



REPUBLIC OF SEYCHELLES

Offer to Exchange

Republic of Seychelles U.S.\$ Notes due 2016-2026
with Interest Rate Step-ups in 2012, 2015 and 2018 (the "New Discount Notes")
partially guaranteed by The African Development Bank (the "Guarantor")

or

Republic of Seychelles U.S.\$ Notes due 2038-2041 (the "New Par Notes")
(the New Discount Notes and the New Par Notes are collectively referred to as the "New Notes")

for

Republic of Seychelles €54,750,000 Amortising Notes due 2011 (the "Amortising Notes") and
Republic of Seychelles U.S.\$230,000,000 9.125 per cent. Notes due 2011 (the "2011 Notes")
(collectively, the "Existing Notes")

and/or

Republic of Seychelles Loans (as defined in the section entitled "Terms of Exchange Offer") ("Existing Loans") (the Existing Notes and Existing Loans are collectively referred to as the "Existing Instruments")

The Republic of Seychelles hereby invites the holders of Existing Instruments to tender all or any of their Existing Instruments for either or both series of the New Notes upon the terms and conditions set out in this Prospectus in the section entitled "Terms of Exchange Offer" (the "Exchange Offer"). The New Notes will be general, direct, unconditional, unsubordinated and unsecured obligations of the Republic of Seychelles and will rank at least *pari passu* with all other existing and future unsubordinated and unsecured obligations of the Republic of Seychelles.

The principal amount of New Discount Notes and New Par Notes to be exchanged for the Existing Instruments together with all accrued and unpaid interest thereon will be as follows:

	New Discount Notes	New Par Notes
For each U.S.\$1,000 principal amount of 2011 Notes tendered:	U.S.\$500	U.S.\$1,000
For each €1,000 Relevant Amount (as defined in the section entitled "Terms of Exchange Offer") of Amortising Notes tendered:	U.S.\$748.35	U.S.\$1,496.70
For each U.S.\$1,000 principal amount of U.S. dollar denominated Existing Loans tendered:	U.S.\$500	U.S.\$1,000

Any Existing Instruments denominated in a currency not referred to above will be translated into U.S. dollars at the rates set out in the section entitled "Terms of Exchange Offer - Principal Amount of New Notes to be Received by Holders pursuant to the Exchange Offer". Any tenders of Existing Notes may only be made in integral multiples of U.S.\$1,000 or €1,000. The issue price of the New Notes is 100 per cent. of their principal amount.

Unless previously redeemed or cancelled, the New Discount Notes will be redeemed in 20 equal semi-annual instalments commencing on 1 July 2016. The New Discount Notes may also be redeemed at par at the option of the Republic of Seychelles, in whole or in part, on any principal repayment date.

Unless previously redeemed or cancelled, the New Par Notes will be redeemed in 7 equal semi-annual instalments commencing on 1 July 2038. The New Par Notes may also be redeemed at par at the option of the Republic of Seychelles, in whole or in part, on any principal repayment date.

Holders of each series of Existing Notes, by tendering such notes to participate in the Exchange Offer and submitting an Exchange Instruction in respect of such notes, will be giving instructions to the relevant Clearing System to instruct Citibank Europe PLC (and any affiliate thereof holding the Permanent Global Note of each series of Existing Notes) as holder of the global note of the relevant series of Existing Notes to vote in favour of the Extraordinary Resolutions in substantially the form as set out in the section entitled "Form of Notices and Extraordinary Resolutions" at any meeting of Holders of the relevant series of Existing Notes duly convened in accordance with the terms and conditions of such notes (a "Meeting of Holders") held on or prior to the Settlement Date. The Republic of Seychelles may choose on or about the Expiration Date to convene such a Meeting of Holders in respect of the Amortising Notes and/or the 2011 Notes to sanction the exchange of the 2011 Notes and Amortising Notes, as applicable, for that series of New Notes which will have the largest aggregate principal amount following consummation of the Exchange Offer (the "Larger Series of New Notes"). It is anticipated that Citibank Europe PLC will appoint Citibank, N.A. as proxy to vote in favour of any Extraordinary Resolutions held at any duly convened Meetings of Holders. If the Extraordinary Resolution for the exchange of a series of Existing Notes for such New Notes is passed at the relevant Meeting of Holders, holders of Existing Notes who do not participate in the Exchange Offer will hold, as of the Settlement Date, the Larger Series of New Notes.

The Guarantor has agreed to guarantee on a partial basis the payment of interest due and payable by the Republic of Seychelles in respect of the New Discount Notes, subject to an aggregate guarantee maximum amount of \$10 million. The Guarantor is only required to make payment under the Guarantee in the event the Republic of Seychelles fails to make an interest payment on an Interest Payment Date in respect of the New Discount Notes and a demand under the Guarantee is delivered to the Guarantor in respect thereof. Amounts payable by the Guarantor under the Guarantee do not include principal, costs, fees, expenses and other amounts as more particularly described in the Deed of Guarantee or any payment of interest that in aggregate exceeds U.S.\$10,000,000.

From, and including, 1 January 2010 to, but excluding, 1 January 2012 (the "New Discount Notes Initial Interest Term"), the New Discount Notes bear interest at the rate of 3 per cent. per annum. From, and including, 1 January 2012 to, but excluding 1 January 2015 (the "New Discount Notes First Step-up Interest Term"), the New Discount Notes bear interest at the rate of 5 per cent. per annum. From, and including, 1 January 2015 to, but excluding 1 January 2018 (the "New Discount Notes Second Step-up Interest Term"), the New Discount Notes bear interest at the rate of 7 per cent. per annum. Thereafter, from, and including, 1 January 2018 to, but excluding 1 January 2026 (the "New Discount Notes Third Step-up Interest Term"), the New Discount Notes bear interest at the rate of 8 per cent. per annum. Interest during the New Discount Notes Initial Interest Term, the New Discount Notes First Step-up Interest Term, the New Discount Notes Second Step-up Interest Term and the New Discount Notes Third Step-up Interest Term is payable in two equal instalments semi annually in arrears on 1 January and 1 July in each year, the first such interest payment date being 1 July 2010, subject as provided in "Terms and Conditions of the New Discount Notes - Payments".

From, and including, 1 January 2010 to, but excluding, 1 July 2041, the New Par Notes bear interest at the rate of 2.0 per cent. per annum. Interest on the New Par Notes is payable in two equal instalments semi annually in arrears on 1 January and 1 July in each year, the first such interest payment date being 1 July 2010, subject as provided in "Terms and Conditions of the New Par Notes - Payments".

The New Discount Notes will include a goodwill payment of U.S.\$10.44 per U.S.\$100 face amount thereof payable on 12 April 2010. The New Par Notes will include a goodwill payment of U.S.\$5.22 per U.S.\$100 face amount thereof payable on 12 April 2010. Payments on the New Notes will be made in U.S. dollars without deduction for or on account of taxes imposed or levied by the Republic of Seychelles to the extent described under "Terms and Conditions of the New Par Notes - Taxation" or "Terms and Conditions of the New Discount Notes - Taxation" as applicable.

This Prospectus, the related Letter of Transmittal as set out in Annex A, the Exchange Instructions, the form of Guarantee as set out in Annex B and the Extraordinary Resolutions as set out in the section entitled "Form of Notices and Extraordinary Resolutions" are together referred to as the "Exchange Offer Materials".

Each holder of Existing Notes may only participate in the Exchange Offer by delivering Exchange Instructions which have been properly completed and executed in accordance with the relevant instructions set out in the section entitled "Exchange Offer Procedures". Each holder of Existing Loans may only participate in the Exchange Offer by delivering a Letter of Transmittal (as set out in Annex A) to Citibank, N.A. (the "Exchange Agent") at the address specified in the Letter of Transmittal by hand, e-mail, courier, mail or facsimile transmission in accordance with the relevant instructions set out in the section entitled "Exchange Offer Procedures". All such holders are referred to as "Holders". Exchange Instructions and Letter of Transmittal must be delivered no later than 5:00pm, London time, on 14 January 2010 (or such other date as determined by the Republic of Seychelles as a result of an extension of the Exchange Offer).

The Republic of Seychelles will only issue New Par Notes if the principal amount of New Par Notes to be exchanged for the Existing Instruments is at least U.S.\$50,000,000. If the principal amount of New Par Notes which would be exchanged for the Existing Instruments is less than U.S.\$50,000,000, each Holder of Existing Loans and each Holder of Existing Notes that has tendered for New Par Notes will be automatically deemed to have tendered its Existing Loans and Existing Notes exclusively for New Discount Notes upon the terms and subject to the conditions applicable to New Discount Notes as set out in the Exchange Offer Materials.

The Republic of Seychelles may, in circumstances more particularly described in the section entitled "Terms of Exchange Offer - Termination of Exchange Offer", terminate the Exchange Offer in which case all Tenders by Holders of Existing Loans or Existing Notes and associated Exchange Instructions will be legally null and void.

Participation in the Exchange Offer involves a degree of risk which is described in more detail in the section entitled "Risk Factors".

This Prospectus has been approved by the United Kingdom Financial Services Authority (the "FSA"), which is the United Kingdom competent authority for the purposes of Directive 2003/71/EC (the "Prospectus Directive") and relevant implementing measures in the United Kingdom as a prospectus issued in compliance with the Prospectus Directive and relevant implementing measures in the United Kingdom for the purpose of giving information with regard to the issue of the New Notes. Applications have been made for a certificate of approval under Article 18 of the Prospectus Directive as implemented in the United Kingdom to be issued by the FSA to the competent authority in Austria, France, Germany, Italy, Luxembourg and Portugal and for the New Notes to be admitted to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange plc (the "London Stock Exchange"). The Regulated Market of the London Stock Exchange is a regulated market for the purposes of Directive 2004/39/EC on markets in financial instruments.

The New Notes have not been, and will not be, registered under the United States Securities Act of 1933 (the "Securities Act") and are subject to United States tax law requirements. The New Notes are being offered outside the United States in accordance with Regulation S under the Securities Act ("Regulation S"), and may not be offered, sold or delivered within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act.

The New Discount Notes and the New Par Notes will each be in bearer form and in the denomination of U.S.\$100 each. The New Discount Notes and the New Par Notes will each initially be in the form of a temporary global note (each a "Temporary Global Note"), without interest coupons, which will be deposited on or around 11 February 2010 (the "Settlement Date") with a common depositary for Euroclear Bank SA/NV ("Euroclear") and Clearstream, Luxembourg, société anonyme ("Clearstream, Luxembourg"). Each Temporary Global Note will be exchangeable, in whole or in part, for interests in a permanent global note (each a "Permanent Global Note"), without interest coupons, not earlier than 40 days after the Settlement Date upon certification as to non-U.S. beneficial ownership. Interest payments in respect of the New Notes cannot be collected without such certification of non-U.S. beneficial ownership. Each Permanent Global Note will be exchangeable in certain limited circumstances in whole, but not in part, for the relevant New Notes in definitive form in the denomination of U.S.\$100 each and with interest coupons attached. Please refer to the sections entitled "Form and Transfer of New Discount Notes" and "Form and Transfer of New Par Notes".

THIS OFFER TO EXCHANGE WILL EXPIRE AT 5:00PM, LONDON TIME, ON 14 JANUARY 2010, UNLESS EXTENDED IN ACCORDANCE WITH THE TERMS AS SET FORTH HEREIN (THE "EXPIRATION DATE")

Custodians, direct participants and clearing systems might have deadlines prior to the Expiration Date for receiving instructions and should be contacted as soon as possible to ensure proper and timely delivery of instructions.

IMPORTANT NOTICES

The Republic of Seychelles (the “**Issuer**”) accepts responsibility for the information contained in this Prospectus and declares that, having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus to the best of its knowledge is in accordance with the facts and contains no omission likely to affect its import.

The Issuer has not made any investigation concerning the information relating to the Guarantor contained in this Prospectus. The Issuer, therefore, makes no representations, warranties or assurances of any nature as to the accuracy, completeness or sufficiency of such information and assumes no responsibility with respect to that information.

The Issuer, having made all reasonable enquiries, confirms that this Prospectus contains all information regarding the Issuer and the New Notes which is (in the context of the issue of the New Notes) material; such information is true and accurate in all material respects and is not misleading in any material respect; any opinions, predictions or intentions expressed in this Prospectus on the part of the Issuer are honestly held or made and are not misleading in any material respect; this Prospectus does not omit to state any material fact necessary to make such information, opinions, predictions or intentions (in such context) not misleading in any material respect; and all proper enquiries have been made to ascertain and to verify the foregoing.

The Issuer has not authorised the making or provision of any representation or information regarding the Issuer or the New Notes other than as contained in this Prospectus or as approved for such purpose by the Issuer. Any such representation or information should not be relied upon as having been authorised by the Issuer.

The Guarantor accepts responsibility for the information contained or referred to in this Prospectus relating to the Guarantor and the Guarantee. The Guarantor has made no investigation concerning any other information contained in this Prospectus and makes no representations, warranties or assurances of any nature as to the accuracy, completeness or sufficiency of any such information and assumes no responsibility with respect to such information.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any New Note shall in any circumstances create any implication that there has been no adverse change, or any event reasonably likely to involve any adverse change, in the condition of the Republic of Seychelles since the date of this Prospectus. Unless otherwise indicated, all information in this Prospectus is given as of its date. This Prospectus may only be used where it is legal to offer and sell these securities.

No person should consider this Prospectus as a recommendation by the Issuer to participate in the Exchange Offer. In making an investment decision, persons should rely on their own examination and evaluation of the Issuer and the terms of the Exchange Offer, including the merits and risks involved. Persons should consult their own advisors as needed to make any investment decision and as to whether they are legally permitted to acquire the New Notes in the Exchange Offer under applicable legal investment or similar laws or regulations.

None of the Exchange Agent, Information Agent, the Syndicate Agent, the Paying Agent, the Guarantor nor the Trustee for these purposes, (together, the “**Agents**”) makes any representation regarding this Prospectus or the New Notes or any recommendation that Holders of Existing Instruments should tender or refrain from tendering them for New Notes pursuant to the Exchange Offer, and no one has been authorised by any Agent to make any such recommendation.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of, the Issuer or any agency thereof in any jurisdiction where an offer or invitation by or on behalf of the Issuer or any agency thereof is not permitted by the laws of such jurisdiction. Persons into whose possession this Prospectus comes should inform themselves of and observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of New Notes and on distribution of this Prospectus and other offering material relating to the New Notes, please refer to the section entitled “*Jurisdictional Restrictions*”. The Issuer does not accept any liability for its own failure or the failure of any other person or persons to comply with the provisions of any such restrictions.

In particular, the New Notes have not been and will not be registered under the Securities Act and are subject to United States tax law requirements. Subject to certain exceptions, New Notes may not be offered, sold or delivered within the United States or to U.S. persons.

This Prospectus is being delivered only to Holders of the Existing Instruments and is not an offer to any other person or the public generally. The Issuer does not authorise the distribution of this Prospectus to any person other than a Holder of Existing Notes or Existing Loans or an advisor to such Holder or its custodian, direct

participant and clearing system, except to the extent required by the rules and regulations of the London Stock Exchange.

Holders of Existing Instruments who tender any of their Existing Notes or Existing Loans will, by doing so, make certain representations, warranties, acknowledgements and consents and undertake to perform certain covenants, as more particularly described in the section entitled “*Terms of Exchange Offer – Representations, Warranties, Acknowledgements and Covenants of Holders*”.

In this Prospectus, unless otherwise specified, references to a “**Member State**” are references to a Member State of the European Economic Area, all references to “**dollar**”, “**U.S.\$**” and “**\$**” are to the lawful currency of the United States of America, references to “**euro**”, “**Euro**” and “**€**” are to the lawful currency of the European Monetary Union and references to “**rupee**” and “**R**” are to the lawful currency of Seychelles.

Except as otherwise provided in this Prospectus, translations of amounts from one currency into another currency are solely for the convenience of the reader and are made at the exchange rates specified in the section entitled “*Terms of Exchange Offer – Principal Amount of New Notes to be Received by Holders pursuant to the Exchange Offer*”.

Except as otherwise provided herein, any reference in this Prospectus to an action being taken by the Republic of Seychelles should be construed as a reference to such action being taken by the Ministry of Finance acting on behalf of the Republic of Seychelles.

Certain figures included in this Prospectus have been subject to rounding adjustments; accordingly, figures shown for the same category presented in different tables may vary slightly and figures shown as totals in certain tables may not be an arithmetic aggregation of the figures which precede them.

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Republic of Seychelles

Ministry of Finance

The Minister

LETTER OF SUPPORT – MINISTER OF FINANCE

To: Holders of Existing Notes and Existing Loans (collectively referred to as 'Existing Instruments')

7 December 2009

Ladies and Gentlemen,

The launch of the exchange offer that is described in the attached Prospectus marks the conclusion of extensive discussions between the Government of Seychelles and holders of the Existing Instruments and their representatives. These discussions, which began just over one year ago, have focused on identifying credible solutions to Seychelles' extreme debt overhang in the context of our IMF-sponsored economic reform programme.

Our debt overhang was brought into sharp focus by the major macroeconomic crisis that unfolded in Seychelles in early 2008. The origins of this crisis can be found in the inconsistent policies that were pursued over many years, and which eventually generated unmanageable twin deficits and major macroeconomic distortions. As we struggled with the consequences of sluggish growth and chronic shortages of foreign exchange, we engaged in a series of debt refinancing operations in order to sustain ourselves and contain a growing external arrears problem.

Because these refinancing operations increased both the quantum and the cost of our public debt, we must acknowledge that they were, in retrospect, ill-advised. Ultimately, foreign financing could not protect us from our own failure to let our exchange rate adjust, and to encourage the private sector to compete with state enterprises. What little reserve cover we had was quickly exhausted when world prices of oil and of the food staples on which we depend rose rapidly in late 2007 and early 2008, forcing us to miss payments across all categories of external debt.

It is no exaggeration to say that today Seychelles is in a process of fundamental transformation. In November 2008 we embarked on a comprehensive and heavily front-loaded economic reform programme that is being supported by our first-ever arrangement with the IMF. Reflecting our commitment to tackling the root of our economic problems, the radical programme was launched with the immediate flotation of the Seychelles rupee and the announcement of a 18 per cent. reduction in the public sector workforce.

These irreversible changes have been quick to bear fruit. Our major macroeconomic indicators have stabilised, and we now expect our primary surplus for 2009 to be one of the highest in the world amongst non-oil producing countries. This is no small feat considering the massive contraction that our economy continues to experience. Our determination to set our house in order against a very difficult backdrop has enabled us to meet the targets under our Stand-by Arrangement with the IMF with margins, and has secured the support of key development partners such as the African Development Bank and the World Bank.

Although we are encouraged by the results to date, we know that we cannot stop here. This is why the IMF Executive Board will shortly be considering our request to substitute the Stand-by Arrangement with a three-year Extended Fund Facility. This new programme of tough, structural reforms will enable us to build on the recent stabilisation and create the conditions for sustained recovery.

Just as we know that there can be no turning back, we also recognise that our economic and financial rehabilitation will remain incomplete until our debt is placed firmly on a sustainable footing. Today Seychelles is burdened with one of the highest debt overhangs in the world, and the projections that we have shared with you clearly indicate that we are unable to repay our external debt on existing terms despite our concerted reform efforts.

It was this drastic mismatch between our debt commitments and our forecast payment capacity that ultimately persuaded the Paris Club group of creditor countries to grant Seychelles exceptional debt reduction terms in April 2009. With the conclusion of this unprecedented agreement, a number of countries that are not members of the Paris Club have agreed to apply the Paris Club terms to their claims on Seychelles. Against this backdrop of official international community support, we must now seek the support of our external commercial creditors in order to close projected financing gaps and comply with our commitment to the principle of inter-creditor equity.

The discussions that we have held with you and your representatives over the last year have enabled us to gain a better understanding of your preferences and limitations. It is our view that they have also helped us to communicate the scale and nature of our constraints. We believe that progress has been made towards finding common ground, and that the terms of the exchange offer as described in the attached Prospectus reflect compromise and accommodation on the part of both sides.

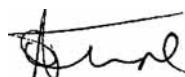
Seychelles does not intend to make any further exchange offers in respect of the Existing Instruments. In designing the terms that are detailed in the Prospectus, we have sought to make the best possible offer that is within our means. I would like to point out that we have succeeded in securing a partial guarantee on interest payments from the African Development Bank in the case of one of the options available under the exchange offer. This credit enhancement feature will provide additional value to holders of Existing Instruments selecting the relevant option in a way that does not place undue pressure on future cash flows.

Of course, Seychelles recognises that even with this partial guarantee, the terms of our exchange offer remain extremely tough. They are tough because they reflect our economic and financial reality. Regrettably, the need for deep debt relief is something that we simply cannot escape.

As you review the terms of the attached Prospectus, I can only ask that you look forward with us. It is our firm belief that the successful completion of this exchange offer and the relentless implementation of reforms to which we are committed will succeed in placing our finances on a viable path, enabling us to rebuild trust and establish a level of creditworthiness that is well beyond what we have known in the past.

We are grateful for the continued support from our creditors, and encourage you to respond to the exchange offer within the time frame specified in the Prospectus.

Sincerely yours,



Danny Faure
Minister of Finance

SUMMARY

This summary must be read as an introduction to the prospectus of the Republic of Seychelles dated 7 December 2009 (the “Prospectus”) and any decision to participate in the Exchange Offer should be based on a consideration of the Prospectus as a whole. Following the implementation of the relevant provisions of the Prospectus Directive (Directive 2003/71/EC) in each Member State of the European Economic Area, no civil liability will attach to the responsible persons in any such Member State solely on the basis of this summary, including any translation hereof, unless it is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus. Where a claim relating to the information contained in the Prospectus is brought before a court in a Member State of the European Economic Area, the plaintiff may, under the national legislation of the Member State where the claim is brought, be required to bear the costs of translating the Prospectus before the legal proceedings are initiated.

Words and expressions defined in the “Terms and Conditions of the New Discount Notes” and the “Terms and Conditions of the New Par Notes” below or elsewhere in this Prospectus have the same meaning in this summary.

Issuer

Republic of Seychelles (“Seychelles”)

Seychelles consists of 115 islands in the Indian Ocean. Independence was granted in 1976 from the United Kingdom as a republic within the Commonwealth. The head of state is the president and the ruling political party of Seychelles is currently the Seychelles People’s Progressive Front. At the end of 2005, the estimated population of Seychelles was 82,717.

Since independence, the government of Seychelles has sought to provide economic growth, a good welfare state and improved income distribution. Tourism, the activities of the Seychelles Petroleum Company, financial services and fishing are the principal sectors of the economy in terms of government revenue.

The table below shows a number of key statistics for the years 2004 to 2008¹.

	2004	2005	2006	2007	2008
GDP at 2006 Current Market Prices (R millions).....	4,695.7	5,043.2	5,628.3	6,877.0	8,755.7
Inflation Rate (in per cent.)	3.9	0.7	-1.9	5.3	37.0
Total External Debt (U.S.\$ millions).....	448	486	521	710	763
External Debt Service (U.S.\$ millions)	184	71	102	87	118
External Debt as per cent. of Exports	220.9	195.8	237.6	289.0	328.7
External Debt as per cent. of GDP	52.0	53.0	51.1	69.2	93

Sources: Central Bank of Seychelles, National Statistics Bureau (“NSB”), Department of Employment, the Ministry of Finance, and IMF.

Note:

¹ NSB only produces annual GDP figures.

The public debt burden of Seychelles is unsustainable. Seychelles is undertaking an extensive debt reform programme to address this issue. Seychelles is currently supported by a standby arrangement with the International Monetary Fund and recently obtained exceptional debt relief from the Paris Club and further relief will be granted if certain conditions are met.

In relation to the 2011 Notes, an interest payment of U.S.\$10,493,750 was missed on October 2008 and further interest payments for the same amount were missed in April 2009 and October 2009. Seychelles has not made payments on the Amortising Notes since July 2008.

The Guarantor of the New Discount Notes

The African Development Bank (“AFDB”) is providing a partial guarantee (see “*Deed of Guarantee*” below). AFDB is a public international body established in 1963 and has 52 African and 24 non-African state members. The main goal of AFDB is to promote sustained growth and reduce poverty in Africa.

Exchange Offer

Seychelles invites holders (“**Holders**”) of:

- (a) €54,750,000 Amortising Notes due 2011 (“**Amortising Notes**”);
- (b) U.S.\$230,000,000 9.125 per cent. Notes due 2011 (“**2011 Notes**”)((a) and (b) are collectively the “**Existing Notes**”);
- (c) the Term Loan Agreement dated 22 March 1999 as amended and restated on 23 March 2004 between Seychelles Marketing Board, Seychelles and ABN AMRO Bank N.V.; and
- (d) the Facility Agreement dated 2 June 2003 between Public Utilities Corporation of Seychelles, Central Bank of Seychelles, Seychelles, ABN AMRO Bank N.V. (the “**Syndicate Agent**”), Commerzbank (Nederland) N.V. and Coöperatieve Centrale Raiffeisen Boerenleenbank B.A. ((c) and (d) are collectively the “**Existing Loans**”) and (a), (b), (c) and (d) are collectively the “**Existing Instruments**”),

to tender all or any of their Existing Instruments for either (i) U.S.\$ Notes due 2016-2026 with Interest Rate Step-ups in 2012, 2015 and 2018 (“**New Discount Notes**”) or (ii) U.S.\$ Notes due 2038-2041 (“**New Par Notes**”) (together “**New Notes**”) upon the terms and conditions as set out in the Prospectus (“**Exchange Offer**”). The Exchange Offer will expire at 5:00pm, London time, on 14 January 2010, unless extended by Seychelles (“**Expiration Date**”).

Each Holder of Existing Notes may only participate in the Exchange Offer by delivering Exchange Instructions which have been properly completed and executed in accordance with the relevant instructions set out in “*Exchange Offer Procedures*”.

Each Holder of Existing Loans may only participate in the Exchange Offer by delivering a letter of transmittal (as set out in Annex A of the Prospectus) on or prior to the Expiration Date to Citibank, N.A. at the address specified in the relevant letter of transmittal in accordance with the relevant instructions set out in “*Exchange Offer Procedures*”.

Condition to issuance of New Par Notes

Seychelles will only issue New Par Notes if the Exchange Agent has received valid tenders which would result in a principal amount of at least U.S.\$50,000,000 being issued (the “**New Par Notes Minimum Tender Condition**”). If the New Par Notes Minimum Tender Condition is not satisfied, Seychelles will provide written notice thereof to Holders by issuing a press release to the Reuters News Service and the Clearing Systems and each Holder that has tendered for New Par Notes will be automatically deemed to have tendered exclusively for New Discount Notes upon the terms and subject to the conditions as set out in the Prospectus.

Eligible tenders

Seychelles may reject, in its sole discretion, tenders, including tenders not in proper form or the acceptance of which would, in the opinion of Seychelles’ counsel, be unlawful.

Irrevocability

Save as provided in “*Terms of Exchange Offer – Irrevocability*”, any tender of Existing Instruments will be irrevocable and cannot be withdrawn without the prior written consent of Seychelles.

Representations and Warranties

Holders who tender any of their Existing Instruments will, by doing so, make certain representations, warranties, acknowledgements and covenants, as more particularly described in “*Terms of Exchange Offer – Representations, Warranties, Acknowledgements and Covenants of Holders*”.

Extraordinary Resolution – Exchange of Existing Notes

Holders of each series of Existing Notes, by tendering such notes to participate in the Exchange Offer and submitting an electronic instruction in respect of such notes, will be giving instructions to the relevant Clearing System to instruct Citibank Europe PLC (and any

relevant affiliate thereof) to vote in favour of the Extraordinary Resolutions substantially in the form as set out in “*Form of Notices and Extraordinary Resolutions*” at any Meeting of Holders duly convened on or prior to the Settlement Date in respect of the Amortising Notes and 2011 Notes to sanction the exchange of each of the 2011 Notes and Amortising Notes for the series of New Notes which has the largest aggregate principal amount as at the Expiration Date. If the applicable Extraordinary Resolution for such exchange is passed, holders of Existing Notes who do not participate in the Exchange Offer will hold, as of the Settlement Date, that series of New Notes.

New Notes

The principal amount of New Discount Notes and New Par Notes to be exchanged for the Existing Instruments together with all accrued and unpaid interest thereon will be as follows:

	New Discount Notes	New Par Notes
For each U.S.\$1,000 principal amount of 2011 Notes tendered:	U.S.\$500	or U.S.\$1,000
For each €1,000 Relevant Amount (as defined in the section entitled “ <i>Terms of Exchange Offer</i> ”) of Amortising Notes tendered:	U.S.\$748.35	or U.S.\$1,496.70
For each U.S.\$1,000 principal amount of U.S. dollar denominated Existing Loans tendered:	U.S.\$500	or U.S.\$1,000

Any Existing Instruments denominated in a currency not referred to above will be translated into U.S. dollars at the rates set out in the section entitled “*Terms of Exchange Offer – Principal Amount of New Notes to be Received by Holders pursuant to the Exchange Offer*”. Any tenders of Existing Notes may only be made in integral multiples of U.S.\$1,000 or €1,000.

Deed of Guarantee

If Seychelles fails to make payments of interest under the New Discount Notes, the Guarantor guarantees, on a partial basis, to the Trustee on behalf of Holders of such notes, such amounts of interest due and payable, subject to an aggregate guarantee maximum amount of U.S.\$10 million.

The guarantee is a senior, unsubordinated, unconditional and unsecured obligation of the Guarantor.

Status of Seychelles’ Reimbursement Obligations

The Guarantor has agreed with Seychelles that Seychelles’ obligation to reimburse the Guarantor for any payments made under the Guarantee shall be converted into a loan repayable no later than 2029.

Trustee

Deutsche Trustee Company Limited.

Issue Date

Expected to be on or about 11 February 2010.

Interest

(A) New Discount Notes

From and including 1 January	To and excluding 1 January	Interest Rate per annum (per cent.)
2010	2012	3
2012	2015	5
2015	2018	7
2018	2026	8

(B) New Par Notes

From and including 1 January 2010 to, but excluding, 1 July 2041, the New Par Notes bear interest at the rate of 2.0 per cent. per annum.

Interest for each period of the New Notes as specified above is payable in two equal instalments semi annually in arrears on 1 January and 1 July in each year, starting in 1 July 2010, subject as provided in “*Terms and Conditions of the New Discount Notes – Payments*” and “*Terms and Conditions of the New Par Notes – Payments*”.

Goodwill Payment

Seychelles shall make payments of U.S.\$10.44 per U.S.\$100 face amount on 12 April 2010 to holders of the New Discount Notes and U.S.\$5.22 per U.S.\$100 face amount on 12 April 2010 to holders of New Par Notes.

Status

The New Notes are senior, unsubordinated, unconditional and unsecured obligations of the Issuer.

Form and Denomination

The New Notes will be issued in bearer form in the denomination of U.S.\$100.

Negative Pledge

The New Notes will have the benefit of a negative pledge as described in Condition 3(a) (*Negative Pledge*) of the respective Terms and Conditions.

Cross-Acceleration

The New Notes will have the benefit of a cross acceleration as described in Condition 3(c) (*Cross-Acceleration*) of the respective Terms and Conditions.

Principal Reinstatement

If the Relevant Event has not occurred by 31 December 2010, the Issuer shall deliver additional New Discount Notes to the holders thereof on the next interest payment date in an amount equal to half of the amount of New Discount Notes held immediately prior 1 January 2011. For these purposes “**Relevant Event**” means that a press release has been issued by the International Monetary Fund (“**IMF**”) confirming that the IMF Executive Board has approved the first review under the Successor Programme (being the IMF programme with Seychelles which succeeds the existing IMF Stand-By Arrangement with Seychelles).

Results – after Expiration Date

Shortly after the Expiration Date, the Issuer shall issue a press release describing the results of tenders received and the principal amount of the New Notes to be issued.

Settlement Date

The Settlement Date for the Exchange Offer will be 11 February 2010 unless Seychelles, in its sole discretion, selects another date. The Settlement Date will not be later than 1 March 2010.

On the Settlement Date, Seychelles will effect the exchange of New Notes for all Existing Instruments validly tendered in accordance with the terms and conditions of the Exchange Offer.

Unless previously redeemed, or purchased and cancelled:

- (a) each New Discount Note will be redeemed in 20 equal instalments on a semi-annual basis commencing on 1 July 2016. The final principal repayment date is 1 July 2026; and
- (b) each New Par Note will be redeemed in 7 equal instalments on a semi-annual basis commencing on 1 July 2038. The final principal repayment date is 1 July 2041.

Early Redemption

Seychelles may redeem all or, on a *pro rata* basis, part of the New Notes on any principal repayment date.

Rating

It is intended that the New Notes will be rated by Fitch Rating, Ltd. (“**Fitch**”) shortly after the Expiration Date.

Withholding Tax

All payments of principal and interest in respect of the New Notes and coupons by or on behalf of Seychelles shall be paid gross, unless withholding or deduction of any taxes, duties, assessments or governmental charges is required by law. In that event, Seychelles shall pay such additional amounts as will result in receipt by the noteholders

	<p>and the couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required.</p>
Tax Consequences	See “ <i>Taxation</i> ” for information on the potential tax consequences affecting holders of New Notes.
Listing and Trading	Application has been made for the New Notes to be admitted to listing on the Official List of the FSA and to trading on the Regulated Market of the London Stock Exchange.
Clearing Systems	Euroclear Bank SA/NV and Clearstream Banking, <i>société anonyme</i> .
Risk Factors	<p>The principal risk factors that may affect the ability of Seychelles to fulfil its obligations under the New Notes are discussed under “Risk Factors” and include:</p> <ul style="list-style-type: none"> ● <i>Risks of not participating in the offer</i> – Existing Instruments that are not tendered may remain outstanding indefinitely and further payments may not be made thereon. ● <i>Enforcement of Civil Liabilities and Waiver of Sovereign Immunity</i> – A claimant will not be able to enforce a court judgment against any assets of Seychelles in the Seychelles because under Seychelles law, Seychelles may not waive immunity from attachment or seizure of its assets. ● <i>Risks of participating in the offer</i> – Seychelles may extend, amend or terminate the Exchange Offer, on the basis described in the Prospectus. Once there has been a tender of Existing Instruments, tendering holders may not withdraw their tenders except in certain limited circumstances. ● <i>Issuer is dependent on foreign resources</i>. ● <i>Issuer is dependent on tourism</i> – Any negative developments relating thereto may affect Seychelles’ ability to service payments. ● <i>Exchange rate risks</i> – Exchange rate movements may negatively affect the Seychelles’ ability to service payments. ● <i>The New Notes may be redeemed prior to maturity</i>. ● <i>Risks relating to the Guarantor and Guarantee</i> – The Guarantor is a supra-national organisation and immune from enforcement actions. The Guarantor does not guarantee any payment of principal or any other amounts relating to the Notes exceeding U.S.\$10,000,000. There is no tax gross-up for payments made under the Deed of Guarantee.
Termination of Exchange Offer	<p>Seychelles may terminate the Exchange Offer if the total principal amount of Existing Instruments tendered by the Expiration Date is less than U.S.\$304 million, equating to approximately 95 per cent. of the principal amount of the Existing Instruments, by giving notice of any such termination at any time prior to the fifth Business Day following the Expiration Date, whereby all tenders will be legally null and void.</p>
Jurisdictional Restrictions	<p>The Prospectus does not constitute an offer of, or an invitation by or on behalf of, Seychelles in any jurisdiction where an offer or invitation by or on behalf of Seychelles is not permitted by the laws of such jurisdiction. For a description of certain restrictions on offers, sales and deliveries of New Notes and on distribution of the Prospectus and other offering material relating to the New Notes, see “<i>Jurisdictional Restrictions</i>”.</p>
Governing Law of New Notes and Deed of Guarantee	English law.

SUMMARY OF TIMETABLE

This summary timetable for the Exchange Offer is based on the assumptions that the Expiration Date is not extended and that the Exchange Offer is not terminated in accordance with the terms and conditions as more particularly described in the section entitled “*Terms of Exchange Offer*”. Please read this timetable in conjunction with the information contained in the Exchange Offer Materials in its entirety.

Date	Action
Week commencing 7 December 2009	Commencement Date of Offer Announcement and launch of the Exchange Offer; distribution of Exchange Offer Materials.
From commencement to 14 January 2010	Offer Period The offer period for the Exchange Offer during which: <ul style="list-style-type: none">(a) tendering Holders of Existing Loans may deliver or arrange for delivery of duly completed and executed Letters of Transmittal to the Exchange Agent, transfer certificates and original copies of the tendered Existing Loans; and(b) tendering Holders of Existing Notes may deliver or arrange for delivery of Exchange Instructions to Euroclear or Clearstream, Luxembourg (as applicable) in accordance with the instructions referred to in the section entitled “<i>Exchange Offer Procedures</i>”.
5:00pm, London time, 14 January 2010	Expiration Date Holders of Existing Notes must deliver or arrange for delivery of Exchange Instructions to Euroclear or Clearstream, Luxembourg (as applicable) and Holders of Existing Loans must deliver or arrange for delivery to the Exchange Agent of duly completed and executed Letters of Transmittal, transfer certificates and original copies of the tendered Existing Loans by this date in order to benefit from the Exchange Offer. The Issuer will determine whether the New Par Notes Minimum Tender Condition has been satisfied. If the New Par Notes Minimum Tender Condition has not been satisfied, the Republic of Seychelles will provide written notice to this effect to the Holders by issuing a press release to the Reuters News Service and the Clearing Systems no later than 5:00pm, London time on 18 January 2010.
15 January 2010	Convening of Meetings of Holders If the Republic of Seychelles elects to convene Meetings of Holders in respect of the 2011 Notes and Amortising Notes, it will despatch notices convening such meetings on or about this date.
5 February 2010	Meetings of Holders If the Meetings of Holders in respect of the 2011 Notes and Amortising Notes are convened, it is expected each shall be held on or about this date.
11 February 2010	Settlement Date The New Notes shall be issued on this date (or as soon as possible thereafter) and the Existing Instruments tendered by the Expiration Date or exchanged pursuant to Extraordinary Resolutions passed at duly convened Meetings of Holders (as the case may be) pursuant to the terms and conditions of the Exchange Offer will be simultaneously transferred to the Republic of Seychelles or its nominee on this date and subsequently cancelled.

TERMS OF EXCHANGE OFFER

The Republic of Seychelles hereby offers, subject to the terms and conditions contained in the Exchange Offer Materials, to issue and deliver New Discount Notes or New Par Notes to or for the account of each Holder of Existing Loans and each Holder of Existing Notes who tenders Existing Loans or Existing Notes pursuant to the terms of the Exchange Offer (a “**Tender**”). A Holder may submit any number of Existing Loans or Existing Notes held by it for Tender and may Tender for New Discount Notes, New Par Notes, or a combination thereof. New Notes will be exchanged for the tendered Existing Instruments and all accrued and unpaid interest thereon on the Settlement Date at the exchange ratios set out below under the paragraph entitled “*Principal Amount of New Notes to be Received by Holders Pursuant to the Exchange Offer*”. The exchange of Existing Instruments pursuant to the applicable Extraordinary Resolution passed at any duly convened Meeting of Holders of 2011 Notes or Amortising Notes (as the case may be) shall take effect on the Settlement Date in accordance with the terms set out under the paragraph entitled “*Meeting of Holders in respect of the exchange of 2011 Notes and Amortising Notes*”. A Holder who decides to participate in the Exchange Offer may exchange all or a portion of its Existing Loans and all or a portion of its Existing Notes for New Notes as provided herein.

Debts Eligible to Participate in the Exchange Offer

The following debts are eligible to be tendered in the Exchange Offer:

(a) Existing Loans:

- (i) the Term Loan Agreement dated 22 March 1999 as amended and restated on 23 March 2004 between Seychelles Marketing Board, the Republic of Seychelles and ABN AMRO Bank N.V.; and
- (ii) the Facility Agreement dated 2 June 2003 between the Public Utilities Corporation of Seychelles, the Central Bank of Seychelles, the Republic of Seychelles, ABN AMRO Bank N.V. (the “**Syndicate Agent**”), Commerzbank (Nederland) N.V. and Coöperatieve Centrale Raiffeisen Boerenleenbank B.A. ((i) and (ii) are referred to as the “**Republic of Seychelles Loans**”);

(b) Existing Notes:

- (i) Republic of Seychelles U.S.\$230,000,000 9.125 per cent. Notes due 2011 (ISIN XS0269874664); and
- (ii) Republic of Seychelles €54,750,000 Amortising Notes due 2011 (ISIN XS0315940147).

Condition to issuance of New Par Notes

The Republic of Seychelles will only issue New Par Notes if the Exchange Agent has received, by the Expiration Date, validly submitted Letters of Transmittal and Exchange Instructions which would result in a principal amount of at least U.S.\$50,000,000 of New Par Notes being exchanged for the Existing Instruments (the “**New Par Notes Minimum Tender Condition**”). If the New Par Notes Minimum Tender Condition is not satisfied, the Republic of Seychelles will provide written notice thereof to the Holders by issuing a press release to the Reuters News Service and the Clearing Systems no later than 5:00 pm, London time on 18 January 2010 and by complying with any applicable requirements of the London Stock Exchange and each Holder of Existing Loans and each Holder of Existing Notes that has tendered for New Par Notes will be automatically deemed to have tendered exclusively for New Discount Notes upon the terms and subject to the conditions applicable to New Discount Notes as set out herein.

Principal Amount of New Notes to be Received by Holders pursuant to the Exchange Offer

The Republic of Seychelles agrees that each Holder who validly tenders one or more Existing Loans or Existing Notes for exchange for New Discount Notes or (subject to the New Par Notes Minimum Tender Condition being satisfied) New Par Notes pursuant to the Exchange Offer will receive on the Settlement Date the following (subject to the right of the Republic of Seychelles to reject the Tender or terminate the Exchange Offer pursuant to the terms and conditions contained herein).

	New Discount Notes	New Par Notes
(a) For each U.S.\$1,000 principal amount of 2011 Notes tendered:	U.S.\$500	or U.S.\$1,000
(b) For each €1,000 of the original face amount of tendered Amortising Notes which have been reduced by the amount of the first payment thereon by applying a pooling factor of 0.9689, ignoring any premium in respect thereof (the “ Relevant Amount ”):	U.S.\$748.35	or U.S.\$1,496.70
(c) For each U.S.\$1,000 principal amount of U.S.\$ denominated Existing Loans tendered:	U.S.\$500	or U.S.\$1,000

For the purposes of determining the principal amount of New Notes to be exchanged for Existing Loans denominated in a currency other than U.S. dollars, the principal amount of the relevant portion of such Existing Loans will be translated to U.S. dollars at the exchange rate as of 5:00 p.m., London time on 23 November 2009 as per Bloomberg. The exchange rates applicable to Existing Loans not denominated in U.S. dollars are set out below.

Where the principal amount of Existing Loans tendered are a non-integral multiple of U.S.\$1,000, the amount of New Notes to be issued will be calculated in proportion to the exchange ratios described above. Any Tenders of 2011 Notes and Amortising Notes may only be made in integral multiples of U.S.\$1,000 and €1,000 respectively.

Currency	Exchange Rate in Units of Currency per one U.S.\$
Euro €.....	0.6681366
Yen ¥	89.142

The principal amount of the New Notes to be issued to participating Holders will be rounded to the nearest U.S.\$100, with U.S.\$50 being rounded up. The Exchange Agent will calculate the amount of New Notes to be received by each Holder. New Notes will be credited on the Settlement Date to the securities accounts specified by tendering Holders in their respective Exchange Instructions or Letters of Transmittal (as applicable) and, if an Extraordinary Resolution is passed at a Meeting of Holders of each series of Existing Notes, to the accounts of the Holders whose Existing Notes are exchanged pursuant to such Extraordinary Resolutions.

New Notes

The Republic of Seychelles will be at liberty from time to time without the consent of the Holders of the New Discount Notes or the Holders of the New Par Notes to create and issue:

- (a) further New Discount Notes ranking equally in all respects (save for the date and amount of the Goodwill Payment and the first other payment thereon) so that such further New Discount Notes will be consolidated and form a single series with the New Discount Notes (subject to an aggregate limit of further New Discount Notes of U.S.\$20 million); and
- (b) further New Par Notes ranking equally in all respects (save for the date and amount of the Goodwill Payment and the first other payment thereon) so that such further New Par Notes will be consolidated and form a single series with the New Par Notes.

Meetings of Holders in respect of the exchange of 2011 Notes and Amortising Notes

Holders of each series of Existing Notes, by tendering such notes to participate in the Exchange Offer and submitting an Exchange Instruction in respect of such notes, will be giving instructions to the relevant Clearing System to instruct Citibank Europe PLC as holder of the global note of the relevant series of Existing Notes to vote in favour of the Extraordinary Resolutions in substantially the form as set out in the section entitled “*Form of Notices and Extraordinary Resolutions*” at any Meeting of Holders duly convened on or prior to the Settlement Date in respect of the Amortising Notes and 2011 Notes, *inter alia*, to sanction the exchange of each of the 2011 Notes and Amortising Notes for the series of New Notes which will have the largest aggregate principal amount following consummation of the Exchange Offer (the “**Larger Series of New Notes**”). It is anticipated that

Citibank Europe PLC will appoint Citibank, N.A. to vote in favour of any Extraordinary Resolutions held at duly convened Meetings of Holders. If the Extraordinary Resolution for the exchange of a series of Existing Notes is passed, holders of Existing Notes of that series who do not participate in the Exchange Offer will hold, as of the Settlement Date, the Larger Series of New Notes.

Partial Guarantee of New Discount Notes

The Republic of Seychelles, the African Development Bank as Guarantor, Deutsche Trustee Company Limited as Trustee and Deutsche Bank, AG London Branch as Principal Paying Agent intend to enter into a deed of guarantee in respect of the New Discount Notes (the “**Deed of Guarantee**”) to be dated on or about the Settlement Date.

Subject to the terms and conditions of the Deed of Guarantee, the African Development Bank agrees to guarantee, on a partial basis, the payment of interest due and payable by the Republic of Seychelles in respect of the New Discount Notes, subject to an aggregate guarantee maximum amount of U.S.\$10 million (the “**Guarantee**”). The Guarantor is only required to make payment under the Guarantee in the event the Republic of Seychelles fails to make an interest payment on an Interest Payment Date in respect of the New Discount Notes and a demand under guarantee is delivered to the Guarantor in respect thereof. Amounts payable by the Guarantor under the Guarantee do not include principal, costs, fees, expenses and other amounts as more particularly described in the Deed of Guarantee or any payment of interest that in aggregate exceeds U.S.\$10 million.

Within five business days after the Guarantor’s receipt of a demand under guarantee from the Issuer or Trustee (as the case may be), the Guarantor shall deposit the guaranteed amounts in U.S. dollars (as more particularly described in the Deed of Guarantee) into the designated account. Any payment made by the Guarantor under the Guarantee will be deemed to have been made by the Republic of Seychelles.

The New Par Notes will not have the benefit of a deed of guarantee from the African Development Bank.

Status of Republic of Seychelles’ Reimbursement Obligations

The Guarantor has agreed with the Republic of Seychelles that any obligation to reimburse the Guarantor for payments made under the Guarantee may be converted into a loan repayable no later than 2029.

Status of the Guarantee

The obligations of the Guarantor under the Guarantee constitute direct, unsecured obligations of the Guarantor ranking *pari passu*, without any preference among themselves, with all other unsecured and unsubordinated obligations of the Guarantor. The obligations of the Guarantor under the Guarantee are not the obligations of any government.

Offering Restrictions

You are not eligible to receive or review the Exchange Offer Materials or to participate in the Exchange Offer unless:

- (a) you either:
 - (i) are not in the United States (as contemplated in Rule 903(a)(l) of Regulation S under the U.S. Securities Act 1933) and are not a U.S. person (as defined in Rule 902(o) of Regulation S under the U.S. Securities Act 1933); or
 - (ii) are a dealer or other professional fiduciary organised, incorporated, or (if an individual) resident in the United States holding a discretionary account or similar account (other than an estate or trust) for the benefit or account of a non U.S. person (as contemplated by Rule 903(a)(l) of Regulation S under the U.S. Securities Act 1933); or
- (b) your receipt and review of the Exchange Offer Materials and your participation in the Exchange Offer, is otherwise permitted under the laws and regulations of any other jurisdiction applicable to you, including, without limitation, as set forth in the section entitled “*Jurisdictional Restrictions*” of this Prospectus.

We refer to Holders of Existing Loans or Existing Notes who meet the foregoing criteria as “**Eligible Holders**”.

For the purposes of the Exchange Offer Materials, including the Exchange Instructions and Letters of Transmittal, references to the “**beneficial owner**” of any Existing Instrument means any person that exercises sole investment discretion with respect to such Existing Instrument.

For a description of certain restrictions applicable to the New Notes, please see the sections entitled “*Form and Transfer of New Discount Notes*”, “*Form and Transfer of New Par Notes*” and “*Jurisdictional Restrictions*” in this Prospectus.

Expiration of Exchange Offer

The Exchange Offer will expire at 5:00pm, London time, on 14 January 2010, unless extended by the Republic of Seychelles.

Extension and Amendment of Exchange Offer

Subject to applicable law, the Republic of Seychelles may extend or amend the Exchange Offer, at any time and from time to time, in its sole discretion, by providing written notice of any such amendment thereto or a new Expiration Date to the Exchange Agent, the Syndicate Agent, Holders of Existing Loans and Euroclear or Clearstream, Luxembourg by issuing a press release to the Reuters News Service and the Clearing Systems by no later than 2:00pm, London time, on the day of such extension or amendment.

The Republic of Seychelles may, in its sole discretion, also reopen the Exchange Offer at any time after the Expiration Date to certain Holders of Existing Instruments that have not, by such date, made any Tender by submitting a Letter of Transmittal to the Exchange Agent or Exchange Instructions to the relevant Clearing System (as applicable).

Supplement to the Prospectus – Prospectus Rules

In certain circumstances if a significant new factor, material mistake or inaccuracy relating to the information included in the Prospectus arises or is noted a supplementary prospectus containing details of the new factor, mistake or inaccuracy must be submitted to the FSA, in accordance with prospectus rules, for its approval. Noteholders who have already tendered any Existing Instruments before the supplement is published shall have the right, exercisable before the end of the period of 2 working days beginning with the working day after the date on which the supplementary prospectus was published, to withdraw their Tenders.

Termination of Exchange Offer

The Republic of Seychelles may, in its sole discretion, terminate the Exchange Offer if the total principal amount of Existing Loans and Existing Notes tendered by the Expiration Date is less than U.S.\$304 million (being approximately 95 per cent. of the principal amount of the Existing Instruments) (or its equivalent in other currencies by reference to the exchange rates specified above) by giving notice of any such termination, in the manner specified above for any extension or amendment to the Exchange Offer, at any time prior to 5:00pm, London time, on the fifth Business Day following the Expiration Date, in which case all Tenders by Holders of Existing Loans or Existing Notes will be legally null and void.

For these purposes, “**Business Day**” means a day other than a Saturday, a Sunday or a day on which banks in London are not open for domestic and foreign exchange business, banks in New York City are required or authorised to close, the London Stock Exchange is not open for trading, or Euroclear or Clearstream, Luxembourg are not open.

Settlement of Exchange Offer

The “**Settlement Date**” for the Exchange Offer will be 11 February 2010 unless the Republic of Seychelles, in its sole discretion, selects another date and gives notice of such date in the manner specified above for any extension or amendment to the Exchange Offer. The Settlement Date will not be later than 1 March 2010.

The Republic of Seychelles will effect the exchange on the Settlement Date of New Notes for (a) all Existing Loans and Existing Notes validly tendered as of the Expiration Date (or otherwise tendered as permitted by the Republic of Seychelles pursuant to any extension or amendment of the Exchange Offer) and (b) all Existing Notes exchanged pursuant to Extraordinary Resolutions passed at duly convened Meetings of Holders (as the case may be) as more particularly described in the paragraph entitled “*Meetings of Holders in respect of the exchange of 2011 Notes and Amortising Notes*”.

Exchange Agent

Citibank, N.A. has been appointed as Exchange Agent for the Exchange Offer pursuant to an Exchange Agency Agreement (the “**Exchange Agency Agreement**”) dated on or about the date of this Prospectus entered into between the Republic of Seychelles and the Exchange Agent.

The Exchange Agent will, among other things:

- (a) assist and respond to queries from Holders of Existing Instruments, their nominees or beneficial owners (if different) in relation to the Exchange Offer;
- (b) provide copies of all Letters of Transmittal with respect to the Existing Loans to the Republic of Seychelles and the Syndicate Agent and any other relevant person as so directed;
- (c) notify the Syndicate Agent and Holders of any Tenders of Existing Loans that are not accepted and the relevant Clearing Systems of any Tenders of Existing Notes that are not accepted;
- (d) determine whether the New Par Notes Minimum Tender Condition has been satisfied on the basis of the aggregate principal amount of New Par Notes which any and all tendering Holders may have specified for exchange of their Existing Instruments in their Letters of Transmittal and/or Exchange Instructions and notify the Republic of Seychelles accordingly and such determination shall be verified by the Republic of Seychelles on receipt by the Republic of Seychelles of details of all Tenders received by the Exchange Agent;
- (e) to be the recipient of written details from the relevant Clearing System of the identity of the Holders of Existing Notes who submit Exchange Instructions in accordance with the procedures and timeframes set out in the Exchange Offer Materials (such Exchange Instructions to be considered properly tendered only when tendered in accordance with the procedures contained in the Exchange Offer Materials), together with written confirmation from the relevant Clearing System that the tendered series of Existing Notes have been blocked;
- (f) calculate the principal amount of New Notes to be delivered in exchange for tendered Existing Loans and Existing Notes by applying the relevant exchange ratios as specified in this Prospectus and notifying these amounts to the Republic of Seychelles or any relevant person as so directed;
- (g) assist the Republic of Seychelles and Principal Paying Agent with book-entry delivery of New Notes to the account of each relevant Holder of Existing Loans or Existing Notes at the Clearing System specified in their respective Exchange Instructions and/or Letter of Transmittal provided that each relevant Holder’s Tender is validly tendered and to the accounts of Holders whose Existing Notes are exchanged pursuant to Extraordinary Resolutions passed at duly convened Meetings of Holders (as the case may be);
- (h) to be the recipient of Letters of Transmittal with respect to the Existing Loans in accordance with the procedures and timeframes set out in the Exchange Offer Materials (such Letters of Transmittal to be considered properly tendered only when tendered in accordance with the procedures contained in the Exchange Offer Materials);
- (i) to receive written confirmation from the relevant Clearing System that tendered Existing Notes have been blocked;
- (j) examine the documents or communications delivered to the Exchange Agent in connection with Tenders of Existing Instruments to determine whether the related Exchange Instructions and Letters of Transmittal appear on their face to have been properly completed and timely delivered and whether such Existing Instruments have otherwise been validly tendered in accordance with the accompanying instructions and, to the extent any Tender has not been validly submitted, the Exchange Agent shall contact the relevant Holder to assist such Holder in submitting a valid Tender in accordance with its instructions promptly thereafter;
- (k) upon determining that a Letter of Transmittal with respect to Existing Loans submitted by any Holder appears on its face to contain any irregularities, send promptly to the Republic of Seychelles (i) information regarding such irregular Tender and take reasonable steps to contact a Holder submitting an irregular Letter of Transmittal to enable the necessary correction to be made by such Holder, and (ii) if any irregular Tender is not remedied, receive instructions from the Issuer on whether or not the Issuer has accepted such Tender; and
- (l) to perform such other services as may be agreed between the Republic of Seychelles and the Exchange Agent from time to time.

The Republic of Seychelles has agreed to pay certain fees and expenses and to indemnify the Exchange Agent and the Information Agent against certain liabilities and expenses in connection with the Exchange Offer. Holders of Existing Loans or Existing Notes will not be responsible for the payment of such fees and expenses to the Exchange Agent or Information Agent.

The Exchange Agent is the agent of the Republic of Seychelles and owes no duty to any Holder. The Exchange Agent may rely on the details of Exchange Instructions from the Clearing Systems and any Letter of Transmittal which appears to be genuine and will have no responsibility to enquire as to the authority of such Clearing Systems or persons to complete such Letters of Transmittal or to verify the accuracy of any such information or the authenticity of the signature in any Letter of Transmittal.

Holders of Existing Instruments may contact the Exchange Agent or the Information Agent for assistance in completing and submitting Exchange Instructions and Letters of Transmittal and request additional copies of the Exchange Offer Materials and must deliver Letters of Transmittal to the Exchange Agent at the following address:

Attention: Exchange Team – Agency & Trust

Address: 14th Floor
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Tel: +44 207 508 3867

Fax: +44 203 320 2405

E-mail: exchange.gats@citi.com

In no event should a person send a Letter of Transmittal to any person other than the Exchange Agent.

The Information Agent

D.F. King & Co., Inc. has been appointed as the Information Agent and will, among other things, distribute or arrange for the distribution of the Exchange Offer Materials to Holders of Existing Loans and Existing Notes.

Irrevocability

Save as provided in this paragraph and in the paragraph entitled “*Supplement to the Prospectus – Prospectus Rules*”, any Tender of Existing Instruments in accordance with the procedures set forth in the Exchange Offer Materials will be irrevocable and cannot be withdrawn without the prior written consent of the Republic of Seychelles. Any Holder may revise a Letter of Transmittal or Exchange Instructions in respect of a Tender at any time prior to the Expiration Date, only to the extent that an error contained therein is to be corrected and only with the consent of the Republic of Seychelles, in the case of Existing Loans, by submitting a written notice to the Exchange Agent by e-mail, hand, courier, mail or facsimile and in the case of Existing Notes, by submitting an electronic notice of revision and new Exchange Instructions matching any revision to the relevant Clearing System, in both cases no later than 5:00 pm, London time on the Expiration Date. Any notice of revision must specify the name, address and telephone number of the person or entity that signed the Letter of Transmittal or submitted the electronic notice of revision (as the case may be) and must be accompanied by a revised Letter of Transmittal signed by such person or entity and an explanation of the changes made or matching Exchange Instruction (as applicable).

If the Exchange Offer is terminated as described above, all Tenders of Existing Loans and Existing Notes, Exchange Instructions and all representations, warranties, acknowledgements, covenants and consents as specified in this Prospectus including in the paragraph entitled “*Representations, Warranties, Acknowledgements and Covenants of Holders*” will be legally null and void.

If the New Par Notes Minimum Tender Condition is not satisfied on the Expiration Date, Holders who have tendered all or any part of their Existing Loans or Existing Notes for New Par Notes will be automatically deemed to have tendered exclusively those Existing Loans or Existing Notes for New Discount Notes upon the terms and subject to the conditions applicable to New Discount Notes as set out in the Exchange Offer Materials and will not be able to withdraw or amend their Tenders.

Eligible Tenders

The Republic of Seychelles, in consultation with the Exchange Agent shall determine all questions as to validity, form and eligibility (including time of receipt) of any Letter of Transmittal or Exchange Instruction. The determination of the Republic of Seychelles will be final and binding and the Republic of Seychelles has the sole discretion not to accept any Tender. The Republic of Seychelles expressly reserves the right to reject, in its sole discretion, any and all Tenders, including without limitation Tenders not in proper form or the acceptance of which would, in the opinion of the Republic of Seychelles' counsel, be unlawful. All other Tenders will be accepted, subject to their revocation and termination of the Exchange Offer, in each case as provided for above. The Republic of Seychelles also expressly reserves the right, in its sole discretion, to waive any defect in the Tender of any Existing Loans or Existing Notes or any and all conditions of the Exchange Offer. None of the Republic of Seychelles, the Exchange Agent or the Information Agent will be under any duty to give notice to tendering Holders of any defects in respect of any Tender, including, without limitation in any Letter of Transmittal or Exchange Instructions, nor will any of them incur any liability for failure to give such notice. The Exchange Agent will inform each Holder promptly of any rejection of its Tender.

Representations, Warranties, Acknowledgements and Covenants of Holders

By submitting an Exchange Instruction to the relevant Clearing System in accordance with the standard procedures of the relevant Clearing System or by submitting a Letter of Transmittal, each sender, as Holder, or for and on behalf of a Holder and each accountholder submitting such Exchange Instruction or Letter of Transmittal on such Holder's behalf, for the benefit of the Republic of Seychelles:

- (a) acknowledges that it has received and reviewed in its entirety this Prospectus dated 7 December 2009 including the relevant Letter of Transmittal, in the case of a Tender of Existing Loans, which is being submitted and, in particular, the sections entitled "*Terms of Exchange Offer*", the "*Exchange Offer Procedures*", "*Instructions for Completion and Submission of Letters of Transmittal for Exchange of Existing Loans, Jurisdictional Restrictions*" and the "*Form of Guarantee*" in Annex B;
- (b) shall constitute and appoint the Exchange Agent on the Settlement Date as its true and lawful agent and attorney-in-fact (recognising and agreeing that the Exchange Agent also acts as the agent of the Republic of Seychelles for other purposes) with respect to all Existing Notes or Existing Loans tendered, with full power of substitution, to (1) present such Existing Notes or Existing Loans and all evidences of transfer and authenticity to the Republic of Seychelles, or upon the Republic of Seychelles' order, (2) present such Existing Notes or Existing Loans for transfer of ownership on any books of the Republic of Seychelles and (3) receive all benefits and otherwise exercise all rights of beneficial ownership of such Existing Notes or Existing Loans;
- (c) shall provide an irrevocable instruction to the Exchange Agent or such other person or persons as the Exchange Agent may direct on the Settlement Date as attorney-in-fact and agent to:
 - (i) complete and execute all or any form(s) of transfer and other document(s) deemed necessary in the opinion of the Exchange Agent or the Republic of Seychelles in relation to the sale, assignment and transfer of the tendered Existing Notes or Existing Loans or the discharge, release or cancellation thereof;
 - (ii) deliver such form(s) of transfer and other document(s) as required in the Exchange Agent's opinion and/or the certificate(s) and other document(s) of title relating to such Existing Notes' or Existing Loans' registration; and
 - (iii) execute all such other documents and to do all such other acts and things as may in the opinion of the Exchange Agent or the Republic of Seychelles be necessary or expedient for the purpose of, or in connection with, the Exchange Offer, including without limitation, vesting all right, title and interest in and to such Existing Notes or Existing Loans in the Republic of Seychelles or its nominees and, releasing and discharging the obligors in respect of the Existing Loans, the Republic of Seychelles and its affiliates in respect of the Existing Notes or Existing Loans, the Exchange Agent and the trustee for the New Notes and any of their agents, officials, officers, employees or advisers, from any and all claims the Holder may have, now or in the future, arising out of or related to all Existing Notes or Existing Loans tendered, including, without limitation, any claims that the Holder is

entitled to receive past due or accrued interest or any other payment with respect to Existing Notes or Existing Loans tendered (other than as expressly provided for in the Prospectus and the relevant Letter of Transmittal in the case of the Existing Loans);

(d) represents and warrants, in the case of a Tender of Existing Loans that:

- (i) it is not a person to whom it is unlawful to make an invitation under the Exchange Offer under applicable laws;
- (ii) it is the holder of record (if applicable, as recorded on the registry maintained by the Syndicate Agent) of, or a duly authorised representative of such holder of record of, all Existing Loans tendered by it and it has the authority from the beneficial owner (if different) to execute and submit the Letter of Transmittal and transfer certificate;
- (iii) it is transferring to the Republic of Seychelles or its nominee as so directed all of its rights, benefits and obligations under the Existing Loans being tendered and it shall deliver to the Republic of Seychelles the relevant duly completed and duly executed transfer certificate as scheduled to the tendered Existing Loan where the "Transfer Date" as referred to in such certificate shall be the Settlement Date;
- (iv) all the information provided by it in the Signature Annex to the Letter of Transmittal is true, accurate and complete and all Existing Loans delivered to the Exchange Agent are true, complete and original copies thereof;
- (v) it has full power and authority to (1) surrender, sell, assign, transfer and exchange the Existing Loans being tendered pursuant to the Exchange Offer, (2) execute and deliver the relevant Letter of Transmittal, (3) give the authorisations, representations, warranties, acknowledgements and covenants contained therein on behalf of itself, and/or any other person on whose behalf the same are expressed to be given, and (4) grant the powers of attorney granted thereunder;
- (vi) to the extent New Notes are exchanged for the tendered Existing Loans on the Settlement Date in accordance with the terms of the Exchange Offer and the relevant Letter of Transmittal, all right, title and interest in and to, and any and all claims in respect of or arising or having arisen in favour of the Holder of, all Existing Loans tendered will be sold, assigned and transferred to or upon the order of the Republic of Seychelles or its nominee free and clear of all liens, charges, claims, encumbrances, interests, rights of third parties and restrictions of any kind and thereafter the Holder of those Existing Loans will have no contractual or other rights or claims in law or equity against the obligors thereunder or the Republic of Seychelles or any fiduciary, trustee, fiscal agent or other person connected with the tendered Existing Loans arising from or in connection with any of such Existing Loans or the debts represented thereby, and agrees and acknowledges that it will record on its books the transfers of such Existing Loans;
- (vii) by submitting the relevant Letter of Transmittal, transfer certificate and tendering Existing Loans, it has made its own independent evaluation and appraisal of the contents of the Exchange Offer Materials and any related communications and is not relying on any statement, representation or warranty, express or implied, made to it by or on behalf of the Republic of Seychelles (or any other person including, without limitation, the Exchange Agent, the Information Agent and the Guarantor) other than those made by the Republic of Seychelles in this Prospectus;
- (viii) it is not a U.S. person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended) nor is it acquiring for the account or benefit of a U.S. person, other than a distributor, and it is acquiring New Notes in an offshore transaction in accordance with Regulation S and it otherwise is, and will remain on the Settlement Date and thereafter, an Eligible Holder;

(e) agrees, in the case of a Tender of Existing Loans:

- (i) upon request, to execute and deliver any additional documents deemed by the Exchange Agent or the Republic of Seychelles to be necessary or desirable and give any further assurances that may be required by the Exchange Agent or the Republic of Seychelles to perfect the authorisations and representations contained in this section or to complete the exchange of the Existing Loans being tendered for New Notes and, if so requested by the Republic of Seychelles, to release and discharge such Existing Instruments and all rights relating thereto on and after the Settlement Date;

- (ii) subject to paragraph (d)(vi) above, that it will not, and it has irrevocably instructed the applicable Syndicate Agent not to, assign, transfer, sell, pledge, hypothecate or otherwise encumber any Existing Loans tendered from the date of the applicable Letter of Transmittal to the earlier of (1) the Settlement Date and (2) the date on which the Exchange Offer is terminated, if applicable (in accordance with the terms of the Exchange Offer Materials), and (subject to applicable law) any purported assignment, transfer, sale, pledge, hypothecation or other encumbrance of such Existing Loans in violation of the foregoing covenant will be void and of no effect;
- (iii) to waive any and all rights with respect to all Existing Loans tendered (including, without limitation, any existing, past or continuing defaults and their consequences in respect of such Existing Loans);
- (iv) if, at any time prior to the Settlement Date, any of the acknowledgements, representations, warranties and covenants contained in the relevant Letter of Transmittal become untrue, it will promptly notify the Republic of Seychelles and the Republic of Seychelles shall be entitled to withdraw its tender of applicable Existing Loans;
- (v) that the Republic of Seychelles and the Exchange Agent may rely upon the relevant Letter of Transmittal as genuine and will have no responsibility to verify either the authenticity of the signature(s) thereon or the accuracy of the information contained therein;
- (vi) the Guarantor is only required to make payment under the Guarantee in the event the Republic of Seychelles fails to make an interest payment on an Interest Payment Date in respect of the New Discount Notes and a demand under guarantee is delivered to the Guarantor in respect thereof. Amounts payable by the Guarantor under the Guarantee do not include principal, costs, fees, expenses and other amounts as more particularly described in the Deed of Guarantee or any payment of interest that in aggregate exceeds U.S.\$10,000,000.
- (vii) that the New Notes are to be credited to the securities account number at the relevant Clearing System specified in the relevant Letter of Transmittal;

(f) acknowledges, in the case of a Tender of Existing Loans that:

- (i) neither the Exchange Agent, the Guarantor, the Information Agent, nor in each case any of its respective affiliates, directors, officers, agents or employees shall be liable for any action taken or omitted to be taken, or any determination made or omitted to be made, by it or them under or with respect to the Prospectus, the Exchange Offer or the New Notes (including, without limitation, any action taken or omitted to be taken prior to the date of this Prospectus by any such person in preparation for acting in respect of the Exchange Offer);
- (ii) receipt by the Republic of Seychelles of a Letter of Transmittal and electronic copies of the transfer certificate referred to in paragraph (d)(iii) above and the tendered Existing Loan for Exchange of Existing Loans will constitute a binding agreement between the applicable Holder and the Republic of Seychelles subject to the terms and conditions of the Exchange Offer as detailed in the Exchange Offer Materials and the Holder agrees to submit the original copy of the duly completed and executed transfer certificate and tendered Existing Loan promptly after submitting electronic copies of the same;
- (iii) if the New Par Notes Minimum Tender Condition has not been satisfied on the Expiration Date, to the extent that the applicable tendering Holder has tendered all or any part of its Existing Loans for New Par Notes, it will be automatically deemed to have tendered those Existing Loans exclusively for New Discount Notes upon the terms and subject to the conditions applicable to New Discount Notes as set out in the Exchange Offer Materials and will not be able to withdraw or amend its Tender;
- (iv) the New Notes offered in the Exchange Offer have not been registered under the U.S. Securities Act of 1933, as amended, or under the laws of any other jurisdiction and are not being offered to any person unless that person is an Eligible Holder;

(g) represents and warrants, in the case of a Tender of Existing Notes, that:

- (i) it is not a person to whom it is unlawful to make an invitation under the Exchange Offer under applicable laws;

- (ii) it wishes to participate in the Exchange Offer for the aggregate principal amount of Existing Notes specified in the Exchange Instruction;
- (iii) it is submitting Exchange Instructions on behalf of the beneficial owner of all Existing Notes tendered by it and has authority from the beneficial owner to do so;
- (iv) it has delivered appropriate Exchange Instructions to Euroclear or Clearstream, Luxembourg, as the case may be, in accordance with their normal procedures, with respect to the Existing Notes specified in such instructions as required pursuant to the terms of the Exchange Offer Materials, as more particularly described in the section entitled "*Exchange Offer Procedures*";
- (v) such Existing Notes are credited to its securities account at Euroclear or Clearstream, Luxembourg as indicated in the Exchange Instructions;
- (vi) the dispatch of the relevant Exchange Instructions to Euroclear or Clearstream, Luxembourg, as the case may be, shall constitute instructions to the relevant Clearing System to instruct Citibank Europe PLC to vote in favour of the Extraordinary Resolutions substantially in the form set out in the section entitled "*Form of Notices and Extraordinary Resolutions*" in the Exchange Offer Materials at any relevant Meeting of Holders, duly convened, in respect of the full principal amount of Existing Notes the subject of such Exchange Instructions where it is anticipated that Citibank Europe PLC will appoint Citibank, N.A. as its proxy to vote at any such Meeting of Holders;
- (vii) it has irrevocably instructed Euroclear or Clearstream, Luxembourg, as the case may be, to block any attempt to transfer the Existing Notes specified in the relevant Exchange Instructions on or prior to the earlier of (i) the Settlement Date and (ii) the date on which the Exchange Offer is terminated if applicable (in accordance with the terms of the Exchange Offer Materials);
- (viii) all the information provided by it in the Exchange Instructions, including, the name of the holder or the relevant accountholder and the securities account number at the relevant Clearing System in which the Existing Notes are held and are to be debited is true, accurate and complete;
- (ix) it has full power and authority to (1) surrender, sell, assign, transfer and exchange the Existing Notes being tendered pursuant to the Exchange Offer, (2) give the authorisations, representations, warranties, acknowledgements and covenants as set out in the Exchange Offer Materials and deemed to be given on behalf of itself, and/or any other person on whose behalf the same are expressed to be given, and (3) grant the powers of attorney granted thereunder;
- (x) to the extent New Notes are exchanged for the tendered Existing Notes on the Settlement Date in accordance with the terms of the Exchange Offer, all right, title and interest in and to, and any and all claims in respect of or arising or having arisen in favour of the Holder of, all Existing Notes tendered will be sold, assigned and transferred to or upon the order of the Republic of Seychelles or its nominee free and clear of all liens, charges, claims, encumbrances, interests, rights of third parties and restrictions of any kind and thereafter the Holder and beneficial owner of those Existing Notes will have no contractual or other rights or claims in law or equity against the Republic of Seychelles or any fiduciary, trustee, fiscal agent or other person connected with the tendered Existing Notes arising from or in connection with any of such Existing Notes or the debts represented thereby, and agrees and acknowledges that it will record on its books the transfers of such Existing Notes;
- (xi) by submitting the relevant Exchange Instructions and tendering the Existing Notes, it has made its own independent evaluation and appraisal of the contents of the Exchange Offer Materials and any related communications and is not relying on any statement, representation or warranty, express or implied, made to it by or on behalf of the Republic of Seychelles (or any other person including, without limitation, the Exchange Agent) other than those made by the Republic of Seychelles in this Prospectus;

- (xii) it is not a U.S. person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended) nor is it acquiring for the account or benefit of a U.S. person, other than a distributor, and it is acquiring New Notes in an offshore transaction in accordance with Regulation S and it otherwise is, and will remain on the Settlement Date and thereafter, an Eligible Holder;
- (h) authorises, in the case of a Tender of Existing Notes:
 - (i) the Exchange Agent, Euroclear or Clearstream, Luxembourg, as the case may be, to take those actions specified in the Exchange Offer Materials and in the Exchange Instructions contained therein, with respect to the Existing Notes specified in such instructions as required pursuant to the terms of the Exchange Offer Materials;
 - (ii) the Exchange Agent to instruct Euroclear or Clearstream, Luxembourg, as the case may be, as to the aggregate amount of the Existing Notes that have been accepted for exchange by the Republic of Seychelles;
 - (i) agrees, in the case of a Tender of Existing Notes:
 - (i) upon request, to execute and deliver any additional documents deemed by the Exchange Agent or the Republic of Seychelles to be necessary or desirable and give any further assurances that may be required by the Exchange Agent or the Republic of Seychelles to perfect the authorisations and representations contained in this section or to complete the exchange of the Existing Notes being tendered for New Notes and, if so requested by the Republic of Seychelles, to release and discharge such Existing Instruments and all rights relating thereto on and after the Settlement Date;
 - (ii) subject to paragraph (g)(x) above, that it will not assign, transfer, sell, pledge, hypothecate or otherwise encumber any Existing Notes tendered from the date of the applicable Exchange Instructions to the earlier of (1) the Settlement Date and (2) the date on which the Exchange Offer is terminated, if applicable (in accordance with the terms of the Exchange Offer Materials), and (subject to applicable law) any purported assignment, transfer, sale, pledge, hypothecation or other encumbrance of such Existing Notes in violation of the foregoing covenant will be void and of no effect;
 - (iii) to waive any and all rights with respect to all Existing Notes tendered (including, without limitation, any existing, past or continuing defaults and their consequences in respect of such Existing Notes);
 - (iv) if, at any time prior to the Settlement Date, any of the acknowledgements, representations, warranties and covenants deemed to be given on submitting Exchange Instructions become untrue, it will promptly notify the Republic of Seychelles and the Republic of Seychelles shall be entitled to withdraw its tender of applicable Existing Notes;
 - (v) to consent to have the relevant Clearing System provide details concerning such Holder's identity, holdings and Clearing System account details and its Exchange Instructions for disclosure to the Issuer and the Exchange Agent and the Republic of Seychelles may rely on such information as genuine;
 - (vi) that the New Notes are to be credited to the securities account number at the relevant Clearing System in which the Existing Notes are held;
 - (j) acknowledges, in the case of a Tender of Existing Notes that:
 - (i) neither the Exchange Agent, the Guarantor, the Information Agent, nor in each case any of its respective affiliates, directors, officers, agents or employees shall be liable for any action taken or omitted to be taken, or any determination made or omitted to be made, by it or them under or with respect to the Prospectus, the Exchange Offer or the New Notes (including, without limitation, any action taken or omitted to be taken prior to the date of this Prospectus by any such person in preparation for acting in respect of the Exchange Offer);
 - (ii) submission to the Clearing Systems of Exchange Instructions for the tender of the specified amount of Existing Notes will constitute a binding agreement between the applicable Holder and the Republic of Seychelles subject to the terms and conditions of the Exchange Offer as detailed in the Exchange Offer Materials;

- (iii) if the New Par Notes Minimum Tender Condition has not been satisfied on the Expiration Date, to the extent that the applicable tendering Holder has tendered all or any part of its Existing Notes for New Par Notes, it will be automatically deemed to have tendered those Existing Notes exclusively for New Discount Notes upon the terms and subject to the conditions applicable to New Discount Notes as set out in the Exchange Offer Materials and will not be able to withdraw or amend its Tender;
- (iv) the New Notes offered in the Exchange Offer have not been registered under the U.S. Securities Act of 1933, as amended, or under the laws of any other jurisdiction and are not being offered to any person unless that person is an Eligible Holder;
- (v) none of the Republic of Seychelles, the Exchange Agent or the Information Agent will be responsible for the communication of offers to exchange and Exchange Instructions by:
 - (A) beneficial owners to the accountholders in Clearstream, Luxembourg or Euroclear through which they hold Existing Notes; or
 - (B) the accountholders in Clearstream, Luxembourg or Euroclear to the Exchange Agent or the relevant Clearing System;
- (vi) the Guarantor is only required to make payment under the Guarantee in the event the Republic of Seychelles fails to make an interest payment on an Interest Payment Date in respect of the New Discount Notes and a demand under guarantee is delivered to the Guarantor in respect thereof. Amounts payable by the Guarantor under the Guarantee do not include principal, costs, fees, expenses and other amounts as more particularly described in the Deed of Guarantee or any payment of interest that in aggregate exceeds U.S.\$10,000,000.
- (vii) the Guarantor does not accept responsibility for the Exchange Offer and any of its procedures as described in the Exchange Offer Materials.

Paragraphs (a) to (j) inclusive above shall be deemed to be repeated and reconfirmed, as appropriate for the relevant Holder of Existing Notes and/or Existing Loans, on and as of the Expiration Date and the Settlement Date.

The representations, warranties, acknowledgements and covenants in paragraphs (a) to (j) inclusive above shall be for the benefit of the Republic of Seychelles, the Exchange Agent and the Information Agent. In each case, the Contracts (Rights of Third Parties) Act 1999 shall apply in relation thereto.

Other Matters

The clearing reference numbers for the Existing Notes and the New Notes are set out under “*General Information*.”

Governing Law

THE EXCHANGE OFFER, EXCHANGE INSTRUCTIONS AND ANY LETTER OF TRANSMITTAL DELIVERED HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF ENGLAND.

EXCHANGE OFFER PROCEDURES

If you need assistance with respect to the procedure relating to your participation in the Exchange Offer, please contact the Exchange Agent whose contact details appear on the last page of the Prospectus.

Procedures for Tenders of Existing Notes

Participation in the Exchange Offer

A Holder wishing to tender Existing Notes must submit, or arrange to have submitted on its behalf, a duly completed electronic consent, exchange and blocking instruction (an “**Exchange Instruction**”) to the relevant Clearing System at or before 5:00 pm, London time on the Expiration Date and before the deadlines set by the relevant Clearing System. Exchange Instructions for the Tender of Existing Notes may only be submitted by a direct accountholder in Euroclear or Clearstream, Luxembourg (in accordance with the requirements of the relevant Clearing System).

If a person wishing to participate in the Exchange Offer holds Existing Notes through an accountholder in Euroclear or Clearstream, Luxembourg, it must make appropriate arrangements for such accountholder to submit Exchange Instructions on its behalf on or before the Expiration Date. Separate Exchange Instructions must be submitted for each series of Existing Notes being tendered.

If a Holder wishes to tender Existing Notes held through a clearing system other than Euroclear or Clearstream, Luxembourg, such Holder must arrange to either (1) transfer the Existing Notes to Euroclear or Clearstream, Luxembourg or (2) have such other clearing system submit a tender on its behalf through Euroclear or Clearstream, Luxembourg (assuming such clearing system is capable of doing so). **This process will take additional time.**

A Holder of Existing Notes, by submitting Exchange Instructions to the relevant Clearing System will be deemed to acknowledge, represent, warrant and undertake to the Republic of Seychelles the respective acknowledgements, representations, warranties and covenants as applicable to tenders of Existing Notes as set out in the section entitled “*Terms of Exchange Offer – Representations, Warranties, Acknowledgements and Covenants of Holders*”.

Custodians, direct participants and clearing systems might have deadlines prior to the Expiration Date for receiving Exchange Instructions and should be contacted as soon as possible to ensure proper and timely delivery of such Exchange Instructions.

Exchange Instructions and Blocking of Existing Notes

The Tender of Existing Notes by a Holder will be deemed to have occurred upon receipt by the relevant Clearing System of a valid Exchange Instruction in accordance with the requirements of such Clearing System. The receipt of such Exchange Instruction by the relevant Clearing System will be acknowledged in accordance with the standard practices of such Clearing System and will result in the blocking of the relevant amount of the applicable series of Existing Notes in the relevant Clearing System so that no transfers may be effected in relation to such blocked amount of the applicable series of Existing Notes.

The receipt of an Exchange Instruction by the relevant Clearing System from a Holder who validly tenders their Existing Notes for exchange will also constitute instructions:

- (a) to such Clearing System to instruct Citibank Europe PLC as holder of the Permanent Global Note of the tendered series of Existing Notes to vote in favour of Extraordinary Resolutions in respect of the full principal amount of Existing Notes the subject of such Exchange Instructions at any Meeting of Holders duly convened for the relevant series of Existing Notes; and
- (b) to debit the securities account of the relevant accountholder on the Settlement Date in respect of all of the Existing Notes that have been validly submitted for exchange, upon receipt by the relevant Clearing System of an instruction from the Exchange Agent to receive those Existing Notes for the account of the Republic of Seychelles and against credit of the relevant series of New Notes, subject to the automatic withdrawal of those instructions to debit in the event that the Exchange Offer is terminated by the Republic of Seychelles prior to settlement of the Exchange Offer on the Settlement Date and subject to acceptance of the relevant submission for exchange by the Republic of Seychelles.

The Holders that hold Existing Notes in the name of a broker, dealer, bank, trust company or other nominee or custodian should contact such entity sufficiently in advance of the Expiration Date if they wish to participate in the Exchange Offer and procure that the Existing Notes are blocked in

accordance with the normal procedures of the relevant Clearing System and the deadlines imposed by such Clearing System.

The instructions and authorisations set out above may be revoked only as described in the paragraphs entitled “*Irrevocability*” and “*Eligible Tenders*” of the section “*Terms of Exchange Offer*”.

If you hold your Existing Notes through an accountholder in Clearstream, Luxembourg or Euroclear you should contact that accountholder to discuss the manner in which offers to exchange, and/or transmission of an Exchange Instruction may be made on your behalf.

In the event that the accountholder through which you hold your Existing Notes is unable to submit an Exchange Instruction on your behalf, you should telephone the Exchange Agent for assistance.

In any case, you are responsible for arranging the timely delivery of your Exchange Instruction.

Each Exchange Instruction shall be governed by and construed in accordance with English law. By submitting an Exchange Instruction, a Holder irrevocably and unconditionally agrees for the benefit of the Republic of Seychelles, the Information Agent and Exchange Agent that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Exchange Offer or any of the documents referred to above and that, accordingly, any suit, action or proceedings arising out of or in connection with the foregoing may be brought in such courts.

Procedures for Tenders of Existing Loans

Participation in the Exchange Offer

A Holder wishing to tender Existing Loans must, at or before 5:00pm, London time, on the Expiration Date, deliver, or arrange to be delivered to the Exchange Agent, by e-mail, hand, courier, mail or facsimile, (1) a duly completed and executed Letter of Transmittal, (2) the original copy of the relevant duly completed and duly executed transfer certificate as scheduled to the tendered Existing Loan where the “Transfer Date” as referred to in such certificate shall be the Settlement Date and (3) all original duly executed copies of the tendered Existing Loan that such Holder may have in its possession, in accordance with the instructions set out in the section entitled “*Instructions for Completion and Submission of Letters of Transmittal for Exchange of Existing Loans*”. The duly completed and executed transfer certificate and tendered Existing Loan should first be submitted to the Exchange Agent in electronic form and promptly thereafter the original copies of the same should be delivered to the Exchange Agent. The Exchange Agent will, in relation to any Existing Loan forming part of a syndicated arrangement, cause a copy of such Letter of Transmittal to be delivered to the Syndicate Agent. A Letter of Transmittal for the Tender of Existing Loans may only be submitted by the registered holder of such Existing Loans (as identified, in the case of the syndicated Existing Loan, by the records maintained by the Syndicate Agent) or by a person authorised to sign on its behalf. A separate Letter of Transmittal must be submitted for Existing Loans of each currency or tranche being tendered.

A Holder of Existing Loans, by submitting a completed Letter of Transmittal to the Exchange Agent will be deemed to acknowledge, represent, warrant and undertake to the Republic of Seychelles the respective acknowledgements, representations, warranties and covenants as applicable to tenders of Existing Loans as set out in the section entitled “*Terms of Exchange Offer – Representations, Warranties, Acknowledgements and Covenants of Holders*”.

Instructions for Existing Loans

A Holder of Existing Loans completing and submitting to the Exchange Agent a Letter of Transmittal, the relevant transfer certificate and original copies of the tendered Existing Loans will, by so doing, irrevocably (subject to the automatic withdrawal of such irrevocable instructions if the Exchange Offer is terminated or such Tender is rejected by the Republic of Seychelles as described in the paragraphs entitled “*Irrevocability*”, “*Termination of Exchange Offer*” and “*Eligible Tenders*” of the section “*Terms of Exchange Offer*”), to the extent represented by a Syndicate Agent, authorise and instruct the Syndicate Agent on such Holder’s behalf to, or otherwise:

- (a) effect the sale, assignment and transfer of such Existing Loans to the Republic of Seychelles or its nominee on the Settlement Date in accordance with the terms of the applicable Existing Loan and the Exchange Offer Materials; and
- (b) block any prior attempt to transfer such Existing Loans on or prior to the earlier of (1) the Settlement Date and (2) the date on which the Exchange Offer is terminated, if applicable, in accordance with the terms of the Exchange Offer Materials.

Each Letter of Transmittal shall be governed by and construed in accordance with English law. By submitting a Letter of Transmittal, a Holder irrevocably and unconditionally agrees for the benefit of the Republic of Seychelles, the Information Agent and Exchange Agent that the courts of England are to have jurisdiction to settle any disputes which may arise out of or in connection with the Exchange Offer or any of the documents referred to above and that, accordingly, any suit, action or proceedings arising out of or in connection with the foregoing may be brought in such courts.

TERMS AND CONDITIONS OF NEW DISCOUNT NOTES

The following are the terms and conditions substantially in the form in which they will be endorsed on each Note in definitive form (if issued), with the exception of the paragraph in italics which appears for information only and does not form part of the contractual terms and conditions of the Notes.

The U.S.\$ Notes due 2016-2026 with interest rate step ups in 2012, 2015 and 2018 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of the Republic of Seychelles (the “**Issuer**”) are subject to, and have the benefit of, a trust deed dated on or about 11 February 2010 (the “**Settlement Date**”) (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and Deutsche Trustee Company Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed), have the benefit of a partial guarantee as more particularly described in Condition 2(b) below as set out in the deed of guarantee dated on or about the Settlement Date (the “**Deed of Guarantee**”) entered into by the African Development Bank (the “**Guarantor**”) and are the subject of an agency agreement dated on or about the Settlement Date (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, Deutsche Bank AG, London Branch as paying agent (the “**Paying Agent**”, which expression includes any successor paying agent appointed from time to time in connection with the Notes) and the Trustee. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed, the Deed of Guarantee and the Agency Agreement applicable to them. Forms of the Trust Deed, the Deed of Guarantee and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom and at the Specified Office (as defined in the Agency Agreement) of the Paying Agent, the initial Specified Office of which is set out below.

1. Form, Denomination and Title

The Notes are serially numbered and in bearer form in the denomination of U.S.\$100 with Coupons and a talon (“**Talon**”) for further Coupons attached at the time of issue. Title to the Notes, the Coupons and the Talon will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. Status and Guarantee

- (a) *Status of the Notes:* The Notes, Coupons and Talons constitute direct, general, unsubordinated, unconditional, and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.
- (b) *Guarantee of the Notes:* The Guarantor has in the Deed of Guarantee unconditionally and irrevocably guaranteed the due and punctual payment of interest payable by the Issuer in respect of the Notes up to the Guaranteed Maximum Amount (as defined in the Deed of Guarantee). This guarantee constitutes direct, general and unsecured obligations of the Guarantor which will at all times rank at least *pari passu* with all other present and future unsecured and unsubordinated obligations of the Guarantor. The Guarantor is only required to make payment under the Guarantee in the event that the Issuer fails to make an interest payment on an Interest Payment Date in respect of the Notes and a demand is delivered pursuant to the Deed of Guarantee to the Guarantor in respect thereof. Amounts payable by the Guarantor under the Deed of Guarantee do not include principal, costs, fees, expenses and other amounts as more particularly described in the Deed of Guarantee or any payment of interest that in aggregate exceeds U.S.\$10,000,000.

3. Negative Pledge and Covenants

(a) *Negative Pledge*: so long as any Note remains outstanding, the Issuer undertakes that, if it creates or permits to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its International Monetary Assets to secure any Public Debt, the Issuer shall, at the time or prior thereto, secure equally and rateably therewith the obligations of the Issuer under the Notes to the satisfaction of the Trustee or provide such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.

(b) *Covenants*: so long as any Notes remains outstanding, the Issuer shall:

- (i) continue to procure that it exercises full ownership, power and control over the International Monetary Assets as they exist from time to time; and
- (ii) duly obtain and maintain in full force and effect all governmental consents, licences, approvals and authorisations, and/or make or cause to be made all (if any) registrations, recordings and filings, which may at any time be required to be obtained and/or made in the Issuer for the execution, delivery or performance of all obligations arising under the Notes and the validity or enforceability thereof.

In these Conditions:

“Debt” means any indebtedness of any Person (whether incurred as principal or surety) for or in respect of monies borrowed or any bond, debenture, note or similar securities or instruments;

“External Debt” means any obligation, and guarantees of obligations, in respect of existing or future Debt denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Issuer;

“IMF” means the International Monetary Fund;

“International Monetary Assets” means all of the Issuer’s official holdings of gold and all of the Issuer’s and the Issuer’s Monetary Authorities’ holdings of: “Special Drawing Rights,” “Reserve Positions in the Fund” and “Foreign Exchange” each of which shall have, as to the types of assets included, the meanings given to them in the IMF’s publication entitled “International Financial Statistics” or such other meaning as shall be formally adopted by the IMF from time to time;

“Monetary Authorities” means the Central Bank of Seychelles or any other entity which, from time to time, acts as a central bank of the Issuer and, if and to the extent that it performs the functions of a monetary authority for or on behalf of the Issuer or the government thereof, any currency board, exchange stabilisation fund or treasury;

“outstanding” shall have the meaning ascribed to such term in the Trust Deed;

“Permitted Security Interest” means: (i) any Security Interest on property to secure Public Debt arising in the ordinary course of business to finance export, import or other trade transactions, which Public Debt matures (after giving effect to all renewals and refinancings thereof) not more than one year after the date on which such Public Debt was originally incurred; (ii) any Security Interest on property to secure Public Debt incurred solely for the purpose of financing any acquisition by the Issuer (or, in the case of Public Debt guaranteed by the Issuer, the obligor in respect of such debt) of such property, and any renewal or extension of any such Security Interest which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof; (iii) any Security Interest on property arising by operation of law other than the law of the Issuer (or pursuant to any agreement establishing a Security Interest equivalent to one which would otherwise exist under relevant local law other than the law of the Issuer) in connection with Public Debt, including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers’ liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor’s activities); (iv) any Security Interest existing on property at the time of acquisition, and any renewal or extension of any such Security Interest which is limited to the original property covered thereby and which secures any renewal or extension of the financing secured by such Security Interest at the time of such acquisition without any increase in the amount thereof; (v) any Security Interest in existence as of the date of the issuance of the Notes; and (vi) any Security Interest securing Public Debt incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, *provided that* (a) the holders of such Public Debt agree to limit their recourse to the assets and revenues of such project as the

principal source of repayment of such Public Debt (and associated insurances) and (b) the property over which such Security Interest is granted consists solely of such assets and revenues;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Public Debt” means External Debt which (i) is in the form of, or represented by, bonds, notes or other similar securities or any guarantees thereof and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market; and

“Security Interest” means any lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

4. Interest and Principal Reinstatement

From, and including, 1 January 2010 (the “Issue Date”) to, but excluding, 1 January 2012 (the “Initial Interest Term”), the Notes bear interest at the rate of 3 per cent. per annum (the “Initial Rate of Interest”). From, and including, 1 January 2012 to, but excluding 1 January 2015 (the “First Step-up Interest Term”), the Notes bear interest at the rate of 5 per cent. per annum (the “First Step-up Interest Rate”). From, and including, 1 January 2015 to, but excluding 1 January 2018 (the “Second Step-up Interest Term”), the Notes bear interest at the rate of 7 per cent. per annum (the “Second Step-up Interest Rate”). Thereafter, from, and including, 1 January 2018 to, but excluding 1 January 2026 (the “Third Step-up Interest Term”), the Notes bear interest at the rate of 8 per cent. per annum (the “Third Step-up Interest Rate”). Interest during the Initial Interest Term, the First Step-up Interest Term, the Second Step-up Interest Term and the Third Step-up Interest Term is payable in two equal instalments semi annually in arrears on 1 January and 1 July in each year (each, an “Interest Payment Date”), the first such Interest Payment Date being 1 July 2010, subject as provided in Condition 6 (Payments).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at the rate applicable immediately prior to the relevant due date for redemption (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be calculated by applying the Initial Rate of Interest, in the case of the Initial Interest Term, the First Step-up Interest Rate, in the case of the First Step-up Interest Term, the Second Step-up Interest Rate, in the case of the Second Step-up Interest Term or the Third Step-up Interest Rate, in the case of the Third Step-up Interest Term, to the outstanding principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

If the Relevant Event has not occurred by 31 December 2010, the Issuer shall deliver further Notes to the holders thereof on the next Interest Payment Date. Such further Notes shall be in an amount equal to half of the amount of Notes held immediately prior to 1 January 2011 (the “Principal Reinstatement”) having the same terms and conditions as the Notes in all respects except for the first payment of interest, that there shall be no Goodwill Payment and that interest shall accrue from the date of such further issuance. For these purposes “Relevant Event” means that a press release has been issued by the IMF confirming that the IMF Executive Board has approved the first review under the Successor Programme, being the IMF programme with the Issuer that succeeds the IMF Stand-By Arrangement with the Issuer existing at the time of issue of the Notes. If Principal Reinstatement occurs, the Issuer shall publish a notice on the Regulatory News Service indicating the principal amount of notes issued in connection therewith and the total principal amount of Notes following such Principal Reinstatement.

5. Redemption and Purchase

(a) *Scheduled redemption:* Unless previously redeemed, or purchased and cancelled, each Note will be redeemed (subject as provided in Condition 6 (*Payments*)) in 20 equal instalments falling on the consecutive Interest Payment Dates commencing on 1 July 2016 and ending on 1 January 2026 (each such date being a “**Principal Repayment Date**”). Each, such repayment amount being a “**Scheduled Repayment Amount**”.

Except in the case of the final Scheduled Repayment Amount, the number of Notes will not be reduced by payment of any Scheduled Repayment Amount. Payments of a Scheduled Repayment Amount will reduce the then outstanding principal amount of each Note on a *pro rata* basis.

(b) *Early Redemption:* The Issuer may redeem the Notes at par without premium or penalty, on any Principal Repayment Date, in whole or in part, at a redemption price equal to the principal amount of the Notes to be redeemed together with the amount of interest accrued and unpaid as at the date of redemption. Any partial redemption will not reduce the number of Notes. Any partial redemption will reduce the then outstanding principal amount of each Note on a *pro rata* basis. Any redemption shall be subject to the following:

- (i) the Issuer not being in default on any payment falling due under the Notes at or immediately preceding the date of such redemption; and
- (ii) there being no subsisting Event of Default (as defined in Condition 8 (*Events of Default*)) relating to the Notes to be so redeemed.

Notice of any redemption of the Notes shall be given in accordance with Condition 15 (*Notices*) and shall be given not less than 30, nor more than 40 days, prior to the Principal Repayment Date upon which such redemption is to be made (the “**Redemption Date**”). The notice shall specify such date and place or places of payment where payment will be made, that on and after the Redemption Date, interest on the Notes being redeemed or, as the case may be, portion thereof, shall (subject to payment thereof) cease to accrue, and other relevant information. Such notice shall be irrevocable and once given, payment of the principal amount of each Note (or portion thereof) shall be made in accordance with Condition 6(b) (*Principal*) and payment of any interest accrued and payable under each such Note shall be made in accordance with Condition 6(c) (*Interest*).

(c) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraph (a) (*Scheduled redemption*) and (b) (*Early Redemption*) above.

(d) *Purchase and Cancellation:* The Issuer may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all related unmatured Coupons and unexchanged Talons are purchased therewith. Any Notes so purchased may be cancelled or held and resold.

6. Payments

(a) *Goodwill Payment:* The Issuer shall make a goodwill payment of U.S.\$10.44 per U.S.\$100 of Notes on 12 April 2010 to the Noteholders (“**Goodwill Payment**”). The Goodwill Payment shall be made only against presentation and endorsement of Notes at the Specified Office of the Paying Agent outside the United States by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.

(b) *Principal:* Save as provided in paragraph (d) (*Payments in New York City*) below, in respect of any payments of principal, payments shall be made only against presentation and (in the case of the final payment of principal and provided that payment is made in full) surrender (or, in the case of a partial payment, endorsement) of Notes at the Specified Office of the Paying Agent outside the United States by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.

(c) *Interest:* Save as provided in paragraph (d) (*Payments in New York City*) below, payments of interest shall, subject to paragraph (h) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of the Paying Agent outside the United States in the manner described in paragraph (b) (*Principal*) above.

(d) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed Paying Agents outside the United States with the reasonable expectation that such Paying Agents will be able

to make payment of the full amount of the interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.

- (e) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (Taxation). No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (f) *Unmatured coupons void:* On the due date for redemption pursuant to Condition 5(a) (Scheduled redemption) or Condition 5(b) (Early Redemption), all unmatured Coupons relating thereto and any Talon (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days:* If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation, and, in the case of payment by transfer to a U.S. dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such place of presentation.
- (h) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of the Paying Agent outside the United States (or in New York City if permitted by paragraph (d) (Payments in New York City) above).
- (i) *Partial payments:* If the Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, the Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talon:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a “**Coupon Sheet**”), the Talon forming part of such Coupon Sheet may be exchanged at the Specified Office of the Paying Agent for a further Coupon Sheet excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (Prescription)). Upon the due date for redemption of any Note, any unexchanged Talon relating to such Note shall become void and no Coupon will be delivered in respect of such Talon.

7. Taxation

All payments of principal, interest and the Goodwill Payment in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Seychelles or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

- (a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Seychelles other than the mere holding of the Note or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or

- (c) where applicable, by or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to, if appointed, another Paying Agent in a member state of the European Union; or
- (d) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, “**Relevant Date**” means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

8. Events of Default

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject to, in all cases, the Trustee having been indemnified and/or provided with security and/or prefunded to its satisfaction and subject to the Trustee having, in respect of Condition 8(b) (*Breach of other obligations*) only, certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders and give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

- (a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes within seven days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or
- (b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is, in the opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of remedy remains unremedied for 45 days or such longer period as the Trustee may agree after the Trustee has given written notice thereof to the Issuer; or
- (c) *Cross-Acceleration*: Public Debt issued, or amended as to payment terms, on or after the original issuance date of the Notes, having an aggregate principal amount of at least U.S.\$25,000,000 (or its equivalent in other currencies) becomes immediately due and payable due to the acceleration of such Public Debt upon an event of default and such acceleration shall not have been rescinded or annulled; or
- (d) *Moratorium*: the Issuer declares a general moratorium on the payment of principal, or interest, in respect of, any Public Debt or is unable, or officially admits its inability, to pay its debts as they fall due or commences negotiations with one or more of its creditors with a view to the general rescheduling of all or part of its indebtedness; or
- (e) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or
- (f) *IMF*: the Republic of Seychelles ceases to be a member of the International Monetary Fund.

9. Prescription

Claims for principal shall become void unless presentation for payment is made as required by Condition 6 (*Payments*) within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Replacement of Notes, Coupons and Talon

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Paying Agent subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such

replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

11. Trustee and Paying Agent

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances, including provisions relieving it from taking proceedings or any step or action to enforce repayment or the provisions of the Trust Deed or the terms and conditions of the Notes unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee, any other person or in any other manner) by reference to a monetary cap, methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agent acts solely as agent of the Issuer and (to the extent provided therein) the Trustee and does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agent and its initial Specified Office is listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of the Paying Agent and to appoint a successor paying agent and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in any Paying Agent or in its Specified Office shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Written Resolutions

(a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee subject to its being indemnified and/or secured and/or prefunded to its satisfaction upon the request in writing of Noteholders holding not less than one twentieth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, in the case of an Extraordinary Resolution relating to a Reserved Matter (as defined below), three quarters of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting for voting on any Extraordinary Resolution other than one relating to a Reserved Matter (as defined below), two or more persons being or representing one quarter of the principal amount of the Notes held or represented; *provided, however,* that certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into other obligations or securities,

to change the currency of payments under the Notes, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution or to amend this definition (each, a “**Reserved Matter**”) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.

(b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders or Couponholders agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders or Couponholders authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

13. Enforcement

The Trustee may at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce the terms of the Trust Deed, the Notes, the Coupons and the Talons but it shall not be bound to do so unless it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution. Nor shall the Trustee be bound to take or omit to take any step or action (including instituting such proceedings) unless it has been indemnified and/or provided with security and/or prefunded to its satisfaction in respect of all costs, expenses and liabilities to or for which it may, in its opinion thereby become liable.

No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (save for the date and amount of the Goodwill Payment and the first other payment thereon) so as to form a single series with the Notes (subject to an aggregate limit of further New Discount Notes of U.S.\$20 million). References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

15. Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times* or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

16. Governing Law and Jurisdiction

(a) *Governing law:* The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.

(b) *Jurisdiction*: The Issuer has in the Trust Deed:

- (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of their nullity;
- (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient;
- (iii) designated a person in England to accept service of any process on its behalf;
- (iv) consented to the enforcement of any judgment; and
- (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

Pursuant to Section 29(5) of the Seychelles Code of Civil Procedure, no execution of any judgment may be issued against any asset belonging to the Republic of Seychelles. In addition, the Issuer is immune from enforcement against, or execution or attachment of, assets in relation to property used for diplomatic purposes outside the Republic of Seychelles. Any judgment may, however, be forwarded to the Principal Secretary of the Ministry of Finance of the Republic of Seychelles, who is empowered under the Seychelles Code of Civil Procedure to take such necessary measures to give effect to it and if the judgment provides for the payment of money, to provide for it to be paid out of the Consolidated Fund. Under the Seychelles Constitution, the Consolidated Fund is the fund required to be credited with all revenues of, and money raised by, the Government of Seychelles which are not payable under any specific law for a specific purpose.

TERMS AND CONDITIONS OF NEW PAR NOTES

The following are the terms and conditions substantially in the form in which they will be endorsed on each Note in definitive form (if issued), with the exception of the paragraph in italics which appears for information only and does not form part of the contractual terms and conditions of the Notes.

The U.S.\$ 2.0 per cent. Notes due 2038-2041 (the “**Notes**”, which expression includes any further notes issued pursuant to Condition 14 (*Further issues*) and forming a single series therewith) of the Republic of Seychelles (the “**Issuer**”) are subject to, and have the benefit of, a trust deed dated on or about 11 February 2010 (the “**Settlement Date**”) (as amended or supplemented from time to time, the “**Trust Deed**”) between the Issuer and Deutsche Trustee Company Limited as trustee (the “**Trustee**”, which expression includes all persons for the time being trustee or trustees appointed under the Trust Deed) and are the subject of an agency agreement dated on or about the Settlement Date (as amended or supplemented from time to time, the “**Agency Agreement**”) between the Issuer, Deutsche Bank AG, London Branch as paying agent (the “**Paying Agent**”, which expression includes any successor paying agent appointed from time to time in connection with the Notes) and the Trustee. Certain provisions of these Conditions are summaries of the Trust Deed and the Agency Agreement and subject to their detailed provisions. The holders of the Notes (the “**Noteholders**”) and the holders of the related interest coupons (the “**Couponholders**” and the “**Coupons**”, respectively) are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and the Agency Agreement applicable to them. Copies of the Trust Deed and the Agency Agreement are available for inspection by Noteholders during normal business hours at the registered office for the time being of the Trustee, being at the date hereof Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom and at the Specified Office (as defined in the Agency Agreement) of the Paying Agent, the initial Specified Offices of which are set out below.

1. Form, Denomination and Title

The Notes are serially numbered and in bearer form in the denomination of U.S.\$100 with Coupons and talons (“**Talons**”) for further Coupons attached at the time of issue. Title to the Notes, the Coupons and the Talon will pass by delivery. The holder of any Note, Coupon or Talon shall (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any other interest therein, any writing thereon or any notice of any previous loss or theft thereof) and no person shall be liable for so treating such holder. No person shall have any right to enforce any term or condition of the Notes or the Trust Deed under the Contracts (Rights of Third Parties) Act 1999.

2. Status

The Notes, Coupons and Talons constitute direct, general, unsubordinated, unconditional and unsecured obligations of the Issuer which will at all times rank *pari passu* among themselves and at least *pari passu* with all other present and future unsecured obligations of the Issuer, save for such obligations as may be preferred by provisions of law that are both mandatory and of general application.

3. Negative Pledge and Covenants

- (a) *Negative Pledge*: so long as any Note remains outstanding, the Issuer undertakes that, if it creates or permits to subsist any Security Interest (other than a Permitted Security Interest) upon the whole or any part of its International Monetary Assets to secure any Public Debt, the Issuer shall, at the time or prior thereto, secure equally and rateably therewith the obligations of the Issuer under the Notes to the satisfaction of the Trustee or provide such other security for the Notes as the Trustee may in its absolute discretion consider to be not materially less beneficial to the interests of the Noteholders or as may be approved by an Extraordinary Resolution (as defined in the Trust Deed) of Noteholders.
- (b) *Covenants*: so long as any Notes remains outstanding, the Issuer shall:
 - (i) continue to procure that it exercises full ownership, power and control over the International Monetary Assets as they exist from time to time; and

- (ii) duly obtain and maintain in full force and effect all governmental consents, licences, approvals and authorisations, and/or make or cause to be made all (if any) registrations, recordings and filings, which may at any time be required to be obtained and/or made in the Issuer for the execution, delivery or performance of all obligations arising under the Notes and the validity or enforceability thereof.

In these Conditions:

“Debt” means any indebtedness of any Person (whether incurred as principal or surety) for or in respect of monies borrowed or any bond, debenture, note or similar securities or instruments;

“External Debt” means any obligation, and guarantees of obligations, in respect of existing or future Debt denominated or payable, or at the option of the holder thereof payable, in a currency other than the lawful currency of the Issuer;

“IMF” means the International Monetary Fund;

“International Monetary Assets” means all of the Issuer’s official holdings of gold and all of the Issuer’s and the Issuer’s Monetary Authorities’ holdings of: “Special Drawing Rights,” “Reserve Positions in the Fund” and “Foreign Exchange” each of which shall have, as to the types of assets included, the meanings given to them in the IMF’s publication entitled “International Financial Statistics” or such other meaning as shall be formally adopted by the IMF from time to time;

“Monetary Authorities” means the Central Bank of Seychelles or any other entity which, from time to time, acts as a central bank of the Issuer and, if and to the extent that it performs the functions of a monetary authority for or on behalf of the Issuer or the government thereof, any currency board, exchange stabilisation fund or treasury;

“outstanding” shall have the meaning ascribed to such term in the Trust Deed;

“Permitted Security Interest” means: (i) any Security Interest on property to secure Public Debt arising in the ordinary course of business to finance export, import or other trade transactions, which Public Debt matures (after giving effect to all renewals and refinancings thereof) not more than one year after the date on which such Public Debt was originally incurred; (ii) any Security Interest on property to secure Public Debt incurred solely for the purpose of financing any acquisition by the Issuer (or, in the case of Public Debt guaranteed by the Issuer, the obligor in respect of such debt) of such property, and any renewal or extension of any such Security Interest which is limited to the original property covered thereby and which secures any renewal or extension of the original financing without any increase in the amount thereof; (iii) any Security Interest on property arising by operation of law other than the law of the Issuer (or pursuant to any agreement establishing a Security Interest equivalent to one which would otherwise exist under relevant local law other than the law of the Issuer) in connection with Public Debt, including without limitation any right of set-off with respect to demand or time deposits with financial institutions and bankers’ liens with respect to property held by financial institutions (in each case deposited with or delivered to such financial institutions in the ordinary course of the depositor’s activities); (iv) any Security Interest existing on property at the time of acquisition, and any renewal or extension of any such Security Interest which is limited to the original property covered thereby and which secures any renewal or extension of the financing secured by such Security Interest at the time of such acquisition without any increase in the amount thereof; (v) any Security Interest in existence as of the date of the issuance of the Notes; and (vi) any Security Interest securing Public Debt incurred for the purpose of financing all or part of the costs of the acquisition, construction or development of a project, *provided that* (a) the holders of such Public Debt agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public Debt (and associated insurances) and (b) the property over which such Security Interest is granted consists solely of such assets and revenues;

“Person” means any individual, company, corporation, firm, partnership, joint venture, association, organisation, state or agency of a state or other entity, whether or not having separate legal personality;

“Public Debt” means External Debt which (i) is in the form of, or represented by, bonds, notes or other similar securities or any guarantees thereof and (ii) is, or may be, quoted, listed or ordinarily purchased and sold on any stock exchange, automated trading system or over-the-counter or other securities market; and

“Security Interest” means any lien, pledge, hypothecation, mortgage, security interest, charge or any other encumbrance, agreement or arrangement which has a similar legal and economic effect including, without limitation, anything analogous to any of the foregoing under the laws of any jurisdiction.

4. Interest

From, and including, 1 January 2010 (the “**Issue Date**”) to, but excluding, 1 July 2041 the Notes bear interest at the rate of 2.0 per cent. per annum. Interest is payable in two equal instalments semi annually in arrears on 1 January and 1 July in each year (each, an “**Interest Payment Date**”), with the first such Interest Payment Date being 1 July 2010, subject as provided in Condition 6 (*Payments*).

Each Note will cease to bear interest from the due date for redemption unless, upon due presentation, payment of principal is improperly withheld or refused, in which case it will continue to bear interest at the rate applicable immediately prior to the relevant due date for redemption (both before and after judgment) until whichever is the earlier of (a) the day on which all sums due in respect of such Note up to that day are received by or on behalf of the relevant Noteholder and (b) the day which is seven days after the Paying Agent or the Trustee has notified the Noteholders that it has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment).

The amount of interest payable on each Interest Payment Date shall be calculated by applying the abovementioned rate of interest to the outstanding principal amount of such Note, dividing the product by two and rounding the resulting figure to the nearest cent (half a cent being rounded upwards). If interest is required to be calculated for any other period, it will be calculated on the basis of a year of 360 days consisting of 12 months of 30 days each and, in the case of an incomplete month, the actual number of days elapsed.

5. Redemption and Purchase

Scheduled redemption: Unless previously redeemed, or purchased and cancelled, each Note will be redeemed (subject as provided in Condition 6 (*Payments*)) in 7 equal instalments falling on the consecutive Interest Payment Dates commencing on 1 July 2038 and ending on 1 July 2041 (each such date being a “**Principal Repayment Date**”). Each, such repayment amount being a “**Scheduled Repayment Amount**”.

Except in the case of the final Scheduled Repayment Amount, the number of Notes will not be reduced by payment of any Scheduled Repayment Amount. Payments of a Scheduled Repayment Amount will reduce the then outstanding principal amount of each Note on a *pro rata* basis.

- (a) *Early Redemption:* The Issuer may redeem the Notes at par without premium or penalty, on any Principal Repayment Date, in whole or in part, at a redemption price equal to the principal amount of the Notes to be redeemed together with the amount of interest accrued and unpaid as at the date of redemption. Any partial redemption will not reduce the number of Notes. Any partial redemption will reduce the then outstanding principal amount of each Note on a *pro rata* basis. Any redemption shall be subject to the following:
 - (i) the Issuer not being in default on any payment falling due under the Notes at or immediately preceding the date of such redemption; and
 - (ii) there being no subsisting Event of Default (as defined in Condition 8 (*Events of Default*)) relating to the Notes to be so redeemed.

Notice of any redemption of the Notes shall be given in accordance with Condition 15 (*Notices*) and shall be given not less than 30, nor more than 40 days, prior to the Principal Repayment Date upon which such redemption is to be made (the “**Redemption Date**”). The notice shall specify such date and place or places of payment where payment will be made, that on and after the Redemption Date, interest on the Notes being redeemed or, as the case may be, portion thereof, shall (subject to payment thereof) cease to accrue, and other relevant information. Such notice shall be irrevocable and once given, payment of the principal amount of each Note (or portion thereof) shall be made in accordance with Condition 6(b) (*Principal*) and payment of any interest accrued and payable under each such Note shall be made in accordance with Condition 6(c) (*Interest*).

- (b) *No other redemption:* The Issuer shall not be entitled to redeem the Notes otherwise than as provided in paragraph (a) (*Scheduled redemption*) and (b) (*Early Redemption*) above.
- (c) *Purchase and Cancellation:* The Issuer may at any time purchase Notes in the open market or otherwise and at any price, *provided that* all related unmatured Coupons and unexchanged Talons are purchased therewith. Any Notes so purchased may be cancelled or held and resold.

6. Payments

- (a) *Goodwill Payment:* The Issuer shall make a goodwill payment of U.S.\$5.22 per U.S.\$100 of Notes on 12 April 2010 to the Noteholders (“**Goodwill Payment**”). The Goodwill Payment shall be made only against presentation and endorsement of Notes at the Specified Office of the Paying Agent outside the United States by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.
- (b) *Principal:* Save as provided in paragraph (d) (*Payments in New York City*) below, in respect of any payments of principal, payments shall be made only against presentation and (in the case of the final payment of principal and provided that payment is made in full) surrender (or, in the case of a partial payment, endorsement) of Notes at the Specified Office of any Paying Agent outside the United States by U.S. dollar cheque drawn on, or by transfer to a U.S. dollar account maintained by the payee with, a bank in New York City.
- (c) *Interest:* Save as provided in paragraph (d) (*Payments in New York City*) below, payments of interest shall, subject to paragraph (h) (*Payments other than in respect of matured Coupons*) below, be made only against presentation and (*provided that* payment is made in full) surrender of the appropriate Coupons at the Specified Office of any Paying Agent outside the United States in the manner described in paragraph (b) (*Principal*) above.
- (d) *Payments in New York City:* Payments of principal or interest may be made at the Specified Office of a Paying Agent in New York City if (i) the Issuer has appointed one or more Paying Agents outside the United States with the reasonable expectation that such Paying Agent or Paying Agents will be able to make payment of the full amount of the interest on the Notes in U.S. dollars when due, (ii) payment of the full amount of such interest at the offices of all such Paying Agents is illegal or effectively precluded by exchange controls or other similar restrictions and (iii) payment is permitted by applicable United States law.
- (e) *Payments subject to fiscal laws:* All payments in respect of the Notes are subject in all cases to any applicable fiscal or other laws and regulations in the place of payment, but without prejudice to the provisions of Condition 7 (*Taxation*). No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.
- (f) *Unmatured coupons void:* On the due date for redemption pursuant to Condition 5(a) (*Scheduled redemption*) or Condition 5(b) (*Early Redemption*), all unmatured Coupons relating thereto and any Talons (whether or not still attached) shall become void and no payment will be made in respect thereof.
- (g) *Payments on business days:* If the due date for payment of any amount in respect of any Note or Coupon is not a business day in the place of presentation, the holder shall not be entitled to payment in such place of the amount due until the next succeeding business day in such place and shall not be entitled to any further interest or other payment in respect of any such delay. In this paragraph, “**business day**” means, in respect of any place of presentation, any day on which banks are open for presentation and payment of bearer debt securities and for dealings in foreign currencies in such place of presentation, and, in the case of payment by transfer to a U.S. dollar account as referred to above, on which dealings in foreign currencies may be carried on both in New York City and in such place of presentation.
- (h) *Payments other than in respect of matured Coupons:* Payments of interest other than in respect of matured Coupons shall be made only against presentation of the relevant Notes at the Specified Office of any Paying Agent outside the United States (or in New York City if permitted by paragraph (d) (*Payments in New York City*) above).

- (i) *Partial payments:* If a Paying Agent makes a partial payment in respect of any Note or Coupon presented to it for payment, such Paying Agent will endorse thereon a statement indicating the amount and date of such payment.
- (j) *Exchange of Talons:* On or after the maturity date of the final Coupon which is (or was at the time of issue) part of a coupon sheet relating to the Notes (each, a “**Coupon Sheet**”), the Talons forming part of such Coupon Sheet may be exchanged at the Specified Office of the Principal Paying Agent for a further Coupon Sheet excluding any Coupons in respect of which claims have already become void pursuant to Condition 9 (*Prescription*)). Upon the due date for redemption of any Note, any unexchanged Talons relating to such Note shall become void and no Coupon will be delivered in respect of such Talons.

7. **Taxation**

All payments of principal, interest and the Goodwill Payment in respect of the Notes and the Coupons by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Seychelles or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law. In that event the Issuer shall pay such additional amounts as will result in receipt by the Noteholders and the Couponholders after such withholding or deduction of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable in respect of any Note or Coupon presented for payment:

- (a) by or on behalf of a holder which is liable to such taxes, duties, assessments or governmental charges in respect of such Note or Coupon by reason of its having some connection with the Republic of Seychelles other than the mere holding of the Note or Coupon; or
- (b) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or introduced in order to conform to, this Directive; or
- (c) where applicable, or on behalf of a holder who would have been able to avoid such withholding or deduction by presenting the relevant Note or Coupon to, if applicable, another Paying Agent in a member state of the European Union; or
- (d) more than 30 days after the Relevant Date except to the extent that the holder of such Note or Coupon would have been entitled to such additional amounts on presenting such Note or Coupon for payment on the last day of such period of 30 days.

In these Conditions, “**Relevant Date**” means whichever is the later of (1) the date on which the payment in question first becomes due and (2) if the full amount payable has not been received by the Paying Agent or the Trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the Noteholders.

Any reference in these Conditions to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this Condition 7 (*Taxation*) or any undertaking given in addition to or in substitution of this Condition 7 (*Taxation*) pursuant to the Trust Deed.

8. **Events of Default**

If any of the following events occurs and is continuing, then the Trustee at its discretion may and, if so requested in writing by holders of at least one quarter of the aggregate principal amount of the outstanding Notes or if so directed by an Extraordinary Resolution, shall (subject, in all cases, to the Trustee having been indemnified and/or provided with security and/or prefunded to its satisfaction and, subject to the Trustee having, in respect of Condition 8(b) (*Breach of other obligations*) only, certified in writing that the happening of such event is in its opinion materially prejudicial to the interests of the Noteholders) give written notice to the Issuer declaring the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality:

- (a) *Non-payment*: the Issuer fails to pay any amount of principal in respect of the Notes within seven days of the due date for payment thereof or fails to pay any amount of interest in respect of the Notes within 30 days of the due date for payment thereof; or
- (b) *Breach of other obligations*: the Issuer defaults in the performance or observance of any of its other obligations under or in respect of the Notes or the Trust Deed and such default (i) is, in the opinion of the Trustee, incapable of remedy or (ii) being a default which is, in the opinion of the Trustee, capable of remedy remains unremedied for 45 days or such longer period as the Trustee may agree after the Trustee has given written notice thereof to the Issuer; or
- (c) *Cross-Acceleration*: Public Debt issued, or amended as to payment terms, on or after the original issuance date of the Notes, having an aggregate principal amount of at least U.S.\$25,000,000 (or its equivalent in other currencies) becomes immediately due and payable due to the acceleration of such Public Debt upon an event of default and such acceleration shall not have been rescinded or annulled; or
- (d) *Moratorium*: the Issuer declares a general moratorium on the payment of principal, or interest, in respect of, any Public Debt or is unable, or officially admits its inability, to pay its debts as they fall due or commences negotiations with one or more of its creditors with a view to the general rescheduling of all or part of its indebtedness; or
- (e) *Unlawfulness*: it is or will become unlawful for the Issuer to perform or comply with any of its obligations under or in respect of the Notes or the Trust Deed; or
- (f) *IMF*: the Republic of Seychelles ceases to be a member of the International Monetary Fund.

9. Prescription

Claims for principal shall become void unless presentation for payment is made as required by Condition 6 (*Payments*) within ten years of the appropriate Relevant Date. Claims for interest shall become void unless the relevant Coupons are presented for payment within five years of the appropriate Relevant Date.

10. Replacement of Notes, Coupons and Talons

If any Note, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced at the Specified Office of the Paying Agent, and, if different, the Paying Agent having its Specified Office in London, subject to all applicable laws and stock exchange requirements, upon payment by the claimant of the expenses incurred in connection with such replacement and on such terms as to evidence, security, indemnity and otherwise as the Issuer may reasonably require. Mutilated or defaced Notes, Coupons or Talons must be surrendered before replacements will be issued.

11. Trustee and Paying Agent

Under the Trust Deed, the Trustee is entitled to be indemnified and relieved from responsibility in certain circumstances including provisions relieving it from taking proceedings or any step or action to enforce repayment or the provisions of the Trust Deed or the terms and conditions of the Notes unless indemnified and/or secured and/or prefunded to its satisfaction and to be paid its costs and expenses in priority to the claims of the Noteholders. In addition, the Trustee is entitled to enter into business transactions with the Issuer and any entity relating to the Issuer without accounting for any profit.

In the exercise of its powers and discretions under these Conditions and the Trust Deed, the Trustee will have regard to the interests of the Noteholders as a class and will not be responsible for any consequence for individual holders of Notes or Coupons as a result of such holders being connected in any way with a particular territory or taxing jurisdiction.

The Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Trustee, any other person or in any other manner) by reference to a monetary cap,

methodology or otherwise. The Trustee may accept and shall be entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Trustee and the Noteholders.

In acting under the Agency Agreement and in connection with the Notes and the Coupons, the Paying Agent acts solely as agent of the Issuer and (to the extent provided therein) the Trustee and does not assume any obligations towards or relationship of agency or trust for or with any of the Noteholders or Couponholders.

The initial Paying Agent and its initial Specified Office is listed below. The Issuer reserves the right (with the prior written approval of the Trustee) at any time to vary or terminate the appointment of the Paying Agent and to appoint a successor paying agent and additional or successor paying agents and additional or successor paying agents; *provided, however, that* the Issuer shall at all times maintain a paying agent in an EU member state that will not be obliged to withhold or deduct tax pursuant to any law implementing European Council Directive 2003/48/EC.

Notice of any change in the Paying Agents or in its Specified Office shall promptly be given to the Noteholders.

12. Meetings of Noteholders; Written Resolution

- (a) *Meetings of Noteholders:* The Trust Deed contains provisions for convening meetings of Noteholders to consider matters relating to the Notes, including the modification of any provision of these Conditions or the Trust Deed. Any such modification may be made if sanctioned by an Extraordinary Resolution. Such a meeting may be convened by the Issuer or by the Trustee and shall be convened by the Trustee subject to its being indemnified and/or secured and/or prefunded to its satisfaction upon the request in writing of Noteholders holding not less than one-twentieth of the aggregate principal amount of the outstanding Notes. The quorum at any meeting convened to vote on an Extraordinary Resolution will be two or more persons holding or representing more than half of the aggregate principal amount of the outstanding Notes or, in the case of an Extraordinary Resolution relating to a Reserved Matter (as defined below), three quarters of the aggregate principal amount of the outstanding Notes or, at any adjourned meeting for voting on an Extraordinary Resolution other than one relating to a Reserved Matter (as defined below), two or more persons being or representing one quarter of the principal amount of the Notes held or represented; *provided, however, that* certain proposals (including any proposal to change any date fixed for payment of principal or interest in respect of the Notes, to reduce the amount of principal or interest payable on any date in respect of the Notes, to alter the method of calculating the amount of any payment in respect of the Notes or the date for any such payment, to effect the exchange, conversion or substitution of the Notes for, or the conversion of the Notes into other obligations or securities, to change the currency of payments under the Notes, or to change the quorum requirements relating to meetings or the majority required to pass an Extraordinary Resolution or to amend this definition (each, a “**Reserved Matter**”)) may only be sanctioned by an Extraordinary Resolution passed at a meeting of Noteholders at which two or more persons holding or representing not less than three-quarters of the aggregate principal amount of the outstanding Notes form a quorum. Any Extraordinary Resolution duly passed at any such meeting shall be binding on all the Noteholders and Couponholders, whether present or not.
- (b) *Modification and waiver:* The Trustee may, without the consent of the Noteholders or Couponholders agree to any modification of these Conditions or the Trust Deed (other than in respect of a Reserved Matter) which is, in the opinion of the Trustee, proper to make if, in the opinion of the Trustee, such modification will not be materially prejudicial to the interests of Noteholders and to any modification of the Notes or the Trust Deed which is of a formal, minor or technical nature or is to correct a manifest error.

In addition, the Trustee may, without the consent of the Noteholders or Couponholders authorise or waive any proposed breach or breach of the Notes or the Trust Deed (other than a proposed breach or breach relating to the subject of a Reserved Matter) if, in the opinion of the Trustee, the interests of the Noteholders will not be materially prejudiced thereby.

Unless the Trustee agrees otherwise, any such authorisation, waiver or modification shall be notified to the Noteholders as soon as practicable thereafter.

13. Enforcement

The Trustee may at any time after the Notes become due and payable, at its discretion and without notice, institute such proceedings as it thinks fit to enforce the terms of the Trust Deed, the Notes, the Coupons and the Talons but it shall not be bound to do so unless it has been so requested in writing by the holders of at least one quarter of the aggregate principal amount of the outstanding Notes or has been so directed by an Extraordinary Resolution. Nor shall the Trustee be bound to take or omit to take any step or action (including instituting such proceedings) unless it has been indemnified and/or provided with security and/or prefunded to its satisfaction in respect of all costs, expenses and liabilities to or for which it may, in its opinion thereby become liable.

No Noteholder or Couponholder may proceed directly against the Issuer unless the Trustee, having become bound to do so, fails to do so within a reasonable time and such failure is continuing.

14. Further Issues

The Issuer may from time to time, without the consent of the Noteholders or the Couponholders and in accordance with the Trust Deed, create and issue further notes having the same terms and conditions as the Notes in all respects (save for the date and amount of the Goodwill Payment and the first other payment thereon) so as to form a single series with the Notes. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition and forming a single series with the Notes. The Issuer may from time to time, with the consent of the Trustee, create and issue other series of notes having the benefit of the Trust Deed. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may (with the consent of the Trustee), be constituted by a deed supplemental to the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Trustee so decides.

15. Notices

Notices to the Noteholders shall be valid if published in a leading English language daily newspaper published in London (which is expected to be the *Financial Times* or, if such publication is not practicable, in a leading English language daily newspaper having general circulation in Europe). Any such notice shall be deemed to have been given on the date of first publication. Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the Noteholders.

16. Governing Law and Jurisdiction

- (a) *Governing law:* The Notes and the Trust Deed and any non-contractual obligations arising out of or in connection with the Notes and the Trust Deed are governed by English law.
- (b) *Jurisdiction:* The Issuer has in the Trust Deed:
 - (i) agreed for the benefit of the Trustee and the Noteholders that the courts of England shall have exclusive jurisdiction to settle any dispute (a “**Dispute**”) arising out of or in connection with the Notes (including a dispute relating to the existence, validity or termination of the Notes or any non-contractual obligation arising out of or in connection with the Notes) or the consequences of their nullity;
 - (ii) agreed that those courts are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue that any other courts are more appropriate or convenient;
 - (iii) designated a person in England to accept service of any process on its behalf;
 - (iv) consented to the enforcement of any judgment; and

- (v) to the extent that it may in any jurisdiction claim for itself or its assets immunity from suit, execution, attachment (whether in aid of execution, before judgment or otherwise) or other legal process, and to the extent that in any such jurisdiction there may be attributed to itself or its assets or revenues such immunity (whether or not claimed), agreed not to claim and irrevocably waived such immunity to the full extent permitted by the laws of such jurisdiction.

The Trust Deed also states that nothing contained in the Trust Deed prevents the Trustee or any of the Noteholders from taking proceedings relating to a Dispute (“**Proceedings**”) in any other courts with jurisdiction and that, to the extent allowed by law, the Trustee or any of the Noteholders may take concurrent Proceedings in any number of jurisdictions.

Pursuant to Section 29(5) of the Seychelles Code of Civil Procedure, no execution of any judgment may be issued against any asset belonging to the Republic of Seychelles. In addition, the Issuer is immune from enforcement against, or execution or attachment of, assets in relation to property used for diplomatic purposes outside the Republic of Seychelles. Any judgment may, however, be forwarded to the Principal Secretary of the Ministry of Finance of the Republic of Seychelles, who is empowered under the Seychelles Code of Civil Procedure to take such necessary measures to give effect to it and if the judgment provides for the payment of money, to provide for it to be paid out of the Consolidated Fund. Under the Seychelles Constitution, the Consolidated Fund is the fund required to be credited with all revenues of, and money raised by, the Government of Seychelles which are not payable under any specific law for a specific purpose.

FORM OF NOTICES AND EXTRAORDINARY RESOLUTIONS

FORM OF NOTICE OF MEETING RELATING TO 2011 NOTES

Set out below is the form of Notice to be communicated through the Clearing Systems by the Issuer in respect of the 2011 Notes if the Issuer decides to call a meeting in respect of the 2011 Notes before the Settlement Date. This has been prepared on the assumption that the New Discount Notes are the Larger Series of New Notes. If this is not the case then consequential revisions will be made to this Notice of Meeting. The Extraordinary Resolution prepared will be substantially in the form set out below.

THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt as to the action you should take, you are recommended to seek your own financial advice, including in respect of any tax consequences, immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (if you are in the United Kingdom), or from another appropriately authorised independent financial adviser (if you are not).

If you have sold or otherwise transferred all of your Notes, please forward this document to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



REPUBLIC OF SEYCHELLES (the “Issuer”)

NOTICE OF A MEETING

to the holders of those of the Issuer’s outstanding
U.S.\$230,000,000 9.125 per cent. Notes due 2011

(the “Noteholders” and the “Notes” respectively)

NOTICE IS HEREBY GIVEN that a meeting (the “Meeting”) of the Noteholders convened by the Issuer will be held at the offices of Clifford Chance LLP at 10 Upper Bank Street, Canary Wharf, London E14 5JJ, United Kingdom on ● at 17:00 hours Central European Time (16:00 hours London time), for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the agency agreement (the “Agency Agreement”) dated 3 October 2006, as supplemented by the First Supplemental Fiscal Agency Agreement dated 17 August 2007, made between the Issuer, Citibank N.A. and Citigroup Global Markets Deutschland AG & CO KGAA. Unless the context otherwise requires, capitalised terms used but not defined in this Notice shall have the meaning given to them in the Agency Agreement, the terms and conditions of the Notes (the “Conditions”) or the Prospectus (as defined below), as applicable.

EXTRAORDINARY RESOLUTION

“THAT this Meeting of the holders of the U.S.\$230,000,000 9.125 per cent. Notes due 2011 of Republic of Seychelles presently outstanding (the “Notes” and the “Issuer”, respectively) hereby:

1. approves, sanctions and authorises the arrangements, actions and steps proposed by the Issuer (the “Proposal”) as described in the Prospectus dated 7 December 2009, issued by the Issuer (the “Prospectus”) to which this Extraordinary Resolution relates, and its implementation on and subject to the condition(s) set forth in paragraph 11 of this Extraordinary Resolution.
2. acknowledges, assents to and authorises the delivery of the Deed of Guarantee (substantially in the form attached to the Prospectus) and available, free of charge, on request from Citibank, N.A. (the “Exchange Agent”) relating to the partial guarantee given by the African

Development Bank in favour of Deutsche Trustee Company Limited as trustee in respect of the Issuer's interest payment obligations (limited to payments of interest up to an aggregate of U.S.\$10 million) under the New Discount Notes (as defined below);

3. assents to, sanctions and authorises the entry into the New Trust Deed (as defined below) constituting the note issuance of the New Discount Notes (the “**New Discount Notes**”) and incorporating the New Conditions (as defined below) applicable thereto (the latter being in the form attached to the Prospectus and both being available, free of charge, on request from the Exchange Agent);
4. assents to, sanctions and authorises the entry into the New Agency Agreement (as defined below) (available, free of charge, on request from the Exchange Agent);
5. assents to, sanctions and authorises (i) the exchange of the Noteholders' interests in the Notes for direct interests in the New Discount Notes upon the terms and conditions of the Proposal at the exchange ratio specified therein so that each U.S.\$1,000 principal amount of Notes is exchanged for U.S.\$500 of New Discount Notes (rounded to the nearest U.S.\$100 with U.S.\$50 being rounded up); and (ii) directs the Issuer (and any agent thereof) to make such instructions or take such steps as are necessary to ensure the consequential termination and cancellation of the Notes including by way of writing down to zero and cancelling the Permanent Global Note and notifying the applicable clearing systems accordingly;
6. authorises, instructs and empowers the Issuer (and any agent thereof) to concur in, and to execute and do, all such other deeds, instruments, acts and things that may be necessary in the opinion of the Issuer to carry out and give effect to the steps summarised in the Proposal and this Extraordinary Resolution;
7. authorises and waives each and every default and/or Event of Default which to date may have occurred in relation to the Notes or which subsists on or at any time prior to the effective date of this Extraordinary Resolution;
8. sanctions and assents to every abrogation, amendment, modification, compromise or arrangement in respect of the rights of the Noteholders and the holders of the interest coupons appertaining to the Notes against the Issuer, against any of its property whether or not such rights shall arise under the Conditions or otherwise, involved in or resulting from or to be effected by, the arrangements and transactions referred to in this Extraordinary Resolution and the Proposal and their implementation and the entry into of the documents referred to in this Extraordinary Resolution and the Proposal;
9. approves, sanctions and authorises the release of the Issuer from all obligations and liabilities whatsoever under or in connection with the Notes and the Agency Agreement and the consequential termination and cancellation of the existing permanent global note in relation to the Notes;
10. discharges and exonerates the Issuer and the Agents from all liability for which they may have become or may become responsible under the Notes, the Agency Agreement and the Proposal in respect of any act or omission in connection with the Proposal, its implementation or this Extraordinary Resolution; and
11. acknowledges and declares that this Extraordinary Resolution shall in all respects be conditional on the satisfaction of the Acceptance Conditions set forth below and, subject thereto, shall become effective on the Settlement Date.

The “**Acceptance Conditions**” are:

- (i) that this Extraordinary Resolution is duly passed at the meeting of holders convened for the purpose of considering such resolution; and
- (ii) that each of the Proposal Documents (as defined in the Notice of Meeting dated [15 January] 2010) is duly executed and entered into (and, if applicable, delivered) by each of the relevant parties.

THE PROPOSAL

The Prospectus dated 7 December 2009 issued by the Issuer in connection with the Meeting (the “**Prospectus**”), a copy of which is obtainable by Noteholders, free of charge, on request from

Citibank N.A. (the “**Exchange Agent**”), explains the background to and reasons for, gives full details of, and invites Noteholders to approve at the Meeting the arrangements, actions and steps proposed by the Issuer (the “**Proposal**”).

GENERAL

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set forth in “Voting and Quorum – Quorum and Adjournment” below.

Copies of each of:

- (i) the Agency Agreement;
- (ii) the prospectus dated 17 August 2007 relating to the Notes;
- (iii) the form of the Extraordinary Resolution; and
- (iv) drafts of the:
 - (a) The Trust Deed constituting the New Discount Notes (the “**New Trust Deed**”);
 - (b) The terms and conditions of the New Discount Notes (as set out in the Prospectus) (the “**New Conditions**”);
 - (c) Deed of Guarantee; and
 - (d) The agency agreement relating to the New Discount Notes referred to in the New Conditions (the “**New Agency Agreement**”),

(each of the documents in (iv) above, a “**Proposal Document**” and together the “**Proposal Documents**”), which relate to the New Discount Notes,

are available from the date of this Notice to the conclusion of the Meeting (or any adjourned Meeting), free of charge, on request from the Exchange Agent. Such documents will also be available for inspection at the offices of Clifford Chance LLP at 10 Upper Bank Street, London E14 5JJ, United Kingdom, from the time 15 minutes before and during the Meeting.

If a draft Proposal Document is amended after the date of this Notice and before the date of the Meeting, the amended draft of such document will be made available by the Issuer as set forth above (marked to indicate changes made to the version made available at the date of this Notice).

For Noteholders’ convenience, drafts of the New Conditions and Deed of Guarantee are attached as exhibits to the Prospectus.

Noteholders who are in any doubt as to the impact of the Extraordinary Resolution and the implementation of the Proposal are recommended to seek their own independent financial and legal advice, including in respect of any tax consequences.

VOTING AND QUORUM

The relevant provisions governing the convening and holding of the Meeting are set forth in the third Schedule to the Agency Agreement, a copy of which is available for inspection as referred to above.

Noteholders may appoint proxies by executing and delivering a form of proxy to the specified office of a Paying Agent or, in the case of corporations, may appoint representatives by resolution of their directors or other governing body and by delivering an executed copy of that resolution to the specified office of any Paying Agent, in each case not less than 24 hours before the time fixed for the Meeting.

A Noteholder wishing to attend and vote at the Meeting and any adjourned such Meeting in person must produce at the Meeting a valid voting certificate or certificates issued by a Paying Agent relating to the Note(s) in respect of which such Noteholder wishes to vote. If a holder of a Note wishes to obtain a voting certificate in respect of that Note for the Meeting it must deposit it for that purpose at least 48 hours before the time fixed for the Meeting with any Paying Agent or to the order of any Paying Agent with a bank or other depositary nominated by the Paying Agent for the purpose. The Paying Agent shall thereafter issue a voting certificate in respect of it.

Quorum and Adjournment

The quorum required at the Meeting is one or more persons present in person holding Notes or being proxies or representatives and holding or representing not less than three-quarters of the aggregate principal amount of the Notes for the time being outstanding.

If within 15 minutes after the time appointed for the Meeting a quorum is not present, the Meeting shall stand adjourned for a period being not less than 14 days nor more than 42 days at such place as may be appointed by the Chairman of the Meeting and approved by the Fiscal Agent. At least 10 days' notice of such adjourned Meeting must be given in the same manner as for the original Meeting and such notice shall state the quorum required at such adjourned Meeting. The quorum at any such adjourned Meeting shall be one or more persons present holding Notes or being proxies or representatives and holding or representing at least three-quarters of the aggregate principal amount of the Notes for the time being outstanding.

Voting

Every question submitted to the Meeting shall be decided in the first instance by a show of hands and in case of an equality of votes the chairman of the Meeting shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Noteholder or as a proxy or a representative.

Unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of the Meeting or the Issuer or by any one or more persons present holding Notes or being a proxy or proxies, and holding or representing in aggregate not less than one-fiftieth part of the principal amount of the Notes then outstanding, a declaration by the chairman of the Meeting that a resolution has been carried by a particular majority or lost or not carried by any particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

At the Meeting (a) on a show of hands, every person who is present in person and produces a Note or is a proxy or representative shall have one vote and (b) on a poll, every person who is so present shall have one vote in respect of each U.S.\$1,000 in principal amount of the Note(s) so produced or in respect of which he is a proxy or representative or in respect of which he is the holder.

Extraordinary Resolution

To be passed, the Extraordinary Resolution requires a majority voting in favour consisting of not less than three-fourths of the aggregate principal amount of the outstanding Notes. If passed, the Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting.

Clearing Systems

Beneficial owners of Notes held by a common depositary for Euroclear Bank, S.A./N.V. or Clearstream Banking, société anonyme (together the "**Clearing Systems**") should contact the relevant corporate action departments within the relevant Clearing Systems for further information in respect of their respective procedures for voting.

Holders of Notes in respect of which Exchange Instructions are submitted pursuant to the Exchange Offer described in the Prospectus have given instructions to the applicable Clearing System to instruct Citibank Europe PLC as holder of the Permanent Global Note to vote in favour of the Extraordinary Resolution in respect of the full principal amount of the Notes the subject of such Exchange Instructions at the Meeting.

Governing Law

This notice is governed by, and shall be construed in accordance with, English law.

This notice is given by:

Republic of Seychelles

[15 January] 2010

FORM OF NOTICE OF MEETING RELATING TO AMORTISING NOTES

Set out below is the form of Notice to be communicated through the Clearing Systems by the Issuer in respect of the Amortising Notes if the Issuer decides to call a meeting in respect of the Amortising Notes before the Settlement Date: This has been prepared on the assumption that the New Discount Notes are the Larger Series of New Notes. If this is not the case then consequential revisions will be made to this Notice of Meeting. The Extraordinary Resolution proposed will be substantially in the form set out below.

THIS NOTICE IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in doubt as to the action you should take, you are recommended to seek your own financial advice, including in respect of any tax consequences, immediately from your stockbroker, bank manager, solicitor, accountant or other independent financial adviser authorised under the Financial Services and Markets Act 2000 (if you are in the United Kingdom), or from another appropriately authorised independent financial adviser (if you are not).

If you have sold or otherwise transferred all of your Notes, please forward this document to the purchaser or transferee or to the stockbroker, bank or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.



REPUBLIC OF SEYCHELLES (the “Issuer”)

NOTICE OF A MEETING

to the holders of those of the Issuer’s outstanding
€54,750,000 Amortising Notes due 2011

(the “Noteholders” and the “Notes” respectively)

NOTICE IS HEREBY GIVEN that a meeting (the “Meeting”) of the Noteholders convened by the Issuer will be held at the offices of Clifford Chance LLP at 10 Upper Bank Street, Canary Wharf, London E14 5JJ, United Kingdom on ● at 18:00 hours Central European Time (15:00 hours London time), for the purpose of considering and, if thought fit, passing the following Resolution which will be proposed as an Extraordinary Resolution in accordance with the provisions of the agency agreement (the “Agency Agreement”) dated 17 August 2007 made between the Issuer, Citibank N.A. and Citigroup Global Markets Deutschland AG & CO KGAA. Unless the context otherwise requires, capitalised terms used but not defined in this Notice shall have the meaning given to them in the Agency Agreement, the terms and conditions of the Notes (the “Conditions”) or the Prospectus (as defined below), as applicable.

“THAT this Meeting of the holders of the €54,750,000 Amortising Notes due 2011 of Republic of Seychelles presently outstanding (the “Notes” and the “Issuer”, respectively) hereby:

1. approves, sanctions and authorises the arrangements, actions and steps proposed by the Issuer (the “Proposal”) as described in the Prospectus dated 7 December 2009, issued by the Issuer (the “Prospectus”) to which this Extraordinary Resolution relates, and its implementation on and subject to the condition(s) set forth in paragraph 11 of this Extraordinary Resolution.
2. acknowledges, assents to and authorises the delivery of the Deed of Guarantee (substantially in the form attached to the Prospectus) and available, free of charge, on request from Citibank, N.A. (the “Exchange Agent”) relating to the partial guarantee given by the African Development Bank in favour of Deutsche Trustee Company Limited as trustee in respect of the Issuer’s interest payment obligations (limited to payments of interest up to an aggregate of U.S.\$10 million) under the New Discount Notes (as defined below);

3. assents to, sanctions and authorises the entry into the New Trust Deed (as defined below) constituting the note issuance of the New Discount Notes (the “**New Discount Notes**”) and incorporating the New Conditions (as defined below) applicable thereto (the latter being in the form attached to the Prospectus and both being available, free of charge, on request from the Exchange Agent);
4. assents to, sanctions and authorises the entry into the New Agency Agreement (as defined below) (available, free of charge, on request from the Exchange Agent);
5. assents to, sanctions and authorises (i) the exchange of the Noteholders’ interests in the Notes for direct interests in the New Discount Notes upon the terms and conditions of the Proposal at the exchange ratio specified therein so that each relevant amount (being €1,000 of the original face amount of Notes, reduced by the amount of the first payment thereon by applying a pooling factor of 0.9689 and ignoring any premium arising as a result of the acceleration thereof) is exchanged for U.S.\$748.35 of New Discount Notes (rounded to the nearest U.S.\$100 with U.S.\$50 being rounded up); and (ii) directs the Issuer (and any agent thereof) to make such instructions or take such steps as are necessary to ensure the consequential termination and cancellation of the Notes including by way of writing down to zero and cancelling the Permanent Global Note and notifying the applicable clearing systems accordingly;
6. authorises, instructs and empowers the Issuer (and any agent thereof) to concur in, and to execute and do, all such other deeds, instruments, acts and things that may be necessary in the opinion of the Issuer to carry out and give effect to the steps summarised in the Proposal and this Extraordinary Resolution;
7. authorises and waives each and every default and/or Event of Default which to date may have occurred in relation to the Notes or which subsists on or at any time prior to the effective date of this Extraordinary Resolution;
8. sanctions and assents to every abrogation, amendment, modification, compromise or arrangement in respect of the rights of the Noteholders and the holders of the interest coupons appertaining to the Notes against the Issuer, against any of its property whether or not such rights shall arise under the Conditions or otherwise, involved in or resulting from or to be effected by, the arrangements and transactions referred to in this Extraordinary Resolution and the Proposal and their implementation and the entry into of the documents referred to in this Extraordinary Resolution and the Proposal;
9. approves, sanctions and authorises the release of the Issuer from all obligations and liabilities whatsoever under or in connection with the Notes and the Agency Agreement including any obligation to pay any additional or further amounts in respect of the Notes arising as a result of the acceleration thereof under Condition 8 and the consequential termination and cancellation of the existing permanent global note in relation to the Notes;
10. discharges and exonerates the Issuer and the Agents from all liability for which they may have become or may become responsible under the Notes, the Agency Agreement and the Proposal in respect of any act or omission in connection with the Proposal, its implementation or this Extraordinary Resolution; and
11. acknowledges and declares that this Extraordinary Resolution shall in all respects be conditional on the satisfaction of the Acceptance Conditions set forth below and, subject thereto, shall become effective on the Settlement Date.

The “**Acceptance Conditions**” are:

- (i) that this Extraordinary Resolution is duly passed at the meeting of holders convened for the purpose of considering such resolution; and
- (ii) that each of the Proposal Documents (as defined in the Notice of Meeting dated [15 January] 2010) is duly executed and entered into (and, if applicable, delivered) by each of the relevant parties.

THE PROPOSAL

The Prospectus dated 7 December 2009 issued by the Issuer in connection with the Meeting (the “**Prospectus**”), a copy of which is obtainable by Noteholders, free of charge, on request from Citibank N.A. (the “**Exchange Agent**”), explains the background to and reasons for, gives full details

of, and invites Noteholders to approve at the Meeting the arrangements, actions and steps proposed by the Issuer (the “**Proposal**”).

GENERAL

The attention of Noteholders is particularly drawn to the quorum required for the Meeting and for an adjourned Meeting which is set forth in “Voting and Quorum-Quorum and Adjournment” below.

Copies of each of:

- (i) the Agency Agreement;
- (ii) the form of the Extraordinary Resolution; and
- (iii) drafts of the:
 - (a) The Trust Deed constituting the New Discount Notes (the “**New Trust Deed**”);
 - (b) The terms and conditions of the New Discount Notes (as set out in the Prospectus) (the “**New Conditions**”);
 - (c) Deed of Guarantee; and
 - (d) The agency agreement relating to the New Discount Notes referred to in the New Conditions (the “**New Agency Agreement**”),

(each of the documents in (iii) above, a “**Proposal Document**” and together the “**Proposal Documents**”), which relate to the New Discount Notes,

are available from the date of this Notice to the conclusion of the Meeting (or any adjourned Meeting), free of charge, on request from the Exchange Agent. Such documents will also be available for inspection at the offices of Clifford Chance LLP at 10 Upper Bank Street, London E14 5JJ, United Kingdom, from the time 15 minutes before and during the Meeting.

If a draft Proposal Document is amended after the date of this Notice and before the date of the Meeting, the amended draft of such document will be made available by the Issuer as set forth above (marked to indicate changes made to the version made available at the date of this Notice).

For Noteholders’ convenience, drafts of the New Conditions and Deed of Guarantee are attached as exhibits to the Prospectus.

Noteholders who are in any doubt as to the impact of the Extraordinary Resolution and the implementation of the Proposal are recommended to seek their own independent financial and legal advice, including in respect of any tax consequences.

VOTING AND QUORUM

The relevant provisions governing the convening and holding of the Meeting are set forth in the third Schedule to the Agency Agreement, a copy of which is available for inspection as referred to above.

Noteholders may appoint proxies by executing and delivering a form of proxy to the specified office of a Paying Agent or, in the case of corporations, may appoint representatives by resolution of their directors or other governing body and by delivering an executed copy of that resolution to the specified office of any Paying Agent, in each case not less than 24 hours before the time fixed for the Meeting.

A Noteholder wishing to attend and vote at the Meeting and any adjourned such Meeting in person must produce at the Meeting a valid voting certificate or certificates issued by a Paying Agent relating to the Note(s) in respect of which such Noteholder wishes to vote. If a holder of a Note wishes to obtain a voting certificate in respect of that Note for the Meeting it must deposit it for that purpose at least 48 hours before the time fixed for the Meeting with any Paying Agent or to the order of any Paying Agent with a bank or other depositary nominated by the Paying Agent for the purpose. The Paying Agent shall thereafter issue a voting certificate in respect of it.

Quorum and Adjournment

The quorum required at the Meeting is one or more persons present in person holding Notes or being proxies or representatives and holding or representing not less than three-quarters of the aggregate Amortised Principal Amount of the Notes for the time being outstanding.

If within 15 minutes after the time appointed for the Meeting a quorum is not present, the Meeting shall stand adjourned for a period being not less than 14 days nor more than 42 days at such place as may be appointed by the Chairman of the Meeting and approved by the Fiscal Agent. At least 10 days' notice of such adjourned Meeting must be given in the same manner as for the original Meeting and such notice shall state the quorum required at such adjourned Meeting. The quorum at any such adjourned Meeting shall be one or more persons present holding Notes or being proxies or representatives and holding or representing at least three-quarters of the aggregate Amortised Principal Amount of the Notes for the time being outstanding.

Voting

Every question submitted to the Meeting shall be decided in the first instance by a show of hands and in case of an equality of votes the chairman of the Meeting shall both on a show of hands and on a poll have a casting vote in addition to the vote or votes (if any) to which he may be entitled as a Noteholder or as a proxy or a representative.

Unless a poll is (before or on the declaration of the result of the show of hands) demanded by the chairman of the Meeting or the Issuer or by any one or more persons present holding Notes or being a proxy or proxies, and holding or representing in aggregate not less than one-fiftieth part of the Amortised Principal Amount of the Notes then outstanding, a declaration by the chairman of the Meeting that a resolution has been carried by a particular majority or lost or not carried by any particular majority shall be conclusive evidence of the fact without proof of the number or proportion of the votes recorded in favour or against such resolution.

At the Meeting (a) on a show of hands, every person who is present in person and produces a Note or is a proxy or representative shall have one vote and (b) on a poll, every person who is so present shall have one vote in respect of each €1,000 in principal amount of the Note(s) so produced or in respect of which he is a proxy or representative or in respect of which he is the holder.

Extraordinary Resolution

To be passed, the Extraordinary Resolution requires a majority voting in favour consisting of not less than three-fourths of the aggregate principal amount of the outstanding Notes. If passed, the Extraordinary Resolution will be binding upon all the Noteholders, whether or not present at the Meeting and whether or not voting.

Clearing Systems

Beneficial owners of Notes held by a common depositary for Euroclear Bank, S.A./N.V. or Clearstream Banking, *société anonyme* (together the "**Clearing Systems**") should contact the relevant corporate action departments within the relevant Clearing Systems for further information in respect of their respective procedures for voting.

Holders of Notes in respect of which Exchange Instructions are submitted pursuant to the Exchange Offer described in the Prospectus have given instructions to the applicable Clearing System to instruct Citibank Europe PLC as holder of the Permanent Global Note to vote in favour of the Extraordinary Resolution in respect of the Notes the subject of such Exchange Instructions at the Meeting.

Governing Law

This notice is governed by, and shall be construed in accordance with, English law.

This notice is given by:

Republic of Seychelles

[15 January] 2010

RISK FACTORS

Prospective investors should read the entire Prospectus. Words and expressions defined in the “Terms and Conditions of the New Discount Notes” and in the “Terms and Conditions of the New Par Notes” above or elsewhere in this Prospectus have the same meanings in this section. Each of investing and not investing in the New Notes involves certain risks. Prospective investors should consider, among other things, the following factors.

The Issuer believes that the following factors may affect its ability to fulfil its obligations under the New Notes. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Factors which the Issuer believes may be material for the purpose of assessing the market risks associated with the New Notes are also described below.

The Issuer believes that the factors described below represent the principal risks inherent in investing in the New Notes, but the Issuer may be unable to pay interest, principal or other amounts on or in connection with the New Notes for other reasons and the Issuer does not represent that the statements below regarding the risks of holding the New Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus and reach their own views prior to making any investment decision.

Risks of not participating in the offer

Treatment of eligible claims not tendered

The Existing Instruments that are not tendered may remain outstanding indefinitely. The Republic of Seychelles does not intend to resume payments on these instruments on their original terms following the Expiration Date. Consequently, if a holder elects not to tender its Existing Instruments, it is unlikely that it will receive any future payments in respect of such instruments.

Illiquidity

It is unlikely that, after the consummation of the Exchange Offer, an active market in the Existing Instruments will exist. The Republic of Seychelles cannot give any assurance as to the price or prices at which any such instruments may trade in the future or that the Existing Notes will remain listed.

Enforcement of Civil Liabilities and Waiver of Sovereign Immunity

The Republic of Seychelles is a sovereign state. The Issuer has waived sovereign immunity to the fullest extent permitted by law in relation to the New Notes. However, a claimant will not be able to enforce a court judgment against any assets of the Issuer in the Republic of Seychelles (including the imposition of any attachment or seizure of such assets and their subsequent sale) because under the laws of the Republic of Seychelles the Issuer may not waive immunity from attachment or seizure in relation to its assets.

It may not be possible to effect service of process against the Issuer in courts outside the Republic of Seychelles or in a jurisdiction to which the Issuer has not explicitly submitted. Court judgments obtained in the United Kingdom are enforceable in the Seychellois courts without a re-examination of the merits of such judgments pursuant to the Foreign Judgments (Reciprocal Enforcement) Act (Cap 85). However, courts in the Republic of Seychelles will not enforce a judgment obtained in a court established in another country unless such enforcement is envisaged by an international treaty signed and ratified by the Republic of Seychelles, or a treaty between such country and the Republic of Seychelles providing for reciprocal enforcement of judgments, which are in effect and then only in accordance with the terms of such treaty. Furthermore, if a foreign court judgment, including an English court judgment, were to provide for an enforcement procedure contravening Seychellois law requirements, a Seychellois court would likely refuse to recognise and enforce the judgment. Accordingly, there can be no assurance that any court judgment obtained by an investor will be enforceable against the Issuer in the Republic of Seychelles.

Risks of participating in the offer

Issuer's discretion to terminate, extend or amend the terms of the offer

The terms of the Exchange Offer allow the Republic of Seychelles, in its sole discretion to the extent permitted by applicable laws, to extend, amend or terminate the Exchange Offer on the basis described therein. Accordingly, there can be no assurance that the Exchange Offer will be completed

or completed in accordance with the schedule and on the terms set out in the Exchange Offer Materials.

Holders of eligible instruments who tender may not withdraw these tenders, except in limited circumstances

Upon a Tender by a holder of Existing Instruments, such holder may thereafter not withdraw its tenders except in certain limited circumstances described in “Terms of the Exchange Offer – Irrevocability”. The market price of the Existing Instruments may fluctuate after they have been tendered pursuant to the Exchange Offer. Tendering holders, however, will not be able to effect transfers of any tendered Existing Instruments because Existing Instruments tendered in the Exchange Offer must be “blocked” for transfers to third parties pending completion of the Exchange Offer no later than the Expiration Date and is likely to be required at an earlier time given the procedures of the clearing systems and requirements of custodians or other relevant intermediaries.

Holders tendering Existing Instruments pursuant to the offer will renounce and waive significant rights and interests, including the right to bring litigation proceedings under the Existing Instruments

Upon a Tender by a holder of Existing Instruments, such holder waives any and all rights with respect to all Existing Instruments tendered, including, without limitation, any existing, past or continuing defaults and their consequences in respect of such Existing Instruments, and further agrees not to assign, transfer, sell, pledge, hypothecate or otherwise encumber any of its Existing instruments.

To the extent New Notes are issued, all right, title and interest in and to, and any and all claims in respect of or arising or having arisen in favour of the holder of, all Existing Instruments tendered (including claims in respect of past due or accrued interest) will be sold, assigned and transferred to or upon the order of the Republic of Seychelles or its nominee free and clear of all liens, charges, claims, encumbrances, interests, rights of third parties and restrictions of any kind and thereafter the holder of those Existing Instruments will have no contractual or other rights or claims in law or equity against the Republic of Seychelles or any fiduciary, trustee, fiscal agent or other person connected with the tendered Existing Instruments arising from or in connection with any of such Existing Instruments or the debts represented thereby, and agree and acknowledge that it will record on its books the transfers of such Existing Instruments.

Potential challenges to Seychelles' payment on the New Notes

Creditors of the Issuer may attempt to attach, enjoin or otherwise challenge payments contemplated pursuant to the New Notes. Creditors have, in recent years, used litigation tactics against sovereign debtors that have defaulted on their sovereign debt to attach or interrupt subsequent payments made by these sovereign debtors and this could extend to the payments contemplated pursuant to the New Notes. There can be no assurance that a creditor will not be able to interfere with payments made in connection with the New Notes.

New Par Notes eligibility criteria

The Republic of Seychelles will only issue New Par Notes if the aggregate principal amount of New Par Notes to be exchanged for the Existing Notes and Existing Loans will be not less than U.S.\$50,000,000. If the principal amount of New Par Notes which would be exchanged for the Existing Notes and Existing Loans is less than U.S.\$50,000,000, each holder of Existing Instruments that has tendered for New Par Notes will be automatically deemed to have opted to apply its tendered Existing Instruments exclusively for New Discount Notes upon the terms and subject to the conditions applicable to the New Discount Notes as set out in the Exchange Offer Materials.

Risks relating to Seychelles

Issuer is dependent on foreign resources

The Issuer is heavily dependent on foreign resources as a small island economy. This makes the country vulnerable to developments in the external environment. Changes in commodity prices, such as oil, and foreign exchange movements are able to affect the economy's resource allocation and consequently its performance and may also reduce government revenue available to service payments under the New Notes.

Issuer is dependent on tourism

Any development that affects travel patterns globally, such as the performance of the global economy has the potential to affect adversely the Issuer's tourism industry, which the Issuer believes to be the single most important sector of the Issuer's economy in terms of direct and indirect employment and

tax revenue. Any negative development in the Issuer's tourism industry may therefore reduce government revenue available to service payments under the New Notes.

Future Financing Gaps

The ability of the Issuer to service its obligations under the New Notes is dependent on government revenue and expenditure not deteriorating materially and is premised on the second of the two debt reductions in favour of the Issuer announced by the Paris Club on 16 April 2009, being granted. Such debt reduction, due to be made on 30 June 2010, is conditional upon satisfaction of the terms of the agreement announced by the Paris Club on 16 April 2009 as well as on comparable treatment being extended to other external creditors. Accordingly, in addition to the Exchange offer, the Issuer is also renegotiating outstanding loans with other creditors, including bilateral agreements with a number of sovereign creditors not members of the Paris Club. Were the second debt reduction by the Paris Club not to materialise or debt relief not to be extended by other external creditors, this could reduce government revenue available to service payments under the New Notes as well as result of Seychelles debt burden remaining unsustainable. In addition, there would be a Principal Reinstatement (as described in the *Summary* section) in relation to the New Discount Notes. There would be no increase in the interest rate payable under the New Par Notes were the second debt reduction not to materialise.

Legal Proceedings – expropriation of land

Between 1978 and 1992, 726 parcels of land were acquired for public use. Although most of the parcels were small, 64 were over 10 hectares in size. After a provision in the 1993 Constitution allowed for compensation to be paid on the basis of 1993 market value, most claims relating to such parcels of land were settled by negotiation based on comparable land sale values. However, the government believes that there could be up to 99 parcels for which compensation has yet to be paid. Of the total 79 putative owners of the 99 parcels, 26 are non-Seychellois. Based on previous settlements and land sale values and assuming all previous owners put forward a claim the government estimates that the total value of required compensation to be paid over time could be up to U.S.\$37 million. This includes a claim which is the subject of advanced settlement discussions on broadly similar economic terms as those for holders of Existing Notes and would involve (if finalised on a sufficiently timely basis on current anticipated terms) the issuance on the Settlement Date of U.S.\$9 million principal amount of New Discount Notes in settlement of such claim.

Emerging Markets

Investors in emerging markets such as Seychelles should be aware that such markets are subject to greater risks than more developed markets, including, in some cases, significant legal, economic and political risks. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in the light of those risks, an investment is appropriate. Generally, investment in emerging markets is only suitable for sophisticated investors who fully appreciate the significance of the risks involved. Investors should also note that a feature of emerging markets is that they are subject to rapid change and that the information contained in this Prospectus may quickly become outdated.

Statistics

Statistical data appearing in this Prospectus has, unless otherwise stated, been obtained from public sources and documents. Similar statistics may be obtainable from other sources, but the underlying assumptions, methodology and consequently the resulting data may vary from source to source. Unless indicated, the information and figures presented in this Prospectus have not been restated to reflect the effects of inflation. Investors should be aware that distortions caused by inflation may be present in such information and figures. As a result period-to-period comparisons may not be meaningful.

Risks relating to the market generally and to the structure of the New Notes generally

Notes may not be a suitable investment for all investors

Each potential investor in the New Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

- (a) have sufficient knowledge and experience to make a meaningful evaluation of the New Notes and the terms of the Exchange Offer, the merits and risks of investing in the New Notes and the information contained in this Prospectus; and

- (b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the New Notes and the impact such investment will have on its overall investment portfolio.

A potential investor should not invest in New Notes unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the New Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

Exchange rate risks

The Issuer will pay principal and interest on the New Notes in United States dollars. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than United States dollars. These include the risk that exchange rates may significantly change (including changes due to depreciation of the United States dollar or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to United States dollars would decrease (1) the Investor's Currency-equivalent yield on the New Notes, (2) the Investor's Currency equivalent value of the principal payable on the New Notes and (3) the Investor's Currency equivalent market value of the New Notes.

Any depreciation of the value of the rupee against the U.S. dollar would increase the rupee cost to the Issuer of servicing the New Notes and would therefore increase the risk that it would be unable to meet its obligations under the New Notes.

Because the Global Notes are held by or on behalf of Euroclear and Clearstream, Luxembourg, investors will have to rely on their procedures for transfer, payment and communication with the Issuer.

The New Notes will be represented by the Global Notes except in certain limited circumstances described in the respective Permanent Global Notes. The Global Notes will be deposited with a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the respective Permanent Global Notes, investors will not be entitled to receive definitive Notes. Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Notes. While the New Notes are represented by the Global Notes, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the New Notes by making payments to the Paying Agent who will make payment to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their account holders. A holder of a beneficial interest in a Global Note must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the New Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Notes.

Holders of beneficial interests in the Global Notes will not have a direct right to vote in respect of the New Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Credit Rating

The New Discount Notes and the New Par Notes are each expected to be assigned a rating by Fitch. No assurances can be given as to what these ratings will be. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. Any adverse change in an applicable credit rating could adversely affect the trading price for the New Notes.

Interest rate risks

Investment in the New Notes involves the risk that subsequent changes in market interest rates may adversely affect their value.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (1) the New Notes are legal investments for it, (2) the New Notes can be used as collateral for various types of borrowing and (3) other restrictions apply to its

acquisition or pledge of any New Notes. Financial institutions should consult their legal advisers or the appropriate regulators to determine the appropriate treatment of New Notes under any applicable risk-based capital or similar rules.

The secondary market generally

Each of the New Notes may have no established trading market when issued, and one may never develop. If a market does develop for either of the New Notes, it may not be liquid, which may have an adverse effect on the market value of the New Notes. Therefore, investors may not be able to sell their New Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market.

The New Notes may be redeemed prior to maturity

The conditions of each of the New Notes provide that the New Notes are redeemable at the Issuer's option in certain circumstances and, accordingly, the Issuer may choose to redeem the New Notes at times when prevailing interest rates may be relatively low. In such circumstances an investor may not be able to reinvest the redemption proceeds in a comparable security at an effective interest rate as high as that payable under the respective New Notes.

The conditions of the New Discount Notes and the conditions of the New Par Notes may be modified or waived without the consent of all of the holders of those notes.

The conditions of the New Discount Notes and the conditions of the New Par Notes each contain provisions for convening meetings of the relevant Noteholders to consider matters affecting their interests. These provisions permit defined majorities to bind all such Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted against the majority.

If the meeting of holders of the 2011 Notes and/or the meeting of holders of the Amortising Notes are convened and the applicable Extraordinary Resolutions are passed, holders of the 2011 Notes and the Amortising Notes (as applicable) that did not vote or that voted against the applicable Extraordinary Resolution, will hold the Larger Series of New Notes as of the Settlement Date.

New Discount Notes and Deed of Guarantee

The Deed of Guarantee provides for maximum payments thereunder of U.S.\$10 million in respect of interest payments only under the New Discount Notes. This amount does not vary with the level of take up in respect of New Discount Notes. Accordingly, the greater the take up of New Discount Notes the lower the level of interest payment protection for holders of New Discount Notes per U.S. \$100 principal amount in issue.

Under the Conditions of the New Discount Notes, the Issuer may, subject to a limit, issue further New Discount Notes. The maximum payments of U.S.\$10 million under the Deed of Guarantee is not required to be increased if further New Discount Notes are issued and so, in these circumstances, the level of interest payment protection provided by the Deed of Guarantee for existing holders of New Discount Bonds per U.S. \$100 principal amount in issue will be reduced.

EU Savings Directive

Under EC Council Directive 2003/48/EC (the "EU Savings Directive") on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries, and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008, the European Commission published a proposal for amendments to the EU Savings Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

Tax Consequences of Exchange

The exchange of Existing Instruments into New Notes may give rise to tax consequences for investors (for example capital gains or losses) whether as a result of a tender for New Notes or if the Extraordinary Resolutions described in the Exchange Offer Materials are passed and the investor holds the Larger Series of New Notes as of the Settlement Date. Different categories of investor may be subject to different rules. Investors should consult their own tax advisers as to the consequences of the Exchange Offer Materials under the tax laws of the country in which they are resident.

Risks relating to the Guarantor

Enforcement of Civil Liabilities and Immunity

The Guarantor is a supra-national organisation and has immunity under Chapter VII of its constitution (the Agreement establishing the Guarantor).

The Guarantor enjoys immunity from every form of legal process except in cases arising out of the exercise of its borrowing or guaranteeing powers when it may be sued only in a court of competent jurisdiction in the territory of a member state in which the Guarantor has its principal office, or in the territory of a member or non-member state where it has appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members of the Guarantor.

The property and assets of the Guarantor shall, wherever located and by whomsoever held, be immune from all forms of seizure, attachment or execution prior to the delivery of final judgment against the Guarantor.

Property and assets of the Guarantor, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.

Even if an investor obtains judgment against the Guarantor they may not be able to enforce this judgment. Therefore, an investor may not receive some or all of any guaranteed amount under the Deed of Guarantee.

Risks relating to the Deed of Guarantee

Limit on payments under Deed of Guarantee

Aggregate payment of interest by the Guarantor under the Deed of Guarantee in respect of the Discount Notes shall not exceed the Guaranteed Maximum Amount (as defined in the form of Deed of Guarantee, as set out in Annex B). The Deed of Guarantee does not provide for the payment of principal by the Guarantor. Accordingly, investors should be aware that any interest owing under the Discount Notes in excess of the Guaranteed Maximum Amount paid by the Guarantor, and any amount of principal or other amount owing under the Notes shall not be guaranteed by the Guarantor under the Deed of Guarantee.

Acceleration of Payments under Deed of Guarantee

The Deed of Guarantee provides that, following a failure by the Issuer to pay interest in respect of the New Discount Notes, the Guarantor may make payment to the Designated Account (as defined in the Deed of Guarantee) of the full amount which the Guarantor may be required to pay under the Deed of Guarantee at that time. This amount may be larger than the amount which could be the subject of a demand under the Deed of Guarantee at that time and accordingly a larger amount than that then due and payable could be paid to the Designated Account in these circumstances.

No tax gross up

Payments by the Guarantor under the Deed of Guarantee may be subject to taxes, duties, assessments or governmental charges. Investors should be aware that the Guarantor is not obliged to make additional payments to Noteholders in the event that any payment in respect of the Notes is required by applicable law to be withheld or deducted for taxation. Therefore, in the event that the

Guarantor is required to make any withholding or deduction in connection with any payment under the Deed of Guarantee, investors may not receive full payment of interest owing under the Notes up to the Guaranteed Maximum Amount (as defined in the form of Deed of Guarantee, as set out in Annex B).

REPUBLIC OF SEYCHELLES

Recent Events and Background to the Exchange Offer

Background

In early 2008, Seychelles began to experience the most acute macroeconomic crisis since independence was granted in 1976 as high petroleum and food prices took their toll and exacerbated internal and external imbalances, pushing the economy close to collapse. The adverse developments in the world economy revealed the shortcomings of an incoherent policy mix based on a fixed exchange rate regime and an expansionary fiscal policy based on the injection of unsustainable subsidies into state-owned enterprises. The combination of these factors had for decades undermined growth by causing major macroeconomic distortions evident in persistent fiscal and balance-of-payments deficits, chronic foreign exchange shortages, and an ever-increasing public debt burden. Despite a complex array of restrictions and exchange controls, the mismatch between the fixed exchange rate and economic fundamentals caused international reserves to reach near-exhaustion in mid-2008.

Although reforms since 2003 had brought about some fiscal adjustment, trade reform and partial economic liberalisation, these proved to be insufficient to address macroeconomic imbalances and vulnerabilities. The oil and food price-increase shocks, together with the global economic slowdown since the beginning of 2008, have exacerbated these problems. GDP growth, which had been strong since 2005 on account of high hotel-related foreign direct investment and tourism receipts, See (“*The Republic of Seychelles – Financial and Economic Highlights*”) weakened sharply in 2008 due to foreign exchange shortages and less buoyant tourism growth. Inflation rose rapidly following the increase in world food and fuel prices and the 2006 and 2007 step devaluations (See “*Seychelles Economy – Inflation*”). The external current account deficit in 2008 is estimated to have reached 46 per cent. of GDP – one of the highest levels in the world – due to lower growth in tourism receipts, the fuel and food price-increase shock, and higher costs of transportation services. Facing the near exhaustion of official foreign reserves, the authorities defaulted on the Amortising Notes in July 2008 and on the 2011 Notes in October 2008. Since then the country’s balance of payments has increasingly been financed by external arrears accumulation (See “*Seychelles Economy – Balance of Payments*”). Standard and Poor’s downgraded Seychelles to SD (selective default) on 14 August 2008.

Reform Programme

As a result of these developments, in July 2008 the government requested assistance from the International Monetary Fund (“IMF”) in support of a comprehensive reform programme aimed at restoring the economy’s internal and external balances. The programme included (i) the liberalisation of the exchange regime, involving the elimination of all exchange restrictions and the floatation of the rupee; (ii) a significant and sustained tightening of fiscal policy backed by a reduction in public employment and the replacement of indirect subsidies with a targeted social safety net; (iii) a reform of the monetary policy framework to focus on liquidity management based on indirect instruments; and (iv) a reduction in the role of the state in the economy to boost private sector development, through further privatisation or liquidation of state enterprises, enhanced fiscal governance, and a review of the tax regime.

Although the government’s proposed fiscal adjustment has been frontloaded and will last for several more years, a comprehensive debt restructuring involving a substantial reduction in the debt service burden consistent with Seychelles’ long-term ability to pay is also needed to place the country’s public debt on a firm footing. As at 30 June 2009, external public debt represents approximately 73 per cent. of GDP in 2008 (U.S.\$921 million).

Status of Reforms

The rupee was floated on 1 November 2008, and the currency consequently lost approximately half its value against the US dollar, with the rise in interest rates to around 30 per cent. thereafter helping to stabilise the exchange rate. The parallel exchange market has since disappeared. Official reserves have risen to U.S.\$94 million as at 30 June 2009. Having spiked in November 2008, as a result of price adjustments to the float of the rupee, increases in the goods and services tax (“GST”) and removal of indirect subsidies, prices in Seychelles have fallen in the first half of 2009. The government’s finances have been significantly strengthened and public sector employment has fallen by approximately 18 per cent. since 31 November 2008, in part under a voluntary departure scheme. A targeted social assistance programme to protect the most vulnerable segments of the population has been introduced with the creation of a Social Welfare Agency.

On 14 November 2008, the Executive Board of the IMF approved a two-year Stand-by Arrangement to support the government's reform programme, with funding equivalent to approximately U.S.\$26.1 million to be made available in seven quarterly instalments over two years, subject to regular reviews of performance by the Executive Board. To date about U.S.\$14.1 million has been disbursed. The most recent programme review mission, the third, based on end-September 2009 performance, took place in October 2009, and coincided with discussions on a medium-term structural reform programme to be supported by a 3 year arrangement under an Extended Fund Facility with IMF.

On 16 April 2009, the Paris Club of Creditors agreed an exceptional overall nominal debt cancellation of 45 per cent. covering approximately U.S.\$140 million in debts (including arrears) owed by Seychelles to eight countries within the Paris Club. 22.5 per cent. of debt stock as of 30 June 2009 was cancelled on 1 July 2009, and 29 per cent. of the remaining stock will be cancelled on 1 July 2010. The debt reduction aspects of the agreement are conditional upon (i) timely debt service to the Paris Club, (ii) compliance with IMF conditionality, and (iii) comparable treatment being extended to other external creditors. The remaining debt after cancellation will be repaid on an amortising basis over 18 years, including a grace period of 5 years. Seychelles has committed to seek comparable treatment from all its external commercial and bilateral creditors.

The government intends to continue to consolidate macroeconomic stability by maintaining a tight fiscal policy, and progressively putting in place supporting structural reforms to remove constraints to growth and improve the performance of the public sector. Progress on inflation reduction and the appreciation of the rupee since the initial devaluation has permitted a gradual easing of monetary policy. The preparation of a fundamental reform of the tax system is proceeding and aims to harmonise rates, broaden the tax base, and raise self-compliance, while maintaining the overall tax take. (see "*Public Finance – Tax Regime – Future Tax Reform*"). The preparation of a major reinforcement of control over parastatal performance (see "*Seychelles Economy – State-owned Entities and Privatisation*") and a strengthening of the financial system (see "*Monetary and Financial System – Monetary Policy and Instruments*") are also proceeding.

Geography, Population and History

The Republic of Seychelles ("Seychelles") is an archipelago consisting of 115 islands of land area 455.3 square kilometres scattered over 1 million square kilometres of sea in the Western Indian Ocean. The islands lie between 4 and 11 degrees south of the Equator and are 1,600 km east of mainland Africa and northeast of the island of Madagascar. Other nearby islands and territories include Mauritius and Réunion to the south; Comoros and Mayotte to the south-west; and the Maldives to the north-east. This geographical location puts Seychelles outside the zone of major cyclonic activity. The islands are made up of two distinct groups: the first comprises 43 granitic and mountainous isles and the remaining 72 are coralline, most of them exposed a little above sea-level. The capital city is Victoria and is situated on Mahé, the largest island.

Seychelles does not have an indigenous population. The Seychellois society is made up of immigrants from Europe, principally from France and the United Kingdom as well as from Africa, India and China. Over the years these different races have co-habited to form the Seychellois nation. At the end of 2008, the estimated population was 87,139, the majority of which live on Mahé. French, English and Creole are the national languages spoken. Roman Catholicism is the dominant religion. There are also Anglican and Protestant churches in Seychelles and smaller Muslim, Hindu and Baha'I communities.

Arab traders were the first to visit the uninhabited islands and the first recorded sighting of them was in 1505. As a transit point for trading between Africa and Asia, the islands were occasionally used by pirates until the French began to take control from 1756, naming them after Jean Moreau de Séychelles, the then French Finance Minister.

The British contested French control of the islands between 1794 and 1811 and were eventually ceded the islands in 1814. Seychelles became a crown colony of the United Kingdom, separate from Mauritius, in 1903 and independence was granted in 1976 as a republic within the Commonwealth.

In June 1977, following a coup d'état, a one party socialist state was declared under the leadership of Mr France Albert René. Multi-party democracy was restored in mid-1993 after a new constitution was approved.

Government Structure and Administration

Seychelles is a republic. The head of state is the president, elected by universal suffrage and empowered by the 1993 Constitution to rule by decree. The national legislature is the National Assembly which consists of 34 elected seats of which 25 seats are decided by simple majority and 9 seats by proportional representation. The party holding the majority of the seats in the National Assembly appoints the cabinet. The cabinet has administrative powers and answers to the National Assembly. The main political parties of Seychelles are the People's Party ("PP") which, as a result of the May 2007 legislative poll, holds 23 seats in the National Assembly, and the Seychelles National Party ("SNP") which holds the remaining 11 seats.

The most recent presidential election in Seychelles took place in July 2006 and was monitored by an international observer team and international organisations such as the Commonwealth and 'La Francophonie'. A total of 56,787 eligible voters voted, comprising 89 per cent. of the total electorate. The candidates were Mr James Michel of the PP, Mr Wavel Ramkalawan of the SNP/Democratic Party alliance and Mr Phillip Boulle, an independent candidate. Mr Michel polled 30,119 votes, representing 53.73 per cent. of the total votes cast. The election was deemed to be free and fair by the observers and the outcome reaffirmed the mandate of the PP.

Within the government, the President, James Michel, is responsible for the Departments of Defence, Police, Information and Public Relations, Foreign Affairs and Legal Affairs, whilst the Vice-President, Joseph Belmont, is responsible for the Internal Affairs, Risk and Disaster Management, Public Administration and the portfolio for Tourism.

The cabinet of ministers is made up as follows:

Ministries and Ministers

Ministry of Finance, Designated Minister ¹	Mr Danny Faure
National Development	Mr Jacquelin Dugasse
Community Development, Youth Sports and Culture	Mr Vincent Meriton
Environment, Natural Resources and Transport	Mr Joel Morgan
Education	Mr Bernard Shamlaye
Health and Social Development	Mrs Marie-Pierre Lloyd
Employment and Human Resources Development	Mrs MacSuzy Mondon

Note:

1. The Designated Minister assumes the role of President if neither the President nor the Vice President is able to act.

The switchboard number of the Republic of Seychelles, Ministry of Finance is +248 38 20 00.

Legal System and the Judiciary

The Seychellois legal system is based on English common law and French civil law largely as set out in the Napoleonic Code prior to 1976. The highest judicial authority is the Court of Appeal which hears appeals from the Supreme Court which is a superior court of record and has powers equivalent to those of the British High Court of Justice. The judiciary is appointed by the President on the recommendation of the Constitutional Appointments Authority, which is made up of three members, one appointed by the Government, one by the Leader of the Opposition and the third, who is also the Chairman, by the other two members or, failing agreement of the other two members, by the President. A person holding the office of judge of the Supreme Court may hold that office (i) in the case of a citizen of Seychelles, until the age of seventy years; and (ii) in the case of a person who is not a citizen of Seychelles, until the end of the term for which that person was appointed. A person who is not a citizen of Seychelles may be appointed to the office of Justice of Appeal or judge of the Supreme Court for a term of office of not more than seven years. A person who is not a citizen of Seychelles may be reappointed for another term of not more than seven years only in exceptional circumstances.

International Relations

In 1976, Seychelles started to establish formal diplomatic relations with foreign countries. Diplomatic ties now exist with 140 countries. Seychelles' diplomacy aims to promote, protect and defend national interests in all areas that are vital to the country's development (fisheries, tourism and trade in particular) and to reaffirm and consolidate relations and co-operation with other countries, regional

and international organisations and other institutions. Seychelles is committed to the integration of its economy into the regional and world economies at a progressive pace as prescribed by the World Trade Organisation (“WTO”) and other continental and trans-national partner institutions. Seychelles’ diplomacy is also aimed at extending educational, scientific, cultural and sporting exchanges.

In relation to trade, Seychelles seeks to maintain access to existing markets as well as identifying and exploring new markets for its products and to negotiate fair and competitive access to such markets. Seychelles has signed bilateral co-operation agreements with a number of countries. The focus of these bilateral relations is increasingly on economic diplomacy and, in particular, on the promotion of foreign direct investment to aid wealth creation, employment creation, transfer of knowledge, technology and skills and circulation of capital in the financial system. Seychelles has also concluded double taxation avoidance agreements with several countries, including China, Mauritius and South Africa, to encourage investment. Seychelles has recently signed the Status of Forces Agreements with the United States of America, France and the European Union (“EU”), which allows foreign countries to station military forces in Seychelles to combat piracy.

Accession to the World Trade Organisation

Seychelles achieved observer status at the WTO in November 1997. A Memorandum of Foreign Trade Regime (“MOFTR”) was submitted in 1998 and in that same year a goods and services offer was then submitted as part of the initial requirements for joining the WTO. In addition, two documents containing replies to questions from the WTO membership were also prepared. However, for a number of reasons the government decided to suspend accession negotiations.

In 2003, a more favourable trading environment was created as a result of a substantial reduction in import duties and streamlining of the licensing procedures. In 2004, another substantial reduction in import duties was effected and in 2005 all import permit requirements were eliminated on all goods entering into Seychelles except those listed in the restricted and prohibited list, which consists mostly of products banned by international conventions. The changes also brought about a reduction in licence fees on certain business activities particularly relating to import and export. Given these new changes in the country’s economic environment, the government felt that this was an opportune time for Seychelles to re-engage in negotiations for accession to the WTO.

Accordingly, in 2007, Seychelles began to re-engage in the WTO accession process with a number of technical assistance workshops for government officials as well as private sector individuals. In 2008, assistance from Tradecom was provided mainly to assess the compatibility level of Seychelles’ laws and government policies with WTO rules.

At the end of 2008, a working group consisting of government officials as well as representatives from the private sector was set up to coordinate the whole process on WTO accession. A revised version of the MOFTR was drafted, and together with an inventory of trade-related laws, were submitted officially to the WTO secretariat for circulation to the member states of the WTO on 8 May 2009. The government has to date received comments on the revised draft from the United States of America, Canada and the EU.

Regional Relations

Seychelles’ foreign policy supports regional cooperation within the Indian Ocean area and Africa. Seychelles is a founding member of the Indian Ocean Commission and a member of the African Union, the Common Market for Eastern and Southern Africa, the Southern African Development Community, the African Development Bank and the Arab Bank of Economic Development for Africa. Seychelles also adheres to the principles of the New Partnership for African Development.

Relations with the European Union

Seychelles’ relations with the EU were initially governed by the Lomé Conventions, which dealt with relations between EU member states and the African, Caribbean and Pacific States group of countries, predominantly made up of former European colonies. Under the Lomé Conventions, and the successor Cotonou Agreement, the EU granted Seychelles preferential market access for its principal export products, fish and fish products. As such, the EU has become Seychelles’ principal export market. With the expansion of industrial tuna fishing in the Western Indian Ocean, Seychelles and the EU have signed a number of bilateral fisheries agreements granting EU vessels access to fish in the Seychelles Exclusive Economic Zone. The latest such agreement entered into force in January 2005, which expires in 2011.

Other International Relations

Seychelles is a member of the United Nations Organisation, the Non-Aligned Movement, the IMF and World Bank, the Multilateral Investment Guarantee Agency, World Health Organisation and the Food & Agricultural Organisation. Seychelles is also a member of the Commonwealth, whose specialised agencies provide assistance mainly in the form of expertise and scholarships. Of particular assistance to Seychelles is the fact that the Commonwealth groups together a large number of small-island developing states.

In addition, Seychelles is an active member of the Francophonie group of countries. As part of a well-balanced trilingual policy it encourages the study and the use of the French language, which is of special importance to the tourism industry. Seychelles also promotes the Francophone component of its multi-faceted cultural heritage.

Sources and Methodology

The statistical information set out in this Prospectus is derived from three main bodies: the Central Bank of Seychelles (the “**Central Bank**”), the Ministry of Finance and the National Statistics Bureau. The Central Bank compiles Monetary and Balance of Payments statistics, which include trade and reserves data. The concept and methodologies used are in line with the IMF standard (Monetary and Financial Statistics Manual 2000, and Balance of Payments Statistics Manual, 5th Edition).

The Ministry of Finance is responsible for government finance statistics. The consolidated government budget is calculated partly on an accrual basis and in a format which is similar to that used by the IMF. As of 2009, the government budget now includes the Social Security Fund (“**SSF**”) as part of its accounts and the government also accounts for all interest payable on public debt on an accrual basis.

SEYCHELLES ECONOMY

Background

Over the past 30 years, Gross Domestic Product (“GDP”) per capita has increased eight-fold. Since gaining its independence in 1976, the government of Seychelles has adopted and maintained a development plan to achieve and provide for economic growth, a welfare state and greater income redistribution. This strategy is viewed as necessary in order to ensure that the economy has a base for future development, growth and social cohesion. As a result, the country has managed to reduce poverty over a short time period so that, based on social indicators, Seychelles presently ranks first in Africa as outlined by the UNDP Human Development Index. Seychelles is also classified as an upper-middle income country by the World Bank. In 2008, GDP per capita was U.S.\$10,671, the literacy rate at 12+ years of age was 96 per cent., the life expectancy was 72.9 years and a household budget survey carried out in 2006-2007 showed that by the end of 2006, the proportion of households with treated water was 85.7 per cent. and the proportion with electricity was 98.5 per cent.

In mid-2004 the government started to introduce new measures for the relaxation of trade policies, such as the removal of import permits. This has allowed more flexibility in the trade regime and has created more trade opportunities. Further reforms were introduced in 2005, such as the liberalisation of air access to enhance tourism and a reduction in social security contributions by employers to enhance employment creation. In order to encourage foreign investment, new legislation in the form of the Investment Code of Seychelles Act 2005 was enacted which provided a clear framework for investors. All these policy measures were intended to strengthen the economic conditions and enhance investor confidence.

In 2007, Seychelles began feeling the impact of the international financial turmoil through the rise in world fuel and food prices, and the onset of the global economic recession and the impact of austerity measures implemented in the run-up to the formal acceptance of a Stand-by Arrangement with the IMF (see “*The Republic of Seychelles – Recent Events and Background to the Exchange Offer*”).

Gross Domestic Product

The table below shows nominal GDP by sectors for the years 2004 to 2008.

	GDP breakdown by sector ¹				
	2004	2005	2006	2007	2008
(rupees millions)					
GDP at market value.....	4,695.7	5,043.2	5,628.3	6,877.0	8,755.7
Agriculture	95.5	92.3	95.9	106.6	130.5
Fishing	61.8	60.4	68.0	66.4	78.1
Manufacture of food.....	132.8	159.4	191.6	270.6	308.6
Manufacture of Beverages	83.8	109.9	153.1	170.2	171.1
Manufacture of concrete, rock products, glass etc	27.3	41.4	51.1	51.2	72.9
Other manufacturing.....	112.0	133.2	114.9	165.6	197.8
Electricity, gas, steam and air conditioning	67.1	34.0	58.0	36.3	28.5
Water supply, sewerage, waste management and remediation activities	32.4	41.8	45.5	53.8	64.8
Construction	229.9	311.0	304.6	360.6	499.3
Wholesale & retail trade; repair of motor vehicles and motorcycles.....	279.3	310.5	356.5	485.4	655.5
Transportation and storage	336.0	467.1	565.3	674.9	773.9
Accommodation and food services activities	447.0	464.9	558.7	1,001.2	1,501.0
Information and communications	204.6	224.7	246.6	230.7	272.9
Financial and insurance activities.....	278.7	271.0	326.3	414.9	448.6
Government services	701.0	700.5	760.3	833.0	866.2
Other services activities.....	26.1	30.5	34.1	36.4	36.6

Source: IMF

Note:

1. GDP figures only available annually.

Principal Sectors of the Economy

Tourism

The table below shows the principal tourism indicators from 2004 to 2009.

Tourism Indicators

	2004	2005	2006	2007	2008	30 June 2008	30 June 2009
Visitors arrivals	120,765	128,654	140,627	161,273	158,952	79,952	74,779
Average length of stay (nights)	10	10	10	10	10	10	10
Tourism Earnings (R million)	938	1,051	1,252	1,901	2,438	1,226	1,644
Average expenditure per diem (R)	774	843	906	1,156	1,511	1,547	2,206

Source: National Statistics Bureau (except tourism earnings: Central Bank of Seychelles)

Tourism is the most important sector of the economy in Seychelles in terms of government revenues, investment, employment and the support it gives to other sectors of the economy.

Tourism earnings, which represents income generated by tourism-related activities, amounted to R2.4 billion in 2008 compared to R1.9 billion in 2007. In that same period, the average expenditure per day per visitor was R1,511 compared to R1,156 in 2007, partially reflecting the fall in the value of the rupee against the U.S. dollar, and the direct contribution of hotels and restaurants to GDP was approximately 17 per cent. in 2008. The Ministry of Finance expects the tourism industry to remain the Seychelles' principal industry in terms of government revenue, investment and employment.

Principal Nationalities of Tourists visiting the Seychelles

	2004	2005	2006	2007	2008	30 June 2008	30 June 2009
TOTAL	120,765	128,654	140,627	161,273	158,952	79,952	74,779
EUROPE	98,387	103,382	114,009	127,731	123,431	63,006	59,431
<i>of which</i>							
France.....	26,049	27,592	27,350	31,894	31,386	16,681	16,158
Italy.....	17,099	18,377	23,217	25,546	23,813	11,280	12,662
Germany	15,509	17,011	19,265	19,421	21,222	11,208	9,428
UK&Eire.....	17,951	16,796	16,001	16,952	13,816	6,636	5,269
Other Europe.....	2,404	4,303	5,037	6,531	6,578	17,201	15,914
AFRICA	12,654	12,553	13,486	16,945	19,228	8,890	8,215
<i>of which</i>							
South Africa	5,130	5,395	6,277	8,106	8,219	4,017	3,681
Reunion	2,458	2,170	1,770	2,347	2,834	1,225	1,470
Mauritius	2,345	2,626	2,579	3,159	4,086	1,883	1,508
Other Africa.....	1,161	1,063	1,240	1,610	2,366	1,765	1,556
ASIA	4,981	7,933	8,885	11,665	11,292	5,439	4,580
<i>of which</i>							
Middle East	1,972	4,474	4,783	4,932	5,424	3,219	2,631
Indian Sub Continent	1,407	1,535	1,753	1,642	1,823	901	748
Other Far East.....	797	1,092	1,351	1,816	2,648	1,319	1,201
OCEANIA	713	922	849	1,017	838	437	368
AMERICA	4,030	3,867	3,398	3,915	4,163	2,180	2,185
<i>of which</i>							
USA	3,146	2,878	2,510	2,873	3,116	1,572	1,715
Other America	884	989	888	1,042	1,047	608	470

Source: National Statistics Bureau

In 2008, the number of tourists visiting the country, as recorded by the National Statistics Bureau, was 158,952 representing a fall of 1.4 per cent. on the previous year, reflecting the negative impact of the global economic downturn on the tourism industry in Seychelles. In recent years, approximately 78 per cent. of tourists to Seychelles have come from Europe. In 2008, the number of European visitors fell by 3 per cent. Of European visitors, the greatest proportion of visitors came from France

(25 per cent.), followed by Italy (19 per cent.), Germany (17 per cent.) and UK & Eire (11 per cent.). Compared to 2007, visitors from the United Kingdom declined by 19 per cent., those from Italy fell by 7 per cent., whilst France posted a decline of 2 per cent. in 2008. Despite the economic downturn in Germany, visitors from there increased by 9 per cent. in that year. However, as of 30 June 2009, aggregate visitor numbers appear to have stabilised with 74,779 visitors compared to 79,952 visitors in the same period in 2008, average expenditure per diem has risen to 2,206 compared to 1,547 for the same period in 2008. Visitors to Seychelles stayed for an average of 10 nights in 2008.

In April 2005, the Government established the Seychelles Tourism Board (“STB”) to oversee all aspects of the Seychelles’ tourism industry. Its responsibilities include the implementation of Seychelles’ national tourism policy, research, product development, marketing and co-ordination with its tourism offices and representative agencies abroad, which are currently located in Germany, France, Italy, UAE, South Korea, Spain and South Africa. The UK office is set to re-open early in 2010. In addition, STB handles enquiries from consumers, the travel industry and media from regions of the world that are not covered by its overseas offices and representatives. STB also implements a number of activities and programmes to add value to visitors’ stay in the country. The calendar of activities includes various fairs emphasising different aspects of the Seychellois culture, an annual sailing competition which enables participants to discover the islands of the archipelago and SUBIOS, an underwater festival.

To boost its marketing campaign, STB uses e-marketing to give further international exposure to Seychelles, which Air Seychelles, the national airline, also participates in. The platform offers the opportunity for tourism authorities around the world to supply useful information and a comprehensive destination profile to help travel agents promote the destination. As a small-island economy, the country faces a number of challenges and constraints. The price of a holiday in Seychelles, for example, is much higher than a similar holiday in other countries in the region, making cost one of the challenges faced when marketing Seychelles. The solution has until recently been for the STB and Seychelles’ tourist operators to target the five-star end of the travel market. However, with the global economic downturn striking in 2008, the STB’s strategy has broadened to also encourage the development of more affordable guest houses so as to broaden the tourist base in Seychelles.

An *affordable Seychelles* campaign was launched to help change the perception that the Seychelles is a destination only for the affluent and to help maintain the visibility in Europe of Seychelles as a holiday destination.

In 2008, the government revised its policies with regard to the tourism industry and invited the private sector to play a more pro-active role in its management. The majority of members on the STB are now private sector operators. The campaign undertaken by STB to promote Seychelles as the pre-eminent holiday destination in the region has helped to maintain visitor arrivals with 153,779 visitors in the 12 months to 30 June 2009 compared to 164,917 visitors for the corresponding period in 30 June 2008.

In terms of planned medium-term investment in the tourism sector, there are a number of hotels currently under construction and nearing completion. These include hotels being built by the established international chains, Four Seasons (second phase), Raffles (Kingdom Hotels), Ephilia and Shangri-La.

Seychelles Petroleum Company

Seychelles Petroleum Company (“SEYPEC”) is a state-owned company that operates four divisions: (i) freight services, (ii) re-export of fuel, (iii) domestic fuel retail and (iv) oil and gas exploration. The freight services division operates five modern oil cargo vessels and clean product tankers (1 x 32,300 dead weight tonne (“dwt”), 2 X 34,200 dwt and 2 X 45,000 dwt) that work on varying routes around the world. The re-export of fuel division sells fuel to fishing vessels operating in the Indian Ocean, as well as to visiting war-ships and other vessels. A purpose built 1,785 dwt vessel is currently on its way to Seychelles following its construction in Germany that the company intends to use to service vessels which are too large to dock at the port in Victoria, when the port is too busy as well as to transport fuel from Mahé to Praslin. The domestic fuel retail division services the country’s domestic transport and other energy requirements and operates six petrol stations. Until the IMF supported government economic reform programme began, the division sold fuel at subsidised prices. However, as part of the reform programme, the division now sells fuel at SEYPEC’s aggregate cost price. The oil and gas exploration division negotiates with oil companies who wish to explore for oil and gas in the Seychelles. There are currently two companies operating in concert with SEYPEC and the

government of Seychelles to explore for oil (see “*Seychelles Economy – Energy and Infrastructure – Oil Exploration*”).

In 2008, SEYPEC contributed approximately R399 million to government revenues, compared to R202 million in 2007, from dividend payments and direct and indirect taxation and duties.

Financial Services

The financial services sector includes banks, bureaux de change, insurance companies and companies providing business services, representing 5 per cent. of GDP in 2008. The Central Bank has stated among its objectives the provision of a sound regulatory structure under which the sector can operate. The Central Bank regulates the banking sector including offshore banking, bureaux de change, insurance businesses, mutual funds and securities and is currently preparing to establish a stock exchange in Seychelles that would eventually admit both domestic and international companies. The Seychelles International Business Authority (“SIBA”) is responsible for licensing and regulating offshore financial activities and business services and is the registrar for international business companies and trusts and also regulates International Trade Zone activities where licensed companies perform businesses geared predominantly towards the export market.

The recent global financial turmoil has not materially adversely affected the domestic financial sector, given that in 2008 commercial banks held around 65 per cent. of their rupee denominated assets in government securities by way of a prescribed Local Assets Ratio (“LAR”), lending to the private sector has been relatively small. Non-performing loans are relatively low in the banking sector being R67.7 million in 2008 compared to R49.4 million in 2007, the increase in non performing loans reflecting the increase in interest rates during the period. Domestic creditors do not form part of the government’s debt restructuring programme.

Fishing

In terms of government revenue, the granting of fishing licences to foreign fishing operators is the most significant part of the fishing sector, with an aggregate of U.S.\$2,948,147 in licence fees paid in 2008 compared to U.S.\$3,510,561 in 2007. The government is currently reviewing its supervision of foreign fishing operators, to ensure that licensed fishing quotas are not exceeded and that fish catches by foreign fishing operators in Seychelles’ waters are fully disclosed. As a result of planned closer supervision of licensed fishing operators and the long-term trend of increasing prices for fish, the government expects the aggregate licence fees to increase in the future. As far as the government is aware, the level of annual fish stocks in Seychelles’ waters is stable. The risk of piracy in Seychelloise waters continues to have a negative impact on the volume of fish caught, although the level of monitoring of Seychellois waters and the number of foreign warships patrolling the waters has increased since 2008.

The government, through Société Seychelloise D’Investissements (“SSI”), has a 40 per cent. share in the Indian Ocean Tuna Company (“IOT”) that operates a tuna-canning factory on Mahé employing approximately 2,300 individuals, of which the majority are Seychellois. Although canned tuna is currently the largest export-earning activity after tourism services, being U.S.\$215 million in 2008 compared to U.S.\$184 million for 2007, in terms of government revenue from IOT, this has been limited to an annual €700,000 dividend. SSI intends to either renegotiate its relationship with the other shareholders of IOT or to sell its shareholding entirely, as well as to review government subsidies currently granted directly and indirectly to IOT with the aim of their eventual removal.

Imports and Exports

During the period 2004 to 30 June 2009, the trade deficit fluctuated between U.S.\$35 million and U.S.\$379 million.

Balance of Payments

Balance of Payments, 2004-2009

	2004	2005	2006	2007	2008	30 June 2008	30 June 2009
(U.S.\$ millions)							
Current account.....	-50	-174	-134	-213	-412	-130	-119
(Percent of GDP)	-6	-19	-13	-21	-45	-14	-17
Trade balance.....	-35	-165	-134	-175	-379	-114	-86
Merchandise trade balance.....	-232	-326	-440	-477	-677	-302	-174
Exports of goods	301	351	427	392	502	239	297
Of which: oil re-exports.....	102	139	207	190	271	136	84
Of which: tuna exports.....	168	176	187	184	215	97	88
Imports of goods.....	-456	-650	-716	-734	-1,018	-449	-322
Oil imports	-136	-161	-222	-236	-391	-186	-100
FDI-related imports	-25	-56	-94	-153	-275	-130	-78
Other.....	-296	-434	-400	-345	-352	-132	-144
Services, net	120	134	155	168	137	96	86
Exports of services.....	327	369	431	481	517	278	217
Of which: Tourism earnings.....	171	191	227	284	270	154	105
Imports of services	-206	-235	-276	-313	-379	-182	-131
Income, net.....	-34	-40	-44	-72	-103	-37	-50
Of which: transfers of profits and dividends.....	-11	-22	-23	-33	-61	-17	-32
Of which: interest payments due.....	-20	-16	-13	-33	-33	-16	-18
Current transfers, net	18	31	44	33	70	21	33
General government, net	14	23	23	10	45	7	20
Other sectors, net	4	8	21	23	25	14	13
Capital and financial account.....	-40	159	238	261	119	101	38
Capital account	1	30	13	8	5	1	7
Financial account	-30	129	225	254	113	100	31
Direct investment, net	30	78	138	225	350	132	98
Portfolio investment, net	1	1	200	31	1	1	0
Other investment, net	-62	50	-113	-2	-238	-32	-68
Assets.....	-12	-10	-9	-66	-3	-26	-42
Liabilities	-50	60	-105	63	-235	-7	-26
Government and government-guaranteed Disbursements	-62	-6	183	60	-30	85	1.9
Amortisation (Principal payments)	103	50	266	114	55	85	1.9
Debt forgiveness	-165	-55	-79	-54	-85	-37	-53
Net errors and omissions	0	0	0	0	0	0	37.1
Overall balance.....	-11	-1	2	-8	82	7	30
Overall balance.....	-89	-15	106	40	-212	-23	14
Financing.....	89	15	-106	-40	212	23	-14
Change in net international reserves (increase: -)	33	-22	-62	49	38	0	-42
Change in gross official reserves (increase: -)	33	-22	-62	49	28	0	-43
Prospective liabilities to IMF, net.....	0	0	0	0	10	0	1.3
Exceptional financing	56	37	-43	-89	174	22	39
Change in arrears (increase: +)	n/a ¹	37	-43	-89	174	22	39
Clearance of arrears	n/a ¹	0	43	-89	0	0	0
Exports growth, percent	5.1	16.5	21.6	-8.2	28.1	29.4	-16.2
Tourism growth, percent.....	0.4	12.0	18.7	25.1	-4.8	30.7	-31.6
Imports growth, percent.....	21.5	42.5	10.2	2.5	39.7	40.2	-28.2
FDI, percent of GDP.....	4.5	9.4	14.3	23.0	39.7	14.9	13.3
Gross international reserves (stock, e.o.p.)	34	56	113	10	51	14	94
Months of prospective G&S imports	0.5	0.7	1.3	0.1	0.6	0.0	0.9
Scheduled public external debt service.....	185	71	102	87	118	53	71
(Percent of G&S exports).....	30	9.4	16.2	11.4	22	20	12
GDP	854	917	1,020	1,026	921	n/a	n/a

Sources: Central Bank of Seychelles; Ministry of Finance; and IMF staff estimates

Notes:

1. Figures not available as 2003 figures not available for comparison.
2. GDP figures only available annually.

As is common for similar small-island developing states, the level of merchandise imports to Seychelles exceeds exports and consequently the country's balance of payments has historically been in deficit. In 2008, the current account deficit was U.S.\$412 million or 45 per cent. of GDP. This is explained to a large extent by the shortfall in the trade balance which amounted to U.S.\$379 million, following a marked expansion in imports which outweighed the growth in export earnings. It also partially reflected the impact of high commodity prices on the international market combined with the floatation of the Seychelles rupee in the fourth quarter of 2008.

Seychelles is a net exporter of services as illustrated by the services account's positive balance. The services surplus is driven by inflows from the tourism sector in terms of tourism earnings from visitors' expenditure. In 2008, earnings from tourism represented 52 per cent. of services credit.

Exports by commodity groups

The following table shows the amount of merchandise exported by commodity from 2004 to 2009.

	Exports					
	2004	2005	2006	2008	30 June 2008	30 June 2009
(U.S.\$ millions)						
Frozen and fresh fish.	2.4	3.9	2.6	3.1	1.2	2.8
Canned tuna.....	167.9	179.1	186.9	216.1	96.6	101.2
Frozen prawns.....	2.4	3.9	2.3	2.4	0 ¹	0 ¹
Other processed fish ..	1.5	2.6	0.6	1.0	1.2	0 ²
Others	25.4	27.9	24.0	9.3	4.1	10.2
Total	199.5	217.3	216.4	231.9	102.99	114.2

Sources: Central Bank of Seychelles, National Statistics Bureau

Notes:

1. Prawn factory had ceased operation by June 2008.

2. Fishing for 30 June 2009 has been rounded down to 0 as fishing has been negatively affected by piracy.

Seychelles' main exports of commodities originate (directly and indirectly) from the agricultural and fishing sectors. Over the years, the importance has shifted more towards the fishing sector whereas exports of agricultural products have generally declined. This is a result of limited availability of land, lack of competitiveness of agricultural products on the export market due to the country's limited available resources and a decline in the number of people employed in agriculture. Total exports of goods for the year 2008 were U.S.\$502 million, remaining stable compared to the previous year.

Earnings under the heading 'Others', which includes shipment of other minor exports such as fish meal and medical appliances showed a decrease from U.S.\$24 million in 2007 to U.S.\$9 million in 2008.

Imports

Seychelles is a net importing country. Imports are important in order to meet both the private and business demand across all sectors of the economy. Over the years, growth in consumption and investment has triggered an increase in the volume and value of merchandise imported. Total imports of goods increased from U.S.\$734 million in 2007 to U.S.\$1,018 million in 2008, representing the significantly higher energy and commodity prices internationally.

The trade policy of Seychelles allows importers to import from anywhere in the world. However, the importation of certain goods is restricted through the requirement of import permits or through being wholly prohibited by the Trades Tax Act (1992). According to the Trades Tax Act (Import Regulations, 2005), 'prohibited goods' means goods the importation of which is for the time being prohibited by law and 'restricted goods' means goods which are permitted to be imported by any person only with prior approval given under the regulations or any other law.

Imports by commodity groups

The following table shows the amount of merchandise imported by commodity.

Imports (f.o.b.) by commodity from 2004 to 2009

	2004	2005	2006	2007	2008	30 June 2008	30 June 2009
(U.S.\$ millions)							
Food, live animals & vegetable oils	114.4	123.5	154.7	155.8	235.9	93.0	64.0
Beverages and tobacco	5.5	6.7	9.3	10.0	15.8	11.0	4.0
Mineral fuels	111.1	133.7	171.5	182.3	286.7	133.0	68.8
Chemicals	30.7	35.2	29.5	31.7	31.8	13.7	13.9
Manufactured goods & miscellaneous manufactured articles	86.6	97.1	145.5	144.7	144.9	63.4	86.9
Machinery and transport equipment ¹	68	164.6	125.4	195.3	191.2	63.1	67.0
Other commodities	5.9	27.1	13.6	15.7	16.0	8.4	5.6
Shuttle trade	9.6	7.1	15.9	23.4	14.0	7.9	0.0
Total	431.8	595.0	665.5	758.8	936.2	395.4	310.2

Sources: Central Bank of Seychelles, National Statistics Bureau

Notes:

1. Line item includes importation by SEYPEC of oil tankers. The tankers were imported in 2005 (2 tankers were imported in 2005), 2007 and 2008.
2. Total imports may differ from imports listed in Balance of Payment table, which also includes imports corresponding to goods procured in parts by carriers.

The items most imported are those classified under the "minerals fuels", "food, live animals & vegetable oils", "manufactured goods and miscellaneous manufactured articles" and "machinery and transport equipment" categories. Cumulatively, the import value of these commodities represents 92 per cent. of aggregate imports in the table above for the period 2004 to 2008. In the table above, compared to 2007, 2008 showed a 23 per cent. increase in total imports (f.o.b.) to U.S.\$936.2 million. The gap between exports and imports widened further and this was largely associated with the importation of construction materials required for the implementation of FDI projects and the housing projects of the government, in addition to meeting the increased import demand of the tourism industry. Another major factor contributing to growth in imports was payments made under 'mineral fuels', which rose by U.S.\$104 million (57 per cent.) in 2008 compared with 2007 and accounted for 31 per cent. of the country's total imports as shown by the table above. The increase was mostly caused by the rise in world energy prices.

Imports by country

Foreign Direct Investment

The table below shows the level of foreign direct investment inflows into Seychelles for the periods indicated.

Inward Foreign Direct Investment in Seychelles

	2004	2005	2006	2007	2008	30 June 2008	30 June 2009
(U.S.\$ millions)							
Foreign Direct Investment	38.0	85.9	145.6	235.6	366.2	136.9	102.0
of which							
Equity	32.0	74.6	127.8	216.3	338.6	129.4	97.6
Reinvested earnings	6.0	10.9	16.9	19.0	27.6	7.5	4.2
Other capital	0.0	0.4	0.9	0.0	0.0	0.0	0.2

Sources: Central Bank of Seychelles, National Statistics Bureau

From 2004 to 2008, Seychelles attracted investment which reached a peak of U.S.\$366 million in 2008. Most of these foreign direct investments are in the form of new hotel developments. However, given the dependency of the country on foreign goods, inflows of foreign direct investment also generate a related increase in imports. Foreign investors are bound by the Investment Code of Seychelles Act 2005, which aims to increase investor confidence by providing a framework of legislation setting out investors' rights in relation to property, finance and dispute resolution. The government expects foreign direct investment to fall in 2009 due to a number of new hotel developments, such as the Qatari Diar Resort and the Emirates Resort, being put on hold as a result of the global economic downturn.

Inflation

The table below shows the percentage change in inflation rates for the years 2004 to 2009.

Consumer Price Index Summary: 2007-2009¹

	2007	2008	2009
	(in per cent.)		
January	97.8	124.1	187.1
February	97.8	126.9	190.2
March	98.6	127.1	190.0
April	98.7	127.9	189.2
May	98.8	127.3	186.7
June	99.7	131.2	187.4
July	100.0	133.7	186.8
August	103.0	141.7	184.5
September	105.8	142.0	183.6
October	109.4	144.6	181.6
November	111.8	179.5	
December	113.8	185.9	

Source: National Statistics Bureau

Note:

1. July 2009 equals 100.

Annual Average Inflation Rates

	2004	2005	2006	2007	2008
<i>(percentage change)</i>					
Inflation, average consumer prices..	98.9	99.6	97.7	102.9	141.0
Inflation annual, average (per cent. change)	3.9	0.7	-1.9	5.3	37.0
Inflation, end of period consumer prices	96.0	95.4	97.5	113.8	185.9
Inflation, end of period (year on year per cent. change)	0.7	-0.6	2.2	16.7	63.3

Sources: Central Bank of Seychelles, National Statistics Bureau

Inflation increased considerably in 2008 as compared to 2007, reflecting the currency exchange realignment in late 2007 against the backdrop of international commodity price volatility. The situation worsened in the latter part of 2008 with the implementation of numerous policy changes, such as the floatation of the rupee and the introduction of government sales tax in areas not previously covered at a time of growing international economic and financial turmoil. Although energy and commodity prices weakened later during the year, the average rate of inflation for 2008 amounted to 37 per cent., standing 31.7 percentage points higher than in 2007. On a year-on-year comparison, prices in the economy increased by 63.3 per cent. in December 2008 compared to the corresponding month of the previous year.

The main source of inflationary pressure was the impact of the sharp depreciation of the rupee following the flotation in November 2008, directly causing prices of most imported commodities to more than double and triggering upward price revisions across the economy, from local agricultural produce to utilities. In addition, all public subsidies for water, electricity, gas, fuel, public transport and animal feed were removed at the end of 2008.

State-owned Entities and Privatisation

The table below shows the operating profits and assets of major state-owned entities for each of the years 2004 to 2009 (being the most recent period for which such information is available).

Operating Profits and Assets of Material Entities Owned or Part-Owned by the Issuer 2004-2009

(Figures in rupees unless otherwise indicated)

	2004	2005	2006	2007	2008
Development Bank of Seychelles					
Operating Profit (after provision for non-performing loans)	-1,877,150	24,984,770	-10,203,052	-34,383,632	-106,605,316
Total Assets.....	309,993,427	320,842,799	322,163,645	325,230,772	342,295,980
Seychelles Savings Bank					
Operating Profit (after provision for non-performing loans)	-1,197,545	4,081,002	6,893,135	6,142,744	9,815,563
Total Assets.....	508,131,749	515,732,289	501,830,864	496,316,666	450,828,383
IOT					
Operating Profit	€-4,178,000	€-2,733,000	€9,020,000	€7,412,000	€5,206,000
Total Assets.....	€93,546,000	€103,629,000	€90,444,000	€83,402,000	€80,402,000
Housing Finance Corporation					
Operating Profit (after provision for non-performing loans)	783,453	2,230,700	2,433,781	3,249,220	-1,012,285
Total Assets.....	492,084,240	544,518,079	479,714,132	546,450,540	589,628,693
Seychelles Pensions Fund					
Operating Profit	n/a ¹	2,370,680	5,198,391	23,082,945	142,384,992
Total Assets.....	n/a ¹	436,449,740	568,370,013	648,839,091	871,502,603
Seychelles Trading Company					
Operating Profit	n/a ²	n/a ²	n/a ²	n/a ²	13,849,000
Total Assets.....	n/a ²	n/a ²	n/a ²	n/a ²	348,458,000
SIMBC					
Operating Profit	52,874,509	56,163,737	80,451,000	88,323,000	242,257,000
Total Assets.....	1,799,211,018	1,721,011,069	1,903,040,000	2,183,729,000	3,446,344,000
Air Seychelles					
Operating Profit	€5,026,800	€2,841,070	€16,983,584	€4,419,000	-€4,966,060
Total Assets.....	€794,866,000	€784,770,100	€691,135,431	€107,236,000	€95,700,000
SEYPEC					
Operating Profit	57,753,834	110,337,973	132,819,395	U.S.\$20,540,973	U.S.\$63,477,552
Total Assets.....	572,885,744	733,680,914	948,417,025	U.S.\$312,522,809	U.S.\$15,040,271
Seychelles Civil Aviation Authority					
Operating Profit	n/a ³	57,251,000	60,755,000	94,754,000	n/a ⁵
Total Assets.....	n/a ³	248,943,867	340,120,061	391,275,862	n/a ⁵
Seychelles Ports Authority					
Operating Profit	n/a ⁴	38,359,000	32,001,000	32,872,000	n/a ⁵
Total Assets.....	n/a ⁴	62,554,000	75,152,000	84,795,000	n/a ⁵
Seychelles International Business Authority					
Operating Profit	1,583,467	4,383,876	10,012,916	20,121,973	n/a ⁵
Total Assets.....	36,556,892	41,050,213	42,923,938	54,146,030	n/a ⁵
Public Utilities Corporation					
Operating Profit	-54,709,111	-49,268,486	-133,935,936	-138,946,000	-64,406,000
Total Assets.....	158,537,000	162,069,150	164,002,165	1,039,179,000	1,058,361,000

Source: Ministry of Finance

Notes:

1. 2004 Operating profit and total assets for Seychelles Pension Fund are not available as it did not exist prior to 2005.
2. 2004 – 2007 Operating profit and total assets for Seychelles Trading Company are not available as it did not exist prior to 2008.
3. 2004 Operating profit and total assets for Seychelles Civil Aviation Authority are not available as it did not exist prior to 2005.
4. 2004 Operating profit and total assets for Seychelles Port Authority are not available as it did not exist prior to 2005.
5. The Financial year is generally the same as the Calendar Year. Providing figures based on June figures would not represent the financial year. Seychelles Civil Aviation Authority, Seychelles Ports Authority and Seychelles International Business Authority have financial years ending 31 March. These figures represent the last audited accounts for each entity.

The government, through the Ministry of Finance public enterprise monitoring division established in September 2009, monitors on an on-going basis state-owned and part-owned entities to ensure that they achieve satisfactory performance and profitability and that they operate as efficient commercial concerns. A senior official from the Ministry of Finance sits on the board of every state-owned entity to further monitor and assist that entity. In addition, all majority state-owned, but not minority state-owned, entities must now obtain clearance from the National Debt Committee, President and

Minister of Finance whenever they wish to borrow funds with a government guarantee, so as to improve the accountability and transparency of these entities to the government.

Although the government has identified the need to enter into a new phase of privatisation, there are currently no plans to privatise Air Seychelles, Seychelles Petroleum Company or any other assets that the government controls in its entirety other than Seychelles Trading Co and Seychelles Savings Bank. Currently the government plans to sell all assets where it only holds a minority shareholding, being SACOS, Land Marine, Naval Services and Kreolor Pty Ltd after sufficient analysis of the impact on competition and will engage a financial market privatisation consultant in 2010 to examine the sale of the majority of shares in Seychelles Savings Bank and Seychelles International Mercantile Bank (“SIMBC”). The government has not yet reached a decision on whether or not to divest its indirect shareholding in IOT (see “*Seychelles Economy – Fishing*”).

The foregoing objectives are intended to encourage the private sector to play a major role in the future development of the country through promotion or attraction of new investment from within and outside the country and, where the government retains ownership, to revitalise management of the public enterprise sector.

Prior to March 2008, the government owned the Seychelles Marketing Board (“SMB”) which played a major part in the country’s economy as the country’s principal supermarket chain, food manufacturer and importer. As the government abolished the monopoly held by SMB it became less influential and this opened up opportunities for other competing supermarkets. In March 2008, after 25 years of operation, the government, in a final move towards privatisation, completely restructured the SMB operations by discontinuing some of the operations and separating the rest of the activities into separate entities. Food Pro was privatised through a management buy-out, Coetivy Prawns Co was closed in November 2008, the Agro-Industries Co. was fully privatised during 2008, the Animal Feeds & Hatchery Co. was transferred to the Farmers Market Corporation in late 2008, and the Seychelles Trading Co. remains state owned, but the government also intends to divest itself of this entity in the near future.

It is the government’s policy to keep redundancies of employees to a minimum as a result of privatisation and to address the management of those who are made redundant through a government sponsored retraining programme. It is expected that future privatisations will have no significant effect on employment levels in the short term.

Employment

The table below shows the number of employees in various sectors of the economy and the unemployment rate.

Employment and Unemployment Rate 2004-2009

	2004	2005	2006	2007	2008	30 September 2008	30 September 2009
Total Formal Employment	32,779	34,545	39,752	40,252	41,342	40,821	42,390
Private Sector	16,943	18,596	22,417	23,339	24,833	24,202	28,218
Parastatals	5,546	5,931	6,010	6,136	5,596	5,673	4,946
Government	10,293	10,017	11,018	10,809	10,913	10,945	9,226
Unemployment Rate (per cent.)	3.5	3.7	2.6	1.9	1.0	2.5	2.1

Source: Department of Employment

Note:

1. Unemployment rate data may not be completely accurate due to duplication in collecting the data from employment agencies.

Employment in Seychelles is governed by the Employment Act Chapter 69 of 1991 and falls under the authority of the Ministry of Employment and Human Resources Development. In spite of the closure of a major hotel and a voluntary government employee departure scheme later during the year, the rate of unemployment declined by 0.9 percentage points to stand at 1.0 per cent. by the end of December 2008 relative to December 2007. However, as the latest date for the implementation of the government employee voluntary departure scheme was 31 December 2008, the rise in unemployment resulting from the number of civil servants who were made redundant under the scheme will be reflected in the statistics for 2009.

Despite the increase in unemployment, there are shortages of local labour supply in the tourism, fisheries and construction sectors mainly due to mismatched skills. In the construction sector, shortages are largely the result of workers being employed on major construction projects. Despite the availability of local training in all these sectors, it has been necessary to bring in expatriates to bolster the workforce.

The Ministry of Social Affairs & Employment is responsible for authorising overseas employment under the Employment Act 1985. The policy on localisation forms part of an employment policy which stipulates that the employment of non-Seychellois be considered only “where there is an activity to be undertaken and there is no suitable, competent Seychellois to undertake the activity”. Notwithstanding this stipulation and the significant number of skilled Seychellois, a total of 5,799 expatriates were performing construction jobs in 2008. In addition, the number of expatriates working in hotel and guest houses remains relatively high. In view of that fact, the Seychelles Tourism Academy plans to increase its intake of students to approximately 500 during 2009. The number of students enrolled in 2008 stood at 328.

The minimum wage in Seychelles is set by law and is currently R15.50 per hour.

The Seychelles Federation of Workers’ Unions (“SFWU”) is a national trade union based in Seychelles. Like its predecessor, the National Workers’ Union, the SFWU is close to the ruling political party, the PP. The SFWU has two operating arms, the Seychelles Transport and General Workers Union, and Teachers Medical and Public Services Union. The SFWU is affiliated with the International Confederation of Free Trade Unions.

Education

The table below shows a breakdown of the number of schools, teachers and pupils by the type of school as at 31 July 2009.

Number of schools, teachers, and pupils/students by type of school, as at 31 July 2009

Type of school	No. of schools ¹	No. of teachers ²	No. of students
Crèche	32	193	2,928
Primary	26	624	8,634
Secondary	13	596	7,487
Post Secondary Non-Tertiary ³	9	119	2,019
Special Education	1	26	73
Total.....	81	1,558	21,141

Source: Education Planning Division, Ministry of Education

Notes:

1. Each level i.e. Crèche, Primary and Secondary in the three private schools (École Française, International School and Independent School) is treated as a separate school for the purposes of these statistics.
2. Not including ancillaries.
3. Post secondary Non-Tertiary education offered in one private school is treated as a separate school.

The education system in Seychelles is developed with a literacy rate of 96 per cent. The Ministry of Education is responsible for the planning, development and implementation of government education policies. There is universal provision of compulsory primary education for all children from the age of 5 to 11 years of age. This is followed by a secondary education for students from 12 to 17 years of age, the first four years of which are compulsory. Education in Seychelles is largely free from primary to secondary level. Private schools are governed by the Education Act of 2004 and are regulated by the Ministry of Education.

The Seychelles Polytechnic provides post-secondary education and training programmes in business studies and visual arts. There are also two independent centres of further education, funded by the government but which enjoy day-to-day management independence, which provide courses in business studies; nursing; agriculture; maritime training and construction. Tertiary education is provided by the government through scholarships to overseas universities. Currently, approximately 60 new scholarships are awarded each year. In 2002, the government, in collaboration with the University of

Manchester, introduced the Seychelles-Manchester training programme whereby Seychellois students are enrolled at Manchester University and take the courses for the first year in Seychelles with the remaining two years at Manchester, although this programme is expected to end in July 2010.

The Environment

In Seychelles, environmental concerns and policy are handled by the Ministry of Environment and Natural Resources. The responsibility of this Ministry is to protect and safeguard the environment.

The Environment Protection Act 1994 provides Seychelles with a means of creating a balance between the environment and development. It is intended to give protection to valuable and remarkable areas and to lead to well-planned and appropriate development in an organised manner. In an effort to achieve sustainable development, the Environment Protection Act 1994 has made provision for the Environment Impact Assessment Regulations 1996. These regulations are aimed at helping the Seychellois reach a compromise between development and the environment.

Energy and Infrastructure

The expansion of infrastructure is an important prerequisite to sustained economic growth in Seychelles. As part of its structural reform programme, the government has given commercial independence to the Public Utilities Corporation (“PUC”) which is responsible for electricity, water and sewerage services in Seychelles, to enable it to become more cost effective and efficient. The French company EDF Suez has been awarded a two-year management contract effective 1 September 2009 to assist in this regard.

Electricity

During the last ten years, the national electricity infrastructure in Seychelles, which is owned by the government, has been developed and expanded to meet the increasing demand for electricity on Mahé, as well as the inner islands. Apart from the considerable growth in major tourism establishments, there have been several land reclamation projects, industrial and commercial hubs undertaken in the country during recent years requiring increased supply of electricity.

The ongoing infrastructure development in the country has raised the electricity demand by almost 5 per cent. every year during the past 10 years. In order to support this increasing demand, the electricity generation capacity has been increased by 50MW on Mahé and 7MW on Praslin.

Some of the major electricity infrastructure development projects earmarked for the coming years include: expansion of generation capacity on Mahé and Praslin, installation of a new 33kV transmission network in south and north Mahé, reinforcement of the existing 33kV transmission line, reorganisation and upgrading of the medium voltage network, and extension of the electricity supply to the inner islands through undersea cables. However, PUC believes that further projects may be required to meet anticipated increased demand in the future.

Water

Over the last ten years there has been considerable development of the national water infrastructure, which is owned by the government, to improve supply to meet demand, which has continued to increase at around 4 per cent. per annum during the last five years. The Hermitage Treatment Works was upgraded in 2006 from 7,000kl to 14,000kl per day. Two desalination plants have been installed on Mahé to increase supply by 7,500kl per day. One desalination plant on each of Praslin and La Digue has been installed with a capacity of 600kl per day and 300kl per day each respectively. Other projects such as the Les Mamelles Raw Water Transfer (1,000kl per day) and Port Launay Treatment (1,800kl per day) have been implemented to augment supply. The South Mahé Distribution Network has been partially implemented with several kilometres of pipeline laid and several reservoirs and pumping stations constructed.

The preparation of a water development master plan is intended to be commenced in the near future to help ensure that the country’s water supply needs up to 2030 are met by considering the current relative shortage of supply of water during the dry season each year, the existing infrastructure and its short-comings such as the technology in place, the manpower, potential sources for development, and new technology that can be adopted to increase efficiency.

Sewerage

In terms of development in the last 10 years, 2001 saw the commissioning of the New Providence Wastewater Treatment Works for Victoria. Later in 2003, the Wastewater Treatment Works for the

Northwest Bay of Mahé was commissioned along with its collection networks. A sewerage system for Praslin has been designed and awaits implementation, which is intended to reduce pollution of beaches and coastal waters, whilst a feasibility study for La Digue has been completed.

Oil Exploration

Prior to 2005, Seychelles had no known oil, gas or coal reserves. In 2005, however, the Government leased 21,000 square kilometres of acreage over the southern shelf and surrounding banks of the Indian Ocean to the American company Petroquest, a subsidiary of Liberty Petroleum, for hydrocarbon exploration.

Petroquest has completed its first period of exploration and has moved to the second period with a commitment to drill two wells by the end of 2012.

In November 2008, East Africa Exploration (“EAX”) Company, a subsidiary of Black Marlin Energy, entered into a Petroleum Agreement with the government and SEYPPEC for oil exploration in an area covering 15,000 square kilometres. The area was selected after EAX had acquired over 3,600km of 2-D seismic data. SEYPPEC has acquired 10 per cent. of the ordinary shares of EAX.

To date, there has not been any commercial discovery.

Telecommunications

Preliminary research has been undertaken to examine the possibility of laying a fibre optic cable between the Seychelles and the east coast of Africa so as to improve telephone and internet services. A feasibility study for the Seychelles East Africa Submarine Cable link is currently being carried out by a French Company and is expected to be completed by January 2010.

Legal Proceedings

Between 1978 and 1992, 726 parcels of land were acquired for public use. Although most of the parcels were small, 64 were over 10 hectares in size. After a provision in the 1993 Constitution allowed for compensation to be paid on the basis of 1993 market value, most claims relating to such parcels of land were settled by negotiation based on comparable land sale values. However, the government believes that there could be up to 99 parcels for which compensation has yet to be paid. Of the total 79 putative owners of the 99 parcels, 26 are non-Seychellois. Based on previous settlements and land sale values and assuming all previous owners put forward a claim the government estimates that the total value of required compensation to be paid over time could be up to U.S.\$37 million. This includes a claim which is the subject of advanced settlement discussions on broadly similar economic terms as those for holders of Existing Notes and would involve (if finalised on a sufficiently timely basis on current anticipated terms) the issuance on the Settlement Date of U.S.\$9 million principal amount of New Discount Notes in settlement of such claim.

On 1 December 2009, Seychelles was named as a defendant in an action brought in the United States District Court for the Southern District of New York relating to a claim exceeding U.S.\$33,556,000 (the “Claim”). The Claim relates to a sum exceeding U.S.\$8,500,000 that was seized and frozen by the Seychelles Financial Intelligence Unit from an account of the claimant (the “Claimant”) with Barclays Bank (Seychelles) Ltd. (the “Amount”). Seychelles did not, at any time, appropriate the amount. Seychelles has offered to unfreeze the seized amounts, and drop all related proceedings that it has brought in Seychelles against the Claimant. The terms of such settlement include the repayment of the Amount plus interest that would have accrued had the Amount not been seized and frozen and instead remained in the account of the Claimant held with Barclays Bank (Seychelles) Ltd and Seychelles shall pay costs to the Claimant in a sum equivalent to the total amount of court fees paid by the Claimant, in return for the Claimant relinquishing any claims and halting any proceedings relating to the Amount. Seychelles has received an indication from the Claimant that the terms of the proposed settlement are in principle acceptable to the Claimant.

MONETARY AND FINANCIAL SYSTEM

The Central Bank of Seychelles

The Central Bank was created over 30 years ago but its roots trace back to the establishment of the Seychelles Currency Board in the mid-1930s. Following the enactment of the Seychelles Currency Ordinance in 1974, the issue, re-issue and redemption of currency became the responsibility of a Currency Board comprised of the Financial Secretary and the Accountant-General. The Currency Board had no mandate, however, to undertake monetary policy and so, following the accelerated growth in tourism in the 1970s and the rapid expansion in the domestic banking sector, a new framework was needed. In 1976, an IMF mission team was invited by Seychelles government to study the financial system and recommend any improvements. On the recommendations of the IMF, the decision was taken to create a central banking institution. The Seychelles Monetary Authority (“SMA”) was established under the Seychelles Monetary Decree 1978. As the SMA gathered experience, it was transformed into a Central Bank in early 1983 with the enactment of new legislation, the Central Bank of Seychelles Act 1982.

In 2002, the Central Bank, in consultation with the IMF, commenced work on updating the Central Bank Act and in December 2004 the National Assembly enacted the Central Bank of Seychelles Act 2004. The new Act formally provides the Central Bank with institutional and operational autonomy. Under the Act, the Governor of the Central Bank is not allowed to hold the post of Principal Secretary of Finance and a new board of directors of the Central Bank was created in 2004, consisting of directors from both the private and public sector. Consistent with Article 34 of the Act, the Central Bank and the Ministry of Finance signed a memorandum of understanding in December 2008 to formalise the operational terms and conditions under which the Central Bank acts as agent for the government. The memorandum of understanding also set out an agreed basis for policy and operational co-ordination between these two institutions. In the first half of 2009, the Central Bank, as part of the IMF-supported economic reform programme, proposed a number of amendments to the Act so as to be in conformity with current developments in the international market. Such revisions were endorsed by the National Assembly in June 2009.

The objectives of the Central Bank which are explicitly set out in the Act were also part of the amendments made in 2009. Currently these are: to promote price stability; to advise the government on banking, monetary and financial matters, including monetary implications of proposed fiscal policies or operations of the government; and to maintain a sound financial system.

Monetary Policy and Instruments

In November 2008, the Central Bank abandoned its traditional prescriptive monetary policy framework based on a fixed exchange rate regime in favour of a freely floating exchange rate. As a result, the new monetary policy framework is based on monetary targeting rather than exchange rate targeting. This transition was to support a liberalised foreign exchange market and floating exchange rate regime which were part of the IMF-supported economic reform programme adopted by the government in November 2008. Under this new framework, price stability is intended to be achieved by influencing changes in the total amount of liquidity in the economy, by targeting reserve money, being currency in circulation and banks reserves at the Central Bank, which is the intermediate operating target of monetary policy. As a consequence of this new monetary targeting system, financial prices, such as interest rates and exchange rates, are free to fluctuate and be determined by market forces. In addition, a new instrument, known as the Standing Deposit Facility and which will provide a base interest rate for the economy, will become operative in January 2010.

Historically the Central Bank was not in a position to engage in effective inflation targeting. However, with the granting of statutory independence to the Central Bank at the end of 2004, the Central Bank has been able to play a greater role in the economy. Currently the Central Bank uses one main direct instrument to assist it in the management of liquidity levels of banks, namely the minimum reserves requirement (which as of 1 October 2009 is 10 per cent.).

The Central Bank also has at its disposal a market based instrument, namely the deposit auction which it introduced in September 2008. The deposit auction is a liquidity management tool which provides the banks with an alternative of investing their otherwise idle cash and to earn interest, which helps the Central Bank to withdraw excess liquidity from the monetary system. This was in line with the move to develop a more market orientated financial system as well as to assist it in achieving its quarterly monetary targets. Moreover, in collaboration with the Ministry of Finance, the Central Bank now auctions government treasury bills on a weekly basis.

The Central Bank has put in place in its capacity as lender of last resort a standing credit facility and an emergency loan facility. The former is available to the commercial banks for the management of their short-term liquidity positions, primarily overnight. The primary aim of a credit facility is to ensure that banks can meet their payment obligations at end-of-day settlement. The latter is an emergency liquidity support facility primarily aimed at preventing severe and persistent short term liquidity problems that may lead to issues of insolvency, and to avoid bank runs. The Bank has already started work towards the introduction of a credit auction arrangement and repo reverse/repo transactions.

The Central Bank's interventions in the market are guided by a liquidity monitoring framework which it operates. This framework identifies the factors which influence bank liquidity and is used to make forecasts on future liquidity flows.

The table below outlines the monetary survey for the period of 2004 to 2009 on an end-of-period basis.

Monetary Survey; 2004-2009

	2004	2005	2006	2007	2008	30 June 2008	30 June 2009
	(R millions)						
Net Foreign Assets	-414.53	-273.66	513.87	431.60	2,188.26	497.79	2,014.59
Central Bank	-306.20	-85.70	628.37	322.55	1,049.79	319.54	1,462.56
Commercial Banks	-108.33	-187.95	-114.50	109.05	1,138.48	178.25	552.03
Domestic Assets	5,204.06	5,212.08	4,869.72	5,272.49	5,943.27	5,468.32	4,915.24
Claims on private sector.....	1,164.08	1,247.75	1,320.34	1,752.57	2,608.40	1,852.60	2,448.64
Claims on public entities	183.34	282.58	240.06	340.93	535.20	387.25	469.75
Claims on Gov't, net.....	3,856.64	3,681.75	3,309.32	3,179.00	2,799.67	3,228.47	1,996.86
Money Supply M3	4,268.52	4,442.46	4,659.69	4,549.86	5,936.24	4,836.36	5,248.58
Money Supply M2(p)	4,268.52	4,196.24	4,341.83	3,906.38	4,023.42	4,156.17	3,752.09
Money (M1)	1,226.88	1,397.01	1,391.96	1,601.99	1,832.01	1,699.44	1,465.04
Currency with public.....	395.96	325.66	392.77	407.78	430.43	414.84	421.21
Transferable deposits.....	931.09	1,071.36	999.19	1,194.21	1,401.58	1,284.60	1,043.83
(of which public entities).....	283.86	264.62	192.71	130.49	86.89	93.22	210.05
Quasi Money	2,226.47	2,300.87	2,565.95	2,212.39	2,186.61	2,451.93	2,287.00
Fixed Term deposits.....	1,420.92	1,452.92	1,613.32	1,168.11	1,150.55	1,292.88	1,228.36
(of which public entities).....	152.20	152.78	312.52	330.67	330.81	330.48	170.35
Savings deposits.....	805.55	847.95	952.63	1,044.28	1,036.06	1,159.04	1,058.64
Pipeline deposits	589.46	498.36	383.92	91.99	4.81	4.81	0.04
Foreign Currency Deposits	225.74	246.22	317.86	643.49	1,912.82	680.19	1,496.49
Other items, net	521.01	495.97	723.90	1,154.23	2,129.35	1,129.74	1,681.25
(Bank Reserves at CBS).....	740.64	746.53	1,030.96	662.44	642.34	834.58	643.87
(Cash Float)	18.71	19.19	24.39	42.83	47.14	32.88	54.20
Memorandum items:							
Central Bank External Assets	187.82	308.67	653.29	322.55	1,207.14	319.54	1,613.09
Central Bank Short-Term Liabilities.....	494.02	394.38	0.00	0.00	157.36	0.00	150.52
Money SupplyM3	4,268.52	4,441.08	4,659.69	3,906.38	5,936.24	4,156.17	5,248.58
Currency with public (C).....	395.96	325.66	392.77	407.78	430.43	414.84	421.21
Deposits liabilities of banks (D)....	3,972.73	4,115.43	4,266.92	3,498.59	5,505.81	3,741.33	4,827.37
Monetary base H	1,055.15	1,091.37	1,448.12	1,113.05	1,119.91	1,282.30	1,119.28
Currency with public (C).....	395.96	325.66	392.77	407.78	430.43	414.84	421.21
Bank Reserves at CBS (R).....	740.64	746.53	1,030.96	662.44	642.34	834.58	643.87
Cash Float (F).....	18.71	19.19	24.39	42.83	47.14	32.88	54.20
Implicit broad money multiplier (M)							
M3/H = m	4.05	4.07	3.22	3.51	5.30	3.77	4.69
Ratio of Currency to M3	0.07	0.07	0.08	0.09	0.07	0.09	0.08
Currency to deposits ratio (C/D) ..	0.07	0.08	0.09	0.12	0.08	0.09	0.09
Reserves to deposits ratio (R/D) ..	0.19	0.18	0.24	0.19	0.12	0.19	0.13
Cash float to deposits ratio F/D ...	0.00	0.00	0.01	0.01	0.01	0.01	0.01
Calculated broad money multiplier							
Year End Stocks (Treasury Bills)	1,577.9	1,353.2	1,200.0	1,145.0	1,723.7	1,195.0	2,957.4
Cash Balances at Treasury	-61.1	-4.5	206.3	52.1	158.4	0.0	463.1
Liquid Deposits	1,516.8	1,348.7	1,406.3	1,197.1	1,882.1	1,195.0	3,420.6

Source: Central Bank of Seychelles, and IMF staff estimates

The money supply aggregate that is closely monitored by the Central Bank is M3 which comprises of M2 (consists of currency with the public, demand, time and savings deposits) and foreign currency deposits.

Exchange Rate Policy

The table below shows the historical average movements of the rupee vis-à-vis the currencies in the basket.

Exchange Rates¹

	2004	2005	2006	2007	2008	September 2008	September 2009
(R per currency unit)							
Euro.....	6.8378	6.8483	6.9300	9.2363	13.5934	11.6369	16.5170
U.S Dollar.....	5.5000	5.5000	5.5190	6.7102	9.4357	8.0609	11.5401
Pound Sterling.....	10.0740	10.0118	10.1692	13.4574	16.9645	14.5641	19.0164
Japanese Yen.....	0.0509	0.0501	0.0475	0.0572	0.0925	0.0758	0.1271
South African Rand.....	0.8532	0.8661	0.8211	0.9556	1.1232	1.0078	1.5459
Singapore Dollar.....	3.2539	3.3047	3.4748	4.4667	6.5990	5.6643	8.9954

Source: Central Bank of Seychelles

Note:

1. Period averages of buy and sell rates.

One of the key elements of the IMF-supported reform programme was a fundamental change in the exchange rate regime. On 1 November 2008 the rupee was floated and all foreign exchange restrictions were removed. On 3 November 2008, the first day of business following the announcement of the changes, the value of the domestic currency dropped by approximately 60 per cent. against the U.S. Dollar. At the end of that first trading day, the rupee stood on average at 14.2405 to the U.S. Dollar, 17.7976 to the Euro and 22.8665 to the Pound Sterling. The average monthly exchange rate for the rupee for September 2009 was 11.5401 to the U.S. Dollar, 16.5170 to the Euro and 19.0164 to the Pound Sterling.

To enable the Central Bank to support the new exchange rate regime several measures were adopted, including legal amendments to the Central Bank of Seychelles Act 2004, and the introduction of new monetary policy instruments. The Financial Institutions Act, 2004 was also amended and the Financial Institutions (Amendment) Act, 2008 came into effect. The amendment provides for the establishment of two classes of Bureau de Change with the aim of encouraging competition in the foreign exchange market. Operators with a Class B licence are only allowed to purchase and sell foreign currencies while those holding Class A licences are also authorised to engage in wire transfers of foreign currencies.

The Seychelles Banking System

The banking system in Seychelles comprises seven commercial banks, and includes subsidiaries of two foreign-owned banks, Barclays Bank (Seychelles) Ltd and Mauritius Commercial Bank (Seychelles) Ltd; two branches of foreign-owned banks, Bank of Baroda and Habib Bank Ltd; and two state-owned banks, SIMBC and Seychelles Savings Bank, the former is minority owned by Standard Chartered Bank. The banks have been licensed under the Financial Institutions Act 2004 ("FIA") to conduct banking business. Offshore banking business means banking business conducted with non-residents in currencies other than the Seychelles rupee. In 2004 Barclays Bank (Seychelles) Ltd was issued with a second licence, an offshore banking licence, where the offshore banking activities have since 2005 been conducted by a sub-unit of the bank. In 2008, the Central Bank also licensed BMI Offshore Bank Ltd, a joint venture between Bank Muscat International, whose head office is in Bahrain, and SIMBC, to conduct offshore banking business.

In addition to receiving deposits of money or other repayable funds from the public and extending credits for its own account, FIA licensed banks may also engage in a full range of banking activities listed in the FIA, including financial leasing, providing money transmission services, issuing and administering means of payments, money broking, providing credit reference services and providing services as portfolio manager or adviser. Banks may also engage in the trading of money-market instruments, for their own account or for the account of customers.

The present banking system concentrates on wholesale and retail banking with very little involvement in the more complex aspects of derivatives. Banks nevertheless provide a range of services including international banking services, namely money transfers, foreign trade transactions and foreign exchange services as their businesses become increasingly globalised.

Supervision of the Seychelles Banking System

The Central Bank is the main regulatory and supervisory authority of the banking sector. Following a Module II assessment by the IMF in 2002, a review of the Central Bank of Seychelles Act 1982 was carried out with a view to developing more modern legislation reflecting international standards and best practice. To this end, in December 2004, the Central Bank of Seychelles Act 2004 and FIA were enacted, with the former providing for a more autonomous central bank, and the latter bringing the legal framework in line with the Basel Core Principles. The results of a safeguard assessment carried out by the IMF in late 2008 led to amendments to the Central Bank Act in 2009, including that no member of government could be on the Central Bank board as well as any party that could not be construed as independent. The National Assembly also approved amendments to the FIA on 30 June 2009, which will align it with international norms and in response to the global financial crisis.

The Central Bank is responsible for the licensing and supervision of banks, ensuring that banks operate within the remit of the FIA and applicable regulations. In addition to its licensing and supervisory responsibilities, the Central Bank under the FIA has the power to revoke a bank's licence, issue warnings of violation, impose fines on banking institutions and personnel as well as to institute liquidation proceedings.

For supervision to be effective, the Central Bank needs to verify that banks are complying with the statutory and regulatory requirements and this is done through a combination of off-site and on-site approaches. Licensed banks are required to submit financial statements and statistical returns on a periodical basis to the Central Bank. The analysis of this information assists in determining the financial performance of the banks and to detect signs of emerging problems so that corrective measures may be taken in a timely manner. The on-site examination of banks provides the Central Bank with an independent check on their operations and conditions, as well as verifying off-site data. The focus of the examination is on understanding and assessing the adequacy of banks' risk management systems, including internal controls, adherence to their own policies and procedures as well as applicable laws and making informed judgments about the capabilities of management.

Prudential requirements

An integral part of the FIA is the imposition of limits in relation to some prudential measures including a minimum capital adequacy ratio of at least 12 per cent. of the total value of its assets determined on a risk adjusted basis with not less than half of such capital consisting of core capital, as well as single and aggregate limits for single borrowings and connected lending. The latter refers to facilities to administrators and persons holding a substantial interest in such a bank and their close relations. The manner for the computation of capital adequacy has changed with the gazetting of new regulations on capital adequacy which, although based on the 1988 Basel Capital Accord (Basel 1), includes the basic indicator approach of operational risk which is part of Basel II. As regards to credit concentration and connected lending, once the FIA has been given assent by the President, reference will be made to core capital (that is, paid up capital, reserve funds and retained profit) instead of capital funds which did not include retained profit.

The FIA provides for the Central Bank, in consultation with the Minister of Finance, to issue other prudential regulations, including in relation to loan classification and provisioning, liquid asset and foreign currency exposures. In 2009, updated regulations were prepared for all these areas.

Anti-Money Laundering

On 23 April 1996, Seychelles became the first country in the region to introduce legislation covering money laundering with the enactment of the Anti-Money Laundering Act 1996. The Act addresses, amongst other things, the criminalisation of money laundering, forfeiture of the proceeds of crime, special police powers and suspicious transactions reporting. The Act empowers the Central Bank to determine identification and record keeping procedures for financial institutions and imposes obligations to file suspicious transaction reports. These obligations extend not only to financial institutions (banks, branches of foreign banks, bureau de change) but also to other persons conducting activities such as insurance companies, investment businesses, finance leasing companies, real estate businesses and casinos.

Seychelles also subscribes to the Global Programme against Money Laundering Offshore Forum initiated by the United Nations Office for Drug Control and Crime Prevention and is a member of the Eastern and Southern Africa Anti-Money Laundering Group.

Anti-Money Laundering Legislation

On 26 August 1999, Seychelles was one of seven countries from within the Eastern and Southern Africa region to accede to a Memorandum of Understanding to combat money laundering and implement any other measures contained in multilateral agreement initiatives to which they subscribe for the prevention and control of the laundering of proceeds of all serious crimes. Seychelles has ratified the United Nations Convention against Transnational Organised Crime and its two protocols and in 2004 Seychelles enacted new legislation to combat terrorism, the Prevention of Terrorism Act 2004.

On 18 May 2006, the Anti-Money Laundering Act 2006 (“**AML Act 2006**”) became operational, replacing the Anti-Money Laundering Act 1996. The new Act makes provision for the creation of a Financial Intelligence Unit (“**FIU**”) as an independent unit within the Central Bank with the Board of the Central Bank being responsible for the FIU. This requirement meets Recommendation 26 of the Financial Action Task Force (“**FATF**”) which requires the establishment of such a unit.

The FIU is the focal point for receiving, analysing and disseminating reports of transactions or attempted transactions related to the offence of money laundering or of financing of terrorism to appropriate law enforcement and supervisory agencies.

The Anti-Money Laundering Act 2006 has been amended through the Anti Money Laundering (Amendment) Act, which was enacted on 18 August 2008 so as to provide for the forfeiture of civil assets. The FIU received enhanced powers on 1 January 2009 and became an independent body corporate with its own budget.

This legislation has now provided the legal framework necessary to significantly increase the investigative powers and duties of the FIU. This is to ensure that officers have the legal authority and are empowered to undertake investigations with a primary focus to deny criminals the benefits of any financial proceeds derived through criminal activities.

Membership to Egmont Group

One of the FATF’s Recommendations is that once an FIU has been set up, it should apply to become a member of the Egmont Group. In 2008, the Seychelles FIU applied to become a member with the Mauritius FIU acting as the principal sponsor and the French FIU as the co-sponsor. In May 2008, the Director participated in the Egmont Group’s Annual Plenary which was held in South Korea as an Observer and a bigger delegation participated in the Annual Plenary which was held in Doha in May 2009. The sponsors are due to conduct an on-site visit following which a report will be submitted to the Outreach Working Group as part of the application process.

Mutual Evaluation

In November 2006, a team of nine evaluators from the Eastern and Southern Africa Anti-Money Laundering Group (“**ESAAMLG**”) undertook a Mutual Evaluation of Seychelles. The FIU made all the necessary arrangements for the team of evaluators to hold meetings with the various law enforcement agencies, supervisory agencies and reporting entities which included the FIU, the Central Bank, the Attorney-General, Customs, Tax and the Police departments. In August 2008, the FIU led a team from Seychelles to defend the draft report produced by the evaluators when it was presented to the ESAAMLG Council of Ministers Meeting which was held in Mombasa, Kenya. The report is due to be published on the ESAAMLG website during the course of 2009.

PUBLIC FINANCE

Fiscal Policy

The following table shows government revenues and grants for each of the years from 2004 to 2009.

Government Finance

Consolidated Government Operatives 2004-2009

Financial Year	2004	2005	2006	2007	2008
(R millions)					
Total revenue and grants	1,930.2	2,045.6	2,316.3	2,214.2	3,189.7
Total revenue	1,924.0	1,995.8	2,243.3	2,197.5	2,868.5
Tax	1,595.7	1,570.8	1,681.3	1,896.4	2,456.3
Social Security Tax	272.5	260.8	320.2	301.3	294.9
Trade tax	351.1	280.5	225.5	265.2	409.6
GST & excises	561.3	615.2	649.6	799.6	950.6
Business tax	297.3	277.5	297.0	360.5	524.0
Other Tax	113.5	136.8	189.0	169.8	277.3
Nontax	328.3	406.8	546.6	301.1	412.2
Fee and charges	240.4	138.3	115.2	175.8	145.3
Dividends from parastatals	46.2	30.3	225.4	94.8	64.1
Other nontax	41.7	238.2	206.1	30.5	202.7
Grants	6.2	49.8	73.0	16.7	321.2
Expenditure and net lending	1,968.9	1,963.5	2,646.9	2,810.2	3,482.9
Current expenditure	1,801.2	1,704.9	2,218.8	2,497.2	2,503.5
Wages and salaries	591.2	560.5	651.1	699.7	688.1
Goods and services	468.6	412.5	401.1	499.8	488.8
Arrears accumulation	0.0	0.0	0.9	62.6	-91.9
Interest due	299.3	273.7	300.0	455.8	628.9
External	49.8	64.4	78.6	219.4	343.8
Domestic	249.5	209.3	221.4	236.4	285.1
Transfers & subsidies	441.0	450.9	858.8	833.6	692.0
Social program of Central Government	94.9	94.8	113.2	166.7	192.3
Transfers to public sector from Central Government	87.3	0.0	456.8	375.6	220.5
Benefits and approved programs of SSF	258.8	103.5	288.8	291.3	279.2
Benefits of the PF	0.0	0.0	12.0	0.0	0.0
Other	2.1	0.0	3.2	8.3	5.7
Capital expenditure	166.7	256.7	431.3	375.7	183.2
arrears accumulation	0.0	0.0	0.0	20.3	49.0
externally financed	4.7	199.3	73.0	16.7	0.0
Net lending	1.0	0.0	-3.2	-62.7	796.2
Overall balance, Accrual basis (GFS)					
Including grants	-38.7	82.1	-330.5	-596.0	-293.2
In per cent. of GDP	-1.0	1.6	-5.9	-8.7	-3.3
Primary balance	260.6	355.8	-30.6	-140.2	335.7
In per cent. of GDP	6.8	7.1	-0.5	-2.0	3.8
Total change in arrears	50.6	51.6	35.8	59.4	31.2
Int. arrears accumulation	0.0	51.6	39.5	3.9	166.8
Budget arrears	50.6	0.0	-3.7	55.5	-135.6
Overall balance, Cash basis (GFS) Including grants	11.9	133.7	-291.1	-536.6	-262.0
In per cent. of GDP	0.3	2.7	-5.2	-7.8	-3.0
Financing Need	11.9	-133.7	291.1	536.6	262.0
Identified Financing	0.0	-129.1	-274.5	536.6	262.0
Foreign financing	-139	-5	187	47	20
Gross disbursements	25	50	266	101	105
Program/Budget support	0	0	0	0	9.6
Project loans	25	50	266	101	95
Scheduled amortization (accrual)	-164	-55	-79	-54	-85
(Others)	0	0	0	0	0
Actual amortization excl. B-to-B	-17	-19	-64	-54	-39
Change in amort. arrears	147	36	15	0	46
Domestic financing need	-150.9	-197.2	89.8	489.6	242.0
Domestic financing (identified)	-169.9	-192.6	-475.8	-19.5	-69.8
Debt Financing by Creditor:	-169.9	-74.2	-475.8	-19.5	-69.8
Banking system	-291.5	-161.7	-407.9	-50.3	-99.6
CBS	226.6	-59.8	-229.7	27.9	-3.4
Commercial banks	-518.1	-101.9	1.7	-118.9	-96.2

Financial Year	2004	2005	2006	2007	2008
(R millions)					
Non-bank financing	0.0	0.0	-67.9	30.7	29.8
Non-bank financial institutions	103.8	63.7	295.7	-0.7	-11.0
Others (incl. parastatals)	17.8	118.4	215.3	31.4	70.8
Pension Fund	0.0	-46.1	12.5	0.0	-30.0
Privatization, lease & sales of assets.....	122.3	63.5	201.2	134.3	219.4
Domestic bank financing (from monetary) ..	-291.5	-301.6	-23.8	-109.2	-99.6
Domestic other fin institution financing (from monetary)	138.9	113.5	-73.0	30.7	29.8
Stats discrepancy	250.6	-4.6	565.6	13.8	-120.0
Nominal GDP.....	3,848.9	5,043.2	5,628.3	6,877.0	8,755.7

Sources: Ministry of Finance and Central Bank

The Seychelles Government operates on a calendar year basis for its fiscal year budget. The public finance budget is prepared for one fiscal year at a time. The budgetary process in Seychelles is not set out in any legislation, but follows certain established procedures. The budget is prepared by the Ministry of Finance where the total expenditure is based on revenue availability. The Ministry of Finance then breaks down the total expenditure into different heads and advises all government departments and ministries on their expenditure caps on personal emoluments and goods and services. By 31 August each year, government departments and ministries submit the breakdown of their budget in line with their policy implementation. Each submission is screened by the Ministry of Finance and may be subject to modification or justification to ensure that revenue and expenditure are in line with the macroeconomic framework of government. The Ministry of Finance also takes into account other government revenues and expenditures which do not necessarily fall under any particular Ministry/Department, such as national debt interest payments and capital projects prior to deciding on a final budget. The annual budget for each following year is finalised early in the fourth quarter of each year and presented to the National Assembly in late November or early December. The budget is monitored by the Financial Planning Division within the Ministry of Finance.

Within six months of this submission, the accounts are closed for the previous year. After the closing of government accounts, the Ministry of Finance collects the annual financial statements of all other state-owned or budget dependent bodies for analysis and record-keeping. The Ministry of Finance is then responsible for the submission of all excess spending to the National Assembly as stated under the Supplementary Appropriations Act and for completion of the government's Annual Financial Statement. Seychelles is able to operate one centralised government budget owing to its relatively small size.

Although the budget is set and monitored on an annual basis, in recent years planning and budget forecasting has been done with a medium term view, of between 3 and 5 years. For example, the Macro Economic Reform Programme (the "MERP") undertaken in 2003 was for the period 1 July 2003 up until 31 December 2006. Various reviews undertaken have extended this timeframe and the Ministry of Finance is currently working on a budget plan up to the year 2012.

Fiscal Reforms and Public Finance Management Reform

The Seychelles government has undertaken a number of reviews of its fiscal performance over the past decade and has received the input of the IMF and World Bank on a number of occasions.

The MERP was set up in late 2002 and implemented as of 1 July 2003. The review focused on all aspects of the economy in an effort to develop a sustainable economic programme designed to move from years of sizable annual deficits to achieve a budget surplus. The main elements of the reform consisted of a broadening of the Goods and Services Taxes Act and a much more stringent and controlled programme of government expenditure. There was also a staggered reduction plan for trades tax on imported goods. MERP has helped to achieve budget surpluses in each year since its implementation.

A fully computerised budget monitoring system has been in place since 2002, whereby all government expenditure is monitored on a daily basis through the government's Treasury Department. This is to ensure that departments and ministries adhere to their expenditure budgets thereby assisting government to achieve its planned budget surplus.

Seychelles embarked on a comprehensive reform programme in late 2008 with the support of the IMF, the World Bank and the African Development Bank. Measures were taken to strengthen

revenue collection, control public expenditure and raise efficiency and transparency of public finance. A voluntary departure scheme for employees in public service was introduced in late 2008 and as a result the government workforce has been reduced by approximately 18 per cent. compared to the end of November 2008. Furthermore, the government is actively pursuing further privatisation and reform in the public service with a view of reducing the role of the state and encouraging private sector activity. The government also replaced direct and indirect subsidies to public enterprises by the introduction of a social welfare agency which aims at protecting the most vulnerable segments of the population (see “*The Republic of Seychelles – Recent Events and Background to the Exchange Offer*”). The Ministry of Finance set up a treasury single account which became fully operational at the end of September 2009 with the main objective of helping the Government to better manage its financial resources.

Tax Regime

Current tax regime

Taxes in Seychelles consist of: business tax on profits, trades tax on imports and GST tax on imports, locally manufactured goods, locally provided services and domestic sales of petroleum products. Although not a tax, the Seychelles Revenue Commission (“SRC”) also collects social security contributions levied on the salaries of employees. The Social Security Act 1987 levies social security contribution on salaries. This is borne by both the employee at 2.5 per cent. of the salary as well as the employer at 20 per cent. of the salary. The employer is also liable to remit the contribution to the SSF.

Business Tax

Rates

Generally, businesses are required to pay tax on their taxable income at the following rates:

- 0 per cent. on the first R250,000; and
- 40 per cent. on the amount exceeding R250,000.

Withholding tax

Businesses are required to withhold 15 per cent. of interest, dividends or royalties paid to non-residents and remit this to the SRC.

Concessions

There may be concessions on business tax depending on the relevant industry, including if a Tourism Incentive Act certificate or an Investment Promotion Act certificate is held, or the entity is in the agricultural or fisheries industry.

Social Security Contributions

Rates

Effective from 1 January 2008, the employer’s and employee’s contribution is 20 per cent. of gross salary and 2.5 per cent. of gross salary respectively.

Concessions are available for businesses operating in agriculture and fisheries, domestic or day care, the music industry, corporate service providers, companies operating in the Seychelles International Trade Zone and Special Licence companies, as well as Tourism Incentive Act and Investment Promotion Act certificate holders.

Trade Tax & Imports

Rates

Trade tax is levied on imported goods, varying from 0 per cent. to 200 per cent. All goods imported into Seychelles, whether by sea, air or post, are subject to the scrutiny and control of the SRC’s Customs Division. This includes goods carried by passengers and crew of vessels and aircraft. However, the majority of trades tax is collected on imports of goods through importers or their agents.

Trade tax is calculated on the aggregate of cost, insurance and freight value of the good. The rate varies depending on the good.

Goods and Services Tax

Rates

GST commenced on 1 January 2002 and is levied on imported goods, specified goods manufactured in the Seychelles and specified service providers.

Rates are specified in the GST Regulations and vary depending on the good or service varying from 0 per cent. to 15 per cent. Items not specified in the GST Regulations or goods manufactured locally for export are exempt from GST.

Future tax reform

To supplement the IMF supported government economic reform programme, Seychelles is currently undergoing large scale tax reform to improve efficiency in the tax system, including by broadening the tax base, and creating greater consistency of the taxation laws across all industries and sectors of the economy.

The tax reform programme commenced in June 2009 and includes implementation of various legislative and procedural measures. The programme will run from mid 2009 to early 2012. Planned measures include the following:

- Revision of the Business Tax Act – January 2010
 - reducing the tax-free threshold to be in line with international standards
 - lowering the business tax rate
 - introducing a uniform capital allowance system, including capping depreciation allowances at 100 per cent. of costs and annulling the current accelerated depreciation rules
 - introducing a simple capital gains regime
 - Introducing a thin capitalisation ratio of 3:1 for certain industries.
- Personal Income Tax – July 2010
 - replacing the current Social Security Contribution system and replacing it with a personal income tax and fringe benefits tax system.
- Introduction of a Full VAT system – January 2012
 - replacing current GST legislation with a full Valued Added Tax system including the availability of input tax credits for businesses to claim the GST paid on supplies.

Social Security Reforms

Seychelles provides a wide range of social security benefits to care for the old, sick and underprivileged in the country. Given the significant expenditure required to maintain such a system, part of the MERP included a review of the level of assistance being provided. The criteria for eligibility have been updated to ensure that only those clearly eligible and in need are assisted (although the pension provided to those over 63 years of age is not means tested).

To fund this social welfare programme, revenue is currently raised from employers and employees by way of monthly contributions that are based on the level of salary paid to the employee. The Social Security Contribution system will be replaced in July 2010 with a personal income tax system.

Pension Reform

In line with the MERP, the Seychelles Pension Fund Act was enacted in 2005, which entailed a revision of the Seychelles pension scheme that had been in operation since 1991 and is intended to act as a complement to the Social Security Fund pension.

The Pension Fund Act introduced a new comprehensive pension plan for all workers in employment and is also available to self-employed persons. There is a compulsory contribution from all part time and full time employees of R50 per month and this is supplemented by an employer's contribution on behalf of the employee of R50 per month. Additional contributions can also be made by employees or their employers as a means to further promote saving for retirement.

The new Seychelles Pension Fund ("Fund") came into effect from 1 January 2006 and covers retirements from 1 January 2005 and survivor's benefits in case of death before retirement. The Fund provides for optional retirement from the age of 60 while compulsory retirement is at 63. The Fund is funded by the individual contributions of members and is supplemented by revenues from investments undertaken by the Fund.

Pension reform is an ongoing process and the Fund intends to move away from a flat rate of contribution to a contribution based on a percentage of the member's gross salary to better sustain the Fund.

Healthcare Reform

Seychelles provides free primary health care for all Seychellois. The service is accessible across the country, with each region having a health clinic staffed by doctors and nurses, and other primary health care facilities in most districts. There are also two hospitals on Mahé and smaller hospitals on the islands of Praslin, La Digue and Silhouette as well as certain private health clinics. Private health clinics are assisted with concessions in some of the taxes applicable to businesses. More advanced healthcare that cannot be provided in Seychelles is provided by the government, based on a needs basis as recommended by the Medical Board, by sending patients overseas for medical treatment.

As part of the economic reform process, the cost of the healthcare system was reviewed by the World Bank during the last quarter of 2008. Following the World Bank recommendations, Seychelles is now conducting an analysis of the cost efficiency of healthcare related contracts with the private sector and the productivity of the healthcare workforce. Seychelles is also converting district hospitals in Praslin, La Digue and Silhouette into health centres to reduce costs.

Public Sector Indebtedness

Overview

At the end of 2008, Seychelles's public debt stock totalled U.S.\$1,238 million or 134 per cent. of estimated GDP of U.S.\$921 million, making Seychelles one of the most highly indebted countries in the world. Approximately 62 per cent. of the public debt stock as of end-2008 was classified as external. External debt has increased as a percentage of total public debt since 2005 as the government borrowed externally on commercial terms in order to finance the clearance of arrears, the conversion of a backlog of long-held rupee corporate dividends awaiting repatriation, delayed import payments, and ongoing budget deficits. Repeated refinancing operations based on new commercial borrowing led to a sustained rise in interest expenditure that proved to be unsustainable.

The series of fixed exchange rate regimes that were in place from independence up until early November 2008 created major macroeconomic distortions and chronic foreign exchange shortages. These shortages, in turn, have led to the widespread accumulation of arrears across all categories of the external debt over a number of years. Some of oldest arrears date back from the 1980s and were accumulated on bilateral claims. As the foreign exchange shortages became more acute, the accumulation of arrears spread to commercial and even multilateral claims.

In September 2008 the government launched a comprehensive restructuring of its foreign currency debt as part of its far-reaching economic reform programme with the aim of clearing external arrears and placing the public debt burden firmly on a sustainable footing. Debts owed to all external creditor categories, except for multilateral creditors, falls within the scope of the restructuring. Throughout the restructuring process the authorities have emphasised the importance of a full and open dialogue with creditors, and have sought to observe the principles of transparency and inter-creditor equity. In April 2009 the Paris Club group of bilateral creditors agreed to cancel 45 per cent. of the nominal value of its claims, as further described in *Public Sector indebtedness – Official Bilateral Debt – Paris Club*, below.

External Debt

Seychelles's external debt, which amounted to U.S.\$763 million in 2008, is owed to three broad creditor categories: multilateral creditors, official bilateral creditors (both Paris Club and non-Paris Club), and private sector creditors (including commercial banks and bondholders). At end-2008, external arrears amounted to U.S.\$309 million, or 40 per cent. of outstanding external debt.

Multilateral Debt

Seychelles had debts outstanding to five multilateral institutions at end-2008 for an aggregate amount of U.S.\$52 million. The African Development Bank was the largest multilateral creditor with U.S.\$16 million of claims, followed by the OPEC Fund for International Development with U.S.\$13 million, and the Islamic Development Bank and Arab Bank for Economic Development with U.S.\$10 million each.

In July 2009 the Executive Board of the AFDB approved a Euro 15 million loan under an Enhanced Governance Reform Programme (EGRP) linked to the government's reform programme. The loan

has a five year grace period and a maturity of 20 years. In November 2009, the Executive Board of the World Bank approved a U.S.\$9 million Development Policy Loan (DPL) also linked to the government's reform programme. The loan has a ten year grace period and a maturity of 25 years. Both lenders have indicated that they are likely to consider additional funding requests from the government provided there is progress on improving the sustainability of the public sector debt and other areas of the reform programme.

Through end-October 2009, the IMF had disbursed R7.92 million (about U.S.\$12.3 million). The arrangement with the IMF provides for another R9.7 million (about U.S.\$15 million) available through end 2010.

Official Bilateral Debt – Paris Club

Of the U.S.\$243 million owed to official bilateral creditors at end-2008, approximately 57 per cent. was outstanding to countries represented in the Paris Club group of official creditors. Among the eight Paris Club creditors with claims on Seychelles, France held the largest share of debt, followed by the UK, Italy, Germany, and Belgium. Approximately 56 per cent. of Paris Club claims were categorised as Overseas Development Assistance (“ODA”). Approximately 82 per cent. of Paris Club debt was classified as being in arrears at end-2008.

On 16 April 2009, the Government reached an exceptional agreement with the Paris Club through which six countries with claims amounting to U.S.\$126 million agreed to write off 45 per cent. of the face value of their claims (including arrears) on the public sector.

The first phase of debt relief came into force on 1 July 2009 with the cancellation of 22.5 per cent. of the face value of claims (including arrears). A second phase of debt cancellation, bringing the total cancelled to 45 per cent. of claims will come into force on 30 June 2010 provided the government services its debts to the Paris Club in a timely manner, complies with IMF conditionality, and extends comparable treatment to other external creditors. Comparability of treatment will be assessed primarily in net present value (“NPV”) terms; the Paris Club expects that the debt reduction granted under agreements with other creditors, including private sector creditors, will be equal to 50 per cent. when expressed in NPV terms using a discount rate based on the Commercial Interest Reference Rate (as defined by the Organisation for Economic Co-operation and Development).

Two other Paris Club creditor countries with claims amounting to U.S.\$14 million will confirm in December 2009 whether they will provide relief through the debt reduction method agreed by most of the Paris Club or through a comparable 50-year rescheduling arrangement based on debt service reduction.

The portion of the Paris Club debt that is not cancelled will be serviced over 18 years according to the following schedule for the countries selecting the debt reduction method:

2009-13:	Grace period	2018:	4.32 per cent.	2023:	8.68 per cent.
2014:	2.46 per cent.	2019:	4.96 per cent.	2024:	9.98 per cent.
2015:	2.84 per cent.	2020:	5.72 per cent.	2025:	11.48 per cent.
2016:	3.26 per cent.	2021:	6.56 per cent.	2026:	13.2 per cent.
2017:	3.76 per cent.	2022:	7.56 per cent.	2027:	15.22 per cent.

The two countries that have reserved their right to provide debt service relief as opposed to nominal debt cancellation would receive principal repayments according to the following schedule:

2009-2024:	Grace period	2036:	2.02 per cent.	2048:	4.04 per cent.
2025:	0.16 per cent.	2037:	2.18 per cent.	2049:	4.20 per cent.
2026:	0.34 per cent.	2038:	2.36 per cent.	2050:	4.36 per cent.
2027:	0.50 per cent.	2039:	2.52 per cent.	2051:	4.54 per cent.
2028:	0.68 per cent.	2040:	2.68 per cent.	2052:	4.70 per cent.
2029:	0.84 per cent.	2041:	2.86 per cent.	2053:	4.88 per cent.
2030:	1.00 per cent.	2042:	3.02 per cent.	2054:	5.04 per cent.
2031:	1.18 per cent.	2043:	3.20 per cent.	2055:	5.22 per cent.
2032:	1.34 per cent.	2044:	3.36 per cent.	2056:	5.38 per cent.
2033:	1.52 per cent.	2045:	3.52 per cent.	2057:	5.54 per cent.
2034:	1.68 per cent.	2046:	3.70 per cent.	2058:	5.74 per cent.
2035:	1.84 per cent.	2047:	3.86 per cent.		

Interest rates payable on Paris Club debts are expected to be significantly reduced as part of bilateral agreements to be negotiated in the first quarter of 2010. The agreement negotiated with the Paris Club also includes a provision to partially defer interest payments until 2013.

Official Bilateral Debt- Non Paris Club

Eight countries not represented in the Paris Club had claims on Seychelles totalling U.S.\$103 million as of end-2008. Just over half of this amount was classified as being in arrears.

Although not a member of the Paris Club, the government of South Africa participated in the Paris Club negotiations as an observer and has agreed to apply the Paris Club terms on its U.S.\$22 million claim on Seychelles. On 4 October the Export-Import Bank of Malaysia signed a bilateral agreement to effect Paris Club terms on its U.S.\$12 million claim, including an immediate 22.5 per cent. cancellation.

The government is at an advanced stage of discussion with the six remaining non-Paris Club creditors and hopes to soon reach agreements with these bilateral partners on terms that are comparable to those provided by the Paris Club.

Private Sector Creditors

Approximately U.S.\$426 million was outstanding to private sector creditors as at the end of 2008.

Of this amount, U.S.\$315 million, or 74 per cent, was in the form of two capital market securities. The U.S.\$200 million 9.125 per cent. Eurobond due 2011 was issued in October 2006, and tapped in August 2007 for an additional U.S.\$30 million. The government missed a U.S.\$10.5 million coupon payment on this bond on 3 October 2008, and further coupons for the same amount on 3 April 2009 and 3 October 2009.

The €54.75 million Amortising Notes are discounted zero-coupon securities with monthly payments and a final maturity in January 2011. This instrument was placed privately in August 2007, in parallel to the tapping of the Eurobond. The issuance of the Notes and the Eurobond tap were undertaken together in order to provide the foreign exchange required to allow the local affiliates of multinational companies to repatriate long-held rupee dividends and pay for FDI-related imports: the companies paid rupees to the Government and received euros and the additional Eurobonds created through the tap; the Government issued the Notes to receive the discounted sum of euros.

The Amortising Notes, which were accelerated in July 2008 following the non-payment of a maturity due that month, stipulated that a €30 million premium would be added to the stock if the government did not publish details of the instrument's issuance in the Official Gazette by end-March 2008. Although gazetting did not occur, the premium is excluded from the amount eligible for the Exchange Offer as the Government considers it an unreasonable and unenforceable penalty not commensurate with the original requirement to gazette.

The balance of private sector debt of approximately U.S.\$111 million as at the end of 2008 was in the form of loans owed to seven commercial banks and other commercial lending institutions. Arrears outstanding to commercial banks stood at approximately U.S.\$12 million as at the end of 2008.

Two commercial loans are eligible for the exchange offer described in this Prospectus. The government has been negotiating comparable restructuring terms with the holders of the remaining commercial bank facilities. It is expected that the restructuring of these facilities will soon be implemented through modifications to existing loan agreements or other arrangements in each case providing substantial debt relief.

Debt Sustainability

A debt sustainability analysis (“DSA”) completed by the IMF in July 2009 concluded that the treatment by the Paris Club in April and the Government's reforms were not by themselves sufficient to return Seychelles's level of debt to sustainability. Without action from other creditors, public debt would rise to 326 per cent. of GDP in a decade; even a modest shock would likely result in a significantly higher level of debt. The analysis also concluded that a comparable treatment of claims by other creditors subject to the restructuring would return the public debt to sustainability. If other creditors agreed to terms identical to those provided by the Paris Club, public debt would fall to below 60 per cent. of GDP in a decade. The DSA also noted that even after financing gaps are fully closed by a sustainable debt restructuring, the economy is likely to remain highly vulnerable to external shocks, including any further impact of the global economic slowdown on tourism, piracy, higher food or commodity prices, or shifts in FDI patterns. Seychelles is committed to restructuring

its external debt on terms that are compatible with its forecast payment capacity in order to ensure that progress is made towards debt sustainability.

Domestic Debt

Domestic debt stood at R4.5 billion, or U.S.\$475 million, or 51 per cent. of GDP at end-2008. Bonds represented the largest share of the stock at 53 per cent., followed by Treasury bills at 40 per cent. At end-2008, bonds had an average life of approximately six years and the overall domestic debt stock had an average life of approximately 3.5 years. Commercial banks held the largest share of the stock with 53 per cent., followed by the CBS with 26 per cent..

A breakdown of the domestic debt by creditor and instrument is as follows:

Domestic Debt by Instrument and Creditor, at end 2004-2008

	2004	2005	2006	2007	2008
(R millions)					
Total by Instrument	5,160.5	4,886.3	4,561.8	4,297.7	4,350.2
CBS Advances	1,316.6	0.0	0.0	86.4	134.0
Treasury bills	1,577.9	1,353.2	1,200.0	1,145.0	1,723.7
Treasury bonds	1,958.1	3,106.4	3,188.9	2,878.7	2,318.7
Government stocks	150.0	150.0	150.0	150.0	150.0
Treasury deposits	157.9	276.7	22.9	37.6	23.8
Total by Creditor	5,160.5	4,886.3	4,561.8	4,297.7	4,350.2
CBS	1,600.5	1,340.7	1,111.1	1,139.0	1,147.1
Commercial banks	2,751.6	2,649.7	2,631.9	2,302.2	2,320.8
Other financial institutions	410.4	401.3	404.1	405.9	364.9
Companies and individuals	398.0	494.6	414.7	450.6	517.4

Source: Ministry of Finance

The domestic debt stock is in the process of a significant shift. Once an illiquid series of fixed rate instruments primarily used for deficit finance, the domestic debt stock is being transformed into a liquid tool for pricing risk and executing monetary policy. Since the end of 2008, the government has sought to develop the domestic debt market by modernising infrastructure, improving cash management, and lengthening average maturities in regular consultation with the market. Although in early 2009 domestic issuance was concentrated in 91 day Treasury bills due to uncertainty in the market, the government began to issue 182 day and 365 day bills actively in the second half of the year and plans to increasingly focus issuance on longer dated bonds as the secondary market develops. After reaching 30 per cent. in early 2009, domestic yields have fallen to below 5 per cent. in Q4 2009, in line with the movement in inflation.

Public Debt Reforms

Strengthening public debt management forms an integral part of the government's adjustment strategy. In December 2008 an international best practice Public Debt Act was passed which will provide a framework for improvements in public debt management. The Act institutionalizes the role of a Public Debt Management Committee to formulate a medium term debt strategy, review all credit agreements, oversee guarantees to public enterprises, and monitor progress in meeting targets. The strategy (the "Strategy"), seeks to achieve an optimal trade-off between the cost and risk of public debt within the bounds of long-run debt sustainability. The key goals of the Strategy include: a) concluding debt restructuring negotiations; b) pursuing fiscal and financial policies consistent with the reduction of public debt through the generation of primary fiscal surpluses of 6-7 per cent. from 2010-12; c) developing the domestic debt market to reduce borrowing costs; d) seeking to contract new external public sector debt only from multilateral and bilateral institutions; e) enhancing debt management capacity, coordination, and execution.

Achievement of these goals is expected to permit a substantial reduction in debt levels by end-2012. The Strategy will respect the strict ceilings on external borrowing which are likely to be required by the awaited IMF successor programme.

Foreign Exchange Reserves

Chronic foreign exchange shortages have been a key factor in the macroeconomic distortions that emerged over the last decade as well as in the government's inability to service its external debt obligations. Although the government designed several policy measures and borrowing efforts to increase reserve cover, it ultimately came to a view that steady reserve accumulation could not be achieved until its exchange rate regime and debt service burden were addressed. Since the transition to a floating exchange rate—the core element of the Seychelles's reform programme with the IMF—foreign exchange reserves have risen from crisis levels of less than a week's worth of prospective imports to around two months' import cover. Although a resumption of external debt service following a successful debt restructuring is expected to slow reserve accumulation, the Government's Memorandum of Economic and Financial Policies (“MEFP”) with the IMF under the SBA and any successor programme will set clear thresholds for reserve levels. The table below shows the level of Seychelles' foreign exchange reserves at the end of the period indicated.

Foreign Exchange Reserves

	2004	2005	2006	2007	2008	30 June 2008	30 June 2009
Foreign Exchange reserves	34.1	56.1	112.7	9.8	50.9	14.3	94.2
In months of prospective imports .	0.5	0.7	1.3	0.1	0.7	0.2	1.2

Source: Central Bank of Seychelles

THE AFRICAN DEVELOPMENT BANK

A full description of the Guarantor is set out in the Guarantor's Information Statement dated 10 August 2009, which is set out in Annex C.

General

The Guarantor's legal and commercial name is The African Development Bank (*Banque Africaine de Développement*)

The Guarantor is a regional multilateral development institution established in 1963. The Guarantor's membership currently consists of 53 African states (the "**regional member countries**" or "**RMCs**") and 24 non-African states (the "**non-regional member countries**").

The Guarantor began operations in 1966 with 29 regional member countries. The Agreement establishing the Guarantor was amended on 7 May 1982 to permit non-regional countries to be admitted as members.

The Guarantor's headquarters is located in Abidjan, Côte d'Ivoire. However, since February 2003, the Guarantor has temporarily relocated operations from Abidjan to Tunis, Tunisia. The duration of the temporary relocation has since been extended by the Board of Governors, most recently for a further period of 12 months from June 2009.

The central goal of the Guarantor's activities is to promote sustainable economic growth and to reduce poverty in Africa. The Guarantor provides financing for a broad range of development projects and programmes. In addition, it provides policy-based loans and equity investments, finances non-publicly guaranteed private sector loans, offers technical assistance for projects and programmes that provide institutional support, promotes the investment of public and private capital, and responds to requests for assistance in co-ordinating RMC development policies and plans. National and multi-national projects and programmes that promote regional economic co-operation and integration are also given high priority.

In addition to its ordinary operations, the Guarantor administers the African Development Fund (the "**ADF**"), which provides loan financing on concessionary terms to RMCs that, in the opinion of the ADF, are in the greatest need of such financing. The ADF is legally and financially separate from the Guarantor, and the Guarantor is not liable for any obligations of the ADF. The Guarantor also administers, under separate agreements and arrangements, the Nigeria Trust Fund and several other special funds. The resources of these special funds are held, obligated and otherwise disposed of entirely separately from the Guarantor's ordinary capital resources.

The Guarantor's capital stock is owned by its member countries. On 29 May 1998, at its thirty-fourth Annual Meeting, the Board of Governors adopted Resolution B/BG/98/05 authorising the Fifth General Capital Increase (GCI-V). Upon entry into force of the GCI-V Resolution in September 1999, the authorised capital of the Guarantor increased by 35 per cent. from Unit of Account ("UA" which is the currency used by the Guarantor as further set out in the Guarantor's Information Statement dated 10 August 2009 which is set out in Annex C) 16,200 million to UA 21,870 million with the creation of 567,000 new shares. Under the capital structure of the Guarantor, the share in the Guarantor's overall share capital of regional member countries is 60 per cent. and that of non-regional member countries is 40 per cent..

Credit Rating

The rating agencies, Standard & Poor's, Moody's, Fitch, and the Japan Credit Rating Agency reaffirmed their AAA/Aaa and AA+/Aa1 rating of the Guarantor's senior and subordinated debt respectively, with a stable outlook.

The switchboard number of the African Development Bank is +216 7110 3450.

Privileges and Immunities

The African Development Bank enjoys a number of privileges and immunities under Chapter VII of the Agreement establishing the African Development Bank ("**African Development Bank's Articles of Agreement**"). Any holder of an Existing Instrument which acquires New Discount Notes on the Settlement Date will be deemed to have acknowledged that, in accordance with the African Development Bank's Articles of Agreement:

- (a) The African Development Bank shall enjoy immunity from every form of legal process except in cases arising out of the exercise of its borrowing powers when it may be sued only in a court of competent jurisdiction in the territory of a member in which the African Development Bank has its principal office, or in the territory of a member or non-member State where it has appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members.
- (b) The property and assets of the African Development Bank shall, wherever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the African Development Bank.
- (c) Property and assets of the African Development Bank, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action.
- (d) The archives of the African Development Bank and, in general, all documents belonging to it or held by it, shall be inviolable, wherever located.
- (e) To the extent necessary to carry out the purpose and functions of the African Development Bank and subject to the provisions of this Agreement, all property and other assets of the African Development Bank shall be exempt from restrictions, regulations, controls and moratoria of any nature.
- (f) Official communications of the African Development Bank shall be accorded by each member the same treatment that it accords to the official communications of other members.

FORM AND TRANSFER OF NEW DISCOUNT NOTES

The New Discount Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Settlement Date with a common depositary for Euroclear and Clearstream, Luxembourg.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Settlement Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the New Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for New Discount Notes in definitive form ("New Discount Definitive Notes") in the denomination of U.S.\$100 each at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each, a "New Discount Note Exchange Event") occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in "*Terms and Conditions of the New Discount Notes – Events of Default*" occurs.

Whenever the Permanent Global Note is to be exchanged for New Discount Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such New Discount Definitive Notes, duly authenticated and with Coupons and a Talon attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant New Discount Note Exchange Event.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the New Discount Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the New Discount Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Notices: Notwithstanding Condition 15 (*Notices*), while all the New Discount Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to holders of the New Discount Notes may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with "*Terms and Conditions of the New Discount Notes – Notices*" on the date of delivery to Euroclear and Clearstream, Luxembourg.

FORM AND TRANSFER OF NEW PAR NOTES

The New Par Notes will initially be in the form of the Temporary Global Note which will be deposited on or around the Settlement Date with a common depositary for Euroclear and Clearstream, Luxembourg.

The Temporary Global Note will be exchangeable in whole or in part for interests in the Permanent Global Note not earlier than 40 days after the Settlement Date upon certification as to non-U.S. beneficial ownership. No payments will be made under the Temporary Global Note unless exchange for interests in the Permanent Global Note is improperly withheld or refused. In addition, interest payments in respect of the New Notes cannot be collected without such certification of non-U.S. beneficial ownership.

The Permanent Global Note will become exchangeable in whole, but not in part, for New Par Notes in definitive form (“**New Par Definitive Notes**”) in the denomination of U.S.\$100 each at the request of the bearer of the Permanent Global Note against presentation and surrender of the Permanent Global Note to the Principal Paying Agent if either of the following events (each, a “**New Par Note Exchange Event**”) occurs: (a) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of legal holidays) or announces an intention permanently to cease business or (b) any of the circumstances described in “*Terms and Conditions of the New Par Notes – Events of Default*” occurs.

Whenever the Permanent Global Note is to be exchanged for New Par Definitive Notes, the Issuer shall procure the prompt delivery (free of charge to the bearer) of such New Par Definitive Notes, duly authenticated and with Coupons and Talons attached, in an aggregate principal amount equal to the principal amount of the Permanent Global Note to the bearer of the Permanent Global Note against the surrender of the Permanent Global Note to or to the order of the Principal Paying Agent within 30 days of the occurrence of the relevant New Par Note Exchange Event.

In addition, the Temporary Global Note and the Permanent Global Note will contain provisions which modify the Terms and Conditions of the New Par Notes as they apply to the Temporary Global Note and the Permanent Global Note. The following is a summary of certain of those provisions:

Payments: All payments in respect of the Temporary Global Note and the Permanent Global Note will be made against presentation and (in the case of payment of principal in full with all interest accrued thereon) surrender of the Temporary Global Note or (as the case may be) the Permanent Global Note to or to the order of any Paying Agent and will be effective to satisfy and discharge the corresponding liabilities of the Issuer in respect of the New Par Notes. On each occasion on which a payment of principal or interest is made in respect of the Temporary Global Note or (as the case may be) the Permanent Global Note, the Issuer shall procure that the payment is noted in a schedule thereto.

Notices: Notwithstanding Condition 15 (*Notices*), while all the New Par Notes are represented by the Permanent Global Note (or by the Permanent Global Note and/or the Temporary Global Note) and the Permanent Global Note is (or the Permanent Global Note and/or the Temporary Global Note are) deposited with a common depositary for Euroclear and Clearstream, Luxembourg, notices to holders of the New Par Notes may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg and, in any case, such notices shall be deemed to have been given to the Noteholders in accordance with “*Terms and Conditions of the New Par Notes – Notices*” on the date of delivery to Euroclear and Clearstream, Luxembourg.

TAXATION

The following is a general description of certain tax considerations relating to the New Notes. It does not purport to be a complete analysis of all tax considerations relating to the New Notes whether in those countries or elsewhere and cannot be applied to all categories of investors, some of which may be subject to special rules. Holders of Existing Instruments (or an interest therein) should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Seychelles of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the New Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Also investors should note that the appointment by an investor in Notes, or any person through which an investor holds Notes, of a custodian, collection agent or similar person in relation to such Notes in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

Republic of Seychelles

Withholding Tax

There is no withholding tax on payments in respect of the New Notes to non-residents of Seychelles that are Financial Institutions (as defined by the Financial Institutions Act 2004) or residents of the Seychelles. Pursuant to the exemption dated 14 September 2006 granted under Section 185(b) of the Business Tax Act 1987, as amended, no withholding tax is payable in Seychelles in connection with payments in respect of the New Notes to non-residents of Seychelles, who are not Financial Institutions.

Business Tax

By virtue of the Business Tax Act 1987, tax is payable in respect of revenue earned from the carrying on of a business, trade or profession in Seychelles. Pursuant to Business Tax (Amendment of First Schedule) Regulations, 2006, interest earned on the New Notes is exempt from business tax in Seychelles. There is no other liability to income tax in Seychelles.

There is no tax liability in Seychelles on the capital value of the New Notes on the sale, surrender or redemption of the New Notes.

Capital Gains Tax and Inheritance Tax.

There is no capital gains tax or inheritance tax in Seychelles.

Stamp Duty

Pursuant to the exemption dated 12 September 2006 granted under Section 47 of the Stamp Duty Act (Cap 226), no stamp duty is payable in Seychelles in connection with any agreement or instrument relating to or in connection with the issue, assignment, sale, transfer, redemption or surrender of, or payment of any amount in respect of, the New Notes.

EU Savings Tax Directive

Under EC Council Directive 2003/48/EC on the taxation of savings income, each Member State is required to provide to the tax authorities of another Member State details of payments of interest or other similar income paid by a person within its jurisdiction to, or collected by such a person for, an individual resident or certain limited types of entity established in that other Member State; however, for a transitional period, Austria, Belgium and Luxembourg may instead apply a withholding system in relation to such payments, deducting tax at rates rising over time to 35 per cent. The transitional period is to terminate at the end of the first full fiscal year following agreement by certain non-EU countries to the exchange of information relating to such payments.

A number of non-EU countries and certain dependent or associated territories of certain Member States have adopted similar measures (either provision of information or transitional withholding) in relation to payments made by a person within its jurisdiction to, or collected by such a person for, an individual resident or, certain limited types of entity established in a Member State. In addition, the Member States have entered into provision of information or transitional withholding arrangements with certain of those dependent or associated territories in relation to payments made by a person in a Member State to, or collected by such a person for, an individual resident or certain limited types of entity established in one of those territories.

On 13 November 2008, the European Commission published a proposal for amendments to the EU Savings Directive, which included a number of suggested changes which, if implemented, would broaden the scope of the requirements described above. The European Parliament approved an amended version of this proposal on 24 April 2009. Investors who are in any doubt as to their position should consult their professional advisers.

Payments by the African Development Bank

Under the African Development Bank's Articles of Agreement:

- (a) The African Development Bank, its property, other assets, income and its operations and transactions shall be exempt from all taxation and from all customs duties. Further, the African Development Bank is also exempt from any obligation relating to the payment, withholding, or collection of any tax or duty.
- (b) No tax of any kind shall be levied on any obligation or security issued by the African Development Bank, including any dividend or interest thereon, by whomsoever held:
 - (i) which discriminates against such obligation or security solely because it is issued by the African Development Bank; or
 - (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the African Development Bank.
- (b) No tax of any kind shall be levied on any obligation or security guaranteed by the African Development Bank, including any dividend or interest thereon, by whomsoever held:
 - (i) which discriminates against such obligation or security solely because it is guaranteed by the African Development Bank; or
 - (ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the African Development Bank.

JURISDICTIONAL RESTRICTIONS

Public Offer Selling Restriction Under The Prospectus Directive

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each a “**Relevant Member State**”), each addressee of this document acknowledges that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “**Relevant Implementation Date**”), no offer has been made or will be made of New Notes which are the subject of the offering contemplated by this Prospectus to the public in that Relevant Member State, other than the offers contemplated in the Prospectus in the United Kingdom, Austria, France, Germany, Luxembourg and Portugal from the time the Prospectus has been approved by the competent authority in the United Kingdom and published and notified to the relevant competent authority(ies) in accordance with the Prospectus Directive as implemented except that with effect from and including the Relevant Implementation Date, an offer of such New Notes to the public may be made in that Relevant Member State:

- (a) to legal entities which are authorised or regulated to operate in the financial markets or, if not so authorised or regulated, whose corporate purpose is solely to invest in securities;
- (b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;
- (c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the Issuer; or
- (d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of New Notes shall require the Issuer to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an “**offer of New Notes to the public**” in relation to any New Notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the New Notes to be offered so as to enable an investor to decide to purchase or subscribe the New Notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression “**Prospectus Directive**” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

United States of America

The New Notes have not been and will not be registered under the Securities Act and are subject to U.S. tax law requirements. Subject to certain exceptions, the New Notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons. In addition, until 40 days after commencement of the offering, an offer or sale of New Notes within the United States may violate the registration requirements of the Securities Act.

Italy

This Prospectus admitted to publication by the UK Listing Authority under the securities laws in compliance with applicable laws, rules and regulations in force in the United Kingdom will be notified to CONSOB (*Commissione Nazionale per le Società e la Borsa*). After completion of the prospectus notification procedure pursuant to Prospectus Directive and in accordance with its implementation laws and regulations in Italy, the New Notes will be offered to Holders of Existing Instruments in Italy. Holders in Italy should review, and make their decision to participate in the Exchange Offer solely on the basis of, and in accordance with, the procedures described in the Exchange Offer Materials.

France

This Prospectus admitted for publication by the UK Listing Authority will be notified to the Autorité des marchés financiers (“**AMF**”) in accordance with the prospectus recognition procedure pursuant to the Prospectus Directive. Upon the notification of the Prospectus to the AMF, the New Notes will be offered to Holders of Existing Instruments in France. Holders in France should review, and make their decision to participate in the Exchange Offer solely on the basis of, and in accordance with, the

procedures described in the Exchange Offer Materials. Holders in France may obtain a summary in French of the Prospectus without charge on the Internet site of the AMF at www.amf-france.org.

Austria

This Prospectus has been drawn up in compliance with the Prospectus Directive and Commission Regulation (EC) No. 809/2004 of 29 April 2004 implementing the Prospectus Directive (the “**Prospectus Regulation**”). The Prospectus has been approved by the FSA and has been notified by the FSA to the Finanzmarktaufsicht in Austria (“**FMA**”) in accordance with Article 18 of the Prospectus Directive (implemented by section 8b of the Austrian Capital Market Act) for public offer in Austria. The Prospectus has been published on the website of the Regulatory News Service operated by the London Stock Exchange at www.londonstockexchange.com/exchange/prices-and-news/news/market-news/market-news-home.html and is accessible to Holders in Austria at this website. Any advertisement in Austria needs to refer to the published Prospectus. Holders in Austria should review, and make their decision to participate in the Exchange Offer solely on the basis of, and in accordance with, the Prospectus and the procedures described in the Exchange Offer Materials.

Germany

This Prospectus admitted to publication by the UK Listing Authority under the securities laws in compliance with applicable laws, rules and regulations in force in the United Kingdom will be notified to the Federal Financial Supervisory Authority (*Bundesanstalt für Finanzdienstleistungsaufsicht*). After completion of the prospectus notification procedure pursuant to Prospectus Directive and in accordance with its implementation laws in Germany, the New Notes will be offered to Holders of Existing Instruments in the Federal Republic of Germany. Holders in the Federal Republic of Germany should review, and make their decision to participate in the Exchange Offer solely on the basis of, and in accordance with, the procedures described in the Exchange Offer Materials.

Israel

The Exchange Offer is being made pursuant to an exception to the public offering requirements of Israeli securities law. None of the offering, the New Notes, this Exchange Offer or the Exchange Offer Materials, has been reviewed, qualified or approved by the Israeli Securities Authority or any other government or regulatory body. The Exchange Offer Materials may not be reproduced or used for any other purpose, nor be furnished to any other person other than those to whom copies have been delivered by the Republic of Seychelles. Neither the Republic of Seychelles nor any Agent (i) counsels or advises on the worthwhileness of acquiring the New Notes, (ii) is licensed under Israel’s Regularization of Engagement in Investment Counseling, Investment Marketing and Portfolio Management Law of 1995, or (iii) carries any insurance required of a licensee under such law. Nothing in the Exchange Offer or the Exchange Offer Materials may be considered investment counselling or advice, as defined in such law. Each Holder of Existing Instruments is encouraged to consult with its own financial advisors prior to making any investment decision in connection with the New Notes. By subscribing to New Notes each Holder of Existing Instruments represents, covenants and agrees to and with the Republic of Seychelles and each Agent that: (i) the Exchange Offer was made exclusively through the Exchange Offer Materials; (ii) neither the Republic of Seychelles nor any Agent has counselled or advised the Holder on the worthwhileness of acquiring the New Notes, (iii) the Holder of Existing Instruments is acquiring the New Notes as a principal and not as an agent of the Republic of Seychelles or a third party, (iv) any direct or indirect resale or on-sale of New Notes by the Holder of Existing Instruments shall comply with all aspects of Israeli securities law and other applicable law; and (v) the Holder of Existing Instruments does not intend to and will not directly or indirectly solicit purchasers for, or market, offer, sell, resell, on-sell or otherwise distribute, the New Notes in Israel to any entity or person, other than to entities listed in the First Addendum to Israel’s Securities Law, 1968 and only in compliance with Israel’s Regularization of Engagement in Investment Counseling, Investment Marketing and Portfolio Management Law, 1995.

Lebanon

The Republic of Seychelles has already issued Existing Notes which do not constitute structured financial products (as defined in BDL Decision 7493) and which were subscribed by specific Holders in Lebanon. The Republic of Seychelles is now launching, in Lebanon, an Exchange Offer that shall be offered to Holders to exchange the Existing Notes into New Notes. The Existing Notes have not

been, and will not be, offered, sold or delivered, at any time, directly or indirectly in Lebanon in a manner that would constitute a public offering or a breach of any Lebanese legal and regulatory requirements. In this respect, the Prospectus is strictly circulated to Holders and therefore will not be registered with or approved by the Central Bank of Lebanon and may not be publicly distributed or promoted in Lebanon. It is addressed only to the Holders and may not be provided to any other person; it is not for general circulation in Lebanon and may not be reproduced or used for any other purpose. It is assumed that Holders have already understood the financial and legal implications in relation to the Existing Notes and that they have the full ability to understand the terms and conditions of the Exchange Offer and that they will not subscribe to such New Notes before fully being aware of such terms and conditions and receiving any legal assistance they may need in this respect.

Any liability with respect to the compliance with any legal or regulatory requirements in Lebanon in relation to the promotion and marketing of the Exchange Offer is strictly limited to Holders who are duly licensed institutions in Lebanon and the Republic of Seychelles does not bear any responsibility whatsoever as a result of any breach of any such legal and regulatory requirements.

Luxembourg

The New Notes may not be offered or sold to the public within the territory of the Grand-Duchy of Luxembourg unless:

- (a) A prospectus has been duly approved by the Commission de Surveillance du Secteur Financier (the “**CSSF**”) if Luxembourg is the home Member State (as defined in the Law of 10 July 2005 on prospectuses for securities (the “**Luxembourg Prospectus Law**”) and implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 on the prospectus to be published when securities are offered to the public or admitted to trading; or
- (a) If Luxembourg is not the home Member State, the CSSF has been notified by the competent authority in the home Member State that a prospectus in relation to the New Notes has been duly approved in accordance with the Prospectus Directive; or
- (b) The offer of New Notes benefits from an exemption to or constitutes a transaction not subject to, the requirement to publish a prospectus pursuant to the Luxembourg Prospectus Law.

Portugal

This Prospectus admitted for publication by the UK Listing Authority will be notified to the Comissão do Mercado de Valores Mobiliários (“**CMVM**”) in accordance with the prospectus recognition procedure pursuant to the Prospectus Directive. Upon the conclusion of the Prospectus notification process with the CMVM notification of the Prospectus to the CMVM, the New Notes will be offered to Holders of Existing Instruments in Portugal. Holders in Portugal should review, and make their decision to participate in the Exchange Offer solely on the basis of, and in accordance with, the procedures described in the Exchange Offer Materials. Holders in Portugal may obtain the Prospectus as well as a summary in Portuguese of the same without charge on the Internet site of the CMVM at www.cmvm.pt.

Switzerland

The Prospectus relating to the New Notes complies with the requirements of Art. 1156 and Art. 652a of the Swiss Code of Obligations. The New Notes are not listed on the SIX Swiss Exchange and, therefore, the Prospectus may not comply with the disclosure standards of the listing rules of the SIX Swiss Exchange. As at the date of this Prospectus, the Republic of Seychelles does not intend to list the New Notes on the SIX Swiss Exchange. The Prospectus does not constitute investment advice or an offer to any person to purchase the New Notes.

UAE

This Prospectus and the information contained herein does not constitute, and is not intended to constitute, a public offer of securities in the United Arab Emirates (“**UAE**”) and accordingly should not be construed as such. The New Notes are only being offered to a limited number of sophisticated investors in the UAE who are willing and able to conduct an independent investigation of the risks involved in an investment in such securities, upon their specific request. The New Notes have not been approved or licensed or registered with the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the UAE. This Prospectus is for the use of the named

addressees only and should not be given or shown to any other person (other than employees, agents or consultants in connection with the relevant addressee's consideration thereof). No transaction will be concluded in the UAE and any enquiries regarding the securities should be made to the Exchange Agent or Information Agent at the addresses provided on the back page of this Prospectus.

Qatar

The New Notes described in this Prospectus have not been, and will not be, offered, sold or delivered, at any time, directly or indirectly in the State of Qatar in a manner that would constitute a public offering. This Prospectus has not been, and will not be, registered with or approved by the Qatar Financial Markets Authority or Qatar Central Bank and may not be publicly distributed. This Prospectus is intended for the original recipient only and must not be provided to any other person. It is not for general circulation in the State of Qatar and may not be reproduced or used for any other purpose.

General

Persons into whose hands this Prospectus comes are required by the Issuer to comply with all applicable laws and regulations in each country or jurisdiction in which they purchase, offer, sell or deliver New Notes or possess, distribute or publish this Prospectus or any other offering material relating to the New Notes, in all cases at their own expense.

In addition to the applications described in this Prospectus, the Issuer may, on or after the date of this Prospectus, make applications for one or more further certificates of approval under Article 18 of the Prospectus Directive as implemented in the United Kingdom to be issued by the FSA to the competent authority in any Member State.

FURTHER INFORMATION REQUIRED FOR ITALIAN INVESTORS

Resolution

The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Seychelles in connection with the issue and performance of the New Notes. Pursuant to Section 4(1) of the Public Debt Management Act, 2008 (as amended), the Minister responsible for financial matters may, with the approval of the President and on the advice of the National Debt Management Committee raise a loan or loans on behalf of Seychelles or may authorise any public officer to raise such a loan or loans. The New Notes are issued pursuant to these powers.

Conflict of interest

Deutsche Bank AG, London branch, in its capacity as Exchange Agent, may have an interest in the Existing Instruments.

Taxation

The following is a general description of certain Italian tax considerations relating to the New Notes. It does not purport to be a complete analysis of all tax considerations relating to the New Notes whether in Italy or elsewhere and cannot be applied to all categories of investors, some of which may be subject to special rules. Prospective purchasers of Notes should consult their own tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of the Republic of Seychelles of acquiring, holding and disposing of Notes and receiving payments of interest, principal and/or other amounts under the New Notes. This summary is based upon the law as in effect on the date of this Prospectus and is subject to any change in law that may take effect after such date.

Investors also should note that the appointment of a custodian, collection agent or similar person in relation to the Notes by an investor in such Notes, or any person through which an investor holds Notes, in any jurisdiction may have tax implications. Investors should consult their own tax advisers in relation to the tax consequences for them of any such appointment.

The exchange offer of instruments

The Exchange Offer of the Existing Instruments for the New Notes is qualified for tax purposes as a disposal of Existing Instruments for a consideration represented by the “Normal value” of the New Notes, as identified by section 9 of the Decree of the President of the Republic no. 917 of 22 December 1986. Accordingly, acceptance of the Exchange Offer may give rise to a taxable capital gain (if the Normal value of the New Notes exceeds the fiscally recognised cost of the Existing Instruments) or a deductible capital loss (if the Normal Value of the New Notes is below the fiscally recognised cost of the Existing Instruments).

All capital gains arising from the sale of bonds for consideration (in money or in kind) or their redemption that are realised by natural persons resident in Italy (not carrying on a commercial activity to which the bonds are connected) are subject to a substitute tax of 12.5 per cent., notwithstanding whether such bonds are held outside Italy. It follows that any capital gains arising from the Exchange Offer would be subject to taxation in Italy through the application of a substitute tax of 12.5 per cent. on capital gains which may be realised.

Any capital gains realised by companies resident in Italy (including any branches in Italy of non-resident companies to which the Existing Instruments are actually connected), either from the transfer of Existing Instruments for consideration (in money or in kind) or from their redemption, form part of their total income and in certain circumstances, depending on the nature of the investor, part of the net value of the production which is subject to the Regional Tax on Productive Activities (“IRAP”). The capital gain comprises the difference between the consideration obtained and the fiscally recognised value of the Existing Instruments. In certain circumstances the capital gains can be allocated, for the purposes of the Tax on the Income of Companies (“IRES”), to the related income in portions for up to a maximum of five fiscal years.

Should the Existing Instruments instead qualify as securities which are “atypical instruments”, any capital gains realised by the investors as a result of the Exchange Offer will be subject to a withholding tax of 27 per cent.

Capital income

The legislative decree no. 239 of 1 April 1996 (Legislative Decree 239/1996), as subsequently amended, regulates, *inter alia*, the fiscal treatment of interest, premiums and other returns (including any difference between the issue price and that of redemption, the “**Interest**”) arising from bonds or similar such securities issued abroad by foreign public administrations.

Investors resident in Italy

If an investor resident in Italy is (i) a natural person holding New Notes outside the conduct of a business activity (unless it opted for an asset management regime, as described below in the paragraph entitled “*Capital Gains Tax Regime*”), (ii) a partnership or comparable body as referred to in section 5 of the Decree of the President of the Republic of 22 December 1986, no. 917 (the “**TUIR**”), excluding general partnerships, limited partnerships and comparable bodies; (iii) a private or public non-commercial body (iv) a person exempt from income tax on legal persons, the Interest arising from the New Notes is subject to a substitute tax of 12.5 per cent.

Should an investor described in points (i) and (iii) above hold the New Notes in the conduct of a business activity, the Interest forms part of the business’s income and the substitute tax may be deducted from the total tax due from it on the taxable income.

Pursuant to Legislative Decree 239/1996, the substitute tax is applied by the banks, brokerage firms, trust companies, exchange agents and other persons expressly indicated in the relevant decrees of the Ministry of Economy and Finance (“**Intermediaries**” and individually an “**Intermediary**”).

If a resident investor is a company or a commercial body (including the Italian branches of non-resident persons) and the New Notes are lodged with an Intermediary, the Interest is not subject to substitute tax, but forms part of the total income of the investor for the purposes of the tax on the company’s income (and, in some circumstances, depending on the nature of the investor, is also subject to IRAP).

If the investor is a real estate investment fund the Interest is not subject to substitute tax, nor to any other taxes on the fund’s income. However, following changes which were recently introduced by Decree Law no. 112 of 25 June 2008, where certain requirements are met a capital tax of 1 per cent. is applied to the amount of the net value of the fund. In any case, the proceeds of the recipients from participation in the real estate funds are liable to a withholding tax of 20 per cent., applied as advance tax or final tax (depending on the legal status of the recipient), excluding proceeds received by persons who are the beneficial owners of such proceeds and are fiscally resident in foreign States that ensure an adequate exchange of information with the Italian tax authorities.

If the investor resident in Italy is an investment fund, whether open-ended or closed, or a SICAV (investment fund with variable capital), and the New Notes are lodged with an Intermediary, the Interest accrued during the period of possession will not be subject to the aforementioned substitute tax. However Interest accruing during every tax period must be included in the results of the management of the fund prepared up to the end of every tax period, and will be subject to an ad hoc substitute tax of 12.5 per cent.

If the investor is a pension fund (and therefore liable to the regime provided for by section 17 of the legislative decree no. 252 of 5 December 2005) and the New Notes are lodged with an Intermediary then the Interest accrued during the period of possession is not liable to the aforementioned substitute tax. However, the Interest accruing during every tax period must be included in the results of the fund prepared for each such tax period and will be subject to an ‘ad hoc’ substitute tax of 11 per cent.

If the New Notes are not lodged with an Intermediary, the substitute tax is applied and withheld by the Intermediary which participates in the payment of the Interest to the investor or in its capacity as purchaser of the New Notes. Should the Interest be paid directly by the Issuer then the substitute tax is applied by the Issuer.

Should the redemption of the New Notes and similar securities with maturity of not less than 18 months take place before such maturity date, an amount equal to 20 per cent. of the Interest and the other proceeds accruing until the date of the early redemption is due from the recipients.

Finally, if the New Notes do not fall within the category of bonds or securities within the meaning of section 44(2)(c) of the Decree of the President of the Republic no. 917 of 22 December 1986, they may qualify as “atypical instruments”. Pursuant to the said section, securities similar to bonds shall be deemed to be those which include the unconditional obligation to pay upon maturity an amount

not lower than that indicated therein and do not assign to holders any right of direct or indirect participation in the management of the Issuer.

The proceeds of any type relating to securities qualified as “atypical instruments”, including the interest and the difference between the amount paid to the holders upon maturity and the issue price, are liable to a withholding tax of 27 per cent., pursuant to section 5 of Legislative Decree no. 512 of 30 September 1983, converted by way of amendments into Law no. 649 of 25 November 1983.

The withholding is applied as an advance tax to (i) individual entrepreneurs resident in Italy if the securities relate to the undertaking, (ii) companies resident in Italy, (iii) branches in Italy of non-resident companies (iv) general partnerships or limited partnerships and comparable residents in Italy or (v) public and private bodies resident in Italy, other than companies, which have as their corporate object the conduct of commercial activities.

In all other cases the withholding tax is applied as a final tax.

Capital gains tax regime

Capital gains arising from the sale or redemption of bonds are a factor in determining taxable income (and also, in certain circumstances, depending on the nature of the investor, the net value of production for the purposes of IRAP) if those gains are realised by an Italian company, a commercial entity (including the branches in Italy of non-resident persons with whom the New Notes are connected) or entrepreneurs resident in Italy acquiring the New Notes in the conduct of a business activity.

If a resident investor is a natural person holding the New Notes outside the conduct of a business activity, the capital gains realised on the sale or redemption of those New Notes are subject to 12.5 per cent. substitute tax.

Under the “**Tax Return Regime**”, which is the system normally applicable to resident natural persons who are not holding the New Notes in the conduct of a business activity, the substitute tax is payable, net of any capital losses, on all the capital gains realised by an investor following the sale or redemption of securities during the tax period. In such a case, resident investors must declare the capital gains realised in each tax period, net of any capital losses, in their tax return and pay the substitute tax together with income tax. Any capital losses exceeding the amount of capital gains realised in the tax period may be used to offset capital gains of the same nature realised in the four tax periods thereafter.

As an alternative to the Tax Return Regime, resident natural persons holding New Notes outside the conduct of their business activity may choose to pay the substitute tax separately on each capital gain realised at the time of the sale or redemption of the securities (the “**Non-discretionary Investment Portfolio Regime**”). The taxation of capital gains on the basis of the Non-discretionary Investment Portfolio Regime arrangement is permitted subject to the conditions that (i) the New Notes are lodged with an Italian bank, a securities house or an authorised financial intermediary and (ii) the investor has opted for the application of that regime.

The depository of the New Notes is required to take into account, for the purpose of applying the substitute tax, each capital gain received by the investor on the sale or redemption of the New Notes net of any capital losses and is also required to pay the said substitute tax to the tax authorities on the investor's behalf, retaining the sums due from the corresponding amount or using the funds made available by the investor itself for that purpose.

Under the Non-discretionary Investment Portfolio Regime, if the transfer or redemption of the New Notes gives rise to a capital loss, that capital loss may be deducted from any capital gains subsequently realised, in the course of the same administration relationship, in the same tax period or in the next four tax periods. Under that arrangement, an investor is not required to declare the capital gains in its tax return.

Capital gains realised by a natural person investor resident in Italy who (i) holds the New Notes outside a business activity, (ii) has granted a mandate for the management of his financial assets, including the New Notes, to an Intermediary, and (iii) has also opted for the Discretionary Investment Portfolio Regime, will be included in the management results that have accrued, even if they have not been realised, in the course of the tax period. These management results will be subject to 12.5 per cent. substitute tax, which will be paid by the appointed Intermediary. Under that regime, if the management results accrued at the end of the tax period is negative, the corresponding amount may be deducted from the management results recorded in subsequent tax periods, up to the fourth

such period. Under that regime, the investor is not required to declare the capital gains realised in its tax return.

Any capital gains realised by an investor that is an Italian investment fund, whether open-ended or closed, or a SICAV (investment fund with variable capital), will be included in the management results of the relevant portfolio accrued at the end of the tax period and be subject to a 12.5 per cent. substitute tax (see the paragraph entitled “*Investors resident in Italy*”).

Any capital gains realised by an investor that is an Italian pension fund will be included in the results of the relevant portfolio accrued from the fund at the end of the tax period and liable to an 11 per cent. substitute tax (see the paragraph entitled “*Investors resident in Italy*”).

Any capital gains realised by an investor that is an Italian real estate investment fund will not be subject to any substitute tax in the hands of the fund itself. Real estate funds satisfying the requirements of section 82(18) of the said Decree Law No 112 of 25 June 2008, however, are liable to capital tax at the rate of the 1 per cent. of the net value of the fund. Nevertheless, the recipients of proceeds from holdings in property funds are liable to a 20 per cent. withholding.

Inheritance and gift taxes

Pursuant to Decree Law No. 262 of 3 October 2006, converted to Law No. 286 of 24 November 2006, the transfer without consideration, *inter vivos* or *causa mortis*, of any assets (including bonds and any other debt instrument) is liable to tax at the following rates:

- (1) transfers to a spouse and family relatives in the direct line, on a value exceeding Euro 1,000,000.00 per beneficiary: 4 per cent.;
- (2) transfers to relatives up to the fourth degree and persons related by affinity in the direct line and also up to the third degree of affinity in the collateral line: 6 per cent.; if the beneficiaries of the inheritance or gift are brothers and sisters, the tax on the value of the assets that are the subject of the gift or inheritance will be payable on the amount in excess of Euro 100,000;
- (3) transfers to other persons: 8 per cent.

If the beneficiary has a disability, the tax applies to a value in excess of Euro 1,500,000.

Tax on stock market transactions

Pursuant to section 37 of Decree Law No. 248 of 31 December 2007, converted into law by Law No. 31 of 28 February 2008, the tax on stock market transactions laid down by Royal Decree No. 3278 of 30 December 1923 has been abrogated.

Implementation in Italy of the Directive on taxation of savings income in the form of interest payments

Italy has implemented the European directive on taxation of savings income in the form of interest payments by Legislative Decree No 84 of 2005: under that Decree, provided that a series of certain important conditions are satisfied, as of 1 July 2005 where interest is paid to individuals who are the beneficial owners of that interest and are resident for tax purposes in another Member State the qualified Italian paying agents will not be required to apply any withholding tax and shall send the Agenzia delle Entrate (the Italian Revenue Office) information on the interest paid and the personal particulars of the beneficial owners of the payment. This information is then forwarded by the Agenzia delle Entrate to the competent tax authority of the foreign country of residence of the beneficial owner of that payment.

GENERAL INFORMATION

Authorisation

1. The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Seychelles in connection with the issue and performance of the New Notes. Pursuant to Section 4(1) of the Public Debt Management Act, 2008 (as amended), the Minister responsible for financial matters may, with the approval of the President and on the advice of the National Debt Management Committee raise a loan or loans on behalf of Seychelles or may authorise any public officer to raise such a loan or loans. The New Notes are issued pursuant to these powers.
2. The giving of the Guarantee by the Guarantor of the Notes has been authorised by a resolution by the board of directors of the of the Guarantor dated 2 December 2009.

Legal and Arbitration Proceedings

3. Save as disclosed in Seychelles Economy – Legal Proceedings, there are no governmental, legal or arbitration proceedings, (including any such proceedings which are pending or threatened, of which the Issuer or Guarantor is aware), which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position or profitability of the Issuer or the Guarantor.

Auditors

4. The financial statements of the Guarantor have been audited without qualification for the years ended 31 December 2007 and 31 December 2008 by KPMG Audit, independent accountants.

Third Party Information

5. Where information in this Prospectus has been sourced from third parties, this information has been accurately reproduced and as far as the Issuer is aware and is able to ascertain from the information published by such third parties, no facts have been omitted which would render the reproduced information inaccurate or misleading. The source of third party information is identified where used.

Documents on Display

6. Copies of the following documents may be inspected by Noteholders during normal business hours at the offices of Deutsche Bank AG, London Branch at Winchester House, 1 Great Winchester Street, London EC2N 2DB, United Kingdom for 12 months from the date of this Prospectus and at the offices of the Exchange Agent for 3 months following the date of this Prospectus:
 - (a) the forms of Paying Agency Agreement and the Trust Deed relating to the New Discount Notes; and
 - (b) the forms of Paying Agency Agreement and the Trust Deed relating to the New Par Notes.

Yield

7. On the basis of the issue price of the New Discount Notes of 100 per cent. of their principal amount, the gross real yield of the New Discount Notes (assuming an inflation rate of 2.17 per cent.) is 4.93 per cent. on an annual basis.
8. On the basis of the issue price of the New Par Notes of 100 per cent. of their principal amount, the gross real yield of the New Par Notes (assuming an inflation rate of 1.81 per cent.) is 0.44 per cent. on an annual basis.

Legend Concerning US Persons

9. The New Notes and any Coupons and Talons appertaining thereto will bear a legend to the following effect: "Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code".

ISIN and Common Code

10. The New Notes have been accepted for clearance through Euroclear and Clearstream, Luxembourg. The ISIN and the common code for the New Discount Notes are set out below. The ISIN and the common code for the New Par Notes are also set out below.

	New Par Notes	New Discount Notes
ISIN	XS0471464296	XS0471464023
Common Code	47146429	47146402

Passporting

11. The Issuer may, on or after the date of this Prospectus, make applications for one or more certificates of approval under Article 18 of the Prospectus Directive as implemented in the United Kingdom to be issued by the FSA to the competent authority in any Member State.

Conflict of Interest

12. Citibank, N.A., in its capacity as Exchange Agent, may have an interest in the Existing Instruments.

ANNEX A

PART I

INSTRUCTIONS FOR COMPLETION AND SUBMISSION OF LETTERS OF TRANSMITTAL FOR EXCHANGE OF EXISTING LOANS

N.B. No Holder of Existing Loans may participate in the Exchange Offer unless it is an “Eligible Holder” as defined in the section entitled “Terms of Exchange Offer” of the Prospectus

1. General

To tender Existing Loans in the Exchange Offer, the following must be received by the Exchange Agent at or prior to 5:00pm London time on the Expiration Date at the address listed on the first page of the Letter of Transmittal by hand, e-mail, courier, mail or facsimile transmission:

- (a) a properly completed and duly executed Letter of Transmittal for Exchange of Existing Loans (the form of which is located immediately following these instructions);
- (b) the original copy of the relevant duly completed and duly executed transfer certificate as scheduled to the tendered Existing Loan where the “Transfer Date” as referred to in such certificate shall be the Settlement Date; and
- (c) all original duly executed copies of the tendered Existing Loan.

The duly completed and executed transfer certificate and tendered Existing Loan should first be submitted to the Exchange Agent in electronic form and promptly thereafter the original copies of the same should be delivered to the Exchange Agent.

In the event the Existing Loans to be tendered are constituted by more than one tranche or currency, a separate Letter of Transmittal must be submitted for the tendered Existing Loans of each such tranche or currency.

Please send only one Letter of Transmittal for the relevant tranche or currency being tendered by one of the means described above.

No Letter of Transmittal or other required documents should be sent to any person other than the Exchange Agent.

Please retain a photocopy of each Letter of Transmittal submitted.

A Letter of Transmittal may only be submitted by the holder of record (as recorded, in the case of the syndicated Existing Loan, on the registry maintained by the Syndicate Agent) of Existing Loans tendered thereby or by a person authorised to sign on its behalf.

Delivery of the above documentation will be deemed made only when actually received by the Exchange Agent. Please allow sufficient time to assure timely delivery.

2. Completing Letters of Transmittal

Please read carefully the Exchange Offer Materials in their entirety before completing the Letter of Transmittal for Exchange of Existing Loans.

Please provide the following information beside the applicable numbered paragraphs in the Letter of Transmittal located immediately following these instructions:

- (a) details of the Existing Loan being tendered including the parties to such Existing Loan and the date thereof;
- (b) currency and tranche of the Existing Loan being tendered;
- (c) the principal amount of the tendered tranche of the Existing Loan (in words and numbers);
- (d) confirm the percentage of the principal amount of the tendered tranche of Existing Loan to be exchanged for (a) New Discount Notes and/or (b) New Par Notes;
- (e) the name, address, contact name, telephone and facsimile numbers and e-mail address of the Holder of the tendered Existing Loan and any applicable creditor reference number used by the Syndicate Agent (in the case of the syndicated Existing Loan);

- (f) the securities account number to which New Notes are to be credited below the name of the clearing system in which New Notes will be held (Euroclear or Clearstream, Luxembourg). **Please ensure that appropriate instructions regarding delivery of New Notes have been provided to that clearing system;**
- (g) the name, address, contact name, telephone and facsimile numbers and e-mail address of the Euroclear or Clearstream, Luxembourg accountholder receiving New Notes;
- (h) confirm the following U.S. securities law representation: “The beneficial owners of the Existing Loans that are the subject of this Letter of Transmittal will receive the New Notes in an offshore transaction pursuant to Regulation S under the United States Securities Act of 1933”.

3. *Settlement of New Notes*

The New Discount Notes and/or the New Par Notes shall, subject to the terms and conditions of the Exchange Offer, be exchanged for the tendered Existing Loans on the Settlement Date (or as soon as practicable thereafter) and be credited to the account of an accountholder in Euroclear or Clearstream (Luxembourg) as designated in the Signature Annex to this Letter of Transmittal.

Persons participating in the Exchange Offer must notify their custodian, broker dealer, Euroclear or Clearstream, Luxembourg that they should expect delivery of the New Notes on the Settlement Date.

4. *Requests for Assistance or Additional Copies*

Any questions or requests for assistance with respect to the Exchange Offer Materials or the Letter of Transmittal may be directed to the Exchange Agent or Information Agent at the address and telephone number contained in the Letter of Transmittal. If additional copies of the Letter of Transmittal for Exchange of Existing Loans are required, please photocopy the form located immediately following this instruction. Additional copies of the Letter of Transmittal may also be obtained from the Information Agent.

5. *Signature and Date*

The Letter of Transmittal must be signed by the Holder of the relevant Existing Loans being tendered or by a person authorised to sign on behalf of such Holder.

If the Letter of Transmittal is signed by a trustee, executor, administrator, guardian, attorney-in-fact, agent, officer of a corporation or other person acting in a fiduciary or representative capacity, such person should so indicate when signing, and proper evidence satisfactory to the Exchange Agent or the Republic of Seychelles of such person's authority to act must be appended to the Letter of Transmittal.

Any queries with respect to the validity (including time of receipt) and acceptance of the Letter of Transmittal will be determined by the Republic of Seychelles, in its sole discretion, which determination shall be final and binding.

PART II

PRO FORMA LETTER OF TRANSMITTAL FOR EXCHANGE OF EXISTING LOANS

REPUBLIC OF SEYCHELLES
LETTER OF TRANSMITTAL
RELATING TO THE
OFFER TO EXCHANGE
NEW NOTES FOR EXISTING LOANS

THIS EXCHANGE OFFER WILL EXPIRE AT 5:00PM, LONDON TIME, ON 14 JANUARY 2010, UNLESS EXTENDED BY THE REPUBLIC OF SEYCHELLES (SUCH TIME AND DATE, AS SO EXTENDED, IS REFERRED TO AS THE "EXPIRATION DATE").

HOLDERS OF EXISTING LOANS MAY CONTACT THE EXCHANGE AGENT OR THE INFORMATION AGENT FOR ASSISTANCE IN COMPLETING LETTERS OF TRANSMITTAL AND THE INFORMATION AGENT FOR REQUESTING ADDITIONAL COPIES OF THE EXCHANGE OFFER MATERIALS.

TO TENDER EXISTING LOANS IN THE EXCHANGE OFFER, THE FOLLOWING MUST BE RECEIVED BY THE EXCHANGE AGENT AT OR PRIOR TO 5:00PM LONDON TIME ON THE EXPIRATION DATE AT THE ADDRESS LISTED BELOW BY E-MAIL, HAND, COURIER, MAIL OR FACSIMILE TRANSMISSION:

- (A) A PROPERLY COMPLETED AND DULY EXECUTED SIGNATURE ANNEX TO WHICH THIS LETTER OF TRANSMITTAL RELATES;
- (B) THE ORIGINAL COPY OF THE RELEVANT DULY COMPLETED AND DULY EXECUTED TRANSFER CERTIFICATE AS SCHEDULED TO THE TENDERED EXISTING LOAN WHERE THE "TRANSFER DATE" AS REFERRED TO IN SUCH CERTIFICATE SHALL BE THE SETTLEMENT DATE; AND
- (C) ALL ORIGINAL DULY EXECUTED COPIES OF THE TENDERED EXISTING LOAN.

IN NO EVENT SHOULD A PERSON SEND THE SIGNATURE ANNEX TO THIS LETTER OF TRANSMITTAL TO ANY PERSON OTHER THAN THE EXCHANGE AGENT.

Exchange Agent

Attention: Exchange Team – Agency & Trust

Address: 14th Floor
Citigroup Centre
Canada Square
London E14 5LB
United Kingdom

Tel: +44 207 508 3867

Fax: +44 203 320 2405

E-mail: exchange.gats@citi.com

Information Agent

Attention: Elton Bagley

Address: One Ropemaker Street,
London EC2Y 9HT
United Kingdom

Tel: +44 20 7920 9700

Fax: +44 20 7588 7300

E-mail: Seychelles@dfking.com

REPRESENTATIONS, WARRANTIES, ACKNOWLEDGEMENTS AND COVENANTS

The undersigned, as Holder of the Existing Loans tendered in this Letter of Transmittal or on behalf of the Holder of such Existing Loans, hereby tenders to the Republic of Seychelles such Existing Loans to be exchanged for the New Discount Notes and/or New Par Notes and irrevocably and unconditionally accepts the Exchange Offer in respect of such Existing Loans, in accordance with and subject to the terms and conditions of the Exchange Offer contained in the Exchange Offer Materials, and hereby:

- (a) acknowledges that it has received and reviewed in its entirety the Republic of Seychelles' Prospectus dated 7 December 2009 including, this Letter of Transmittal and, in particular, the sections entitled "Terms of Exchange Offer", the "Exchange Offer Procedures", the "Instructions

for Completion and Submission of Letters of Transmittal for Exchange of Existing Loans", "Jurisdictional Restrictions" and the "Form of Guarantee" in Annex B in the Exchange Offer Materials;

(b) represents and warrants that:

- (i) it is the holder of record (if applicable, as recorded on the registry maintained by the Syndicate Agent) of, or a duly authorised representative of the holder of record of, all Existing Loans tendered by it and it has the authority from the beneficial owner (if different) to execute and submit this Letter of Transmittal and transfer certificate;
- (ii) it has full power and authority to (1) surrender, sell, assign, transfer and exchange the Existing Loans being tendered hereby pursuant to the Exchange Offer, (2) execute and deliver this Letter of Transmittal, (3) give the authorisations, representations, warranties, acknowledgements and covenants contained herein on behalf of itself, or any other person on whose behalf the same are expressed to be given, and (4) grant the powers of attorney granted hereunder;
- (iii) to the extent New Discount Notes or New Par Notes are exchanged for the tendered Existing Loans on the Settlement Date in accordance with the terms of the Exchange Offer and this Letter of Transmittal, all right, title and interest in and to, and any and all claims in respect of or arising or having arisen in favour of the Holder of, all Existing Loans tendered will be sold, assigned and transferred to or upon the order of the Republic of Seychelles or its nominee free and clear of all liens, charges, claims, encumbrances, interests, rights of third parties and restrictions of any kind and thereafter the Holder of those Existing Loans will have no contractual or other rights or claims in law or equity against the obligors thereunder or the Republic of Seychelles or any fiduciary, trustee, fiscal agent or other person connected with the tendered Existing Loans arising from or in connection with any of such Existing Loans or the debts represented thereby, and agree and acknowledge that it will record on its books the transfers of such Existing Loans;
- (iv) by submitting this Letter of Transmittal, the transfer certificate and tendering Existing Loans, it has made its own independent evaluation and appraisal of the contents of the Exchange Offer Materials and any related communications and is not relying on any statement, representation or warranty, express or implied, made to it by or on behalf of the Republic of Seychelles (or any other person including, without limitation, the Exchange Agent, the Information Agent and the Guarantor) other than those made by the Republic of Seychelles in the Prospectus;
- (v) it is not a U.S. person (as defined in Regulation S under the U.S. Securities Act of 1933, as amended) nor is it acquiring for the account or benefit of a U.S. person, other than a distributor, and it is acquiring New Discount Notes and/or New Par Notes in an offshore transaction in accordance with Regulation S and it otherwise is, and will remain on the Settlement Date and thereafter, an Eligible Holder, as defined in "Terms of Exchange Offer" in the Exchange Offer Materials;
- (vi) all the information provided by it in the Signature Annex to this Letter of Transmittal is true, accurate and complete and all Existing Loans delivered to the Exchange Agent are true, complete and original copies thereof;
- (vii) it is transferring to the Republic of Seychelles or its nominee, as so directed, all of its rights, benefits and obligations under the Existing Loans being tendered and it shall deliver to the Republic of Seychelles the relevant duly completed and duly executed transfer certificate as scheduled to the tendered Existing Loan where the "Transfer Date" as referred to in such certificate shall be the Settlement Date;
- (viii) it is not a person to whom it is unlawful to make an invitation under the Exchange Offer under applicable laws;

(c) agrees:

- (i) upon request, to execute and deliver any additional documents deemed by the Exchange Agent or the Republic of Seychelles to be necessary or desirable and give any further assurances that may be required by the Exchange Agent or the Republic of Seychelles to perfect the authorisations and representations contained in this Letter of Transmittal or to complete the exchange of the Existing Loans being tendered hereby for New Discount

Notes and/or New Par Notes and, if so requested by the Republic of Seychelles, to release and discharge such Existing Loans and all rights relating thereto on and after the Settlement Date;

- (ii) subject to paragraph b(iii), that it will not, and has irrevocably instructed the applicable Syndicate Agent not to assign, transfer, sell, pledge, hypothecate or otherwise encumber any tendered Existing Loans from the date of this Letter of Transmittal to the earlier of (1) the Settlement Date and (2) the date on which the Exchange Offer is terminated, if applicable, (in accordance with the terms of the Exchange Offer Materials), and, subject to applicable law, that any purported assignment, transfer, sale, pledge, hypothecation or other encumbrance of such Existing Loans in violation of the foregoing covenant will be void and of no effect;
- (iii) if, at any time prior to the Settlement Date, any of the acknowledgements, representations, warranties and covenants contained in this Letter of Transmittal become untrue, it will promptly notify the Republic of Seychelles and the Republic of Seychelles shall be entitled to withdraw its tender of applicable Existing Loans;
- (d) waives any and all rights with respect to all Existing Loans tendered (including, without limitation, any existing, past or continuing defaults and their consequences in respect of such Existing Loans);
- (e) shall constitute and appoint the Exchange Agent on the Settlement Date as its true and lawful agent and attorney-in-fact (recognising and agreeing that the Exchange Agent also acts as the agent of the Republic of Seychelles for other purposes) with respect to all Existing Loans tendered, with full power of substitution, to (1) present such Existing Loans and all evidences of transfer and authenticity to the Republic of Seychelles, or upon the Republic of Seychelles' order, (2) present such Existing Loans for transfer of ownership on any books of the Republic of Seychelles and (3) receive all benefits and otherwise exercise all rights of beneficial ownership of such Existing Loans;
- (f) shall provide an irrevocable instruction to the Exchange Agent or such other person or persons as the Exchange Agent may direct on the Settlement Date as attorney-in-fact and agent to:
 - (i) complete and execute all or any form(s) of transfer and other document(s) deemed necessary in the opinion of the Exchange Agent or the Republic of Seychelles in relation to the sale, assignment and transfer of the tendered Existing Loans or the discharge, release or cancellation thereof;
 - (ii) deliver such form(s) of transfer and other document(s) as required in the Exchange Agent's opinion and/or the certificate(s) and other document(s) of title relating to such Existing Loans' registration; and
 - (iii) execute all such other documents and to do all such other acts and things as may in the opinion of the Exchange Agent or the Republic of Seychelles be necessary or expedient for the purpose of, or in connection with, the Exchange Offer, including, without limitation, vesting all right, title and interest in and to such Existing Loans in the Republic of Seychelles or its nominees and releasing and discharging the obligors in respect of the Existing Loans, the Republic of Seychelles and its affiliates in respect of the Existing Loans, the Exchange Agent and the trustee for the New Discount Notes and/or the New Par Notes and any of their agents, officials, officers, employees or advisers, from any and all claims the Holder may have, now or in the future, arising out of or related to all Existing Loans tendered, including, without limitation, any claims that the Holder is entitled to receive past due or accrued interest or any other payment with respect to Existing Loans tendered (other than as expressly provided for in the Exchange Offer Materials and this Letter of Transmittal);
- (g) acknowledges that:
 - (i) neither the Exchange Agent, the Guarantor, the Information Agent nor, in each case, any of its respective affiliates, directors, officers, agents or employees shall be liable for any action taken or omitted to be taken, or any determination made or omitted to be made, by it or them under or with respect to the Prospectus, the Exchange Offer, the New Discount Notes or the New Par Notes (including, without limitation, any action taken or omitted to be taken prior to the date of the Prospectus by any such person in preparation for acting in respect of the Exchange Offer);

- (ii) receipt by the Republic of Seychelles of this Letter of Transmittal and electronic copies of the transfer certificate referred to in paragraph (b)(vii) above and the tendered Existing Loan for Exchange of Existing Loans will constitute a binding agreement between the Holder of the tendered Existing Loans to which this Letter of Transmittal relates and the Republic of Seychelles, subject to the terms and conditions of the Exchange Offer as detailed in the Exchange Offer Materials and the Holder agrees to submit the original copy of the transfer certificate and tendered Existing Loan promptly after submitting electronic copies of the same;
- (iii) if, on the Expiration Date, the New Par Notes Minimum Tender Condition is not satisfied, to the extent that the tendering Holder has indicated in the Signature Annex that it is tendering all or any part of its Existing Loans for New Par Notes, it will be automatically deemed to have tendered its Existing Loans exclusively for New Discount Notes upon the terms and subject to the conditions applicable to New Discount Notes as set out in the Exchange Offer Materials, it will be treated having indicated the same in the Signature Annex and it will not be able to withdraw or amend its Tender;
- (iv) the New Discount Notes and the New Par Notes offered in the Exchange Offer have not been registered under the U.S. Securities Act of 1933, as amended, and are not being offered to any person unless that person is an Eligible Holder (as defined in the section entitled "*Terms of Exchange Offer*" in this Prospectus);

(h) confirms that (1) the Republic of Seychelles and the Exchange Agent may rely upon this Letter of Transmittal as genuine and will have no responsibility to verify either the authenticity of the signature(s) hereon or the accuracy of the information contained herein, (2) the amount identified in paragraph 3 of the Signature Annex to this Letter of Transmittal is the principal amount owed to it under the Existing Loans being tendered hereby and (3) the New Notes are to be credited to the securities account number at the relevant Clearing System specified in the Signature Annex to this Letter of Transmittal.

Paragraphs (a) to (h) inclusive above shall be deemed to be repeated and reconfirmed by the signatory to the Signature Annex hereto on and as of the Expiration Date and the Settlement Date.

The terms and conditions of the Exchange Offer shall be deemed to be incorporated in, and form a part of, this Letter of Transmittal which shall be read and construed accordingly. Capitalised terms referred to in this Letter of Transmittal but not defined herein shall have the same meaning given to them in the Exchange Offer Materials.

The Republic of Seychelles, the Exchange Agent and the Information Agent will rely upon the truth and accuracy of the foregoing acknowledgments, representations, warranties and covenants.

It is understood and agreed that no legal or beneficial interest in any tendered Existing Loan shall pass to the Republic of Seychelles or its nominee and no such Existing Loan will be released or discharged unless and until a closing on the Settlement Date has occurred.

The Contracts (Rights of Third Parties) Act 1999 shall apply to this Letter of Transmittal.

This Letter of Transmittal will be governed by and construed in accordance with the laws of England.

By submitting this Letter of Transmittal, the signatory to the Signature Annex irrevocably and unconditionally agrees for the benefit of the Republic of Seychelles and the Exchange Agent that the courts of England are to have non-exclusive jurisdiction to settle any disputes that may arise out of or in connection with the Exchange Offer or any of the documents that are governed by English law and are referred to in the Exchange Offer Materials, and that, accordingly, any suit, action or proceedings arising out of or in connection with the foregoing may be brought in such courts.

IMPORTANT: This Letter of Transmittal must be received by the Exchange Agent at or prior to 5:00pm (London time) on the Expiration Date. Please ensure that you submit only one Letter of Transmittal with respect to the tendered Existing Loans specified in the Signature Annex hereto.

SIGNATURE ANNEX – REPUBLIC OF SEYCHELLES EXCHANGE OFFER

IMPORTANT – PLEASE READ CAREFULLY THE EXCHANGE OFFER MATERIALS IN THEIR ENTIRETY AND PARTICULARLY THE SECTIONS ENTITLED “TERMS OF EXCHANGE OFFER”, “EXCHANGE OFFER PROCEDURES” AND “INSTRUCTIONS FOR COMPLETION AND SUBMISSION OF LETTERS OF TRANSMITTAL FOR EXCHANGE OF EXISTING LOANS” PRIOR TO COMPLETING THIS SIGNATURE ANNEX.

THIS SIGNATURE ANNEX IS TO BE COMPLETED IN ACCORDANCE WITH THE INSTRUCTIONS SET OUT UNDER “INSTRUCTIONS FOR COMPLETION AND SUBMISSION OF LETTERS OF TRANSMITTAL FOR EXCHANGE OF EXISTING LOANS” AND “EXCHANGE OFFER PROCEDURES” OF THE EXCHANGE OFFER MATERIALS AND MUST BE DELIVERED TO THE EXCHANGE AGENT AT THE ADDRESS BELOW AT OR PRIOR TO 5:00PM, LONDON TIME, ON 14 JANUARY 2010 (OR SUCH OTHER TIME AND DATE AS EXTENDED BY THE REPUBLIC OF SEYCHELLES).

ONLY THE LENDER OF RECORD (IF APPLICABLE AS SPECIFIED IN THE BOOKS OR RECORDS MAINTAINED BY THE APPLICABLE SYNDICATE AGENT) MAY PARTICIPATE IN THE EXCHANGE OFFER AND COMPLETE THIS SIGNATURE ANNEX IN RESPECT OF EXISTING LOANS.

Please insert the requested information or mark with an X where appropriate.

If you require assistance or have any queries in respect of completing this Letter of Transmittal, please contact the Exchange Agent at the address and telephone number identified below.

To:	Exchange Agent	Syndicate Agent
Attention:	Exchange Team – Agency & Trust	<i>[Please insert address and contact details of the Syndicate Agent where applicable]</i>
Address:	Citigroup Centre 14th Floor Canada Square London E14 5LB United Kingdom	
Telephone No.:	+44 207 508 3867	
Fax No.:	+44 203 320 2405	

1. Description and value of tendered Existing Loan: _____
Obligors under Existing Loan: _____
Lenders under Existing Loan: _____
Date of Existing Loan: _____
2. Currency and tranche of Existing Loan being tendered hereby: _____
3. Principal amount of the tranche of the tendered Existing Loan (in words and numbers): _____
4. Confirm the percentage of the principal amount of tendered Existing Loan to be exchanged for (a) New Discount Notes and/or (b) New Par Notes by inserting the relevant percentage(s) in the appropriate boxes (in numbers) (percentages for the New Discount Notes and the New Par Notes respectively must equate to whole Notes):

New Discount Notes	New Par Notes	Total
		100 per cent.

5. Name of lender of record of Existing Loans: _____

Address: _____

Creditor No. previously assigned by the applicable Syndicate Agent (if applicable): _____

Contact Person: _____

Telephone No. (including country code): _____

Fax No. (including country code): _____

E-mail Address: _____

6. Indicate the securities account number to which New Notes are to be credited (below the name of the relevant clearing system):

Euroclear

Clearstream (Luxembourg)

7. Name of Euroclear/ Clearstream, Luxembourg accountholder receiving New Notes: _____

Address: _____

Contact Person: _____

Telephone No. (including country code): _____

Fax No. (including country code): _____

E-mail Address: _____

8. Confirm the appropriate U.S. securities law representation referred to in paragraph 2(h) of *“Instructions for Completion and Submission of Letters of Transmittal for Exchange of Existing Loans”* by placing an X in the box:

	Regulation S
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The undersigned hereby makes all acknowledgments, representations, warranties, covenants, consents and authorisations described in the Letter of Transmittal to which this Signature Annex relates and, if the undersigned is a corporation, executes this document as an attorney-in-fact or duly authorised officer or official of such corporation.

If this Signature Annex is signed by an attorney-in-fact, officer of a corporation, trustee, executor, administrator, guardian or other person acting in a fiduciary or representative capacity, such person should so indicate when signing and must submit proper evidence satisfactory to the Exchange Agent or the Republic of Seychelles of such person's authority to so act.

SIGN HERE

Signature(s) of [Holder/Authorised Signatory of Holder]*

**Delete as appropriate*

Dated:

Name(s) of above signatory/signatories

PLEASE TYPE IN BLOCK CAPITALS

Capacity (Full Title):

Contact Person:

Address:

.....
.....

Telephone Number (with international dialling code):

E-mail:

Name of Holder of Existing Notes tendered hereby:

ANNEX B
FORM OF GUARANTEE

THIS DEED OF GUARANTEE is made on [11 February] 2010.

BETWEEN

- (1) **THE AFRICAN DEVELOPMENT BANK** (the "Guarantor");
- (2) **THE REPUBLIC OF SEYCHELLES** (the "Issuer");
- (3) **DEUTSCHE TRUSTEE COMPANY LIMITED**, a financial institution duly incorporated and existing under the laws of England and Wales, acting as trustee under the Trust Deed (as defined below) (the "Trustee"); and
- (4) **DEUTSCHE BANK, AG LONDON BRANCH**, a financial institution duly incorporated and existing under the laws of England and Wales, acting as principal paying agent (the "Principal Paying Agent").

WHEREAS

- (A) The Issuer has implemented a comprehensive economic reform programme since late 2008, focused on fiscal adjustment, an overhaul of the exchange rate regimes and a gradual liberalisation of the economy. This reform programme, which also aims to return the public debt to a sustainable footing, is currently being supported by a Stand-By Arrangement with the International Monetary Fund.
- (B) In April 2009, the Issuer secured an exceptional debt reduction agreement with the Paris Club group of bilateral creditors. Negotiations with other external creditors progressed in parallel and the Issuer has invited private sector creditors who hold Existing Notes and Existing Loans (each as defined in the Prospectus (as defined below)) to participate in an exchange offer, as documented in the Prospectus (as defined below) where the Issuer is seeking to restructure the Existing Notes and Existing Loans for any series of New Notes (as defined below).
- (C) In connection with such exchange offer, the Issuer has authorised the creation and issue of U.S.\$ Notes Due 2016-2026 with Interest Rate Step-Ups in 2012, 2015 and 2018 (the "New Discount Notes") and U.S.\$ Notes Due 2038-2041 (the "New Par Notes") (collectively, the "New Notes").
- (D) Holders may, in accordance with the terms of an exchange offer as documented in the Prospectus (as defined below), tender their Existing Notes (as defined below) and Existing Loans (each as defined in the Prospectus) for any series of New Notes.
- (E) In the context of these arrangements and an indemnity agreement between the Issuer and the Guarantor dated on or about the Settlement Date (as defined in the Prospectus) (the "Indemnity Agreement"), the Guarantor has agreed to guarantee the six monthly coupon payment expressed to be payable by the Issuer in respect of the New Discount Notes subject to the terms and conditions set forth below.

NOW THIS DEED OF GUARANTEE WITNESSES as follows:

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

Capitalised terms referred to in this Deed shall have the meanings given to them in the Prospectus, unless otherwise defined herein. Wherever used in this Deed, unless the context otherwise requires, the following terms have the meanings given to them below:

"Business Day" means a day on which banks are open for business in London, New York and Tunis.

"Demand under Guarantee" means a request by the Issuer or Trustee to the Guarantor substantially in the form of Schedule 1 (*Form of Demand under Guarantee*) to make a Guarantor Disbursement.

"Designated Account" means the account agreed between the parties to this Deed in writing on or about the date of this Agreement for this purpose or such other account as is agreed in writing between the parties to this Deed as being the account into which the Guarantor will make all payments due to the holders of the New Discount Notes under this Deed (and, for the avoidance of doubt, the Guarantor shall not incur any liability in respect of costs, expenses or otherwise as a result of any such change in account which shall be for the account of the Issuer and no other party).

"Dollars" and **"US\$"** means the lawful currency of the United States of America.

"Guarantee" means the guarantee granted pursuant to this Deed.

"Guarantee Maximum Amount" means US\$10,000,000.

"Guarantee Termination Date" means the date the Guarantee terminates pursuant to Clause 2.6 (*Termination of Guarantor's Obligation with Guarantee*).

"Guaranteed Amounts" means, in relation to an Interest Payment Date in respect of the New Discount Notes, the amount of unpaid interest due and owing in respect of the New Discount Notes on that Interest Payment Date including, for the avoidance of doubt, interest rate step-up payments as set out in the terms and conditions of the New Discount Notes.

"Guarantor Disbursement" means a disbursement made or to be made by the Guarantor in respect of the payment of interests under the New Discount Notes (up to the Guarantee Maximum Amount) pursuant to Clause 2.2 (*Guarantor Disbursement Procedure and Currency*) into the Designated Account at the request of the Issuer or the Trustee.

"Holder" means a holder of New Discount Notes.

"Interest Payment Date" means each date on which scheduled payments of interest in respect of the New Discount Notes are required to be paid by the Issuer, being 1 January and 1 July of each year up to and including 1 January 2026.

"Prospectus" means the document dated 7 December 2009 filed with the United Kingdom Financial Services Authority relating to the exchange offer referred to in Recital (B).

"Trust Deed" means the trust deed to be dated on or about the Settlement Date between the Republic of Seychelles and Deutsche Trustee Company Limited as Trustee.

1.2 **Interpretation**

In this Deed, unless the context otherwise requires:

- (a) headings and underlinings are for convenience only and do not affect the interpretation of this Deed;
- (b) words importing the singular include the plural and vice versa;
- (c) an expression importing a natural person includes any company, partnership, trust, joint venture, association, corporation or other body corporate and any governmental authority or agency;
- (d) a reference to a Clause, party or Schedule is a reference to that Clause of, or that party or Schedule to, this Deed and a reference to a Recital is a reference to a recital under the heading "WHEREAS" of this Deed;
- (e) a reference to a document includes an amendment or supplement to, or replacement or novation of, that document but disregarding any amendment, supplement, replacement or novation made in breach of this Deed; and
- (f) a reference to a party to any document includes that party's successors and permitted assigns.

1.3 **Business Day Adjustment**

If the day on or by which a payment by a party is due to be made hereunder is not a Business Day, that payment shall be made on or by the next Business Day in that calendar month (if there is one) or on or by the preceding Business Day (if there is not).

2. **GUARANTEE**

2.1 **Guarantee**

- (a) On the terms and conditions of this Deed, the Guarantor unconditionally and irrevocably guarantees to the Trustee for the benefit of the holders of New

Discount Notes, the payment by the Issuer of the Guaranteed Amounts up to the Guarantee Maximum Amount.

- (b) Any request for a Guarantor Disbursement under this Guarantee must be made by the Issuer or the Trustee, in accordance with the provisions of Clause 2.2 (*Guarantor Disbursement Procedure and Currency*). For the avoidance of doubt, the Guarantor shall only be liable to pay Guaranteed Amounts under the Guarantee if the Issuer or the Trustee has delivered a Demand under Guarantee to the Guarantor in respect of such Guaranteed Amounts.
- (c) The obligation of the Guarantor to pay any amount under this Guarantee shall be fulfilled when the Guarantor deposits such amount in Dollars to the Designated Account.
- (d) The Guarantee, in respect of any particular Interest Payment Date, shall not be revived, reinstated or restored in the event and to the extent that Guaranteed Amounts are paid by the Guarantor to the Designated Account and thereafter the Guarantor's liability in respect of such Guaranteed Amounts shall no longer exist regardless of any payment received or recovered from the Issuer.
- (e) Notwithstanding any other provision of this Guarantee, the Guarantor shall, in no circumstances, be:
 - (i) required to pay amounts under this Guarantee which each or in aggregate exceed the Guarantee Maximum Amount; and
 - (ii) deemed to waive the "Preferred Creditor Status" accorded to the Guarantor, consistent with the Agreement establishing the African Development Bank (the "**Bank Agreement**").
- (f) This Guarantee shall not apply to the following:
 - (i) interest accruing at a penalty or default rate (including such interest payable in connection with any political risk event), mandatory prepayments of principal, acceleration of principal, break-funding costs, voluntary prepayments of principal, interest rate swaps and other derivatives transactions associated with the New Discount Notes, payments with respect to withholding taxes and other taxes, increased costs provisions, unpaid fees, costs and expenses, or any other amounts; and
 - (ii) any interest accruing on any scheduled payment after the scheduled payment due date, irrespective of whether such amounts are payable under the New Discount Notes or guaranteed under the Guarantee.
- (g) Any Demand under Guarantee in relation to Guaranteed Amounts may only be made following an Interest Payment Date in respect of the six monthly coupon payment which falls due for payment by the Issuer on that Interest Payment Date,

irrespective of whether any amounts due and owing under the New Discount Notes have been accelerated.

2.2 Guarantor Disbursement Procedure and Currency

- (a) Under the Paying Agency Agreement, in relation to each payment of interest in respect of an Interest Payment Date, the Issuer is required to make a payment to the Principal Paying Agent no later than a specified time. The Principal Paying Agent shall forthwith notify the Issuer, the Trustee and the Guarantor if such payment has not been received by the specified time, in respect of each and every Interest Payment Date that occurs prior to the Guarantee Termination Date.
- (b) At any time before the earlier of the Guarantee Termination Date and the date of receipt of the notice by the Trustee, Issuer and Principal Paying Agent referred to in Clause 2.9 (*Notification*), if an interest payment default has occurred on an Interest Payment Date in respect of the New Discount Notes and has continued for at least five (5) days (such event being a **"Five Days Delay Event"**):
 - (i) then the Principal Paying Agent and the Issuer shall promptly notify the Guarantor by email and facsimile and the Trustee by facsimile of such Five Days Delay Event; and
 - (ii) no later than five (5) Business Days after such Five Days Delay Event, the Issuer shall request, and deliver to, the Guarantor a Demand under Guarantee in an amount equal to the Guaranteed Amounts which remains unpaid at the date of such demand (the **"Relevant Amount"**) (unless the Issuer has by such date paid the full amount of the relevant interest payment to the Principal Paying Agent).

If the Issuer does not deliver a Demand under Guarantee as contemplated by subparagraph (ii) above within the time period referred to therein then the Trustee shall, with no liability to any person for not doing so, deliver a Demand under Guarantee for the Relevant Amount. The Guarantor may at any time after the failure of the Issuer to make any payment under the New Discount Notes exercise its right to make a payment under Clause 2.8 (*Guarantor's right to accelerate*).

- (c) Subject to Clause 2.8 (*Guarantor's right to accelerate*), within five (5) Business Days of the Guarantor's receipt of the Demand under Guarantee, the Guarantor shall deposit the Relevant Amount in Dollars in immediately available funds, without any set off or counterclaim, into the Designated Account, *provided that* the sum of (i) all amounts previously paid by the Guarantor into the Designated Account in respect of the New Discount Notes (the **"Previous Payments"**) and (ii) the Relevant Amount does not exceed the Guarantee Maximum Amount.
- (d) If the Guarantor determines, pursuant to sub-clause (c) above, that the Guarantee Maximum Amount would be exceeded if the Guarantor were to pay the Relevant Amount in respect of an Interest Payment Date, the Guarantor shall deposit into the Designated Account an amount equal to (i) the Guarantee Maximum Amount

minus (ii) the Previous Payments and thereafter the Guarantor shall no longer have any liability under the Guarantee.

- (e) Subject to receipt of funds from the Guarantor in accordance with sub-clause (b) above, the Principal Paying Agent shall make payments on behalf of the Issuer from the Designated Account of interest due and owing to each holder of the New Discount Notes.
- (f) Any Demand under Guarantee delivered by the Issuer shall be copied to the Principal Paying Agent and the Trustee and any Demand under Guarantee delivered by the Trustee shall be copied to the Principal Paying Agent and the Issuer. For the avoidance of doubt in respect of any interest payment default on an Interest Payment Date there may only be one valid Demand under Guarantee.

2.3 Continuing Guarantee

This Guarantee is a continuing guarantee and shall remain in full force and effect until the Guarantee Termination Date. Accordingly, the obligations of the Guarantor hereunder shall not be discharged except by the performance (and then only to the extent of such performance) or by the termination thereof as provided in this Deed.

2.4 Pari Passu

- (a) The Guarantor covenants and agrees that, as long as this Deed continues in effect, its obligations hereunder will constitute direct, general and unsecured obligations of the Guarantor ranking *pari passu*, without any preference among themselves, with all its other obligations for borrowed money that are unsecured and not subordinated.
- (b) The Guarantor's obligations hereunder are the obligations of the Guarantor and are not the obligations of, or guaranteed by any government of, any member country of the Guarantor.

2.5 Waivers

For the benefit of the Trustee and for purposes of this Deed only, the Guarantor waives:

- (a) any requirement that the Trustee, in relation to a failure in the payment of any amounts under the New Discount Notes by the Issuer, first enforce its remedies against the Issuer, if any, before demanding payment under or seeking to enforce the Guarantee pursuant to this Deed other than as provided in paragraph (a) of Clause 2.2 (*Guarantor Disbursement Procedure and Currency*);
- (b) any right to require a proceeding first against the Issuer or any other person, under the New Discount Notes other than as provided in paragraph (a) of Clause 2.2 (*Guarantor Disbursement Procedure and Currency*); and

- (c) in respect of Guaranteed Amounts to which the Trustee, on behalf of each holder of a New Discount Note, is entitled under this Guarantee, all rights of counterclaim or set-off.

2.6 **Termination of the Guarantor's Obligation under the Guarantee**

The Guarantor's obligation to make the Guarantor Disbursement under this Deed shall terminate, and the Guarantee Termination Date shall occur, on the earliest to occur of the following:

- (a) ninety (90) days after 1 January 2026;
- (b) upon the Guarantor's receipt of the Principal Paying Agent's notice confirming that the New Discount Notes have been cancelled in full provided that in the event the Guarantor has not received such notification by the fifth (5) day following the date on which the New Discount Notes were cancelled in full, the Guarantor's obligation to make the Guarantor Disbursement under this Deed shall terminate, and the Guarantee Termination Date shall occur, on such fifth day; and
- (c) upon the Guarantor's receipt of a notice from the Issuer or the Principal Paying Agent on its behalf confirming payment in full of all Guaranteed Amounts up to the Guarantee Maximum Amount, provided that; in the event the Guarantor has not received such notification by the fifth (5) day following the date on which all Guaranteed Amounts up to the Guarantee Maximum Amount have been paid, the Guarantor's obligation to make the Guarantor Disbursement under this Deed shall terminate, and the Guarantee Termination Date shall occur, on such fifth day.

2.7 **Certificate of Incumbency**

The Trustee has provided the Guarantor with a certificate of incumbency and authority substantially in the form of Schedule 2 (*Form of Certificate of Incumbency and Authority*), the receipt of which is hereby confirmed by the Guarantor. The Trustee may renew or update the Certificate of Incumbency and Authority at any time by sending the updated Certificate of Incumbency and Authority substantially in the form of Schedule 2 so that it takes effect five (5) Business Days after receipt by the Guarantor.

2.8 **Guarantor's right to accelerate**

Following the failure of the Issuer to make any payment under the New Discount Notes, the Guarantor may elect to pay any amount which is:

- (a) not less than the Missing Amount; and
- (b) not greater than the Guarantee Maximum Amount

by paying such amount to the Designated Account. If the Guarantor makes such election it shall notify the other parties hereto thereof and, for the avoidance of doubt, thereafter no Demand under Guarantee may be made under this Agreement in respect of that failure

by the Issuer to make any such payment. The Guarantor shall confirm to the other parties hereto when any such amount paid pursuant to this Clause has been transferred to the Designated Account. For these purposes "**Missing Amount**" means in relation to an Interest Payment Date and an interest payment default applicable thereto the lowest of (a) the applicable unused Guarantee Maximum Amount (being the Guarantee Maximum Amount less the aggregate of all amounts previously paid by the Guarantor pursuant to this Deed of Guarantee), (b) the amount of interest which fell due for payment on such Interest Payment Date and (c) the amount notified by the Principal Paying Agent to the Guarantor as being that portion of such amount of interest which remains outstanding.

2.9 Notification

The Guarantor shall promptly notify the Trustee, the Principal Paying Agent and the Issuer when it has made payments under the Guarantee up to the Guarantee Maximum Amount.

2.10 Request for Information following Interest Payment Default

The Principal Paying Agent shall, after a failure by the Issuer to make a payment of interest on an Interest Payment Date, promptly on written request from any other party hereto, notify such party of the amounts of interest relating to that Interest Payment Date which remain unpaid.

3. COUNTER-INDEMNITY CONVERTIBLE INTO A LOAN

The Issuer shall indemnify the Guarantor for all payments made by the Guarantor under this Guarantee and amounts payable under such indemnity shall be converted into a loan owed by the Issuer to the Guarantor in accordance with the terms of the Indemnity Agreement.

4. REPRESENTATIONS AND WARRANTIES

The Guarantor represents and warrants as of the date of this Deed that:

- (a) it is duly incorporated and validly existing under the Bank Agreement;
- (b) this Deed has been duly authorised and executed by it and constitutes its valid and legally binding obligation, enforceable in accordance with its terms; and
- (c) the execution, delivery and performance of this Deed will not contravene (i) any law, regulation, order, decree or authorisation applicable to it; and (ii) the Bank Agreement.

5. MISCELLANEOUS

5.1 Notices

Any notice, demand, request, consent or other communication to be given or made under this Guarantee shall be in writing. Any such communication may be delivered by hand, registered mail or facsimile to the party's address specified below or at such other address as that party notifies to the other party from time to time, and will be effective upon receipt.

For The African Development Bank:

15 Avenue du Ghana
1002 Tunis Belvedere
Tunisia

Attention: Directeur OREA
Economiste en chef OREA

Facsimile: +216 71103724

Email: seychellesguaranty@afdb.org

For Deutsche Trustee Company Limited:

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Attention: Managing Director, Term Debt

Facsimile: +44 (0)207 547 6149

Email: tss_termdebt@list.db.com

For Deutsche Bank AG, London Branch:

Winchester House
1 Great Winchester Street
London EC2N 2DB
United Kingdom

Attention: Trust and Securities Services

Facsimile: +44 (0)207 547 6149

Email: tss_termdebt@list.db.com

For the **Republic of Seychelles**;

Ministry of Finance
P.O. Box 313
Victoria
Mahé
Seychelles

Attention: Principal Secretary, Ministry of Finance

Facsimile: +248 225 893

Email: ps-finance@finance.gov.sc

Any notice, request or other communication received later than 4:30 p.m. (in the recipient's time zone) will be deemed received on the next Business Day.

5.2 Governing Law

This Deed of Guarantee and any non-contractual obligations arising out of or in connection with it are governed by English law.

5.3 Immunity

The Guarantor wishes the other parties hereto to note that pursuant to the international treaty under which the Guarantor is constituted, it enjoys immunity from every form of legal process and the property and assets of the Guarantor shall, wherever located and by whomsoever held, be immune from all forms of seizure, attachment or execution, and nothing in this Deed nor in any other document shall be deemed to be a waiver thereof.

5.4 Amendments, Waivers or Consents

Any amendment or waiver of, or any consent given under, any provision of this Deed shall be in writing and, in the case of an amendment, signed by the parties hereto.

5.5 Successors and Assigns

This Deed shall bind and inure to the benefit of the respective successors and permitted assigns of the parties hereto, but no party hereto may assign or transfer its rights and obligations hereunder without the prior consent of the other parties.

5.6 Partial Invalidity

If, at any time, any provision of this Deed is or becomes illegal, invalid or unenforceable in any respect under the law of any jurisdiction, neither the legality, validity nor enforceability of the remaining provisions of this Deed nor of such provisions under the law of any other jurisdiction shall in any way be affected or impaired thereby.

IN WITNESS whereof this Deed of Guarantee has been executed by the parties hereto and is intended to be and is hereby delivered on the date first before written.

SCHEDULE 1
FORM OF DEMAND UNDER GUARANTEE

[LETTERHEAD OF THE ISSUER/TRUSTEE]

[Date]

The African Development Bank

[•]

Attention: Director, [Insert name of relevant Guarantor department] Department

Dear Sirs

Notice of Demand under Guarantee

1. We refer to the Deed of Guarantee relating to New Discount Notes (the "**Guarantee**") dated [•], between the African Development Bank as the Guarantor, The Republic Of Seychelles as the Issuer, Deutsche Trustee Company Limited as the Trustee and Deutsche Bank, AG London Branch as the Principal Paying Agent.
2. Capitalised terms referred to in the Guarantee have the same meaning in this Demand under Guarantee.
3. As of the date of this Demand under Guarantee, US\$ [insert unpaid amount of interest] of interest under the New Discount Notes has not been paid by the Issuer for at least (5) five days.
4. We request that you make the Guarantor Disbursement in the amount of [insert amount referred to in paragraph 3 above in Dollars], subject to Clause 2.2 (*Guarantor Disbursement Procedure and Currency of the Guarantee*) no later than the date which falls five (5) Business Days after receipt of this Demand under Guarantee.
5. We instruct you to make the Guarantor Disbursement pursuant to Clause 2.2 (*Guarantor Disbursement Procedure and Currency*) of the Guarantee.

Yours truly,

SCHEDULE 2
FORM OF CERTIFICATE OF INCUMBENCY AND AUTHORITY

[LETTERHEAD OF THE TRUSTEE]

[Date]

The African Development Bank

[•]

Attention: Director [•], Department [•]

Dear Sirs

Certificate of Incumbency and Authority

1. We refer to the Deed of Guarantee relating to New Discount Notes (the "**Guarantee**") dated [•], between the African Development Bank as the Guarantor, The Republic Of Seychelles as the Issuer, Deutsche Trustee Company Limited as the Trustee and Deutsche Bank, AG London Branch as the Principal Paying Agent.
2. Capitalised terms referred to in the Guarantee have the same meaning herein.
3. We, the undersigned Directors of Deutsche Trustee Company Limited as Trustee, duly authorised to do so, hereby certify that the following are the names, offices and true specimen signatures of the persons [each] [any two] of whom are, and shall continue to be, authorised:
 - (a) to sign on behalf of the Trustee all notices, requests (including the Demand under Guarantee) and other communications to be given or made under the Guarantee; and
 - (b) to take any other action required or permitted to be taken, done, signed or executed under the Guarantee or any other agreement to which the Guarantor, Issuer, Principal Paying Agent and the Trustee may be parties.

Name	Office	Specimen Signature
_____	_____	_____
_____	_____	_____
_____	_____	_____

You may assume that any such person continues to be so authorised until you receive authorised written notice from the Trustee that they are, or any of them, is no longer so authorised.

ANNEX C

INFORMATION STATEMENT OF THE GUARANTOR

INFORMATION STATEMENT

African Development Bank



The African Development Bank (the "Bank" or "ADB") intends from time to time to issue debt securities (the "Securities") with maturities and on terms related to market conditions at the time of sale. The Securities may be sold to dealers or underwriters, who may resell the Securities in public offerings or otherwise. In addition, the Securities may be sold by the Bank directly or indirectly through agents.

The specific aggregate principal amount, status, maturity, interest rate, or interest rate formula and dates of payment of interest, purchase price to be paid to the Bank, any terms for redemption or other special terms, currency or currencies, form and denomination of Securities, information as to stock exchange listings and the names and any compensation of the dealers, underwriters or agents in connection with the sale of the Securities being offered at a particular time ("Offered Securities") will be set forth or referred to in a prospectus, offering circular, information memorandum, supplemental information statement, or pricing supplement, together with the terms of offering of the Offered Securities.

Securities issued by the Bank are not required to be registered under the U.S. Securities Act of 1933, as amended. Accordingly, no registration statement has been filed with the U.S. Securities and Exchange Commission (the "Commission" or the "SEC"). The Securities have not been approved or disapproved by the Commission or any state securities commission nor has the Commission or any state securities commission passed upon the accuracy or adequacy of this Information Statement. Any representation to the contrary is a criminal offence in the United States of America.

Recipients of this Information Statement should retain it for future reference, since it is intended that each prospectus, offering circular, information memorandum, or supplemental information statement or pricing supplement prepared in connection with the issuance of Offered Securities will refer to this Information Statement for a description of the Bank and its financial condition and results of operation, until a new information statement is issued.

10 August 2009

AVAILABILITY OF INFORMATION

The Bank will provide additional copies of this Information Statement and other information with respect to the Bank, including the Agreement Establishing the African Development Bank, as amended (the “Agreement”) and its annual report to the Boards of Governors, upon request. Written or telephone requests may be directed to the Bank’s Temporary Relocation Agency address at 15 Avenue du Ghana BP 323 – 1002 Tunis Belvédère, Tunisia, Attention: The Treasurer, telephone +216-71-10-20-28 and +216-71-10-21-06, facsimile +216-71-33-06-32 and +216-71-25-26-93. The Information Statement is also available on the Bank’s website (<http://www.afdb.org>). The annual report and the documents and information on the Bank’s website are not intended to be incorporated by reference in this Information Statement.

In the United States, this Information Statement is to be filed with the U.S. Securities and Exchange Commission (the “SEC”) electronically through the EDGAR system and will be available at the Internet address <http://www.sec.gov/edgarhp.htm>. The Bank has also filed with the SEC unaudited quarterly financial statements. These filings are also available electronically through the EDGAR system.

The issuance of this Information Statement or any prospectus, offering circular, information memorandum, supplemental information statement, pricing circular and the offering and sale of Securities are not a waiver by the Bank or by any of its members, Governors, Directors, Alternates, officers or employees of any of the rights, immunities, privileges or exemptions conferred upon any of them by the Agreement, or by any statute, law or regulation of any member of the Bank or any political subdivision of any member, all of which are hereby expressly reserved.

The Bank uses a unit of account (the “Unit of Account” or “UA”) as its reporting currency. The Agreement originally provided that one UA equals 0.88867088 gram of fine gold. Prior to 8 February 1978, conversion of currencies was effected at the prevailing official parity rates declared by the International Monetary Fund (the “IMF”). In response to the abandonment of official parity rates by the IMF, the Board of Directors of the Bank resolved on 8 February 1978, that the weight of gold of the UA be deemed to be the equivalent in value to one Special Drawing Right of the IMF (the “SDR”) for all of the Bank’s accounting purposes. On 4 May 1978, the Board of Governors redefined the Unit of Account to be equivalent to one SDR. Since then, the Unit of Account has been valued for the purpose of the Bank’s financial statements as equivalent to one SDR. The amendment to the Agreement formally incorporating this definition of the Unit of Account is now in force. The value of the SDR, which may vary from day to day, is currently computed daily in U.S. dollars by the IMF.

Except as otherwise specified, all amounts in this Information Statement and any prospectus, offering circular, information memorandum, supplemental information statement or pricing supplement are expressed in UA. Currencies have been translated into UA at the rates of exchange used by the Bank and prevailing on the last day of the period presented. In certain instances, amounts in UA have also been presented in U.S. dollars at the conversion rates set forth below. Such presentations are made solely for convenience and should not be construed as a representation that the UA actually represents, has been or could be converted into U.S. dollars at these or any other rates.

In recent years, there have been significant changes in the relative values of the U.S. dollar and the component currencies of the UA. The Bank makes no representation that would indicate that the U.S. dollar or any other currency accurately reflects the historical financial performance or present financial condition of the Bank. Exchange rates used by the Bank for converting UA into U.S. dollars are as follows:

As at 31 December

	2008	2007	2006	2005	2004	2003
Rate of 1 UA = US\$	1.54027	1.58025	1.5044	1.42927	1.55301	1.48597

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LIST OF ABBREVIATIONS AND ACRONYMS

ADB	African Development Bank
ADF	African Development Fund
ALM	Asset and Liability Management
CEAS	Cumulative Exchange Adjustment on Subscriptions
DRC	Democratic Republic of Congo
EMTN	Euro Medium-Term Note
GCI-IV	Fourth General Capital Increase
GCI-V	Fifth General Capital Increase
GDIF	Global Debt Issuance Facility
HIPC	Heavily Indebted Poor Countries
IAS	International Accounting Standard
IMF	International Monetary Fund
MTN	Medium-Term Note
NTF	Nigeria Trust Fund
OAU	Organization of African Unity
OECD	Organization for Economic Co-operation and Development
RMC	Regional Member Countries
SEAF	Special Emergency Assistance Fund for Drought and Famine in Africa
SDR	Special Drawing Right
SEC	Securities and Exchange Commission
SRF	Special Relief Fund
UA	Unit of Account

SUMMARY INFORMATION

(All numerical data are as of 31 December 2008, except as otherwise indicated.)

General

The Bank is a regional multilateral development institution established in 1963. The Bank's membership currently consists of 53 African states (the "regional member countries" or "RMCs") and 24 non-African states (the "non-regional member countries").

The central goal of the Bank's activities is promoting sustainable economic growth and reducing poverty in Africa. The Bank provides financing for a broad range of development projects and programmes. In addition, it provides policy-based loans and equity investments, finances non-publicly guaranteed private sector loans, offers technical assistance for projects and programmes that provide institutional support, promotes the investment of public and private capital, and responds to requests for assistance in co-ordinating RMC development policies and plans. National and multi-national projects and programmes that promote regional economic co-operation and integration are also given high priority.

The Bank's capital stock is owned by its member countries. On 29 May 1998, at its thirty-fourth Annual Meeting, the Board of Governors adopted Resolution B/BG/98/05 authorising the Fifth General Capital Increase (GCI-V). Upon entry into force of the GCI-V Resolution in September 1999, the authorised capital of the Bank increased by 35 per cent from UA 16,200 million to UA 21,870 million with the creation of 567,000 new shares. Under the capital structure of the Bank, the share in the Bank's overall share capital of regional member countries is 60 per cent and that of non- regional member countries is 40 per cent.

Assets

Loan Portfolio – The Bank's principal asset is its portfolio of loans. The Bank lends to governments of its regional member countries, their agencies and political subdivisions, and to public and private enterprises operating within such countries. It is the general policy of the Bank that each loan to an entity other than a government should carry the guarantee of the government within whose jurisdiction the financed project lies. However, the Bank has adopted a strategy and policies for the promotion of the private sector in regional member states under which loans may be granted to eligible private sector entities without a government guarantee. Such loans must be secured by adequate collateral. As at 31 December 2008, cumulative loans and grants signed, net of cancellations, amounted to UA 20.26 billion, and total disbursed and outstanding loans, before the accumulated provision for impairment, were UA 5,834.62 million. Although the Bank experiences delays in payments on some of its loans, the Bank expects that sovereign guaranteed loans will eventually be paid and such delays will only affect the timing of the cash flows on the loans. Delays in cash flows are taken into consideration in the determination of impairment on loans and charges receivable. Prior to 1 January 2005, the Bank placed in non-accrual status all loans to, or guaranteed by a member country, if principal, interest or other charges with respect to any such loan were overdue by six months or more. Upon the adoption of the revised IAS 39 on 1 January 2005, the Bank no longer places loans in non-accrual status. Interest and charges are accrued on all loans including those in arrears. The revised standard requires that both principal and charges receivable on loans be assessed for impairment using the incurred loss model. Cumulative amounts that had previously been non-accrued as a result of the former non-accrual policy amounting to UA 526.13 million (net of provision) were transferred to reserves on 1 January 2005.

Liquidity – As a long-term development lender, the Bank holds sufficient liquid assets to secure the continuity of normal operations even in the unlikely event that it is unable to obtain fresh resources from the capital markets for an extended period of time. To achieve this, the Bank computes a prudential minimum level of liquidity (PML) based on the projected net cash requirement for a rolling one-year period. The liquidity policy sets the PML as the sum of four components: the following years' net loan disbursements and debt service requirements, plus the loan equivalent value of signed guarantees, and undisbursed equity investments. "Held-to-maturity" investments with maturity greater than one-year are excluded from the computation of liquid assets. The maximum level of liquidity is determined by the Bank's debt limits.

Liabilities, Capital and Reserves

Liabilities – The Bank borrows in the world's major capital markets and has adopted a policy of diversifying its borrowings by currency, country, source and maturity to provide maximum flexibility in

funding its loan portfolio. Through the end of 2008, it is the policy of the Board of Directors to limit the Bank's borrowings represented by senior debt, together with guarantees, to 80 per cent of the callable capital of its non-borrowing members, and to limit its total borrowings represented by both senior and subordinated debt to 80 per cent of the total callable capital of all of its members. The revised capital adequacy framework approved by the Board on 18 March 2009 adopted the use of a single ratio, Debt to Usable Capital, to monitor the Bank's leverage. At the time, Usable Capital was defined as the sum of paid in capital, reserves and callable capital from non-borrowing countries rated AA or better. On 22 July 2009, the Board of Directors adopted a redefinition of the Usable Capital which now includes callable capital from non-borrowing countries rated A- or better. The debt ratio caps the Bank's total outstanding debt to 100% of the Usable Capital. At 31 December 2008, the Bank's total borrowings amounted to UA 6,707.28 million, with senior debt totalling UA 5,964.64 million and subordinated debt totalling UA 742.64 million.

Capital and Reserves – Subscriptions to the capital stock of the Bank are made up of the subscriptions to the initial capital, a voluntary capital increase and five general capital increases. The Fifth General Capital Increase (GCI-V) was approved by the Board of Governors of the Bank on 29 May 1998 and became effective on 30 September 1999 upon ratification by member states and entry into force of the related amendments to the Agreement establishing the Bank. The GCI-V increased the authorized capital of the Bank by 35 percent from 1.62 million shares to 2.187 million shares with a par value of UA 10,000 per share. The GCI-V shares, a total of 567,000 shares, are divided into paid-up and callable shares in proportion of six percent (6%) paid-up and ninety-four percent (94%) callable. The GCI-V shares were allocated to the regional and non-regional members such that, when fully subscribed, the regional members would hold 60 percent of the total stock of the Bank and non-regional members would hold the balance of 40 percent. Prior to the GCI-V, subscribed capital was divided into paid-up capital and callable capital in the proportion of 1 to 7. With the GCI-V, the authorized capital stock of the Bank consists of 10.81 percent paid-up shares and 89.19 percent callable shares.

At 31 December 2008, of the Bank's total subscribed capital of UA 21,765.15 million, an amount of UA 2,356.01 million (10.82 per cent) was paid-up and UA 19,409.14 million (89.18 per cent) was callable. Paid-up capital is that portion of the subscribed capital, which is to be paid by members over a prescribed period. With respect to shares comprising GCI-IV, paid-up capital represents the amount of shares, which have been subscribed to and fully paid for, including through the deposit of notes, in accordance with a specific schedule established by the Board of Governors. With respect to shares comprising GCI-V the paid-up portion of any subscription is that portion of shares which is issued only as and when the Bank receives actual payments in cash or in notes. The portion of paid-up capital for which the Bank has received payment including deposit of notes is referred to as paid-in capital, and amounted to UA 2,345.80 million as at 31 December 2008. Callable capital is that portion of the subscribed capital, which may only be called to meet obligations of the Bank for money borrowed or on any guarantees. At 31 December 2008, the callable capital of the Bank's 25 non-borrowing member countries was UA 8,544.45 million, which represented 143.25 per cent of the Bank's outstanding senior borrowings and 127.39 per cent of its total outstanding borrowings. At 31 December 2008, the callable capital of the Bank's 17 industrialised member countries that are also members of the Development Assistance Committee ("DAC") of the Organisation for Economic Co-operation and Development ("OECD") (Austria, Belgium, Canada, Denmark, Finland, France, Germany, Italy, Japan, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States) was UA 7,187.09 million, representing 120.49 per cent of its outstanding senior borrowings and 107.15 per cent of its total outstanding borrowings.

Under the Agreement, the total amount outstanding in respect of the ordinary operations of the Bank (consisting of approved loans less cancellations and repayments, plus equity participations) shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves, and surplus. Such total amount outstanding as at 31 December 2008 was UA 8,756.73 million and such total capital (net of the Cumulative Exchange Adjustment on Subscriptions ("CEAS")) , reserves and surplus was UA 24,077.71 million, resulting in a ratio of 0.38 to 1. The Bank had total equity (paid-up capital and reserves net of CEAS) of UA 4,660.25 million, resulting in a debt to equity ratio of 1.44. The ratio of disbursed and outstanding loans (including irrevocable commitments to pay undisbursed amounts) to equity was 1.25 to 1.

Profitability

Although profit maximisation is not a primary objective, the Bank has earned a profit in every year since it began operations in 1966. For 2008 and 2007, income before transfers approved by the Board of Governors amounted to UA 304.66 million and UA 323.67 million, respectively.

Accounting Standards

The financial statements of the Bank are presented in conformity with International Financial Reporting Standards (formerly International Accounting Standards) applied on a consistent basis. The financial position of the Bank would not differ in any material respect if the financial position were to be presented in conformity with generally accepted accounting principles in the United States.

Risk Management and Internal Control

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

Following the approval by the Board of Directors in 2004, the Bank established an Internal Control Unit (ICU) to among other duties implement the COSO control framework to regularly evaluate the effectiveness of its internal controls in all significant business operations. Management and the External Auditors issue an annual attestation on the effectiveness of the Bank's internal controls as part of the annual audit process. The attestations at the end of 2008 are included elsewhere in this document.

The above information is qualified by the detailed information and financial statements appearing elsewhere in this Information Statement.

SUMMARY OF SELECTED FINANCIAL DATA

(Amount expressed in millions of UA)

	Years Ended 31 December				
	2008	2007	2006	2005	2004
Cash, Investment	5,168.40	5,424.06	6,222.69	5,225.39	4,435.40
Approved Loans less Cancellations:					
Disbursed and outstanding	5,834.62	5,540.09	5,290.95	5,512.44	5,640.47
Undisbursed ⁽¹⁾	2,552.89	1,621.16	2,030.09	1,857.00	2,216.30
Outstanding Borrowings:					
Total	6,707.28	6,198.87	5,870.47	5,940.40	5,638.89
Senior	5,964.64	5,530.59	5,178.74	5,210.70	4,937.69
Subordinated	742.64	668.28	691.73	729.70	701.20
Authorised Capital	21,870.00	21,870.00	21,870.00	21,870.00	21,870.00
Subscribed Capital and Reserves:					
Paid-up capital	2,356.01	2,351.53	2,357.78	2,350.67	2,223.30
Callable capital	19,409.14	19,341.63	19,436.76	19,367.00	19,374.60
Total callable - non-borrowing members	8,544.45	8,503.17	8,533.51	8,523.90	8,532.00
Total callable - members of the DAC of the OECD	7,187.08	7,180.79	7,211.13	7,201.60	7,209.60
Total Reserves	2,475.47	2,531.80	2,305.48	2,266.39	2,186.61
Special Reserve	-	-	-	-	-
Cash and Investments as a Percentage of					
Undisbursed portion of approved loans	202.5%	334.6%	306.5%	281.4%	200.1%
Outstanding borrowings	77.1%	87.5%	106.0%	88.0%	78.5%
Disbursed and Outstanding Loans as a Percentage of					
Subscribed Capital plus Reserves ⁽²⁾⁽³⁾	23.9%	23.0%	22.0%	23.1%	23.7%
Total Outstanding Borrowings as a Percentage of					
Total callable capital	34.6%	32.0%	30.2%	30.7%	29.2%
Callable capital of non-borrowing members	78.5%	72.9%	68.8%	69.7%	66.1%
Callable capital of DAC members of OECD	93.3%	86.3%	81.4%	82.5%	78.2%
Senior Debt as a Percentage of: ⁽⁴⁾					
Total callable capital	30.7%	28.6%	26.6%	26.9%	25.5%
Callable capital of non-borrowing members	69.8%	65.0%	60.7%	61.1%	57.9%
Callable capital of DAC members of OECD	83.0%	77.0%	71.8%	72.4%	68.5%
Total Reserves as a Percentage of					
Disbursed and outstanding loans ⁽³⁾	42.4%	45.7%	43.6%	41.1%	38.5%
Total outstanding borrowings	36.9%	40.8%	39.3%	38.2%	38.8%
Income before transfers approved by the Board of Governors	304.66	323.67	194.03	221.32	143.53
Weighted Average Interest Rate on: Disbursed and Outstanding Loans for the Period	6.19%	6.31%	6.20%	5.80%	5.50%
Weighted Average Cost of: Debt contracted during the period	3.00%	4.94%		3.98%	2.00%
Outstanding borrowings	4.99%	4.55%	4.29%	3.78%	2.87%
Average Life of Outstanding Borrowings (Years)	6.5	4.4	5.5	6.5	7.7
Interest coverage ratio ⁽⁵⁾ (1.25x) ⁽⁶⁾	1.96x	1.98x	1.69x	2.02x	1.73x

(1) Includes loans approved but unsigned.

(2) Subscribed capital is net of the Cumulative Exchange Adjustment on Subscriptions.

(3) Net of the Special Reserve. Disbursed and outstanding loans include irrevocable reimbursement guarantees.

(4) For the years presented, it was the Bank's policy to limit its senior debt to 80 per cent of the callable capital of its non-borrowing members and to limit the total of its senior and subordinated debt to 80 per cent of the total callable capital of all its members. Debt ratios were changed in 2009.

(5) Operating income plus interest expense, divided by interest expense.

(6) Indicates the Bank's target ratio.

The above information should be read in conjunction with the notes and is qualified by the detailed information and financial statements appearing elsewhere in this Information Statement.

THE BANK

The Bank is a regional multilateral development institution with membership comprising 53 African states and 24 non-African states from the Americas, Asia, and Europe (the “regional members” and “non- regional members”, respectively). The Bank was established in 1963 and operates under the Agreement Establishing the African Development Bank, which was signed in Khartoum, Sudan, on 4 August 1963, as amended. The Bank began operations in 1966 with 29 regional members. The Agreement was amended on 7 May 1982 to permit non-regional countries to be admitted as members. A list of the members at 31 December 2008 showing each member’s voting power and the amount of its subscription to the Bank’s capital stock is set forth in Note N to the Financial Statements. In conformity with the finding of the UN General Assembly, the membership of former Yugoslavia was formally suspended by the Board of Directors of the Bank (see Note N of the Financial Statements).

The Bank’s headquarters is located in Abidjan, Côte d’Ivoire. However, since February 2003, the Bank has temporarily relocated operations from Abidjan to Tunis, Tunisia. (See page 22 of this document).

The purpose of the Bank is to further the economic development and social progress of its regional members, individually and collectively. To this end, the Bank promotes the investment of public and private capital for development purposes and the orderly growth of foreign trade, primarily by providing loans and technical assistance from its resources for specific projects and programmes that contribute to the economic growth of the region.

The Bank’s ordinary operations are financed from its ordinary capital resources. The ordinary capital resources include subscribed capital stock, borrowings by the Bank, loan repayments, income from loans and guarantees and other funds and income received by the Bank in its ordinary operations. The capital stock of the Bank is divided into paid-up capital and callable capital. Callable capital is subject to call only as and when required by the Bank to meet obligations incurred on funds borrowed or loans guaranteed.

In addition to its ordinary operations, the Bank administers the African Development Fund (the “ADF”), which provides loan financing on concessionary terms to RMCs that, in the opinion of the ADF, are in the greatest need of such financing. The ADF is legally and financially separate from the Bank, and the Bank is not liable for any obligations of the ADF. The Bank also administers, under separate agreements and arrangements, the Nigeria Trust Fund (the “NTF”) and several other special funds. The resources of these special funds are held, obligated and otherwise disposed of entirely separately from the Bank’s ordinary capital resources (see Note W-3 to the Financial Statements).

MEMBERSHIP OF CERTAIN COUNTRIES

Information with respect to the membership and total subscription of certain member countries, including the United States, Japan, France, Germany, Switzerland and United Kingdom, is included on the inside back cover in copies of this Information Statement circulated in such respective countries.

GOVERNMENTAL APPROVAL OF BORROWINGS

As required by the Agreement, offerings of Securities will only be made in the currency or markets of a member country after the government of such member has consented to the raising of funds by the Bank and the issuance of Securities in such currency or markets and has agreed that the proceeds from the sale of Securities may be exchanged for the currency of any other country without restriction.

CAPITALISATION

General

The following table sets forth the outstanding borrowings, capital stock and reserves and net income of the Bank at 31 December 2008:

	In UA millions
Outstanding Borrowings(1)	
Debt Payable in:	
U.S. Dollar	2,922.84
Japanese Yen	2,032.94
Pound Sterling	52.05
Other currencies	<u>1,703.44</u>
Total debt(*)	6,711.27
Pre- issuance costs	<u>(3.99)</u>
Total Borrowing	6,707.28
Of which: Total Senior Debt (*)	5,964.64
Total Subordinated Debt(*)	742.64
 Capital Stock and Reserves(2)	
Authorised capital	21,870.00
Unsubscribed capital	<u>(104.85)</u>
Subscribed capital	21,765.15
Less: Callable capital	<u>(19,409.14)</u>
Paid-up capital	2,356.01
Shares to be issued upon payment of future instalment	(8.41)
Amount paid in advance	0.09
Amount in arrears	(1.88)
Cumulative Exchange Adjustment on Subscriptions (CEAS)	<u>(161.03)</u>
Capital net of CEAS	2,184.78
Reserves and Net Income for the Year	2,475.47
 Total Capital and Reserves	 4,660.25

(1) For a description of the Bank's borrowing policies and the currency distributions and other details with respect to borrowings, as well as the effects of currency and interest rate swaps undertaken by the Bank on the currency composition and weighted average interest cost of the Bank's payment obligations, see "Borrowings" and Note M to the financial statements included herein.

(2) For a more complete description of subscriptions to the capital stock and voting power, see Note N to the financial statements included herein. For a more complete description of Reserves, see Note N to the financial statements included herein.

(*)Figures are for Principal amount at face value

Authorised Capital

At 31 December 2008, the authorised capital stock of the Bank was UA 21,870 million. The original authorised capital stock of UA 250 million has been increased in line with the provisions of the Agreement, which provides that the authorised capital stock of the Bank may be increased as and when the Board of Governors deems it advisable. After the restructuring of the capital stock on 29 May 1998 by the Board of Governors, the share of non-regional members in the Bank's authorised capital has increased from 33 per cent to 40 per cent, while the regional members' share is now 60 per cent.

Subscribed Capital

At 31 December 2008, subscribed capital amounted to UA 21,765.15 million. Subscribed capital is divided into paid-up and callable capital. Prior to the Fourth General Capital Increase (GCI-IV), 25 per cent of subscribed capital was paid-up and 75 per cent was callable. Of the capital stock authorised pursuant to GCI-IV, 6.25 per cent represents paid-up and 93.75 per cent represents callable capital. It was envisaged under the resolution authorising GCI-IV that upon full subscription of all authorised shares, the Bank's capital would consist of 12.5 per cent paid-up and 87.5 per cent callable shares. In order to attain this ratio, the Board of Governors decided in May 1992 to adopt certain measures to restructure the capital stock of the Bank. Such measures entail the general application of the Bank's Share Transfer Rules to all shares issued under or prior to GCI-IV, the cancellation of forfeited and unsubscribed shares and their reissue as one block subject to the same terms and conditions of subscription and carrying a ratio of seven callable shares for each paid-up share, and ensuring that the statutory ratio of regional to non-regional stock is maintained. The new shares created under GCI-V are divided into paid-up and callable shares in the proportion of 6 per cent paid-up shares and 94 per cent callable shares. With the GCI-V now effective, the authorised capital stock of the Bank now consists of 10.81 per cent paid-up shares and 89.19 per cent callable shares.

The Agreement provides that shares of capital stock are to be issued at par value (UA 10,000 per share), unless the Board of Governors decides by a majority vote to issue them on other terms. The liability of the members is limited to the unpaid portion of the issue price of the shares. Shares are transferable only to the Bank.

Callable Capital

At 31 December 2008, the Bank's total callable capital was UA 19,409.14 million. Of this amount, UA 8,544.46 million represented callable capital of the Bank's 25 non-borrowing member countries. The callable capital of the 17 Bank members who are also members of the DAC of the OECD was UA 7,187.08 million.

Callable capital is that portion of the subscribed capital stock subject to call only as and when required by the Bank to meet its obligations on borrowing of funds for inclusion in its ordinary capital resources or guarantees chargeable to such resources. In the event of a call, payment must be made by the member countries concerned in gold, convertible currency or in the currency required to discharge the obligation of the Bank for which the call was made.

Calls on the callable capital are required to be uniform in percentage on all shares of capital stock, but obligations of the members to make payment upon such calls are independent of each other. The failure of one or more members to make payments on any such call would not excuse any other member from its obligation to make payment. Further calls can be made on non-defaulting members if necessary to meet the Bank's obligations. However, no member could be required to pay more than the unpaid balance of its ordinary capital subscription. No call has ever been made on the callable capital of the Bank.

Paid-up Capital

With respect to shares subscribed prior to GCI-IV, paid-up capital was that portion of a member's subscription that was to be paid to the Bank by the members over a prescribed period. With respect to shares issued pursuant to GCI-IV, paid-up capital represents the amount of shares, which have been subscribed to and are to be fully paid for. It includes payment in the form of notes deposited by regional members, as established by the Board of Governors. The GCI-V Resolution defines the paid-up portion of any subscription as that portion of shares which is issued only as and when the Bank receives actual payments, in cash or in notes. At 31 December 2008, total paid-up capital stock amounted to UA 2,356.01 million.

The Board of Governors determines the modes of payment for paid-up capital stock. Prior to May 1981, all payments on paid-up stock were required to be made in convertible currencies. However, on subscriptions under the capital increases authorised in May 1979 (but effective December 1982) and May 1981, regional members had the following two options for making their payments: (i) five equal annual instalments, of which at least 50 per cent is payable in convertible currency and the remainder in local currency; or (ii) five equal annual instalments, of which 20 per cent is payable in convertible currency and 80 per cent in non-negotiable, non-interest bearing notes. Such notes were payable solely in convertible currency in ten equal annual instalments, commencing on the fifth anniversary of the first subscription payment date. Non-regional members were required to make their payments solely in convertible currencies.

Under GCI-IV, regional members are required to make payment for their subscriptions as follows: (i) 50 per cent in five equal annual instalments in cash in freely convertible currencies; and (ii) 50 per cent by the deposit of five non-negotiable, non-interest-bearing notes of equal value denominated in UA and payable between the sixth and tenth year of subscription in convertible currencies according to a specific schedule. For non-regional members, payments are to be made in five equal annual instalments in their national currencies, if such currencies are freely convertible, or in notes denominated in convertible currencies and payable on demand.

Under GCI-V, the paid-up portion of the shares are paid in eight equal and consecutive annual instalments and paid only in convertible currencies.

As of 31 December 2008, an amount of UA 2,216.29 million was paid in convertible currencies, UA 115.17 million was paid in local currencies and UA 11.86 million was paid by the deposit of non-negotiable, non-interest bearing notes. In accordance with the provisions of the Bank's Share Transfer Rules, shares on which there are arrears of over 48 months for GCI-IV and of over 90 days for GCI-V are liable to forfeiture and re-allocation within each category of shareholders, to those shareholders willing to subscribe to additional shares. As a result of the application of the Share Transfer Rules to all categories of shares, arrears on subscriptions as at 31 December 2008 amounted to UA 1.88 million.

For a more complete description of subscriptions to capital stock, including amounts due but unpaid, and voting power of members, see Note N to the financial statements.

Cumulative Exchange Adjustment on Subscriptions (CEAS)

At 31 December 2008, the Cumulative Exchange Adjustment on Subscriptions ("CEAS") representing the translation difference on subscriptions was negative UA 161.03 million. Prior to GCI-IV, payments on the share capital subscribed by the non-regional member countries were fixed in terms of their national currencies. Under GCI-IV, payments by regional and non-regional members in US dollars were fixed at an exchange rate of 1 UA= US\$ 1.20635. As a result of these practices, losses and gains could arise from converting these currencies to UA when received. Such conversion differences are reported in the Cumulative Exchange Adjustment on Subscription account.

The following table sets forth the callable portion of the capital subscription and the total capital subscription of non-borrowing members at 31 December 2008.

Non-Borrowing Members ⁽¹⁾
Expressed in millions of UA)

	Callable Capital	Total Capital Subscription
Argentina	52.364	58.472
Austria*	87.350	97.070
Belgium*	125.600	139.580
Brazil	87.036	96.736
Canada*	734.730	816.480
China	218.670	243.000
Denmark*	226.480	251.680
Finland*	95.630	106.270
France*	734.730	816.480
Germany*	806.570	896.310
India	43.730	48.600
Italy*	473.730	526.440
Japan*	1,074.450	1,194.000
Korea	87.350	97.070
Kuwait	87.350	97.070
Libya	742.978	835.957
Netherlands*	168.450	185.827
Norway*	226.480	251.680
Portugal*	46.980	52.142
Saudi Arabia	37.900	42.120
Spain*	208.470	230.340
Sweden*	302.290	335.920
Switzerland*	286.900	318.820
United Kingdom*	328.940	365.540
United States of America*	1,259.298	1,401.543
Total	8,544.456	9,505.147

* Member of the DAC of the OECD.

(1) See Note N to the financial statements included herein for a more complete description of the capital subscriptions of all members of the Bank at 31 December 2008. At 31 December 2008 the 25 members listed above held 43.48 per cent of the total voting powers of the Bank.

Maintenance of Currency Values

Pursuant to the Agreement, each member is required to pay to the Bank any additional amount of its national currency necessary to maintain the value of all such national currency paid to the Bank on account of its subscription whenever the par value of the member's currency in terms of the UA or its foreign exchange value has, in the opinion of the Bank, depreciated to a significant extent. In the event of an increase in such par value or such foreign exchange value, the Bank is required, pursuant to the Agreement, to pay to the member an amount of its currency necessary to adjust in a similar way the value of all such national currency held by the Bank on account of its subscription.

It was decided in 1979 by the Board of Governors that the application of the maintenance of value would be suspended until such time as the Board of Directors determines that the Special Drawing Right (SDR) is being definitively applied as the unit of value applicable to members' subscriptions in the International Bank for Reconstruction and Development (the "World Bank") for purposes of the maintenance of value provisions of its Articles of Agreement. In October 1986, the World Bank decided that the capital stock of the World Bank would be valued in terms of the SDR, at the rate at which the SDR was valued in terms of U.S. dollars immediately before the introduction of the basket method of valuing the SDR on 1 July 1974. This value was 1 SDR=\$1.20635.

Voting Rights

The voting rights of the members are related to their capital subscriptions. However, shares subscribed in connection with the general increases of the Bank's authorised capital stock subsequent to 7 July 1973 and prior to GCI-IV may be voted in their entirety once they are subscribed for but may not be voted to the extent that payment on the paid-up portion of such shares is due but has not been received by the Bank. Under GCI- IV and GCI-V, members may vote their paid-up capital shares only to the extent that payment on such paid- up capital shares has been received by the Bank, and they may vote their callable capital GCI-IV shares only when they have paid the first instalment on the paid-up shares. If a subsequent instalment due on a member's paid-up capital shares is not received when due or if a note deposited by a regional member is not honoured when presented for payment, the right to vote such member's callable capital shares attributable to such unpaid amount is withdrawn until the payment is received.

Reserves

The Total Reserves consist of retained earnings net of fair value gains/losses on available-for-sale investments. Retained earnings included the net income for the year after taking into account transfers approved by the Board of Governors, and net expenses recognised directly in equity. As at 31 December 2008 retained earning amounted to UA 2,475.47 million. Income before transfers approved by the Board of Governors for the year ended 31 December 2008 amounted to UA 304.66 million.

SUMMARY STATEMENT OF INCOME AND EXPENSES

The following summary of income and expenses relating to the ordinary capital resources of the Bank for the years ended 31 December, 2008, 2007, 2006, 2005 and 2004 has been derived from the audited financial statements of the Bank for the respective years. The summary should be read in conjunction with the audited financial statements and related notes.

	Years Ended December 31				
	2008	2007	2006	2005*	2004**
(Expressed in millions of UA)					
OPERATIONAL INCOME & EXPENSES					
Income from:					
loans	352.28	341.94	329.03	324.23	323.10
Investments and related derivatives	202.88	231.71	213.82	155.37	123.57
Other debt securities	9.29	4.97	-	-	-
Total income from loans and investments	564.45	578.62	542.85	479.60	446.67
Borrowing expenses					
Interest and amortized issuance costs	(251.83)	(268.02)	(245.41)	(218.52)	(230.75)
Net interest on borrowing related derivatives	(65.79)	(62.71)	(35.14)	1.40	33.67
Unrealized gain/(loss) on fair-valued borrowings and related derivatives	12.43	21.24	10.67	(30.77)	(7.70)
Unrealized gain/(loss) on non fair-valued borrowings and others	(16.68)	34.77	21.07	7.22	(10.35)
Provision for impairment on loan principal and charges receivables	163.28	69.95	(51.68)	13.85	(53.86)
Provision for impairment on investments	(56.59)	(0.53)	(34.75)	0.75	3.31
Translation (losses)gains	(9.17)	(8.89)	4.10	1.58	-
Other income	18.65	7.32	23.74	15.72	7.40
Net operational income	358.76	371.75	235.45	270.83	188.39
OTHER EXPENSES					
Administrative expenses	186.37	180.65	154.34	155.69	142.20
Management fees	(139.59)	(138.43)	(117.48)	(114.02)	(104.59)
Net administrative expenses	46.78	42.22	36.86	41.67	37.61
Depreciation - Property, equipment and intangible assets	5.20	5.37	6.23	7.10	6.42
Sundry expenses/(gains)	2.11	0.49	(1.68)	0.74	0.84
Total other expenses	54.09	48.08	41.41	49.51	44.87
Income before transfers approved by the Board of Governors	304.66	323.67	194.04	221.32	143.52
Transfers of income approved by the Board of Governors	(257.30)	(119.90)	(139.20)	(144.00)	-
NET INCOME	47.36	203.77	54.84	77.32	143.52

The notes accompanying the financial statements form part of this Statement

**Restated*

***The information presented above for 2004 has not been restated.*

Amounts may not add up exactly due to rounding

OPERATIONS OF THE BANK

Lending Operations

The Bank is authorised under the Agreement to make, participate in or guarantee loans to governments of its regional member countries, their agencies and political subdivisions, and to public and private enterprises operating within such countries, as well as to international or regional entities concerned with economic development in the region. It is the general policy of the Bank that all loans be made to or guaranteed by national governments, central banks or other governmental entities engaging the full faith and credit of such governments. The Bank, however, has adopted a strategy and policies for the promotion of the private sector in RMCs under which loans, equity and equity linked product such as subordinated loans may be granted to eligible private sector entities without a government guarantee.

Under the Agreement, the total amount outstanding in respect of the ordinary operations of the Bank (comprised of approved loans less cancellations and repayments, plus equity participations) may not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surplus included in its ordinary capital resources. At 31 December 2008, such total amount outstanding was UA 8.76 billion, UA 787.5 million higher than the UA 7.47 billion outstanding at 31 December 2007.

From its inception to 31 December 2008, the Bank has approved 1,030 loans and grants less cancellations amounting to UA 25.31 billion for the financing of programmes or projects in its borrowing regional member countries. Approvals increased in 2008, rising 8.4 per cent from UA 1.67 billion in 2007 to UA 1.81 billion in 2008. These approvals comprised 25 project-lending operations for a total value of UA 1,372.90 million, three policy-based loans for UA 136.38 million and 14 grants amounting to UA 13.57 million; eight of them from the Special Relief Fund ("SRF") for emergency operations, five from the Africa Food Crisis Response, and one from the Technical Assistance Fund for Middle Income Countries.

In evaluating projects, the Bank considers a wide variety of factors, including the economic, technical and financial feasibility of the project, the effect on the general development activity of the country concerned, the contribution to the removal of impediments to economic development, the capacity of the borrowing country to service additional external debt, and the effect on the balance of payments. Other factors are, the effect of new technologies on productivity, the effect on employment opportunities, and the effect of the project on the environment. In addition, the Bank considers the ability of the borrower to obtain financing elsewhere on terms and conditions that the Bank considers reasonable. One of the principal functions of the Bank is to direct resources to projects that form part of a national or regional development programme, and which benefit two or more regional members, particularly projects designed to stimulate intra-African trade and economic development.

It is the policy of the Board of Directors to consider loans and other financial products only on the basis of written reports prepared by the staff of the Bank. These reports set forth detailed information regarding the technical feasibility and economic merits of the project to be financed and relevant financial and legal matters, as well as the economic situation of the country in which the project is located. The process of identifying and appraising a project and of approving and disbursing a project loan often extends over several years. For public sector projects, it takes, on average, more than two years to identify, prepare and appraise a project before it is presented to the Board of Directors for loan approval. The appraisal of projects is carried out by the Bank's staff, in some cases with the help of outside consultants. After approval of a loan, an additional period averaging six months elapses before the loan becomes effective. Loans do not become effective until certain legal requirements are fulfilled by the borrower. The Bank generally requires that borrowers seek competitive bids from potential suppliers, that engineering plans and specifications are drawn up independently of suppliers or manufacturers and, if appropriate, that independent consultants be retained by borrowers. The Bank supervises the disbursements of its loans to ensure that the proceeds are applied only against project expenditures as incurred and are used by the borrower only for the procurement of goods and services required for the project being financed. In order to monitor the effective implementation of projects being financed, the Bank maintains a continuous relationship with the borrower after a loan is made.

The Bank's policy of loan administration and project supervision involves field missions, where necessary, and the submission of progress reports on a regular basis. Subsequent to physical completion, the project is evaluated to determine the extent to which productivity and other goals such as envisaged contribution towards economic growth and development outcomes were met. Since loan disbursements are made against project expenditures, the disbursement period frequently extends over five to seven years.

Loans are disbursed in four ways: (1) by reimbursement to borrowers, (2) by direct payment to suppliers for expenses incurred in connection with approved projects, (3) by advances to borrowers of up to 10 per cent of a given loan commitment for which an accounting is made by the borrower, or (4) by the issuance of irrevocable commitments to commercial banks backing their letters of credit to suppliers for shipment of specified goods to borrowers.

The Bank's lending operations have since 1987 included non-project lending in the form of sector investment and rehabilitation and structural adjustment lending. The Bank's participation in such non-project lending has generally been in conjunction with other development organisations, particularly the World Bank.

In January 2008, the Board of Directors approved a revised private sector operations strategy and 3 year business plan for the development of the private sector in Africa. Under this programme, the Bank has provided equity and loan funding to enterprises and financial institutions in the private sector. Private Sector Operations (PSO) of the Bank Group are designed to promote strong social and corporate governance standards as well as help African companies achieve international best practices, making them more competitive at home and in the international marketplace. The Bank has continued to support private sector development focusing on operations in the financial sector, industries & services, infrastructure and entrepreneurship development by improving small and medium enterprises (SMEs) and micro enterprises access to financial services. The range of financial instruments includes equity and quasi-equity investment, lines of credit to private financial institutions and guarantees, coupled with technical assistance in some cases. Responding to growing market demand, the Bank's PSO has witnessed a significant growth in recent years, from an annual volume of UA 278 million in 2006 to reach UA 1.0 billion in 2007 and UA 901.2 million in 2008.

A summary statement of the loans approved by the Bank to 31 December 2008 (excluding fully repaid loans and cancelled loans) is set forth in Note I to the financial statements included herein.

Loan Approvals and Disbursements in 2008

The Bank's loan approvals in 2008 totalled UA 1,807.01 million as compared to UA 1,670.06 million and UA 1,045.37 million in 2007 and 2006, respectively. Loan disbursements of the Bank decreased by 17.5% from UA 884.8 in 2007 to UA 727.5 million in 2008

Currency composition of loans

The following table and chart set forth the Bank's disbursed and outstanding loans by currency at 31 December 2008 and 2007:

Disbursed and Outstanding Loans by Currency [UA millions]

Currency	31 December 2008		31 December 2007	
	%	Amount	%	Amount
Euro	49.90	2,911.70	49.70	2,753.69
Japanese Yen	10.84	632.01	9.97	552.17
Pound Sterling	0.04	2.30	0.06	3.09
South African Rand	2.57	150.20	3.73	206.78
Swiss Franc	2.99	174.61	3.13	173.55
US Dollar	33.65	1,963.06	33.39	1,849.64
Others	0.01	0.74	0.02	1.17
Total	100.00	5,834.62	100.00	5,540.09

Overdue and Non-Performing Loans

In 2003 and 2004, the International Accounting Standard Board (IASB) revised several International Accounting Standards, including IAS 39, as part of ongoing efforts to eliminate redundancies or inconsistencies between existing standards. The revised standards are effective for the fiscal years beginning on or after 1 January 2005. One of the most significant revisions relates to the basis for determining the impairment on loans and the treatment of income on loans that are in arrears for six months or more and therefore considered as non-performing. Previously, loan impairment, or provision for loan losses was calculated on the outstanding loan principal balance and determined using an expected loss model. Also, income on loans in arrears for six months or more was suspended until received. The revised standard now requires that the determination of the amount of provision to be made for impairment on loans should be based on incurred losses and should cover both the principal and charges receivable balances outstanding against borrowers and which losses can be established to have been incurred. The 'incurred loss model' excludes future losses no matter how likely they might be. The revised standard also no longer permits the suspension of income on loans previously classified as non-accruing. Instead, such income is recognized and appropriate provision is made for any impairment that may exist on the total receivable, using the incurred loss model.

The Bank may experience delays in receiving loan repayments from certain borrowers. Delays in loan repayment affect the timing and amount of future cash flows on loans and are an important element in the determination of loan impairment. The Bank has never written off any of its sovereign guaranteed outstanding loans. In line with the sovereign nature of the Bank and its relationship with its borrowers and guarantors, the Bank expects that each of these loans will ultimately be repaid and, accordingly, has no expectation of writing off outstanding loans in the future. The Bank maintains a continuous dialogue with its borrowers to attempt to ensure prompt payment on all of its loans.

Loan Terms

Loans are stated at their principal amounts outstanding less any allowance for impairment. Except for private sector development loans, all of the Bank's loans are made to, or guaranteed by, regional member countries. Amounts disbursed on loans are repayable in the currency or currencies disbursed by the Bank or in other freely convertible currency or currencies approved by the Bank. The amount repayable in each of these currencies shall be equal to the amount disbursed in the original currency. Loans are granted for a maximum period of 20 years, including a grace period, which is typically the period of project implementation.

The following table sets forth the maturity structure of disbursed and outstanding loans as at 31 December 2008:

Maturity Structure of Loans as at 31 December 2008	Disbursed and Outstanding Loans
Amount expressed in UA amount	
Maturity	
One year or less	946.15
More than one year but less than two years	505.23
More than two years but less than three years	479.84
More than three years but less than four years	447.35
More than four years but less than five years	430.93
More than five years	3,025.12
Total	5,834.62

Borrowing Policies

The Board of Directors of the Bank has authorised the issuance of two classes of debt, senior debt and subordinated debt. All debt of the Bank is senior debt unless by its terms it is expressly subordinated in right of payment to other debt of the Bank. Both classes rank pari passu except in the event of a call by the Bank on its callable capital, whereupon the holders of the subordinated debt of the Bank will be subordinated in right of payment to holders of debt which is not expressly stated as subordinated.

It is the policy of the Board of Directors to limit the Bank's borrowings represented by senior debt, together with guarantees, to 80 per cent of the callable capital of its non-borrowing members, and to limit its total borrowings represented by both senior and subordinated debt to 80 per cent of the total callable capital of all of its members. The revised capital adequacy framework approved by the Board on 18 March 2009 adopted the use of a single debt ratio, Debt to Usable Capital, to monitor the Bank's leverage. The ratio caps the Bank's total outstanding debt to 100% of Usable Capital. The Bank has also adopted the working principle that, within the limitations set forth above, the actual amount of its senior debt outstanding at any time should be a function of its objective of obtaining and maintaining a rating on its securities at the highest levels from recognised rating organisations. As at 31 December 2008, senior debt outstanding, in the amount of UA 5,964.64 million (subordinate debt was UA 742.64 million), was 69.81 per cent of the callable capital of non-borrowing members of the Bank. As of the same date, the amount of total outstanding borrowings of UA 6,707.28 million, represented by both senior and subordinated debt, was 34.56 per cent of total callable capital of UA 19,409.14 million of all members of the Bank. On July 22, 2009 Bank adopted a new definition of its usable which now includes callable capital of non-borrowing countries rated A- or higher from the previous AA- and higher.

In December 2001, the Bank established the unlimited Global Debt Issuance Facility (GDIF) to replace its Euro-Medium Term Note Programme (EMTN) and US Medium Term Note (MTN) Programme with respect to its future borrowings. The Bank also has a Euro Commercial Paper (ECP) programme in place. Both the GDIF and the ECP enable the continuous issuance of notes in the Euro market, the US market and other domestic markets in an unlimited amount thereby maximizing the Bank's financing flexibility.

The Bank has entered into arrangements whereby, in the event of a call on its callable capital, it will request its member countries to make payment in response to such a call into a special account established by the Bank with the Federal Reserve Bank of New York, or its successor duly designated for the purpose. The terms of such account provide that the proceeds of a call must first be applied in payment of, or in provision for full settlement of, all outstanding obligations of the Bank incurred in connection with the issuance of senior debt before any other payment shall be made with such proceeds.

The weighted average life of the Bank's outstanding borrowings at 31 December 2008, 2007, 2006, 2005 and 2004 was 6.5, 4.4, 5.5, 6.5 and 7.7 years, respectively.

At 31 December 2008, the callable capital of the Bank was UA 19,409.14 million. Of this amount, a total of UA 11,607.66 million represented the callable capital of RMCs and UA 7,801.48 million the callable capital of non-regional member countries.

The revised capital adequacy framework approved by the Board on 18 March 2009 adopted the use of a single debt ratio which is the debt to Usable Capital to monitor the Bank's leverage. At the time, Usable Capital was defined as the sum of paid in capital, reserves and callable capital from non-borrowing countries rated AA or better. On 22 July 2009, the Board of Directors adopted a redefinition of Usable Capital, which now includes callable capital from non-borrowing countries rated A- or better. The debt ratio caps the Bank's total outstanding debt to 100% of Usable Capital.

At 31 December 2008, the Bank's outstanding borrowings were denominated in thirteen currencies or currency units (without taking into account currency swaps).

The table below sets forth the maturity structure of the Bank's outstanding borrowings at 31 December 2008

(UA millions)

Periods	Outstanding Borrowings		
	At Fair Value	At Amortized cost	Total
One year or less	1,243.03	23.49	1,266.52
More than one year but less than two years	1,187.90		1,187.90
More than two years but less than three years	486.68	8.19	494.87
More than three years but less than four years	243.92	-	243.92
More than four years but less than five years	874.53	284.77	1,159.30
More than five years	1,693.75	665.01	2,358.76
Subtotal	5,729.81	981.46	6,711.27
Net unamortized premium and discount	-	(3.99)	(3.99)
Total	5,729.81	977.47	6,707.28

The following table sets forth for the periods indicated the average interest rates on the Bank's loans, the return on its average earning assets, the average cost of its funded debt and other funds available and its interest coverage ratio:

Selected Financial Ratios 2008

	2008	2007	2006	2005	2004	2003
Weighted average interest rate on disbursed and outstanding loans for the period ⁽¹⁾	6.19%	6.31%	6.20%	5.80%	5.50%	6.30%
Weighted average cost of:						
Outstanding borrowings	4.99%	4.55%	4.29%	3.78%	2.87%	3.10%
Interest coverage ratio ⁽²⁾ (1.25x) ⁽³⁾	1.96x	1.98x	1.69x	2.02x	1.73x	1.44x

(1) Undisbursed loans include loans approved but not yet effective. Interest accrues only on disbursed loan amounts.

(2) Net income plus interest expense, divided by interest expense.

(3) Indicates the Bank's target ratio.

Liquid Assets and Liquidity Policy

As a long-term development lender, the Bank holds sufficient liquid assets to secure the continuity of normal operations even in the unlikely event that it is unable to obtain fresh resources from the capital markets for an extended period of time. To achieve this, the Bank computes a prudential minimum level of liquidity (PML) based on the projected net cash requirement for a rolling one-year period. The liquidity policy sets the PML as the sum of four components: the following years' net loan disbursements and debt service requirements, plus the loan equivalent value of signed guarantees, and undisbursed equity investments. "Held-to-maturity" investments with maturity greater than one-year are excluded from the computation of liquid assets.

The maximum level of liquidity is determined by the Bank's debt and capital adequacy limits. The resulting flexibility in determining the pace of implementing the Bank's medium-term borrowing enhances the Bank's ability to achieve a lower funding cost.

Investments are based on asset and liability management guidelines adopted by the Board of Directors. Generally, liquid assets of the Bank are invested in marketable securities issued or guaranteed by the member countries or public entities thereof and in time deposits with banks. All marketable securities of the Bank are valued at market value. At 31 December 2008, the Bank's cash and treasury investments totalled UA 5,168.40 million. Income on treasury investments for 2008 amounted to UA 202.88 million, or a return of 3.76 percent compared with a return of 4.45 per cent in 2007.

The ADB's liquid assets are tranches into three portfolios, namely operational portfolio, prudential portfolio, and equity-backed portfolio, each with a different benchmark that reflects the cash flow and risk

profile of its assets and funding sources. These benchmarks are one-month LIBID for the operational portfolio, and 6-month LIBOR, resetting on February 1 and August 1 for the prudential portfolio. The equity-backed portfolio is managed against a repricing profile benchmark with 10 per cent of the Bank's net assets repricing uniformly over a period of 10 years.

Bank Rating

The rating agencies, Standard & Poor's, Moody's, Fitch, and the Japan Credit Rating Agency reaffirmed their AAA/Aaa and AA+/Aa1 rating of the Bank's senior and subordinated debt respectively, with a stable outlook. The ratings recognize the Bank's strong financial position, the revitalization of its performance in the markets, and its enhanced effectiveness fostered by institutional reforms implemented over the past decade. The ratings also reflect the Bank's strong membership support, its preferred creditor status, sound capital adequacy and liquidity, and prudent financial management and policies. A security rating is not and should not be construed as a recommendation to buy, hold or sell a security.

Equity Participations

The Agreement permits the Bank to assume equity participations to further the economic development and social progress of its regional members. The amount of such equity participations is limited by the Agreement to a percentage fixed by the Board of Governors, of the Bank's paid-up capital stock together with the reserves and surplus included in its ordinary capital resources. This amount is currently fixed at 10 percent. The Bank is not permitted to hold a controlling interest in any enterprise. Total net equity investment participations at 31 December 2008 equalled UA 188.78 million. The Bank has equity participations in, among others, various regional and sub-regional development banks and other public and private sector financial institutions such as the African Development Fund, the African Export-Import Bank, Shelter-Afrique, Africa Re, and PTA Bank, commercial banks as well as in several regional private equity funds. The Bank assesses at each balance sheet date whether there is objective evidence that equity investments are impaired. Where in the opinion of Management, there is a significant or prolonged decline in the value of equity investments based on the periodic assessment of all the Bank's equity investments, the Bank creates an impairment allowance for such investments.

Special Operations of the Bank

In addition to its ordinary resources, the Bank administers various special and trust funds for purposes consistent with the Bank's objective of promoting the economic development and social progress of its regional member countries. Under the Agreement, the total amount outstanding in respect of the special operations of the Bank relating to any special fund may not exceed the total amount of the unimpaired special resources pertaining to that special fund. The resources of special and trust funds are required at all times to be held, used, committed, invested or otherwise disposed of entirely separate from the ordinary capital resources of the Bank and from each other. Each of these funds is subject to its own special rules and regulations. Where such rules and regulations either do not exist or do not apply, the special and trust funds are governed by the provisions of the Agreement and the financial regulations of the Bank.

Two major funds administered by the Bank are the African Development Fund (ADF) and the Nigeria Trust Fund (NTF), both of which supplement the activities of the Bank. The Bank receives an administration fee for its services.

African Development Fund

The ADF was established in 1972 pursuant to an agreement between the Bank and 15 non-regional members (the “ADF Agreement”) to provide loans on concessionary terms to the RMCs. The ADF and all of its resources are separate and entirely independent from those of the Bank. The Bank assumes no liability for any of the obligations of the ADF. Participation in the ADF has increased since its establishment and now comprises the Bank, one regional member State Participant (South Africa), 24 non-regional member State Participants and the United Arab Emirates.

The Agreement Establishing the ADF designates a Board of Governors as the ADF’s highest policy making organ. The Board of Governors meets at least once annually. The ADF Board of Directors, which includes six non-regional members nominated by their constituencies and six executive directors representing the ADB, is responsible for overseeing the general operations of the ADF.

The ADF uses the UA as the measure of the subscription of its participants and of its loans and for statistical and financial reporting purposes. Following amendment of the ADF Agreement, the UA of the ADF has been aligned with the UA of the Bank with effect from 1 January 1993. At 31 December 2008, the exchange rate of the UA to the United States Dollar was 1 UA = US\$ 1.54027.

The purpose of the ADF is to assist the Bank in making an effective contribution to the economic progress and social development of the regional member countries and to promote co-operation among them. The operations of the ADF supplement those of the Bank. In contrast to the lending policy of the Bank, the ADF provides long-term financing for projects on concessionary terms. The ADF’s loan financing is directed primarily at those RMCs which, in the opinion of the ADF, are in the greatest need of such financing.

The resources of the ADF consist of the subscriptions and periodic replenishments by the Bank and State Participants, other resources received by the ADF and funds derived from operations or otherwise accruing to the ADF. Other than South Africa, the State participants to the Fund are all the non-regional members of the Bank in addition to the United Arab Emirates. The ADF has benefited from regular contributions from South Africa and has received a contribution from Botswana in the past. The mobilization of external resources for ADF is a triennial exercise. In mid-December 2007, State Participants reached agreement on the Eleventh Replenishment of the Fund. The deputies agreed to a replenishment level of UA 5.76 billion, of which UA 2.06 billion represents internally generated resources covering the 3-year operational period 2008-2010.

At 31 December 2008, the cumulative ordinary and special subscriptions to ADF amounted to UA 18.37 billion (UA 15.28 billion in 2007) of which UA 16.57 billion was fully paid-in. The Bank’s subscription to the ADF at 31 December 2007 was UA 111.74 million, which was fully paid-in. The Bank has 50 per cent of the voting power of the ADF.

For the year ended 31 December 2008, loans and grants approved amounted to UA 1.67 billion and the level of cumulative loans and grants signed, net cancellations amounted to UA 16.76 billion. ADF loans bear no interest charge, carry a service charge of 0.75 per cent per annum on outstanding balances, and attract a commitment fee of 0.50 per cent per annum on undisbursed commitments. Project loans have a 50-year repayment period, including a 10-year grace period; lines of credit have a 20-year repayment period with a 5-year grace period.

Nigeria Trust Fund

The Agreement Establishing the Nigeria Trust Fund (the “NTF Agreement”) was signed on 26 February 1976, between the Bank and the Federal Republic of Nigeria and became effective on 25 April 1976. The purpose of the NTF is to assist in the economic development of the most needy regional member countries of the Bank by the provision of funds on terms intermediate between those of the Bank and those of the ADF. NTF loans currently bear an interest rate of between 2 and 4 per cent, a repayment period of up to 25 years including a grace period of up to five years prior to the commencement of principal repayments and a commission of 0.75 per cent payable on undisbursed balances. The resources of the NTF come from contributions from the Federal Republic of Nigeria and the net income of the NTF.

In April 2003, the ADB Board of Directors endorsed the Initiatives to Enhance the Development Effectiveness of the Nigeria Trust Fund. The enhancements subsequently approved by the Board of Governors include: (i) participation in the HIPC debt relief initiative by contributing 10 per cent of the annual net income of the NTF to the HIPC Trust Fund; (ii) an adjustment of the interest rate for NTF loans from 4 per cent to a range of 2 to 4 per cent to increase the concessionality of such loans; (iii) the

execution of a Technical Cooperation Agreement (TCA) with the Bank Group for purposes of providing resources for the financing of technical and institutional support programs for the benefit of RMCs; and (iv) the introduction of more flexibility in the investment of the resources of the NTF, pending their use in financing projects.

At 31 December 2008, the NTF had total assets of UA 287.63million. Upon expiry of the original Agreement establishing NTF on 25 April 2008, the NTF Agreement was renewed for a period of ten years commencing from 25 April 2008.

Other Funds

The Bank has been entrusted with the administration of other funds, namely the Mamoun Beheiry Fund (to reward outstanding employees of the Bank), the Arab Oil Fund (which is restricted to making concessionary loans to specific African countries affected by high oil prices), and the Special Emergency Assistance Fund (designed to provide assistance to African countries affected by drought and famine). The total resources and assets of these trust funds at 31 December 2008 amounted to UA 5.39 million.

Litigation

The Bank is not a party to any material litigation

Temporary Relocation

The Board of Directors decided in February 2003 to evacuate the Bank's staff from Côte d'Ivoire following the deterioration in the security situation as assessed by the United Nations. The Board of Directors also decided to temporarily move the Bank's operations to the Temporary Relocation Agency in Tunis. The process of relocation was substantially completed by May 2003. The Bank's operations continued throughout the period of evacuation and relocation. In June 2003, the Board of Governors decided that the Bank should remain at the Temporary Relocation Agency for a minimum duration of two years. The duration of the temporary relocation has since been extended by the Board of Governors, most recently for a further period of 12 months from June 2009.

ADMINISTRATION OF THE BANK

Board of Governors

All the powers of the Bank are vested in the Board of Governors, which consists of a Governor and an Alternate Governor appointed by each member of the Bank, who exercises the voting power to which that member country is entitled. Each Governor and Alternate Governor serves for a term of five years, subject to termination of appointment or to reappointment at any time at the discretion of the appointing member country.

The Board of Governors may delegate to the Board of Directors all its powers except certain specified powers, such as the power to increase or decrease the authorised capital and to approve, after reviewing the report of the auditors, the balance sheet and statement of income and expenses of the Bank.

The Board of Governors holds an annual meeting and such other meetings as may be provided for by the Board of Governors or called by the Board of Directors. Meetings of the Board of Governors are called by the Board of Directors whenever requested by five members of the Bank, or by members having one-quarter of the total voting power of the members.

Board of Directors

Without prejudice to the powers of the Board of Governors, the Board of Directors is responsible for the conduct of the general operations of the Bank, and, for this purpose, exercises all the powers delegated to it by the Board of Governors. The Board of Directors is composed of eighteen members who shall not be Governors or Alternate Governors. Twelve members are elected by the Governors representing the RMCs, and six members are elected by the Governors representing the non-regional member countries. Each Director appoints an Alternate Director who acts for him when he is not present. Directors and their Alternates are required to be nationals of member countries. An Alternate Director may participate in meetings of the Board of Directors but may vote only when he is acting in place of the absent Director.

Members of the Board of Directors of the Bank as at 31 December 2008 are listed below. Directors are elected for a term of three years and may be re-elected provided that no Director shall serve for more than two three-year terms.

Board of Directors – Countries Represented as at 31 December 2008

Regional Member Countries

M. Mahroug	Morocco, Togo, and Tunisia
R. F. T. Karpeh II	Liberia, Gambia, Ghana, Sierra Leone, and Sudan
A. N. Bvumbe	Zimbabwe, Botswana, Angola, Mozambique, and Namibia
P. A. G. Sinon	Seychelles, Kenya, Eritrea, Ethiopia, Uganda, Tanzania, and Rwanda
H. A. A. Khedr	Egypt and Djibouti
I. C. Bonongwe	Malawi, South Africa, Mauritius, Lesotho, Swaziland, and Zambia
F. A. Korsaga	Burkina Faso, Cape Verde, Benin, Chad, Comoros, Gabon, Mali, Niger, and Senegal
T. N'Guessan	Côte d'Ivoire, Guinea, and Equatorial Guinea
A.M. Gadad	Libya, Mauritania, and Somalia
S. B. Zoniaba	Congo, Cameroon, Burundi, Central African Republic, and Democratic Republic of Congo
A. Benallegue	Algeria, Guinea Bissau, and Madagascar
M. Muhtar	Nigeria and Sao Tome & Principe

Non-Regional Member Countries

B. Gerhardus	The United Kingdom, Germany, the Netherlands, and Portugal
L. Guye	Switzerland, Denmark, Finland, India, Norway, and Sweden
E. Carrere	France, Belgium, and Italy
T. Utamura	Japan, Argentina, Austria, Brazil, and Saudi Arabia
M. Alemayehou	United States of America
B. Montador	Canada, China, Korea, Kuwait, and Spain

President and Management

The Board of Governors, on the recommendation of the Board of Directors, elects the President of the Bank by a vote of a majority of the total voting power of the members, including a majority of the total voting power of the regional member countries. The Agreement provides that the President shall be a national of a regional member country. On the recommendation of the President of the Bank, the Board of Directors appoints one or more Vice- Presidents. The President is elected for a term of five years and may be re- elected provided that no person may be elected President for more than two successive five-year terms.

The President is the Chairman of the Board of Directors but has no vote except a deciding vote in case of a tie. He may participate in meetings of the Board of Governors but has no vote. He is also the chief executive officer of the Bank and conducts, under the direction of the Board of Directors, the current business of the Bank. The President is the legal representative of the Bank.

The principal officers of the Bank as at 31 December 2008 are listed below.

Principal Officers as at 31 December 2008

Presidency

D. Kaberuka	President
P. Sovik	Director, Compliance Review & Mediation Unit
M. Toure	Chief of Staff
K. Bedoumra	Secretary General
K. Gadio	Acting General Counsel
E. Ouko	Auditor General
Z. Zoukpo	Director, COO
Z. Sakala	Director, Strategy & Budget
C. Kirk	Director, Operations Evaluation Department
M. Wade	Officer in Charge, External Relations & Communication Unit
N. De Souza	Ombudsman
A. Lipou Massala	Executive Secretary, Administrative Tribunal
W. Godbout	Acting Head, Security Unit

Office of the Chief Economist

L.A. Kasekende	Chief Economist
L. Ndikumana	Director, Development Research Department
C. Lufumpa	Director, Statistics Department
S. Tapsoba	Officer in Charge, African Development Institute

Corporate Services

A. Oteh	Vice President, Corporate Services
L. Chakroun	Director, Information Management and Methods Department
J-P. Ehouanou	Director, General Services and Procurement Department
D. Tytiun	Director, Human Resources Management Department
V.N. Mbarga	Head, Language Services Unit
M. Sangbe	Official Representative, Headquarters, Abidjan

Finance

T. de Longuemar	Vice President, Finance
C. Boamah	Director, Financial Control Department
K. Diallo	Director, Financial Management Department
P. Van Peteghem	Director, Treasury Department

Operations I, Country and Regional Programmes and Policies

J. Eichenberger	Vice-President, Country and Regional Programmes and Policy
J. Eichenberger	Officer in Charge, Operational Resources & Policies Department
E. Goldstein	Director, Results & Quality Assurance Department
M. J. Gharbi	Director, Centre Region
A. Zejly	Acting Director, North Region 1
I.S. Lobe Ndoumbe	Director, North Region 2
J. Litse	Director, West Region 1

F.J.M. Perrault	Director, West Region 2
A. Ordu	Director, East Region 1
D. Gaye	Director, East Region 2
A.D. Beileh	Director, South Region 1
F. Black	Director, South Region 2
V. Sharma	Acting Head, Procurement and Fiduciary Management Unit
K. Ikeda-Larhed	Head, Partnerships and Cooperation Unit

Operations II, Sector Operations

Z. El-Bakri	Vice President, Sector Operations
A. Abou-Sabaa	Director, Agriculture and Agro-industry Department
T. Hurley	Director, Human Development Department
G. Negatu	Director, Governance, Economic & Financial Reforms Department
M.H. Kilo	Head, Fragile States Unit
S. Pitamber	Officer in Charge, Gender, Climate Change & Sustainable Development Unit

Operations III, Infrastructure, Private Sector and Regional Integration

M. Gantsho	Vice President, Infrastructure, Private Sector and Regional Integration
G. Mbesherubusa	Director, Infrastructure Department
T. Turner	Director, Private Sector Department
R. Rakotobe Andrianarison	Director Water and Sanitation Department
P. Afrika	Director, NEPAD, Regional Integration and Trade Department

THE AGREEMENT ESTABLISHING THE AFRICAN DEVELOPMENT BANK

The Agreement constitutes the Bank's governing charter and establishes the status, immunities, exemptions and privileges of the Bank, describes its purpose, membership, capital structure and organisation, authorises the kinds of transactions in which it may engage and prescribes limitations on such transactions. The Agreement also contains, among other things, provisions with respect to the admission of additional members, the increase of the authorised capital stock, the terms and conditions under which the Bank may make or guarantee loans, the use of currencies held by it, the withdrawal and suspension of member countries and the suspension and termination of the operations of the Bank.

The Agreement may be amended only by a resolution of the Bank's Board of Governors approved by a two-thirds majority of the total number of Governors representing not less than three-quarters of the total voting power of the member countries, including two-thirds of the regional members having three-quarters of the total voting power of the regional members. The unanimous agreement of the Board of Governors is required for the approval of any amendment modifying the right to withdraw from the Bank, the pre-emptive rights to subscribe capital stock or the limitation on the liability of the member countries. No such amendment has been made to the Agreement to date. The Agreement provides that any question of interpretation of its provisions arising between any member country and the Bank or between member countries shall be referred to the Board of Directors for decision. Such decision may then be submitted to the Board of Governors whose decision shall be final.

Membership of the Bank

Any African country that has the status of an independent state may become a regional member of the Bank. The geographical area to which the regional membership and the development activities of the Bank extend consists of the continent of Africa and the African islands. Non-regional countries that are, or become, participants in the ADF or that have made, or are making, contributions to the ADF may be admitted to the Bank.

Although any member may withdraw from the Bank by delivering written notice, any such member remains liable for all direct and contingent obligations to the Bank (including its obligations in respect of callable capital) so long as any part of the loans or guarantees contracted before the termination date is outstanding. No member has withdrawn from the Bank since its establishment. However, membership of the former Yugoslavia has been suspended by the Bank's Board of Directors, in conformity with resolutions and determinations of the UN General Assembly (see Note N of the financial statements included herein).

Legal Status, Immunities and Privileges

The following is a summary of the principal provisions of the Agreement relating to the legal status, immunities and privileges of the Bank in the territories of its members.

The Bank has full juridical personality with capacity to contract, to acquire and dispose of immovable and movable property, and to institute legal proceedings. It is immune from every form of legal process, except in cases arising out of the exercise of its borrowing powers when it may be sued only in a court of competent jurisdiction in the territory of a member in which it has its principal office, or in the territory of a member or non-member where it has appointed an agent for the purpose of accepting service or notice of process or has issued or guaranteed securities. No actions against the Bank may be brought by members or persons acting for or deriving claims from members.

The property and assets of the Bank are immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank. Such property and assets are also immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action. The archives of the Bank are inviolable. The Governors, Directors, Alternate Directors, officers and employees of the Bank and experts and consultants performing missions for the Bank are immune from legal process with respect to acts performed by them in their official capacity. The Agreement enables the Board of Directors to waive any of these immunities where in its opinion it would further the interest of the Bank to do so.

The Bank, its property, other assets, income and the operations and transactions it carries out pursuant to the Agreement are exempt from all taxation and from all customs duties in the member states. The Bank is also exempt from any other obligation relating to the payment, withholding or collection of any tax or duty.

GENERAL DESCRIPTION OF THE SECURITIES

Each prospectus, offering circular, information memorandum, supplemental information statement or pricing supplement will include the following information regarding the terms of Offered Securities: (a) the aggregate principal amount, (b) status (and subordination, in the case of subordinated securities), (c) the maturity date, (d) the interest rate, (e) the currency or currencies, including composite currencies, of denomination and payment, (f) the dates on which such interest will be payable, (g) the redemption dates and prices and provisions for a sinking fund, if applicable, (h) the form and denomination and (i) the fiscal or paying agent or agents with respect to the securities.

Securities will be repayable from the ordinary capital resources of the Bank. The Board of Directors of the Bank has authorised the issuance of two classes of debt securities, senior (“Senior Securities”) and subordinated (“Subordinated Securities”). All debt securities of the Bank are Senior Securities unless by their terms they are expressly subordinated in right of payment to other debt securities of the Bank. Both classes of debt securities rank pari passu except in the event of a call on the callable capital of the Bank, whereupon the holders of Subordinated Securities of the Bank will be subordinated in right of payment to holders of debt which is not expressly so subordinated.

The Securities will not be the obligation of any government, and their terms and conditions will contain a statement to that effect. The specific terms and conditions of each issue of Offered Securities will be set forth or referred to in the prospectus, offering circular or supplemental information statement relating to the Offered Securities.

The Securities will not contain any limitations on the right of the Bank to issue any other bonds, notes or obligations.

TAXATION

The Securities and the interest on them generally will not be exempt from taxation.

Under the Agreement, the Securities and the interest paid on them are not subject to any tax by a member of the Bank (i) which discriminates against the Securities solely because they are issued by the Bank or (ii) if the sole jurisdictional basis for the tax is the place or currency in which the Securities are issued, made payable or paid, or the location of any office or place of business maintained by the Bank. Also, under the Agreement, the Bank is not under any obligation to withhold or pay any taxes on any interest on the securities it issues, including the Securities.

AFRICAN DEVELOPMENT BANK GROUP



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

Date: March 31, 2009

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

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

Management is responsible for establishing and maintaining effective internal controls over external financial reporting in conformity with the basis of accounting. The system of internal control contains monitoring mechanisms and actions that are taken to correct deficiencies identified. Internal controls for external financial reporting are subject to ongoing scrutiny and testing by management and internal audit and are revised as considered necessary. Management believes that such controls support the integrity and reliability of the financial statements.

There are inherent limitations to the effectiveness of any system of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, an effective internal control system can provide only reasonable, as opposed to absolute, assurance with respect to financial statements. Furthermore, the effectiveness of an internal control system can change with circumstances.

The Boards of Directors of the Bank Group have established an Audit and Finance Committee (AUFI) to assist the Boards, among other things, in their oversight responsibility for the soundness of the Bank Group's accounting policies and practices and the effectiveness of internal controls. AUFI, which is comprised entirely of selected members of the Board of Directors, oversees the process for the selection of external auditors and makes a recommendation for such selection to the Board of Directors, which in turn makes a recommendation for the approval of the Board of Governors. AUFI meets periodically with management to review and monitor matters of financial, accounting or auditing significance. The external auditors and the internal auditors regularly meet with AUFI to discuss the adequacy of internal controls over financial reporting and any other matter that may require AUFI's attention.

The Bank's assessment of the effectiveness of internal controls was based on the framework provided by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). On the basis of the work performed, Management asserts that the Bank Group maintained effective internal controls over its financial reporting as contained in the Financial Statements for 2008. Management is not aware of any material control weakness that could affect the reliability of the 2008 financial statements.

In addition to providing an audit opinion on the fairness of the financial statements for 2008, the external auditors of the Bank Group conducted an independent assessment of the Bank Group's internal control framework and their opinion thereon is presented separately in this annual report.



Thierry de Longuemeur
VICE PRESIDENT, FINANCE



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African Development Bank Group

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Independent Auditor's Report to the Board of Governors of the African Development Bank Group regarding effectiveness of internal control over financial reporting Year ended 31 December 2008

Scope

We have examined the African Development Bank Group's internal control over financial reporting for the year ended 31 December 2008, based on criteria established in "Internal Control – Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's responsibilities

The management of the African Development Bank Group ("The Bank Group") is responsible for implementing and maintaining effective internal controls over financial reporting and for assessment of the effectiveness of such controls. Management has asserted the effectiveness of the internal controls over financial reporting for 2008.

Independent Auditor's responsibilities

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

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

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

Inherent limitation

A company's system of internal controls over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes, in accordance with generally accepted accounting principles. A company's system of internal controls over financial reporting includes those policies and procedures that (1)

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une coopérative de droit suisse.

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pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

Opinion

In our opinion, the Bank Group, in all material respects, maintained effective internal controls over financial reporting during the year ended 31 December 2008, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, the financial statements of the African Development Bank, the African Development Fund and the Nigeria Trust Fund for 2008, in accordance with the International Standards on Auditing, and we have expressed unqualified opinions.

Paris La Défense, 31st March 2009

KPMG Audit
A division of KPMG S.A.



Pascal Brouard
Partner

FINANCIAL HIGHLIGHTS FOR THE YEAR 2008, 2007 AND 2006

Net Operational Income

Net operational income is comprised of the net interest income on earning assets, the provision for loan and investment losses, translation losses or gains and other income. Table below shows the breakdown of the net operational income for the last three years.

<i>In UA millions</i>	<u>2008</u>	<u>2007</u>	<u>2006</u>
Income from loans	352.28	341.95	329.03
Income from investments and related derivatives	202.88	231.70	213.82
Income from other debt securities	9.29	4.97	-
Borrowing expenses	(321.86)	(274.72)	(248.81)
Net interest income	242.59	303.90	294.04
Provision for impairment on loans (principal and charges)	163.28	69.96	(51.69)
Provision for impairment on investments	(56.59)	(0.53)	(34.74)
Translation (losses)/gains	(9.17)	(8.90)	4.10
Other income	18.65	7.32	23.74
Net Operational Income	358.76	371.75	235.45

FY 2008 vs. FY 2007

Net operational income decreased by UA 12.99 million in 2008 as compared to 2007.

Net interest income declined by UA 61.31 million in 2008 as compared to 2007. Loan income increased by UA 10.33 million, or 3.02%, in 2008. The increase in loan income was due primarily to an overall higher average volume of loans outstanding during 2008. In 2008, the Bank also earned income of UA 9.29 million (2007: UA 4.97 million) on investments in debt instruments issued by entities in its regional member countries. However, investment income decreased by UA 28.82 million, or 12.44%, due in large part to the difficult investment environment in the year, and borrowing expenses increased by UA 47.14 million as a result of higher interest rates on new borrowings by the Bank reflecting increased credit spreads as a result of the financial crisis.

Net provisions for impairment on investments rose significantly in 2008 due to the difficult environment resulting from the credit crisis. However, these losses were offset by the net write-back on the provision for impairment on loans amounting to UA 163.28 million of which UA 154.01 million was on loans to Cote d'Ivoire, while the 2007 results reflect a net provision write-back of UA 69.96 million mainly relating to Comoros and Liberia. Specific items that affected income in 2008 included: a) realized and unrealized losses of UA 63.12 million on the trading portfolio embedded in investment income, b) impairment provisions of UA 56.59 million on held-to-maturity and equity investment portfolio, compared with UA 532 thousand in 2007; and c) an additional impairment in 2008 of UA 11.18 million on the investment in Golden Key, a SIV-lite investment that defaulted in 2007 when the impairment was UA 6.69 million. Other income increased in 2008 due mainly to the settlement of the Bank's claim by the liquidators of the former BCCI.

FY 2007 vs. FY 2006

Net operational income increased by UA 136.30 million in 2007 as compared to 2006.

Net interest income increased by UA 9.86 million in 2007 compared to 2006. Loan income increased by UA 12.92 million, or 3.93%, in 2007, mainly due to a higher average loan balance during 2007. Investment income also increased in 2007 by UA 17.88 million, or 8.36%, as a result of higher average investment balances and higher yields, but the increase was more than offset by a UA

25.91 million increase in the interest and amortization of issuance costs and in the net interest on borrowing-related derivatives. In 2007, the Bank also earned income of UA 4.97 million on investments in debt instruments issued by entities in its regional member countries.

Net provisions for impairment on investments in 2007 was UA 532 thousand compared to UA 34.74 million in 2006. There was also a net write-back of UA 69.96 million on the provision for impairment on loans as a result of the arrears clearance of the loans to Liberia and Comoros compared to a charge for impairment of UA 51.69 million in 2006. In 2007, there was an impairment of UA 6.69 million on the Bank's investment in Golden Key, a SIV-lite investment that defaulted in that year.

Non-interest expenses

Non-interest expenses include the administrative expenses, provisions for the depreciation of property, equipment, intangible assets and other sundry expenses. Total administrative expenses relate to the expenses incurred on behalf of the ADF, the NTF and for the operations of the Bank itself. The ADF and NTF reimburse the Bank for their share of the total administrative expenses, based on an agreed-upon cost-sharing formula. Table below shows the breakdown of the net non-interest expenses for the last three years.

<i>In UA Thousands</i>	<i>2008</i>	<i>2007</i>	<i>2006</i>
Personnel Expenses	141,111	141,081	123,234
Other expenses	45,2	39,5	31,106
Total Administrative Expenses	186,37	180,65	154,340
Reimbursable by ADF	(138,104)	(135,848)	(114,561)
Reimbursable by NTF	(1,485)	(2,587)	(2,920)
Net Administrative Expenses	46,783	42,218	36,859
Depreciation – Property, equipment and intangible assets	5,201	5,375	6,233
Sundry (expenses)/gains	2,110	493	(1,678)
Net non-interest expense	54,094	48,086	41,414

FY 2008 vs. FY 2007

Net non-interest expenses which mainly consist of personnel expenses increased from UA 48.09 million in 2007 to UA 54.09 million in 2008. Total administrative expenses, including expenses reimbursable by the ADF and NTF and excluding depreciation, increased 3.17% from UA 180.65 million in 2007 to UA 186.37 million in 2008. The Bank's share of the total administrative expenses increased by UA 4.56 million, or 10.80%, from UA 42.22 million in 2007 to UA 46.78 million in 2008.

FY 2007 vs. FY 2006

Net non-interest expenses increased from UA 41.41 million in 2006 to UA 48.09 million in 2007. Total administrative expenses including expenses reimbursable by the ADF and NTF and excluding depreciation, increased from UA 154.34 million in 2006 to UA 180.65 million in 2007. The Bank's share of the total administrative expenses amounted to UA 42.22 million for 2007, compared to UA 36.86 million for 2006, primarily as a result of increase in personnel expenses.

Financial Condition

Loan disbursements for the year ended December 31, 2008 amounted to UA 727.53 million, representing a decrease of 17.77 percent over the disbursements of UA 884.75 million made during the year ended December 31, 2007. Loan disbursement in 2006 amounted to UA 548.44 million. In 2008, loan repayment amounted to UA 496.69 million compared to UA 704.05 million in 2007 and

UA 706.41 million in 2006.

The Bank's reserves, decreased by UA 56.33 million during the year from UA 2,531.80 million as at December 31, 2007 to UA 2,475.47 million as at December 31, 2008, in large part due to actuarial losses of UA 85.51 million in 2008 (UA 10.82 million in 2007) on the Staff Retirement and Medical Plans that were charged directly against equity in accordance with international financial reporting standards, and losses on available-for sale investments of UA 18.18 million (gains of UA 33.37 million in 2007). These amounts more than offset the net income of UA 47.36 million, after transfers of income approved by the Board of Governors of UA 257.30 million. In 2007, the net income of UA 203.77 million reflected transfers of income of UA 119.90 million.

**REPORT OF THE EXTERNAL AUDITORS AND ADB FINANCIAL STATEMENTS FOR
THE YEARS ENDED 31 DECEMBER 2008, 2007, 2006 and 2005**

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Independent Auditor's Report to the Board of Governors of the African Development Bank
Year ended 31 December 2008

We have audited the accompanying financial statements of the African Development Bank ("the Bank") which comprise the balance sheet as at 31 December 2008 and the income statement, the statement of recognized income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in notes A to W.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the pur-

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pose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Paris La Défense, 31st March 2009

KPMG Audit
A division of KPMG S.A.



Pascal Brouard
Partner

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE AFRICAN DEVELOPMENT BANK

We have audited the accompanying financial statements of the African Development Bank (“the Bank”) which comprise the balance sheet as at 31 December 2007 and the income statement, the statement of recognized income and expense and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes as set out in notes A to V.

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

Management’s Responsibility for the Financial Statements

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

Auditors’ Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements,

whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity’s internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note C which highlights the effect of new and revised international financial reporting standards. For the years ended 31 December 2005 and 2006 the independent auditor issued a qualified opinion for the financial statements because International Financial Reporting Standard IAS 32, “Financial Instruments: Disclosure and Presentation”, required that the Bank’s, member countries’ capital subscriptions be reclassified in the Bank’s financial statements as financial liabilities instead

On 14 February 2008 the International Accounting Standards Board (IASB), issued amendments to IAS1 and IAS32. The Bank's member countries' capital subscriptions are puttable financial instruments that meet the requirements for equity classification under the amended standards. Prior to the amendments, the Bank also classified these financial instruments as equity. The amendments were issued after the balance sheet date, but before the approval of the financial statements. The Bank has opted to early adopt the amended standards which had no effects on the Bank's financial statements.

Paris La Defense, 2nd April 2008

A handwritten signature in black ink, appearing to read "Pascal Brouard".

Pascal Brouard
Partner

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE AFRICAN DEVELOPMENT BANK

We have audited the accompanying annual financial statements of the African Development Bank (the Bank), which comprise the balance sheet as at 31 December 2006 and the income statement, the statement of recognised income and expense and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out in notes A to T. The financial statements have been prepared under the accounting policies set out therein, for the purpose of submitting approved and audited financial statements to the Board of Governors as required by Article 32(d) of the Agreement establishing the Bank. This report is made solely to the Bank's Board of Governors, as a body, in accordance with Article 32(d) of the Agreement establishing the Bank. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

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

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

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

Basis for Qualified Opinion

As set out under the Member Countries' Subscription accounting policy in Note B to the financial statements, the Agreement Establishing the Bank provides that a member country (or "State") may withdraw from the Bank at any time (defined as the "termination date"). Exercising such right of withdrawal requires the Bank to arrange for the repurchase of such member country's shares as part of the settlement of accounts with that State. In our view, although the Bank is able to withhold any amount due to the member country for its shares so long as the State remains liable as borrower or guarantor to the Bank, and notwithstanding the fact that the member country remains liable for its direct and contingent liabilities to the Bank as long as any part of the loans or guarantees contracted before the termination date is outstanding, the Bank does not have the unconditional right to avoid settling its contractual obligations at termination date to the member country. Therefore, in accordance with International Financial Reporting Standard IAS 32, "Financial Instruments: Disclosure and Presentation", member countries' capital stock should be reclassified in the Bank's financial statements as financial liabilities instead of equity.

The impact of this accounting treatment would be to reclassify credit balances of UA 2,303,061,682 and UA 2,263,445,736 of capital stock and to reclassify debit balances of UA 155,742,042 and UA 151,758,878 of cumulative exchange adjustment on subscriptions from equity to liabilities in the balance sheet of the Bank for the years ended 31 December 2006 and 31 December 2005 respectively.

Disagreement with management – Qualified Opinion

In our opinion, except for the effect on the annual financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
London
30 March 2007

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE AFRICAN DEVELOPMENT BANK

We have audited the financial statements of the African Development Bank (the Bank) for the year ended 31 December 2005 which comprise the balance sheet, the statement of income and expenses, the statement of recognised income and expense, statement of cash flows and the related notes A to T. These financial statements have been prepared under the accounting policies set out therein, for the purpose of submitting approved and audited financial statements to the Board of Governors as required by Article 32(d) of the Agreement establishing the Bank.

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

Respective responsibilities of management and auditor

These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates and judgments made by the Bank's management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinion.

Disagreement on reclassification of the Bank's capital from equity to liabilities

As set out under the Member Countries' Subscription accounting policy in Note B to the financial statements, the Agreement Establishing the Bank provides that a member country (or "State") may withdraw from the Bank at any time (defined as the "termination date"). Exercising such right of withdrawal requires the Bank to arrange for the repurchase of such member country's shares as part of the settlement of accounts with that State. In our view, although the Bank is able to withhold any amount due to the member country for its shares so long as the State remains liable as borrower or guarantor to the Bank, and notwithstanding the fact that the member country remains liable for its direct and contingent liabilities to the Bank as long as any part of the loans or guarantees contracted before the termination date is outstanding, the Bank does not have the unconditional right to avoid settling its contractual obligations at termination date to the member country. Therefore, in accordance with International Financial Reporting Standard IAS 32, member countries' capital stock should be reclassified in the Bank's financial statements as financial liabilities instead of equity.

The impact of this accounting treatment would be to reclassify credit balances of UA 2,263,445,736 and UA 2,213,505,210 of capital stock and to reclassify debit balances of UA 151,758,878 and UA 147,203,564 of cumulative exchange adjustment on subscriptions from equity to liabilities in the balance sheet of the Bank for the years ended 31 December 2005 and 31 December 2004 respectively. A further impact would be to reduce the Bank's net income by UA 144,000,000 and UA 114,640,000 which relates to the expensing of the Board of Governors' approved distributions of income in the years ended 31 December 2005 and 31 December 2004 respectively. The total reserves of the Bank remain unchanged as a result of this reduction in net income relating to the Board of Governors' approved distributions of income.

Qualified opinion arising from disagreement on reclassification of the Bank's capital from equity to liabilities

In our opinion, except for the effects on the financial statements of the matter referred to in the preceding two paragraphs, the financial statements present fairly, in all material respects the financial position of the Bank as of 31 December 2005, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Deloitte & Touche LLP
London
United Kingdom
13 April 2006

AFRICAN DEVELOPMENT BANK
BALANCE SHEET ASSETS
For the years ended 31 December, 2008, 2007, 2006, and 2005

(Expressed in Thousands of UA & US note B)

ASSETS	2008		2007		2006		2005	
	UA	USD	UA	USD	UA	USD	UA	USD
CASH	592,644	912,832	95,528	150,958	129,329	194,562	70,340	100,535
DEMAND OBLIGATIONS	3,801	5,855	3,801	6,007	3,801	5,717	3,801	5,433
TREASURY INVESTMENTS (Note F)	4,575,756	7,047,900	5,328,534	8,420,416	6,093,361	9,166,852	5,155,053	7,367,963
DERIVATIVE ASSETS (Note G)	736,091	1,133,779	425,338	672,140	273,310	411,168	285,927	408,667
NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL (Note H)	11,861	18,269	15,385	24,312	20,383	30,665	25,897	37,014
ACCOUNTS RECEIVABLE								
Accrued income and charges receivable on loans (Note I)	336,466	518,248	267,149	422,162	232,935	350,428	233,704	334,026
Other accounts receivable	312,549	481,410	303,732	479,973	368,037	553,675	322,676	461,191
DEVELOPMENT FINANCING ACTIVITIES	649,015	999,658	570,881	902,135	600,972	904,103	556,380	795,217
Loans, net (Notes D & I)	5,731,972	8,828,784	5,344,073	8,444,971	5,076,771	7,637,495	5,317,829	7,600,613
Equity participations	188,781	290,774	189,248	299,059	119,119	179,203	168,697	241,113
Other debt securities (Note K)	68,797	105,966	94,622	149,526	-	-	-	-
	5,989,550	9,225,524	5,627,943	8,893,556	5,195,890	7,816,698	5,486,526	7,841,726
OTHER ASSETS								
Property, equipment and intangible assets (Note L)	11,731	18,069	14,362	22,696	14,241	21,424	16,350	23,368
Miscellaneous	498	767	667	1,054	713	1,072	628	899
	12,229	18,836	15,029	23,750	14,954	22,496	16,978	24,267
TOTAL ASSETS	12,570,947	19,362,653	12,082,439	19,093,274	12,332,000	18,552,261	11,600,902	16,580,822

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

AFRICAN DEVELOPMENT BANK
BALANCE SHEET
LIABILITIES RESERVES AND CAPITAL

For the years ended 31 December, 2008, 2007, 2006 and 2005

(Expressed in Thousands of UA & US\$ - Note B)

LIABILITIES & EQUITY	2008		2007		2006		2005*	
	UA	US\$	UA	US\$	UA	US\$	UA	US\$
ACCOUNTS PAYABLE								
Accrued financial charges	398,733	614,157	418,706	661,660	328,751	494,573	250,404	357,896
Other accounts payable	444,389	684,479	165,633	261,742	320,209	481,722	247,819	354,200
	843,122	1,298,636	584,339	923,402	648,960	976,295	498,223	712,096
SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND PAYABLE FOR CASH								
COLLATERAL RECEIVED (Note F)			-	-	877,833	1,320,611	466,961	667,414
DERIVATIVE LIABILITIES (Note G)								
	360,299	554,958	591,047	934,002	481,937	725,026	317,245	453,429
BORROWINGS (Note M)								
	6,707,278	10,331,019	6,198,873	9,795,769	5,870,469	8,831,535	5,940,398	8,490,433
EQUITY (Note N)								
Capital								
Subscriptions paid	2,345,804	3,613,172	2,336,457	3,692,186	2,303,062	3,464,726	2,263,446	3,235,075
Cumulative Exchange Adjustment on Subscriptions paid (net of CEAS)	(161,028)	(248,027)	(160,075)	(252,959)	(155,742)	(234,298)	(151,759)	(216,905)
	2,184,776	3,365,145	2,176,382	3,439,227	2,147,320	3,230,428	2,111,687	3,018,170
Reserves								
Retained earnings	2,460,137	3,789,275	2,498,288	3,947,920	2,305,345	3,468,161	2,257,678	3,226,831
Fair value gains on available-for-sale equity investments	15,335	23,620	33,510	52,954	136	205	8,710	12,449
Cumulative Currency Translation Adjustments								
Total reserves	2,475,472	3,812,895	2,531,798	4,000,874	2,305,481	3,468,366	2,266,388	3,239,280
Total equity	4,660,248	7,178,040	4,708,180	7,440,101	4,452,801	6,698,794	4,378,075	6,257,450
TOTAL LIABILITIES & EQUITY	12,570,947	19,362,653	12,082,439	19,093,274	12,332,000	18,552,261	11,600,902	16,580,822

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

STATEMENT OF INCOME AND EXPENSES
For the years ended 31 December, 2008, 2007, 2006, and 2005

(Expressed in Thousand in UA & US\$ - Note B)

	2008		2007		2006		2005*	
	UA	US\$	UA	US\$	UA	US\$	UA	US\$
OPERATIONAL INCOME & EXPENSES								
Income from:								
Income from loans (Note O)	352,277	542,601	341,945	540,359	329,027	494,988	324,230	463,413
Income from investments and related derivatives (Note O)	202,884	312,496	231,707	376,727	213,824	321,676	155,375	222,073
Other debt securities	9,288	14,306	4,966	7,848	-	-	-	-
Total income from loans and investments	564,449	869,404	578,618	914,361	542,851	816,664	479,605	685,486
Borrowing expenses (Note P)								
Interest and amortized issuance costs	(251,827)	(387,882)	(268,023)	(423,543)	(245,413)	(369,200)	(218,516)	(312,318)
Net interest on borrowing-related derivatives	(65,788)	(101,331)	(62,706)	(99,091)	(35,137)	(52,860)	1,399	1,999
Unrealized gain/(loss) on fair-valued borrowings and related derivatives	12,431	19,147	21,239	33,563	10,672	16,055	(30,773)	(43,983)
Unrealized gain on derivatives on non fair-valued borrowings and others	(16,677)	(25,687)	34,774	54,952	21,067	31,694	7,219	10,318
Provision for impairment (Note I)								
Loan principal	101,479	156,305	17,453	27,580	(22,566)	(33,949)	21,169	30,256
Loan charges	61,798	95,186	52,503	82,968	(29,120)	(43,808)	(7,317)	(10,457)
Provision for impairment on investments	(56,590)	(87,164)	(532)	(841)	(34,745)	(52,270)	750	1,072
Translation (losses)/ gains	(9,167)	(14,120)	(8,895)	(14,056)	4,101	6,169	1,577	2,254
Other income	18,647	28,721	7,323	11,572	23,736	35,708	15,725	22,475
Net operational income	358,755	552,580	371,754	587,466	235,446	354,203	270,838	387,102
OTHER EXPENSES								
Administrative expenses (Note Q)	(46,783)	(72,058)	(42,218)	(66,715)	(36,859)	(55,450)	(41,675)	(59,565)
Depreciation - Property, equipment and intangible assets (Note L)	(5,201)	(8,011)	(5,375)	(8,494)	(6,233)	(9,377)	(7,101)	(10,149)
Sundry (expenses)/gains	(2,110)	(3,250)	(493)	(779)	1,678	2,524	(741)	(1,059)
Total other expenses	(54,094)	(83,319)	(48,086)	(75,988)	(41,414)	(62,303)	(49,517)	(70,773)
Governors	304,661	469,260	323,668	511,478	194,032	291,900	221,321	316,329
Transfers of income approved by the Board of Governors (Note N)	(257,300)	(396,311)	(119,902)	(189,475)	(139,200)	(209,412)	(144,000)	(205,819)
NET INCOME	47,361	72,949	203,766	322,003	54,832	82,488	77,321	110,510

*

**STATEMENT OF RECOGNIZED
INCOME AND EXPENSE
For the years ended 31 December, 2008,
2007, 2006, and 2005**

(UA thousands – Note B)

	2008		2007		2006		2005	
	UA	US\$	UA	US\$	UA	US\$	UA	US\$
Gain /(loss) on available for-sale-investments taken to equity	(18,175)	(27,994)	33,374	52,739	(8,574)	(12,897)	6,243	8,923
Actuarial losses on defined benefit plans	(85,512)	(131,712)	(10,823)	(17,103)	(7,165)	(10,779)	(3,785)	(5,410)
Net income /(loss) recognized directly in equity	(103,687)	(159,706)	22,551	35,636	(15,739)	(23,676)	2,458	3,513
Net income for the year	47,361	72,949	203,766	322,001	54,832	82,489	77,321	110,513
TOTAL RECOGNIZED INCOME AND EXPENSE FOR THE YEAR	(56,326)	(86,757)	226,317	357,637	39,093	58,813	79,779	114,026

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

STATEMENT OF CASH FLOWS
For the years ended 31 December, 2008, 2007, 2006, and 2005
(Expressed in Thousands of UA & US\$ - Note B)

	2008		2007		2006		2005*	
	UA	US\$	UA	US\$	UA	US\$	UA	US\$
CASH FLOW FROM								
Operating activities:								
Net income	47,361	72,949	203,766	322,001	54,832	82,489	77,321	110,513
Adjustments to reconcile net income to net cash provided by operating activities:								
Depreciation	5,201	8,011	5,375	8,494	6,233	9,377	7,101	10,149
Provision for impairment on loan principal and charges	(163,277)	(251,491)	(69,956)	(110,548)	51,686	77,757	(13,853)	(19,799)
Unrealized (gains)/ losses on investments and related derivatives	5,221	8,042	(693)	(1,095)	(2,638)	(3,969)	7,653	10,938
Amortization of discount or premium on held-to-maturity investments	(2,389)	(3,680)	(5,645)	(8,920)	2,814	4,233	6,027	8,614
Amortization of borrowing issuance costs	2,805	4,320	3,333	5,267	2,936	4,417	(2,687)	(3,840)
Unrealized (gains)/losses on fair value borrowings and derivatives	4,246	6,540	(56,013)	(88,514)	(48,799)	(73,414)	90,647	129,559
Provision for impairment on equity investments and receivables	56,590	87,163	7,222	11,412	34,745	52,270	(750)	(1,072)
Translation losses/(gains)	9,167	14,120	8,895	14,056	(4,101)	(6,171)	(1,577)	(2,254)
Share of profits in associate	(36)	(55,450)	(479)	(757)	(379)	(566)	(198)	(283)
Net movement in derivatives	(2,145)	(3,304)	(51,659)	(81,634)	130,972	197,035	(39,863)	(56,975)
Changes in accrued income on loans	10,551	16,251	15,640	24,715	(4,877)	(7,336)	(22,319)	(31,900)
Changes in accrued financial charges	(21,621)	(33,302)	90,409	142,868	79,132	119,046	68,679	98,161
Changes in other receivables and payables	140,352	216,180	(123,330)	(194,892)	19,412	29,202	(91,477)	(130,745)
Net cash provided by operating activities	92,026	141,745	21,561	34,072	321,968	484,370	84,704	121,066
Investing, lending and development activities:								
Disbursements on loans	(727,534)	(1,120,599)	(884,747)	(1,398,121)	(548,440)	(825,073)	(595,350)	(850,916)
Repayments of loans	496,690	765,037	704,045	1,112,567	706,408	1,062,721	713,994	1,020,490
Investments maturing after 3 months of acquisition:								
Held-to-maturity portfolio	(145,510)	(224,125)	(79,764)	(126,047)	(410,735)	(617,910)	(63,070)	(90,144)
Trading portfolio	536,767	826,766	359,145	567,538	(85,443)	(128,541)	(134,305)	(191,958)
Other debt securities	-	-	(92,801)	(146,648)	-	-	-	-
Changes in other assets	(2,400)	(3,697)	(5,451)	(8,614)	(4,209)	(6,332)	(5,940)	(8,490)
Equity participations movement	(36,693)	(56,517)	(40,150)	(63,447)	2,919	4,392	2,013	2,877
Net cash (used in)/provided by investing, lending and development activities	121,320	186,866	(39,723)	(62,772)	(339,500)	(510,743)	(82,658)	(118,141)

	2008		2007		2006		2005*	
	UA	US\$	UA	US\$	UA	US\$	UA	US\$
Financing activities:								
New issues on borrowings	1,282,826	1,975,898	779,649	1,232,040	730,741	1,099,327	544,479	778,208
Repayments on borrowings	(1,164,877)	(1,794,225)	(402,541)	(636,115)	(621,486)	(934,963)	(541,209)	(773,534)
Net cash from capital subscriptions	12,064	18,582	33,363	52,722	40,302	60,630	52,220	74,636
Net cash provided by financing activities	130,013	200,255	410,471	648,646	149,557	224,994	55,490	79,310
Effect of exchange rate changes on cash and cash equivalents	(17,613)	(27,129)	(12,363)	(19,536)	(18,150)	(27,304)	2,817	4,026
Increase/ (decrease) in cash and cash equivalent	325,746	501,737	379,946	600,410	113,875	171,313	60,353	86,261
Cash and cash equivalents at the beginning of the year	1,085,836	1,672,481	705,890	1,115,482	592,015	890,629	531,662	759,889
Cash and cash equivalents at the end of the year	1,411,582	2,174,217	1,085,836	1,715,892	705,890	1,061,942	592,015	846,150
Composed of:								
Investments maturing within 3 months of acquisition								
Held-to-maturity portfolio	-	-	24,114	38,106	80,075	120,464	34,931	49,926
Trading portfolio	818,938	1,261,386	966,194	1,526,828	1,374,319	2,067,526	953,705	1,363,102
Securities sold under agreements to repurchase and payable for cash collateral received	-	-	-	-	(877,833)	(1,320,611)	(466,961)	(667,413)
Cash	592,644	912,832	95,528	150,958	129,329	194,563	70,340	100,535
Cash and cash equivalents at the end of the year	1,411,582	2,174,217	1,085,836	1,715,892	705,890	1,061,942	592,015	846,150
Supplementary disclosure:								
Movement resulting from exchange rates:								
Loans	(116,054)	(178,754)	(70,008)	(110,630)	32,776	49,309	18,626	26,622
Borrowings	231,589	356,710	(77,088)	(121,818)	(251,558)	(378,444)	186,281	266,246
Currency swaps	(148,558)	228,819	89,729	141,794	163,523	246,004	(134,818)	(192,691)

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

Restated per Note C

NOTES TO THE FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

NOTE A – OPERATIONS AND AFFILIATED ORGANIZATIONS

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Revenue Recognition

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

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

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

Functional and Presentation Currencies

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

Currency Translation

Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated into UA at rates prevailing at the balance sheet date. The rates used for translating currencies into UA at December 31, 2008 and 2007 are reported in Note W-1. Non-monetary assets and liabilities are translated into UA at historical rates. Translation differences are included in the determination of net income. Capital subscriptions are recorded in UA at the rates prevailing at the time of receipt. The translation difference relating to payments of capital subscriptions is reported in the financial statements as the Cumulative Exchange Adjustment on Subscriptions (CEAS). This is composed of the difference between the UA amount at the predetermined rate and the UA amount using the rate at the time of receipt. When currencies are converted into other currencies, the resulting gains or losses are included in the determination of net income.

Member Countries' Subscriptions

Although the Agreement establishing the ADB allows for a member country to withdraw from the Bank, no member has ever withdrawn its membership voluntarily, nor has any indicated to the Bank that it intends to do so. The stability in the membership reflects the fact that the members are independent African and non-African countries, and that the purpose of the Bank is to contribute to the sustainable economic development and social progress of its regional member countries individually and jointly. Accordingly, as of December 31, 2008, the Bank did not expect to distribute any portion of its net assets due to member country withdrawals.

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

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

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

Employee Benefits

1) Pension Obligations

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

2] Post-Employment Medical Benefits

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

Financial Instruments

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

1] Financial Assets

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

i) *Financial Assets at Fair Value through Profit or Loss*

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

ii) *Loans and Receivables*

The Bank has classified demand obligations, accrued income and receivables from loans and investments and other sundry amounts as receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Loans and receivables are carried at amortized cost using the effective interest method.

iii) *Held-to-Maturity Investments*

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

iv) *Available-for-Sale Financial Assets*

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

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

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

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

2) Financial Liabilities

i) Borrowings

In the ordinary course of its business, the Bank borrows funds in the major capital markets for lending and liquidity management purposes. The Bank issues debt instruments denominated in various currencies, with differing maturities at fixed or variable interest rates. The Bank's borrowing strategy is driven by three major factors, namely: timeliness in meeting cash flow requirements, optimizing asset and liability management with the objective of mitigating exposure to financial risks, and providing cost-effective funding. In addition to long and medium-term borrowings, the Bank also undertakes short-term borrowing for cash and liquidity management purposes only. Borrowings not designated at fair value through profit or loss are carried on the balance sheet at amortized cost with interest expense determined using the effective interest method. Borrowing expenses are recognized in profit or loss and include the amortization of issuance costs, discounts and premiums, which is determined using the effective interest method. Borrowing activities may create exposure to market risk, most notably interest rate and currency risks. The Bank uses derivatives and other risk management approaches to mitigate such risks. Details of the Bank's risk management policies and practices are contained in Note D below. Certain of the Bank's borrowings obtained prior to 1990 are interest-free loans from the governments of certain member countries of the Bank. In accordance with the revised IAS 20 – *Accounting for Government Grants and Disclosure of Government Assistance*, such borrowings represent a form of government assistance, the benefits of which are not quantified by the imputation of interest. Accordingly, such borrowings are carried at the amounts at which they are repayable on their due dates.

ii) Financial Liabilities at Fair Value through Profit or Loss

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

iii) Other Liabilities

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

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

Derivatives

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

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

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

Impairment of Financial Assets

1] Assets Carried at Amortized Cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Interest and charges are accrued on all loans including those in arrears.

2] Available-for-Sale Assets

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

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

Offsetting Financial Instruments

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

Fair Value Disclosure

In liquid or active markets, the most reliable indicators of fair value are quoted market prices. When markets become illiquid or less active, market quotations may not represent the prices at which orderly transactions would take place between willing buyers and sellers and therefore may require adjustment in the valuation process. Consequently, in an inactive market, price quotations are not necessarily determinative of fair values. Considerable judgment is required to distinguish between active and inactive markets. Following an assessment of transaction volumes, the degree of consistency in pricing over time and between pricing sources, and the differences in bid and ask prices the Bank concluded that the markets of most of its existing bond issues were inactive at December 31, 2008.

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

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

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

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

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

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

Cash: The carrying amount is the fair value.

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

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

inactive or illiquid, appropriate adjustments are made to the relevant observable market data to arrive at the Bank's best estimate of the price at which the Bank could have bought back the borrowing at the balance sheet date.

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

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

Loans: The Bank does not sell its loans, nor does it believe there is a comparable market for its loans. The fair value of loans reported in these financial statements represents management's best estimates of the present value of the expected cash flows of these loans. For multi-currency and single currency fixed rate loans, fair values are estimated using a discounted cash flow model based on the year-end variable lending rate in that currency, adjusted for impairment. For all loans not impaired, fair value adjustments are made to reflect expected loan losses. The estimated fair value of loans is disclosed in Note I.

Day One Profit and Loss

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

Investment in Associate

Under IAS 28, "Investments in Associates", the ADF and any other entity in which the Bank has significant influence are considered associates of the Bank. An associate is an entity over which the Bank has significant influence, but not control, over the entity's financial and operating policy decisions. The relationship between the Bank and the ADF is described in more detail in Note J. IAS 28 requires that the equity method be used to account for investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's income statement. The subscriptions by the Bank to the capital of the ADF occurred between 1974 and 1990. At December 31, 2008, such subscriptions cumulatively represented approximately 1% of the economic interest in the capital of the ADF. Although ADF is a not-for-profit entity and has never distributed any dividend to its subscribers since its creation in 1972, the revisions to IAS 28 require that the equity method be used to account for the Bank's investment in the ADF. Furthermore, in accordance with IAS 36, the net investment in the ADF is assessed for impairment. Cumulative losses as measured under the equity method are limited to the investment's original cost as the ADB has not guaranteed any potential losses of the ADF.

Property and Equipment

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

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

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

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

Intangible Assets

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

Leases

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

Transfers and Distributions Approved by the Board of Governors

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

Retained Earnings

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

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

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

1] Significant Judgments

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

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

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

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

2] Significant estimates

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

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

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

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

Reclassifications

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current year. These reclassifications did not affect prior year's reported result.

NOTE C – THE EFFECT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

On February 14, 2008, the International Accounting Standards Board (IASB) issued amendments to IAS 32 and IAS 1. The amendments require an entity to classify as part of its equity those financial instruments that it issues that are either (a) puttable financial instruments, or (b) financial instruments or components of financial instruments that impose an obligation to deliver to another party a pro-rata share of its net assets only on liquidation, if certain criteria are met. Prior to these amendments, such financial instruments were to be classified as liabilities. The amendments are effective for annual periods beginning on or after January 1, 2009, with early adoption permitted. Subscriptions by the member countries to the Bank's capital described in Note B are puttable financial instruments that meet the requirements for equity classification under the amended standards. While the standards prior to the amendments required liability classification by the issuer of puttable financial instruments, the Bank has always reported the subscriptions by the member countries to its capital as equity. Under the Agreement establishing the Bank, such instruments provide an equal and residual right to its member countries that are subordinate to the rights of its creditors. The equity classification requirements under the amended standards are fully consistent with and confirm the Bank's prior classification of these instruments as equity. The amendments to IAS 32 and IAS 1 relating to puttable financial instruments were issued after the December 31, 2007 balance sheet date but before the approval of the financial statements. The Bank early adopted the amendments for the 2007 financial statements. The application of these amended standards had no effects on the Bank's financial statements.

On March 5, 2009, the International Accounting Standards Board also issued amendments to the disclosure requirements under IFRS 7. These amendments require additional disclosures of fair value measurements in a three-level hierarchy reflecting the relative reliability of such measurements based on the significance of the inputs used. Under this hierarchy, the most reliable measurements are those based on unadjusted quoted prices in active markets for identical assets or liabilities. The Bank has early-adopted this amendment, which becomes effective for financial statements for the annual periods beginning on or after January 1, 2009.

At the date of authorization of these financial statements, certain new and amended International Financial Reporting Standards and Interpretations have been issued and will become effective for periods after December 31, 2008. IFRS 8, *Operating Segments*, which becomes effective for financial statements for the period beginning January 1, 2009, replaces the reporting requirements of IAS 14, Segment Reporting, and requires alignment of the segments in the financial statements with those used internally by management in the allocation of resources and assessing performance. The amendments to IAS 1 require the Bank to present in separate statements, changes in equity related to its shareholders and those related to comprehensive income (i.e. non-shareholder-related components), including related reclassification adjustments of those components. It also requires the presentation of a balance sheet as at the beginning of the earliest comparative period in a complete set of financial statements when the Bank applies an accounting policy retrospectively or makes a retrospective restatement. None of these new standards or amendments is expected to have a significant impact on the Bank's financial statements.

NOTE D – RISK MANAGEMENT POLICIES AND PROCEDURES

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

The degree of risk the Bank is willing to assume to achieve its development mandate is limited by its risk-bearing capacity. This institutional risk appetite is embodied in the Bank's capital adequacy policy and its commitment to maintain a prudent risk profile consistent with the highest credit rating.

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

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

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

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

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

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

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

The following sections describe in detail the manner in which the individual sources of risk are managed by the Bank.

Credit Risk

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

The Bank manages three principal sources of credit risk: (i) sovereign credit risk on its public sector portfolio; (ii) non-sovereign credit risk on its portfolio of private sector, non-sovereign and enclave projects; and (iii) counterparty credit risk on its portfolio of treasury investments and derivative transactions. These risks are managed within an integrated framework of credit policies, guidelines and processes, which are described in more detail in the following sections.

1) Sovereign Credit Risk

When the Bank lends to public sector borrowers, it generally requires a full sovereign guarantee or the equivalent from the borrowing member state. In extending credit to sovereign entities, it is exposed to country risk which includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk through financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessments. These include the assessment of the country's macroeconomic performance as well as its sociopolitical conditions and future growth prospects.

Country Exposure

The Bank's exposures at December 31, 2008 to borrowing member countries as well as the private sector and enclave projects from its lending activities are summarized below:

(Amounts in UA thousands)

Country	No. of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Angola	2	765	-	-	765	0.01
Botswana	6	46,434	38,967	-	7,467	0.13
Cameroon	6	50,474	-	17,194	33,280	0.57
Congo	2	32,945	-	-	32,945	0.57
Côte d'Ivoire***	14	311,793	-	2,418	309,375	5.30
Democratic Republic of Congo	10	760,000	-	-	760,000	13.03
Egypt	12	1,017,664	-	373,301	644,363	11.04
Equatorial Guinea	3	66,028	66,028	-	-	-
Ethiopia	3	16,441	-	-	16,441	0.28
Gabon	17	415,513	-	256,217	159,296	2.73
Ghana	1	1,324	-	-	1,324	0.02
Guinea	4	10,502	-	-	10,502	0.18
Kenya	4	6,063	-	-	6,063	0.10
Malawi	1	4,051	-	-	4,051	0.07
Mauritania	2	22,964	-	-	22,964	0.39
Mauritius	9	49,270	-	29,395	19,875	0.34
Morocco	27	2,035,212	-	590,406	1,444,806	24.76
Namibia	8	75,691	-	15,449	60,242	1.03
Nigeria	11	168,596	-	-	168,596	2.89
Senegal	2	25,273	-	-	25,273	0.43
Seychelles	5	3,264	-	-	3,264	0.06
Somalia**	3	4,052	-	-	4,052	0.07
South Africa	4	151,120	-	-	151,120	2.60
Sudan**	5	58,323	-	-	58,323	1.00
Swaziland	9	70,878	-	6,831	64,047	1.10
Tanzania	1	2,602	-	-	2,602	0.04
Tunisia	28	1,416,202	20,700	329,170	1,066,332	18.28
Uganda	1	595	-	-	595	0.01
Zambia	3	6,710	-	-	6,710	0.12
Zimbabwe**	12	197,749	-	-	197,749	3.39
Multinational	4	53,565	-	4,478	49,087	0.84
Total Public Sector	219	7,082,063	125,695	1,624,859	5,331,509	91.38
Total Private Sector	53	1,717,770	286,638	928,026	503,106	8.62
Total	272	8,799,833	412,333	2,552,885	5,834,615	100.00

* Excludes fully repaid loans and cancelled loans.

** Country in arrears as at December 31, 2008.

*** The arrears clearance for Côte d'Ivoire took place before the approval of these financial statements (see note U).

Slight differences may occur in totals due to rounding.

Systematic Credit Risk Assessment

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

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

These sovereign risk credit ratings are derived from a risk assessment on five risk indices that include macroeconomic performance, debt sustainability, sociopolitical factors, business environment and portfolio performance. These five risk indices are combined to derive a composite sovereign country risk index and a composite non-sovereign country risk index which in turn are converted into separate country risk rating for the sovereign and non-sovereign portfolios. These country risk ratings are validated against the average country risk ratings from accredited rating agencies and other specialized international bodies. The ALCO reviews the country ratings on a quarterly basis to ensure compliance with country exposure limits, changes in country credit risk conditions, and to approve changes in loss provisioning, if any.

Portfolio Risk Monitoring

Despite the fact that the weighted average credit rating of the sovereign portfolio weakened slightly in 2008, the overall risk profile of the Bank's sovereign guaranteed portfolio remained relatively stable. The portfolio's weighted-average risk rating at the end of 2008 remained virtually the same at 2.68 compared to 2.67 at the end of 2007. The distribution of the sovereign portfolio across the Bank's five credit risk classes is shown in the table below.

Risk Profile of the Outstanding Sovereign-Guaranteed Loan Portfolio					
	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2008	37%	33%	6%	16%	8%
2007	37%	31%	8%	15%	9%
2006	28%	35%	10%	17%	10%
2005	26%	26%	18%	17%	13%
2004	28%	28%	21%	11%	12%
2003	25%	32%	21%	16%	6%

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

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

To cover potential unexpected credit-related losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for sovereign credit risks. The Bank's capital adequacy policy articulates differentiated risk capital requirements for all credit-sensitive assets (loans and equity investments) plus contingent liabilities (guarantees and client risk management products) in each risk class¹. At the end of 2008, the Bank's public sector loan portfolio used up 40% of the Bank's total risk capital based on the Bank's capital adequacy framework. This compares with 37% at the end of 2007 and reflects the increased demand for sovereign products. The Bank defines risk capital as the sum of paid-in capital plus accumulated reserves net of translation adjustments. Callable capital is not included in the computation of risk capital.

2] Non-Sovereign Credit Risk

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

To assess the credit risk of non-sovereign projects or facilities, the Bank uses a similar uniform internal credit risk rating as for sovereign projects. However, these internal credit ratings are derived on the basis of four major groups of factors.

The first factor involves the overall evaluation and assessment of the project company's financial strength. This assessment looks at: 1) capacity of the project to generate sufficient cash flow to service its debt; 2) the company's operating performance and profitability; 3) the project company's capital structure, financial flexibility and liquidity positions.

Secondly, the following, four main non-financial parameters are analyzed: 1) the outlook of the industry in which the project company operates; 2) the competitive position of the project company within the industry; 3) the strength of the project company's management with particular emphasis on its ability to deal with adverse conditions; 4) the quality of the information on which the analysis is based.

Thirdly, the risk factors that consider the structure of the facility in terms of maturity, the existence of third party guarantee(s), the value of any assigned collateral and other credit enhancement are extensively examined.

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

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

In 2008, the Bank increased its exposure to the non-sovereign loan and equity portfolios. The weighted-average risk rating improved marginally from 3.82 at the end of 2007 to 3.66 at year-end 2008. The distribution of the non-sovereign portfolio across the Bank's five credit risk classes is shown in the table below.

¹ Reflecting its higher risk operating environment and unavoidable portfolio concentrations, the Bank requires risk capital backing that is three to ten times more conservative than BIS commercial banking standards. Very low risk = 25%, low risk = 28%, moderate risk = 35%, high risk = 50%, very high risk = 75%, and equity investments = 100%.

Risk Profile of the Outstanding Non-Sovereign Loan and Equity Portfolio					
	Very Low Risk	Low Risk	Moderate Risk	High Risk	Very High Risk
2008	13%	16%	41%	28%	2%
2007	8%	10%	46%	31%	5%
2006	16%	15%	52%	6%	11%
2005	14%	20%	56%	7%	3%
2004	15%	14%	55%	10%	6%
2003	-	20%	62%	10%	8%

In compliance with the revised IFRS, the Bank no longer makes general provisions to cover the expected losses in the performing non-sovereign portfolio. For the non-performing portfolio, the Bank makes a specific provision based on an assessment of the credit impairment, or incurred loss, on each loan. At the end of 2008, the impairment allowance to cover the incurred loss on impaired loans in the non-sovereign portfolio was UA 12.39 million compared to UA 12.13 million in 2007 because of the stability in the size of the portfolio of impaired non-sovereign loans.

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

To cover potential unexpected credit-related losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for non-sovereign credit risks. At the end of 2008, the Bank's non-sovereign portfolio required as risk capital approximately 7.1% of the Bank's total on-balance sheet risk capital sources, compared to 5.3% at the end of 2007. This level was still well below the limit of 20% determined by the Bank for total non-sovereign operations.

Credit Exposure Limits

The Bank operates a system of exposure limits to ensure the maintenance of an adequately diversified portfolio. The Bank manages credit risk at the global level (combined sovereign guaranteed and non-sovereign guaranteed portfolios) by ensuring that in the aggregate, the total country exposure limit does not exceed 20% of the maximum sustainable portfolio. The maximum sustainable portfolio is determined as the largest outstanding portfolio (outstanding loans plus potential new lending) that can be supported by the current level of risk capital applying the Bank's capital adequacy policy. Each specific country limit is based on the economic potential of the country and perceived risk level. Country exposure limits are reviewed annually and are used as a risk-based benchmark to plan the Bank's medium term country assistance strategies.

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

3] Counterparty Credit Risk

In the normal course of business, the Bank utilizes various financial instruments to meet the needs of its borrowers, manage its exposure to fluctuations in market interest and currency rates, and to temporarily invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Bank.

Given the nature of the Bank's business, it is not possible to completely eliminate counterparty credit risk, however, the Bank minimizes this risk by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures.

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

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

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

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

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2			AA-/Aa3	AAA/Aaa
Government Agencies and Supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
MBS/ABS	No maturity limit, but repayment projections mandatory					

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

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

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

The counterparty credit exposure of the investment and derivative portfolios continues to be predominantly AA or higher rated as shown in the table below. The increase in the AAA rated exposure reflects the increase in investments in agency and supranational securities. The impact of the on-going worldwide financial crisis is reflected by a sharp increase in exposure to lower rated counterparties.

Credit Risk Profile of the Investment and Derivative Portfolios			
	AAA	AA+ to AA-	A+ and lower
2008	59%	21%	20%
2007	43%	54%	3%
2006	56%	39%	5%
2005	56%	36%	8%
2004	62%	36%	2%
2003	67%	27%	6%

To cover potential unexpected credit losses due to extreme and unpredictable events, the Bank maintains a conservative risk capital cushion for counterparty credit risks in line with the current BIS standards. At the end of 2007 and 2008, the Bank's counterparty credit portfolio including all investments and derivative instruments required as risk capital 2.0% of the Bank's total on-balance sheet risk capital sources.

Liquidity Risk

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

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

The contractual maturities of financial liabilities and future interest payments at December 31, 2008 and 2007 were as follows:

Contractual Maturities of Financial Liabilities and Future Interest Payments at December 31, 2008

(UA thousands)

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

Contractual Maturities of Financial Liabilities and Future Interest Payments at December 31, 2007

(UA thousands)

	Carrying Amount	Contractual Cash Flow	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years
Derivative financial liabilities								
Derivative liabilities	172,458	651,235	42,078	49,125	46,498	(18,772)	1,633	530,673
Borrowings at fair value	5,226,279	6,468,699	1,560,753	1,119,970	1,200,637	257,862	444,335	1,885,142
	<u>5,398,737</u>	<u>7,119,934</u>	<u>1,602,831</u>	<u>1,169,095</u>	<u>1,247,135</u>	<u>239,090</u>	<u>445,968</u>	<u>2,415,815</u>
Non derivative financial liabilities								
Accounts payable	584,339	584,339	584,339	-	-	-	-	-
Borrowings at amortized cost	972,594	1,437,331	232,416	47,693	47,647	47,600	47,559	1,014,416
	<u>1,556,933</u>	<u>2,021,670</u>	<u>816,755</u>	<u>47,693</u>	<u>47,647</u>	<u>47,600</u>	<u>47,559</u>	<u>1,014,416</u>
Total financial liabilities	6,955,670	9,141,604	2,419,586	1,216,788	1,294,782	286,690	493,527	3,430,231
Represented by:								
Derivative liabilities	172,458	651,235	42,078	49,125	46,498	(18,772)	1,633	530,673
Accounts payable	584,339	584,339	584,339	-	-	-	-	-
Borrowings	6,198,873	7,906,030	1,793,169	1,167,663	1,248,284	305,462	491,894	2,899,558

Currency Exchange Risk

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

Because a large part of its balance sheet is funded by equity resources, which are denominated in Units of Account (equivalent to the SDR), the Bank has a net asset position that is potentially exposed to translation risk when currency exchange rates fluctuate. The Bank's policy is to minimize the potential fluctuation of the value of its net worth measured in Units of Account by matching, to the extent possible, the currency composition of its net assets with the currency basket of the SDR (the Unit of Account). In line with this policy, throughout 2008 the Bank's currency alignment was adjusted within a tight band of the risk-neutral position in each of the currencies making up the SDR composition. In keeping with the Bank's currency risk management policy, spot currency transactions are carried out to realign the net assets to the SDR basket each time there is a revision to the SDR currency composition. As a result of these policies and practices, despite sharp movements in the values of the major currencies during 2007 and 2008, the Bank experienced translation adjustment loss of less than 0.20% of net assets during the two years.

The Bank also hedges its exposure to adverse movements on currency exchange rates on its administrative expenses. The distribution of the currencies of the Bank's recurring administrative expenditures shows a high concentration of expenses in Euros, USD and Tunisian Dinar. For 2008, the Bank's strategy of purchasing currencies in the forward market to cover the estimated currency composition of expenses mitigated the unfavorable impact of those currencies movements during the year.

Net currency position at December 31, 2008 and 2007 was as follows:

Net Currency Position at December 31, 2008

(UA thousands)

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

(a) Investments held for trading comprise:

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

(b) Currency swaps on borrowings comprise:

Derivative assets	670,616
Derivative liabilities	(356,799)
Net swaps on borrowings per statement of net currency position	<u>313,817</u>

Net Currency Position at December 31, 2007

(UA thousands)

		United States Dollar	Japanese Yen	Sterling	Other	Sub-total	Units of Account	Total
Assets								
Cash	(2,162)	44,889	46,049	1,696	5,056	95,528	-	95,528
Demand obligations	-	-	-	-	3,801	3,801	-	3,801
Investments - trading (net of repos) ^(a)	792,134	1,639,776	64,142	20,264	175,421	2,691,737	-	2,691,737
Investments - held-to-maturity	724,683	1,188,074	223,793	506,996	-	2,643,546	-	2,643,546
Non negotiable instruments on account of capital	526	11,536	-	-	-	12,062	3,323	15,385
Accounts receivable	172,603	241,632	57,593	18,772	60,793	551,393	19,488	570,881
Loans	2,686,522	1,757,906	525,955	2,864	370,826	5,344,073	-	5,344,073
Equity participations	2,033	58,960	-	-	64,419	125,412	63,836	189,248
Other debt securities	-	-	-	-	94,622	94,622	-	94,622
Other assets	1,492	186	-	659	1,051	3,388	11,641	15,029
	4,377,831	4,942,959	917,532	551,251	775,989	11,565,562	98,288	11,663,850
Liabilities								
Accounts payable	(136,858)	(296,168)	(3,682)	(7,904)	(74,714)	(519,326)	(65,013)	(584,339)
Borrowings	-	(2,671,338)	(1,532,246)	(63,389)	(1,811,940)	(6,078,913)	(119,960)	(6,198,873)
Currency swaps on borrowings and related derivatives ^(b)	(2,534,775)	(111,400)	1,096,639	38,033	1,232,216	(279,287)	106,829	(172,458)
	(2,671,633)	(3,078,906)	(439,289)	(33,260)	(654,438)	(6,877,526)	(78,144)	(6,955,670)
Currency position of equity as at December 31, 2007								
	1,706,198	1,864,053	478,243	517,991	121,551	4,688,036	20,144	4,708,180
% of sub-total	36.40	39.76	10.20	11.05	2.59	100.00	-	100.00
SDR composition as at December 31, 2007	38.25	40.05	10.24	11.46	-	100.00	-	100.00

(a) Investments held for trading comprise:

Investments held for trading, net of repos	2,684,988
Derivative assets	8,997
Derivative liabilities	(2,248)
Amount per statement of net currency position	<u>2,691,737</u>

(b) Currency swaps on borrowings comprise:

Derivative asset	416,341
Derivative liabilities	(588,799)
Net swaps on borrowings per statement of net currency position	<u>(172,458)</u>

Currency Risk Sensitivity Analysis

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

The following tables illustrate the sensitivity of the Bank's net assets to currency fluctuations due to movements in the exchange rate of the currencies in the SDR basket as of December 31, 2008 and 2007, respectively. The sensitivity analysis shown assumes a separate 10% appreciation/depreciation for each currency in the basket against the US dollar. Due to a moderate change in the African currency holdings from 2007 to 2008, the 2008 table also includes the effect of a 10% appreciation/depreciation of each African currency against the SDR. Under the different scenarios, the currency risk management strategy of the Bank shows a minimal change in net assets as a result of currency mismatches.

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

(Amounts in UA millions)

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

Sensitivity of the Bank's Net Assets to Currency Fluctuations at December 31, 2007

(Amounts in UA millions)

	US Dollar	Euro	Japanese Yen	Pound Sterling	Other Currencies	Net Assets	Change in Net Assets Gain/(Loss)	Basis Point Change of Total Net Assets
Net assets resulting from a 10% appreciation against the USD								
EUR	1,811.72	1,864.67	462.90	501.16	66.54	4,706.99	(1.19)	3bps
GBP	1,859.60	1,739.95	475.13	565.85	66.54	4,707.07	(1.11)	2bps
JPY	1,861.56	1,741.79	523.20	514.95	66.54	4,708.04	(0.14)	*
Net assets resulting from a 10% appreciation of each African currency against the SDR	1,880.89	1,759.88	480.57	520.30	73.20	4,714.84	6.66	14bps
Net assets resulting from a 10% depreciation against the USD								
EUR	1,948.51	1,657.41	497.85	539.00	66.54	4,709.31	1.13	2bps
GBP	1,900.66	1,778.37	485.63	477.97	66.54	4,709.17	0.99	2bps
JPY	1,898.81	1,776.64	441.05	525.25	66.54	4,708.29	0.11	*
Net assets resulting from a 10% depreciation of each African currency against the SDR	1,880.89	1,759.88	480.57	520.30	60.49	4,702.13	(6.05)	13bps
Assumptions:								
Base net assets	1,880.88	1,759.88	480.58	520.30	66.54	4,708.18	-	-
Currency weight	0.6320	0.4100	18.4000	0.0903	-	-	-	-
Base exchange rate	1.5803	1.0735	179.9472	0.7889	-	-	-	-

* Less than 1 basis point.

Interest Rate Risk

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

- 1) the sensitivity of the interest margin between the rate the Bank earns on its assets and the cost of the borrowings funding such assets;
- 2) the sensitivity of the income on assets funded by equity resources to changes in interest rates.

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

Interest rate risk position as at December 31, 2008 and 2007 was as follows:

Interest Rate Risk Position as at December 31, 2008

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non interest bearing funds	Total
Assets								
Cash	592,644	-	-	-	-	-	-	592,644
Demand obligations	3,801	-	-	-	-	-	-	3,801
Treasury investments ^(a)	2,341,183	349,275	464,262	328,291	365,339	883,087	(93,706)	4,637,731
Non-negotiable instruments on account of capital	3,691	3,770	1,596	1,066	777	961	-	11,861
Accounts receivable	746,441	-	-	-	-	-	(97,426)	649,015
Loans – disbursed and outstanding	3,209,264	221,215	162,691	165,624	298,883	1,776,937	-	5,834,614
Accumulated provision for loan impairment	-	-	-	-	-	-	(102,642)	(102,642)
Equity participations	-	-	-	-	-	-	188,781	188,781
Other debt securities	-	-	-	-	-	69,773	(976)	68,797
Other assets	-	-	-	-	-	-	12,229	12,229
	6,897,024	574,260	628,549	494,981	664,999	2,730,758	(93,740)	11,896,831
Liabilities								
Accounts payable	(843,122)	-	-	-	-	-	-	(843,122)
Borrowings ^(b)	(5,357,460)	(68,172)	(199)	(199)	(284,969)	(765,121)	82,658	(6,393,461)
Macro hedge swaps	(549,537)	-	-	77,908	73,850	397,779	-	-
	(6,750,119)	(68,172)	(199)	77,709	(211,119)	(367,342)	82,658	(7,236,583)
Interest rate risk position as at December 31, 2008*	146,905	506,088	628,350	572,690	453,880	2,363,416	(11,082)	4,660,248

*Interest rate risk position represents equity.

(a) Treasury investments comprise:

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

(b) Borrowings comprise:

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

Interest Rate Risk Position as at December 31, 2007

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Non interest bearing funds	Total
Assets								
Cash	95,528	-	-	-	-	-	-	95,528
Demand obligations	3,801	-	-	-	-	-	-	3,801
Treasury investments ^(a)	2,965,545	378,568	357,080	454,262	305,483	891,882	(17,537)	5,335,283
Non-negotiable instruments on account of capital	3,655	3,616	3,694	1,575	1,046	1,799	-	15,385
Accounts receivable	739,581	-	-	-	-	-	(168,700)	570,881
Loans – disbursed and outstanding	2,979,075	216,388	146,020	222,674	147,551	1,828,381	-	5,540,089
Accumulated provision for loan impairment	-	-	-	-	-	-	(196,016)	(196,016)
Equity participations	-	-	-	-	-	-	189,248	189,248
Other debt securities	-	-	-	-	-	92,924	1,698	94,622
Other assets	-	-	-	-	-	-	15,029	15,029
	6,787,185	598,572	506,794	678,511	454,080	2,814,986	(176,278)	11,663,850
Liabilities								
Accounts payable	(584,339)	-	-	-	-	-	-	(584,339)
Borrowings ^(b)	(5,399,080)	(60,675)	(236)	(69,285)	(236)	(831,390)	(10,429)	(6,371,331)
Macro hedge swaps	(389,812)	42,398	-	-	-	347,414	-	-
	(6,373,231)	(18,277)	(236)	(69,285)	(236)	(483,976)	(10,429)	(6,955,670)
Interest rate risk position as at December 31, 2007*	413,954	580,295	506,558	609,226	453,844	2,331,010	(186,707)	4,708,180

* Interest rate risk position represents equity.

(a) Treasury investments comprise:

Treasury investments	5,328,534
Derivative assets – investments	8,997
Derivative liabilities – investments	(2,248)
Amount per statement of interest rate risk	<u>5,335,283</u>

(b) Borrowings comprise:

Borrowings	6,198,873
Derivative assets – borrowings	(416,341)
Derivative liabilities – borrowings	588,799
Net borrowings per statement of interest rate risk	<u>6,371,331</u>

Interest Rate Risk on Assets Funded by Debt

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

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

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

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

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

Interest Rate Risk on Assets Funded by Equity

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

The Bank manages the interest rate profile of the assets funded by equity resources with the objective of reducing the sensitivity of the net interest margin to fluctuations in market interest rates. This is achieved by continuously adjusting the repricing profile of the assets funded by the Bank's equity resources (fixed rate loans and investments) to match a repricing profile benchmark. The Bank's repricing profile benchmark is a 10-year ladder whereby a uniform 10% of the Bank's assets funded by equity reprice in each year. Using this benchmark, the Bank's net interest margin on assets funded by equity tends to track a ten-year moving average of 10-year maturity SDR interest rates. At the end of 2008 and 2007, the Bank's overall repricing profile was closely aligned to the benchmark in almost all annual buckets. For net assets repricing within one year, the Bank had a manageable gap relative to the benchmark.

Interest Rate Risk Sensitivity Analysis

Net Interest Margin Sensitivity

The table below details the repricing gap by currency as of December 31, 2008 and 2007, respectively. A parallel upward shift in the SDR curve of 100 bps would have generated a maximum loss of UA 5.97 million and UA 8.13 million as of December 31, 2008 and 2007, respectively.

(UA millions)	2008	2007
USD	177	304
EUR	311	379
GBP	67	78
JPY	42	52
Total repricing gap	597	813
Loss due to a 100bps upwards shift in the SDR curve	5.97	8.13

Fair Value Sensitivity

Movements in interest rates also have an impact on the values of assets and liabilities that are reported in the financial statements at fair value through profit or loss. The table below shows the effect of a parallel yield curve movement of +/- 100 bps of each of the currencies in the trading investment portfolio and the borrowings and derivative portfolios as of December 31, 2008 and 2007, respectively. However, due to the low level of interest rates across the Japanese Yen yield curve, the sensitivity analysis for assets and liabilities denominated in Japanese Yen reflect a parallel movement in the yield curve of +/- 20 bps.

(UA thousands)	Upward Parallel Shift		Downward Parallel Shift	
	2008		2007	
	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)	Gain/(Loss)
Held-for-trading investments	(3,933)	(9,982)	4,294	11,478
Fair-valued borrowings and derivative portfolios	177,141	65,809	(182,492)	(74,278)

Prepayment Risk

In addition to the two principal sources of interest rate risk described above, the Bank is exposed to prepayment risk on loans committed before 1997. Although the Bank is unable to charge a prepayment penalty on such older loans, in practice the level of prepayments has generally been within acceptable levels. In 2003 and 2004, however, driven by low market interest rates, contracting credit spreads for emerging market borrowers and enhanced debt management by several sovereign borrowers, total loan prepayments increased sharply to UA 471 million and UA 542 million, respectively. In 2005, prepayments of pre-1997 loans declined sharply to UA 70 million, due in large part to increased market interest rates. For all market-based loans issued since 1997, the Bank protects itself from prepayment risk by linking the prepayment penalty to the cost of redeploying the funds at current market rates. In 2006, total prepayments of UA 298 million included an amount of UA 192 million in respect of market-based floating rate loans, while in 2007; total prepayment amounted to UA 199 million, of which 98% related to market-based loans. Prepayment in 2008 amounted to UA 17 million.

Operational Risk

The Bank defines operational risks to include all aspects of risk-related exposure other than those falling within the scope of credit, market and liquidity risks including specifically the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events and reputational risk.

Like all financial institutions, the Bank is also exposed to controls and operational risks arising from its systems, functions and interdependencies among its departments, which could impact broadly its activities with a possible consequence of operational losses. There are also many interdependencies among risk factors that may result in an operational risk loss.

Following approval by the Board of Directors in 2004, the Bank established an Internal Control Unit (ICU) to among other duties implement the COSO control framework to regularly evaluate the effectiveness of its internal controls in all significant business operations, as the start of a broader and phased Operational Risk Management Program. The first phase focused on the documentation and testing of controls around financial reporting. Management attestation on the adequacy of internal controls was published in the annual reports for the first time in 2006. Phase two of the implementation extending the COSO framework to other areas of operational risk management commenced in 2007 and is still ongoing.

The Bank's revised Capital Adequacy and Exposure Management Policy which is currently under consideration by the Board of Directors of the Bank, envisages setting aside a risk capital charge of 15% of the average Operating Income for the preceding 3 years, in line with Basle II recommendations.

There are other initiatives or activities in the other areas of the Bank Group that are complementing the work on operational risk management and controls including:

- Review of Code of Conduct and Staff Rules
- Fraud and Investigation Unit
- Whistleblower Protection Policy
- Document Retention Policy
- Business Continuity Planning and Preparedness

Effects of Recent Developments in the Financial Markets

Although the Bank was also affected by the global crisis that affected the world financial markets through 2008, as a result of its prudent risk management policies and practices, the impact on the Bank has been reasonably mitigated. With regards to the funding activities, notwithstanding the significant increases in credit spreads, there has been no serious adverse effect on the Bank's ability to borrow competitively, consistent with the Bank's solid financial position as evidenced by the continued uniform top rating by all the major rating agencies. The Bank continues to be well placed to play its intermediation role in support of the development financing needs of its member countries. With regards to investment activities, the trading portfolio suffered a significant realized and unrealized losses while some of the held-to-maturity and available for sale investments also suffered impairment losses. In 2008, realized and unrealized losses on trading investments amounted to UA 74.29 million. Impairment provisions on certain financial assets amounted to UA 56.60 million. Actuarial valuation losses of UA 85.51 million and mark-to-market adjustments on available-for-sale investments of UA 18.18 million were charged against reserves through the Statement of Recognized Income and Expenses.

NOTE E – FINANCIAL ASSETS AND LIABILITIES

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

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

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

(UA thousands)

December 31, 2007	Financial Assets and Liabilities through Profit or Loss					Financial Assets and Liabilities		
	Held-for-Trading	Designated at Fair Value	Held-to-Maturity	Available-for-Sale	Loans and Receivables	at Amortized Cost	Total Carrying Amount	Fair Value
Cash	-	-	-	-	-	95,528	95,528	95,528
Demand obligations	-	-	-	-	-	3,801	3,801	3,801
Treasury investments	2,684,988	-	2,643,546	-	-	-	5,328,534	5,321,585
Derivative assets	425,338	-	-	-	-	-	425,338	425,338
Non-negotiable instruments on account of capital	-	-	-	-	-	15,385	15,385	15,385
Accounts receivable	-	-	-	-	570,881	-	570,881	570,881
Loans	-	-	-	-	5,344,073	-	5,344,073	5,637,708
Equity participations	-	-	-	189,248	-	-	189,248	189,248
Other debt securities	-	-	-	94,622	-	-	94,622	94,622
Total financial assets	3,110,326	-	2,643,546	283,870	5,914,954	114,714	12,067,410	12,354,096
Accounts payable	-	-	-	-	-	584,339	584,339	584,339
Derivative liabilities	591,047	-	-	-	-	-	591,047	591,047
Borrowings	-	5,226,279	-	-	-	972,594	6,198,873	6,396,478
Total financial liabilities	591,047	5,226,279	-	-	-	1,556,933	7,374,259	7,571,864

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

(UA thousands)

	Quoted prices in active markets for the same instrument	Valuation techniques for which all significant inputs are based on observable market data	Valuation techniques for which any significant input is not based on observable market data	
	(Level 1)	(Level 2)	(Level 3)	Total
Treasury investments	1,575,958	300,000	14,283	1,890,241
Derivative assets	-	736,091	-	736,091
Equity participations	19,412	-	169,369	188,781
Other debt securities	68,797	-	-	68,797
Total financial assets	1,664,167	1,036,091	183,652	2,883,910
Derivative liabilities	-	(360,299)	-	(360,299)
Borrowings	(1,593,727)	(4,136,081)	-	(5,729,808)
Total financial liabilities	(1,593,727)	(4,496,380)	-	(6,090,107)

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

(UA thousands)

	Held-for-Trading Treasury Investments	Available-for-Sale Equity Participations	Total
Balance at January 1, 2008	24,994	143,588	168,582
Losses recognized in income statement	(11,179)	(3,424)	(14,603)
Losses in statement of recognized income and expense	-	(4,472)	(4,472)
Purchases, issues and settlements (net)	-	36,693	36,693
Translation adjustments	468	(3,016)	(2,548)
Balance at December 31, 2008	14,283	169,369	183,652

The unamortized balances of day one profit at December 31, 2008 and 2007 were made up as follows:

(UA thousands)

	2008	2007
Balance at January 1	17,594	3,678
New transactions	74,162	10,349
Amounts recognized in income statement during the year	2,270	2,638
Currency translation adjustment	5,800	929
Balance at December 31	99,826	17,594

NOTE F – TREASURY INVESTMENTS

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

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

As at December 31, 2008, the Bank had received collateral with fair value of UA 234.50 million in connection with swap agreements. Of this amount, a total UA 111.79 million was in the form of cash and has been recorded on the balance sheet with a corresponding liability included in "Other accounts payable". The balance of UA 122.71 million was in the form of liquid financial assets.

The Bank also uses external managers in the management of certain of its liquid assets, in accordance with the Bank's Asset and Liability Management Guidelines. At December 31, 2008, investments under external management were UA 127.36 million (2007: UA 154.85 million). These amounts were included in the held-for-trading portfolio below.

At December 31, 2008 and 2007, the Bank had no securities sold under repurchase agreements (repos). The composition of treasury investments as at December 31, 2008 and 2007 was as follows:

(UA thousands)	2008	2007
Held-for-trading	1,890,240	2,684,988
Held-to-maturity	2,723,909	2,643,546
Provision for impairment on investments	(38,393)	-
Total	4,575,756	5,328,534

Held-for-Trading Investments

A summary of the Bank's held-for-trading investments at December 31, 2008 and 2007 follows:

(UA millions)	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Time Deposits	1.50	447.82	355.69	251.76	31.23	20.26	223.06	215.24	611.48	935.08
Asset-Backed Securities	182.26	278.89	93.02	156.30	-	-	-	-	275.28	435.19
Government and Agency Obligations	272.26	47.61	13.52	-	-	-	4.14	-	289.92	47.61
Corporate Bonds	233.36	395.09	39.00	122.28	-	-	6.67	13.95	279.03	531.32
Financial Institutions	327.57	462.58	96.20	261.92	-	-	5.62	10.40	429.39	734.90
Supranational	1.30	0.89	-	-	-	-	3.84	-	5.14	0.89
Total held-for-trading investments	1,018.25	1,632.88	597.43	792.26	31.23	20.26	243.33	239.59	1,890.24	2,684.99

The nominal balance of the Bank's held-for-trading investments as at December 31, 2008 was UA 1,685.20 million (2007: UA 2,650.03 million). The average yield of held-for-trading investments in 2008 was 0.65% (2007: 4.54%).

The contractual maturity structure of held-for-trading investments as at December 31, 2008 and 2007 was as follows:

[UA millions]	2008	2007
One year or less	1,291.00	1,285.07
More than one year but less than two years	280.79	576.19
More than two years but less than three years	130.88	349.37
More than three years but less than four years	23.38	106.07
More than four years but less than five years	19.76	16.59
More than five years	144.43	351.70
Total	1,890.24	2,684.99

Held-to-Maturity Investments

A summary of the Bank's held-to-maturity investments at December 31, 2008 and 2007 follows:

[UA millions]	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Time Deposits	-	3.71	-	-	-	-	-	20.41	-	24.12
Asset-Backed Securities	186.18	181.11	48.99	31.91	-	-	-	-	235.17	213.02
Government and Agency Obligations	375.41	329.85	248.37	120.28	162.81	82.09	125.30	96.96	911.89	629.18
Corporate Bonds	316.61	309.84	167.45	196.42	61.47	68.83	59.81	8.98	605.34	584.07
Financial Institutions	136.79	201.98	225.27	319.26	10.66	174.38	80.86	71.92	453.58	767.54
Supranational	218.12	161.59	132.88	56.81	121.93	181.70	45.00	25.52	517.93	425.62
Total held-for-trading investments	1,233.11	1,188.08	822.96	724.68	356.87	507.00	310.97	223.79	2,723.91	2,643.55

The nominal balance of the Bank's held-to-maturity investments as at December 31, 2008, was UA 2,761.04 million (2007: UA 2,661.08 million). The average yield of held-to-maturity investments in 2008 was 5.84% (2007: 4.21%).

The contractual maturity structure of held-to-maturity investments as at December 31, 2008 and 2007 was as follows:

[UA millions]	2008	2007
One year or less	371.28	274.05
More than one year but less than two years	353.45	380.01
More than two years but less than three years	467.18	363.48
More than three years but less than four years	327.66	458.56
More than four years but less than five years	363.45	303.80
More than five years	840.89	863.65
Total	2,723.91	2,643.55

The fair value of held-to-maturity investments at December 31, 2008 was UA 2,726.01 million (2007: UA 2,636.60 million).

NOTE G – DERIVATIVE ASSETS AND LIABILITIES

The fair values of derivative financial assets and financial liabilities at December 31, 2008 and 2007 were as follows:

[UA thousands]	2008		2007	
	Assets	Liabilities	Assets	Liabilities
Borrowings-related:				
Cross-currency swaps	495,882	319,177	318,039	560,594
Interest rate swaps	163,845	2,668	74,365	16,697
Loan swaps	10,635	34,134	23,635	10,546
Embedded derivatives	254	820	302	962
	<u>670,616</u>	<u>356,799</u>	<u>416,341</u>	<u>588,799</u>
Investments-related:				
Asset swaps	33	3,500	42	2,233
Macro-hedge swaps	65,442	-	8,955	15
	<u>65,475</u>	<u>3,500</u>	<u>8,997</u>	<u>2,248</u>
Total	736,091	360,299	425,338	591,047

The notional amounts of derivative financial assets and financial liabilities at December 31, 2008 and 2007 were as follows:

[UA thousands]	2008	2007
	2008	2007
Borrowings-related:		
Cross-currency swaps	5,006,327	4,403,494
Interest rate swaps	2,505,259	3,542,754
Loan swaps	997,002	952,633
Embedded derivatives	167,257	18,339
	<u>8,675,845</u>	<u>8,917,220</u>
Investments-related:		
Asset swaps	94,746	108,456
Macro-hedge swaps	525,678	228,911
	<u>620,424</u>	<u>337,367</u>
Total	9,296,269	9,254,587

Loan Swaps

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

Administrative Expenses Hedge

To insulate the Bank from possible significant increases in administrative expenses that could arise from an appreciation of the principal currencies of administrative expenditure i.e. EUR, GBP and USD vis-à-vis the UA, the Bank executed forward exchange transactions to economically hedge its administrative expenses. As at December 31, 2008 and 2007, there were no open positions with respect to the forward exchange transactions.

NOTE H – NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL

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

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

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

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

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

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

At December 31, 2008 and 2007, the non-negotiable notes balances were as follows:

[UA thousands]	2008	2007
Balance at January 1	15,385	20,383
Net movement for the year	(3,524)	(4,998)
Balance at December 31	11,861	15,385

NOTE I – LOANS

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

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

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

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

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

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

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

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

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

At December 31, 2008 and 2007, outstanding loans were as follows:

(UA thousands)	2008	2007
Disbursed and outstanding loans	5,834,615	5,540,089
Less: accumulated provision for impairment	(102,643)	(196,016)
Balance at December 31	5,731,972	5,344,073

Fair Value of Loans

At December 31, 2008 and 2007, the carrying and estimated fair values of outstanding loans were as follows:

[UA thousands]	2008		2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fixed rate loans	3,152,624	3,630,774	2,889,112	3,176,494
Floating rate loans	1,884,110	1,749,278	1,764,346	1,708,687
Variable rate loans	797,881	654,524	886,631	752,527
	5,834,615	6,034,576	5,540,089	5,637,708
Accumulated provision for impairment	(102,643)	-	(196,016)	-
Net loans	5,731,972	6,034,576	5,344,073	5,637,708

Maturity and Currency Composition of Outstanding Loans

The contractual maturity structure of outstanding loans as at December 31, 2008 and 2007 was as follows:

[UA millions]	2008			2007		
	Periods	Fixed Rate	Floating Rate	Variable Rate	Total	Total
One year or less		371.59	179.74	394.82	946.15	925.79
More than one year but less than two years		184.35	179.35	141.53	505.23	478.40
More than two years but less than three years		195.57	161.93	122.34	479.84	469.29
More than three years but less than four years		208.19	173.39	65.77	447.35	431.72
More than four years but less than five years		213.49	177.16	40.28	430.93	392.88
More than five years		1,979.44	1,012.54	33.14	3,025.12	2,842.01
Total		3,152.63	1,884.11	797.88	5,834.62	5,540.09

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

The currency composition and types of outstanding loans as at December 31, 2008 and 2007 were as follows:

(Amounts in UA millions)			2008		2007	
			Amount	%	Amount	%
Fixed Rate:	Multi-Currency	Euro	126.75		155.83	
		Japanese Yen	438.33		381.32	
		Pound Sterling	2.30		3.09	
		Swiss Franc	158.65		156.38	
		US Dollar	285.81		320.96	
		Others	0.61		0.96	
			<u>1,012.45</u>	<u>17.35</u>	<u>1,018.54</u>	<u>18.38</u>
	Single Currency	Euro	1,943.88		1,690.28	
		Japanese Yen	14.52		12.67	
		Pound Sterling	-		-	
		South African Rand	56.80		69.30	
		Swiss Franc	-		-	
		US Dollar	124.97		98.32	
		Others	-		-	
			<u>2,140.17</u>	<u>36.68</u>	<u>1,870.57</u>	<u>33.76</u>
Floating Rate:	Single Currency	Euro	517.98		517.34	
		Japanese Yen	24.05		12.27	
		South African Rand	93.40		137.48	
		US Dollar	<u>1,248.68</u>		<u>1,097.26</u>	
			<u>1,884.11</u>	<u>32.29</u>	<u>1,764.35</u>	<u>31.85</u>
Variable Rate:	Multi-Currency	Euro	143.98		175.58	
		Japanese Yen	33.31		33.99	
		Swiss Franc	0.78		0.95	
		US Dollar	146.89		158.17	
		Others	0.11		0.18	
			<u>325.07</u>	<u>5.58</u>	<u>368.87</u>	<u>6.66</u>
	Single Currency	Euro	179.11		214.67	
		Japanese Yen	121.79		111.92	
		Swiss Franc	15.18		16.22	
		US Dollar	156.72		174.92	
		Others	0.02		0.03	
			<u>472.82</u>	<u>8.10</u>	<u>517.76</u>	<u>9.35</u>
Total			<u>5,834.62</u>	<u>100.00</u>	<u>5,540.09</u>	<u>100.00</u>

The weighted-average yield on outstanding loans for the year ended December 31, 2008 was 6.21% (2007: 6.21%).

A comparative summary of the currency composition of outstanding loans at December 31, 2008 and 2007 follows:

[Amounts in UA millions]	2008		2007	
	Amount	%	Amount	%
Euro	2,911.70	49.90	2,753.69	49.70
Japanese Yen	632.01	10.84	552.17	9.97
Pound Sterling	2.30	0.04	3.09	0.06
South African Rand	150.20	2.57	206.78	3.73
Swiss Franc	174.61	2.99	173.55	3.13
US Dollar	1,963.06	33.65	1,849.64	33.39
Others	0.74	0.01	1.17	0.02
Total	5,834.62	100.00	5,540.09	100.00

Accrued Income and Charges Receivables on Loans

The accrued income and charges receivable on loans as at December 31, 2008 and 2007 were as follows:

[UA thousands]	2008	2007
Accrued income and charges receivables on loans	452,097	435,850
Less: accumulated provision for impairment	(115,631)	(168,701)
Balance at December 31	336,466	267,149

Provision for Impairment on Loan Principal and Charges Receivable

At December 31, 2008, outstanding loans with an aggregate principal balance of UA 275.33 million (2007: UA 603.44 million), of which UA 226.73 million (2007: UA 418.22 million) was overdue, were considered to be impaired. The gross amounts of loans and charges receivable that were impaired and the cumulative impairment on them at December 31, 2008 and 2007 were as follows:

[UA thousands]	2008	2007
Outstanding principal balance on impaired loans	275,327	603,437
Less: accumulated provision for impairment	(102,643)	(196,016)
Net balance on impaired loans	172,684	407,421
Charges receivable and accrued income on impaired loans	173,393	261,895
Less: accumulated provision for impairment	(115,631)	(168,701)
Net charges receivable and accrued income on impaired loans	57,762	93,194

The movements in the accumulated provision for impairment on outstanding loan principal for the years ended December 31, 2008 and 2007 were as follows:

(UA thousands)	2008	2007
Balance at January 1	196,016	214,180
Provision for impairment on loan principal for the year	(101,479)	(17,453)
Translation effects	8,106	(711)
Balance at December 31	102,643	196,016

Accumulated provision for loan impairment included those relating to private sector loans. During the year ended December 31, 2008, there were no additional impairment provisions on private sector loans (2007: write-back of UA 2.66 million). The accumulated provisions on private sector loans at December 31, 2008 amounted to UA 12.39 million.

The movements in the accumulated provision for impairment on loan interest and charges receivable for the years ended December 31, 2008 and 2007 were as follows:

(UA thousands)	2008	2007
Balance at January 1	168,701	222,588
Provision for impairment on loan charges for the year	(61,798)	(52,503)
Translation effects	8,728	(1,384)
Balance at December 31	115,631	168,701

Guarantees

The Bank may enter into special irrevocable commitments to pay amounts to the borrowers or other parties for goods and services to be financed under loan agreements. At December 31, 2008, irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 1.22 million (2007: UA 1.27 million).

Also, the Bank may provide guarantees for securities issued by an entity eligible for the Bank's loans. Guarantees are regarded as outstanding when the borrower incurs the underlying financial obligation and are called when a guaranteed party demands payment under the guarantee. Guarantees represent potential risk to the Bank if the payments guaranteed for an entity are not made. At December 31, 2008 and 2007, the Bank had no outstanding guarantee to any entity.

NOTE J - EQUITY PARTICIPATIONS

Investment in ADF

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

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

To carry out its functions, the Fund utilizes the offices, staff, organization, services and facilities of the Bank, for which it pays a share of the administrative expenses. The share of administrative expenses paid by the Fund to the Bank is calculated annually on the basis of a cost-sharing formula, approved by the Board of Directors, which is driven in large part by the number of programs and projects executed during the year. Based on the cost-sharing formula, the share of administrative expenses incurred by ADF for the year ended December 31, 2008 amounted to UA 138.10 million (2007: UA 135.85 million), representing 72.13 percent (2007: 73.06 percent) of the shareable administrative expenses incurred by the Bank. The accounts of the ADF are kept separate and distinct from those of the Bank.

Although the ADB by agreement exercises fifty percent (50%) of the voting powers in the ADF, the Agreement establishing the ADF also provides that in the event of termination of the ADF's operations, the assets of the Fund shall be distributed pro-rata to its participants in proportion to the amounts paid-in by them on account of their subscriptions, after settlement of any outstanding claims against the participants. At December 31, 2008, the Bank's pro-rata or economic share in ADF was 0.78% (2007: 0.86%).

As a result of the implementation in 2006 of the Multilateral Debt Relief Initiative described in Note W-2, the net asset value of ADF which is the basis for determining the value of the Banks investment in the Fund declined in 2007, resulting in impairment loss on the Bank's investment. The net assets of ADF is made up of its net development resources less outstanding demand obligations plus disbursed and outstanding loans excluding balances due from countries that have reached their HIPC completion points and are therefore due for MDRI loan cancellation at the balance sheet date.

Other Equity Participations

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

Unless otherwise approved by the Board of Directors, the Bank's equity participation shall not exceed 25% of the equity capital of the entity in which it invests. The Bank currently holds less than 20% of the total equity capital of most of the institutions in which it participates. The Bank therefore does not seek a controlling interest in the companies in which it invests, but closely monitors its equity investments through Board representation. In the exceptional instances where the Bank has more than 20% but less than 50% ownership, such investments are accounted for as investments in associates. In accordance with the Board of Governors' Resolution B/BG/2001/09 of May 29, 2001, total equity investment by the Bank shall not at any time exceed ten percent (10%) of the aggregate amount of the Bank's paid-up capital and reserves and surplus included in its ordinary capital resources.

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

The Bank's equity interests at the end of 2008 and 2007 are summarized below:

(Amounts in UA thousands)

Institutions	Year Established	% Shareholding	Callable Capital	Carrying Value	
				2008	2007
African Development Fund	1972	0.78	-	111,741	111,741
Accumulated share of loss & impairment on January 1				(47,904)	(48,743)
Share of profit for the year				36	479
Impairment for the year				-	360
				<u>63,873</u>	<u>63,837</u>
Regional Development Banks (Carried at Cost)					
Afreximbank	1993	6.70	9,739	6,492	6,328
BDEAC	1975	3.19	2,479	1,653	1,704
BDEGL	1980	-	-	1,946	1,946
BOAD	1973	0.31	2,066	689	710
East African Development Bank	1967	6.96	-	4,382	4,272
PTA Bank	1985	5.76	35,318	8,830	4,303
				<u>49,602</u>	<u>23,992</u>
					<u>19,263</u>
Other Development Institutions (Carried at Cost)					
Africa - Re	1977	8.00	-	5,655	5,512
K-REP Bank Limited	1997	15.14	-	664	714
National Development Bank of Sierra Leone *	-	-	-	-	-
Shelter Afrique	1982	10.00	-	3,246	3,164
Infrastructure Development Bank of Zimbabwe *	1984	-	-	-	8
				<u>9,565</u>	<u>9,398</u>
Investments (Carried at Fair value)**					
AB Microfinance Bank Nigeria Limited	2007	-	-	691	-
Acacia Fund Limited***	1996	10.40	-	-	733
Access Bank Liberia Limited	2008	-	390	584	-
Access Bank Tanzania Limited	2007	12.80	-	345	525
Advans Banque Congo	2008	-	-	714	-
AIG Africa Infrastructure Fund	1999	12.27	272	4,545	11,140
Atlantic Coast Regional Fund LLC	2008	20.82	9,488	94	-
ECP Africa Fund II LLC	2005	11.04	1,686	27,242	23,280
GroFin Africa Fund	2008	16.00	12,252	451	-
Indian Ocean Regional Fund Limited***	1999	16.83	-	-	79
Maghreb Private Equity Fund II (Mauritius) PCC	2008	16.10	7,343	4,303	-
Pan African Infrastructure Development Fund	2007	8.00	29,010	9,231	5
South Africa Infrastructure Fund	1996	14.10	819	16,151	17,518
TCX Investment Company Mauritius Limited	2007	45.37	120	13,327	-
United Bank for Africa	1961	1.57	-	34,444	45,661
Zambia Venture Capital Fund****	1996	16.11	-	-	144
				<u>61,380</u>	<u>112,122</u>
				<u>110,982</u>	<u>209,552</u>
Total					<u>191,583</u>
Less: Accumulated provision for impairment				<u>(20,771)</u>	<u>(2,335)</u>
Net				<u>110,982</u>	<u>188,781</u>
					<u>189,248</u>

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

** The cost of equity investment carried at fair value at December 31, 2008 amounted to UA 104.74 million (2007: UA 74.16 million).

*** The Bank's shareholdings in these institutions were divested during the year.

**** This institution was liquidated during the year.

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

(UA thousands)	2008	2007
Balance at January 1	2,335	3,505
Provision for the year	18,456	(532)
Translation adjustment	(20)	(638)
Balance at December 31	20,771	2,335

NOTE K – OTHER DEBT SECURITIES

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

The fair value of "Other debt securities" at December 31, 2008 and 2007 was as follows:

(UA thousands)	2008	2007
Investment in debt instruments issued in RMC	68,797	94,622

The nominal value of the securities outstanding as at December 31, 2008, was UA 69.77 million (2007: UA 92.92 million).

NOTE L – PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(UA thousands)

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

(UA thousands)

2007	Property and Equipment					Intangible Assets	Grand Total
	Land	Building and Improvements	Furniture, Fixtures & Fittings	Equipment & Motor Vehicles	Total Property & Equipment		
Cost:							
Balance at January 1	141	22,779	7,256	38,575	68,751	17,982	86,733
Additions during the year	-	64	1,783	2,769	4,616	887	5,503
Disposals during the year	-	-	(41)	(1,822)	(1,863)	-	(1,863)
Balance at December 31	141	22,843	8,998	39,522	71,504	18,869	90,373
Accumulated Depreciation:							
Balance at January 1	-	21,284	4,927	30,302	56,513	15,979	72,492
Depreciation during the year	-	102	1,187	2,887	4,176	1,199	5,375
Disposals during the year	-	-	(41)	(1,815)	(1,856)	-	(1,856)
Balance at December 31	-	21,386	6,073	31,374	58,833	17,178	76,011
Net Book Values: December 31, 2007	141	1,457	2,925	8,148	12,671	1,691	14,362

Under the Headquarters' Agreement with the host country, the Bank's owned buildings in the host country are intended to be used for the purposes of the business of the Bank Group only. The rights on the lands and buildings therefore cannot be transferred to a third party. If the Bank elected to give up the use of the lands and buildings, the properties would have to be surrendered to the host country. At December 31, 2008, the book value of such assets is not significant.

NOTE M – BORROWINGS

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

As at December 31, 2008 and 2007, the senior and the subordinated borrowings were as follows:

[UA millions]	2008	2007
Senior borrowings	5,964.64	5,530.59
Subordinated borrowings	742.64	668.28
Total	6,707.28	6,198.87

As of the same date, the non-borrowing members' callable capital, total callable capital, the ratio of senior debt to the non-borrowing members' callable capital and the ratio of total outstanding borrowings to the total callable capital were as follows:

[Amount in UA millions]	2008	2007
Non-Borrowing Members' Callable Capital	8,544.45	8,503.17
Borrowings' ratios (%)		
Debt/Total Callable Capital	34.56	32.05
Senior Debt/Callable Capital of non-borrowing members	69.81	65.04

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

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

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

A summary of the Bank's borrowings portfolio at December 31, 2008 and 2007 was as follows:

Borrowings and Swaps at December 31, 2008

(Amounts in UA millions)

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

Supplementary disclosure (direct borrowings):

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

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

Slight differences may occur in totals due to rounding.

Borrowings and Swaps at December 31, 2007

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements ^(a)			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Wgted. Avg. Cost ^(b) (%)	Average Maturity (Years)	Amount Payable/ (Receivable)	Wgted. Avg. Cost ^(b) (%)	Average Maturity (Years)	Notional Amount Payable/ (Receivable)	Wgted. Avg. Cost ^(b) (%)	Average Maturity (Years)
Euro	Fixed	-	-	-	-	158.97	8.71	11.7	120.84	5.32	1.2
	Adjustable	-	-	-	-	2,524.86	4.50	4.1	-	-	-
		-	-	-	-	(149.05)	4.11	6.2	(120.84)	4.73	1.2
Sterling	Fixed	70.64	-	11.13	2.0	-	-	-	-	-	-
		-	-	-	-	-	-	-	(63.39)	11.13	2.0
	Adjustable	-	-	-	-	25.36	5.94	1.0	63.39	11.80	2.0
		-	-	-	-	(63.39)	11.80	2.0	-	-	-
Japanese Yen	Fixed	642.63	277.86	2.94	6.5	-	-	-	222.29	4.64	0.3
		-	-	-	-	(254.57)	2.25	15.0	(658.85)	2.21	1.4
	Adjustable	563.06	18.34	3.58	6.0	-	-	-	720.53	0.86	1.7
US Dollars	Fixed	2,186.44	575.86	4.59	4.8	-	-	-	-	-	-
		-	-	-	-	(284.77)	7.57	10.7	(2,032.91)	3.58	2.6
	Adjustable	18.97	-	5.75	0.1	1,559.99	4.94	4.9	1,945.32	5.25	2.4
		-	-	-	-	(1,171.60)	5.13	2.1	(18.98)	5.75	2.4
Others	Fixed	1,744.54	104.67	4.80	3.6	8.65	3.67	2.4	-	-	-
		-	-	-	-	(1,638.24)	2.78	2.8	(363.81)	5.12	2.2
	Adjustable	-	-	-	-	204.27	10.04	4.8	363.81	6.93	2.2
Total	Fixed	4,644.25	958.39	4.47	4.2	167.62	8.45	11.2	343.13	4.88	0.6
		-	-	-	-	(2,177.58)	3.34	5.2	(3,118.96)	3.62	2.3
	Adjustable	582.03	18.34	3.65	5.8	4,314.48	4.93	4.4	3,093.05	4.56	2.2
Principal at face value		5,226.28	976.73	4.39	4.4	78.60	-	-	(106.57)	-	-
Net unamortized premium/(discount)		-	(4.14)	-	-	201.51	-	-	105.75	-	-
Fair valuation adjustment		5,226.28	972.59	4.39	4.4	280.11	-	-	(0.82)	-	-
Total		5,226.28	972.59	4.39	4.4	242.56	-	-	(70.10)	-	-

Supplementary disclosure (direct borrowings):

The notional amount of borrowings at December 31, 2007 was UA 6,388.81 and the estimated fair value was UA 6,396.48 million.

- (a) Currency swap agreements include cross-currency interest rate swaps.
- (b) The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at December 31, 2007.
- (c) These amounts are included in derivative assets and liabilities on the balance sheet.

Slight differences may occur in totals due to rounding.

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

i) Borrowings Carried at Fair Value

(UA millions)

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

ii) Borrowings Carried at Amortized Cost

(UA millions)

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

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at December 31, 2007 was as follows:

i) Borrowings Carried at Fair Value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	1,052.72	231.25	1,283.97
More than one year but less than two years	940.90	1.36	942.26
More than two years but less than three years	1,073.99	8.31	1,082.30
More than three years but less than four years	171.59	-	171.59
More than four years but less than five years	375.82	1.67	377.49
More than five years	1,368.67	-	1,368.67
Total	4,983.69	242.59	5,226.28

ii) *Borrowings Carried at Amortized Cost*

[UA millions]

Periods	Ordinary	Callable	Total
One year or less	100.87	73.91	174.78
More than one year but less than two years	-	-	-
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	801.95	-	801.95
Sub-total	902.82	73.91	976.73
Net unamortized premium and discount	(4.14)	-	(4.14)
Total	898.68	73.91	972.59

The fair value of borrowings carried at fair value through profit or loss at December 31, 2008 was UA 5,729.81 million (2007: UA 5,226.28 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at December 31, 2008 was UA 5,304.60 million (2007: UA 5,106.32 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per Note P, there was a net gain of UA 12.43 million on fair-valued borrowings and related derivatives for the year ended December 31, 2008 (2007: UA 21.24 million). This included a gain of UA 2.10 million which was attributable to changes in the Bank's credit risk during the year ended December 31, 2008 (2007: UA 3.00 million). Fair value changes attributable to changes in the Bank's credit risk are determined by comparing the discounted cash flows for the borrowings designated at fair value through profit or loss using the Bank's credit spread on the relevant liquid markets for ADB quoted bonds versus LIBOR both at the beginning and end of the relevant period. The Bank's credit spread was not applied for fair value changes on callable borrowings with less than one year call date.

For borrowings designated at fair value through profit or loss at December 31, 2008, the cumulative unrealized fair value losses to date were UA 425.21 million (2007: losses of UA 119.96 million).

NOTE N – EQUITY

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

Capital

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

Subscriptions Paid In

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

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

The Bank's capital as at December 31, 2008 and 2007 was as follows:

(UA thousands)	2008	2007
Capital Authorized (in shares of UA 10,000 each)	21,870,000	21,870,000
Less: Unsubscribed	(104,853)	(176,839)
Subscribed Capital	21,765,147	21,693,161
Less: Callable Capital	(19,409,141)	(19,341,627)
Paid-up Capital	2,356,006	2,351,534
Shares to be issued upon payment of future installments	(8,410)	(12,960)
Add: Amounts paid in advance	89	118
	2,347,685	2,338,692
Less: Amounts in arrears	(1,881)	(2,235)
Capital at December 31	2,345,804	2,336,457

Included in the total unsubscribed shares of UA 104.85 million at December 31, 2008, was an amount of UA 38.83 million representing the balance of the shareholding of the former Socialist Federal Republic of Yugoslavia (former Yugoslavia).

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

Subscriptions by member countries and their voting power at December 31, 2008 were as follows:

(Amounts in UA thousands)

MEMBER STATES	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
1 ALGERIA	86,566	3.979	94,584	771,080	87,191	3.924
2 ANGOLA	25,405	1.168	28,837	225,212	26,030	1.171
3 BENIN	4,245	0.195	4,817	37,633	4,870	0.219
4 BOTSWANA	46,633	2.143	52,925	413,405	47,258	2.127
5 BURKINA FASO	9,307	0.428	10,920	82,155	9,932	0.447
6 BURUNDI	5,173	0.238	6,465	45,256	5,798	0.261
7 CAMEROON	22,588	1.038	25,352	200,371	22,919	1.031
8 CAPE VERDE	1,672	0.077	2,090	14,630	2,297	0.103
9 CENTRAL AFRICAN REPUBLIC	973	0.045	1,217	8,512	1,598	0.072
10 CHAD	1,641	0.075	2,052	14,360	2,266	0.102
11 COMOROS	484	0.022	599	4,250	1,094	0.049
12 CONGO	9,875	0.454	11,590	87,170	10,500	0.473
13 COTE D'IVOIRE	81,008	3.723	101,260	708,820	81,633	3.674
14 DEMOCRATIC REPUBLIC OF CONGO	22,740	1.045	28,426	198,975	23,365	1.052
15 DJIBOUTI	1,213	0.056	1,517	10,618	1,838	0.083
16 EGYPT	111,829	5.140	126,920	991,370	112,454	5.061
17 EQUATORIAL GUINEA	3,481	0.160	3,959	30,517	3,829	0.172
18 ERITREA	2,003	0.092	2,506	17,522	2,628	0.118
19 ETHIOPIA	34,778	1.599	39,470	308,310	35,403	1.593
20 GABON	27,229	1.252	32,684	238,255	26,765	1.205
21 GAMBIA	3,341	0.154	3,891	29,523	3,966	0.178
22 GHANA	49,622	2.281	54,488	441,751	50,247	2.261
23 GUINEA	8,868	0.408	10,658	78,031	9,494	0.427
24 GUINEA BISSAU	600	0.028	750	5,250	1,225	0.055
25 KENYA	31,707	1.457	35,990	281,080	32,332	1.455
26 LESOTHO	3,324	0.153	3,773	29,470	3,949	0.178
27 LIBERIA	4,230	0.194	5,287	37,017	4,855	0.218
28 LIBYA	83,595	3.842	92,977	742,978	84,220	3.790
29 MADAGASCAR	14,162	0.651	16,070	125,550	14,787	0.665
30 MALAWI	6,472	0.297	8,090	56,630	7,097	0.319
31 MALI	9,536	0.438	10,937	84,411	10,161	0.457
32 MAURITANIA	3,213	0.148	4,015	28,116	3,838	0.173
33 MAURITIUS	14,094	0.648	16,000	124,940	14,719	0.662
34 MOROCCO	72,268	3.322	82,020	640,660	72,893	3.280
35 MOZAMBIQUE	13,766	0.633	15,636	122,037	14,391	0.648
36 NAMIBIA	7,397	0.340	8,400	65,570	8,022	0.361
37 NIGER	5,526	0.254	6,908	48,352	6,151	0.277
38 NIGERIA	193,176	8.879	221,847	1,709,933	193,802	8.722
39 RWANDA	2,902	0.133	3,333	25,683	3,527	0.159
40 SAO TOME & PRINCIPE	1,489	0.068	1,864	13,023	2,114	0.095
41 SENEGAL	21,878	1.006	25,317	193,471	22,415	1.009
42 SEYCHELLES	1,224	0.056	1,501	10,739	1,849	0.083
43 SIERRA LEONE	5,298	0.244	6,623	46,361	5,923	0.267
44 SOMALIA	1,941	0.089	2,427	16,985	2,566	0.115
45 SOUTH AFRICA	99,265	4.563	83,510	909,160	99,890	4.495
46 SUDAN	8,830	0.406	11,036	77,257	9,455	0.426
47 SWAZILAND	7,251	0.333	8,230	64,280	7,876	0.354
48 TANZANIA	17,860	0.821	20,685	157,927	18,486	0.832
49 TOGO	3,452	0.159	4,315	30,201	4,077	0.183
50 TUNISIA	30,492	1.402	34,610	270,310	31,117	1.400
51 UGANDA	11,011	0.506	13,331	96,787	11,637	0.524
52 ZAMBIA	27,087	1.245	31,299	239,572	27,713	1.247
53 ZIMBABWE	45,028	2.070	54,094	396,187	45,653	2.055
Total Regionals	1,308,749	60.154	1,478,102	11,607,663	1,340,115	60.310

Slight differences may occur in totals due to rounding.

(Amounts in UA thousands)

MEMBER STATES	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
Total Regionals	1,308,749	60.154	1,478,102	11,607,663	1,340,115	60.310
54 ARGENTINA	5,846	0.269	6,108	52,364	6,472	0.291
55 AUSTRIA	9,707	0.446	9,720	87,350	10,332	0.465
56 BELGIUM	13,957	0.642	13,980	125,600	14,583	0.656
57 BRAZIL	9,673	0.445	9,700	87,036	10,299	0.463
58 CANADA	81,648	3.753	81,750	734,730	82,273	3.703
59 CHINA	24,300	1.117	24,330	218,670	24,925	1.122
60 DENMARK	25,168	1.157	25,200	226,480	25,793	1.161
61 FINLAND	10,627	0.488	10,640	95,630	11,252	0.506
62 FRANCE	81,648	3.753	81,750	734,730	82,273	3.703
63 GERMANY	89,631	4.120	89,740	806,570	90,256	4.062
64 INDIA	4,860	0.223	4,870	43,730	5,485	0.247
65 ITALY	52,644	2.420	52,710	473,730	53,269	2.397
66 JAPAN	119,400	5.488	119,550	1,074,450	120,025	5.402
67 KOREA	9,707	0.446	9,720	87,350	10,332	0.465
68 KUWAIT	9,707	0.446	9,720	87,350	10,332	0.465
69 NETHERLANDS	18,582	0.854	17,373	168,450	19,207	0.864
70 NORWAY	25,168	1.157	25,200	226,480	25,793	1.161
71 PORTUGAL	5,213	0.240	5,156	46,980	5,838	0.263
72 SAUDI ARABIA	4,212	0.194	4,220	37,900	4,837	0.218
73 SPAIN	23,034	1.059	21,870	208,470	23,659	1.065
74 SWEDEN	33,592	1.544	33,630	302,290	34,217	1.540
75 SWITZERLAND	31,882	1.465	31,920	286,900	32,507	1.463
76 UNITED KINGDOM	36,554	1.680	36,600	328,940	37,179	1.673
77 UNITED STATES OF AMERICA	140,154	6.442	142,245	1,259,298	140,779	6.336
Total Non-Regionals	866,914	39.846	867,702	7,801,478	881,917	39.690
Grand Total	2,175,663	100.000	2,345,804	19,409,141	2,222,032	100.000

Slight differences may occur in totals due to rounding.

Cumulative Exchange Adjustment on Subscriptions (CEAS)

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

At December 31, 2008 and 2007, the Cumulative Exchange Adjustment on Subscriptions was as follows:

[UA thousands]	2008	2007
Balance at January 1	160,075	155,742
Net conversion losses on new subscriptions	953	4,333
Balance at December 31	161,028	160,075

Reserves

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

Retained Earnings

Retained earnings included the net income for the year, after taking into account transfers approved by the Board of Governors, and net expenses recognized directly in equity. Retained earnings as at December 31, 2008 and 2007 were as follows:

[UA thousands]

Balance at January 1, 2007	2,305,345
Net income for the year 2007	203,766
Net expenses recognized directly in equity	(10,823)
Balance at December 31, 2007	2,498,288
Net income for the current year	47,361
Net expenses recognized directly in equity	(85,512)
Balance at December 31, 2008	2,460,137

In May 2008, the Board of Governors of the Bank approved the transfer and distribution of UA 20.70 million (2007: UA 21.59 million) and UA 227.30 million (2007:UA 119.90 million) from the income earned for the year ended December 31, 2007 to surplus account and to certain entities for development purposes, respectively. In 2008, the Board of Governors also approved the distribution of UA 30 million from the surplus account to entities for development purposes. With effect from 2006, Board of Governors' approved distributions to entities for development purposes are reported as expenses in the Income Statement in the year such distributions are approved.

The movement in the surplus account during 2008 and 2007 is as follows:

[UA thousands]

Balance at January 1, 2007	-
Allocation from 2006 net income	21,590
Distribution to Investment Climate Facility for Africa	(9,492)
Balance at December 31, 2007 and January 1, 2008	12,098
Allocation from 2007 net income	20,700
Distribution to Africa Food Crisis (AFCR)	(20,000)
Distribution to African Legal Support Facility	(10,000)
Balance at December 31, 2008	2,798

Distributions to entities for development purposes, including those made from the surplus account, for the years ended December 31, 2008 and 2007 was as follows:

[UA thousands]	2008	2007
African Development Fund (ADF)	109,000	13,700
Post Conflict Assistance - DRC	62,000	65,070
Middle Income Country Technical Assistance Fund	25,000	10,000
Africa Food Crisis Response (AFCR)	20,000	-
Highly Indebted Poor Countries	15,000	21,640
African Legal Support Facility	10,000	-
NEPAD Infrastructure Project Preparation Facility	6,300	-
Africa Fertilizer Development Financing Mechanism	5,000	-
Fund for African Private Sector Assistance	5,000	-
Investment Climate Facility for Africa	-	9,492
Balance at December 31	257,300	119,902

Fair Value Gains on Available-for-Sale Investments

At December 31, 2008 and 2007, the fair value gains on available-for-sale investments were as follows:

[UA thousands]	2008	2007
Balance at January 1	33,510	136
Net (loss)/gain for the year	(18,175)	33,374
Balance at December 31	15,335	33,510

NOTE 0 – INCOME FROM LOANS AND INVESTMENTS AND RELATED DERIVATIVES

Income from Loans

Income from loans for the years ended December 31, 2008 and 2007 was as follows:

[UA thousands]	2008	2007
Interest income on loans not impaired	332,999	300,678
Interest income on impaired loans	15,024	36,511
Commitment charges	3,556	3,432
Statutory commission	698	1,324
Total	352,277	341,945

Income from Investments and Related Derivatives

Income from investments for the years ended December 31, 2008 and 2007 was as follows:

[UA thousands]	2008	2007
Interest income	226,054	238,951
Realized and unrealized fair value losses	(23,170)	(7,244)
Total	202,884	231,707

Total interest income on investment at amortized cost for the year ended December 31, 2008 was UA 120.56 million (2007: UA 123.51 million).

NOTE P – BORROWING EXPENSES

Interest and Amortized Issuance Costs

Interest and amortized issuance costs on borrowings for the years ended December 31, 2008 and 2007 were as follows:

[UA thousands]	2008	2007
Charges to bond issuers	249,022	264,690
Amortization of issuance costs	2,805	3,333
Total	251,827	268,023

Total interest expense for financial liabilities not at fair value through profit or loss for the year ended December 31, 2008 was UA 51.74 million (2007: UA 65.13 million).

Net Interest on Borrowing-Related Derivatives

Net interest on borrowing-related derivatives for the years ended December 31, 2008 and 2007 was as follows:

[UA thousands]	2008	2007
Interest on derivatives payable	374,517	410,714
Interest on derivatives receivable	(308,729)	(348,008)
Total	65,788	62,706

Unrealized Gain on Fair-Valued Borrowings and Related Derivatives

Unrealized gain on fair-valued borrowings and related derivatives for the years ended December 31, 2008 and 2007 was as follows:

[UA thousands]	2008	2007
Fair-valued borrowings	(305,252)	(45,315)
Cross-currency swaps	213,059	10,628
Interest rate swaps	104,624	55,926
Total	12,431	21,239

Unrealized (Loss)/Gain on Derivatives on Non-Fair Valued Borrowings and Others

Unrealized net (loss)/gain on derivatives on non-fair valued borrowings and others for the years ended December 31, 2008 and 2007 was as follows:

(UA thousands)	2008	2007
Interest rate swaps	(47,068)	21,876
Cross-currency swaps	18,089	13,958
Macro hedge swaps	12,208	(1,269)
Embedded derivatives	94	209
Total	(16,677)	34,774

NOTE Q – ADMINISTRATIVE EXPENSES

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

Administrative expenses comprised the following:

(UA thousands)	2008	2007
Personnel expenses	141,119	141,086
Other general expenses	45,253	39,567
Total	186,372	180,653
Reimbursable by ADF	(138,104)	(135,848)
Reimbursable by NTF	(1,485)	(2,587)
Net	46,783	42,218

Included in general administrative expenses is an amount of UA 5.37 million (2007: UA 4.65 million) incurred under operating lease agreements for offices in Tunisia and in certain other regional member countries.

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

(UA thousands)	2008	2007
Within one year	4,678	3,945
In the second to fifth years inclusive	4,179	1,155
Total	8,857	5,100

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

NOTE R – EMPLOYEE BENEFITS

Staff Retirement Plan

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

The SRP is administered as a separate fund by a committee of trustees appointed by the Bank on behalf of its employees. In November 2004, the Board of Directors of the Bank approved certain revisions to the SRP, including simplification of the calculation of the employee contribution rate, more explicit reference to the Bank's residual responsibility and rights as the SRP sponsor, changes in survivor child benefits and an increase in the pension accumulation rate from 2 percent to 2.5 percent for each year of service. The past service cost associated with these changes amounted to UA 1.64 million and were recorded in 2004. Also, new members from the local field offices of the Bank joined the Plan in 2007 and the associated past service cost of UA 1.07 million were reported in the 2007 financial statements. In 2008, the early retirement provisions and the death benefits to spouses were modified, resulting in a net negative prior service cost of UA 8.12 million, which has been immediately recognized. Under the revised SRP, employees contribute at a rate of 9 percent of regular salary. A tax factor included in the basis for the determination of contribution in the previous SRP has been eliminated. The Bank typically contributes twice the employee contribution, but may vary such contribution based on the results of annual actuarial valuations.

All contributions to the SRP are irrevocable and are held by the Bank separately in a retirement fund to be used in accordance with the provisions of the SRP. Neither the contributions nor any income thereon shall be used for or diverted to purposes other than the exclusive benefit of active and retired participants or their beneficiaries or estates, or to the satisfaction of the SRP's liabilities. At December 31, 2008, virtually all of the SRP's investments were under external management and these were invested in indexed funds, with the following objectives: a) Equity portfolio – to track as closely as possible, the returns of the Morgan Stanley Capital International World Index as well as hedging the currency exposure of the SRP's anticipated future liabilities; b) Bond portfolio – to track as closely as possible, the returns of the Citigroup World Government Bond Index as well as hedge the currency exposure of the SRP's anticipated future liabilities.

Post-Employment Medical Benefit Plan

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

The pension and post employment medical benefit expenses for 2008 and 2007 for the Bank, the ADF and the NTF combined (the Bank Group) comprised the following:

[UA millions]	Staff Retirement Plan		Medical Benefit Plan	
	2008	2007	2008	2007
Current service cost – gross	18.02	17.57	5.02	4.03
Less: estimated employee contributions	(5.98)	(5.66)	(1.07)	(1.02)
Net current service cost	12.04	11.91	3.95	3.01
Interest cost	14.53	11.53	2.91	2.12
Expected return on plan assets	(15.63)	(12.65)	(0.43)	(0.40)
Past service cost	(8.12)	1.07	-	-
Expense for the year	2.82	11.86	6.43	4.73

At December 31, 2008, the Bank group's liability to the SRP and the post-employment aspect of the MBP amounted to UA 61.32 million and UA 58.07 million respectively (2007: UA 7.37 million and UA 40.76 million respectively).

At December 31, 2008 and 2007 the determination of these liabilities, which are included in "Other accounts payable" on the Balance Sheet is set out below:

[UA millions]	Staff Retirement Plan		Medical Benefit Plan	
	2008	2007	2008	2007
Fair value of plan assets:				
Market value of plan assets at beginning of year	254.98	199.48	9.04	7.00
Actual return on assets	(61.63)	10.11	0.31	0.52
Employer's contribution	21.31	47.44	2.14	2.06
Plan participants' contribution	5.98	5.66	1.07	1.02
Benefits paid	(10.35)	(7.71)	(1.03)	(1.56)
Market value of plan assets at end of year	210.29	254.98	11.53	9.04
Present value of defined benefit obligation:				
Benefit obligation at beginning of year	262.35	233.88	49.80	42.86
Current service cost	12.04	11.91	3.95	3.01
Employee contributions	5.98	5.66	1.07	1.02
Interest cost	14.54	11.53	2.91	2.12
Actuarial loss/(gain)	(12.95)	7.08	12.90	2.35
Benefits paid	(10.35)	(7.71)	(1.03)	(1.56)
Benefit obligation at end of year	271.61	262.35	69.60	49.80
Funded status:				
Liability recognized on the balance sheet at December 31, representing excess of benefit over plan asset	(61.32)	(7.37)	(58.07)	(40.76)

There were no unrecognized past service costs at December 31, 2008 and 2007. At December 31, 2008 the cumulative net actuarial losses recognized directly in equity through the statement of recognized income and expenses for the SRP and MBP were in the amounts of UA 95.48 million and UA 11.70 million, respectively (2007: SRP – loss of UA 23.05 million; MBP – gain of UA 1.32 million).

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

[UA millions]	2008	2007	2006	2005	2004
Staff Retirement Plan					
Fair value of Plan assets	210.29	254.98	199.48	166.76	140.89
Present value of defined benefit obligation	(271.61)	(262.35)	(233.88)	(200.57)	(177.83)
Plan deficit	(61.32)	(7.37)	(34.40)	(33.81)	(36.94)
Experience adjustments on plan assets	(76.36)	0.90	3.45	2.97	1.56
Experience adjustments on plan liabilities	(19.12)	(23.95)	(17.95)	(4.20)	(1.53)
Net	(95.48)	(23.05)	(14.50)	(1.23)	0.03

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

[UA millions]	2008	2007	2006	2005	2004
Medical Benefit Plan					
Fair value of plan assets	11.53	9.04	7.00	4.76	3.07
Present value of defined benefit obligation	(69.60)	(49.80)	(42.86)	(44.08)	(37.17)
Plan deficit	(58.07)	(40.76)	(35.86)	(39.32)	(34.10)
Experience adjustments on plan assets	0.01	0.13	(0.01)	(2.55)	(0.06)
Experience adjustments on plan liabilities	(11.71)	1.19	3.56	-	-
Net	(11.70)	1.32	3.55	(2.55)	(0.06)

Assumptions used in the latest available actuarial valuations at December 31, 2008 and 2007 were as follows:

[percentages]	Staff Retirement Plan		Medical Benefit Plan	
	2008	2007	2008	2007
Discount rate	5.348	5.625	5.348	5.625
Expected return on plan assets	6.300	6.000	3.500	4.250
Rate of salary increase	4.000	4.000	4.000	4.000
Future pension increase	2.500	2.500		
Health care cost growth rate			8.000	8.000
- at end of fiscal year			5.000	5.000
- ultimate health care cost growth rate			2011	2010
Year ultimate health care cost growth rate reached				

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

For measurement purposes, the annual growth rate in the per capita cost of covered health care benefits is assumed to decrease ratably between the current period and 2010, with the growth rate assumed to remain at that level thereafter.

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

The following table presents the weighted-average asset allocation at December 31, 2008 and 2007 for the Staff Retirement Plan:

(UA thousands)	2008	2007
Debt securities	84,118	101,993
Equity securities	105,147	127,491
Others	21,029	25,498
Total	210,294	254,982

At December 31, 2008 and 2007, the assets of the MBP were invested primarily in time deposits.

The Bank's estimate of contributions it expects to make to the SRP and the MBP for the year ended December 31, 2009, are UA 14.30 million and UA 3.42 million respectively.

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

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

(UA millions)	1% Increase		1% Decrease	
	2008	2007	2008	2007
Effect on total service and interest cost	1.472	1.283	(1.181)	(0.839)
Effect on post-retirement benefit obligation	14.935	10.794	(11.794)	(8.363)

NOTE S – RELATED PARTIES

The following related parties have been identified:

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

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

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

The Bank’s investment in the ADF is included in Equity Participations and disclosed in Note J. In addition to the amount reported as equity participation, the Bank periodically makes allocations to the Fund, to further its objectives. Net income allocations by the Bank to ADF are reported as Other Resources in the Fund’s financial statements. Net income allocation to the Fund in 2008 amounted to UA 109.00 million (2007: UA 13.70 million).

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

Grant resources administered by the Bank on behalf of other donors, including its member countries, agencies and other entities are generally restricted for specific uses, which include the co-financing of Bank’s lending projects, debt reduction operations and technical assistance for borrowers including feasibility studies. Details of the outstanding balance on such grant funds at December 31, 2008 and 2007 are disclosed in Note W-5.

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

Management Personnel Compensation

Compensation paid to the Bank's management personnel and executive directors during the years ended December 31, 2008, and 2007 was made up as follows:

[UA thousands)	2008	2007
Salaries	15,209	14,164
Termination and other benefits	5,937	5,961
Contribution to retirement and medical plan	3,170	2,927
Total	24,316	23,052

The Bank may also provide personal loans and advances to its staff, including those in management. Such loans and advances, guaranteed by the terminal benefits payable at the time of departure from the Bank, are granted in accordance with the Bank's rules and regulations. At December 31, 2008 outstanding balances on loans and advances to management staff amounted to UA 3.35 million (2007: UA 3.23 million). No expense was recognized during the year in respect of impairment on debts due from related parties.

NOTE T – SEGMENT REPORTING

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

NOTE U – EVENTS AFTER THE BALANCE SHEET DATE

Pursuant to an arrears clearance arrangement approved by the Board of Directors on March 6, 2009, the arrears owed by Côte d'Ivoire were repaid through a combination of payments by Côte d'Ivoire assisted by a donor country and contributions by the Fragile States Facility created by the Bank Group. The clearance of the arrears of Côte d'Ivoire provided evidence of the need to adjust the impairment provision previously recognized as a result of the arrears status of the country at December 31, 2008. Accordingly, the impairment allowance previously recognized on Côte d'Ivoire's loans has been reversed through the income statement in 2008.

NOTE V – APPROVAL OF FINANCIAL STATEMENTS

On March 31, 2009, 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 2009.

NOTE W – SUPPLEMENTARY DISCLOSURES

NOTE W-1: EXCHANGE RATES

The rates used for translating currencies into Units of Account at December 31, 2008 and 2007 were as follows:

		2008	2007
1 UA = SDR =	Algerian Dinar	104.675000	106.161000
	Angolan Kwanza	111.666000	119.287000
	Botswana Pula	11.607200	9.502360
	Brazilian Real	3.653610	2.797830
	Canadian Dollar	1.890960	1.561440
	Chinese Yuan	10.527100	11.530200
	CFA Franc	725.980000	704.144000
	Danish Kroner	8.180030	8.020210
	Egyptian Pound	8.497670	8.649740
	Ethiopian Birr	15.333500	13.304000
	Euro	1.106750	1.073460
	Gambian Dalasi	41.263800	33.937600
	Ghanaian Cedi	1.868890	1.424030
	Guinean Franc	7,700.580000	8,283.200000
	Indian Rupee	74.626300	62.277700
	Japanese Yen	140.464000	179.947000
	Kenyan Shilling	114.018000	105.994000
	Korean Won	1,936.890000	1,482.590000
	Kuwaiti Dinar	0.425038	0.431408
	Libyan Dinar	1.932370	1.932370
	Mauritian Rupee	48.912000	44.588500
	Moroccan Dirham	12.296400	12.235300
	Nigerian Naira	183.325000	195.584000
	Norwegian Krone	10.780200	8.550740
	Pound Sterling	1.056570	0.788780
	Sao Tomé Dobra	23,455.400000	19,668.400000
	Saudi Arabian Riyal	5.776010	5.925930
	South African Rand	14.332200	10.761500
	Swedish Krona	11.999400	10.208800
	Swiss Franc	1.638390	1.778570
	Tunisian Dinar	2.059200	1.936680
	Ugandan Shilling	3,015.380000	2,727.920000
	US Dollar	1.540270	1.580250

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

NOTE W-2: OTHER DEVELOPMENT ASSISTANCE ACTIVITIES

(i) Democratic Republic of Congo (DRC)

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

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

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

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

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

(iii) Heavily Indebted Poor Countries (HIPC) Initiative

The Bank participates in a multilateral initiative for addressing the debt problems of countries identified as HIPCs. Under this initiative, creditors provide debt relief for eligible countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. Under the original HIPC framework, selected loans to eligible beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the lower of the net present value of the loans or their nominal values, as calculated using the methodology agreed under the initiatives. Following the signature of a HIPC debt relief agreement, the relevant loans were paid off at the lower of their net present value or their carrying value. On average, loans in the ADB's portfolio carry higher interest rates than the present value discount rates applied and therefore the net present value of the loans exceeds the book value. Consequently, affected ADB loans were paid off by the HIPC Trust Fund at book values. The HIPC initiative was enhanced in 1999 to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 33 African countries are eligible, the debt relief is delivered through annual debt service reductions, as well as the release of up to 80 percent of annual debt service obligations as they come due until the total debt relief is provided. In addition, interim financing between the decision and completion points of up to 40 percent of total debt relief is provided whenever possible within a 15-year horizon. At December 31, 2008, the Board of Directors had approved relief for 28 ADB borrowing countries, of which 19 had reached the completion point.

(iv) Multilateral Debt Relief Initiative (MDRI)

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

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

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

NOTE W-3: SPECIAL FUNDS

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

At December 31, 2008 and 2007, the following funds were held separately from those of the ordinary capital resources of the Bank:

(i) The NTF was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank and the Federal Republic of Nigeria. The Agreement stipulates that the NTF shall be in effect for a period of 30 years from the date the Agreement became effective and that the resources of the NTF shall be transferred to Nigeria upon termination. However, the 30-year sunset period may be extended by mutual agreement between the Bank and Nigeria. At the expiry of the initial 30-year period on 25 April 2006, the Bank and the Federal Republic of Nigeria agreed to 2 interim extensions (each for 12 months) to allow for further consultations and an independent evaluation of the NTF. Following the positive result of the independent evaluation, the NTF Agree-

ment was renewed for a period of ten years starting from April 26, 2008. The initial capital of the NTF was Naira 50 million payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to US\$ 39.90 million, was received by the Bank on July 14, 1976, and payment of the second installment, equivalent to US\$ 39.61 million, was made on February 1, 1977.

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

The resources of the NTF at December 31, 2008 and 2007 are summarized below:

(UA thousands)	2008	2007
Contribution received	128,586	128,586
Funds generated (net)	273,660	269,657
Adjustment for translation of currencies	(115,469)	(124,777)
	286,777	273,466
Represented by:		
Due from banks	90,367	6,331
Investments	139,565	190,346
Accrued income and charges receivables on loans	1,807	16,708
Accrued interest on investments	733	520
Other amounts receivable	529	177
Loans outstanding	54,628	64,383
	287,629	278,465
Less: Current accounts payable	(852)	(4,999)
	286,777	273,466

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

The summary statement of the resources and assets of the Special Relief Fund (for African countries affected by drought) as at December 31, 2008 and 2007 follows:

(UA thousands)	2008	2007
Fund balance	62,448	62,448
Funds generated	4,639	3,876
Funds allocated to SDA	1	1
Less: Relief disbursed	<u>(52,990)</u>	<u>(48,931)</u>
	<u>14,098</u>	<u>17,394</u>
Represented by:		
Due from bank	6,598	799
Investments	8,057	16,550
Interest receivable	<u>9</u>	<u>45</u>
	<u>14,664</u>	<u>17,394</u>
Less: Current accounts payable	<u>(566)</u>	<u>-</u>
	<u>14,098</u>	<u>17,394</u>

At December 31, 2008, a total of UA 2.40 million (2007: UA 3.86 million) had been committed but not yet disbursed under the Special Relief Fund.

NOTE W-4: TRUST FUNDS

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

- (i) **The Mamoun Beheiry Fund** was established under Board of Governors' Resolution 11-70 of October 31, 1970, whereby Mr. Mamoun Beheiry, former President of the Bank, agreed to set up a fund, which could be used by the Bank to reward staff members who had demonstrated outstanding performance in fostering the objectives of the Bank.
- (ii) **The Arab Oil Fund (contribution of Algeria)** was established following Board of Governors' Resolution 19-74 of July 4, 1974. Under a protocol agreement dated November 15, 1974, the Bank received the sum of US\$ 20 million from the Government of Algeria to be kept as a Trust Fund from which loans could be granted to member countries affected by high oil prices. On August 11, 1975, an amount of US\$ 5.55 million was refunded to Algeria upon request, leaving a balance of US\$ 14.45 million, from which loans refundable directly to Algeria have been made. At December 31, 2008, a total of US\$ 13.45 million (2007: US\$ 13.45 million) had been so repaid.
- (iii) **The Special Emergency Assistance Fund for Drought and Famine in Africa (SEAF)** was established by the 20th Meeting of Heads of State and Government of member countries of the African Union formerly Organization of African Unity (OAU) held in Addis Ababa, Ethiopia, from November 12 to 15, 1984, under Resolution AHG/Res. 133 (XX), with the objective of giving assistance to African member countries affected by drought and famine.

The financial highlights of these Trust Funds at December 31, 2008 and 2007 are summarized below:

(UA thousands)	2008	2007
i) Mamoun Beheiry Fund		
Contribution	152	152
Income from investments	167	242
	<hr/> 319	<hr/> 394
Less: Prize awarded	(30)	(30)
Gift	(25)	(25)
	<hr/> 264	<hr/> 339
Represented by:		
Short-term deposits	247	316
Due from banks	13	17
Accrued interest	4	6
	<hr/> 264	<hr/> 339
ii) Arab Oil Fund (contribution of Algeria)		
Net contribution	649	632
Represented by:		
Loans disbursed net of repayments	649	632
iii) Special Emergency Assistance Fund for Drought and Famine in Africa		
Contributions	20,440	19,923
Funds generated	5,525	5,290
	<hr/> 25,965	<hr/> 25,213
Relief granted	(21,483)	(20,940)
	<hr/> 4,482	<hr/> 4,273
Represented by:		
Due from banks	4,479	71
Investments	-	4,193
Accrued interest	3	9
	<hr/> 4,482	<hr/> 4,273
Total Resources & Assets of Trust Funds	5,395	5,244

NOTE W-5: GRANTS

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

The undisbursed balances of the grant resources at December 31, 2008 and 2007 were as follows:

[UA thousands]	2008	2007
African Water Facility Fund	38,396	19,159
AMINA	1,436	1,389
AMTA/NAMTA	1	140
Austria Technical Cooperation grant	986	993
Belgium	1,007	1,100
Canada	332	518
Chinese Government Grant	286	45
Congo Bassin	7,635	-
Denmark	1,248	1,472
Finland	2,467	1,648
France – BAD Fonds d'Assistance Technique	2,710	2,957
ICA – Infrastructure Consortium for Africa	323	222
ICP – Africa	161	894
Indian Government Grant	366	668
Italy	3,133	16,030
Japan (FAPA)	13,308	13,376
Korea Trust fund	1,778	792
Multi-donor Water Partnership Program	1,846	2,305
Nepad Infrastructure	12,516	4,745
Nordic Trust Fund for Governance	371	1,086
Norway	441	756
Portuguese Technical Cooperation Trust Fund	904	-
Rural Water Supply & Sanitation Initiative	55,557	47,848
SFRD (Great Lakes Region)	1,545	-
Spain (ADB-Spain Cooperation Program)	601	392
Swedish Trust Fund for Consultancy Services	404	669
Switzerland Technical Assistance Grant	304	280
The Netherlands	1,677	1,877
The Nigeria Technical Cooperation Fund	17,562	16,862
The United Kingdom	1,470	1,123
Others	337	250
Total	171,108	139,596

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MEMBERSHIP OF FRANCE

France became a member on 30 December 1983. At 31 December 2008, France had subscribed to 81,648 shares of the capital stock (par value UA 10,000 per share) of the Bank. Of this subscription of UA 816,480,000, an amount of UA 734,730,000 was callable capital and UA 81,750,000 was paid-up capital.

At 31 December 2008, France was entitled to cast 82,273 votes (3.718 per cent) of the total votes of all members. As at that date, France was represented on the Bank's Board of Governors by Mr. Xavier Musca as Governor.

MEMBERSHIP OF GERMANY

Germany became a member of the Bank on 18 February 1983. At 31 December 2008, Germany had subscribed to 89,631 shares of the capital stock (par value UA 10,000 per share) of the Bank. Of this subscription of UA 896,310,000, an amount of UA 806,570,000 was callable capital and UA 89,740,000 was paid-up capital.

At 31 December 2008, Germany was entitled to cast 90,256 votes (4.078 per cent) of the total votes of all members. As at that date, Germany was represented on the Bank's Board of Governors by Ms Karin Kortmann as Governor.

MEMBERSHIP OF JAPAN

Japan became a member of the Bank on 3 December 1982. At 31 December 2008, Japan had subscribed to 119,400 shares of the capital stock (par value UA 10,000 per share) of the Bank. Of this subscription of UA 1,194,000,000, an amount of UA 1,074,450,000 was callable capital and UA 119,550,000 was paid-up capital.

At 31 December 2008, Japan was entitled to cast 120,025 votes (5.424 per cent) of the total votes of all members. As at that date, Japan was represented on the Bank's Board of Governors by Mr. Shouichi Nakagawa as Governor.

MEMBERSHIP OF SWITZERLAND

Switzerland became a member of the Bank on 30 December 1992. At 31 December 2008, Switzerland had subscribed to 31,882 shares of the capital stock (par value UA 10,000 per share) of the Bank. Of this subscription of UA 318,820,000 an amount of UA 286,900,000 was callable capital and UA 31,920,000 was paid-up capital.

At 31 December 2008, Switzerland was entitled to cast 32,507 votes (1.469 per cent) of the total votes of all members. As at that date, Switzerland was represented on the Bank's Board of Governors by Ambassador Beatrice Maser Mallor as Governor.

MEMBERSHIP OF THE UNITED KINGDOM

The United Kingdom became a member of the Bank on 29 April 1983. At 31 December 2008, the United Kingdom had subscribed to 36,554 shares of the capital stock (par value UA 10,000 per share) of the Bank. Of this subscription of UA 365,540,000, an amount of UA 328,940,000 was callable capital and UA 36,600,000 was paid-up capital.

At 31 December 2008, the United Kingdom was entitled to cast 37,179 votes (1.680 per cent) of the total votes of all members. As at that date, the United Kingdom was represented on the Bank's Board of Governors by Mr. Douglas Alexander as Governor.

MEMBERSHIP OF THE UNITED STATES OF AMERICA

The United States of America became a member of the Bank on 8 February 1983 pursuant to the African Development Bank Act.

At 31 December 2008, pursuant to subscription letters, the United States had subscribed to 140,154 shares of the capital stock (par value UA 10,000 per share) of the Bank. Of the subscription of UA 1,401,543,000, an amount of UA 1,259,298,000 was callable capital and UA 142,245,000 was paid-up capital.

The General Counsel of the Treasury Department of the United States has rendered an opinion to the effect that the portion of the United States subscription to the callable capital that has been provided for in budgetary and appropriations legislation is an obligation backed by the full faith and credit of the United States, although appropriations by the United States Congress would be required to enable the Secretary of the Treasury to pay any part of the subscription to callable capital if it were called by the Bank.

At 31 December 2008, the United States was entitled to cast 140,779 votes (6.361 per cent) of the total votes of the members. As at that date, the United States of America was represented on the Bank's Board of Governors by Mr. Henry Paulson Jr. as Governor.

ANNEX D

INDEX OF CERTAIN DEFINITIONS

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