a maximum of UA 6.40 billion in response to the rapid increase of the Bank's operations. The actual amount raised was to be guided by the pace of disbursements.

In terms of market conditions, the credit markets gradually improved throughout the year. The positive market sentiment in the last quarter of 2009 was helped by ongoing improvement in economic outlook and the return of risk appetite. The Bank's borrowing cost also continued to improve over the course of the year due to the better conditions in capital markets globally and as a result of the Bank's continuous effort to broaden its investor base as well as the good performance of its bond issues in the secondary market.

The Bank has used various markets and instruments to meet its borrowing requirements. The Bank issued four USD 1 billion global bond transactions during the year. These transactions were supplemented in the public markets by the Bank's maiden Floating Rate Note issues and a return to the Swiss Franc and Singapore Dollar domestic bond markets. The Bank also reactivated its Euro Commercial Paper (ECP) program which has now been increased from Euro 1 billion to Euro 2 billion. Private placements, Uridashi transactions, ECP borrowings and African currency-linked bonds in Ghana Cedi and Zambian Kwacha complete the range of markets utilized for funding transactions with a maturity of a year or longer.

Overall the Bank raised UA 5.14 billion (including ECP) in the capital markets in 2009 and as at December 31, 2009, the outstanding borrowing portfolio of the Bank stood at UA 10.58 billion.

Investments

The Bank's cash and treasury investments (net of repurchase agreements) as of December 31, 2009 totaled UA 7.73 billion, compared to UA 5.17 billion at the end of 2008. Investment income for 2009 amounted to UA 222.96 million or a return of 3.50 percent on an average liquidity of UA 6.37 billion, compared to UA 202.88 million in 2008, or a return of 3.76 percent, on an average liquidity of UA 5.39 billion.

The ADB's liquid assets are tranched into 3 portfolios, namely operational portfolio, prudential portfolio, and equity-backed portfolio, each with a different benchmark that reflects the cash flow and risk profile of its assets and funding sources. These benchmarks are 1-month LIBID for the operational portfolio, and 6-month marked-to-market LIBOR, resetting on February 1 and August 1 for the prudential portfolio. The equity-backed portfolio is managed against a re-pricing profile benchmark with 10 percent of the Bank's net assets re-pricing uniformly over a period of 10 years.

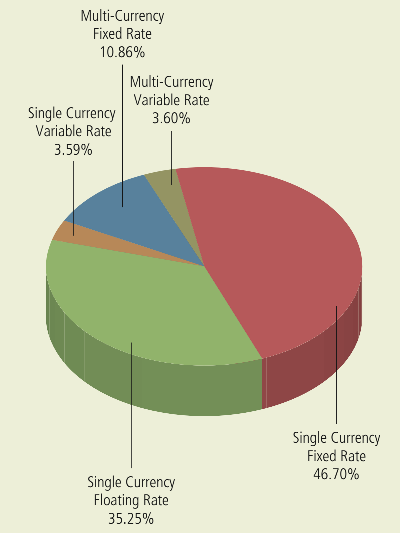
Loan Portfolio

Loans signed, net of cancellations, as at December 31, 2009 amounted to UA 25.13 billion. Total outstanding loans as at December 31, 2009 was UA 7.54 billion, UA 1.71 billion higher than the UA 5.83 billion outstanding as at the end of 2008. Undisbursed balances at December 31, 2009 totaled UA 5.00 billion, an increase of UA 2.45 billion from December 31, 2008. The number of active signed loans stood at 279 for an outstanding balance of UA 7.54 billion. As at December 31, 2009, 604 loans amounting to UA 9.67 billion had been fully repaid. A breakdown of the outstanding loan portfolio by product type is presented below.

Disbursements

Loan disbursements during 2009 amounted to UA 2.35 billion, more than triple the amount of UA 727.53 million disbursed in 2008. At December 31, 2009, cumulative disbursements (including non-sovereign loans) amounted to UA 20.03 billion. Also at the end of 2009, a total of 785 loans were fully disbursed amounting to UA 17.55 billion, representing 87.62 percent of cumulative disbursements.

Loans Outstanding, December 31, 2009 (percentages)



Financial Products

Loans. The Bank offers 3 loan products: variable, floating, and fixed interest rate loans with a selection of loan currencies, currently, US Dollar, Euro, Japanese Yen, and South Africa Rand. To suit the long-term financing needs of borrowers, loans have a maximum maturity of 20 years, including a grace period on the repayment of the principal amount, generally not exceeding 5 years. For the single currency variable interest rate loan, the base rate is determined twice a year, on January 1 and July 1, and is based on the Bank's average cost of a designated pool of borrowings funding the loans in the specific currency. This product was discontinued in December 2009. The base rate for the floating interest rate loan is derived from the 6-month market reference rate in the specific currency, for example, LIBOR, EURIBOR or JIBAR. The base rate is reset on February 1 and August 1 each year and applies to the 6-month period following the reset date. For the fixed

interest rate loan, the lending rate in each currency is the fixed amortizing swap rate derived from the 6-month market reference rates. Borrowers may select from a number of rate-fixing alternatives, including fixing at each disbursement or after all disbursements have been completed. Prior to rate fixing, the currency-specific floating interest rate applies. The pricing formula applicable to all 3 loan products is the same. The applicable rate of interest is the sum of the chosen base rate plus a lending spread. Loans to sovereign and sovereign-guaranteed borrowers enjoy a lending spread of 40 basis points above the 6-month market reference rate. For non-sovereign guaranteed borrowers in both the private and public sector, the lending spread is computed based on the Bank's risk-based pricing framework.

Agency Lines. Loans to private sector enterprises can be extended directly or through a private financial institution (PFI). In an agency line (AL), the credit risk of the borrower is borne by the Bank. In addition, the PFI acts as an agent for the Bank, to carry out a variety of activities, including, but not limited to, identifying projects within certain parameters; appraising such projects on behalf of the Bank; when approved, undertaking all of the administrative steps related to disbursement (billing, collection of Bank's funds, filing of security); supervising projects, monitoring the performance of the borrower, submitting reports thereon; and transmitting amounts related to the repayment of the loan to the Bank.

Guarantees. Through the guarantee product, the Bank seeks to leverage its preferred creditor status to assist eligible borrowers to obtain financing from third party lenders, including capital markets. Guarantees will also enable borrowers to obtain financing in their own local currency where the Bank is not able to provide such financing directly from its own resources.

Risk Management Products are offered to enable borrowers to manage the market risks associated with their loans from the Bank, including interest rate, currency, and commodity price risks. These products assist borrowers to manage their balance sheets and their changing needs more efficiently over time. Risk management products such as interest rate swaps, currency swaps, interest rate caps and collars are available to borrowers at any time during the life of the loan.

Equity Participation or Quasi Equity Products. The Bank's ability to provide risk capital through equity investments is a key element of its resource mobilization role. Even though the Bank cannot be a majority shareholder in a company, it can participate in a project by acquiring ordinary stocks, redeemable preferred stocks or debentures.

Other Financial Services. In addition to the products described above, the Bank may offer loan syndication and underwriting services through its private sector window.

Risk Management Policies and Processes

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

Financial Results

To highlight the ordinary operations of the Bank, the discussions and analyses below focus on "Income before distributions approved by the Board of Governors".

The highlights of the Bank's financial performance in 2009 include the following:

- Despite the continued difficult economic environment experienced during the year, the Bank in 2009 earned income before distributions approved by the Board of Governors of UA 231.16 million, compared to UA 304.66 million in 2008. The decrease was due primarily to a higher amount of impairment provision on loans as well as a higher level of administrative expenses incurred in 2009 compared to 2008. Provision for impairment on loans amounted to UA 11.29 million in 2009 compared to a write back of provision in 2008 as a result of the arrears clearance of a borrowing member country.

- Loan income decreased by UA 64.04 million, or 18.18 percent, in 2009 as a result of general decline in interest rates during the year. As a result of improved market conditions investment income increased by UA 20.08 million, or 9.90 percent from UA 202.88 million in 2008 to UA 222.96 million in 2009. Borrowing-related charges also decreased by UA 84.58 million from UA 317.62 million in 2008 to UA 233.04 million in 2009. In 2009, the Bank earned income of UA 7.68 million on investments in debt instruments issued by entities in its regional member countries.

- At December 31, 2009, three sovereign borrowers were in arrears for six months or more compared to four sovereign borrowers in arrears at the end of 2008. At December 31, 2009 total accumulated provision for losses on principal and charges in arrears was UA 227.39 million, which was 2.90 percent of gross principal outstanding and charges receivable at that date, compared to UA 218.27 million, or 3.47 percent of gross principal outstanding and charges receivable at December 31, 2008.

- Total Bank Group administrative expenses increased by 18.85 percent from UA 186.37 million in 2008 to UA 221.51 million in 2009. The increase came mainly from manpower and mission expenses due to increase in staffing as a result of increased activities of the Bank Group. The Bank's share of the Bank Group administrative expenses amounted to UA 63.06 million for 2009, compared to UA 46.78 million for 2008. Bank Group administrative expenses are allocated between the Bank, the ADF and the NTF based on a predetermined cost-sharing formula driven primarily by the relative levels of certain operational volume indicators.
- The Bank continues to earn levels of net income sufficient to sustain its strong financial position and also make contributions on behalf of its shareholders to other development initiatives for Africa. Total reserves plus accumulated loss provisions on outstanding loan principal and charges at December 31, 2009 were UA 2.78 billion, compared to UA 2.69 billion at the end of 2008. As a percentage of gross loans, reserves plus loss provisions on loan principal at December 31, 2009 represented 35.22 percent compared to 44.19 percent at December 31, 2008. The Board of Governors in 2009 approved distributions to various development initiatives in Africa amounting to UA 162.68 million. The beneficiaries of these distributions are listed under Note N to the financial statements.

African Development Bank

Financial Statements and Report of the Independent Auditor
Year ended December 31, 2009

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BALANCE SHEET
AS AT DECEMBER 31, 2009

(UA thousands - Note B)

ASSETS		2009	2008
CASH		318,828	592,644
DEMAND OBLIGATIONS		3,801	3,801
TREASURY INVESTMENTS (Note F)		7,412,248	4,575,756
DERIVATIVE ASSETS (Note G)		764,007	736,091
NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL (Note H)		8,188	11,861
ACCOUNTS RECEIVABLE			
Accrued income and charges receivable on loans (Note I)	168,592		336,466
Other accounts receivable	755,567		312,549
		924,159	649,015
DEVELOPMENT FINANCING ACTIVITIES			
Loans, net (Notes D & I)	7,436,278		5,731,972
Equity participations (Note J)	234,478		188,781
Other debt securities (Note K)	70,810		68,797
		7,741,566	5,989,550
OTHER ASSETS			
Property, equipment and intangible assets (Note L)	11,243		11,731
Miscellaneous	647		498
		11,890	12,229
TOTAL ASSETS		**17,184,687**	**12,570,947**

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

LIABILITIES & EQUITY		**2009**	2008
ACCOUNTS PAYABLE			
Accrued financial charges	404,477		398,733
Other accounts payable	981,202		444,389
		1,385,679	843,122
DERIVATIVE LIABILITIES (Note G)		477,118	360,299
BORROWINGS (Note M)			
Borrowings at fair value	9,488,606		5,729,808
Borrowings at amortized cost	1,092,034		977,470
		10,580,640	6,707,278
EQUITY (Note N)			
Capital			
Subscriptions paid	2,350,257		2,345,804
Cumulative Exchange Adjustment on Subscriptions (CEAS)	(161,970)		(161,028)
Subscriptions paid (net of CEAS)	2,188,287		2,184,776
Reserves			
Retained earnings	2,556,391		2,460,137
Fair value (losses)/gains on available-for-sale investments	(3,428)		15,335
Total reserves	2,552,963		2,475,472
Total equity		4,741,250	4,660,248
TOTAL LIABILITIES & EQUITY		**17,184,687**	**12,570,947**

INCOME STATEMENT
FOR THE YEAR ENDED DECEMBER 31, 2009
(UA thousands - Note B)

	2009	2008
OPERATIONAL INCOME & EXPENSES		
Income from:		
Loans (Note O)	288,239	352,277
Investments and related derivatives (Note O)	222,955	202,884
Other debt securities	7,684	9,288
Total income from loans and investments	518,878	564,449
Borrowing expenses (Note P)		
Interest and amortized issuance costs	(306,321)	(251,827)
Net interest on borrowing-related derivatives	73,284	(65,788)
Unrealized gains on fair-valued borrowings and related derivatives	17,380	12,431
Unrealized losses on derivatives on non fair-valued borrowings and others	(20,303)	(16,677)
Provision for impairment (Note I)		
Loan principal	(276)	101,479
Loan charges	(11,009)	61,798
Provision for impairment on equity investments (Note J)	(2,324)	(18,456)
Provision for impairment on investments	3,389	(38,134)
Translation gains/(losses)	19,634	(9,167)
Other income	7,338	18,647
Net operational income	299,670	358,755
OTHER EXPENSES		
Administrative expenses (Note Q)	(63,057)	(46,783)
Depreciation – Property, equipment and intangible assets (Note L)	(4,679)	(5,201)
Sundry expenses	(774)	(2,110)
Total other expenses	(68,510)	(54,094)
Income before distributions approved by the Board of Governors	231,160	304,661
Distributions of income approved by the Board of Governors (Note N)	(162,680)	(257,300)
NET INCOME FOR THE YEAR	**68,480**	**47,361**

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

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2009

(UA thousands - Note B)

	2009	2008
NET INCOME FOR THE YEAR	68,480	47,361
OTHER COMPREHENSIVE INCOME		
Net loss on available-for-sale investments taken to equity	(18,763)	(18,175)
Actuarial gains/(losses) on defined benefit plans	27,774	(85,512)
Total other comprehensive income/(loss)	9,011	(103,687)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**77,491**	**(56,326)**

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

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2009

(UA thousands - Note B)

	Capital Subscriptions Paid	Cumulative Exchange Adjustment on Subscriptions	Retained Earnings	Fair Value (Losses)/Gains on Available-for-Sale Investments	Total Equity
BALANCE AT JANUARY 1, 2008	2,336,457	(160,075)	2,498,288	33,510	4,708,180
Net income for the year	-	-	47,361	-	47,361
Other comprehensive income					
Net loss on available-for-sale investments taken to equity	-	-	-	(18,175)	(18,175)
Actuarial losses on defined benefit plans	-	-	(85,512)	-	(85,512)
Total other comprehensive income	-	-	(85,512)	(18,175)	(103,687)
Net increase in paid-up capital	9,347	-	-	-	9,347
Net conversion losses on new subscriptions	-	(953)	-	-	(953)
BALANCE AT DECEMBER 31, 2008 AND JANUARY 1, 2009	**2,345,804**	**(161,028)**	**2,460,137**	**15,335**	**4,660,248**
Net income for the year	-	-	68,480	-	68,480
Other comprehensive income					
Net loss on available-for-sale investments taken to equity	-	-	-	(18,763)	(18,763)
Actuarial gains on defined benefit plans	-	-	27,774	-	27,774
Total other comprehensive income	-	-	27,774	(18,763)	9,011
Net increase in paid-up capital	4,453	-	-	-	4,453
Net conversion losses on new subscriptions	-	(942)	-	-	(942)
BALANCE AT DECEMBER 31, 2009	**2,350,257**	**(161,970)**	**2,556,391**	**(3,428)**	**4,741,250**

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

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2009

(UA thousands - Note B)

	2009	2008
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net income	68,480	47,361
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	4,679	5,201
Provision for impairment on loan principal and charges	11,287	(163,277)
Unrealized losses on investments and related derivatives	15,689	5,221
Amortization of discount or premium on held-to-maturity investments	(6,658)	(2,389)
Provision for impairment on investments	(3,389)	38,134
Provision for impairment on equity investments	2,324	18,456
Amortization of borrowing issuance costs	541	2,805
Unrealized gains on fair-valued borrowings and derivatives	2,923	4,246
Translation (gains)/losses	(19,634)	9,167
Share of profits in associate	(227)	(36)
Net movements in derivatives	(77,560)	(2,145)
Changes in accrued income on loans	159,099	10,551
Changes in accrued financial charges	6,345	(21,621)
Changes in other receivables and payables	89,407	140,352
Net cash provided by operating activities	253,306	92,026
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(2,352,287)	(727,534)
Repayments of loans	718,818	496,690
Investments maturing after 3 months of acquisition:		
Held-to-maturity portfolio	(362,180)	(145,510)
Trading portfolio	(2,029,748)	536,767
Changes in other assets	(4,339)	(2,400)
Equity participations movement	(51,240)	(36,693)
Net cash (used in)/provided by investing, lending and development activities	(4,080,976)	121,320
FINANCING ACTIVITIES:		
New borrowings	5,143,378	1,282,826
Repayments on borrowings	(1,241,531)	(1,164,877)
Net cash from capital subscriptions	7,185	12,064
Net cash provided by financing activities	3,909,032	130,013
Effect of exchange rate changes on cash and cash equivalents	(5,126)	(17,613)
Increase in cash and cash equivalents	76,236	325,746
Cash and cash equivalents at the beginning of the year	1,411,582	1,085,836
Cash and cash equivalents at the end of the year	**1,487,818**	**1,411,582**
COMPOSED OF:		
Investments maturing within 3 months of acquisition:		
Held-to-maturity portfolio	105,554	-
Trading portfolio	1,063,436	818,938
Cash	318,828	592,644
Cash and cash equivalents at the end of the year	**1,487,818**	**1,411,582**
SUPPLEMENTARY DISCLOSURE:		
Movement resulting from exchange rate fluctuations:		
Loans	(82,657)	(116,054)
Borrowings	201,269	231,589
Currency swaps	(104,851)	(148,558)

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

NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2009

NOTE A – OPERATIONS AND AFFILIATED ORGANIZATIONS

The African Development Bank (ADB or the Bank) is a multilateral development finance institution dedicated to the economic and social progress of its regional member states. The Bank's headquarters is located in Abidjan, Cote d'Ivoire. However, since February 2003, the Bank has managed its operations largely from its temporary relocation facilities in Tunis, Tunisia. The Bank finances development projects and programs in its regional member states, typically in cooperation with other national or international development institutions. In furtherance of this objective, the Bank participates in the selection, study and preparation of projects contributing to such development and, where necessary, provides technical assistance. The Bank also promotes investments of public and private capital in projects and programs designed to contribute to the economic and social progress of the regional member states. The activities of the Bank are complemented by those of the African Development Fund (ADF or the Fund), which was established by the Bank and certain countries; and the Nigeria Trust Fund (NTF), which is a special fund administered by the Bank. The ADB, ADF, and NTF each have separate and distinct assets and liabilities. There is no recourse to the ADB for obligations in respect of any of the ADF or NTF liabilities. The ADF was established to assist the Bank in contributing to the economic and social development of the Bank's regional members, to promote cooperation and increased international trade particularly among the Bank's members, and to provide financing on concessional terms for such purposes.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The significant accounting policies employed by the Bank are summarized below.

Revenue Recognition

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

Income from investments includes realized and unrealized gains and losses on trading financial instruments.

Dividends relating to investments in equity are recognized when the Bank's right to receive payment is established.

Functional and Presentation Currencies

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

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated into UA at rates prevailing at the balance sheet date. The rates used for translating currencies into UA at December 31, 2009 and 2008 are reported in Note W-1. Non-monetary assets and liabilities are translated into UA at historical rates. Translation differences are included in the determination of net income. Capital subscriptions are recorded in UA at the rates prevailing at the time of receipt. The

translation difference relating to payments of capital subscriptions is reported in the financial statements as the Cumulative Exchange Adjustment on Subscriptions (CEAS). This is composed of the difference between the UA amount at the predetermined rate and the UA amount using the rate at the time of receipt. When currencies are converted into other currencies, the resulting gains or losses are included in the determination of net income.

Member Countries' Subscriptions

Although the Agreement establishing the ADB allows for a member country to withdraw from the Bank, no member has ever withdrawn its membership voluntarily, nor has any indicated to the Bank that it intends to do so. The stability in the membership reflects the fact that the members are independent African and non-African countries, and that the purpose of the Bank is to contribute to the sustainable economic development and social progress of its regional member countries individually and jointly. Accordingly, as of December 31, 2009, the Bank did not expect to distribute any portion of its net assets due to member country withdrawals.

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

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

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

Employee Benefits

1) Pension Obligations

The Bank operates a contributory defined benefit pension plan for its employees. The Staff Retirement Plan (SRP) provides benefit payments to participants upon retirement. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. An actuarial valuation of the cost of providing benefits for the SRP is determined using the Projected Unit Credit Method. Upon reaching retirement age, pension is calculated based on the average remuneration for the final three years of pensionable service and the pension is subject to annual inflationary adjustments. Actuarial gains and losses are recognized immediately in other comprehensive income in the year they occur. Past service cost is recognized immediately to the extent that benefits are already vested, otherwise, amortized on a straight-line basis over the average period until the benefits become vested. The pension liability is recognized as part of other accounts payable in the balance sheet. The liability represents the present value of the Bank's defined benefit obligations, net of the fair value of plan assets and unrecognized actuarial gains and losses.

2) Post-Employment Medical Benefits

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

Financial Instruments

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

1) Financial Assets

The Bank classifies its financial assets in the following categories: financial assets at fair value through profit or loss; loans and receivables; held-to-maturity investments; and available-for-sale financial assets. Management determines the classification of its financial assets at initial recognition.

i) Financial Assets at Fair Value through Profit or Loss

All trading assets are carried at fair value through the income statement and gains and losses are reported in the income statement in the period in which they arise. The investments in the trading portfolio are acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held-for-trading.

ii) Loans and Receivables

The Bank has classified demand obligations, 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 Bank 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. However, incremental direct costs associated with originating loans are expensed as incurred, as such amounts are considered insignificant. The amortization of loan origination fee is included in income from loans.

iii) Held-to-Maturity Investments

The Bank 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 Bank's management has the intent and ability to hold to maturity. Held-to-maturity investments are carried and subsequently measured at amortized cost using the effective interest method.

iv) Available-for-Sale Financial Assets

The Bank has classified equity investments over which it does not have control or significant influence as available-for-sale. Available-for-sale investments are those intended to be held for an indefinite period of time, and may or may not be sold in the future. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in other comprehensive income is recognized in profit or loss.

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

Securities purchased under resale agreements and securities sold under repurchase agreements are reported at market rates. The Bank receives securities purchased under resale agreements, monitors their fair value and if necessary may require additional collateral.

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

2) Financial Liabilities

i) Borrowings

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

In addition to long and medium-term borrowings, the Bank also undertakes short-term borrowing for cash and liquidity management purposes only. Borrowings not designated at fair value through profit or loss are carried on the balance sheet at amortized cost with interest expense determined using the effective interest method. Borrowing expenses are recognized in profit or loss and include the amortization of issuance costs, discounts and premiums, which is determined using the effective interest method. Borrowing activities may create exposure to market risk, most notably interest rate and currency risks. The Bank uses derivatives and other risk management approaches to mitigate such risks. Details of the Bank's risk management policies and practices are contained in Note D below. Certain of the Bank's borrowings obtained prior to 1990, from the governments of certain member countries of the Bank, are interest-free loans. In accordance with the revised IAS 20 – Accounting for Government Grants and Disclosure of Government Assistance, such borrowings represent a form of government assistance, the benefits of which are not quantified by the imputation of interest. Accordingly, such borrowings are carried at the amounts at which they are repayable on their due dates.

ii) Financial Liabilities at Fair Value through Profit or Loss

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

iii) Other Liabilities

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

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

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

Although IAS 39 allows hedge accounting for certain qualifying hedging relationships, the Bank has elected not to apply hedge accounting to any qualifying hedging relationship, but rather classifies all derivatives as held-for-trading at fair value, with all changes in fair value recognized in the income statement. When the criteria for the application of the fair value option are met, then the related debt is also carried at fair value with changes in fair value recognized in the income statement.

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

Impairment of Financial Assets

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or 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. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

2) Available-for-Sale Assets
The Bank assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For available-for-sale equity instruments carried at fair value, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for available-for-sale equity instruments carried at fair value, the cumulative loss, which is measured as the difference between the acquisition cost and the current fair value, net of any impairment loss previously recognized in profit or loss, is reclassified from equity to the income statement. Impairment losses recognized in the income statement on available-for-sale equity instruments carried at fair value are reversed through equity.

If there is objective evidence that an impairment loss has been incurred on an available-for-sale equity instrument that is carried at cost because its fair value cannot be reliably measured, the amount of impairment loss is measured as the difference between the carrying amount of the impaired equity instrument and the present value of the estimated future cash flows discounted at the current market rate of return for a similar equity instrument. Once recognized, impairment losses on these equity instruments carried at cost are not reversed.

Offsetting Financial Instruments

Financial assets and liabilities are offset and reported on a net basis 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 assets in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets or unlisted securities, the Bank 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 Bank in estimating the fair values of financial instruments are as follows:

Cash: The carrying amount is the fair value.

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

Borrowings: The fair values of the Bank's borrowings are based on market quotations when possible or valuation techniques based on discounted cash flow models using LIBOR market-determined discount curves adjusted by the Bank's credit spread. Credit spreads are obtained from market data as well as indicative quotations received from certain counterparties for the Bank's new public bond issues.
The Bank also uses systems based on industry standard pricing models and valuation techniques to value borrowings and their associated derivatives. The models use market-sourced inputs such as interest rates, yield curves, exchange rates and option volatilities. Valuation

models are subject to internal and periodic external reviews. When a determination is made that the market for an existing borrowing is inactive or illiquid, appropriate adjustments are made to the relevant observable market data to arrive at the Bank's best estimate of the price at which the Bank could have bought back the borrowing at the balance sheet date.

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

Derivative Financial Instruments: The fair values of derivative financial instruments are based on market quotations when possible or valuation techniques that use market estimates of cash flows and discount rates. The Bank also uses valuation tools based on industry standard pricing models and valuation techniques to value derivative financial instruments. The models use market-sourced inputs such as interest rates, yield curves, exchange rates and option volatilities. All financial models used for valuing the Bank's financial instruments are subject to both internal and periodic external reviews.

Loans: The Bank does not sell its 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 expected cash flows of these loans. For multi-currency and single currency fixed rate loans, fair values are estimated using a discounted cash flow model based on the year end variable lending rate in that currency, adjusted for impairment. For all loans not impaired, fair value adjustments are made to reflect expected loan losses. The estimated fair value of loans is disclosed in Note I.

Day One Profit and Loss

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

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

Investment in Associate

Under IAS 28, "Investments in Associates", the ADF and any other entity in which the Bank has significant influence are considered associates of the Bank. An associate is an entity over which the Bank has significant influence, but not control, over the entity's financial and operating policy decisions. The relationship between the Bank and the ADF is described in more detail in Note J. IAS 28 requires that the equity method be used to account for investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's income statement. The subscriptions by the Bank to the capital of the ADF occurred between 1974 and 1990. At December 31, 2009, such subscriptions cumulatively represented approximately 1% of the economic interest in the capital of the ADF. Although ADF is a not-for-profit entity and has never distributed any dividend to its subscribers since its creation in 1972, the revisions to IAS 28 require that the equity method be

used to account for the Bank's investment in the ADF. Furthermore, in accordance with IAS 36, the net investment in the ADF is assessed for impairment. Cumulative losses as measured under the equity method are limited to the investment's original cost as the ADB has not guaranteed any potential losses of the ADF.

Property and Equipment

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

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

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

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

Intangible Assets

Intangible assets include computer systems software and are stated at historical cost less amortization. Amortization on intangible assets is calculated using the straight-line method over 3-5 years.

Leases

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

Allocations and Distributions Approved by the Board of Governors

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

Retained Earnings

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

1) Significant Judgments

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

Held-for-Trading – In classifying financial assets or liabilities as "trading", the Bank has determined that such assets or liabilities meet its description and set criteria for classification as such.

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

Held-to-Maturity – The Bank follows the guidance of IAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. In making this judgment, the Bank evaluates its intent and ability to hold such investments to maturity.

2) Significant Estimates

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

Impairment Losses on Loans and Advances – At each financial statements reporting date, the Bank reviews its loan portfolios for impairment. The Bank first assesses whether objective evidence of impairment exists for individual loans. If such objective evidence exists, impairment is determined by discounting expected future cash flows using the loan's original effective interest rate and comparing this amount to the loan's net carrying amount. Determining the amount and timing of future cash flows on impaired loans requires significant judgment. If the Bank determines that no objective evidence of impairment exists for an individually assessed loan, that loan is included in a group of loans with similar credit characteristics and collectively assessed for impairment. Objective evidence of impairment for a group of loans may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

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

Impairment of Available-for-Sale Equity Investments – The Bank determines that available-for-sale equity investments are impaired when there has been a significant or prolonged decline in fair value below the carrying amount. The determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates any evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

Retirement Benefits – The present value of retirement benefit obligations is sensitive to the actuarial and financial assumptions used, including the discount rate. At the end of each year, the Bank determines the appropriate discount rate to be used to determine the present value of estimated future pension obligations, based on interest rates of suitably long-term high-quality corporate bonds in the currencies comprising the UA.

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

1) Standards, Amendments and Interpretations effective on or after January 1, 2009 but early adopted by the Bank

On February 14, 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 32 and IAS 1. The amendments require an entity to classify as part of its equity those financial instruments that it issues that are either (a) puttable financial instruments, or (b) financial instruments or components of financial instruments that impose an obligation to deliver to another party a pro-rata share of its net assets only on liquidation, if certain criteria are met. Prior to these amendments, such financial instruments were to be classified as liabilities. Subscriptions by the member countries to the Bank's capital described in Note B are puttable financial instruments that meet the requirements for equity classification under the amended standards. Although the amendments are effective for annual periods beginning on or after January 1, 2009, the Bank early adopted them starting with the 2007 financial statements.

On March 5, 2009, IASB issued amendments to the disclosure requirements under IFRS 7. These amendments which have an effective date of January 1, 2009, require additional disclosures of fair value measurements in a three-level hierarchy reflecting the relative reliability of such measurements based on the significance of the inputs used. Under this hierarchy, the most reliable measurements are those based on unadjusted quoted prices in active markets for identical assets or liabilities. The Bank early-adopted the amendments in 2008.

2) Standards, Amendments and Interpretations effective on or after January 1, 2009 and adopted in 2009

The Bank has adopted the following new and amended IAS/ IFRS in 2009:

IAS 1 (revised): "Presentation of Financial Statements"

A revised version of IAS 1 was issued in September 2007. The amendments to IAS 1 require the Bank 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 Bank applies an accounting policy retrospectively or makes a retrospective restatement.

The adoption of IAS 1 (revised) has no effect on the Bank's financial position or performance as it relates solely to the presentation of the financial statements. It resulted in certain presentation changes in the Bank's financial statements including:

- the presentation of all items of income and expenditure in two statements: the income statement and the statement of comprehensive income; and
- the presentation of the statement of changes in equity as a separate financial statement.

Comparative information has been re-stated to conform with the current period's presentation which is in conformity with the revised standard.

IFRS 8: "Operating Segments"

IFRS 8 was issued in November 2006 and became effective for financial statements for the period beginning January 1, 2009. The standard replaces the reporting requirements of IAS 14, Segment Reporting, and requires alignment of the segments in the financial statements with those used internally by the chief operating decision maker in the allocation of resources and assessing performance.

The adoption of IFRS 8 has no significant impact on the Bank's financial position or performance as it only relates to disclosures. IFRS 8 disclosures are shown in Note T to the financial statements.

3) Standards and Interpretations issued but not yet effective

At the date of authorization of these financial statements, certain new and amended International Financial Reporting Standards and Interpretations are not yet effective for application for the year ended December 31, 2009, and have not been applied in preparing these financial statements. The following new standard is expected to be relevant to the Bank:

IFRS 9: "Financial Instruments"

IFRS 9 was issued in November 2009 as the first part of the IASB comprehensive project to replace IAS 39. IFRS 9 replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 requires financial assets to be classified, based on the entity's business model for managing its financial instruments and the contractual cash flow of the instrument, into two measurement categories: those to be measured at fair value and those to be measured at amortized cost. An instrument is measured at amortized cost only if it is a debt instrument and the objective of the entity's business is to hold the asset to collect the contractual cash flows and the asset's contractual cash flows represent only payments of principal and interest. All other instruments are to be measured at fair value through profit or loss. IFRS 9 also requires that all equity instruments be measured at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss while for all other equity instruments the entity can make an irrevocable election at initial recognition to recognize all fair value changes through other comprehensive income.

Adoption of IFRS 9 is mandatory from January 1, 2013 but earlier adoption is permitted. IFRS 9 will have an effect on the current classification of the Bank's financial assets. However, the Bank is still in the process of evaluating the full impact and the timing of its adoption.

NOTE D – RISK MANAGEMENT POLICIES AND PROCEDURES

In carrying out its development mandate, the Bank seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless critical to the execution of its mandate.

The degree of risk the Bank is willing to assume to achieve its development mandate is limited by its risk-bearing capacity. This institutional risk appetite is embodied in the Bank's capital adequacy policy and its commitment to maintain a prudent risk profile consistent with the highest credit rating. The Bank's capital adequacy policy was revised in 2009, as further discussed in Note M under Borrowings.

The policies, processes and procedures by which the Bank manages its risk profile continually evolve in response to market, credit, product, and other developments. The highest level of risk management oversight is assured by the Bank's Board of Executive Directors, which is chaired by the President. In addition to approving all risk management policies, the Executive Directors regularly review trends in the Bank's risk profiles and performance to ensure compliance with the underlying policies.

The guiding principles by which the Bank manages its core and non-core risks are governed by the General Authority on the Bank's Financial Products and Services (the FPS Authority), the General Authority on Asset Liability Management (the ALM Authority) and the Bank's Credit Risk Management Guidelines.

The FPS Authority provides the framework under which the Bank develops and implements financial products and services for its borrowers and separate guidelines which prescribe the rules governing the management of credit and operational risk for the Bank's sovereign and non-sovereign loan and equity investment portfolios.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Bank's financial assets and liabilities within defined parameters. The ALM Authority sets out the guiding principles for managing the Bank's interest rate risk, currency exchange rate risk, liquidity risk, counterparty credit risk and operational risk. The ALM Authority covers the Bank's entire array of ALM activities such as debt-funding operations and investment of liquid resources. It also includes the interest rate and currency risk management aspects of the Bank's lending and equity investment operations.

Under the umbrella of the FPS Authority and the ALM Authority, the President is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO) and the Operations Committee (OPSCOM). The ALCO is the oversight and control organ of the Bank's risk management activities. It is the Bank's most senior management forum on risk management issues and is chaired by the Vice President for Finance. OPSCOM reviews all operational activities before they are submitted to the Board of Directors for approval.

The ALCO meets on a regular basis to perform its oversight role. Among its functions, the ALCO reviews regular and ad-hoc finance and risk management reports and projections, approves strategies to adjust the balance sheet, and confirms country and project 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, non-sovereign 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. 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 Bank.

Credit Risk

Credit risk arises from the inability or unwillingness of counterparties to discharge their financial obligations. It is the potential financial loss due to default of one or more debtors/obligors. Credit risk is the largest source of risk for the Bank arising essentially from its lending and treasury operations.

The Bank manages three principal sources of credit risk: (i) sovereign credit risk on its public sector portfolio; (ii) non-sovereign credit risk on its portfolio of private sector, non-sovereign and enclave projects; and (iii) counterparty credit risk on its portfolio of treasury investments and derivative transactions. 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 Bank lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. In extending credit to sovereign entities, it is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk through its policies related to sustainable lending strategies, including individual country exposures and overall creditworthiness of the concerned country. These include the assessment of the country's macroeconomic performance as well as its socio-political conditions and future growth prospects.

Country Exposure

The Bank's exposures at December 31, 2009 to borrowing member countries as well as the private sector and enclave projects from its lending activities are summarized below:

(Amounts in UA thousands)

Country	No. of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Angola	2	494	-	-	494	0.01
Botswana	5	1,140,326	140,597	357,107	642,622	8.52
Cameroon	4	35,747	-	16,893	18,854	0.25
Cape Verde	2	36,757	18,379	-	18,379	0.24
Congo	2	27,362	-	-	27,362	0.36
Côte d'Ivoire	8	60,244	-	2,418	57,826	0.77
Democratic Republic of Congo	10	723,613	-	-	723,613	9.60
Egypt	14	1,348,045	49,007	565,495	733,543	9.73
Equatorial Guinea	3	67,152	-	67,152	-	-
Ethiopia	3	11,923	-	-	11,923	0.16
Gabon	16	498,305	102,959	215,481	179,865	2.39
Guinea	2	6,774	-	-	6,774	0.09
Kenya	2	2,740	-	-	2,740	0.04
Malawi	1	2,736	-	-	2,736	0.04
Mauritania	2	17,351	-	-	17,351	0.23
Mauritius	10	479,296	-	451,307	27,989	0.37
Morocco	32	2,563,817	49,246	690,356	1,824,215	24.20
Namibia	4	53,757	-	507	53,250	0.71
Nigeria	7	109,248	-	-	109,248	1.45
Senegal	2	16,648	-	-	16,648	0.22
Seychelles	5	22,157	6,379	6,892	8,885	0.11
Somalia**	3	4,053	-	-	4,053	0.05
South Africa	6	1,905,147	-	1,773,394	131,754	1.75
Sudan**	5	55,486	-	-	55,486	0.74
Swaziland	7	73,972	-	4,270	69,702	0.92
Tanzania	1	1,936	-	-	1,936	0.03
Tunisia	30	1,543,826	-	367,147	1,176,679	15.61
Zambia	3	3,083	-	-	3,083	0.04
Zimbabwe**	12	196,003	-	-	196,003	2.60
Multinational	3	46,047	-	3,092	42,955	0.57
Total Public Sector	**206**	**11,054,045**	**366,567**	**4,521,511**	**6,165,968**	**81.80**
Total Private Sector	**73**	**2,450,968**	**597,717**	**481,019**	**1,372,231**	**18.20**
Total	**279**	**13,505,013**	**964,284**	**5,002,530**	**7,538,199**	**100.00**

* *Excludes fully repaid loans and canceled loans.*
** *Country in arrears as at December 31, 2009.*

Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

The foundation of the Bank's credit risk management framework is a systematic credit risk assessment based on a uniform internal credit risk rating scale that is calibrated to reflect the Bank's statistical loss expectations as shown in the following table. The level of granularity helps in measuring probabilities of default for internal grades in order to differentiate between obligors distinctly.

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

These sovereign risk credit ratings are derived from a risk assessment on five risk indices that include macroeconomic performance, debt sustainability, socio-political factors, business environment and Bank's portfolio performance. These five risk indices are combined to derive a composite sovereign country risk index and a composite non-sovereign country risk index which in turn are converted into separate country risk rating for the sovereign and non-sovereign portfolios. These country risk ratings are validated against the average country risk ratings from different international rating agencies and other specialized international organizations. The ALCO reviews the country ratings on a quarterly basis to ensure that they reflect the expected risk profiles of the countries. The ALCO also assesses whether the countries are in compliance with their country exposure limits and approves changes in loss provisioning, if any.

Portfolio Risk Monitoring

The portfolio's weighted-average risk rating at the end of 2009 improved to 2.42 compared to 2.68 at the end of 2008. The distribution of the sovereign portfolio across the Bank's five credit risk classes is shown in the table below.

Risk Profile of the Outstanding Sovereign-Guaranteed Loan Portfolio					
	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2009	44%	33%	6%	13%	4%
2008	37%	33%	6%	16%	8%
2007	37%	31%	8%	15%	9%
2006	28%	35%	10%	17%	10%
2005	26%	26%	18%	17%	13%
2004	28%	28%	21%	11%	12%

It is the Bank's policy that if the payment of principal, interest or other charges with respect to any Bank Group credit becomes 30 days overdue, no new loans to that member country, or to any public sector borrower in that country, will be presented to the Board of Directors for approval, nor will any previously approved loan be signed, until all arrears are cleared. Furthermore, for such countries, disbursements on all loans to or guaranteed by that member country are suspended until all overdue amounts have been paid. These countries also become ineligible in the subsequent billing period for a waiver of 0.50% on the commitment fees charged on qualifying undisbursed loans.

Although the Bank benefits from the advantages of its preferred creditor status and rigorously monitors the exposure on non-performing sovereign borrowers, some countries have experienced difficulties to service their debts to the Bank on a timely basis. As previously described, the Bank makes provisions for impairment on its sovereign loan portfolio commensurate with the assessment of the incurred loss in such portfolio.

To cover potential unexpected credit-related losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for sovereign credit risks. The Bank's revised capital adequacy policy articulates differentiated risk capital requirements for public sector and private sector credit-sensitive assets (loans and equity investments), as well as for contingent liabilities (guarantees and client risk management products) in each risk class. Risk capital requirements are generally higher for private sector operations which have a higher probability of default and loss given default than public sector operations. At the end of 2009, the Bank's public sector loan portfolio used up to 32% of the Bank's total risk capital based on the Bank's revised capital adequacy framework approved in March 2009. The Bank defines risk capital as the sum of paid-in capital plus accumulated reserves net of translation adjustments. Callable capital is not included in the computation of risk capital.

2) Non-Sovereign Credit Risk

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

To assess the credit risk of non-sovereign projects or facilities, the Bank uses a uniform internal credit risk rating scale. Non-sovereign transactions are grouped into the following three main categories: a) greenfield and expansion projects; b) financial institutions; and c) private equity funds. Internal credit ratings are derived on the basis of some pre-determined critical factors.

a) Greenfield and Expansion Projects

The first factor involves the overall evaluation and assessment of the borrower's financial strength. This assessment looks at:
i) capacity of the project to generate sufficient cash flow to service its debt; ii) the company's operating performance and profitability; and iii) the project company's capital structure, financial flexibility and liquidity positions.

Secondly, the following, four main non-financial parameters are analyzed: i) the outlook of the industry in which the project company operates; ii) the competitive position of the project company within the industry; iii) the strength of the project company's management with particular emphasis on its ability to deal with adverse conditions; and iv) the quality of the information on which the analysis is based.

Finally, the project company's risk rating is adjusted to reflect the overall host country risk rating.

b) Financial Institutions

The assessment of financial institutions follows the uniform rating system commonly referred to as the CAMEL model:
i) Capital adequacy – analyses of the composition, adequacy and quality of the institution's capital; ii) Asset quality, operating policies and procedures and risk management framework; iii) Quality of management and decision making framework; iv) Earnings and market position – an evaluation of the quality and level of profitability; v) Liquidity and funding adequacy – an assessment focusing on the entity's ability to access debt market; and vi) Sensitivity to market risk – an assessment of the impact of interest rate changes & exchange rate fluctuations.

c) Private Equity Funds

The assessment of a Private Equity Fund takes into consideration the analysis of the following qualitative and quantitative factors:

- Investment strategies;
- Industry structure and regulatory framework;
- Management and corporate governance;
- Financial strength and fund performance; and
- Information quality.

All new non-sovereign projects require a minimum initial credit rating and undergo rigorous project approval. The Non-Sovereign Working Group of the ALCO reviews the non-sovereign credit rating of each project on a quarterly basis and may recommend for the ALCO's approval, changes if justified by evolving country and project conditions.

In 2009, the Bank increased its exposure to the non-sovereign loan and equity portfolios. The weighted-average risk rating improved from 3.66 at the end of 2008 to 3.14 at year-end 2009. The distribution of the non-sovereign portfolio across the Bank's five credit risk classes is shown in the table below.

Risk Profile of the Outstanding Non-Sovereign Loan and Equity Portfolio

	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2009	27%	18%	28%	24%	3%
2008	13%	16%	41%	28%	2%
2007	8%	10%	46%	31%	5%
2006	16%	15%	52%	6%	11%
2005	14%	20%	56%	7%	3%
2004	15%	14%	55%	10%	6%

In compliance with IFRS, the Bank does not make general provisions to cover the expected losses in the performing non-sovereign portfolio. For the non-performing portfolio, the Bank makes a specific provision based on an assessment of the credit impairment, or incurred loss, on each loan. At the end of 2009, the impairment allowance to cover the incurred loss on impaired loans in the non-sovereign portfolio was UA 11.89 million compared to UA 12.39 million in 2008 because of the stability in the size of the portfolio of impaired non-sovereign loans.

In addition to private sector lending, the Bank makes equity investments in private sector entities, either directly or through investment funds. To the extent possible, equity investments are carried at fair value. In the event that the fair value of an equity investment cannot be reliably determined, it is carried at amortized cost, and periodically assessed for impairment. The Bank recognizes loss provision based on accepted impairment tests measured against the carrying cost of the equity investment. At the end of 2009, the provision for impairment on equity investment was UA 15.94 million compared to UA 20.77 million in 2008.

To cover potential unexpected credit-related losses due to extreme and unpredictable events, the Bank maintains a risk capital cushion for non-sovereign credit risks derived from Basel II Advanced Internal Rating-Based Approach (IRB). At the end of 2009, the Bank's non-sovereign portfolio required as risk capital approximately 22 % of the Bank's total on-balance sheet risk capital sources. This level is still below the limit of 40% determined by the Bank for total non-sovereign operations. Out of the Bank's non-sovereign portfolio, Equity participations required as risk capital approximately 7% of the Bank's total on-balance sheet risk capital sources. This level is still below the statutory limit of 15% established by the Board of Governors for equity participations.

Credit Exposure Limits

The Bank operates a system of exposure limits to ensure the maintenance of an adequately diversified portfolio at any given point in time. The Bank manages credit risk at the global country exposure limit (combined sovereign guaranteed and non-sovereign portfolios) by ensuring that in the aggregate, the total country exposure limit to any country does not exceed 15% of the Bank's total risk capital. This threshold and other determinants of country limit allocation are clearly spelt out in the Bank's capital adequacy framework. Specifically, the country limits are determined for each of the RMC borrowers by differentiating them on the basis of their credit ratings; size of the economy and the country's economic potential. Country exposure limits are reviewed annually to support the Bank's medium term country lending strategies.

The credit exposure on the non-sovereign portfolio is further controlled and managed by regularly monitoring the exposure limit with regard to the specific industry/sectors, equity investments and single obligor. In addition, the Bank generally requires a range of collateral (security and/or guarantees) from project sponsors to partially mitigate the credit risk for direct private sector loans.

3) Counterparty Credit Risk

In the normal course of business, the Bank utilizes various financial instruments to meet the needs of its borrowers, manage its exposure to fluctuations in market interest and currency rates, and to temporarily invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Bank. Given the nature of the Bank's business, it is not possible to completely eliminate counterparty credit risk, however, the Bank minimizes this risk by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures.

Counterparties must meet the Bank's minimum credit rating requirements and are approved by the Bank's Vice President for Finance. For local currency operations, less stringent minimum credit rating limits are permitted in order to provide adequate availability of investment opportunities and derivative counterparties for implementing appropriate risk management strategies. The ALCO approves counterparties that are rated below the minimum rating requirements.

Counterparties are classified as investment counterparties, derivative counterparties, and trading counterparties. Their ratings are closely monitored.

Trading counterparties are required to be rated at a minimum of A/A2.

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 Bank also invests in mortgage-backed and asset-backed securities with a minimum rating of AAA/Aaa; money market mutual funds with a minimum rating of AA-/Aa3 and enters into collateralized securities repurchase agreements.

As a rule, the Bank executes an ISDA master agreement and netting agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties are required to be rated AA-/Aa3 by at least two approved rating agencies or A- for counterparties with whom the Bank has entered into a collateral exchange agreement. Approved transactions with derivative counterparties include swaps, forwards, options and other over-the-counter derivatives.

In addition to these minimum rating requirements, the Bank operates within a framework of exposure limits based on the counterparty credit rating and size, subject to a maximum of 8% of the Bank's total risk capital for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the Bank's credit limits after considering the benefits of any collateral.

The counterparty credit exposure of the investment and related derivative portfolios continues to be predominantly AA or higher rated as shown in the table below. The level of the AAA rated exposure reflects the increase in investments in sovereign, sovereign-guaranteed, agency and supranational securities and the flight to quality resulting from the worldwide financial crisis, which impact is also reflected in the above-average exposure to lower rated counterparties.

Credit Risk Profile of the Investment and Derivative Portfolios

	AAA	AA+ to AA-	A+ and lower
2009	65%	25%	10%
2008	59%	21%	20%
2007	43%	54%	3%
2006	56%	39%	5%
2005	56%	36%	8%
2004	62%	36%	2%

To cover potential unexpected credit losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for counterparty credit risks in line with the current BIS standards. At the end of 2008 and 2009, the Bank's counterparty credit portfolio including all investments and derivative instruments required as risk capital 2.0% of the Bank's total on-balance sheet risk capital sources.

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. Liquidity risk arises when there is a maturity mismatch between liabilities and assets. The Bank's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for a rolling 1-year horizon without additional financing from the capital markets for an extended period. In order to minimize this risk, the Bank maintains a prudential minimum level of liquidity (PML) based on the projected net cash requirement for a rolling one-year period. The PML is updated quarterly and computed as the sum of four components: 1) 1-year debt service payments; 2) 1-year projected net loan disbursements (loans disbursed less repayments) if greater than zero; 3) loan equivalent value of committed guarantees; and 4) undisbursed equity investments.

To strike a balance between generating adequate investment returns and holding securities that can be easily sold for cash if required, the Bank divides its investment portfolio into tranches with different liquidity objectives and benchmarks. The Bank's core liquidity portfolio (operational portfolio) is invested in highly liquid securities that can be readily liquidated if required to meet the Bank's short term liquidity needs. In addition to the core liquidity portfolio, the Bank maintains a second tranche of liquidity (the prudential portfolio) that is also invested in relatively liquid securities to cover its expected medium-term operational cash flow needs. Probable redemptions of swaps and borrowings with embedded options are included in the computation of the size of the operational tranche of liquidity. A third tranche of liquidity, which is funded by the Bank's equity resources, is held in a portfolio of fixed income securities designated as "held-to-maturity" investments (HTM). Only HTM investments with a remaining maturity of one year or less are considered as liquid investments in the determination of the Bank's minimum liquidity requirements.

The contractual maturities of financial liabilities and future interest payments at December 31, 2009 and 2008 were as follows:

(UA thousands)

2009	Carrying Amount	Contractual Cash Flow	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years
Derivative financial liabilities								
Derivative liabilities	(268,112)	16,585	(87,512)	(87,844)	(110,606)	(65,203)	156,005	211,745
Borrowings at fair value	9,488,606	10,919,239	1,717,491	1,739,968	2,480,572	1,154,404	1,833,686	1,993,118
	9,220,494	10,935,824	1,629,979	1,652,124	2,369,966	1,089,201	1,989,691	2,204,863
Non derivative financial liabilities								
Accounts payable	1,385,679	1,385,679	1,385,679	-	-	-	-	-
Borrowings at amortized cost	1,092,034	1,427,507	182,736	91,477	69,135	328,974	36,641	718,544
	2,477,713	2,813,186	1,568,415	91,477	69,135	328,974	36,641	718,544
Total financial liabilities	**11,698,207**	**13,749,010**	**3,198,394**	**1,743,601**	**2,439,101**	**1,418,175**	**2,026,332**	**2,923,407**
Represented by:								
Derivative liabilities	(268,112)	16,585	(87,512)	(87,844)	(110,606)	(65,203)	156,005	211,745
Accounts payable	1,385,679	1,385,679	1,385,679	-	-	-	-	-
Borrowings	10,580,640	12,346,746	1,900,227	1,831,445	2,549,707	1,483,378	1,870,327	2,711,662

(UA thousands)

2008	Carrying Amount	Contractual Cash Flow	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years
Derivative financial liabilities								
Derivative liabilities	(313,817)	392,483	(24,810)	45,784	8,354	46,050	72,005	245,100
Borrowings at fair value	5,729,808	6,778,890	1,515,244	1,329,497	594,568	328,142	893,128	2,118,311
	5,415,991	7,171,373	1,490,434	1,375,281	602,922	374,192	965,133	2,363,411
Non derivative financial liabilities								
Accounts payable	843,122	843,122	843,122	-	-	-	-	-
Borrowings at amortized cost	977,470	1,418,032	53,026	52,959	60,677	52,052	336,779	862,539
	1,820,592	2,261,154	896,148	52,959	60,677	52,052	336,779	862,539
Total financial liabilities	**7,236,583**	**9,432,527**	**2,386,582**	**1,428,240**	**663,599**	**426,244**	**1,301,912**	**3,225,950**
Represented by:								
Derivative liabilities	(313,817)	392,483	(24,810)	45,784	8,354	46,050	72,005	245,100
Accounts payable	843,122	843,122	843,122	-	-	-	-	-
Borrowings	6,707,278	8,196,922	1,568,270	1,382,456	655,245	380,194	1,229,907	2,980,850

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in its risk bearing capacity, the Bank's principal currency risk management objective is to protect its risk capital from translation risk due to fluctuations in foreign currency exchange rates by matching the currency composition of its net assets to the currency composition of the SDR (UA). The agreement establishing the Bank explicitly prohibits it from taking direct currency exchange exposures by requiring liabilities in any one currency to be matched with assets in the same currency. This is achieved primarily by holding or lending the proceeds of its borrowings (after swap activities) in the same currencies in which they were borrowed (after swap activities). To avoid creating new currency mismatches, the Bank requires its borrowers to service their loans in the currencies disbursed.

Because a large part of its balance sheet is funded by equity resources, which are denominated in Units of Account (equivalent to the SDR), the Bank has a net asset position that is potentially exposed to translation risk when currency exchange rates fluctuate. The Bank's policy is to minimize the potential fluctuation of the value of its net worth measured in Units of Account by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR (the Unit of Account). In line with this policy, throughout 2009 the Bank's currency alignment was adjusted within a tight band of the risk-neutral position in each of the currencies making up the SDR composition. In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a revision to the SDR currency composition. As a result of these policies and practices, despite sharp movements in the values of the major currencies during 2009, the Bank experienced translation adjustment gains of less than 0.50% of net assets during the year.

The Bank also hedges its exposure to adverse movements on currency exchange rates on its administrative expenses. The distribution of the currencies of the Bank's recurring administrative expenditures shows a high concentration of expenses in Euros, USD and Tunisian Dinar. For 2009, the Bank's strategy of purchasing currencies in the forward market to cover the estimated currency composition of expenses mitigated the unfavorable impact of those currencies movements during the year.

Net currency position at December 31, 2009 and 2008 was as follows:

Net Currency Position at December 31, 2009

(UA thousands)

	Euro	United States Dollar	Japanese Yen	Sterling	Other	Sub-total	Units of Account	Total
Assets								
Cash	14,538	23,040	268,894	2,999	9,116	318,587	241	318,828
Demand obligations	-	-	-	-	3,801	3,801	-	3,801
Investments - trading [a]	1,428,844	2,529,579	6,953	38,793	235,315	4,239,484	-	4,239,484
Investments - held-to-maturity	1,139,375	1,311,121	350,554	390,491	-	3,191,541	-	3,191,541
Non-negotiable instruments on account of capital	-	6,095	-	-	-	6,095	2,093	8,188
Accounts receivable	296,093	310,738	37,982	14,255	233,077	892,145	32,014	924,159
Loans	3,422,237	3,055,401	486,057	2,325	470,258	7,436,278	-	7,436,278
Equity participations	10,666	121,826	-	-	40,208	172,700	61,778	234,478
Other debt securities	-	-	-	-	70,810	70,810	-	70,810
Other assets	-	-	-	-	-	-	11,890	11,890
	6,311,753	7,357,800	1,150,440	448,863	1,062,585	16,331,441	108,016	16,439,457
Liabilities								
Accounts payable	(326,229)	(644,169)	(111,229)	(56,349)	(149,499)	(1,287,475)	(98,204)	(1,385,679)
Borrowings	-	(5,798,569)	(1,939,745)	-	(2,543,861)	(10,282,175)	(298,465)	(10,580,640)
Currency swaps on borrowings and related derivatives [b]	(4,213,665)	997,400	1,499,284	51,652	1,933,441	268,112	-	268,112
	(4,539,894)	(5,445,338)	(551,690)	(4,697)	(759,919)	(11,301,538)	(396,669)	(11,698,207)
Currency position of equity as at December 31, 2009	**1,771,859**	**1,912,462**	**598,750**	**444,166**	**302,666**	**5,029,903**	**(288,653)**	**4,741,250**
% of sub-total	35.23	38.02	11.90	8.83	6.02	100.00	-	100.00
SDR composition as at December 31, 2009	**37.63**	**40.27**	**12.78**	**9.32**	**-**	**100.00**	**-**	**100.00**

(a) Investments held for trading comprise:

Investments held for trading	4,220,707
Derivative assets	40,214
Derivative liabilities	(21,437)
Amount per statement of net currency position	4,239,484

(b) Currency swaps on borrowings comprise:

Derivative assets	723,793
Derivative liabilities	(455,681)
Net swaps on borrowings per statement of net currency position	268,112

Net Currency Position at December 31, 2008

(UA thousands)

	Euro	United States Dollar	Japanese Yen	Sterling	Other	Sub-total	Units of Account	Total
Assets								
Cash	62,614	315,352	168,327	2,533	43,818	592,644	-	592,644
Demand obligations	-	-	-	-	3,801	3,801	-	3,801
Investments - trading [(a)]	599,794	1,077,885	10,803	31,233	232,500	1,952,215	-	1,952,215
Investments - held-to-maturity	821,977	1,198,252	310,967	354,320	-	2,685,516	-	2,685,516
Non negotiable instruments on account of capital	-	9,000	-	-	-	9,000	2,861	11,861
Accounts receivable	229,376	249,544	68,997	9,048	59,118	616,083	32,932	649,015
Loans	2,889,009	1,897,119	619,945	2,132	323,767	5,731,972	-	5,731,972
Equity participations	7,261	81,740	-	-	35,908	124,909	63,872	188,781
Other debt securities	-	-	-	-	68,797	68,797	-	68,797
Other assets	-	-	-	-	-	-	12,229	12,229
	4,610,031	4,828,892	1,179,039	399,266	767,709	11,784,937	111,894	11,896,831
Liabilities								
Accounts payable	(145,066)	(306,047)	(118,194)	(3,377)	(93,638)	(666,322)	(176,800)	(843,122)
Borrowings	-	(2,707,702)	(2,021,759)	(47,323)	(1,505,282)	(6,282,066)	(425,212)	(6,707,278)
Currency swaps on borrowings and related derivatives [(b)]	(2,707,406)	123,658	1,571,945	28,394	889,392	(94,017)	407,834	313,817
	(2,852,472)	(2,890,091)	(568,008)	(22,306)	(709,528)	(7,042,405)	(194,178)	(7,236,583)
Currency position of equity as at December 31, 2008	**1,757,559**	**1,938,801**	**611,031**	**376,960**	**58,181**	**4,742,532**	**(82,284)**	**4,660,248**
% of sub-total	37.06	40.88	12.88	7.95	1.23	100.00	-	100.00
SDR composition as at December 31, 2008	**37.15**	**41.15**	**13.13**	**8.57**	**-**	**100.00**	**-**	**100.00**

(a) Investments held for trading comprise:

Investments held for trading, net of repos	1,890,241
Derivative assets	65,474
Derivative liabilities	(3,500)
Amount per statement of net currency position	1,952,215

(b) Currency swaps on borrowings comprise:

Derivative asset	670,616
Derivative liabilities	(356,799)
Net swaps on borrowings per statement of net currency position	313,817

Currency Risk Sensitivity Analysis

As described in the previous section, the Bank manages its currency risk exposure by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR. The SDR is composed of a basket of four currencies, namely the US dollar, Euro, Japanese yen and Pound sterling. The weight of each currency in the basket is reviewed by the International Monetary Fund every five years and the last revision became effective on January 1, 2006. The SDR rate represents the sum of the interest rate of each currency that is determined based on the weight and the representative exchange rate and interest rate of each currency.

The following tables illustrate the sensitivity of the Bank's net assets to currency fluctuations due to movements in the exchange rate of the currencies in the SDR basket as of December 31, 2009 and 2008, respectively. The sensitivity analysis shown assumes a separate 10% appreciation/depreciation for each currency in the basket against the US dollar. Due to a moderate change in the African currency holdings from 2008 to 2009, the 2009 table also includes the effect of a 10% appreciation/depreciation of each African currency against the SDR. Under the different scenarios, the currency risk management strategy of the Bank shows a minimal change in net assets as a result of currency mismatches.

Sensitivity of the Bank's Net Assets to Currency Fluctuations at December 31, 2009

(Amounts in UA millions)

	US Dollar	Euro	Japanese Yen	Pound Sterling	Other Currencies	Net Assets	Change in Net Assets Gain/(Loss)	Basis Point Change of Total Net Assets
Net assets resulting from a 10% appreciation against the USD								
EUR	1,842.94	1,865.58	575.35	426.90	29.24	4,740.01	(1.24)	3bps
GBP	1,894.61	1,743.52	591.48	482.75	29.24	4,741.60	0.35	1bp
JPY	1,888.40	1,737.82	648.50	437.43	29.24	4,741.39	0.14	0bp
Net assets resulting from a 10% appreciation of each African currency against the SDR	1,912.27	1,759.78	597.00	442.96	32.16	4,744.17	2.92	6bps
Net assets resulting from a 10% depreciation against the USD								
EUR	1,979.99	1,656.45	618.14	458.64	29.24	4,742.46	1.21	3bps
GBP	1,928.62	1,774.83	602.10	406.13	29.24	4,740.92	(0.33)	1bp
JPY	1,934.50	1,780.24	549.03	448.11	29.24	4,741.12	(0.13)	0bp
Net assets resulting from a 10% depreciation of each African currency against the SDR	1,912.27	1,759.78	597.00	442.96	26.58	4,738.59	(2.66)	6bps
Assumptions:								
Base net assets	1,912.27	1,759.78	597.00	442.96	29.24	4,741.25	-	-
Currency weight	0.6320	0.4100	18.4000	0.0903	-	-	-	-
Base exchange rate	1.5638	1.0899	145.5696	0.9683	-	-	-	-

Sensitivity of the Bank's Net Assets to Currency Fluctuations at December 31, 2008

(Amounts in UA millions)

	US Dollar	Euro	Japanese Yen	Pound Sterling	Other Currencies	Net Assets	Change in Net Assets Gain/(Loss)	Basis Point Change of Total Net Assets
Net assets resulting from a 10% appreciation against the USD								
EUR	1,841.79	1,846.40	578.86	356.65	37.74	4,661.43	1.18	2bps
GBP	1,894.63	1,726.70	595.46	403.57	37.74	4,658.09	(2.15)	5bps
JPY	1,885.79	1,718.64	651.95	365.17	37.74	4,659.29	(0.96)	2bps
Net assets resulting from a 10% appreciation of each African currency against the SDR	1,910.68	1,741.33	600.51	369.99	41.51	4,664.02	3.77	8bps
Net assets resulting from a 10% depreciation against the USD								
EUR	1,977.94	1,638.75	621.65	383.01	37.74	4,659.09	(1.15)	2bps
GBP	1,925.51	1,754.85	605.17	338.96	37.74	4,662.24	1.99	4bps
JPY	1,933.89	1,762.48	552.55	374.48	37.74	4,661.14	0.90	2bps
Net assets resulting from a 10% depreciation of each African currency against the SDR	1,910.68	1,741.33	600.51	369.99	34.31	4,656.82	(3.43)	7bps
Assumptions:								
Base net assets	1,910.68	1,741.33	600.51	369.99	37.74	4,660.25	-	-
Currency weight	0.6320	0.4100	18.4000	0.0903	-	-	-	-
Base exchange rate	1.5445	1.0961	139.3768	1.0656	-	-	-	-

Interest Rate Risk

The Bank's interest rate risk sensitivity is comprised of the following two elements:

1) the sensitivity of the interest margin between the rate the Bank earns on its assets and the cost of the borrowings funding such assets;

2) the sensitivity of the income on assets funded by equity resources to changes in interest rates.

The Bank's principal interest rate risk management objective is to generate a stable overall net interest margin that is not overly sensitive to sharp changes in market interest rates, but yet adequately responsive to general market trends.

Interest rate risk position as at December 31, 2009 and 2008 was as follows:

Interest Rate Risk Position as at December 31, 2009

(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	318,828	-	-	-	-	-	-	318,828
Demand obligations	3,801	-	-	-	-	-	-	3,801
Treasury investments [(a)]	4,616,443	453,417	358,704	463,889	282,321	1,318,960	(62,709)	7,431,025
Non-negotiable instruments on account of capital	3,721	1,581	1,052	758	500	576	-	8,188
Accounts receivable	1,049,632	-	-	-	-	-	(125,473)	924,159
Loans – disbursed and outstanding	4,930,814	174,750	182,664	261,121	198,602	1,790,248	-	7,538,199
Accumulated provision for loan impairment	-	-	-	-	-	-	(101,921)	(101,921)
Equity participations	-	-	-	-	-	-	234,478	234,478
Other debt securities	-	-	-	-	-	86,433	(15,623)	70,810
Other assets	-	-	-	-	-	-	11,890	11,890
	10,923,239	629,748	542,420	725,768	481,423	3,196,217	(59,358)	16,439,457
Liabilities								
Accounts payable	(1,385,679)	-	-	-	-	-	-	(1,385,679)
Borrowings [(b)]	(9,347,738)	7,101	(4,450)	(282,357)	(7,777)	(785,609)	108,302	(10,312,528)
Macro-hedge swaps	(519,166)	-	76,546	49,117	102,730	290,773	-	-
	(11,252,583)	7,101	72,096	(233,240)	94,953	(494,836)	108,302	(11,698,207)
Interest rate risk position as at December 31, 2009*	**(329,344)**	**636,849**	**614,516**	**492,528**	**576,376**	**2,701,381**	**48,944**	**4,741,250**

**Interest rate risk position represents equity.*

(a) Treasury investments comprise:

Treasury investments	7,412,248
Derivative assets – investments	40,214
Derivative liabilities – investments	(21,437)
Amount per statement of interest rate risk	7,431,025

(b) Borrowings comprise:

Borrowings	10,580,640
Derivative assets – borrowings	(723,793)
Derivative liabilities – borrowings	455,681
Net borrowings per statement of interest rate risk	10,312,528

Interest Rate Risk Position as at December 31, 2008

(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	592,644	-	-	-	-	-	-	592,644
Demand obligations	3,801	-	-	-	-	-	-	3,801
Treasury investments [(a)]	2,341,183	349,275	464,262	328,291	365,339	883,087	(93,706)	4,637,731
Non-negotiable instruments on account of capital	3,691	3,770	1,596	1,066	777	961	-	11,861
Accounts receivable	746,441	-	-	-	-	-	(97,426)	649,015
Loans – disbursed and outstanding	3,209,264	221,215	162,691	165,624	298,883	1,776,937	-	5,834,614
Accumulated provision for loan impairment	-	-	-	-	-	-	(102,462)	(102,462)
Equity participations	-	-	-	-	-	-	188,781	188,781
Other debt securities	-	-	-	-	-	69,773	(976)	68,797
Other assets	-	-	-	-	-	-	12,229	12,229
	6,897,024	574,260	628,549	494,981	664,999	2,730,758	(93,740)	11,896,831
Liabilities								
Accounts payable	(843,122)	-	-	-	-	-	-	(843,122)
Borrowings [(b)]	(5,357,460)	(68,172)	(199)	(199)	(284,969)	(765,121)	82,658	(6,393,461)
Macro-hedge swaps	(549,537)	-	-	77,908	73,850	397,779	-	-
	(6,750,119)	(68,172)	(199)	77,709	(211,119)	(367,342)	82,658	(7,236,583)
Interest rate risk position as at December 31, 2008*	**146,905**	**506,088**	**628,350**	**572,690**	**453,880**	**2,363,416**	**(11,082)**	**4,660,248**

** Interest rate risk position represents equity.*

(a) Treasury investments comprise:

Treasury investments	4,575,756
Derivative assets – investments	65,475
Derivative liabilities – investments	(3,500)
Amount per statement of interest rate risk	4,637,731

(b) Borrowings comprise:

Borrowings	6,707,278
Derivative assets – borrowings	(670,616)
Derivative liabilities – borrowings	356,799
Net borrowings per statement of interest rate risk	6,393,461

Interest Rate Risk on Assets Funded by Debt

Over half of the Bank's interest-rate-sensitive assets are funded by debt. The Bank seeks to generate a stable net interest margin on assets funded by debt by matching the interest rate characteristics of each class of assets with those of the corresponding liabilities.

In 1990, the Bank began offering "variable rate" loans. The interest rate on these loans resets semi-annually based on the average cost of a dedicated pool of the Bank's borrowings. These pools are funded with a mix of fixed rate and floating rate borrowings to provide borrowers with broadly stable interest rates that gradually track changes in market interest rates. The cost of funds pass-through formulation incorporated in the lending rates charged on the Bank's pool-based loans has traditionally helped to minimize the interest rate sensitivity of the net interest margin on this part of its loan portfolio. In view of declining demand for this product in favor of market-based loans, the Bank is carefully managing the gradual winding down of the designated funding pools.

Since 1997, the Bank offers fixed and floating rate loans whose interest rate is directly linked to market interest rates (market-based loans). For the market-based loan products, the Bank's net interest margin is preserved by using swaps to align the interest rate sensitivity of the loans with that of the Bank's underlying funding reference (six-month Libor floating rate). The Bank may also provide borrowers with risk management products such as swaps to modify the currency and interest rate terms of its market-based loan products. Although it retains the credit risks of the borrower, the Bank eliminates the associated market risk on these risk management products by simultaneously laying off market risks with an approved derivative counterparty.

For the portfolio of liquid assets funded by borrowings, the Bank protects its net interest margin by managing its investments within limits around benchmarks that replicate the interest rate characteristics of the underlying funding for each portfolio tranche. The portfolio of liquid assets funded by borrowings is currently divided into two tranches to reflect the different business purposes and underlying funding. The core part of the investment portfolio is held to comply with the Bank's liquidity policy and uses a six-month Libor floating rate benchmark. The operational liquidity portfolio is managed to meet projected operational cash flow needs and uses a one-month Libor floating rate benchmark.

The Bank diversifies the sources of its funding by issuing debt in a variety of markets and instruments. Unless fixed rate funding is required for one of its pool-based loan products, the Bank protects its net interest margin by simultaneously swapping all new borrowings into floating rate in one of the Bank's active currencies on a standard six-month Libor rate reference. Where the Bank issues structured debt, the Bank simultaneously enters into a swap with matching terms to synthetically create the desired six-month Libor-based floating rate funding. For risk management purposes, callable funding is considered as one alternative to issuing short-term debt such as Euro Commercial Paper. The Bank manages refinancing risk by limiting the amount of debt that will mature or is potentially callable within one year to 25% of the outstanding debt portfolio.

Interest Rate Risk on Assets Funded by Equity

The second principal source of interest rate risk is the interest rate sensitivity of the income earned from funding a significant portion of the Bank's assets with equity resources. Changes in market interest rates in the currencies of the Bank's equity resources (the SDR) affect the net interest margin earned on assets funded by equity. In general, lower nominal market interest rates result in lower lending and investment rates, which in the long-term reduce the nominal earnings on the Bank's equity resources.

The Bank manages the interest rate profile of the assets funded by equity resources with the objective of reducing the sensitivity of the net interest margin to fluctuations in market interest rates. This is achieved by continuously adjusting the repricing profile of the assets funded by the Bank's equity resources (fixed rate loans and investments) to match a repricing profile benchmark. The Bank's repricing profile benchmark is a 10-year ladder whereby a uniform 10% of the Bank's assets funded by equity reprice in each year. Using this benchmark, the Bank's net interest margin on assets funded by equity tends to track a ten-year moving average of 10-year maturity SDR interest rates.

At the end of 2009 and 2008, the Bank's overall repricing profile was closely aligned to the benchmark in almost all annual buckets. For net assets repricing within one year, the Bank had a manageable gap relative to the benchmark.

Interest Rate Risk Sensitivity Analysis

Net Interest Margin Sensitivity

A parallel upward shift in the SDR curve of 100 bps would have generated a maximum gain of UA 7.55 million and UA 5.97 million as of December 31, 2009 and 2008, respectively.

Fair Value Sensitivity

Movements in interest rates also have an impact on the values of assets and liabilities that are reported in the financial statements at fair value through profit or loss. The table below shows the effect of a parallel yield curve movement of +/- 100 bps of each of the currencies in the trading investment portfolio and the borrowings and derivative portfolios as of December 31, 2009 and 2008, respectively. However, due to the low level of interest rates across the Japanese Yen yield curve, the sensitivity analysis in 2009 for assets and liabilities denominated in Japanese Yen reflect a parallel movement in the yield curve of +/- 10 bps (2008: +/- 20 bps).

(UA thousands)

	Upward Parallel Shift		Downward Parallel Shift	
	2009	2008	**2009**	2008
	Gain/(Loss)	**Gain/(Loss)**	**Gain/(Loss)**	**Gain/(Loss)**
Held-for-trading investments	(18,664)	(3,933)	21,812	4,294
Fair-valued borrowings and derivative portfolios	148,876	177,141	(163,105)	(182,492)

Prepayment Risk

In addition to the two principal sources of interest rate risk described above, the Bank is exposed to prepayment risk on loans committed before 1997. Although the Bank is unable to charge a prepayment penalty on such older loans, in practice the level of prepayments has generally been within acceptable levels. In 2003 and 2004, however, driven by low market interest rates, contracting credit spreads for emerging market borrowers and enhanced debt management by several sovereign borrowers, total loan prepayments increased sharply to UA 471 million and UA 542 million, respectively. In 2005, prepayments of pre-1997 loans declined sharply to UA 70 million, due in large part to increased market interest rates. For all market-based loans issued since 1997, the Bank protects itself from prepayment risk by linking the prepayment penalty to the cost of redeploying the funds at current market rates. In 2006, total prepayments of UA 298 million included an amount of UA 192 million in respect of market-based floating rate loans, while in 2007; total prepayment amounted to UA 199 million, of which 98% related to market-based loans. Prepayment in 2008 amounted to UA 17 million while prepayment in the current year was UA 20 million. The rate of prepayment is not expected to change significantly from the current level in the near to medium term.

Operational Risk

Like all financial institutions, the Bank is exposed to operational risks arising from its systems and functions. The interdependencies among its departments and among its risk factors in general, could adversely impact its activities with consequential exposure to financial losses.

The Bank defines operational risks to include all aspects of risk-related exposure other than those falling within the scope of credit, market, and liquidity risks. Specifically, this includes the risk of loss resulting from inadequate or failed internal processes, people, and/or systems, and from external events which could negatively impact its reputation.

Following approval by the Board of Directors in 2004, the Bank established an Internal Control Unit (ICU) to among other duties implement the COSO internal control framework as a means of regularly evaluating the effectiveness and efficiency of its internal controls in all significant business operations. As part of this process, Management's attestation on the adequacy of internal controls is published in the Bank's annual report. Phase two of the implementation extending the COSO framework to other areas of operational risk management is still ongoing.

It is the responsibility of Senior management within each business areas to develop and implement controls to manage operational risks within its area. This responsibility is supported by the development of overall institutional standards for the management of operational risk in the following areas:

- Requirements for appropriate segregation of duties, including the independent authorization of transactions
- Requirements for the reconciliation and monitoring of transactions
- Documentation of controls and procedures
- Training and professional development
- Risk mitigation including insurance where this is effective

Compliance with institutional standards is supported by a program of periodic reviews undertaken by the Office of the Auditor General of the Bank. The result of internal audit reviews are discussed with the Management of the business unit to which they relate, with summaries submitted to Senior Management of the Bank and the Audit and Finance Committee of the Board of Directors.

The Bank's revised Capital Adequacy and Exposure Management framework approved by the Board of Directors in March 2009 provides for a risk capital charge of 15% of the average operating income for the preceding 3 years, in line with Basle II recommendations for operational risk.

Other control initiatives or activities in the other areas of the Bank Group which complement the work on operational risk management include:

- Code of conduct and staff rules
- Fraud and investigation unit
- Whistleblower protection policy
- Business continuity planning and preparedness

Effects of Recent Developments in the Financial Markets

Although the Bank was also impacted by the global crisis that affected the world financial markets through 2008 and 2009, as a result of its prudent risk management policies and practices, the impact on the Bank has been reasonably mitigated. With regards to the funding activities, notwithstanding the significant increases in credit spreads for all borrowers, there has been no serious adverse effect on the Bank's ability to borrow competitively, consistent with the Bank's solid financial position as evidenced by the continued uniform top rating by all the major rating agencies. The Bank continues to be well placed to play its intermediation role in support of the development financing needs of its regional member countries.

NOTE E – FINANCIAL ASSETS AND LIABILITIES

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

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss							
December 31, 2009	**Held-for-Trading**	**Designated at Fair Value**	**Held-to-Maturity**	**Available-for-Sale**	**Loans and Receivables**	**Financial Assets and Liabilities at Amortized Cost**	**Total Carrying Amount**	**Fair Value**
Cash	-	-	-	-	-	318,828	318,828	318,828
Demand obligations	-	-	-	-	-	3,801	3,801	3,801
Treasury investments	4,220,707	-	3,191,541	-	-	-	7,412,248	7,550,875
Derivative assets	764,007	-	-	-	-	-	764,007	764,007
Non-negotiable instruments on account of capital	-	-	-	-	-	8,188	8,188	8,188
Accounts receivable	-	-	-	-	924,159	-	924,159	924,159
Loans	-	-	-	-	7,436,278	-	7,436,278	7,820,125
Equity participations	-	-	-	234,478	-	-	234,478	234,478
Other debt securities	-	-	-	70,810	-	-	70,810	70,810
Total financial assets	**4,984,714**	**-**	**3,191,541**	**305,288**	**8,360,437**	**330,817**	**17,172,797**	**17,695,271**
Accounts payable	-	-	-	-	-	1,385,679	1,385,679	1,385,679
Derivative liabilities	477,118	-	-	-	-	-	477,118	477,118
Borrowings	-	9,488,606	-	-	-	1,092,034	10,580,640	10,688,710
Total financial liabilities	**477,118**	**9,488,606**	**-**	**-**	**-**	**2,477,713**	**12,443,437**	**12,551,507**

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss							
December 31, 2008	**Held-for-Trading**	**Designated at Fair Value**	**Held-to-Maturity**	**Available-for-Sale**	**Loans and Receivables**	**Financial Assets and Liabilities at Amortized Cost**	**Total Carrying Amount**	**Fair Value**
Cash	-	-	-	-	-	592,644	592,644	592,644
Demand obligations	-	-	-	-	-	3,801	3,801	3,801
Treasury investments	1,890,241	-	2,685,515	-	-	-	4,575,756	4,616,249
Derivative assets	736,091	-	-	-	-	-	736,091	736,091
Non-negotiable instruments on account of capital	-	-	-	-	-	11,861	11,861	11,861
Accounts receivable	-	-	-	-	649,015	-	649,015	649,015
Loans	-	-	-	-	5,731,972	-	5,731,972	6,034,576
Equity participations	-	-	-	188,781	-	-	188,781	188,781
Other debt securities	-	-	-	68,797	-	-	68,797	68,797
Total financial assets	**2,626,332**	**-**	**2,685,515**	**257,578**	**6,380,987**	**608,306**	**12,558,718**	**12,901,815**
Accounts payable	-	-	-	-	-	843,122	843,122	843,122
Derivative liabilities	360,299	-	-	-	-	-	360,299	360,299
Borrowings	-	5,729,808	-	-	-	977,470	6,707,278	7,001,111
Total financial liabilities	**360,299**	**5,729,808**	**-**	**-**	**-**	**1,820,592**	**7,910,699**	**8,204,532**

The table below classifies the Bank's financial instruments that were carried at fair value at December 31, 2009 and 2008 into three levels reflecting the relative reliability of the measurement bases, with level 1 as the most reliable.

(UA thousands)

	Quoted prices in active markets for the same instrument (Level 1)		Valuation techniques for which all significant inputs are based on observable market data (Level 2)		Valuation techniques for which any significant input is not based on observable market data (Level 3)		Total	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008
Treasury investments	3,359,344	1,575,958	728,841	300,000	132,522	14,283	4,220,707	1,890,241
Derivative assets	-	-	720,336	736,091	43,671	-	764,007	736,091
Equity participations	15,736	19,412	-	-	218,742	169,369	234,478	188,781
Other debt securities	70,810	68,797	-	-	-	-	70,810	68,797
Total financial assets	**3,345,890**	**1,664,167**	**1,449,177**	**1,036,091**	**394,935**	**183,652**	**5,290,002**	**2,883,910**
Derivative liabilities	-	-	(402,404)	(360,299)	(74,714)	-	(477,118)	(360,299)
Borrowings	(4,898,677)	(1,593,727)	(4,307,780)	(4,136,081)	(282,149)	-	(9,488,606)	(5,729,808)
Total financial liabilities	**(4,898,677)**	**(1,593,727)**	**(4,710,184)**	**(4,496,380)**	**(356,863)**	**-**	**(9,965,724)**	**(6,090,107)**

Fair value measurement of financial instruments using valuation techniques with no significant input from observable market data (level 3 hierarchy) at December 31, 2008 and 2009 is made up as follows:

(UA thousands)

	Held-for-Trading Treasury Investments	Available-for-Sale Equity Participations	Derivative Assets	Derivative Liabilities	Borrowings
2008					
Balance at January 1, 2008	24,994	143,588	-	-	-
Losses recognized in income statement	(11,179)	(3,424)	-	-	-
Losses recognized in statement of comprehensive income	-	(4,472)	-	-	-
Purchases, issues and settlements (net)	-	36,693	-	-	-
Translation effects	468	(3,016)	-	-	-
Balance at December 31, 2008	**14,283**	**169,369**	-	-	-
2009					
Balance at January 1, 2009	14,283	169,369	-	-	-
Gains/(losses) recognized in income statement	8,821	(2,324)	(4,846)	(19,442)	12,527
Losses recognized in statement of comprehensive income	-	(4,769)	-	-	-
Purchases, issues and settlements (net)	-	51,240	1,015	(1,616)	-
Reclassification	109,885	-	54,143	(34,034)	(314,914)
Translation effects	(467)	5,226	(15,877)	(10,386)	20,238
Transfer between assets and liabilities	-	-	9,236	(9,236)	-
Balance at December 31, 2009	**132,522**	**218,742**	**43,671**	**(74,714)**	**(282,149)**

Although the Bank believes that its estimates of fair value are appropriate, the use of different methodologies or assumptions could lead to different fair value results. For fair value measurements in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions is not expected to have significant effect on the result for the year.

Day One Profit and Loss

The unamortized balances of day one profit at December 31, 2009 and 2008 were made up as follows:

(UA thousands)	**2009**	2008
Balance at January 1	99,826	17,594
New transactions	20,952	74,162
Amounts recognized in income statement during the year	(7,331)	2,270
Translation effects	(1,984)	5,800
Balance at December 31	**111,463**	**99,826**

NOTE F – TREASURY INVESTMENTS

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

For government and agency obligations with final maturity longer than 1 year and less than 15 years, the Bank may only invest in obligations with counterparties having a minimum credit rating of AA- or unconditionally guaranteed by governments of member countries or other official entities. For asset-backed securities, the Bank may only invest in securities with a AAA credit rating. Investments in money market instruments are restricted to instruments having maturities of not more than 1 year and a minimum credit rating of A. Over-the-counter (OTC) options on government securities and interest rate products are purchased only if the life of the option contract does not exceed 1 year, and such transactions are only executed with counterparties with credit ratings of AA- or above. Cross-currency and interest rate swaps including asset swap transactions are only permitted with approved counterparties or guaranteed by entities with minimum credit ratings of AA-/Aa3 at the time of the transaction.

As at December 31, 2009, the Bank had received collateral with fair value of UA 344.98 million in connection with swap agreements. Of this amount, a total UA 144.03 million was in the form of cash and has been recorded on the balance sheet with a corresponding liability included in "Other accounts payable". The balance of UA 200.95 million was in the form of liquid financial assets.

In the fourth quarter of 2009, the Bank terminated the external asset management program. Prior to the termination, the Bank used external managers in the management of certain of its liquid assets in accordance with the Bank's Asset and Liability Management Guidelines. The assets that were previously held with the external managers were either transferred back to ADB at market values for in-house management or sold off and the proceeds transferred back to the ADB. Consequently, at December 31, 2009, there were no investments under external management. Investments under external management included in held-for-trading portfolio as at December 31, 2008 amounted to UA 127.36 million.

At December 31, 2009 and 2008, the Bank had no securities sold under repurchase agreements (repos).

The composition of treasury investments as at December 31, 2009 and 2008 was as follows:

(UA thousands)	2009	2008
Held-for-trading	4,220,707	1,890,240
Held-to-maturity	3,226,041	2,723,909
Provision for impairment on investments	(34,500)	(38,393)
Total	**7,412,248**	**4,575,756**

Held-for-Trading Investments

A summary of the Bank's held-for-trading investments at December 31, 2009 and 2008 follows:

(UA millions)

	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Time deposits	513.48	1.50	156.12	355.69	56.60	31.23	165.72	223.06	891.92	611.48
Asset-backed securities	83.44	182.26	49.08	93.02	-	-	-	-	132.52	275.28
Government and agency obligations	1,242.75	272.26	917.88	13.52	-	-	22.75	4.14	2,183.38	289.92
Corporate bonds	151.34	233.36	28.37	39.00	-	-	9.86	6.67	189.57	279.03
Financial institutions	325.85	327.57	208.64	96.20	-	-	4.75	5.62	539.24	429.39
Supranational	174.29	1.30	70.61	-	-	-	39.18	3.84	284.08	5.14
Total held-for-trading investments	**2,491.15**	**1,018.25**	**1,430.70**	**597.43**	**56.60**	**31.23**	**242.26**	**243.33**	**4,220.71**	**1,890.24**

The nominal balance of the Bank's held-for-trading investments as at December 31, 2009 was UA 4,184.68 million (2008: UA 1,685.20 million). The average yield of held-for-trading investments in 2009 was 3.53% (2008: 0.65%).

The contractual maturity structure of held-for-trading investments as at December 31, 2009 and 2008 was as follows:

(UA millions)	2009	2008
One year or less	1,619.56	1,291.00
More than one year but less than two years	1,291.30	280.79
More than two years but less than three years	1,060.11	130.88
More than three years but less than four years	25.99	23.38
More than four years but less than five years	87.74	19.76
More than five years	136.01	144.43
Total	**4,220.71**	**1,890.24**

Held-to-Maturity Investments

A summary of the Bank's held-to-maturity investments at December 31, 2009 and 2008 follows:

(UA millions)

	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2009	2008	**2009**	2008	**2009**	2008	**2009**	2008	**2009**	2008
Asset-backed securities	183.31	186.18	29.05	48.99	-	-	-	-	212.36	235.17
Government and agency obligations	421.56	375.41	633.05	248.37	219.52	162.81	216.72	125.30	1,490.85	911.89
Corporate bonds	241.48	316.61	115.91	167.45	36.63	61.47	58.26	59.81	452.28	605.34
Financial institutions	95.71	136.79	227.76	225.27	10.11	10.66	43.32	80.86	376.90	453.58
Supranational	401.03	218.12	134.05	132.88	126.31	121.93	32.26	45.00	693.65	517.93
Total held-to-maturity investments	**1,343.09**	**1,233.11**	**1,139.82**	**822.96**	**392.57**	**356.87**	**350.56**	**310.97**	**3,226.04**	**2,723.91**

The nominal balance of the Bank's held-to-maturity investments as at December 31, 2009, was UA 3,250.35 million (2008: UA 2,761.04 million). The average yield of held-to-maturity investments in 2009 was 4.55% (2008: 5.84%).

The contractual maturity structure of held-to-maturity investments as at December 31, 2009 and 2008 was as follows:

(UA millions)	**2009**	2008
One year or less	400.55	371.28
More than one year but less than two years	473.07	353.45
More than two years but less than three years	354.23	467.18
More than three years but less than four years	461.07	327.66
More than four years but less than five years	271.32	363.45
More than five years	1,265.80	840.89
Total	**3,226.04**	**2,723.91**

The fair value of held-to-maturity investments at December 31, 2009 was UA 3,330.17 million (2008: UA 2,726.01 million).

NOTE G – DERIVATIVE ASSETS AND LIABILITIES

Loan Swaps

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

Administrative Expenses Hedge

To insulate the Bank from possible significant increases in administrative expenses that could arise from an appreciation of the principal currencies of administrative expenditure i.e. EUR, GBP and USD vis-à-vis the UA, the Bank executed forward exchange transactions to economically hedge its administrative expenses. As at December 31, 2009 and 2008, there were no open positions with respect to the forward exchange transactions.

The fair values of derivative financial assets and financial liabilities at December 31, 2009 and 2008 were as follows:

	2009		2008	
(UA thousands)	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Borrowings-related:				
Cross-currency swaps	596,414	409,117	495,882	319,177
Interest rate swaps	117,492	6,976	163,845	2,668
Loan swaps	9,419	39,398	10,635	34,134
Embedded derivatives	468	190	254	820
	723,793	455,681	670,616	356,799
Investments-related:				
Asset swaps	111	1,778	33	3,500
Futures	-	19,659	-	-
Macro-hedge swaps	40,103	-	65,442	-
	40,214	21,437	65,475	3,500
Total	**764,007**	**477,118**	**736,091**	**360,299**

The notional amounts of derivative financial assets and financial liabilities at December 31, 2009 and 2008 were as follows:

(UA thousands)	**2009**	2008
Borrowings-related:		
Cross-currency swaps	7,517,469	5,006,327
Interest rate swaps	3,974,387	2,505,259
Loan swaps	1,408,161	997,002
Embedded derivatives	22,949	167,257
	12,922,966	8,675,845
Investments-related:		
Asset swaps	84,728	94,746
Macro-hedge swaps	519,166	525,678
	603,894	620,424
Total	**13,526,860**	**9,296,269**

The Bank has entered into futures contracts to hedge fixed interest rate bonds against interest rates variations. As at December 31, 2009, the Bank had 5,747 contracts in Euro and 11,566 contracts in US Dollar. The nominal value of each contract is one million of each currency unit.

NOTE H – NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL

Prior to May 1981, all payments in respect of paid-up capital had been made in convertible currencies. However, for the capital increases authorized in May 1979 (but effective December 1982) and May 1981, regional members had the following two options for making their payments:

1) Five (5) equal annual installments, of which at least 50 percent is payable in convertible currency and the remainder in local currency; or
2) Five (5) equal annual installments, of which 20 percent is payable in convertible currency and 80 percent in non-negotiable, non-interest bearing notes. Such notes are redeemable by the Bank solely in convertible currency in installments commencing on the fifth anniversary of the first subscription payment date.

Non-regional members were required to make their payments solely in convertible currencies.

The paid-up portion of subscriptions, authorized in accordance with Board of Governors' Resolution B/BG/87/11 relating to the Fourth General Capital Increase (GCI-IV), is to be paid as follows:

1) **Regional Members** – 50 percent in five (5) equal annual installments in cash in freely convertible currency or freely convertible currencies selected by the member state, and 50 percent by the deposit of five non-negotiable, non-interest bearing notes of equal value denominated in Units of Account. Such notes are redeemable by the Bank solely in convertible currency in five (5) equal annual installments commencing on the fifth anniversary of the first subscription payment date.

2) **Non-Regional Members** – five (5) equal annual installments in their national currencies, where such currencies are freely convertible or in notes denominated in freely convertible currencies encashable on demand.

Under the Fifth General Capital Increase (GCI-V), there is no distinction in the payment arrangements between regional and non-regional members. Each member is required to pay for the paid-up portion of its subscribed shares in eight (8) equal and consecutive annual installments. The first installments shall be paid in cash and in a freely convertible currency. The second to the eighth installments shall be paid in cash or notes encashable on demand in a freely convertible currency.

At December 31, 2009 and 2008, the non-negotiable notes balances were as follows:

(UA thousands)	**2009**	2008
Balance at January 1	11,861	15,385
Net movement for the year	(3,673)	(3,524)
Balance at December 31	**8,188**	**11,861**

NOTE I – LOANS

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

The types of loans currently held by the Bank and the rates charged are described below:

Multi-Currency Fixed Rate Loans: For all loans negotiated prior to July 1, 1990, the Bank charges interest at fixed rates.

Multi-Currency Variable Rate Loans: Between July 1, 1990 and September 30, 1997, the Bank offered variable rate loans to its borrowers. The variable interest rate is reset twice a year and is based on the Bank's own cost of qualified borrowing plus 50 basis points, resulting in a pass-through of average borrowing costs to borrowers.

Conversion of Multi-Currency Pool-Based Variable Rate Loans: Borrowers were offered the choice to convert the disbursed and undisbursed amounts of their multi-currency pool-based variable rate loans to single currency variable terms or retain the terms of their existing multi-currency pool-based variable rate loans. The conversion dates were October 1, 1997 and March 1, 1998. The other terms and conditions of converted loans remained the same as in the original loan agreements. Since October 1, 1997, the Bank has provided several alternative interest rate mechanisms. In all cases, the applicable rate of interest is the sum of two components, namely, the chosen base rate plus a lending margin.

Single Currency Variable Rate Loans: Since October 1, 1997, the Bank has offered single currency variable rate loans. The variable base rate is the average cost of funding a designated pool of borrowings in each currency and is adjusted semi-annually on January 1 and July 1.

Single Currency Floating Rate Loans: Since October 1, 1997, the Bank has offered LIBOR-based single currency floating rate loans. The floating base rate is determined for each currency and reset frequency is based on the Bank's selected reference interest rate in each market. The Bank's standard floating base rate is the six (6)-month reference rate (USD LIBOR, JPY LIBOR, EURIBOR and JIBAR) which is reset semi-annually on February 1 and August 1 and is applicable for the six-month period following the reset date.

Single Currency Fixed Rate Loans: Fixed rate loans were reintroduced with effect from October 1997 in the form of single currency fixed rate loans. The fixed rate is computed as the inter-bank swap market rate corresponding to the principal amortization schedule.

Lending Margin: The lending margin is a rate premium expressed as a nominal interest rate added to the Borrower's chosen base rate to determine the total lending rate. The lending margin determined by the Bank is independent of the base rate chosen, and remains unchanged throughout the life of the loan. The lending margin for sovereign guaranteed loans is fixed at 40 to 50 basis points. For non-sovereign guaranteed loans, the lending margin is based on the Bank's assessment of the risks inherent in each project.

At December 31, 2009 and 2008, outstanding loans were as follows:

(UA thousands)	**2009**	2008
Disbursed and outstanding loans	7,538,199	5,834,615
Less: accumulated provision for impairment	(101,921)	(102,643)
Balance at December 31	**7,436,278**	**5,731,972**

Fair Value of Loans

At December 31, 2009 and 2008, the carrying and estimated fair values of outstanding loans were as follows:

(UA thousands)	2009		2008	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Fixed rate loans	4,339,278	4,137,193	3,152,624	3,630,774
Floating rate loans	2,656,773	3,130,681	1,884,110	1,749,278
Variable rate loans	542,148	552,251	797,881	654,524
	7,538,199	7,820,125	5,834,615	6,034,576
Accumulated provision for impairment	(101,921)	-	(102,643)	-
Net loans	**7,436,278**	**7,820,125**	**5,731,972**	**6,034,576**

Maturity and Currency Composition of Outstanding Loans

The contractual maturity structure of outstanding loans as at December 31, 2009 and 2008 was as follows:

(UA millions)	2009				2008
Periods	**Fixed Rate**	**Floating Rate**	**Variable Rate**	**Total**	**Total**
One year or less	272.19	223.51	279.62	775.32	946.15
More than one year but less than two years	208.23	235.88	122.01	566.12	505.23
More than two years but less than three years	227.97	193.92	65.97	487.86	479.84
More than three years but less than four years	246.83	252.13	40.57	539.53	447.35
More than four years but less than five years	265.17	234.87	24.64	524.68	430.93
More than five years	3,118.89	1,516.46	9.34	4,644.69	3,025.12
Total	**4,339.28**	**2,656.77**	**542.15**	**7,538.20**	**5,834.62**

Borrowers may repay loans before their contractual maturity, subject to the terms specified in the loan agreements.

The currency composition and types of outstanding loans as at December 31, 2009 and 2008 were as follows:

(Amounts in UA millions)			2009		2008	
			Amount	%	Amount	%
Fixed Rate:	Multi-Currency	Euro	89.42		126.75	
		Japanese Yen	373.61		438.33	
		Pound Sterling	2.51		2.30	
		Swiss Franc	137.49		158.65	
		US Dollar	215.36		285.81	
		Others	0.45		0.61	
			818.84	10.86	1,012.45	17.35
	Single Currency	Euro	2,539.66		1,943.88	
		Japanese Yen	12.52		14.52	
		South African Rand	70.46		56.80	
		US Dollar	897.78		124.97	
			3,520.42	46.70	2,140.17	36.68
Floating Rate:	Single Currency	Euro	599.15		517.98	
		Japanese Yen	21.94		24.05	
		South African Rand	257.60		93.40	
		US Dollar	1,778.09		1,248.68	
			2,656.78	35.25	1,884.11	32.29
Variable Rate:	Multi-Currency	Euro	119.50		143.98	
		Japanese Yen	21.93		33.31	
		Swiss Franc	0.53		0.78	
		US Dollar	129.29		146.89	
		Others	0.07		0.11	
			271.32	3.60	325.07	5.58
	Single Currency	Euro	97.81		179.11	
		Japanese Yen	67.78		121.79	
		Swiss Franc	5.40		15.18	
		US Dollar	99.83		156.72	
		Others	0.02		0.02	
			270.84	3.59	472.82	8.10
Total			**7,538.20**	**100.00**	**5,834.62**	**100.00**

The weighted-average yield on outstanding loans for the year ended December 31, 2009 was 4.29 % (2008: 6.21%).

A comparative summary of the currency composition of outstanding loans at December 31, 2009 and 2008 follows:

(Amounts in UA millions)	2009		2008	
	Amount	**%**	**Amount**	**%**
Euro	3,445.54	45.71	2,911.70	49.90
Japanese Yen	497.78	6.60	632.01	10.84
Pound Sterling	2.51	0.03	2.30	0.04
South African Rand	328.06	4.35	150.20	2.57
Swiss Franc	143.42	1.90	174.61	2.99
US Dollar	3,120.35	41.40	1,963.06	33.65
Others	0.54	0.01	0.74	0.01
Total	**7,538.20**	**100.00**	**5,834.62**	**100.00**

Accrued Income and Charges Receivable on Loans

The accrued income and charges receivable on loans as at December 31, 2009 and 2008 were as follows:

(UA thousands)	2009	2008
Accrued income and charges receivable on loans	294,065	452,097
Less: accumulated provision for impairment	(125,473)	(115,631)
Balance at December 31	**168,592**	**336,466**

Provision for Impairment on Loan Principal and Charges Receivable

At December 31, 2009, outstanding loans with an aggregate principal balance of UA 270.19 million (2008: UA 275.33 million), of which UA 236.46 million (2008: UA 226.73 million) was overdue, were considered to be impaired.

The gross amounts of loans and charges receivable that were impaired and the cumulative impairment on them at December 31, 2009 and 2008 were as follows:

(UA thousands)	2009	2008
Outstanding principal balance on impaired loans	270,194	275,327
Less: accumulated provision for impairment	(101,921)	(102,643)
Net balance on impaired loans	**168,273**	**172,684**
Charges receivable and accrued income on impaired loans	187,901	173,393
Less: accumulated provision for impairment	(125,473)	(115,631)
Net charges receivable and accrued income on impaired loans	**62,428**	**57,762**

The movements in the accumulated provision for impairment on outstanding loan principal for the years ended December 31, 2009 and 2008 were as follows:

(UA thousands)	**2009**	2008
Balance at January 1	102,643	196,016
Provision for impairment on loan principal for the year	276	(101,479)
Translation effects	(998)	8,106
Balance at December 31	**101,921**	**102,643**

Accumulated provision for loan impairment included those relating to private sector loans. During the year ended December 31, 2009, there was a write-back of provision for impairment on private sector loans of UA 0.32 million (2008: Nil). The accumulated provision on private sector loans at December 31, 2009 amounted to UA 11.89 million.

The movements in the accumulated provision for impairment on loan interest and charges receivable for the years ended December 31, 2009 and 2008 were as follows:

(UA thousands)	**2009**	2008
Balance at January 1	115,631	168,701
Provision for impairment on loan charges for the year	11,009	(61,798)
Translation effects	(1,167)	8,728
Balance at December 31	**125,473**	**115,631**

Guarantees

The Bank may enter into special irrevocable commitments to pay amounts to the borrowers or other parties for goods and services to be financed under loan agreements. At December 31, 2009, irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 0.16 million (2008: UA 1.22 million).

Also, the Bank may provide repayment guarantees to entities within its regional member countries for development loans granted to such entities by third parties. Guarantees represent potential risk to the Bank if the payments guaranteed for an entity are not made. At December 31, 2009, guarantees provided by the Bank to some of its borrowers amounted to UA 0.97 million.

NOTE J – EQUITY PARTICIPATIONS

Investment in ADF

The ADF was established in 1972 as an international institution to assist the Bank in contributing to the economic and social development of African countries, to promote co-operation and increased international trade particularly among the African countries, and to provide financing on highly concessional terms for such purposes. The Fund's original subscriptions were provided by the Bank and the original State Participants to the ADF Agreement, and State Participants acceding to the Agreement since the original signing date. Thereafter, further subscriptions were received from participants in the form of Special General Increases and General Replenishments.

The ADF has a 12-member Board of Directors, made up of 6 members selected by the African Development Bank and 6 members selected by State Participants. The Fund's Board of Directors reports to the Board of Governors made up of representatives of the State Participants and the ADB. The President of the Bank is the ex-officio President of the Fund.

To carry out its functions, the Fund utilizes the offices, staff, organization, services and facilities of the Bank, for which it pays a share of the administrative expenses. The share of administrative expenses paid by the Fund to the Bank is calculated annually on the basis of a cost-sharing formula, approved by the Board of Directors, which is driven in large part by the number of programs and projects executed during the year. Based on the cost-sharing formula, the share of administrative expenses incurred by ADF for the year ended December 31, 2009 amounted to UA 157.65 million (2008: UA 138.10 million), representing 70.84 percent (2008: 72.13 percent) of the shareable administrative expenses incurred by the Bank. The accounts of the ADF are kept separate and distinct from those of the Bank.

Although the ADB by agreement exercises fifty percent (50%) of the voting powers in the ADF, the Agreement establishing the ADF also provides that in the event of termination of the ADF's operations, the assets of the Fund shall be distributed pro-rata to its participants in proportion to the amounts paid-in by them on account of their subscriptions, after settlement of any outstanding claims against the participants. At December 31, 2009, the Bank's pro-rata or economic share in ADF was 0.72% (2008: 0.78%).

As a result of the implementation in 2006 of the Multilateral Debt Relief Initiative described in Note W-2, the net asset value of ADF which is the basis for determining the value of the Banks investment in the Fund declined, resulting in impairment loss on the Bank's investment. The net assets of ADF is made up of its net development resources less outstanding demand obligations plus disbursed and outstanding loans excluding balances due from countries that have reached their HIPC completion points and are therefore due for MDRI loan cancellation at the balance sheet date.

Other Equity Participations

The Bank may take equity positions in privately owned productive enterprises and financial intermediaries, public sector companies that are in the process of being privatized or regional and sub-regional institutions. The Bank's objective in such equity investments is to promote the economic development of its regional member countries and in particular the development of their private sectors. The Bank's equity participation is also intended to promote efficient use of resources, promoting African participation, playing a catalytic role in attracting other investors and lenders and mobilizing the flow of domestic and external resources to financially viable projects, which also have significant economic merit.

Unless otherwise approved by the Board of Directors, the Bank's equity participation shall not exceed 25% of the equity capital of the entity in which it invests. The Bank currently holds less than 20% of the total equity capital of most of the institutions in which it participates. The Bank therefore does not seek a controlling interest in the companies in which it invests, but closely monitors its equity investments through Board representation. In the exceptional instances where the Bank has more than 20% but less than 50% ownership, such investments are accounted for as investments in associates. In accordance with the Board of Governors' Resolution B/BG/2009/10 of May 13, 2009, total equity investment by the Bank shall not at any time exceed fifteen percent (15%) of the aggregate amount of the Bank's paid-in capital and reserves and surplus (risk capital) included in its ordinary capital resources.

Equity investments for which fair value cannot be reliably measured are reported at cost less provision for losses for estimated permanent and lasting decline in value. The investments for which fair value cannot be reliably measured typically relate to sub-regional and national development institutions. Investments in these institutions are made with a long-term development objective, including capacity building. The shares of such institutions are not listed and also not available for sale to the general public. Only member states or institutions owned by member states are allowed to subscribe to the shares of these institutions. Provisions for losses on impaired equity investments are included in the income statement.

The Bank's equity interests at December 31, 2009 and 2008 are summarized below:

(Amounts in UA thousands)

Institutions	Year Established	% Share-holding	Callable Capital	Carrying Value 2009	Carrying Value 2008
African Development Fund	1972	0.72	-	111,741	111,741
Accumulated share of loss and impairment on January 1				(47,868)	(47,904)
Share of profit for the year				227	36
Impairment for the year				(2,322)	-
			-	61,778	63,873
Regional Development Banks (carried at cost)					
Afreximbank	1993	6.00	9,568	6,379	6,492
BDEAC	1975	3.68	2,522	1,681	1,653
BDEGL	1980	-	-	1,946	1,946
BOAD	1973	0.59	2,101	700	689
East African Development Bank	1967	6.76	-	4,306	4,382
PTA Bank	1985	5.76	34,701	8,675	8,830
			48,892	23,687	23,992
Other Development Institutions (carried at cost)					
Africa - Re	1977	8.00	-	5,556	5,655
Infrastructure Development Bank of Zimbabwe *	1984	-	-	-	-
K-REP Bank Limited	1997	21.98	-	2,094	664
National Development Bank of Sierra Leone *	-	-	-	-	-
Shelter Afrique	1982	22.83	-	7,974	3,246
			-	15,624	9,565
Investment Funds and Banks (carried at fair value)**					
AB Microfinance Bank Nigeria Limited	2007	12.45	-	375	691
Access Bank Liberia Limited	2008	15.00	144	781	584
Access Bank Tanzania Limited	2007	9.95	-	289	345
Advans Banque Congo	2008	16.54	-	1,371	714
Africa Health Fund LLC	2009	25.00	12,256	349	-
AfricInvest Fund II LLC	2008	18.42	14,571	2,965	-
Agri-Vie Fund PCC	2008	25.00	6,955	2,614	-
AIG Africa Infrastructure Fund	1998	12.27	184	4,471	4,545
Atlantic Coast Regional Fund LLC	2008	20.82	7,210	1,959	94
ECP Africa Fund II PCC	2005	11.04	1,486	30,289	27,242
ECP Africa Fund III PCC	2008	11.10	17,071	14,673	-
GroFin Africa Fund	2008	12.50	10,862	1,022	451
Maghreb Private Equity Fund II (Mauritius) PCC	2008	16.10	5,654	7,327	4,303
Pan African Infrastructure Development Fund	2007	7.94	19,484	10,623	9,231
Pan-African Investment Partners II Limited	2008	10.17	24,271	7,009	-
South Africa Infrastructure Fund	1996	14.00	1,015	19,707	16,151
TCX Investment Company Mauritius Limited	2007	5.31	117	15,896	13,327
United Bank for Africa	1961	1.82	-	27,606	34,444
			121,280	149,326	112,122
Total			170,172	250,415	209,552
Less: Accumulated provision for impairment			-	(15,937)	(20,771)
Net			**170,172**	**234,478**	**188,781**

* *Amounts fully disbursed, but the value is less than UA 100, at the current exchange rate.*

*** The cost of equity investment carried at fair value at December 31, 2009 amounted to UA 133.08 million (2008: UA 104.74 million).*

An analysis of the movement in accumulated provision for impairment on equity participations other than ADF was as follows:

(UA thousands)	**2009**	2008
Balance at January 1	20,771	2,335
Net provision for the year	(2,324)	18,456
Translation effects	(2,510)	(20)
Balance at December 31	**15,937**	**20,771**

NOTE K – OTHER DEBT SECURITIES

The Bank may invest in certain debt instruments issued by entities in its Regional Member Countries (RMC) for the purpose of financing development projects and programs. Such investments are classified as available-for-sale.

The fair value of "Other debt securities" at December 31, 2009 and 2008 was as follows:

(UA thousands)	**2009**	2008
Investment in debt instruments issued in RMC	**70,810**	68,797

The nominal value of the securities outstanding as at December 31, 2009, was UA 86.43 million (2008: UA 69.77 million).

NOTE L – PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(UA thousands)

2009	Property and Equipment: Land	Property and Equipment: Building and Improvements	Property and Equipment: Furniture, Fixtures & Fittings	Property and Equipment: Equipment & Motor Vehicles	Property and Equipment: Total Property & Equipment	Intangible Assets: Computer Software	Grand Total: Property, Equipment & Intangible Assets
Cost:							
Balance at January 1	141	22,753	9,458	41,528	**73,880**	19,057	**92,937**
Additions during the year	-	30	1,165	2,855	**4,050**	142	**4,192**
Disposals during the year	-	-	-	(61)	**(61)**	-	**(61)**
Balance at December 31	141	22,783	10,623	44,322	**77,869**	19,199	**97,068**
Accumulated Depreciation:							
Balance at January 1	-	21,487	7,154	34,383	**63,024**	18,182	**81,206**
Depreciation during the year	-	102	951	3,035	**4,088**	591	**4,679**
Disposals during the year	-	-	-	(60)	**(60)**	-	**(60)**
Balance at December 31	-	21,589	8,105	37,358	**67,052**	18,773	**85,825**
Net Book Values: December 31, 2009	**141**	**1,194**	**2,518**	**6,964**	**10,817**	**426**	**11,243**

(UA thousands)

2008	Property and Equipment: Land	Property and Equipment: Building and Improvements	Property and Equipment: Furniture, Fixtures & Fittings	Property and Equipment: Equipment & Motor Vehicles	Property and Equipment: Total Property & Equipment	Intangible Assets: Computer Software	Grand Total: Property, Equipment & Intangible Assets
Cost:							
Balance at January 1	141	22,843	8,998	39,522	**71,504**	18,869	**90,373**
Additions during the year	-	-	460	2,829	**3,289**	188	**3,477**
Disposals during the year	-	(90)	-	(823)	**(913)**	-	**(913)**
Balance at December 31	141	22,753	9,458	41,528	**73,880**	19,057	**92,937**
Accumulated Depreciation:							
Balance at January 1	-	21,386	6,073	31,374	**58,833**	17,178	**76,011**
Depreciation during the year	-	101	1,081	3,015	**4,197**	1,004	**5,201**
Disposals during the year	-	-	-	(6)	**(6)**	-	**(6)**
Balance at December 31	-	21,487	7,154	34,383	**63,024**	18,182	**81,206**
Net Book Values: December 31, 2008	**141**	**1,266**	**2,304**	**7,145**	**10,856**	**875**	**11,731**

Under the Headquarters' Agreement with the host country, the Bank's owned buildings in the host country are intended to be used for the purposes of the business of the Bank Group only. The rights on the lands and buildings therefore cannot be transferred to a third party. If the Bank elected to give up the use of the lands and buildings, the properties would have to be surrendered to the host country. At December 31, 2009, the book value of such assets is not significant.

NOTE M – BORROWINGS

Through to December 31, 2008, the Bank's policy was to limit senior borrowing and guarantees chargeable to the Bank's ordinary capital resources to 80 percent of the callable capital of its non-borrowing members and also to limit the total borrowing represented by both senior and subordinated debt to 80 percent of the total callable capital of all its member countries.

The revised capital adequacy framework approved by the Board of Directors on March 18, 2009 adopted the use of a single debt to usable capital ratio to monitor the Bank's leverage. The ratio caps the Bank's total outstanding debt at 100% of usable capital. Usable capital under the revised capital adequacy framework comprises the equity of the Bank and the callable capital of its non-borrowing members rated A- or better. Applying the revised framework, usable capital at December 31, 2009 was UA 12,396.25 million.

As at December 31, 2009 and 2008, senior and subordinated borrowings were as follows:

(UA millions)	**2009**	2008
Senior borrowings	9,852.32	5,964.64
Subordinated borrowings	728.32	742.64
Total	**10,580.64**	**6,707.28**

The Bank uses derivatives in its borrowing and liability management activities to take advantage of cost-saving opportunities and to lower its funding costs.

Certain long-term borrowing agreements contain provisions that allow redemption at the option of the holder at specified dates prior to maturity. Such borrowings are reflected in the tables on the maturity structure of borrowings using the put dates, rather than the contractual maturities. Management believes, however, that a portion of such borrowings may remain outstanding beyond their earliest redemption dates.

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

A summary of the Bank's borrowings portfolio at December 31, 2009 and 2008 was as follows:

Borrowings and Swaps at December 31, 2009

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements[a]			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Wgtd. Avg. Cost[b] (%)	Wgtd. Average Maturity (Years)	Amount Payable/ (Receivable)	Wgtd. Avg. Cost[b] (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Wgtd. Avg. Cost[b] (%)	Average Maturity (Years)
Euro	Fixed	-	-	-	-	218.24	6.26	7.1	59.58	5.45	0.2
	Adjustable	-	-	-	-	4,142.45	1.08	3.6	-	-	-
		-	-	-	-	(147.03)	1.15	4.2	(59.58)	1.02	0.2
Sterling	Fixed	-	-	-	-	-	-	-	-	-	-
		-	-	-	-	-	-	-	(51.65)	11.13	-
	Adjustable	-	-	-	-	-	-	-	51.65	1.36	-
		-	-	-	-	(51.65)	1.36	-	-	-	-
Japanese Yen	Fixed	878.44	347.71	2.73	9.0	-	-	-	-	-	-
		-	-	-	-	(537.50)	1.62	24.1	(476.77)	2.21	0.2
	Adjustable	657.15	22.95	2.18	5.4	-	-	-	547.01	0.61	0.6
		-	-	-	-	(962.42)	1.67	3.9	(70.24)	1.59	3.1
US Dollar	Fixed	4,158.31	644.26	3.07	4.0	-	-	-	-	-	-
		-	-	-	-	(2,232.58)	2.78	3.5	(2,081.73)	2.35	3.3
	Adjustable	1,124.26	25.52	0.40	3.0	2,392.50	0.89	7.2	2,637.70	0.79	3.1
		-	-	-	-	(1,156.90)	0.86	5.7	(663.40)	0.49	2.7
Others	Fixed	2,670.45	55.07	5.28	3.4	14.35	3.76	2.1	-	-	-
		-	-	-	-	(2,243.68)	4.71	3.1	(216.65)	4.71	3.1
	Adjustable	-	-	-	-	492.60	5.46	8.7	571.03	4.76	5.2
		-	-	-	-	(185.70)	0.47	9.4	(354.38)	0.47	9.4
Total	Fixed	7,707.20	1,047.04	3.71	4.2	232.59	6.11	6.8	59.58	5.45	0.2
		-	-	-	-	(5,013.76)	3.52	5.5	(2,826.80)	2.67	2.7
	Adjustable	1,781.41	48.47	1.06	3.9	7,027.54	1.32	5.2	3,807.39	1.37	3.0
		-	-	-	-	(2,503.70)	1.17	5.1	(1,147.60)	0.58	4.7
Principal at face value		9,488.61	1,095.51	3.25	4.2	(257.33)	-	-	(107.43)	-	-
Net unamortized premium/(discount)		-	(3.48)	-	-	264.78	-	-	111.94	-	-
		9,488.61	1,092.03	3.25	4.2	7.45	-	-	4.51	-	-
Fair valuation adjustment		-	-	-	-	(194.75)[c]	-	-	(115.03)[c]	-	-
Total		**9,488.61**	**1,092.03**	**3.25**	**4.2**	**(187.30)**	**-**	**-**	**(110.52)**	-	-

Supplementary disclosure (direct borrowings):

The notional amount of borrowings at December 31, 2009 was UA 10,766.80 million and the estimated fair value was UA 10,688.71 million.

(a) Currency swap agreements include cross-currency interest rate swaps.
(b) The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at December 31, 2009.
(c) These amounts are included in derivative assets and liabilities on the balance sheet.

Slight differences may occur in totals due to rounding.

Borrowings and Swaps at December 31, 2008

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements[a]			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Wgtd. Avg. Cost[b] (%)	Wgtd. Average Maturity (Years)	Amount Payable/ (Receivable)	Wgtd. Avg. Cost[b] (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Wgtd. Avg. Cost[b] (%)	Average Maturity (Years)
Euro	Fixed	-	-	-	-	154.19	8.71	10.8	58.58	5.45	1.3
	Adjustable	-	-	-	-	2,697.78	5.15	5.2	-	-	-
		-	-	-	-	(144.57)	5.16	5.2	(58.58)	5.28	1.3
Sterling	Fixed	52.05	-	11.13	1.0	-	-	-	-	-	-
		-	-	-	-	-	-	-	(47.32)	11.13	1.0
	Adjustable	-	-	-	-	18.93	5.94	-	47.32	6.10	1.0
		-	-	-	-	(47.32)	6.10	1.0	-	-	-
Japanese	Fixed	926.92	355.96	2.50	12.9	-	-	-	-	-	-
Yen		-	-	-	-	(550.26)	2.30	15.1	(488.08)	2.59	1.3
	Adjustable	726.57	23.49	1.42	4.7	-	-	-	559.99	0.99	3.3
		-	-	-	-	(1,022.28)	1.43	4.0	(71.90)	1.02	4.0
US Dollar	Fixed	2,312.41	590.81	4.36	6.4	-	-	-	-	-	-
		-	-	-	-	(811.55)	5.45	7.1	(1,533.83)	4.22	2.9
	Adjustable	19.62	-	3.65	0.1	1,728.86	3.12	4.5	1,443.96	3.03	2.6
		-	-	-	-	(1,052.68)	3.04	2.2	(19.48)	3.65	0.1
Others	Fixed	1,692.24	11.20	4.84	5.4	14.15	3.80	4.0	-	-	-
		-	-	-	-	(1,377.67)	7.29	2.2	(286.07)	8.69	2.2
	Adjustable	-	-	-	-	312.54	6.43	1.7	286.07	12.40	3.5
Total	Fixed	4,983.62	957.97	4.16	6.8	168.34	8.30	10.2	58.58	5.45	1.3
		-	-	-	-	(2,739.48)	5.74	6.3	(2,355.30)	4.56	2.4
	Adjustable	746.19	23.49	1.48	4.6	4,758.11	4.50	4.7	2,337.34	3.75	2.9
		-	-	-	-	(2,266.85)	2.51	3.2	(149.96)	3.03	2.4
Principal at face value		5,729.81	981.46	3.85	6.5	(79.88)	-	-	(109.34)	-	-
Net unamortized premium/(discount)		-	(3.99)	-	-	171.88	-	-	111.36	-	-
		5,729.81	977.47	3.85	6.5	92.00	-	-	2.02	-	-
Fair valuation adjustment		-	-	-	-	(268.70)[c]	-	-	(163.20)[c]	-	-
Total		**5,729.81**	**977.47**	**3.85**	**6.5**	**(176.70)**	**-**	**-**	**(161.18)**	-	**-**

Supplementary disclosure (direct borrowings):

The notional amount of borrowings at December 31, 2008 was UA 6,665.33 and the estimated fair value was UA 7,001.11 million.

(a) Currency swap agreements include cross-currency interest rate swaps.
(b) The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at December 31, 2008.
(c) These amounts are included in derivative assets and liabilities on the balance sheet.

Slight differences may occur in totals due to rounding.

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at December 31, 2009 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	1,132.20	257.83	1,390.03
More than one year but less than two years	1,525.77	-	1,525.77
More than two years but less than three years	2,301.25	1.99	2,303.24
More than three years but less than four years	1,077.84	-	1,077.84
More than four years but less than five years	1,694.62	-	1,694.62
More than five years	1,497.11	-	1,497.11
Total	**9,228.79**	**259.82**	**9,488.61**

ii) Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	63.79	118.01	181.80
More than one year but less than two years	33.66	-	33.66
More than two years but less than three years	18.36	-	18.36
More than three years but less than four years	278.17	-	278.17
More than four years but less than five years	-	-	-
More than five years	583.52	-	583.52
Sub-total	**977.50**	**118.01**	**1,095.51**
Net unamortized premium and discount	(3.48)	-	(3.48)
Total	**974.02**	**118.01**	**1,092.03**

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at December 31, 2008 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	924.05	318.98	1,243.03
More than one year but less than two years	1,176.24	11.66	1,187.90
More than two years but less than three years	486.68	-	486.68
More than three years but less than four years	241.89	2.03	243.92
More than four years but less than five years	874.53	-	874.53
More than five years	1,693.75	-	1,693.75
Total	**5,397.14**	**332.67**	**5,729.81**

ii) Borrowings Carried at Amortized Cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	-	23.49	23.49
More than one year but less than two years	-	-	-
More than two years but less than three years	8.19	-	8.19
More than three years but less than four years	-	-	-
More than four years but less than five years	284.77	-	284.77
More than five years	665.01	-	665.01
Sub-total	**957.97**	**23.49**	**981.46**
Net unamortized premium and discount	(3.99)	-	(3.99)
Total	**953.98**	**23.49**	**977.47**

The fair value of borrowings carried at fair value through profit or loss at December 31, 2009 was UA 9,488.61 million (2008: UA 5,729.81 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at December 31, 2009 was UA 9,188.23 million (2008: UA 5,304.60 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per Note P, there was a net gain of UA 17.38 million on fair-valued borrowings and related derivatives for the year ended December 31, 2009 (2008: UA 12.43 million). This included a gain of UA 37.31 million which was attributable to changes in the Bank's credit risk during the year ended December 31, 2009 (2008: UA 2.10 million). Fair value changes attributable to changes in the Bank's credit risk are determined by comparing the discounted cash flows for the borrowings designated at fair value through profit or loss using the Bank's credit spread on the relevant liquid markets for ADB quoted bonds versus LIBOR both at the beginning and end of the relevant period. The Bank's credit spread was not applied for fair value changes on callable borrowings with less than one year call date.

For borrowings designated at fair value through profit or loss at December 31, 2009, the cumulative unrealized fair value losses to date were UA 300.38 million (2008: losses of UA 425.21 million).

NOTE N – EQUITY

Equity is composed of capital and reserves. These are further detailed as follows:

Capital

Capital includes subscriptions paid-in by member countries and cumulative exchange adjustments on subscriptions (CEAS). The Bank is not exposed to any externally imposed capital requirements.

Subscriptions Paid In

Subscriptions to the capital stock of the Bank are made up of the subscription to the initial capital, a voluntary capital increase and five General Capital Increases (GCI). The Fifth General Capital Increase (GCI-V) was approved by the Board of Governors of the Bank on May 29, 1998 and became effective on September 30, 1999 upon ratification by member states and entry into force of the related amendments to the Agreements establishing the Bank. The GCI-V increased the authorized capital of the Bank by 35 percent from 1.62 million shares to 2.187 million shares with a par value of UA 10,000 per share. The GCI-V shares, a total of 567,000 shares, are divided into paid-up and callable shares in proportion of six percent (6%) paid-up and ninety-four percent (94%) callable. The GCI-V shares were allocated to the regional and non-regional members such that, when fully subscribed, the regional members shall hold 60 percent of the total stock of the Bank and non-regional members shall hold the balance of 40 percent.

Prior to the GCI-V, subscribed capital was divided into paid-up capital and callable capital in the proportion of 1 to 7. With the GCI-V, the authorized capital stock of the Bank consists of 10.81 percent paid-up shares and 89.19 percent callable shares.

By its resolutions B/BG/2008/07 and B/BG/2009/05, the Board of Governors authorized two capital increases bringing the Authorized Capital of the Bank from UA 21,870 million to UA 22,120 million to allow the Republic of Turkey and the Grand Duchy of Luxembourg to become members of the Bank. The membership of these two countries shall become effective upon completion of the formalities specified in the Agreement establishing the Bank and in the General Rules Governing Admission of Non-Regional Countries to Membership of the Bank. As at December 31, 2009, such formalities had not been completed by either country.

The Bank's capital as at December 31, 2009 and 2008 was as follows:

(UA thousands)	**2009**	2008
Capital Authorized (in shares of UA 10 000 each)	22,120,000	21,870,000
Less: Unsubscribed	(302,424)	(104,853)
Subscribed Capital	21,817,576	21,765,147
Less: Callable Capital	(19,458,253)	(19,409,141)
Paid-up Capital	2,359,323	2,356,006
Shares to be issued upon payment of future installments	(6,550)	(8,410)
Add: Amounts paid in advance	114	89
	2,352,887	2,347,685
Less: Amounts in arrears	(2,630)	(1,881)
Capital at December 31	**2,350,257**	**2,345,804**

Included in the total unsubscribed shares of UA 302.42 million at December 31, 2009, was an amount of UA 38.83 million representing the balance of the shareholding of the former Socialist Federal Republic of Yugoslavia (former Yugoslavia).

Since the former Yugoslavia has ceased to exist as a state under international law, its shares (composed of UA 38.83 million callable, and UA 4.86 million paid-up shares) have been held by the Bank in accordance with Article 6 (6) of the Bank Agreement. In 2002, the Board of Directors of the Bank approved the proposal to invite each of the successor states of the former Yugoslavia to apply for membership in the Bank, though such membership would be subject to their fulfilling certain conditions including the assumption pro-rata of the contingent liabilities of the former Yugoslavia to the Bank, as of December 31, 1992. In the event that a successor state declines or otherwise does not become a member of the Bank, the pro-rata portion of the shares of former Yugoslavia, which could have been reallocated to such successor state, would be reallocated to other interested non-regional members of the Bank in accordance with the terms of the Share Transfer Rules. The proceeds of such reallocation will however be transferable to such successor state. Furthermore, pending the response from the successor states, the Bank may, under its Share Transfer Rules, reallocate the shares of former Yugoslavia to interested non-regional member states and credit the proceeds on a pro-rata basis to the successor states. In 2003, one of the successor states declined the invitation to apply for membership and instead offered to the Bank, as part of the state's Official Development Assistance its pro-rata interest in the proceeds of any reallocation of the shares of former Yugoslavia. The Bank accepted the offer.

Subscriptions by member countries and their voting power at December 31, 2009 were as follows:

(Amounts in UA thousands)

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
1	Algeria	86,976	3.988	94,964	774,820	87,601	3.934
2	Angola	25,405	1.165	28,837	225,212	26,030	1.169
3	Benin	4,245	0.195	4,817	37,633	4,870	0.219
4	Botswana	46,633	2.138	52,925	413,405	47,258	2.122
5	Burkina Faso	9,307	0.427	10,920	82,155	9,932	0.446
6	Burundi	5,173	0.237	6,465	45,256	5,798	0.260
7	Cameroon	22,628	1.037	25,524	200,371	22,936	1.030
8	Cape Verde	1,672	0.077	2,090	14,630	2,297	0.103
9	Central African Republic	973	0.045	1,217	8,512	1,598	0.072
10	Chad	1,641	0.075	2,052	14,360	2,266	0.102
11	Comoros	484	0.022	577	4,250	1,086	0.049
12	Congo	9,875	0.453	11,590	87,170	10,500	0.471
13	Côte d'Ivoire	81,008	3.714	101,260	708,820	81,633	3.666
14	Democratic Republic of Congo	22,740	1.043	28,426	198,975	23,365	1.049
15	Djibouti	1,213	0.056	1,517	10,618	1,838	0.083
16	Egypt	111,829	5.127	126,920	991,370	112,454	5.050
17	Equatorial Guinea	3,481	0.160	3,584	30,517	3,529	0.158
18	Eritrea	2,003	0.092	2,506	17,522	2,628	0.118
19	Ethiopia	34,778	1.595	39,470	308,310	35,403	1.590
20	Gabon	27,229	1.248	32,684	238,255	26,765	1.202
21	Gambia	3,341	0.153	3,827	29,523	3,915	0.176
22	Ghana	49,653	2.277	54,790	441,751	50,278	2.258
23	Guinea	8,868	0.407	10,658	78,031	9,494	0.426
24	Guinea Bissau	600	0.028	750	5,250	1,225	0.055
25	Kenya	31,707	1.454	35,990	281,080	32,332	1.452
26	Lesotho	3,324	0.152	3,773	29,470	3,949	0.177
27	Liberia	4,230	0.194	5,287	37,017	4,855	0.218
28	Libya	83,595	3.833	92,977	742,978	84,220	3.782
29	Madagascar	14,162	0.649	16,070	125,550	14,787	0.664
30	Malawi	6,472	0.297	8,090	56,630	7,097	0.319
31	Mali	9,536	0.437	10,937	84,411	10,161	0.456
32	Mauritania	3,213	0.147	4,015	28,116	3,838	0.172
33	Mauritius	14,094	0.646	16,000	124,940	14,719	0.661
34	Morocco	72,268	3.313	82,020	640,660	72,893	3.273
35	Mozambique	13,766	0.631	15,636	122,038	14,391	0.646
36	Namibia	7,397	0.339	8,400	65,570	8,022	0.360
37	Niger	5,526	0.253	6,908	48,353	6,151	0.276
38	Nigeria	193,200	8.858	222,089	1,709,933	193,822	8.703
39	Rwanda	2,902	0.133	3,333	25,683	3,527	0.158
40	Sao Tome & Principe	1,489	0.068	1,864	13,024	2,114	0.095
41	Senegal	21,878	1.003	25,254	193,471	22,364	1.004
42	Seychelles	1,224	0.056	1,501	10,739	1,849	0.083
43	Sierra Leone	5,298	0.243	6,623	46,361	5,923	0.266
44	Somalia	1,941	0.089	2,427	16,986	2,566	0.115
45	South Africa	99,884	4.580	84,549	914,310	100,509	4.513
46	Sudan	8,830	0.405	11,036	77,257	9,455	0.425
47	Swaziland	7,251	0.332	8,230	64,280	7,876	0.354
48	Tanzania	17,860	0.819	20,685	157,927	18,486	0.830
49	Togo	3,452	0.158	4,314	30,201	4,077	0.183
50	Tunisia	30,492	1.398	34,610	270,310	31,117	1.397
51	Uganda	11,011	0.505	13,331	96,787	11,637	0.523
52	Zambia	27,459	1.259	31,462	243,142	28,085	1.261
53	Zimbabwe	45,028	2.064	54,094	396,188	45,653	2.050
Total Regionals		**1,310,245**	**60.073**	**1,479,875**	**11,620,124**	**1,341,174**	**60.223**

Slight differences may occur in totals due to rounding.

(Amounts in UA thousands)

	Member States	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
Total Regionals		**1,310,245**	**60.073**	**1,479,875**	**11,620,124**	**1,341,174**	**60.223**
54	Argentina	5,846	0.268	6,108	52,364	6,472	0.291
55	Austria	9,707	0.445	9,720	87,350	10,332	0.464
56	Belgium	13,957	0.640	13,980	125,600	14,583	0.655
57	Brazil	9,673	0.443	9,700	87,036	10,299	0.462
58	Canada	81,648	3.743	81,750	734,730	82,273	3.694
59	China	24,300	1.114	24,330	218,670	24,925	1.119
60	Denmark	25,168	1.154	25,200	226,480	25,793	1.158
61	Finland	10,627	0.487	10,640	95,630	11,252	0.505
62	France	81,648	3.743	81,750	734,730	82,273	3.694
63	Germany	89,631	4.109	89,740	806,570	90,256	4.053
64	India	4,860	0.223	4,870	43,730	5,485	0.246
65	Italy	52,644	2.414	52,710	473,730	53,269	2.392
66	Japan	119,400	5.474	119,550	1,074,450	120,025	5.389
67	Korea	9,707	0.445	9,720	87,350	10,332	0.464
68	Kuwait	9,707	0.445	9,720	87,350	10,332	0.464
69	Netherlands	18,607	0.853	17,631	168,450	19,232	0.864
70	Norway	25,168	1.154	25,200	226,480	25,793	1.158
71	Portugal	5,221	0.239	5,238	46,980	5,846	0.263
72	Saudi Arabia	4,212	0.193	4,220	37,900	4,837	0.217
73	Spain	23,034	1.056	21,870	208,470	23,659	1.062
74	Sweden	33,592	1.540	33,630	302,290	34,217	1.536
75	Switzerland	31,882	1.462	31,920	286,900	32,507	1.460
76	United Kingdom	36,554	1.676	36,600	328,940	37,179	1.669
77	United States of America	144,053	6.605	144,585	1,295,949	144,678	6.496
Total Non-Regionals		**870,846**	**39.927**	**870,382**	**7,838,129**	**885,849**	**39.777**
Grand Total		**2,181,091**	**100.000**	**2,350,257**	**19,458,253**	**2,227,023**	**100.000**

Slight differences may occur in totals due to rounding.

Cumulative Exchange Adjustment on Subscriptions (CEAS)

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

At December 31, 2009 and 2008, the Cumulative Exchange Adjustment on Subscriptions was as follows:

(UA thousands)	**2009**	2008
Balance at January 1	161,028	160,075
Net conversion losses on new subscriptions	942	953
Balance at December 31	**161,970**	**161,028**

Reserves

Reserves consist of retained earnings and fair value gains and losses on available-for-sale investments.

Retained Earnings

Retained earnings included the net income for the year, after taking into account transfers approved by the Board of Governors, and net expenses recognized directly in equity. The movements in retained earnings during 2008 and 2009 were as follows:

(UA thousands)

Balance at January 1, 2008	2,498,288
Net income for the year 2008	47,361
Net expenses recognized directly in equity	(85,512)
Balance at December 31, 2008	**2,460,137**
Net income for the current year	68,480
Net expenses recognized directly in equity	27,774
Balance at December 31, 2009	**2,556,391**

In May 2009, the Board of Governors of the Bank approved the transfers and distributions of UA 23.98 million and UA 162.68 million from the income earned for the year ended December 31, 2008 to surplus account and to certain entities for development purposes. Transfers and distributions approved in 2008 from the income earned for the year ended December 31, 2007 amounted to UA 20.70 million and UA 257.30 million, respectively.

With effect from 2006, Board of Governors' approved distributions to entities for development purposes are reported as expenses in the Income Statement in the year such distributions are approved.

The movements in the surplus account during 2008 and 2009 were as follows:

(UA thousands)

Balance at January 1, 2008	12,098
Allocation from 2007 net income	20,700
Distribution to Africa Food Crisis Response (AFCR)	(20,000)
Distribution to African Legal Support Facility	(10,000)
Balance at December 31, 2008 and January 1, 2009	**2,798**
Allocation from 2008 net income	23,980
Balance at December 31, 2009	**26,778**

Distributions to entities for development purposes, including those made from the surplus account, for the years ended December 31, 2009 and 2008 was as follows:

(UA thousands)	2009	2008
African Development Fund (ADF)	25,000	109,000
Post Conflict Assistance - DRC	65,680	62,000
Middle Income Country Technical Assistance Fund	10,000	25,000
Africa Food Crisis Response (AFCR)	-	20,000
Highly Indebted Poor Countries	-	15,000
African Legal Support Facility	-	10,000
NEPAD Infrastructure Project Preparation Facility	-	6,300
Africa Fertilizer Development Financing Mechanism	-	5,000
Fund for African Private Sector Assistance	2,000	5,000
Fragile States Facility	60,000	-
Balance at December 31	**162,680**	**257,300**

Fair Value (Losses)/Gains on Available-for-Sale Investments
At December 31, 2009 and 2008, the fair value losses and gains on available-for-sale investments were as follows:

(UA thousands)	2009	2008
Balance at January 1	15,335	33,510
Net loss for the year	(18,763)	(18,175)
Balance at December 31	**(3,428)**	**15,335**

NOTE O – INCOME FROM LOANS AND INVESTMENTS AND RELATED DERIVATIVES

Income from Loans

Income from loans for the years ended December 31, 2009 and 2008 was as follows:

(UA thousands)	2009	2008
Interest income on loans not impaired	268,299	332,999
Interest income on impaired loans	16,298	15,024
Commitment charges	3,305	3,556
Statutory commission	337	698
Total	**288,239**	**352,277**

Income from Investments and Related Derivatives

Income from investments for the years ended December 31, 2009 and 2008 was as follows:

(UA thousands)	2009	2008
Interest income	207,713	226,054
Realized and unrealized fair value gains/(losses)	15,242	(23,170)
Total	**222,955**	**202,884**

Total interest income on investments at amortized cost for the year ended December 31, 2009 was UA 122.71 million (2008: UA 120.56 million).

NOTE P – BORROWING EXPENSES

Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the years ended December 31, 2009 and 2008 were as follows:

(UA thousands)	2009	2008
Charges to bond issuers	299,298	249,022
Amortization of issuance costs	7,023	2,805
Total	**306,321**	**251,827**

Total interest expense for financial liabilities not at fair value through profit or loss for the year ended December 31, 2009 was UA 79.23 million (2008: UA 51.74 million).

Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the years ended December 31, 2009 and 2008 was as follows:

(UA thousands)	2009	2008
Interest on derivatives payable	230,105	374,517
Interest on derivatives receivable	(303,389)	(308,729)
Total	**(73,284)**	**65,788**

Unrealized Gains on Fair-Valued Borrowings and Related Derivatives

Unrealized gains on fair-valued borrowings and related derivatives for the years ended December 31, 2009 and 2008 were as follows:

(UA thousands)	2009	2008
Fair-valued borrowings	124,833	(305,252)
Cross-currency swaps	(48,498)	213,059
Interest rate swaps	(58,955)	104,624
Total	**17,380**	**12,431**

Unrealized Losses on Derivatives on Non-Fair Valued Borrowings and Others

Unrealized net losses on derivatives on non-fair valued borrowings and others for the years ended December 31, 2009 and 2008 were as follows:

(UA thousands)	**2009**	2008
Interest rate swaps	4,378	(47,068)
Cross-currency swaps	(25,446)	18,089
Macro-hedge swaps	(80)	12,208
Embedded derivatives	845	94
Total	**(20,303)**	**(16,677)**

NOTE Q – ADMINISTRATIVE EXPENSES

Total administrative expenses relate to expenses incurred on behalf of the ADF, the NTF and for the operations of the Bank itself. The ADF and NTF reimburse the Bank for their share of the total administrative expenses, based on an agreed-upon cost-sharing formula, which is driven by certain selected indicators of operational activity for operational expenses and relative balance sheet size for non-operational expenses. However, the expenses allocated to the NTF shall not exceed 20 percent of the NTF's gross income.

Administrative expenses comprised the following:

(UA thousands)	**2009**	2008
Personnel expenses	170,632	141,119
Other general expenses	50,876	45,253
Total	**221,508**	**186,372**
Reimbursable by ADF	(157,649)	(138,104)
Reimbursable by NTF	(802)	(1,485)
Net	**63,057**	**46,783**

Included in general administrative expenses is an amount of UA 5.75 million (2008: UA 5.37 million) incurred under operating lease agreements for offices in Tunisia and in certain other regional member countries.

At the balance sheet date, the Bank had outstanding commitments under operating leases which fall due as follows:

(UA thousands)	**2009**	2008
Within one year	5,657	4,678
In the second to fifth years inclusive	10,234	4,179
Total	**15,891**	**8,857**

Leases are generally negotiated for an average term of one (1) to three (3) years and rentals are fixed for an average of one (1) year. Leases may be extended for periods that are no longer than the original term of the leases.

NOTE R – EMPLOYEE BENEFITS

Staff Retirement Plan

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

The SRP is administered as a separate fund by a committee of trustees appointed by the Bank on behalf of its employees. In November 2004, the Board of Directors of the Bank approved certain revisions to the SRP, including simplification of the calculation of the employee contribution rate, more explicit reference to the Bank's residual responsibility and rights as the SRP sponsor, changes in survivor child benefits and an increase in the pension accumulation rate from 2 percent to 2.5 percent for each year of service. The past service cost associated with these changes amounted to UA 1.64 million and were recorded in 2004. Also, new members from the local field offices of the Bank joined the Plan in 2007 and the associated past service cost of UA 1.07 million were reported in the 2007 financial statements.

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

All contributions to the SRP are irrevocable and are held by the Bank separately in a retirement fund to be used in accordance with the provisions of the SRP. Neither the contributions nor any income thereon shall be used for or diverted to purposes other than the exclusive benefit of active and retired participants or their beneficiaries or estates, or to the satisfaction of the SRP's liabilities. At December 31, 2009, virtually all of the SRP's investments were under external management and these were invested in indexed funds, with the following objectives: a) Equity portfolio – to track as closely as possible, the returns of the Morgan Stanley Capital International World Index as well as hedging the currency exposure of the SRP's anticipated future liabilities; b) Bond portfolio – to track as closely as possible, the returns of the Citigroup World Government Bond Index as well as hedge the currency exposure of the SRP's anticipated future liabilities.

Post-Employment Medical Benefit Plan

The Medical Benefit Plan (MBP) was created under the Board of Directors' resolution B/BD/2002/17 and F/BD/2002/18 of July 17, 2002 and became effective on January 1, 2003. Under the MBP, all plan members including existing staff or retirees contribute a percentage of their salary or pension while the Bank also contributes twice the total staff contribution towards the financing of the MBP. Contribution rates by staff members and retirees, which are based on marital status and number of eligible children, range between 0.70 percent to a maximum of 3.10 percent of salary or pension. An MBP board, composed of selected officers of the Bank and representatives of retirees and the staff association, oversees the management and activities of the MBP. The contributions from the Bank, staff and retirees are deposited in a trust account. In accordance with the directive establishing the Plan, all Plan members including staff and retirees are eligible as beneficiaries for making claims for medical services provided to them and their recognized dependants.

The pension and post employment medical benefit expenses for 2009 and 2008 for the Bank, the ADF and the NTF combined (the Bank Group) comprised the following:

	Staff Retirement Plan		Medical Benefit Plan	
(UA millions)	**2009**	2008	**2009**	2008
Current service cost – gross	18.99	18.02	6.23	5.02
Less: estimated employee contributions	(5.41)	(5.98)	(1.60)	(1.07)
Net current service cost	**13.58**	**12.04**	**4.63**	**3.95**
Interest cost	14.24	14.53	3.94	2.91
Expected return on plan assets	(13.52)	(15.63)	(0.47)	(0.43)
Past service cost	-	(8.12)	-	-
Expense for the year	**14.30**	**2.82**	**8.10**	**6.43**

At December 31, 2009, the Bank Group's liability to the SRP and the post-employment aspect of the MBP amounted to UA 2.43 million and UA 51.41 million, respectively (2008: UA 61.32 million, and UA 58.07 million, respectively).

At December 31, 2009 and 2008 the determination of these liabilities, which are included in "Other accounts payable" on the Balance Sheet is set out below:

	Staff Retirement Plan		Medical Benefit Plan	
(UA millions)	**2009**	2008	**2009**	2008
Fair value of plan assets:				
Market value of plan assets at the beginning of the year	210.29	254.98	11.53	9.04
Actual return on assets	42.41	(61.63)	0.03	0.31
Employer's contribution	53.56	21.31	3.20	2.14
Actual plan participants' contributions during the year	6.53	5.98	1.60	1.07
Benefits paid	(10.54)	(10.35)	(0.68)	(1.03)
Market value of plan assets at the end of the year	**302.25**	**210.29**	**15.68**	**11.53**
Present value of defined benefit obligation:				
Benefit obligation at the beginning of the year	271.61	262.35	69.60	49.80
Current service cost	13.58	12.04	4.63	3.95
Employee contributions	6.53	5.98	1.60	1.07
Interest cost	14.24	14.54	3.94	2.91
Actuarial loss/(gain)	9.26	(12.95)	(12.00)	12.90
Benefits paid	(10.54)	(10.35)	(0.68)	(1.03)
Benefit obligation at the end of the year	**304.68**	**271.61**	**67.09**	**69.60**
Funded status:				
Liability recognized on the balance sheet at December 31 representing excess of benefit over plan asset	**(2.43)**	**(61.32)**	**(51.41)**	**(58.07)**

There were no unrecognized past service costs at December 31, 2009 and 2008. At December 31, 2009, the cumulative net actuarial losses recognized directly in equity through other comprehensive income for the SRP and MBP were in the amounts of UA 75.78 million and UA 0.13 million, respectively (2008: SRP – loss of UA 95.48 million; MBP – loss of UA 11.70 million).

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

(UA millions)	**2009**	2008	2007	2006	2005
Staff Retirement Plan					
Fair value of Plan assets	302.25	210.29	254.98	199.48	166.76
Present value of defined benefit obligation	(304.68)	(271.61)	(262.35)	(233.88)	(200.57)
Plan deficit	(2.43)	(61.32)	(7.37)	(34.40)	(33.81)
Experience adjustments on plan assets	(47.40)	(76.36)	0.90	3.45	2.97
Experience adjustments on plan liabilities	(28.38)	(19.12)	(23.95)	(17.95)	(4.20)
Net	**(75.78)**	**(95.48)**	**(23.05)**	**(14.50)**	**(1.23)**

The funding status of the Medical Benefit Plan at the end of the last five fiscal years was as follows:

(UA millions)	**2009**	2008	2007	2006	2005
Medical Benefit Plan					
Fair value of plan assets	15.67	11.53	9.04	7.00	4.76
Present value of defined benefit obligation	(67.08)	(69.60)	(49.80)	(42.86)	(44.08)
Plan deficit	(51.41)	(58.07)	(40.76)	(35.86)	(39.32)
Experience adjustments on plan assets	(0.43)	0.01	0.13	(0.01)	(2.55)
Experience adjustments on plan liabilities	0.30	(11.71)	1.19	3.56	-
Net	**(0.13)**	**(11.70)**	**1.32**	**3.55**	**(2.55)**

Assumptions used in the latest available actuarial valuations at December 31, 2009 and 2008 were as follows:

	Staff Retirement Plan		**Medical Benefit Plan**	
(Percentages)	**2009**	2008	**2009**	2008
Discount rate	5.000	5.348	5.000	5.348
Expected return on plan assets	6.000	6.300	3.200	3.500
Rate of salary increase	3.700	4.000	3.700	4.000
Future pension increase	2.200	2.500		
Health care cost growth rate				
- at end of fiscal year			8.000	8.000
- ultimate health care cost growth rate			5.000	5.000
Year ultimate health cost growth rate reached			2012	2011

The expected return on plan assets is an average of the expected long-term (10 years or more) returns for debt securities and equity securities, weighted by the portfolio allocation. Asset class returns are developed based on historical returns as well as forward-looking expectations. Equity return expectations are generally based upon the sum of expected inflation, expected real earnings growth and expected long-term dividend yield. Bond return expectations are based upon the sum of expected inflation, real bond yield, and risk premium. The discount rate used in determining the benefit obligation is selected by reference to the long-term year-end rates on AAA corporate bonds.

The medical cost inflation assumption is the rate of increase in the cost of providing medical benefits. This is influenced by a wide variety of factors, such as economic trends, medical developments, and patient utilisation. For the purposes of these calculations, as in the last two years, the initial medical cost inflation rate is assumed at 8% per annum between January 1, 2010 to December 31, 2010, thereafter reducing by 1% per annum each year until it reaches 5% per annum where a constant rate of 5% per annum will be used thereafter. This level rate of 5% per annum will be reached at January 1, 2013 under the current assumption.

No plan assets are invested in any of the Bank's own financial instruments, nor any property occupied by, or other assets used by the Bank.

The following table presents the weighted-average asset allocation at December 31, 2009 and 2008 for the Staff Retirement Plan:

(UA thousands)	**2009**	2008
Debt securities	132,989	84,118
Equity securities	93,697	105,147
Property	30,225	-
Others	45,337	21,029
Total	**302,248**	**210,294**

At December 31, 2009 and 2008, the assets of the MBP were invested primarily in time deposits.

The Bank's estimate of contributions it expects to make to the SRP and the MBP for the year ending December 31, 2010, are UA 13.13 million and UA 3.66 million respectively.

The health care cost growth rate can significantly affect the reported post-retirement benefit income or costs and benefit obligations for the MBP.

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

	1% Increase		**1% Decrease**	
(UA millions)	**2009**	2008	**2009**	2008
Effect on total service and interest cost	2.549	1.472	(1.957)	(1.181)
Effect on post-retirement benefit obligation	14.543	14.935	(11.576)	(11.794)

NOTE S – RELATED PARTIES

The following related parties have been identified:

The Bank makes or guarantees loans to some of its members who are also its shareholders, and borrows funds from the capital markets in the territories of some of its shareholders. As a multilateral development institution with membership comprising 53 African states and 24 non-African states (the "regional members" and "non-regional members", respectively), subscriptions to the capital of the Bank are made by all its members. All the powers of the Bank are vested in the Board of Governors, which consists of the Governors appointed by each member of the Bank, who exercise the voting power of the appointing member country. Member country subscriptions and voting powers are disclosed in Note N. The Board of Directors, which is composed of eighteen (18) Directors elected by the member countries, is responsible for the conduct of the general operations of the Bank, and for this purpose, exercises all the powers delegated to it by the Board of Governors. The Bank also makes or guarantees loans to certain of the agencies of its regional member countries and to public and private enterprises operating within such countries. Such loans are approved by the Board of Directors.

In addition to its ordinary resources, the Bank administers the resources of other entities under special arrangements. In this regard, the Bank administers the resources of the ADF. Furthermore, the Bank administers various special funds and trust funds, which have purposes that are consistent with its objectives of promoting the economic development and social progress of its regional member countries. In this connection, the Bank administers the NTF as well as certain multilateral and bilateral donor funds in the form of grants.

The ADF was established pursuant to an agreement between the Bank and certain countries. The general operation of the ADF is conducted by a 12-member Board of Directors of which 6 members are selected by the Bank. The Bank exercises 50 percent of the voting power in the ADF and the President of the Bank is the ex-officio President of the Fund. To carry out its functions, the ADF utilizes the offices, staff, organization, services and facilities of the Bank, for which it reimburses the Bank based on an agreed cost-sharing formula, driven in large part by the number of programs and projects executed during the year.

The Bank's investment in the ADF is included in Equity Participations and disclosed in Note J. In addition to the amount reported as equity participation, the Bank periodically makes allocations to the Fund, to further its objectives. Net income allocations by the Bank to ADF are reported as Other Resources in the Fund's financial statements. Net income allocation to the Fund in 2009 amounted to UA 25 million (2008: UA 109 million).

The NTF is a special fund administered by the Bank with resources contributed by Nigeria. The ADB Board of Directors conducts the general operations of NTF on the basis of the terms of the NTF Agreement and in this connection, the Bank consults with the Government of Nigeria. The NTF also utilizes the offices, staff, organization, services and facilities of the Bank for which it reimburses to the Bank its share of administrative expenses for such utilization. The share of administrative expenses reimbursed to the Bank by both the ADF and NTF are disclosed in Note Q.

Grant resources administered by the Bank on behalf of other donors, including its member countries, agencies and other entities are generally restricted for specific uses, which include the co-financing of Bank's lending projects, debt reduction operations and technical assistance for borrowers including feasibility studies. Details of the outstanding balance on such grant funds at December 31, 2009 and 2008 are disclosed in Note W-5.

The Bank also administers the SRP and MBP. The activities of the SRP and MBP are disclosed in Note R.

Management Personnel Compensation

Compensation paid to the Bank's management personnel and executive directors during the years ended December 31, 2009, and 2008 was made up as follows:

(UA thousands)	2009	2008
Salaries	15,827	15,209
Termination and other benefits	5,760	5,937
Contributions to the retirement and medical plans	3,523	3,170
Total	**25,110**	**24,316**

The Bank may also provide personal loans and advances to its staff, including those in management. Such loans and advances, guaranteed by the terminal benefits payable at the time of departure from the Bank, are granted in accordance with the Bank's rules and regulations. At December 31, 2009 outstanding balances on loans and advances to management staff amounted to UA 3.67 million (2008: UA 3.35 million). No expense was recognized during the year in respect of impairment on debts due from related parties.

NOTE T – SEGMENT REPORTING

The Bank is a multilateral development finance institution dedicated to the economic and social progress of its regional member states. The Bank's products and services are similar and are structured and distributed in a fairly uniform manner across borrowers.

Based on the evaluation of the Bank's operations, management has determined that ADB has only one reportable segment since the Bank does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers.

The products and services from which the Bank derives its revenue are mainly loans, treasury and equity investments.

External revenue for the years ended December 31, 2009 and 2008 is detailed as follows:

(UA thousands)	2009	2008
Interest income from loans:		
Fixed rate loans	164,747	193,041
Variable rate loans	79,098	66,556
Floating rate loans	40,752	88,426
	284,597	348,022
Commitment charges and commissions	3,642	4,255
Total income from loans	**288,239**	**352,277**
Income from investments	222,955	202,884
Income from other debt securities	7,684	9,288
Other income	7,338	18,647
Total external revenue	**526,216**	**583,096**

Revenues earned from transactions with a single customer of the Bank amounting to UA 65.96 million for the year ended December 31, 2009 exceeded 10% of the Bank's revenue.

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

Geographical information about income from loans for the years ended December 31, 2009 and 2008 is detailed as follows:

(UA thousands)

	Central Africa	East Africa	North Africa	Southern Africa	West Africa	Multi-national	Total
2009							
Income from sovereign loans	76,516	6,697	102,829	30,265	18,929	1,163	236,399
Income from non-sovereign loans	2,761	2,226	2,706	30,386	7,797	5,964	51,840
	79,277	**8,923**	**105,535**	**60,651**	**26,726**	**7,127**	**288,239**
2008							
Income from sovereign loans	80,607	7,380	141,166	33,285	58,477	2,261	323,126
Income from non-sovereign loans	2,493	1,369	1,843	8,464	10,148	4,784	29,101
	83,100	**8,749**	**143,009**	**41,749**	**68,625**	**7,045**	**352,277**

As of December 31, 2009, land and buildings owned by the Bank were located primarily at the Bank's headquarters in Abidjan, Côte d'Ivoire. More than 90% of other fixed and intangible assets were located at the Bank's Temporary Relocation Facilities in Tunis, Tunisia.

NOTE U – EVENTS AFTER THE BALANCE SHEET DATE

During the year ended December 31, 2009, the Board of Directors endorsed a proposal made by Canada and Republic of Korea offering to subscribe, temporarily, to additional non-voting callable capital of the Bank in the amounts of USD 2.6 billion and USD 306 million, respectively. This proposal was adopted by the Board of Governors on February 22, 2010. Accordingly, the authorized capital stock of the Bank would increase from UA 22,120 million to UA 23,947 million by the creation of additional 182,710 non-voting shares. In accordance with the Board of Governors' approval, this temporary capital increase shall become effective on January 1, 2010, or such later date when Canada and the Republic of Korea shall each have deposited with the Bank an Instrument of Subscription in relation to all the additional shares.

NOTE V – APPROVAL OF FINANCIAL STATEMENTS

On March 24, 2010, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors at its annual meeting in May 2010.

NOTE W – SUPPLEMENTARY DISCLOSURES

NOTE W–1: EXCHANGE RATES

The rates used for translating currencies into Units of Account at December 31, 2009 and 2008 were as follows:

		2009	2008
1 UA = SDR =	Algerian Dinar	115.023000	104.675000
	Angolan Kwanza	141.611000	111.666000
	Botswana Pula	10.444300	11.607200
	Brazilian Real	2.728410	3.653610
	Canadian Dollar	1.643990	1.890960
	Chinese Yuan	10.704500	10.527100
	CFA Franc	713.826000	725.980000
	Danish Kroner	8.106880	8.180030
	Egyptian Pound	8.605440	8.497670
	Ethiopian Birr	20.285000	15.333500
	Euro	1.088220	1.106750
	Gambian Dalasi	42.698100	41.263800
	Ghanaian Cedi	2.247990	1.868890
	Guinean Franc	7,832.180000	7,700.580000
	Indian Rupee	73.179700	74.626300
	Japanese Yen	143.797000	140.464000
	Kenyan Shilling	119.622000	114.018000
	Korean Won	1,830.440000	1,936.890000
	Kuwaiti Dinar	0.449610	0.425038
	Libyan Dinar	1.932370	1.932370
	Mauritian Rupee	47.486100	48.912000
	Moroccan Dirham	12.214300	12.296400
	Nigerian Naira	232.175000	183.325000
	Norwegian Krone	9.056080	10.780200
	Pound Sterling	0.968010	1.056570
	Sao Tomé Dobra	26,359.900000	23,455.400000
	Saudi Arabian Riyal	5.878830	5.776010
	South African Rand	11.569600	14.332200
	Swedish Krona	11.307000	11.999400
	Swiss Franc	1.615510	1.638390
	Tunisian Dinar	2.054930	2.059200
	Ugandan Shilling	3,012.220000	3,015.380000
	United States Dollar	1.567690	1.540270

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

NOTE W–2: OTHER DEVELOPMENT ASSISTANCE ACTIVITIES

(i) Democratic Republic of Congo (DRC)

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

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

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

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

Resources from the facility are provided on a case-by-case basis to genuine post-conflict countries not yet receiving debt relief to fill financing gaps after maximum effort by the post-conflict country to clear its arrears to the Bank Group. In this connection, the Board of Governors by its Resolution B/BG/2004/07 of May 25, 2004, established the Post-Conflict Countries Facility (PCCF) under the administration of the ADF and approved an allocation of UA 45 million from the 2003 net income of the Bank. The Board of Governors also, by its resolution B/BG/2005/05 of May 18, 2005, approved an additional allocation of UA 30 million from the 2004 net income as the second installment of the Bank's contribution to the facility and by its resolution B/BG/2007/04 of May 17, 2006, the Board of Governors also approved the third and final installment of the Bank's allocation of UA 25 million from the 2005 net income. In March 2008, the Board of Directors approved the establishment of the Fragile States Facility (FSF) to take over the activities of the PCCF and in addition provide broader and integrated framework for assistance to eligible states. The purposes of the FSF is to consolidate peace, stabilize economies and lay the foundation for sustainable poverty-reduction and long-term economic growth of the eligible countries. By policy, contributions made by ADB to the PCCF/FSF are not used to clear the debt owed to the Bank by beneficiary countries.

(iii) Heavily Indebted Poor Countries (HIPC) Initiative

The Bank participates in a multilateral initiative for addressing the debt problems of countries identified as HIPCs. Under this initiative, creditors provide debt relief for eligible countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. Under the original HIPC framework, selected loans to eligible beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the lower of the net present value of the loans or their nominal values, as calculated using the methodology agreed under the initiatives. Following the signature of a HIPC debt relief agreement, the relevant loans were paid off at the lower of their net present value or their carrying value. On average, loans in the ADB's portfolio carry higher interest rates than the present value discount rates applied and therefore the net present value of the loans exceeds the book value. Consequently, affected ADB loans were paid off by the HIPC Trust Fund at book values. The HIPC initiative was enhanced in 1999 to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 33 African countries are eligible, the debt relief is delivered through annual debt service reductions, as well as the release of up to 80 percent of annual debt service obligations as they come due until the total debt relief is provided. In addition, interim financing between the decision and completion points of up to 40 percent of total debt relief is provided whenever possible within a 15-year horizon.

At December 31, 2009, the Board of Directors had approved relief for 28 ADB borrowing countries, of which 19 had reached the completion point.

(iv) Multilateral Debt Relief Initiative (MDRI)

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

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

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

NOTE W–3: SPECIAL FUNDS

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

At December 31, 2009 and 2008, the following funds were held separately from those of the ordinary capital resources of the Bank:

(i) The NTF was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank and the Federal Republic of Nigeria. The Agreement stipulates that the NTF shall be in effect for a period of 30 years from the date the Agreement became effective and that the resources of the NTF shall be transferred to the Government of Nigeria upon termination. However, the 30-year sunset period may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. At the expiry of the initial 30-year period on April 25, 2006, the Bank and the Federal Republic of Nigeria agreed to 2 interim extensions (each for 12 months) to allow for further consultations and an independent evaluation of the NTF. Following the positive result of the independent evaluation, the NTF Agreement was renewed for a period of ten years starting from April 26, 2008. The initial capital of the NTF was Naira 50 million payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to US$ 39.90 million, was received by the Bank on July 14, 1976, and payment of the second installment, equivalent to US$ 39.61 million, was made on February 1, 1977.

During May 1981, the Federal Republic of Nigeria announced the replenishment of the NTF with Naira 50 million. The first installment of Naira 35 million (US$ 52.29 million) was paid on October 7, 1981. The second installment of Naira 8 million (US$ 10.87 million) was received on May 4, 1984. The payment of the third installment of Naira 7 million (US$ 7.38 million) was made on September 13, 1985. Following a request by the Government of Nigeria on June 14, 2006, a payment of US$ 200 million (UA 135.71 million) was made to the Government of Nigeria from the resources of the Fund. A second request for withdrawal of US$ 200 million was disbursed to the Government of Nigeria in July 2009.

The resources of the NTF at December 31, 2009 and 2008 are summarized below:

(UA thousands)	**2009**	2008
Contribution received	128,586	128,586
Funds generated (net)	147,194	273,660
Adjustment for translation of currencies	(119,055)	(115,469)
	156,725	**286,777**
Represented by:		
Due from banks	4,375	90,367
Investments	98,414	139,565
Accrued income and charges receivable on loans	1,574	1,807
Accrued interest on investments	176	733
Other amounts receivable	522	529
Loans outstanding	53,099	54,628
	158,160	287,629
Less: Accounts payable	(1,435)	(852)
	156,725	**286,777**

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

The summary statement of the resources and assets of the Special Relief Fund (for African countries affected by drought) as at December 31, 2009 and 2008 follows:

(UA thousands)	**2009**	2008
Fund balance	62,448	62,448
Funds generated	4,468	4,639
Funds allocated to Social Dimensions of Structural Adjustment (SDA)	1	1
Less: Relief disbursed	(57,060)	(52,990)
	9,857	**14,098**
Represented by:		
Due from bank	1,255	6,598
Investments	8,593	8,057
Interest receivable	9	9
	9,857	14,664
Less: Accounts payable	-	(566)
	9,857	**14,098**

At December 31, 2009, a total of UA 7.05 million (2008: UA 2.40 million) had been committed but not yet disbursed under the Special Relief Fund.

NOTE W–4: TRUST FUNDS

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

(i) The Mamoun Beheiry Fund was established under Board of Governors' Resolution 11-70 of October 31, 1970, whereby Mr. Mamoun Beheiry, former President of the Bank, agreed to set up a fund, which could be used by the Bank to reward staff members who had demonstrated outstanding performance in fostering the objectives of the Bank.

(ii) The Arab Oil Fund (contribution of Algeria) was established following Board of Governors' Resolution 19-74 of July 4, 1974. Under a protocol agreement dated November 15, 1974, the Bank received the sum of US$ 20 million from the Government of Algeria to be kept as a Trust Fund from which loans could be granted to member countries affected by high oil prices. On August 11, 1975, an amount of US$ 5.55 million was refunded to Algeria upon request, leaving a balance of US$ 14.45 million, from which loans refundable directly to Algeria have been made. At December 31, 2009, a total of US$ 13.45 million (2008: US$ 13.45 million) had been so repaid.

(iii) The Special Emergency Assistance Fund for Drought and Famine in Africa (SEAF) was established by the 20th Meeting of Heads of State and Government of member countries of the African Union formerly Organization of African Unity (OAU) held in Addis Ababa, Ethiopia, from November 12 to 15, 1984, under Resolution AHG/Res. 133 (XX), with the objective of giving assistance to African member countries affected by drought and famine.

The financial highlights of these Trust Funds at December 31, 2009 and 2008 are summarized below:

(UA thousands)		2009	2008
i)	**Mamoun Beheiry Fund**		
	Contribution	152	152
	Income from investments	192	167
		344	319
	Less: Prize awarded	(30)	(30)
	Gift	(25)	(25)
		289	264
	Represented by:		
	Short-term deposits	275	247
	Due from banks	14	13
	Accrued interest	-	4
		289	264
ii)	**Arab Oil Fund (contribution of Algeria)**		
	Net contribution	638	649
	Represented by:		
	Loans disbursed net of repayments	638	649
iii)	**Special Emergency Assistance Fund for Drought and Famine in Africa**		
	Contributions	20,082	20,440
	Funds generated	5,436	5,525
		25,518	25,965
	Relief granted	(21,426)	(21,483)
		4,092	4,482
	Represented by:		
	Due from banks	523	4,479
	Investments	3,885	-
	Accrued interest	3	3
	Amounts payable	(319)	-
		4,092	4,482
	Total Resources & Assets of Trust Funds	**5,019**	**5,395**

NOTE W–5: GRANTS

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

The undisbursed balances of the grant resources at December 31, 2009 and 2008 were as follows:

(UA thousands)	2009	2008
Africa Water Facility Fund	46,624	38,396
AMINA	1,418	1,436
Austria Technical Cooperation Grant	1,018	986
Belgium	989	1,007
Canada	1,598	332
Chinese Government Grant	522	286
Congo Basin	32,937	7,635
Denmark	893	1,248
Fertilizer Financing Mechanism	5,408	-
Finland	2,065	2,467
France-BAD (Fonds d'Assistance Technique)	2,904	2,710
GTF (Governance Trust Fund)	1,857	-
ICA - Infrastructure Consortium for Africa	180	323
ICP - Africa	218	161
IMDE (Initiative Migration and Development)	2,389	-
India Government Grant	467	366
Italy	3,121	3,133
Japan (FAPA)	24,281	13,308
Korea Trust Fund	5,117	1,778
Making Finance Work for Africa	735	-
Multi-donor Water Partnership Program	2,673	1,846
Nepad Infrastructure	16,498	12,516
Nordic Trust Fund for Governance	224	371
Norway	648	441
Portuguese Technical Cooperation Trust Fund	916	904
Rural Water Supply and Sanitation Initiative	51,578	55,557
SFRD (Great Lakes)	2,228	1,545
Spain (ADB - Spain Cooperation Program)	418	601
Statistical Capacity Building (SCB) - Phase II	5,705	-
Swedish Trust Fund for Consultancy Services	366	404
Switzerland Technical Assistance Grant	309	304
The Netherlands	1,375	1,677
The Nigeria Technical Cooperation Fund	17,170	17,562
The United Kingdom	4,442	1,470
Others	223	338
Total	**239,514**	**171,108**

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Independent Auditor's Report to the Board of Governors of the African Development Bank
Year ended 31 December 2009

We have audited the accompanying financial statements of the African Development Bank ("the Bank") which comprise the balance sheet as at 31 December 2009 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 W.

The financial statements have been prepared under the accounting policies set out therein, for the purpose of submitting approved and audited financial statements to the Board of Governors as required by Article 32(d) of the Agreement establishing the Bank. This report is made solely to the Bank's Board of Governors, as a body, in accordance with Article 32(d) of the Agreement establishing the Bank. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair

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presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paris La Défense, 24th March 2010

KPMG Audit
A division of KPMG S.A.

Pascal Brouard
Partner

ADB ADMINISTRATIVE BUDGET FOR FINANCIAL YEAR 2010

(UA thousands)

Description	
Personnel Expenses	
Salaries	101,093
Benefits	66,045
Other Employee Expenses	12,267
Short Term and Technical Assistance Staff	740
Consultants	14,547
Staff Training	4,228
	198,920
General Expenses	
Official Missions	20,365
Accommodation	11,771
Equipment Rental, Repairs and Maintenance	7,337
Communication Expenses	7,706
Printing, Publishing and Reproduction	1,704
Office Supplies and Stationery	755
Library	722
Other Institutional Expenses	14,728
	65,088
Total Administrative Expenses	264,008
Depreciation	5,200
Total	269,208
Less: Management Fees*	(191,690)
Net Administrative Budget	**77,518**

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