NIGERIA TRUST FUND

FINANCIAL MANAGEMENT

NTF Resources

The Nigeria Trust Fund (NTF) is a special fund administered by the Bank. The Fund's resources primarily consist of subscriptions by the Federal Republic of Nigeria. The NTF was established in 1976, for an initial period of thirty (30) years, when an agreement establishing the NTF was executed between the Bank and the Federal Republic of Nigeria, with a provision for extension by mutual agreement. Following a positive evaluation of its performance during the initial thirty (30) years of operation, the Agreement has been extended several times, most recently for five years from 25 April 2023.

Loan Products

NTF provides financing in the form of loans to the least developed and low-income regional member countries at concessionary rates in order to enhance economic development and social progress in Africa. The NTF has previously provided concessional financing exclusively to public sector operations. However, following the expansion of the Fund's mandate in 2008, private sector operations, including microfinance, are also eligible for the Fund's financial support.

Investments

The cash and treasury investments of the NTF, all denominated in US Dollars, increased by UA 6.35 million (7.03 percent) to UA 96.70 million from UA 90.36 million as at 31 December 2021. This increase is mainly attributable to the appreciation of the USD against the UA. Income from treasury investments increased by UA 1.26 million to UA 1.40 million from UA 0.14 million in December 2021. This represents a return of 1.53 percent, on an average liquidity level of UA 91.51 million, compared to an income of UA 0.14 million, representing a return of 0.16 percent on an average liquidity of UA 87.57 million in 2021. The portfolio performed below its benchmark in 2022 due to challenging market conditions and the lack of access to derivative instruments that can be used to hedge interest rate risk, limiting investment options.

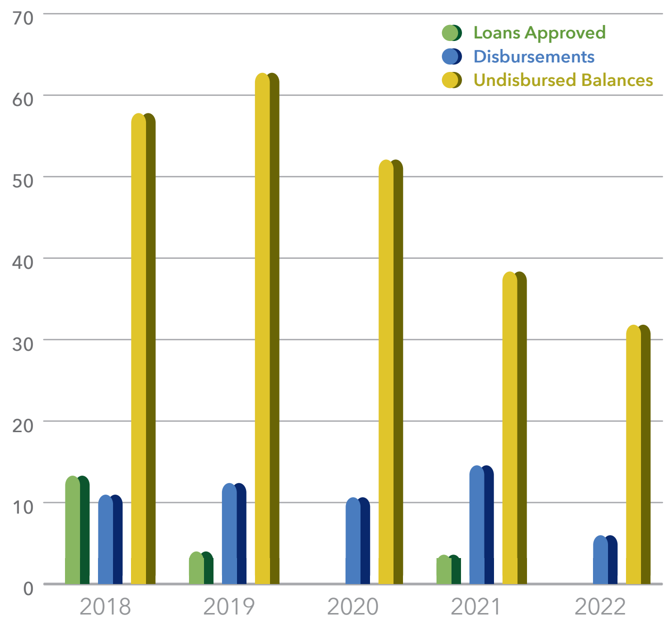
Loan Portfolio

Cumulative loans signed, net of cancellations, as at December 31, 2022 amounted to UA 353.4 million. As at December 31, 2022 there were 34 active loans with an outstanding amount of UA 95.70 million and 57 fully repaid loans amounting to UA 187.15 million. Figure 1.9 presents the evolution of loans approved, loans disbursed, and the undisbursed balances from 2018 to 2022.

Disbursements

Disbursements in 2022 stood at UA 5.99 million, a decrease from UA 14.57 million disbursed in 2021. As at December 31, 2022, cumulative disbursements amounted to UA 321.57 million (2021: UA 315.65 million). 75 loans amounting to UA 268.25 million were fully disbursed as at December 31, 2022, representing 83.42 percent of cumulative disbursements on that date. Figure 1.10 shows the evolution of loan disbursements and repayments over the past five years.

Figure 1.9 Lending Status, 2018–2022
(UA millions)



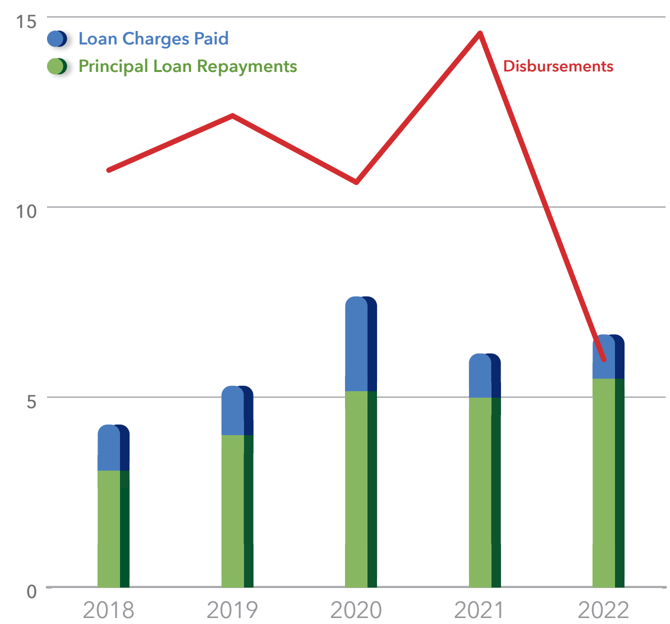
Repayments

Principal loan repayments amounted to UA 5.49 million in 2022 compared to UA 4.99 million in 2021, representing an increase of 10.02 percent over the previous year. Cumulative repayments as of December 2022 stood at UA 230.35 million.

Risk Management Policies and Processes

The NTF, like the Bank, seeks to reduce its exposure to risks that are not essential to its core business of providing development-related assistance. These include liquidity, currency and interest rate risks. The Fund follows stringent risk management procedures in managing these risks. Note D to

Figure 1.10 Loan Disbursements and Repayments, 2018–2022
(UA millions)



the Financial Statements of the Fund provides the details of the risk management policies and practices employed by NTF.

FINANCIAL RESULTS

For the year ended 31 December 2022 the Fund reported a net loss before distributions approved by the Board of Governors of UA 0.51 million, a decrease of UA 1.43 million (155.43 percent) compared to Net Income of UA 0.92 million reported for December 2021. The net loss before distributions approved by the Board was primarily attributable to the combined effect of a UA 2.46 million increase in provisions for ECL on loan principal and charges because of the change in the credit risk parameters used in the ECL estimation and a UA 0.25 million increase in administrative expenses moderated by a UA 1.26 million increase in income from treasury investments.

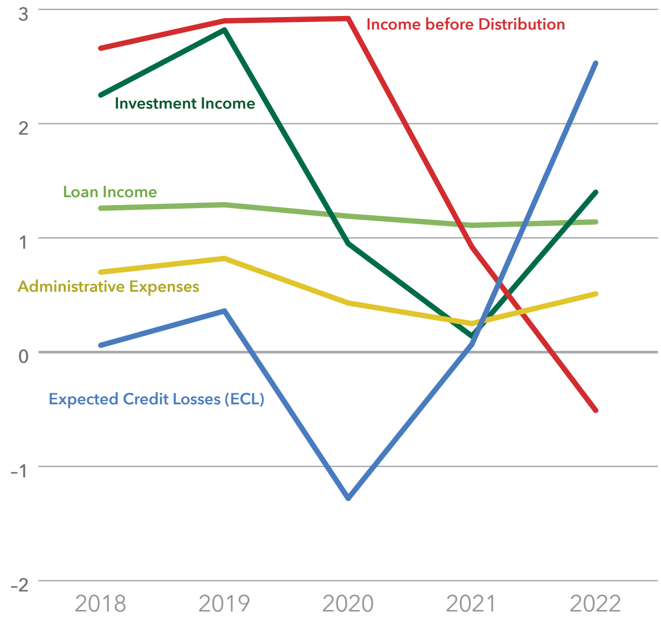
Total Income for the year ended 31 December 2022 increased by UA 1.29 million (103.20 percent) to UA 2.54 million, compared to UA 1.25 million reported for 31 December 2021. The reasons for the increase in total Income are summarized below:

Loan income increased slightly by UA 0.03 million (2.70 percent) for the year ended 31 December 2022 to reach UA 1.14 million, compared to UA 1.11 million earned for 31 December 2021. Although interest income on loans remained relatively stable between the periods under review, this marginal increase in 2022 is attributable to the higher outstanding loan balance.

Treasury Investment income of UA 1.40 million for the year ended 31 December 2022 represents an increase of UA 1.26 million (900 percent) over the UA 0.14 million reported in 2021. This increase is attributable to the combined effect of (i) an increase in USD interest rates (ii) 4.75 percent increase in treasury investment portfolio balances, which led to higher interest income; and (iii) reduced volatility in prices of trading assets resulting in a decrease in fair value losses to UA 0.35 million in 2022 from UA 0.51 million in 2021.

Expenses for the year ended 31 December 2022 increased by UA 0.26 million (96.30 percent) to UA 0.53 million compared to UA 0.27 million for 31 December 2021. This increase arose mainly from the higher administrative expenses of UA 0.51 million charged to the NTF in 2022 compared to UA 0.25 million charged in 2021, representing a 104 percent increase year-on-year. The NTF share of the Bank Group administrative expenses with the Bank and ADF is based on a predetermined cost-sharing formula which is driven primarily by the allocation of staff time spent on the respective work program deliverables. In accordance with the Agreement establishing the Fund, the NTF's share of Bank Group administrative expenses is capped at 20 percent of the Fund's total annual Income.

Figure 1.11 Operating Results, 2018–2022
(UA millions)



Impairment on principal and charges for the year ended 31 December 2022 increased by UA 2.46 million (3,514.29 percent) to UA 2.53 million compared to UA 0.07 million for 31 December 2021. The increase resulted from changes in the key credit risk parameters (the probability of default and loss-given-default) used in ECL estimation, which led to higher ECL estimates for countries in Stages 1 and 2.

Total Reserves as at 31 December 2022 totaled UA 59.57 million, an increase of UA 8.70 million (17.10 percent) compared to UA 50.87 million as at 31 December 2021. The reserves increased mainly due to the Cumulative Currency Translation Adjustment (CCTA) increase arising from the translation gains reported in the period.

Retained earnings as at 31 December 2022, decreased by UA 0.60 million (0.40 percent) to UA 151.05 million from UA 151.65 million as at 31 December 2021, reflecting the net loss incurred during the year.

Cumulative Currency Translation Adjustment (CCTA) as at 31 December 2022 decreased by UA 9.31 million (9.24 percent) to a loss of UA 91.48 million from a loss of UA 100.79 million as at 31 December 2021, mainly due to the appreciation of the USD against the UA during the period. (The UA was equivalent to 1.330840 and 1.399590 USD as at 31 December 2022 and 2021, respectively).

Nigeria Trust Fund

Financial Statements
For the Year ended 31 December 2022

Balance sheet
As at 31 December 2022

(UA thousands – Note B)

ASSETS	2022	2021
DUE FROM BANKS	5,486	3,283
TREASURY INVESTMENTS (Note F)	91,216	87,078
ACCOUNTS RECEIVABLE		
Accrued income and receivables on loans (net)	276	316
Accrued income on investments	438	294
Other receivables	551	337
	1,265	947
LOANS (Notes D & G)		
Disbursed and outstanding (net)	92,355	89,699
TOTAL ASSETS	**190,322**	**181,007**

LIABILITIES & EQUITY	2022	2021
ACCOUNTS PAYABLE	2,164	1,552
EQUITY (Note H)		
Capital	128,586	128,586
Reserves		
Retained earnings	151,054	151,657
Cumulative Currency Translation Adjustment (Note B)	(91,482)	(100,788)
Total reserves	59,572	50,869
Total equity	188,158	179,455
TOTAL LIABILITIES & EQUITY	**190,322**	**181,007**

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

Income statement
for the year ended 31 December 2022
(UA thousands – Note B)

	2022	2021
INCOME (Note I)		
Income and charges on loans	1,138	1,113
Income from treasury investments	1,404	143
Total income	**2,542**	**1,256**
EXPENSES		
Administrative expenses (Note J)	(508)	(251)
Financial charges	(15)	(10)
Losses on exchange	(5)	(11)
Total expenses	**(528)**	**(272)**
Provision for impairment on loan principal and charges (Notes B, D & G)	(2,525)	(68)
Total expenses and provision for impairment	**(3,053)**	**(340)**
Net (loss)/Income before distributions approved by the Board of Governors	**(511)**	**916**
Distributions of income approved by the Board of Governors (Note H)	(92)	(292)
NET (LOSS)/INCOME FOR THE YEAR	**(603)**	**624**

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

Statement of other comprehensive income
for the year ended 31 December 2022
(UA thousands – Note B)

	2022	2021
NET (LOSS)/INCOME FOR THE YEAR	(603)	624
Other comprehensive income		
Currency translation gains	9,306	5,107
Total other comprehensive income	9,306	5,107
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**8,703**	**5,731**

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

Statement of changes in equity
for the year ended 31 December 2022
(UA thousands – Note B)

	Capital	Retained Earnings	Cumulative Currency Translation Adjustment	Total Equity
BALANCE AT 1 JANUARY 2021	**128,586**	**151,033**	**(105,895)**	**173,724**
Net income for the year	-	624	-	624
Currency translation gains	-	-	5,107	5,107
BALANCE AT 31 DECEMBER 2021	**128,586**	**151,657**	**(100,788)**	**179,455**
BALANCE AT 31 DECEMBER 2021 AND 1 JANUARY 1 2022	**128,586**	**151,657**	**(100,788)**	**179,455**
Net loss for the year	-	(603)	-	(603)
Currency translation gains	-	-	9,306	9,306
BALANCE AS AT 31 DECEMBER 2022	**128,586**	**151,054**	**(91,482)**	**188,158**

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

Statement of cash flows
for the year ended 31 December 2022
(UA thousands – Note B)

	2022	2021
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Net (loss)/income	(603)	624
Adjustments to reconcile net (loss)/income to net cash provided by operating activities:		
Provision on impairment on loan principal and charges	2,525	68
Unrealized (gains)/losses on investments	(359)	258
Changes in accrued income and receivables on loans	27	47
Changes in net current assets/payables	378	788
Net cash from operating activities	1,968	1,785
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursements on loans	(5,987)	(14,570)
Repayment of loans	5,486	4,986
Investments maturing after 3 months of acquisition:		
At fair value through profit or loss	(19,032)	20,618
Net cash (utilized in)/generated from investing, lending and development activities	(19,533)	11,034
Net (decrease)/increase in cash and cash equivalents	(17,565)	12,819
Effect of exchange rate changes on cash and cash equivalents	4,516	2,627
Cash and cash equivalents at the beginning of the year	32,997	17,551
Cash and cash equivalents at the end of the year	**19,948**	**32,997**
COMPOSED OF:		
Investments maturing within 3 months of acquisition	14,462	29,714
Cash	5,486	3,283
Cash and cash equivalents at the end of the year	**19,948**	**32,997**
SUPPLEMENTARY DISCLOSURE		
1. Operational cash flows from interest		
Interest received	1,178	1,159
2. Movement resulting from exchange rate fluctuations on loans	4,668	2,482

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

Notes to the Financial Statements
for the year ended 31 December 2022

NOTE A – Nature of Operations

The Nigeria Trust Fund was established under an agreement signed on 26 February 1976 (the Agreement) between the African Development Bank (ADB or the Bank) and the Federal Republic of Nigeria. The ADB, headquartered in Abidjan, Côte d'Ivoire, manages the resources of the Fund on behalf of the Government of Nigeria. The purpose of the Fund is to assist in the development efforts of the less advantaged ADB Regional Member Countries. The Agreement stipulates that the Fund shall be in effect for 30 years from the date the Agreement became effective and that such sunset date may be extended by mutual agreement between the Bank and the Federal Republic of Nigeria. Following the initial expiry of the agreement on 26 April 2006, and the successful completion of independent reviews of its performance, the Agreement has been extended several times, most recently for five years from 25 April 2023.

NOTE B – Summary of Significant Accounting Policies

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

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

Revenue Recognition

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

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

Functional and Presentation Currencies

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

The value of the Unit of Account is defined in Article 5.1 (b) of the Agreement establishing the Bank as equivalent to one Special Drawing Right (SDR) of the International Monetary Fund (IMF) or any unit adopted for the same purpose by the IMF.

As at 31 December 2022, 1 UA was equivalent to 1.330840 USD (31 December 2021: 1.399590 USD).

Currency Translation

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

Financial Instruments

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

1) Financial Assets

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

i) Financial Assets at Amortized Cost

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

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

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

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

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

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

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

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

Derecognition

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

2) Financial Liabilities

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

Impairment of Financial Assets

The Fund applies a three-stage approach to measuring expected credit losses (ECLs) for the following categories of financial assets: debt instruments measured at amortized cost, loan commitments, financial guarantee contracts and treasury investments held at amortized cost.

Financial assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-month ECL

The Fund assesses ECLs on exposures where there has not been a significant increase in credit risk since initial recognition and that were not credit impaired upon origination. For these exposures, the Fund recognizes as a provision on the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months. Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

Stage 2: Lifetime ECL – not credit impaired

The Fund assesses ECLs on exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired. The Fund recognizes these exposures as a provision of a lifetime ECL (i.e., reflecting the remaining lifetime of the financial asset). Interest revenue is calculated by applying the effective interest rate to the gross carrying amount.

Stage 3: Lifetime ECL – credit impaired

The Fund identifies ECLs on those exposures that are assessed as credit-impaired based on whether one or more events that have had a detrimental impact on the estimated future cash flows of that asset have occurred. For exposures that have become credit-impaired, a lifetime ECL is recognized as a specific provision, and interest revenue is calculated by applying the effective interest rate to the amortized cost (net of provision) rather than the gross carrying amount.

Determining the Stage for Impairment

At each reporting date, the Fund assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the remaining expected life from the reporting date and the date of initial recognition. The Fund considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose.

An exposure will migrate through the ECL stages as asset quality deteriorates or improves. If, in a subsequent period, asset quality improves and reverses any previously assessed significant increase in credit risk since origination, then the provision reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Fund's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk.

The provision for these exposures is based on a 12-month ECL. When an asset is uncollectible, it is written-off against the related provision. Such assets are written-off after all the necessary procedures are completed and the amount of the loss determined. Subsequent recoveries of amounts previously written-off reduce the amount of the expense in the income statement.

The Fund assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, financial instruments are grouped based on shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, the geographical location of the borrower and other relevant factors.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss and are measured as follows:

Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the financial asset discounted by the effective interest rate. The cash shortfall is the difference between the cash flows due to the Fund in accordance with the contract and the cash flows that the Fund expects to receive.

Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows discounted by the effective interest rate.

Undrawn loan commitments: As the present value of the difference between the contractual cash flows that are due to the Fund if the commitment is drawn down and the cash flows that the Fund expects to receive.

Financial guarantee contracts: As the expected payments to reimburse the holder less any amounts that the Fund expects to recover.

For further details on how the Fund calculates ECLs, including the use of forward-looking information, refer to the Measurement and recognition of expected credit losses section under Risk Management in Note D.

Offsetting Financial Instruments

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

Fair Value Disclosure

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

Considerable judgment is required to distinguish between active and inactive markets.

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

Management believes that these methodologies and assumptions are reasonable; however, the values actually realized in a sale might be different from the fair values disclosed.

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

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

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

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

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

Cash and cash equivalents: The carrying amount approximates 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 or through a valuation technique.

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

Retained Earnings

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

The most significant judgments and estimates are summarized below:

i) Impairment of Financial Assets

The measurement of impairment losses under IFRS 9 across all qualifying financial asset categories requires judgment, particularly the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and assessing a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Fund's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- The Fund's internal credit grading model, which assigns a probability of default (PD) to the individual grades.
- The Fund's criteria for assessing if there has been a significant increase in credit risk necessitating the loss allowance to be measured on a 12 month or lifetime ECL basis and the applicable qualitative assessment.
- Development of ECL models, including the various formulas and the choice of inputs.
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PD, exposure at default (EAD), and loss given defaults (LGD).
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs for the ECL models.

ii) Fair Values of Financial Instruments

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

Economic Outlook

As at the end of year 2022, economic growth declined worldwide to the extent that the global economy was projected to fall into recession – indicating a gloomy 2023 outlook for most economies that are recovering at varying degrees from the leftover effects of the COVID-19 pandemic. Global inflation has been stubbornly high and Central Banks have raised interest rates sharply to curb its impact. Although this policy tightening has moderated price instability in some economies, it has worsened global financial conditions, triggering cost-of-living and cost of operations crises, and leading to a slowdown in global economic activities. Geopolitical tensions have also caused a sharp rise in prices of commodities and disrupted global supply chains, intensifying inflation and global distress.

Against this backdrop, in its latest World Economic Outlook report published in January 2023, the IMF forecasts global economic growth in 2023 to slow down to 2.9 percent from the 3.4 percent estimated for 2022. Incidentally, the IMF's 2023 growth forecast is higher than its previous October estimate of 2.7 percent because it now envisages a better-than-expected global economic recovery in 2023 - global inflation is expected to fall from 8.8 percent in 2022 to 6.6 percent in 2023, and further to 4.3 percent in 2024, fewer countries may face recession and a global downturn is no longer anticipated in 2023. Similarly, the World Bank in its January 2023 Global Economic Prospect projected the global economic growth to slow to 1.7 percent in 2023, 1.3 percent below the previous estimate for 2023, which suggests that the global economic recovery remains fragile.

However, there are strong indications that global inflation will likely moderate over the year, but remain well above pre-COVID-19 rates, which may help stabilize economic growth in 2023.

In Africa, most countries recorded economic growth of varying magnitude in 2022, except for incidents of economic contraction in a few countries. In the Bank's macroeconomic performance and outlook report released in January 2023, Africa's GDP growth is projected to average about 4 percent in 2023 and 2024, higher than the projected world averages of 2.9 percent and 3.1 percent, respectively. The report identified the downside factors for Africa to include spillovers from rising geopolitical tensions, climate change risks, and the lingering impact of the COVID-19 pandemic, which have been amplified by the tightening global financial conditions and the associated increase in domestic debt service costs. These economic downside factors could put further pressure on exchange rates and keep debt vulnerabilities and domestic inflation elevated, threatening food and energy security in most African countries.

For Africa therefore, economic growth in 2023 and 2024 would require greater public policy attention to priority sectors (e.g., health, agriculture, power, and education) to contain the leftover effects of COVID-19. Other areas of focus include moderation of the tough monetary policies aimed at curbing the inflation, reduction of the cost of production and living, sound fiscal management policies to optimize public debt and development of adaptation strategies to minimize disruptions to livelihood from climate change. Despite headwinds in 2022, African economies remain resilient with a stable economic outlook for 2023 and 2024.

From a financial reporting perspective, the known and estimable effects of the various global events have been recorded in the financial statements for the year ended 31 December 2022, manifesting in Net loss before distribution approved by the Board of Governors of UA 0.51 million compared to Net income of UA 0.92 million reported in the same period in 2021, representing a 155.43 percent year-on-year decrease.

The synchronous increase in market interest rates by Central Banks, caused total interest income from treasury investments in 2022 to increase by 170.06 percent (UA 1.10 million).

On lending operations, the leftover effects of the pandemic and associated risk parameters (changes in ECL estimation parameters of LGD and PD, higher inflation and interest rate, etc.) led to a 3,514.29 percent year-to-date increase in reported ECLs. The higher credit risk of borrowers reflects a reduction in the capacity of borrowers to meet their maturing obligations, raising concerns for late or delayed payments, or expected or actual defaults. As a result, the ECL allowance increased by UA 2.46 million to UA 2.53 million in 2022 from UA 0.07 million as at 31 December 2021.

The ensuing financial market stability, projected moderation in inflation and market interest rate, and better global economic growth prospects may cause the Fund's fair value and currency translation changes, credit risks and other performance indicators to remain reasonably stable in 2023 compared to 2022. However, the Fund will continue to monitor and take appropriate actions to manage its business and financial risks, apply risk management adjustments on its exposures, and report the leftover effects of COVID-19, and market conditions in its financial statements as they become known and estimable.

Change in Presentation and Comparative Information

In some cases, the Fund may change the presentation of certain line items in the financial statements in the current year to enhance inter-period comparability. When such a change in presentation is made, the comparative information is also adjusted to reflect the new presentation.

NOTE C -The Effect of New and Revised International Financial Reporting Standards

The Effect of New and Amended IFRSs

A number of new or amended standards became effective for annual periods beginning after 1 January 2022 and beyond with earlier application permitted. The Fund did not early adopt any of the new or amended standards in preparing these financial statements.

(a) New standards and amendments applicable from 1 January 2022

(i) Onerous Contracts – Cost of Fulfilling a Contract: The amendment to IAS 37 clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling contracts.

(ii) Annual Improvements to IFRS Standards 2018–2020: The improvements cover the following:

- Amendment to IFRS 9 Financial Instruments to clarify the fees to be included in the 10 percent test for derecognition of financial liabilities.
- Amendment of certain illustrative examples in IFRS 16 Leases.

(b) New standards and amendments applicable from 1 January 2023 and beyond

(iii) IFRS 17 Insurance Contracts: Effective for annual periods beginning on or after 1 January 2023 (deferred from 1 January 2021). The amendment establishes principles for the recognition, measurement, presentation and disclosure of insurance contracts.

(iv) Definition of Accounting Estimates – Amendments to IAS 8: Focusing on changes in accounting policies and changes in accounting estimates, it helps entities to distinguish between accounting policies and accounting estimates.

(v) Disclosure of Accounting Policies: The change to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 requires entities to disclose their material rather than their significant accounting policies.

(vi) Classification of Liabilities as Current or Non-current - Amendments to IAS 1: Effective for annual periods beginning on or after 1 January 2024 following deferral from 1 January 2022, the amendments clarify that the classification of a liability as either current or non-current is based on the entity's rights at the end of the reporting period.

(vii) ISSB exposure drafts on Sustainability Reporting: In March 2022, the International Sustainability Standards Board (ISSB) released their first two exposure drafts (EDs). There is no specific application date for the requirements proposed in the EDs. The two EDs that have been released are:

- ISSB ED/2022/S1: Proposed IFRS S1 General Requirements for Disclosure of Sustainability-related Financial Information (General Requirements ED), and
- ISSB ED/2022/S2: Proposed IFRS S2 Climate-related Disclosures (Climate ED).

NOTE D – Risk Management Policies and Procedures

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

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

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

In late 2013, a Group Chief Risk Officer position was created reporting directly to the President of the Bank.

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

The following sections describe in detail the manner in which the Fund manages the individual sources of risk.

Credit Risk

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

1) Sovereign Credit Risk

When the Fund lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. Also, in extending credit to sovereign entities, it is exposed to country risk, which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Fund. Country credit risk is managed through financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessment. These include the assessment of each country's macroeconomic performance as well as its socio-political conditions and future growth prospects. As at 31 December 2022, disbursed and outstanding loans net of provision for ECLs increased by UA 2.66 million (2.97 percent) to UA 92.36 million from UA 89.70 million in December 2021, as a result of translation gains arising from the appreciation of the USD against the UA.

Country Exposure in Borrowing Member Countries

The Fund's outstanding loans as at 31 December 2022 and 31 December 2021 were to the following countries:

31 December 2022

(UA thousands)

Country	N° of loans	Total Loans*	Unsigned Loans	Undisbursed Balance	Cumulative Provision for impairment	Disbursed and Outstanding (net)	% of Total Outstanding Loans (excluding provision)
Benin	2	7,659	-	1,118	(26)	6,515	6.84
Cameroon	1	4,941	-	2,764	(11)	2,166	2.27
Côte d'Ivoire	1	4,077	-	2,465	(7)	1,605	1.68
Eswatini	1	1,906	-	-	(7)	1,899	1.99
Gambia	3	5,994	-	-	(266)	5,728	6.26
Ghana	1	604	-	-	(6)	598	0.63
Guinea	1	735	-	-	(40)	695	0.77
Guinea-Bissau	1	217	-	-	(16)	201	0.23
Liberia	2	13,605	-	625	(597)	12,383	13.56
Madagascar	1	5,484	-	-	(44)	5,440	5.73
Malawi	3	14,901	-	2,631	(828)	11,442	12.82
Mali	2	5,960	-	3,923	(228)	1,809	2.13
Mauritania	4	13,230	-	7,964	(53)	5,213	5.50
Namibia**	1	0	-	-	-	0	0.00
Niger	1	7,582	-	4,136	(28)	3,418	3.60
Rwanda	2	8,344	-	2,464	(18)	5,862	6.14
Senegal**	1	0	-	-	-	0	0.00
Sierra Leone	2	7,071	-	461	(71)	6,539	6.91
Togo	2	10,838	-	3,020	(48)	7,770	8.17
Uganda	1	8,513	-	-	(35)	8,478	8.90
Zambia	1	5,860	-	255	(1,011)	4,594	5.86
Total	**34**	**127,521**	**-**	**31,826**	**(3,340)**	**92,355**	**100**

** Excludes fully repaid loans and canceled loans.*
*** Outstanding loans balance value is less than UA 100, at the current exchange rate.*
Slight differences may occur in totals due to rounding.

31 December 2021

(UA thousands)

Country	N° of loans	Total Loans*	Unsigned Loans	Undisbursed Balance	Cumulative Provision for impairment	Disbursed and Outstanding (net)	% of Total Outstanding Loans (excluding provision)
Benin	2	7,568	-	1,230	(11)	6,326	7.00
Cameroon	1	4,946	-	2,769	(4)	2,173	2.40
Côte d'Ivoire	1	4,016	-	2,931	(2)	1,084	1.20
Eswatini	1	2,115	-	-	(17)	2,098	2.34
Gambia	3	6,385	-	-	(96)	6,289	7.05
Ghana	1	670	-	-	(5)	665	0.74
Guinea	1	978	-	-	(19)	959	1.08
Guinea-Bissau	1	234	-	-	(10)	224	0.26
Liberia	2	13,291	-	1,509	(108)	11,674	13.01
Madagascar	1	6,051	-	647	(31)	5,373	5.97
Malawi	3	14,914	-	3,632	(105)	11,178	12.46
Mali	2	6,092	-	4,219	(29)	1,843	2.07
Mauritania	4	13,534	-	9,008	(39)	4,487	5.00
Namibia**	1	0	-	-	-	0	0.00
Niger	1	7,422	-	4,704	(12)	2,706	3.00
Rwanda	2	8,599	-	2,748	(12)	5,839	6.46
Senegal**	1	0	-	-	-	0	0.00
Sierra Leone	2	7,104	-	1,047	(35)	6,022	6.69
Togo	2	10,477	-	3,365	(20)	7,092	7.86
Uganda	1	8,600	-	-	(11)	8,589	9.50
Zambia	1	5,895	-	555	(262)	5,078	5.90
Total	**34**	**128,891**	**-**	**38,364**	**(828)**	**89,699**	**100**

** Excludes fully repaid loans and canceled loans.*
*** Outstanding loans balance value is less than UA 100, at the current exchange rate.*
Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

As at 31 December 2022, all the Fund's loans were made only to public sector borrowers, and such loans generally carry a full sovereign guarantee or the equivalent from the borrowing member state.

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

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

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

Portfolio Risk Monitoring

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

2) Counterparty Credit Risk

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

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

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

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

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

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

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

	Credit Risk Profile of the Investment and Derivative Portfolios		
	AAA	AA+ to AA-	A+ and lower
2022	31%	46%	23%
2021	53%	18%	29%
2020	40%	44%	16%
2019	39%	53%	8%
2018	34%	54%	13%

Expected Credit Risk

Definition of default

The definition of default for determining ECLs considers indicators that the debtor is unlikely to pay, and it is past due for more than 180 days for sovereign counterparties on any material credit obligation to the Fund. The Fund rebuts the IFRS 9's 90 days past due rebuttable presumption in the Fund's sovereign loan portfolio because the sanction policy of the Fund defines a non-accrual or non-performing loan as a loan that is at least 180 days past due. This is also current practice with other multilateral development banks. The recovery rate for loans that are less than 180 days past due is significantly larger than for loans that are over 180 days past due, which demonstrates a more lagging effect.

The Fund considers that the obligor is unlikely to pay its credit obligations to the Fund without recourse by the Fund to actions such as realizing security.

Credit Risk Grades

The Fund allocates each exposure to a credit risk grade based on a variety of data that are determined to be predictive of the risk of default and the application of experienced credit judgment. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

Each exposure is allocated to a credit risk grade at initial recognition based on available information about the borrower. Exposures are subject to ongoing monitoring, which may result in an exposure being moved to a different credit risk grade. The monitoring of the respective exposures involves the use of the following:

- Actual and expected significant changes in the political, regulatory and technological environment of the borrower or in its business activities.

- Data from credit reference agencies, press articles and changes in external credit ratings.
- Modifications of financial assets and financial liabilities

The contractual terms of a loan may be modified for several reasons, including changing market conditions, customer retention, and other factors not related to current or potential credit deterioration of the customer. An existing loan whose terms have been modified may be derecognized and the renegotiated loan recognized as a new loan at fair value in accordance with the accounting policy set out in the Fund's accounting policy.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- Its remaining lifetime probability of default at the reporting date based on the modified terms, with
- The remaining lifetime PD estimated based on data at initial recognition and the original contractual terms.

If the terms of a financial asset are modified, the Fund considers whether the cash flows arising from the modified asset are substantially different. If substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this instance, a new financial asset is recognized at fair value while the original financial asset is derecognized.

If the cash flows of the modified asset are not substantially different, then the modification does not result in derecognition of the financial asset. In this case, the Fund recognizes a modification gain/loss in the statement of profit/loss as the difference between the gross carrying amount prior to the modification and the gross carrying amount.

Measurement and recognition of expected credit losses

ECLs are calculated by multiplying three main components, being the probability of default (PD), loss given default (LGD) and the exposure at default (EAD), discounted at the original Effective Interest Rate (EIR).

These parameters are generally derived from internally developed statistical models and other historical data. They are adjusted to reflect forward-looking information as described above.

PD estimates are estimates at a certain date, which are calculated based on statistical rating models and assessed using rating tools tailored to the various categories of counterparties and exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Where available, market data may also be used to derive the PD for large corporate counterparties. If a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD. PDs are estimated considering the contractual maturities of exposures and estimated prepayment rates.

LGD is the magnitude of the likely loss if there is a default. The Fund estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by property, loan-to value (LTV) ratios are a key parameter in determining LGD.LGD estimates are recalibrated for different economic scenarios for lending, to reflect possible changes in relevant prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Fund derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract, including amortization. The EAD of a financial asset is its gross carrying amount. For financial guarantees, the EAD includes the amount drawn, as well as potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modeling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

As described above, and subject to using a maximum of a 12-month PD for financial assets for which credit risk has not significantly increased, the Fund measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for risk management purposes, the Fund considers a longer period. The maximum contractual period extends to the date at which the Fund has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where the modeling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- Instrument type;
- Credit risk grading;
- Collateral type;
- Date of initial recognition;

- Remaining term to maturity;
- Industry; and
- Geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous. For portfolios in respect of which the Fund has limited historical data, external benchmark information is used to supplement the data available internally.

Assessment of significant increase in credit risk

When determining whether the risk of default has increased significantly since initial recognition, the Fund considers both quantitative and qualitative information and analysis based on the Fund's historical experience and expert credit risk assessment, including forward-looking information that is available without undue cost or effort. Irrespective of the outcome of the above assessment, the Fund presumes that the credit risk on its sovereign and non-sovereign loan has increased significantly since initial recognition when contractual payments are more than 180 days past due for sovereign loans and more than 90 days past due for non-sovereign loans. The reason for rebutting the IFRS rebuttable presumption is explained in the definition of default below.

Despite the foregoing, the Fund assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date. The Fund considers a financial asset to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definition.

For financial guarantee contracts, the date that the Fund becomes a party to the irrevocable commitment is considered the date of initial recognition for the purposes of assessing the financial instrument for impairment. In assessing whether there has been a significant increase in the credit risk since initial recognition of a financial guarantee contract, the Fund considers the changes in the risk that the specified debtor will default on the contract.

The Fund regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying a significant increase in credit risk before the amount becomes past due.

Incorporation of forward-looking information

The Fund has established an expert panel that considers a range of relevant forward-looking macroeconomic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments that support the calculation of ECLs. The expert panel consists of senior executives from risk, finance and economics functions. Relevant regional and industry specific adjustments are applied to capture variations from general industry scenarios. These reflect reasonable and supportable forecasts of future macroeconomic conditions that are not captured within the base ECL calculations. Macroeconomic factors taken into consideration include, but are not limited to, unemployment rates, interest rates, gross domestic product, inflation and commodity prices, and these require an evaluation of both the current and forecast direction of the macroeconomic cycle.

Incorporating forward-looking information increases the degree of judgment required as to how changes in these macroeconomic factors will affect ECLs. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Calculation of expected credit losses

The Fund calculates ECLs based on three probability-weighted scenarios. The three scenarios are base, optimistic and pessimistic. Each of these is associated with different PDs, EADs and LGDs parameters.

These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data. For accounting purposes, the 12-month and lifetime PD represent the expected point-in-time probability of default over the next 12 months and the remaining lifetime of the financial instrument, respectively, based on conditions existing at the balance sheet date and projected future economic conditions that affect credit risk. The LGD represents expected loss conditional on default, taking into account the mitigating effect of collateral, its expected value when realized and the time value of money. The EAD represents the expected exposure at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdown of a facility.

The 12-month ECL is equal to the discounted sum over the next 12 months of monthly PD multiplied by LGD and EAD. Lifetime ECL is calculated using the discounted sum of monthly PD over the remaining life multiplied by LGD and EAD.

The Fund will continue to assess and update the parameters used in the ECL model on an ongoing basis to reflect its loss and recovery experiences and changes in the macroeconomic variables.

Expected Credit Losses

IFRS 9 requires the recognition of 12-month expected credit losses (the portion of lifetime expected credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1), and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2), or which are credit-impaired (stage 3).

Impairment of Financial Instruments by Stage

Gross Exposure/Impairment Allowance

The table below reconciles the total ECL allowances on principal and charges between 31 December 2022 and 31 December 2021 by stage.

As at 31 December 2022

(UA thousands)

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at 1 January 2021	568	199	-	767
Provision on new assets originated or purchased	11	-	-	11
Net (write-back)/provision	(6)	64	-	58
At 31 December 2021	**573**	**263**	**-**	**836**
Gross carrying amount as at 1 January 2022	573	263	-	836
Provision on new assets originated or purchased	3	-	-	3
Net (write-back)/provision	1,771	751	-	2,522
At 31 December 2022	**2,347**	**1,014**	**-**	**3,361**

The cumulative ECLs allowance on loan principal and charges reported on the balance sheet increased by UA 2.52 million (300 percent) to UA 3.36 million in December 2022 from UA 0.84 million in December 2021. The increase in ECL as at 31 December 2022 arose from the sharp increase in the LGD for 3 countries resulting from the change in the Sovereign LGD model.

During 2022, the Bank adopted a new LGD model for the sovereign loans portfolio developed in accordance with the best practices of the sector and the Bank's Model Risk Management (MRM) guidelines. This model replaces the one implemented at the first application of the IFRS 9 impairment, allows for a lower dependence on the Effective Interest Rate (EIR) and its high volatility. The new LGD is now based on an average Effective Interest Rate for the risk class rather than the Effective Interest Rate for the contract.

The new model has been refined by integrating an estimate of the recovery costs and a floor to capture its value. This allows a more global understanding of the average recoveries and captures the adjustment factors linked to the macroeconomic and geopolitical environment specific to each counterparty. It also takes into account the recommendations of Moody's Analytics on the Bank's capital adequacy framework (CADF).

According to the MRM framework, this new model has been validated by the CRC. The Bank will conduct a full review of this new model periodically or in the event of a substantial change in the economic environment.

The tables below show the gross loans by counterparty type and ECL allowances for 31 December 2022 and 31 December 2021 by stage.

As at 31 December 2022

(UA thousands)

	Gross exposure/Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Sovereign loans (gross)	90,090	5,605	-	95,695
Total loans at amortized cost	90,090	5,605	-	95,695
Less: Impairment allowance	(2,327)	(1,013)	-	(3,340)
Total net exposure 31 December 2022	**87,763**	**4,592**	**-**	**92,355**

As at 31 December 2021

(UA thousands)

	Gross exposure/Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Sovereign loans (gross)	85,186	5,341	-	90,527
Total loans at amortized cost	85,186	5,341	-	90,527
Less: Impairment allowance	(566)	(262)	-	(828)
Total net exposure 31 December 2021	**84,620**	**5,079**	**-**	**89,699**

The tables below show the Gross Charges and ECL allowances by stage for 31 December 2022 and 31 December 2021.

As at 31 December 2022

(UA thousands)

	Gross exposure/Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Charges (gross)	296	1	-	297
Total gross charges on loans at amortized cost	296	1	-	297
Less: Impairment allowance	(20)	(1)	-	(21)
Total net exposure 31 December 2022	**276**	**-**	**-**	**276**

As at 31 December 2021

(UA thousands)

	Gross exposure/Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Charges (gross)	323	1	-	324
Total gross charges on loans at amortized cost	323	1	-	324
Less: Impairment allowance	(7)	(1)	-	(8)
Total net exposure 31 December 2021	**316**	**-**	**-**	**316**

The tables below show ECL allowances by instrument for 31 December 2022 and 31 December 2021 by stage.

As at 31 December 2022

(UA thousands)

	Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance on loans at amortized cost	(2,327)	(1,013)	-	(3,340)
Impairment allowance on charges on loans	(20)	(1)	-	(21)
Total provision at 31 December 2022	**(2,347)**	**(1,014)**	**-**	**(3,361)**

As at 31 December 2021

(UA thousands)

	Impairment allowance			
	Stage 1	Stage 2	Stage 3	Total
Impairment allowance on loans at amortized cost	(566)	(262)	-	(828)
Impairment allowance on charges on loans	(7)	(1)	-	(8)
Total provision at 31 December 2021	**(573)**	**(263)**	**-**	**(836)**

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. To mitigate liquidity risk, the Fund's investment management policy ensures that it has sufficient liquid assets to meet its disbursement obligations. For 31 December 2022, the Fund's exposures are from short-term account payables, and the Fund has adequate liquid assets to match the obligations as they fall due.

Currency Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. The Fund manages its currency risk by holding all of its investments and loans in US dollars, the currency in which the Fund's resources are denominated. The Fund is not significantly exposed to currency risk from its operations.

Interest Rate Risk

The Fund is exposed to fair value interest rate risk on its portfolio of loans and investments. All of the Fund's loans have fixed interest rates. Investments are managed against the monthly average of 3-month London Interbank Offered Rate (LIBOR) in order to manage available resources prudently. Re-pricing risk is not considered significant in comparison to the Fund's equity resources, and is accordingly not hedged.

As at 31 December 2022, the Fund had UA 31.82 million of loans which were committed but not yet disbursed (2021: UA 38.36 million). The interest rate on these undisbursed loans has been fixed at between 2 to 4 percent per annum.

Interest rate Benchmark Reform – Disclosure on LIBOR Transition

In July 2017, the Financial Conduct Authority (FCA) UK announced that the London Interbank Offered Rate (LIBOR), used in setting floating or adjustable rates for loans, bonds, derivatives, and other financial instruments will cease to be published from the end of 2021. Since this 2017 announcement, there have been further updates to the cessation date to ensure a seamless and fair transition from LIBOR and other IBORs to the designated alternative Risk-Free Rates (RFRs).

Update on LIBOR cessation:

On March 5th, 2021, the Intercontinental Exchange Benchmark Administration (IBA) and the FCA, respectively the administrator and the supervisor of the LIBORs, announced further updates on the future cessation or non-representativeness dates. As a result, CHF and EUR LIBOR ceased immediately after 31 December 2021. JPY and GBP LIBOR became non-representative immediately after 31 December 2021, but the publication of their most used settings continued under the "Synthetic" methodology based on Term rates (Term SONIA for GBP and TORF for JPY) plus the relevant International Swaps and Derivatives Association (ISDA) Spread Adjustments. Publication of the "Synthetic" JPY LIBOR ceased after 31 December 2022. Publication of the "Synthetic" GBP LIBOR is to continue until 31 March 2023 but the FCA has stated its intention to require IBA to continue to publish the 3 - Month "synthetic" GBP LIBOR setting until the end of March 2024. Publication of the most used USD LIBOR settings currently continues until end of June 2023. The FCA has consulted[1] market on its intention to use its powers to compel IBA to continue to publish the 1-Month, 3-Month and 6-Month USD LIBOR settings under a non-representative "Synthetic" methodology from end of June 2023 until the end of September 2024.

Update on the Implementation of the LIBOR Transition at the Bank:

Early in the global LIBOR Transition reform, the Bank established an ad hoc structure, the LIBOR Transition Task Force ("The Taskforce") to lead the impact assessment and ensure smooth implementation of the transition from LIBOR and other IBORs to the designated alternative RFRs. The Steering Committee (SteerCo), composed of senior management and the Operational Committee (OpsCo), composed of workstream leads, also continue to provide appropriate governance and oversight to the workstreams and the LIBOR Transition as a whole. Further oversight is provided by the ALCO, other Senior Management Committees and the Board of Directors. To date, the Taskforce has ensured that the LIBOR Transition project remains on schedule, adequately resourced and that completion risks are identified and managed effectively to ensure a seamless transition.

The Fund uses LIBOR for its treasury investments activities. As of 31 December 2022, the Fund successfully implemented a number of enhancements to its treasury investments and other systems impacted by the LIBOR transition, to ensure end-to-end issue, trading, operation and reporting of RFR products. The Fund will finalize any outstanding system enhancements well ahead of the June 2023 cessation date.

For its trading counterparties, the Fund adhered to the ISDA IBOR Fallbacks Protocol and continue to encourage adherence to this protocol in the remediation of legacy USD LIBOR-linked trading contracts.

Furthermore, the Fund continues to identify and manage significant LIBOR Transition risks (e.g., legal, conduct, accounting and market, and operational) and actively monitors progress on remediation on all legacy USD LIBOR-linked contracts and those facing tough closures. If some of the legacy USD LIBOR-linked contracts are not transitioned by the first reset date after 30 June 2023, the Fund will continue to use synthetic USD LIBOR (where published by IBA) or other suitable market rates to ensure

1 *See FCA - CP22/21: Consultation on 'synthetic' US dollar LIBOR and feedback to CP22/11: https://www.fca.org.uk/publications/consultation-papers/cp22-21-synthetic-us-dollar-libor*

a stable outlook for its banking business post-cessation date. For 2023 therefore, the top priority for the Fund is the orderly transition of legacy USD LIBOR-linked contracts to the SOFR.

On financial reporting, the Fund adopted and applied the IASB's Phase 2 amendments on Interest Rate Benchmark Reform – Amendment to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 for the year ended 31 December 2021. The Phase 2 amendments include a practical expedient that allows for changes to the basis for determining contractual cash flows to be treated as a change to a variable or floating rate of interest, if certain conditions are met. The conditions are 1) that the changes to the basis for determining contractual cash flows of the financial instruments are as a direct consequence of the interest rate benchmark reform and 2) the new basis for determining the contractual cash flows would be economically equivalent to the previous basis for determining the contractual cash flows. The application of the Phase 2 amendments is not expected to significantly impact the financial statements of the Fund.

As at 31 December 2022, the Fund still has amounts of financial assets that are linked to the USD LIBOR, which are expected to be transitioned to SOFR on the first reset date following the non-representativeness of USD LIBOR immediately after end of June 2023. Accordingly, the Fund has presented a disclosure on the outstanding legacy USD LIBOR and other IBOR-linked contracts in these financial statements.

Overall, the LIBOR Transition project has progressed effectively to ensure the application of RFRs on a business-as-usual basis. As such, the Fund is committed to ensuring that all legacy USD LIBOR-linked and other IBOR contracts have the right fallbacks provision for their transition to their appropriate RFRs on the first reset date following 30 June 2023 USD LIBOR non-representativeness date.

The table below provides a disclosure on USD LIBOR and other IBOR-linked contracts by currency settings and nature of financial instruments as at 31 December 2022. Financial instruments maturing on or before 31 December 2022 were excluded.

(In UA thousands)

IBOR linked contracts by benchmark at 31 December 2022	USD LIBOR
Financial assets	
Treasury Asset	13.00
Total IBOR linked contracts	**13.00**

Interest Rate Risk Position as at 31 December 2022

(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								
Due from banks	5,486	-	-	-	-	-	-	5,486
Treasury investments	70,170	21,036	-	-	-	10	-	91,216
Accounts receivable	1,265	-	-	-	-	-	-	1,265
Loans	6,220	6,847	6,701	6,594	6,621	62,712	(3,340)	92,355
	83,141	27,883	6,701	6,594	6,621	62,722	(3,340)	190,322
Liabilities								
Accounts payable	(2,164)	-	-	-	-	-	-	(2,164)
Interest rate risk position as at 31 December 2022*	**80,977**	**27,883**	**6,701**	**6,594**	**6,621**	**62,722**	**(3,340)**	**188,158**

** Interest rate risk position represents equity.*

Interest Rate Risk Position as at 31 December 2021

(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								
Due from banks	3,283	-	-	-	-	-	-	3,283
Treasury investments	87,064	-	-	-	-	14	-	87,078
Accounts receivable	947	-	-	-	-	-	-	947
Loans	5,278	5,838	6,342	6,202	5,993	60,874	(828)	89,699
	96,572	5,838	6,342	6,202	5,993	60,888	(828)	181,007
Liabilities								
Accounts payable	(1,552)	-	-	-	-	-	-	(1,552)
Interest rate risk position as at 31 December 2021*	**95,020**	**5,838**	**6,342**	**6,202**	**5,993**	**60,888**	**(828)**	**179,455**

** Interest rate risk position represents equity.*

Currency and Interest Rate Sensitivity Analysis

The Fund holds all of its investments and loans in US dollars and therefore is exposed only to translation adjustment as the Fund's assets are reported in UA for financial reporting purposes. However, the Fund is moderately exposed to interest rate and asset price risks, which it monitors using sensitivity analysis.

Movements in interest rates have an impact on the reported fair value of the trading portfolio. The table below shows the effect of a parallel yield curve movement +/- 100 basis point as at 31 December 2022 and 2021, respectively.

(UA thousands)

	+100 Basis Points		-100 Basis Points	
	2022	2021	2022	2021
(Loss)/gain on investments measured at fair value	(783)	(259)	786	262

NOTE E – Financial Assets and Liabilities

The tables below set out the classification of financial assets and liabilities and their respective fair values as at 31 December 2022 and 31 December 2021.

Analysis of Financial Assets and Liabilities by Measurement Basis

31 December 2022

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss				
	Mandatorily at Fair value	Designated at Fair Value	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Due from banks	-	-	5,486	5,486	5,486
Treasury investments	91,216	-	-	91,216	91,216
Accounts receivable	-	-	1,265	1,265	1,265
Loans (net)	-	-	92,355	92,355	92,355
Total financial assets	**91,216**	**-**	**99,106**	**190,322**	**190,322**
Accounts payable	-	-	2,164	2,164	2,164
Total financial liabilities	**-**	**-**	**2,164**	**2,164**	**2,164**

31 December 2021

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss				
	Mandatorily at Fair value	Designated at Fair Value	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
Due from banks	-	-	3,283	3,283	3,283
Treasury investments	87,078	-	-	87,078	87,078
Accounts receivable	-	-	947	947	947
Loans (net)	-	-	89,699	89,699	89,699
Total financial assets	**87,078**	**-**	**93,929**	**181,007**	**181,007**
Accounts payable	-	-	1,552	1,552	1,552
Total financial liabilities	**-**	**-**	**1,552**	**1,552**	**1,552**

Fair Value of Loans

As at 31 December 2022 and 31 December 2021, the fair value of loans measured at amortized cost are deemed to approximate their net carrying value.

NOTE F – Treasury Investments

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

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

As at 31 December 2022, the treasury investment portfolio increased by UA 4.14 million (4.75 percent) to UA 91.22 million from UA 87.08 million as at 31 December 2021. All treasury investments were held at fair value through profit and loss as at 31 December 2022.

The Fund's treasury investments at FVTPL at 31 December 2022 and 31 December 2021 are summarized below:

(UA thousands)

	2022	2021
Time deposits	4,154	29,714
Asset-backed securities	10	14
Government and agency obligations	87,052	53,780
Corporate bonds	-	3,570
Total	**91,216**	**87,078**

The table below classifies the Fund's treasury investments as at 31 December 2022 and 31 December 2021 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	
	2022	2021	2022	2021	2022	2021	2022	2021
Time deposits	4,154	29,714	-	-	-	-	4,154	29,714
Asset-backed securities	-	-	-	-	10	14	10	14
Government and agency obligations	87,052	53,780	-	-	-	-	87,052	53,780
Corporate bonds	-	-	-	3,570	-	-	-	3,570
Total	**91,206**	**83,494**	**-**	**3,570**	**10**	**14**	**91,216**	**87,078**

Fair value measurement of financial instruments using valuation technique with no significant input from observable market data (level 3 hierarchy) at 31 December 2022 and 2021 are made up as follows:

(UA thousands)

	2022	2021
Balance at 1 January	14	22
Losses recognized in the income statement	(4)	(8)
Balance at 31 December	**10**	**14**

The contractual maturity structure of the Fund's treasury investments as at 31 December 2022 and 31 December 2021 was as follows:

(UA thousands)

	2022	2021
One year or less	70,170	87,064
More than one year but less than two years	21,036	-
More than two years but less than three years	-	-
More than three years but less than four years	-	-
More than four years but less than five years	-	-
More than five years	10	14
Total	**91,216**	**87,078**

The notional value of treasury investments as at 31 December 2022 was UA 91.22 million (31 December 2021: UA 87.08 million), while the average year-to-date yield was 1.53 percent (31 December 2021: 0.16 percent). Accrued income on treasury investments as at 31 December 2022 increased by UA 0.15 million (51.72 percent) to UA 0.44 million from UA 0.29 million as at 31 December 2021.

NOTE G – Loans

Loans originated before 22 September 2003 carry an interest rate of four percent (4%) on the outstanding balance. With effect from 22 September 2003, pursuant to the Board of Governors' resolution B/BG/2003/11 3 June 2003 and the protocol agreement between the Government of Nigeria and the Bank, dated 22 September 2003, the interest rate on loans was changed from a flat 4 percent per annum to a range of 2 percent to 4 percent (inclusive) per annum on the outstanding balance and future undisbursed loans. Furthermore, a 0.75 percent commission is payable on undisbursed balances commencing 120 days after the signature of the loan. Loans approved prior to the extension of the Agreement are granted for a maximum period of 25 years, including a grace period of up to 5 years.

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

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

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

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

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

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

The NTF provides financing to suit the needs of its borrowers.

Loan Ceilings

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

The Fund's loan regulations require that loans be expressed in UA and repaid in the currency disbursed. As at 31 December 2022, all loans disbursed were repayable in United States dollars.

The contractual maturity structure of the Fund's outstanding loans as at 31 December 2022 and 31 December 2021 was as follows:

(Amounts in UA millions)

	2022		2021	
Periods	Amount	%	Amount	%
One year or less	6.22	6.50	5.28	5.83
More than one year but less than two years	6.85	7.16	5.84	6.45
More than two years but less than three years	6.70	7.00	6.34	7.00
More than three years but less than four years	6.59	6.89	6.20	6.85
More than four years but less than five years	6.62	6.92	5.99	6.62
More than five years	62.72	65.53	60.87	67.25
Total	**95.70**	**100**	**90.52**	**100**

The weighted-average interest yield on outstanding loans for the year ended 31 December 2022 was 1.01 percent (1.04 percent as at 31 December 2021). Borrowers may prepay loans, subject to the terms specified in the loan agreement.

Disbursed and Outstanding Loans

The Fund's loans are disbursed to sovereigns. As at 31 December 2022, no loan made to or guaranteed by borrowing countries was overdue or considered to be impaired. The table below shows the Gross loans and Charges, including their respective impairment provisions and ECL coverage ratio as at 31 December 2022 and 31 December 2021.

Gross Loan Principal and Charges including ECL Allowance

31 December 2022

(UA thousands)

	Gross Exposure			
	Stage 1	Stage 2	Stage 3	Total
Loan Principal	90,090	5,605	-	95,695
Interest receivables	296	1	-	297
Total	**90,386**	**5,606**	**-**	**95,992**
	Impairment Allowance			
Loan Principal	2,327	1,013	-	3,340
Interest receivables	20	1	-	21
Total	**2,347**	**1,014**	**-**	**3,361**
	Net Outstanding			
Loan Principal	87,763	4,592	-	92,355
Interest receivables	276	-	-	276
Total	**88,039**	**4,592**	**-**	**92,631**
	ECL Coverage Ratio			
Loan Principal	2.58%	18.08%	0.00%	3.49%
Interest receivables	6.75%	83.56%	0.00%	6.99%
Total Coverage Ratio	**2.60%**	**18.09%**	**0.00%**	**3.50%**

31 December 2021

(UA thousands)

	Gross Exposure			
	Stage 1	Stage 2	Stage 3	Total
Loan Principal	85,186	5,341	-	90,527
Interest receivables	323	1	-	324
Total	**85,509**	**5,342**	**-**	**90,851**
	Impairment Allowance			
Loan Principal	566	262	-	828
Interest receivables	7	1	-	8
Total	**573**	**263**	**-**	**836**
	Net Outstanding			
Loan Principal	84,620	5,079	-	89,699
Interest receivables	316	-	-	316
Total	**84,936**	**5,079**	**-**	**90,015**
	ECL Coverage Ratio			
Loan Principal	0.66%	4.90%	0.00%	0.91%
Interest receivables	2.12%	100.00%	0.00%	2.42%
Total Coverage Ratio	**0.67%**	**4.91%**	**0.00%**	**0.92%**

Carrying Amounts and Fair Value

The tables below present the outstanding principal, accrued income and charges receivable on loans and ECL allowance including their fair value as at 31 December 2022 and 31 December 2021.

Loan Principal

(UA thousands)

	2022	2021
	Carrying/Fair Value	Carrying/Fair Value
Loan balance at 31 December	95,695	90,527
Accumulated provision for impairment on loans	(3,340)	(828)
Net balance	**92,355**	**89,699**

Accrued Income and Charges

(UA thousands)

	2022	2021
	Carrying/Fair Value	Carrying/Fair Value
Accrued income and charges receivable on loans at 31 December	297	324
Accumulated provision for impairment on interest charges and receivable on loans	(21)	(8)
Net balance	**276**	**316**

NOTE H – Equity

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

Fund Capital

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

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

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

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

During the year ended 31 December 2014, the Government of Nigeria authorized the withdrawal of USD 13 million (UA 8.41 million) from reserves to settle its commitment on the arrears clearance of debt owed by Liberia under the internationally coordinated arrears clearance mechanism for post-conflict countries.

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

Reserves Including Retained Earnings

Retained Earnings

Retained earnings as at 31 December 2022 and 31 December 2021 was as follows:

(UA thousands)

Balance at 1 January 2021	151,033
Net income for the year	624
Balance at 31 December 2021	**151,657**
Balance at 31 December 2021 and 1 January 2022	**151,657**
Net loss for the year	(603)
Balance at 31 December 2022	**151,054**

The Board of Governors of the Bank approves the transfers of part of the Fund's annual income for the year to Heavily Indebted Poor Countries. Transfers approved by the Board of Governors of the Bank are reported within the income statement as expenses in the year the transfer is approved. Prior to 2006, Board of Governors' approved transfer was reported as a reduction in retained earnings.

Cumulative Currency Translation Adjustments

Cumulative currency translation adjustments as at 31 December 2022 and 31 December 2021 were as follows:

(UA thousands)

	2022	2021
Balance at 1 January	100,788	105,895
Movements during the year	(9,306)	(5,107)
Balance at 31 December	**91,482**	**100,788**

NOTE I – Income

Interest and Charges on Loans

Interest and charges on loans for the years ended 31 December 2022 and 31 December 2021 were as follows:

(UA thousands)

	2022	2021
Interest income on loans not impaired	967	902
Commitment charges	171	211
Total	**1,138**	**1,113**

Income from Treasury Investments

Income from investments for the years ended 31 December 2022 and 31 December 2021 were as follows:

(UA thousands)

	2022	2021
Interest income	1,750	648
Realized fair value losses	(706)	(247)
Unrealized fair value gains/(losses)	360	(258)
Total	**1,404**	**143**

NOTE J – Administrative Expenses

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

a) Separately identifiable costs incurred by the Bank for the Fund.

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

However, the annual payment for the expenses incurred by the Bank is capped and shall not exceed 20 percent of the Fund's gross income during each period. The administrative cost-sharing formula may be reviewed from time to time by mutual agreement. The amount of UA 0.51 million charged for the year ended 31 December 2022, compared to UA 0.25 million for 31 December 2021, represents the Fund's share of the Bank Group expenses.

NOTE K – Related Parties

The Nigeria Trust Fund is administered by the African Development Bank. The ADB conducts the general operations of the NTF based on the terms of the Agreement and in consultation with the Government of Nigeria. The NTF utilizes the offices, staff, organization, services and facilities of the Bank and reimburses the Bank for its share of the costs of such facilities, based on an agreed-upon cost-sharing formula (see Note J). The amount outstanding as at 31 December 2022 in respect of the Fund's share of administrative expenses was UA 0.27 million (2021: UA 0.03 million) and is included in accounts payable on the balance sheet.

NOTE L – Segment Reporting

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

The main products and services from which the Fund derives its revenue are loans to ADB regional member countries and treasury investments.

Total revenue for the years ended 31 December 2022 and 2021 is detailed as follows:

(UA thousands)

	2022	2021
Interest income and charges on loans with sovereign guarantee	1,138	1,113
Treasury investment income	1,404	143
Total revenue	**2,542**	**1,256**

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

Geographic information about income from loans for the year ended 31 December 2022 and 2021 is detailed as follows:

(UA thousands)

	Central Africa	Eastern Africa	Northern Africa	Southern Africa	Western Africa	Multi-national	Total
2022							
Income from loans	-	259	-	169	665	45	1,138
2021							
Income from loans	-	256	-	171	649	37	1,113

Revenues derived from transactions with a single borrower country and exceeding 10 percent of the Fund's revenue for one country amounted to UA 0.12 million for the year ended 31 December 2022.

NOTE M – Approval of Financial Statements

On March 29, 2023, 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 2023.

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Independent Auditor's Report on the Financial Statements

Year ended December 31, 2022

To the Board of Governors of the African Development Bank in respect of the Nigeria Trust Fund.

Opinion

We have audited the accompanying financial statements of the Nigeria Trust Fund which comprise the balance sheet as at December 31, 2022 and the income statement, the statement of other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information as set out in notes A to M.

In our opinion, the accompanying financial statements present fairly, in all material respects, and give a true and fair view of the assets and liabilities and of the financial position of the Fund as at December 31, 2022 and of the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

Audit Framework

We conducted our audit in accordance with International Standards on Auditing (ISA). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *"Auditor's Responsibilities for the Audit of the Financial Statements"* section of our report.

Independence

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Key Audit Matters

We inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the financial statements of the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

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572 028 041 RCS Nanterre
TVA : FR 02 572 028 041

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Impairment based on expected credit losses for loans classified in stages 1 and 2

Risk identified	In addition to the impairment methodology for incurred credit loss (stage 3), the IFRS 9 impairment rules related to expected credit losses require the recording of impairments calculated as follows: • stage 1 representing an expected loss within 1 year from initial recognition of the financial asset; • stage 2, which represents an expected loss at maturity, in the event of a significant increase in credit risk since initial recognition. The estimate of expected credit losses requires the exercise of judgment, to determine in particular: • the rating procedures for loans covered by this impairment model; • the rules for mapping loans to their appropriate staging; • criteria for the determination of increase in credit risk; • key parameters for calculating expected credit losses, such as the probability of default (PD) and loss given default (LGD), notably this year with the methodology change in the determination of the LGD sovereign curve; • the methodology for taking into account macroeconomic projections for both increase in credit risk and measurement of expected losses. These parameters are integrated into the model used by the Fund to determine the amount of expected credit losses. In addition, these parameters are more sensitive in the current context of multiple crisis which led to a macro-economic environment with higher uncertainties and volatility that is likely to affect the reimbursement ability of some borrowers, with contrasting situations. The accounting principles applied and the impact of those IFRS 9 impairment rules are detailed in notes B, D and G. Thus, the impairment charge on outstanding loans classified in stages 1 and 2 amounted to UA 2,525 thousand for the year ended December 31, 2022 and corresponds to the total amount of impairment charge for the year ended December 31, 2022. Consequently, as at December 31, 2022, the accumulated impairment for expected losses on loans classified in stages 1 and 2 amounted to UA 3,361 thousand, corresponding to the total amount of loans impairment given the absence of loans classified in stage 3. Given the scope of the IFRS 9 standard, the complexity of its implementation and the importance of the accounting estimates, we considered that impairments based on expected credit losses on loans classified in stages 1 and 2 is a key audit matter for the year ended December 31, 2022, more particularly in the current context, which is marked by significant uncertainty linked to the prevailing macroeconomic environment and the absence of a comparable historical situation.

Our response	Our work has been strengthened to take into account the evolution of risks and the increased level of uncertainty related to the prevailing macroeconomic situation. In this context, we have assessed the adequacy of the level of stages 1 & 2 credit risk coverage and the overall level of the associated cost of risk, as well as the relevance of the internal control system and, in particular, its adaptation to the current economic environment. With the assistance of our experts, our work consisted mainly of: • analyzing the compliance of calculation and calibration methods with the IFRS 9 standards, in particular on: - the loans rating process, the significant increase in credit risk criteria and the rules for mapping loans to their appropriate staging; - calculation of expected losses (review of the models, calibration of PDs, LGDs with a specific focus on the methodological changes to LGDs for sovereign loans, review of forward-looking assumptions parameters with regard to the evolution of the macro-economic context, etc.); • carrying out independent calculations with our own tools. Finally, our audit work also included the review of the impact of expected credit losses on the financial statements as at December 31, 2022 and the review of the relevant explanatory information provided in the notes to the financial statements.

Other information

Management is responsible for the other information. The other information comprises the information included in the African Development Bank Group Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements, or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Fund or to cease operations.

The Audit & Finance Committee of the Board, and more generally those charged with governance, are responsible for overseeing the Fund's financial reporting process and to monitor the effectiveness of the internal control and risk management systems, as well as the internal audit, as regards the procedures relating to the preparation and processing of accounting and financial information.

The financial statements were approved by the Board for transmission to the Board of Governors.

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Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In accordance with International Standards on Auditing (ISA), our role as external auditor does not consist in guaranteeing the viability or quality of management of the audited entity.

As part of an audit conducted in accordance with ISA, the auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Paris – La Défense, April 27, 2023

The independent auditor
Deloitte & Associés

Jean-Vincent COUSTEL
Partner