

THE AFRICAN DEVELOPMENT FUND

FINANCIAL MANAGEMENT

Subscriptions

ADF Replenishments

The resources of the African Development Fund (the ADF or the Fund) primarily consist of subscriptions by the Bank, subscriptions and contributions by State Participants, as well as other resources received by the Fund. The cumulative subscriptions to the ADF amounted to UA 26.71 billion at 31 December 2015.

Subsequent to the initial subscriptions, additional resources have been provided to the ADF in the form of periodic general replenishments, typically done every three years. The thirteenth (ADF-13) replenishment was adopted by the Board of Governors on 31 January 2014, and became effective on 31 March 2014 with the total resource envelope amounting to UA 5.35 billion, comprising donor subscriptions of UA 3.80 billion, supplementary contributions of UA 0.06 billion, Advanced Commitment Capacity or internally generated resources of UA 0.98 billion, and a technical gap of UA 0.51 billion. The replenishment covers the 2014-2016 operational period. As of 31 December 2015, State Participants had subscribed a total amount of UA 3.80 billion, representing 99 percent of the ADF-13 pledged amount.

Commitments under the Multilateral Debt Relief Initiative

Under the Multilateral Debt Relief Initiative (MDRI), donor countries agree to compensate ADF for the cancellation of its loans to Heavily Indebted Poor Countries (HIPC) that have reached, or will reach the completion point under the enhanced HIPC initiative. The MDRI became effective on 1 September 2006, and covers the period, 2006-2054. To preserve the financial integrity and the financing capacity of the Fund, the terms of the MDRI require donors to fully compensate the Fund for debts canceled under the MDRI. Donors have also agreed that periodic adjustments would be made under the initiative to reflect changes in the actual and estimated costs to the Fund resulting from debt forgiveness.

As of 31 December 2015, the Fund had received from donors aggregate commitments of UA 4.69 billion, representing 82

percent of the MDRI cost of UA 5.69 billion for the period, 2006-2054.

Financial Products

The ADF is the concessional financing window of the Bank Group that provides low-income regional member countries with concessional loans as well as grants for projects and programs, risk guarantees and support through technical assistance for studies and capacity building.

Loans

Prior to the ADF-13 replenishment, the ADF was operating under differentiated lending terms for ADF-eligible countries classified as blend, gap and graduating versus ADF-only countries. Accordingly, loans extended to blend, gap and graduating countries had a maturity period of 30 years, including an 8-year grace period with an interest rate of 1 percent per annum. For ADF-only countries, their loans had a maturity period of 50 years, including a grace period of 10 years, with no interest rate. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum on outstanding balances, were still applicable for all ADF loans.

With the view to preserving the long-term financial sustainability and capacity of the ADF, the ADF-13 replenishment introduced (i) hardened and differentiated lending terms, and (ii) two sub-groups of ADF-only countries: the “regular” or the “advance” group. The financing terms for regular and advance ADF-only countries, as well as for blend, gap and graduating countries, were hardened. An accelerated repayment clause and a voluntary prepayment framework were also introduced.

Accordingly, new loans extended under ADF-13 to regular ADF countries have a maturity of 40 years, including a grace period of 10 years; and loans extended to advance ADF countries have a maturity of 40 years, including a grace period of 5 years. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum in outstanding balances remain applicable. Loans to blend, gap and graduating countries have a maturity of 30 years including a 5-year grace period, and an interest rate charge of 1 percent per annum in addition to the standard commitment and service fees.

Guarantees

As a means of stimulating additional private sector investments in Low-Income Countries (LICs), the ADF Partial Risk

Guarantee (ADF-PRG) instrument was introduced as part of ADF-12 to leverage resources from the private sector and other co-financiers for ADF countries, including fragile states. The ADF-PRG protects private lenders against well-defined political risks related to the failure of a government or a government-related entity to honor certain specified commitments and incentivize governments to undertake policy and fiscal reforms necessary to mitigate performance-related risks.

Starting with the ADF-13 replenishment, the Partial Credit Guarantee (PCG) has been added to the suite of ADF instruments. The ADF-PCG is an instrument designed to address the challenges faced by well-performing ADF-only countries and State Owned Enterprises (SOEs), in their quest to mobilize both domestic and external commercial financing for developmental purposes. The product will serve to partially guarantee debt-service obligations of LICs and well-performing SOEs in LICs. The ADF PCG is available only to; (1) ADF countries with low risk of debt distress (green light countries) and adequate debt management capacity; and (2) SOEs in ADF countries with low risk and moderate risk of debt distress (green and yellow light countries, respectively), subject to meeting certain defined eligibility criteria. Similar to the ADF-PRG, the ADF-PCG will enable well-performing LICs and SOEs to catalyze larger volumes of development financing at more attractive terms.

Investments

ADF cash and treasury investments amounted to UA 3.27 billion at 31 December 2015, compared to UA 3.38 billion at the end of 2014. Investment income for the year amounted to UA 60.97 million, representing a return of 1.64 percent, on an average liquidity level of UA 3.72 billion, compared with an income of UA 76.35 million, representing a return of 2.31 percent on an average liquidity of UA 3.31 billion in 2014. The lower income and return in 2015 was due to a small increase in the fair value of derivatives put in place in

2014 to hedge the discount granted to donors, who chose to accelerate the encashment of their subscription to ADF-13, and to the smaller size of the higher yielding held-at-amortized cost portfolios.

Development Activities

Cumulative loans and grants signed, net of cancellations, at 31 December 2015, amounted to UA 28.26 billion, compared to UA 26.67 billion at the end of 2014. Table 7.6 presents loans approved, disbursed and undisbursed balances from 2011 to 2015.

Total outstanding loans, as at 31 December 2015, was UA 9.80 billion, UA 0.83 billion higher than the UA 8.97 billion outstanding as at the end of 2014.

At the end of 2015, there was a total of 1,169 active loans and grants, and a total of 725 loans amounting to UA 5.76 billion had been fully repaid or canceled through MDRI.

Disbursements

Loans and grants disbursed by the Fund increased by 14.75 percent to stand at UA 1.40 billion in 2015 from UA 1.22 billion in 2014. As at 31 December 2015, cumulative disbursements on loans and grants amounted to UA 21.51 billion compared to UA 20.11 billion at the end of the previous year. A total of 2,144 loans and grants were fully disbursed for an amount of UA 16.72 billion, representing 77.73 percent of cumulative disbursements. Figure 7.3 tracks the evolution of loan disbursements and repayments over the past five years.

Repayments

In 2015, principal loan repayments for the Fund amounted to UA 66.34 million compared to UA 62.87 million in 2014, representing an increase of 5.52 percent over the previous year. Cumulative repayments as of 31 December 2015, stood at UA 7.13 billion.

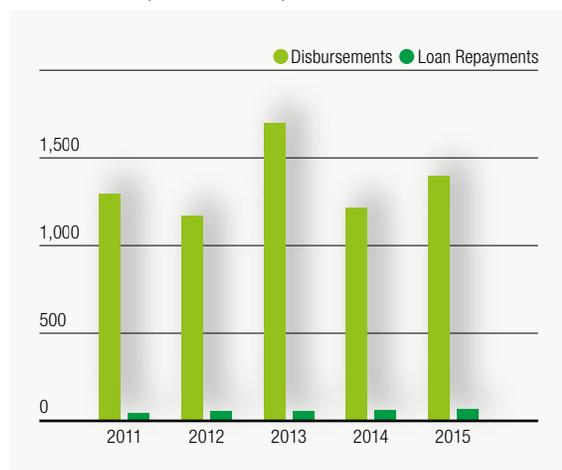
Table 6.6
Lending Status, 2011-2015
(UA millions)

	2011	2012	2013	2014	2015
Loans Approved*	1,475.74	1,659.51	2,054.48	1,338.23	1,259.58
Disbursements	1,296.65	1,169.60	1,702.21	1,215.30	1,398.36
Undisbursed Balances	5,415.36	6,921.62	6,327.68	6,558.66	6,762.39

* Excludes approvals of Special Funds but includes guarantees and grants.

Figure 6.3

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



Risk Management Policies and Processes

As in the case of the Bank, the Fund employs stringent risk management procedures in order to prudently reduce its exposure to risks, such as liquidity, currency and interest rate risks, that are not essential to its core business of providing development-related assistance to its clients. The details of the risk management policies and practices employed by the Fund to manage these risks are provided in Note C to the Financial Statements.

FINANCIAL RESULTS

The following are the highlights of the Fund's financial performance in 2015:

- The Fund reported a reduced deficit of UA 83.25 million in 2015, compared to a deficit of UA 125.35 million in 2014. The persistent reported losses over recent years is principally due to certain structural changes to the Fund, including the cancellation of loans to certain beneficiaries under the MDRI initiative (described in Note F to the financial statements) and the increased grant elements in the recent ADF resource allocation. Although these changes are not reported as income in the Fund's financial statements, their impact does not adversely affect the commitment capacity or the financial sustainability of the Fund because the Fund is expected to be compensated through additional donor subscriptions, payable over the life of the canceled loans.

- The generally low level of interest rates prevailing globally continued to have the dual effect of lowering the Fund's investment income and increasing the impact of the accelerated encashment of promissory notes deposited towards the payment of subscriptions to the Fund.
- The Fund's share of the total shareable administrative expenses of the ADB Group decreased by UA 47.64 million from UA 248.57 million in 2014 to UA 200.93 million in 2015, due to the general decrease in the operational expenses of the Bank Group and the lower expenses relating to the return of the Bank to its Headquarters in Abidjan, Côte d'Ivoire. As noted earlier, the Fund's share of administrative expenses is based on a predetermined cost-sharing formula, which is driven by the relative levels of certain operational volume indicators and relative balance sheet size. The Fund's share of these expenses was 63.14 percent for 2015, compared to 67.32 percent for 2014.
- Investment income decreased from UA 76.35 million in 2014 to UA 60.97 million in 2015. Loan income increased from UA 80.66 million in 2014 to UA 90.32 million in 2015, driven primarily by a higher average outstanding loan balance in 2015. Discount on the accelerated encashment of promissory notes amounted to UA 27.21 million in 2015 compared to UA 34.33 million in 2014.

According to the Fund's non-accrual policy, service charges on loans made to or guaranteed by borrowers are excluded from loan income, if principal installments or service charges on any such loans are in arrears for six months or more, until such time that payment is received. As a result of this policy, UA 2.05 million of non-accrued loan income was excluded from 2015 income compared to UA 2.06 million in 2014. The number of borrowers in non-accrual status at 31 December 2015 remained three; which was the same level as at the end of December 2014.

The Fund continued to cancel qualifying debts under MDRI as the relevant countries reached HIPC completion point. No new countries reached completion point during 2015. A summary of the cumulative loan cancellations under MDRI and HIPC is presented in Note F to the Special Purpose Financial Statements.

Performance Management and Monitoring

As with the African Development Bank (the Bank) management monitors performance measures and indicators which reflect

the critical success factors in the ADF's business. To the extent that the ADF extends grants in addition to lending at highly concessional rates, the conventional profitability and financial ratios are not deemed to be an appropriate means of determining its effectiveness in delivering development resources to regional member countries. One proxy that the Fund applies for measuring effective delivery of development resources is the level of disbursements made to the RMCs from one period to another. As already noted previously, during the year under review a total of UA 1.40 billion was disbursed for loans and grants as compared to UA 1.22 billion made in 2014.

African Development Fund Special Purpose Financial Statements and Report of the Independent Auditor Year ended 31 December 2015

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Statement of net development resources as at 31 December 2015

(UA thousands – Note B)

	2015	2014
DEVELOPMENT RESOURCES		
DUE FROM BANKS	376,273	368,702
INVESTMENTS (Note D)		
Treasury investments, mandatorily at fair value	1,699,887	1,452,412
Treasury investments at amortized cost	1,192,030	1,557,501
Total investments	2,891,917	3,009,913
DEMAND OBLIGATIONS (Note E)	2,669,459	2,801,319
RECEIVABLES		
Accrued income on loans and investments	57,417	54,925
Other receivables	25,766	70,888
	83,183	125,813
LIABILITIES	(88,946)	(154,342)
NET DEVELOPMENT RESOURCES	5,931,886	6,151,405
FUNDING OF DEVELOPMENT RESOURCES		
SUBSCRIPTIONS AND CONTRIBUTIONS (Notes G & M)		
Amount subscribed including contributions through accelerated encashment of subscriptions	26,644,463	26,175,035
Less: Portion of accelerated encashment not yet effected	(15,793)	(31,586)
	26,628,670	26,143,449
Less: Installments not yet payable	(1,348,588)	(1,963,439)
	25,280,082	24,180,010
Less: Installments due	(7,018)	(7,018)
	25,273,064	24,172,992
Contributions paid on Multilateral Debt Relief Initiative	849,249	748,051
	26,122,313	24,921,043
Less: Unamortized discounts on subscriptions and contributions (Note B)	(100,786)	(112,202)
	26,021,527	24,808,841
Cumulative exchange adjustment on subscriptions and contributions (Note B)	(306,711)	(291,641)
Total subscriptions and contributions	25,714,816	24,517,200
OTHER RESOURCES (Note H)	602,961	551,960
RESERVES (Note I)	(340,516)	(257,267)
CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B)	(353,093)	(332,021)
	25,624,168	24,479,872
ALLOCATION OF DEVELOPMENT RESOURCES		
GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note F)	(4,750,545)	(4,379,817)
HIPC GRANTS DISBURSED (Note F)	(184,000)	(184,000)
NET DEBT RELIEF (Note F)	(4,955,072)	(4,799,441)
LOANS DISBURSED AND OUTSTANDING (Note F)	(9,802,665)	(8,965,209)
NET DEVELOPMENT RESOURCES	5,931,886	6,151,405

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

Statement of income and expenses and other changes in development resources for the year ended 31 December 2015

(UA thousands – Note B)

	2015	2014
INCOME AND EXPENSES		
Service charges on loans	66,907	61,905
Commitment charges on loans	23,417	18,751
Income on investments	60,967	76,350
Other income	-	90
Administrative expenses (Note K)	(200,932)	(248,566)
Discount on accelerated encashment of participants' demand obligations	(27,209)	(34,332)
Financial charges	(1,251)	(135)
(Loss)/Gain on exchange	(5,148)	585
Deficit	(83,249)	(125,352)
CHANGE IN DEVELOPMENT RESOURCES FUNDING		
Increase in paid-up subscriptions	1,100,072	1,756,184
Contributions received on account of Multilateral Debt Relief Initiative	101,198	80,812
Increase in other resources	51,000	42,000
Changes in accumulated exchange adjustment on subscriptions and contributions	(15,070)	(12,340)
Changes in unamortized discounts on subscriptions and contributions	11,416	15,524
Changes in accumulated translation adjustment	(21,072)	(46,062)
	1,227,544	1,836,118
CHANGE IN DEVELOPMENT RESOURCES ALLOCATION		
Disbursement of grants	(370,728)	(378,642)
Disbursement of loans	(1,027,633)	(836,659)
Repayment of loans	66,342	62,867
Recoveries on account of Multilateral Debt Relief Initiative	9,317	-
Translation adjustment on loans	(41,112)	(8,773)
	(1,363,814)	(1,161,207)
Change in Net Development Resources	(219,519)	549,559
Net Development Resources at the beginning of the year	6,151,405	5,601,846
NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR	5,931,886	6,151,405

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

Statement of comprehensive income for the year ended 31 December 2015

(UA thousands – Note B)

	2015	2014
DEFICIT	(83,249)	(125,352)
OTHER COMPREHENSIVE INCOME		
Changes in accumulated translation adjustment	(21,072)	(46,062)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	(104,321)	(171,414)

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

Statement of cash flows for the year ended 31 December 2015

(UA thousands – Note B)

	2015	2014
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Deficit	(83,249)	(125,352)
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized (gain)/loss on investments	(8,362)	4,143
Discount on accelerated encashment of participants' demand obligations	27,209	34,332
Changes in accrued income on loans and investments	(1,406)	1,086
Changes in net current assets	(18,304)	(2,722)
Net cash used in operating activities	(84,112)	(88,513)
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursement of grants	(370,728)	(378,642)
Disbursement of loans	(1,027,633)	(836,659)
Repayment of loans	66,342	62,867
Recoveries on account of Multilateral Debt Relief Initiative	9,317	-
Investments maturing after 3 months of acquisition:		
Treasury investments, mandatorily at fair value	(404,717)	(250,828)
Treasury investments at amortized cost	382,374	529,300
Net cash used in investment, lending and development activities	(1,345,045)	(873,962)
FINANCING ACTIVITIES:		
Subscriptions and contributions received in cash	448,760	258,164
Participants' demand obligations encashed	794,355	1,057,423
Increase in other resources	51,000	42,000
Net cash provided by financing activities	1,294,115	1,357,587
Effect of exchange rate changes on cash and cash equivalents	(26,186)	(9,047)
Net (decrease)/increase in cash and cash equivalents	(161,228)	386,065
Cash and cash equivalents at the beginning of the year	636,817	250,752
Cash and cash equivalents at the end of the year	475,589	636,817
COMPOSED OF:		
Cash	376,273	368,702
Investments maturing within 3 months of acquisition:		
Treasury investments, mandatorily at fair value	99,316	268,115
Cash and cash equivalents at the end of the year	475,589	636,817
SUPPLEMENTARY DISCLOSURE:		
Movements resulting from exchange rate fluctuations on:		
Loans	41,112	8,773
Subscriptions and contributions	(15,070)	(12,340)

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

Notes to the special purpose financial statements Year ended 31 December 2015

Note A — Purpose, organization and resources

Purpose and Organization

The African Development Fund (ADF or the Fund) was established in 1972 as an international institution to assist the African Development Bank (ADB or the Bank) in contributing to the economic and social development of the Bank's regional members, promote cooperation and increased international trade particularly among the Bank's members, and to provide financing on concessional terms for such purposes.

By its resolution F/BG/2010/03 of 27 May 2010, the Board of Governors increased the membership of the Board of Directors of ADF from twelve (12) to fourteen (14), made up of seven (7) members selected by the Bank and seven (7) members selected by State Participants. The Board of Directors reports to the Board of Governors, which is made up of representatives of the State Participants and the ADB. The ADB exercises fifty percent (50 %) of the voting powers in the ADF and the President of the Bank is the ex-officio President of the Fund.

The ADB, the Nigeria Trust Fund (NTF), which is a special fund administered by the ADB, and the ADF are collectively referred to as the Bank Group. The principal purpose of the ADB is to promote economic and social development in its Regional Member Countries. The ADB finances development projects and programs in its regional member states. The ADB also participates in the selection, study and preparation of projects contributing to the development of its member countries and where necessary provides technical assistance. The NTF was established under an agreement between the Bank and the Federal Republic of Nigeria to further support the development efforts of ADB Regional Member Countries, particularly the lesser-developed countries. The assets and liabilities of the ADB and of the NTF are separate and independent of those of the ADF. Furthermore, the ADF is not liable for their respective obligations. Transactions with these affiliates, where there are, are disclosed in the notes that follow.

Resources

The resources of the Fund consist of subscriptions by the Bank, subscriptions and contributions by State Participants, other resources received by the Fund and funds derived from operations or otherwise accruing to the Fund. The initial resources of the Fund consisted of subscriptions by the Bank and the original State Participants to the Agreement Establishing the Fund (the Agreement). Thereafter, the resources have been replenished through Special and General increases of subscriptions and contributions.

Note B — Basis of preparation and significant accounting policies

Due to its nature and organization, the Fund presents its financial statements on a special purpose basis. The Special Purpose Financial Statements are prepared for the specific purpose of reflecting the net development resources of the Fund and are not intended to be a presentation in accordance with International Financial Reporting Standards. Net development resources represent resources available to fund loan and grant commitments and comprise primarily cash, marketable investments and demand obligations of State Participants. These special purpose financial statements have been prepared to comply with Article 35(1) of the Agreement establishing the Fund, which requires that the Fund circulates, at appropriate intervals, a summary of its financial position and income and expenditure statement showing the results of its operations.

The significant accounting policies used in the preparation of the Fund's special purpose financial statements are as follows:

Monetary Basis of the Special Purpose Financial Statements

The special purpose financial statements are expressed in Units of Account (UA). Article 1 of the Agreement defined a Unit of Account as having a value of 0.81851265 grams of fine gold.

On 1 April 1978, when the second amendment to the Articles of the Agreement of the International Monetary Fund (IMF) came into effect, gold was abolished as a common denominator of the international monetary system. Computations relating to the currencies of IMF members were thereafter made on the basis of the Special Drawing Right (SDR) for purposes of applying the provisions of the Articles of the IMF. The Fund's Unit of Account was therefore based on its relationship to the SDR at the time of establishment of the Fund. This was 1 Unit of Account equal to SDR 0.921052.

Subsequently, on 16 November 1992, the Board of Governors decided by Resolution F/BG/92/10 to redefine the Fund's Unit of Account to be equivalent to the UA of the ADB, which is defined as equivalent to the Special Drawing Right of the IMF. In compliance with this Resolution, the Board of Directors, on 22 June 1993, adopted 1 January 1993 as the date for the entry into effect of the Resolution, and the Fund's UA has since then been defined as equal to the Bank's UA.

The Fund conducts its operations in the currencies of its State Participants. Income and expenses are converted into UA at the rate prevailing on the date of the transaction. Assets and liabilities are translated into UA at rates prevailing at the date of the Statement of Net Development Resources. Translation differences are debited or credited to the Cumulative Currency Translation Adjustment. Translation gains and losses on subscriptions received are credited or debited to the Cumulative Exchange Adjustment on Subscriptions and contributions. Where currencies are converted into any other currency, the resulting gains or losses are included in income.

The rates used for translating currencies into UA at 31 December 2015 and 2014 are as follows:

	2015	2014
1 Unit of Account equals:		
Argentinian Peso	13.234600	12.416800
Brazilian Real	5.410990	3.848310
Canadian Dollar	1.917850	1.679980
Danish Krone	9.472210	8.866110
Euro	1.272830	1.193320
Indian Rupee	91.910100	91.754900
Japanese Yen	167.116000	174.733000
Korean Won	1,624.080000	1,592.530000
Kuwaiti Dinar	0.420570	0.424210
Norwegian Krone	12.206900	10.769300
Pound Sterling	0.935100	0.928250
South African Rand	21.541200	16.778600
Swedish Krona	11.574200	11.317600
Swiss Franc	1.374780	1.433010
Turkish Lira	4.009690	3.239120
United States Dollar	1.385730	1.448810

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

Participants' Subscriptions and Contributions

Subscriptions committed by State Participants for each replenishment are recorded in full as subscriptions receivable from participants upon submission of an instrument of subscription by the participants. A replenishment becomes effective when

the ADF receives instruments of subscription from participants for a portion of the intended replenishment level as specified in the replenishment resolution. The portion of subscribed amounts for which payments are not yet due from State Participants are recorded as installments on subscriptions not yet payable, and are not included in the net development resources of the Fund. The subscriptions not yet payable become due throughout the replenishment period (generally three years) in accordance with an agreed payment schedule. The actual payment of subscriptions when they become due from certain participants is conditional upon the respective participant's budgetary appropriation process.

The subscriptions receivable are settled through payment of cash or deposit of non-negotiable, non-interest-bearing demand notes. The notes are encashed by the Fund as provided in an encashment program agreed to at the time of the replenishment.

Starting with the ADF-9 replenishment, participants were given the option of an early payment of cash in an amount equivalent to the net present value of their entire subscriptions and contributions. Upon receipt of such cash payments, participants are credited with the full face value of their entire subscriptions, and in agreement with the Fund, such cash amounts received are invested and the income generated thereon is retained by the Fund. A discount, calculated as the difference between the face value of the subscriptions and the cash amount received, is initially recorded to represent the interest expected to be earned on the cash received from State Participants who opted for the accelerated encashment program. Such discount is amortized over the projected encashment period, to recognize the effective contributions to equity by the relevant participant over and above the initial cash advanced.

By its resolutions F/BG/2006/12 and F/BG/2006/13 of 18 May 2006 and 31 August 2006 respectively, the Board of Governors of the Fund authorized the Board of Directors to approve the participation of the ADF in the Multilateral Debt Relief Initiative (MDRI) and in that regard the Board of Governors also authorized an increase in the resources of the ADF to provide full and timely compensation for the debt cancellation under the MDRI subject to the attainment of the following effectiveness thresholds:

- 1) Receipt of Instruments of Commitment from donors covering an aggregate amount equivalent to at least seventy percent (70%) of the total cost of debt relief for the first group of 14 post-completion point Heavily Indebted Poor Countries (HIPC); and
- 2) Receipt of unqualified Instruments of Commitments from donors for an amount not less than the equivalent of at least seventy five percent (75%) of the total cost of debt relief incurred during the remainder of ADF-10 period.

Upon satisfaction of the above two thresholds, the Board of Directors of the Fund approved the effectiveness of the MDRI with effect from 1 September 2006. To ensure full compensation for foregone reflows as a result of the upfront debt cancellation, the ADF governing bodies endorsed Management's proposal for a compensation scheme over the 50-year period of the Initiative. Donors will contribute additional resources to ADF, equivalent to the foregone debt service (service charges and principal) for each replenishment period, by submitting pledges over the life of the initiative. The compensatory financing arrangements will take the form of a general increase in the contribution of State Participants pursuant to Article 7 of the Agreement Establishing ADF. The contributions received from State Participants under the compensatory financing arrangements shall not be counted as part of the burden share for the replenishment period in which such resources are received, but shall carry voting rights in the same manner as normal subscriptions. Such contributions are separately disclosed within the total of subscriptions and contributions in the Statement of Net Development Resources.

Maintenance of Value of Currency Holdings

Prior to the second general replenishment, subscriptions were denominated in UA and were subject to Article 13 of the Agreement which provided that, whenever the par value in the IMF of the currency of a State Participant is reduced in terms of the UA or its foreign exchange value has, in the opinion of the Fund, depreciated to a significant extent within that participant's territory, that participant shall pay to the Fund within a reasonable time an amount of its currency required to

maintain the value, as of the time of subscription, of the amount of such currency paid into the Fund by that participant and which has not been disbursed or exchanged for another currency.

Conversely, if the currency of a State Participant has increased in par value or appreciated in its foreign exchange value within that participant's territory, the Fund shall return to that participant an amount of such currency equal to the increase in the value of the Fund's holding of that currency which was received by it in payment of subscriptions, to the extent that these amounts have not been disbursed or exchanged for another currency.

In accordance with Board of Governors' successive Resolutions governing the second through to the thirteenth general replenishments of the Fund, which stipulated that Article 13 shall not apply to these general replenishments, subscribers to these replenishments fixed the amount of their subscriptions payable in national currencies in terms of agreed parities ruling at the date these replenishments came into force. Gains or losses arising on translating these subscriptions, when received, into UA are applied against subscriptions, with the offsetting debits or credits recorded as Cumulative Exchange Adjustment on Subscriptions (CEAS).

Financial Assets

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

i) Financial Assets at Amortized cost

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

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

Financial assets at amortized cost include mainly demand obligations and accrued income on loans and receivables and certain investments that meet the criteria of financial assets at amortized cost. Demand obligations are non-negotiable, non-interest-bearing notes payable on demand deposited for subscription payment.

The Fund also classifies at amortized cost, investments of the proceeds of accelerated encashment of notes. This is consistent with the business model of the Fund of collecting contractual cash flows. The primary objective of such financial assets is to recoup the discount granted to State Participants on the accelerated encashment program.

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

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

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

Purchases and sales of financial assets are recognized on a trade-date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Income on investments includes interest earned and unrealized gains and losses on financial assets at FVTPL.

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

Investments

The Fund's investment securities are classified either as financial assets at amortized cost or as at fair value. Investments classified as financial assets at amortized cost include non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method. All other investment securities are classified as investments at fair value through profit or loss and measured at market value.

Income on investments includes interest earned and unrealized gains and losses on the portfolio held at fair value through profit or loss. Purchases and sales of investments are recognized on a trade-date basis, which is the date on which the Fund commits to purchase or sell the investments.

Loans

The Fund provides concessional funding for development purposes to the least developed countries in Africa. Country eligibility is determined by assessing gross national income per capita, creditworthiness and performance. Annual Debt Sustainability Analysis is used to determine the risk of debt distress of each beneficiary country and set appropriate financing terms.

The following categories of countries are eligible to ADF loans:

- Category A countries that are not deemed creditworthy for non-concessional financing and whose income levels are below the operational cut-off.
- Category A countries that are not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off (blend countries) have access to ADF funds with modified financing terms at par with those of blend countries.
- Category B countries are those deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off with access to a blend of ADB and ADF resources.

Graduating countries are those that are graduating from the category of ADF borrowing countries to the category of ADB borrowing countries and the graduating policies are determined for each new ADF replenishment.

Disbursed and outstanding loans are reported at amortized cost and not included in Net Development Resources in the special purpose financial statements as they represent an allocation of development resources. Accordingly, no provision for possible loan losses is required.

Loan income arising from interest, service and commitment charges is recognized on an accrual basis. The Fund places all loans to a borrower country in non-accrual status if the principal installments, interest or service charges on any of the loans to such member country are overdue by 6 months or more, unless the Fund's management determines that the overdue amount will be collected in the immediate future. Further, management may place a loan in non-accrual status even if it is not yet overdue by 6 months, if the specific facts and circumstances, including consideration of events occurring subsequent to the balance sheet date, warrant such action. On the date a borrower's loans are placed in non-accrual status, unpaid interests and charges that had previously been accrued on loans to the borrower are deducted from income on loans for that period. Interests and charges on loans in non-accrual status are included in income only to the extent that payment of such charges has been received by the Fund.

Partial Risk Guarantee

The Fund provides guarantees, through the Partial Risk Guarantees (PRGs) program, for credits issued in support of projects located within a member country that are undertaken by private entities. Under the PRGs program, the Fund provides financial guarantees for private lenders to a member country in the event that a member country fails to honor its contractual obligations with respect to private lenders to a project. The PRGs insure private lenders against well-defined political risks related to the failure of a government or government related entity to honor certain specified commitments such as political force majeure, currency inconvertibility, regulatory risks and various forms of breach of contract.

Under the PRGs framework the Fund executes the payment obligations if the borrower defaults and the lender consequently demanding payment from the Fund. In the event that a guarantee is called, the Fund has the contractual right to require payment from the member country that has provided the counter guarantee to the Fund.

Guarantee fee income received is deferred and amortized over the life of the guarantee.

Partial Credit Guarantee

The Fund also provides further credit instrument in the form of Partial Credit Guarantee (PCGs) – a risk mitigation instrument designed to better leverage resources by crowding in private capital.

The PCGs product serves to partially guarantee debt service obligations and will help to: (i) extend debt maturities; (ii) improve access to capital markets for public sector investment projects, especially in infrastructure; (iii) reduce effective borrowing costs; (iv) support mobilization of long-term resources from international and domestic capital markets; and (v) support sovereign mobilization of commercial financing for policy or sectoral reforms.

Guarantee fee income received under the PCGs is deferred and amortized over the life of the guarantee.

Grants

In addition to loans, the Fund is authorized to provide development financing in the form of grants. Prior to the ninth replenishment of the resources of the Fund, grant funds were granted for technical assistance activities only. With effect from the ninth replenishment, grants may be used for technical assistance as well as project financing. Grants, like loans, represent allocations of development resources and are accordingly treated as such in the Statement of Net Development Resources of the Fund.

HIPC Debt Initiative

The Fund participates in a multilateral debt relief initiative for addressing the debt problems of countries identified as heavily indebted poor countries (HIPC) to help ensure that their reform efforts are not compromised by unsustainable external debt burdens. Under this initiative, creditors provide debt relief for those countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. As a part of this process, the HIPC Debt Initiative Trust Fund, (the Trust Fund) constituted by funds from donors, including the Bank Group, was established to help beneficiaries reduce their overall debt, including those debts owing to the Fund.

Under the original framework of the debt relief initiative, upon signature of a HIPC Debt Relief Agreement by the Fund, the beneficiary country and the Trust Fund, loans or repayment installments identified for sale to the Trust Fund are written down to their estimated net present value. On the settlement date, the estimated write-down is adjusted to reflect the actual difference between the cash received and the carrying value of the loans sold.

Under the enhanced HIPC framework, the implementation mechanism comprises a partial payment of ADF debt service as it falls due with funds received from the Trust Fund.

Multilateral Debt Relief Initiative (MDRI)

Under the MDRI, loans due from eligible HIPCs are canceled when the countries attain the completion point under the HIPC framework. The Fund is expected to be fully compensated for loans canceled under MDRI by additional contributions to be made by donors over the previously scheduled repayment periods of the canceled loans. When MDRI becomes effective for a country, certain amounts previously disbursed to that country as loans are no longer repayable by the country and effectively take on the character of grants made by the Fund. Accordingly, loans canceled under the MDRI are included in “Net Debt Relief” and reported in the Statement of Net Development Resources as allocation of development resources, with a corresponding offset to loans outstanding.

Financial Liabilities

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

Impairment of Financial Assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets included in its Net Development Resources is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss has been incurred on its receivable or treasury investments held at amortized cost (described in prior years as held to maturity investment), the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset’s original effective interest rate. The estimated impairment loss may arise from delays that may be experienced in receiving amounts due, and the impairment calculations reflect management’s best estimate of the effect of such delays.

The impairment loss is reported as a reduction to the carrying amount of the asset through the use of an allowance account and recognized in the income statement. If a treasury investment at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Loans are not included in Net Development Resources and are therefore not subject to impairment.

Fair Value Disclosure

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

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

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

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

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

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

Investments: Fair values for investment securities are based on quoted market prices, where available, using the bid prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Government and agency obligations include marketable bonds or notes and other government obligations issued or unconditionally guaranteed by governments of member countries or other official entities with a minimum credit rating of AA-. For asset-backed securities, the Fund may only invest in securities with an AAA credit rating. Money market instruments include time deposits, certificates of deposit and other obligations with a maturity period of less than 1 year, issued or unconditionally guaranteed by banks and other financial institutions with a minimum rating of A.

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 Fund 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 Fund's financial instruments are subject to both internal and periodic external reviews.

Events After the Reporting Period

The financial statements are adjusted to reflect events that occurred between the date of the Statement of Net Development Resources and the date when the financial statements are authorized for issue, provided they give evidence of conditions that existed at the date of the Statement of Net Development Resources.

Events that are indicative of conditions that arose after the date of the Statement of Net Development resources are disclosed, but do not result in an adjustment of the financial statements themselves.

Reclassification

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current year. These reclassifications did not affect the prior year's reported result.

Note C — Risk management policies and procedures

In carrying out its development mandate, the Fund 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 Fund is willing to assume to achieve its development mandate is limited by its commitment capacity. The Fund's overall risk management strategy is to minimize the exposure of its replenishment resources (the Commitment Capacity) to the risk of over-commitment and also to protect its Net Development Resources from currency translation losses that could negatively affect the Fund's long-term capacity to meet its development needs.

The policies, processes and procedures which the Fund uses to manage 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 Fund's Board of Executive Directors, which is chaired by the President. The Board of Directors is committed to the highest standards

of corporate governance. In addition to approving all risk management policies, the Board of Directors regularly reviews trends in the Fund's risk profiles and performance to ensure compliance with the underlying policies.

The guiding principles by which the Fund manages its core and non-core risks are governed by the General Authority on Asset Liability Management (the ALM Authority) approved by the Board of Directors of the Fund.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Fund's liquid assets and liabilities within defined parameters. The ALM Authority sets out the guiding principles for managing the Fund's interest rate risk, currency exchange rate risk, liquidity risk, counterparty credit risk and operational risk. The ALM Authority covers the Fund's entire array of ALM activities.

Under the umbrella of 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). The ALCO, chaired by the Vice President for Finance, is the oversight and control organ of the Fund's finance and treasury risk management activities.

The ALCO meets on a regular basis to perform its oversight role. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency risk, operational risk, financial projections, and financial products and services. In June 2012 the Bank Group also created the Credit Risk Committee (CRC), to ensure effective implementation of the Fund's credit policies and oversee all credit risk issues related to loan operations.

Day-to-day operational responsibility for implementing the Fund's financial and risk management policies and guidelines are 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 Fund.

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 Fund arising essentially from its lending and treasury operations.

The Fund's credit risk arises from two principal sources: (i) sovereign credit risk arising from lending to its qualifying RMCs and (ii) counterparty credit risk on its portfolio of treasury investments and derivative transactions.

Sovereign Credit Risk

The Fund provides concessional loans in order to fund economic and social development of its member countries which generally have a lower credit quality than ADB borrowers. Although loans are included in the financial statements as resources already allocated for development and therefore not included in the Net Development Resources, the Fund still manages sovereign credit risks to ensure equitable allocation of resources to eligible beneficiaries and ensure that expected reflows from loan repayments are properly monitored and managed. Country eligibility for loans is determined by assessing among other things, gross national income per capita, credit worthiness and performance. The Fund uses the International Monetary Fund/World Bank Debt Sustainability Framework (DSF) for Low-Income Countries, to make performance-based allocation (PBA) of ADF resources among the many competing needs in the continent and to ensure the funds are directed to areas they will be used most effectively. The PBA process, which is reviewed regularly, is also used to determine the proportion of ADF resources that is allocated in the form of grants to each qualifying borrower. On the basis of the debt sustainability analysis, certain countries are allocated grants-only resources, while others may receive a combination of loan and grant resources or loan resources only.

Country Exposure in Borrowing Member Countries

The Fund's exposures as at 31 December 2015 from its lending activities are summarized below:

(Amounts in UA thousands)

Country	N° of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balance	Outstanding Balance	% of Total Outstanding Loans
Angola	14	77,147	-	38,617	38,530	0.39
Benin	33	355,891	-	135,447	220,444	2.25
Botswana	12	44,280	-	-	44,280	0.45
Burkina Faso	34	415,989	-	80,185	335,804	3.43
Burundi	6	23,676	-	-	23,676	0.24
Cabo Verde	29	93,894	-	4,152	89,742	0.92
Cameroon	33	573,362	-	260,530	312,832	3.19
Central African Republic	1	1,030	-	516	514	0.01
Chad	16	104,543	-	34,747	69,796	0.71
Congo	4	54,364	-	47,587	6,777	0.07
Côte d'Ivoire	4	77,531	-	43,638	33,893	0.35
Democratic Republic of Congo	7	90,412	-	2,159	88,253	0.90
Djibouti	18	82,132	-	7,725	74,407	0.76
Egypt	17	123,940	-	-	123,940	1.26
Equatorial Guinea	11	22,934	-	-	22,934	0.23
Eritrea	8	79,490	-	13,330	66,160	0.67
Ethiopia	29	1,613,377	180,000	439,103	994,274	10.14
Gabon	1	1,089	-	-	1,089	0.01
Gambia	10	29,209	-	-	29,209	0.30
Ghana	40	817,355	-	146,757	670,598	6.84
Guinea	14	115,340	-	48,142	67,198	0.68
Guinea-Bissau	9	27,674	-	9,371	18,303	0.19
Kenya	59	1,874,705	-	746,614	1,128,091	11.51
Lesotho	35	130,889	-	9,817	121,072	1.24
Liberia	6	113,161	-	74,566	38,595	0.39
Madagascar	25	339,225	-	97,381	241,844	2.47
Malawi	26	271,156	-	108,096	163,060	1.66
Mali	45	549,145	-	147,144	402,001	4.10
Mauritania	15	60,250	-	5,380	54,870	0.56
Mauritius	2	1,753	-	-	1,753	0.02
Morocco	5	27,322	-	-	27,322	0.28
Mozambique	37	735,981	-	201,335	534,646	5.45
Namibia	2	10,745	-	-	10,745	0.11
Niger	24	284,573	-	120,000	164,573	1.68
Nigeria	27	803,997	-	310,380	493,617	5.04
Rwanda	22	292,714	-	101,459	191,255	1.95
São Tomé & Príncipe	5	15,266	-	11,500	3,766	0.04
Senegal	39	478,390	-	114,886	363,504	3.71
Seychelles	3	4,570	-	-	4,570	0.05
Sierra Leone	15	112,418	-	26,021	86,397	0.88
Somalia**	17	64,404	-	-	64,404	0.66
Sudan**/+	15	174,863	-	-	174,863	1.78
Swaziland	8	29,310	-	-	29,310	0.30
Tanzania	48	1,666,374	54,000	453,798	1,158,576	11.82
Togo	3	21,698	-	8,099	13,599	0.14
Uganda	34	1,031,872	-	340,372	691,500	7.05
Zambia	23	421,562	-	161,619	259,943	2.65
Zimbabwe**	10	34,513	-	-	34,513	0.35
Multinational	21	292,869	201,746	79,500	11,623	0.12
Total	921	14,668,384	435,746	4,429,973	9,802,665	100.00

+ The outcome of the referendum conducted in South Sudan in January 2011 supported the creation of an independent state of South Sudan. After the split of the current state of Sudan into two separate nations became effective in July 2011, the number and amounts of loans shown against Sudan in this statement would be split between the emerging states, on a basis agreed upon following the ongoing negotiations between the North and South Sudan. At end of December 2015, no decision has been taken by the states of the North and South Sudan regarding the terms and conditions of such exchange.

* Excludes fully repaid loans and canceled loans.

** Countries in non-accrual status as at 31 December 2015.

Slight differences may occur in totals due to rounding.

Counterparty Credit Risk

In the normal course of business, the Fund 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 Fund. Given the nature of the Fund's business, it is not possible to completely eliminate counterparty credit risk, however, the Fund minimizes this risk by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures.

Counterparties must meet the Fund's minimum credit rating requirements and are approved by the Bank Group's Vice President for Finance. 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 by the Financial Management Department.

For trading counterparties, the Fund requires a minimum short-term credit rating of A-2/P-2/F-2 for trades settled under delivery vs. payment (DVP) terms and a minimum long-term credit rating of A/A2 for non-DVP-based transactions.

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

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

The Fund uses derivatives in the management of its assets and liabilities. As a rule, the Fund executes an ISDA master agreement and collateral exchange 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-/A3 for counterparties with whom the Fund has entered into a collateral exchange agreement. These counterparties require the approval of ALCO. Approved transactions with derivative counterparties include swaps, forwards, options and other over-the-counter derivatives.

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

	Credit Risk Profile of the Investment and Derivative Portfolios		
	AAA	AA+ to AA-	A+ and lower
2015	38%	54%	8%
2014	40%	49%	11%
2013	48%	48%	4%

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. The Fund's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for between 50 and 75 percent of the three years' moving average of expected disbursements.

To strike a balance between generating adequate investment returns and holding securities that can be easily sold for cash if the need arises, the Fund divides its investment portfolio into two tranches with different liquidity objectives and benchmarks. The Fund's core liquidity portfolio, which is fair valued, is invested in highly liquid securities that can be readily liquidated if the need arises to meet the Fund's short-term liquidity needs. In addition to the trading portfolio, the Fund maintains a second tranche of liquidity under the broad category of amortized cost portfolio, which is held in a portfolio of fixed income securities intended to earn contractual cash flows.

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in the Fund's Net Assets, including its Net Development Resources (NDR) and outstanding loans, the Fund's principal currency risk management objective is to ensure that it is able to provide the disbursement currencies requested by borrowers while minimizing the exposure of its net development resources to adverse exchange rate movements. To the extent possible, the Fund shall maintain the alignment of the currency composition of its Net Assets with the UA as the primary benchmark of its currency composition. The Fund may conduct currency exchange transactions for the following two reasons: (1) to align the currency composition of its Net Assets (loan and investment portfolios) with the UA, (2) for the purpose of providing ADF borrowers with the disbursement currencies requested.

Interest Rate Risk

Interest rate risk is the potential for loss due to adverse movements in market interest rates. In seeking to earn a stable and reasonable return on invested liquidity, the Fund's principal interest rate risk management is to reduce the sensitivity of the Fund's investment returns to changes in market interest rates. To achieve this objective, the Fund's investments are managed in two portfolios: (1) an actively managed portfolio (the "Operational" Portfolio); and (2) a passively managed portfolio (the "Investment" Portfolio).

The Operational Portfolio provides a readily available source of liquidity to cover both expected and unexpected disbursements as well as any other probable cash outflows. The Operational Portfolio is managed against a 3-month LIBOR reference benchmark in each currency. Generally, investments in the Operational Portfolio are held for trading and are regularly marked to market.

The Investment Portfolio consists of funds that are not immediately required for loan disbursements and therefore may be invested for a longer horizon. Generally, investments in the Investment Portfolio are purchased with the intention to hold them until their maturity and are not marked to market. The Investment Portfolio comprises two sub-portfolios, (1) an investment portfolio for income stabilization for the purpose of generating a stable income for the Fund and reducing the Fund's investment income sensitivity to interest rates. This portfolio is managed against a ten-year uniform repricing profile for each invested currency, and (2) an investment portfolio for accelerated encashments for the purpose of investing proceeds from accelerated encashments to recoup the discount granted to State Participants, minimizing or eliminating interest rate risk on accelerated encashments. This portfolio is managed against a target rate, which is the discount rate agreed with State Participants.

Interest Rate Risk Position as at 31 December 2015

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	376,273	-	-	-	-	-	376,273
Investments	864,160	797,860	753,220	309,890	138,811	27,976	2,891,917
Demand obligations	774,962	610,949	437,887	360,694	148,608	336,359	2,669,459
Accounts receivable	83,183	-	-	-	-	-	83,183
	2,098,578	1,408,809	1,191,107	670,584	287,419	364,335	6,020,832
Liabilities							
Accounts payable	(88,946)	-	-	-	-	-	(88,946)
	(88,946)	-	-	-	-	-	(88,946)
Net Development Resources at 31 December 2015							
	2,009,632	1,408,809	1,191,107	670,584	287,419	364,335	5,931,886

Interest Rate Risk Position as at 31 December 2014

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	368,702	-	-	-	-	-	368,702
Investments	1,177,061	493,420	578,111	283,790	258,650	218,881	3,009,913
Demand obligations	743,822	703,154	446,676	282,171	252,957	372,539	2,801,319
Accounts receivable	125,813	-	-	-	-	-	125,813
	2,415,398	1,196,574	1,024,787	565,961	511,607	591,420	6,305,747
Liabilities							
Accounts payable	(154,342)	-	-	-	-	-	(154,342)
	(154,342)	-	-	-	-	-	(154,342)
Net Development Resources at 31 December 2014							
	2,261,056	1,196,574	1,024,787	565,961	511,607	591,420	6,151,405

Note D — Financial assets and liabilities

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

Analysis of Financial Assets and Liabilities by Measurement Basis

(UA thousands)

31 December 2015	Financial Assets and Liabilities through Profit or Loss		Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
	Mandatorily at Fair Value	Designated at Fair Value				
Cash	-	-	-	376,273	376,273	376,273
Treasury investments	1,699,887	-	-	1,192,030	2,891,917	2,946,459
Demand obligations	-	-	-	2,669,459	2,669,459	2,669,459
Accounts receivable	-	-	-	83,183	83,183	83,183
Total financial assets	1,699,887	-	-	4,320,945	6,020,832	6,075,374
Liabilities	-	-	-	88,946	88,946	88,946
Total financial liabilities	-	-	-	88,946	88,946	88,946

(UA thousands)

31 December 2014	Financial Assets and Liabilities through Profit or Loss		Fair Value through Other Comprehensive Income	Financial Assets and Liabilities at Amortized Cost	Total Carrying Amount	Fair Value
	Mandatorily at Fair Value	Designated at Fair Value				
Cash	-	-	-	368,702	368,702	368,702
Treasury investments	1,452,412	-	-	1,557,501	3,009,913	3,086,614
Demand obligations	-	-	-	2,801,319	2,801,319	2,801,319
Accounts receivable	-	-	-	125,813	125,813	125,813
Total financial assets	1,452,412	-	-	4,853,335	6,305,747	6,382,448
Liabilities	-	-	-	154,342	154,342	154,342
Total financial liabilities	-	-	-	154,342	154,342	154,342

The composition of investments as at 31 December 2015 and 2014 was as follows:

(UA thousands)

	2015	2014
Treasury investments mandatorily measured at fair value through profit or loss	1,699,887	1,452,412
Treasury investments at amortized cost	1,192,030	1,557,501
Total	2,891,917	3,009,913

Treasury Investments Mandatorily Measured at Fair Value through Profit or Loss (FVTPL)

A summary of the Fund's treasury investments measured at FVTPL at 31 December 2015 and 2014 follows:

(UA millions)

	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Time deposits	25.04	-	22.23	108.94	49.84	159.18	2.21	-	99.32	268.12
Asset-backed securities	0.11	13.53	1.67	29.59	8.25	35.86	-	-	10.03	78.98
Government and agency obligations	457.20	267.08	190.12	158.97	198.87	163.33	104.92	60.95	951.11	650.33
Corporate bonds	268.40	225.88	53.40	29.60	196.67	126.95	-	-	518.47	382.43
Supranational	24.89	34.80	59.58	14.52	36.49	23.23	-	-	120.96	72.55
Total	775.64	541.29	327.00	341.62	490.12	508.55	107.13	60.95	1,699.89	1,452.41

The contractual maturity structure of investments measured at FVTPL at 31 December 2015 and 2014 was as follows:

(UA millions)

	2015	2014
One year or less	631.85	805.05
More than one year but less than two years	504.18	261.75
More than two years but less than three years	518.36	281.61
More than three years but less than four years	43.72	47.75
More than four years but less than five years	-	4.13
More than five years	1.78	52.12
Total	1,699.89	1,452.41

Treasury Investments at Amortized Cost

A summary of the Fund's treasury investments at amortized cost at 31 December 2015 and 2014 follows:

(UA millions)

	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Asset-backed securities	14.42	13.71	-	-	-	-	-	-	14.42	13.71
Government and agency obligations	492.62	572.04	224.68	325.63	66.18	110.30	-	-	783.48	1,007.97
Corporate bonds	6.00	33.51	25.26	59.23	10.65	10.67	-	-	41.91	103.41
Supranational	202.84	256.62	116.33	141.98	33.05	33.81	-	-	352.22	432.41
Total	715.88	875.88	366.27	526.84	109.88	154.78	-	-	1,192.03	1,557.50

The contractual maturity structure of investments at amortized cost at 31 December 2015 and 2014 was as follows:

(UA millions)

	2015	2014
One year or less	232.31	372.01
More than one year but less than two years	293.68	231.67
More than two years but less than three years	234.86	296.50
More than three years but less than four years	266.17	236.04
More than four years but less than five years	138.81	254.52
More than five years	26.20	166.76
Total	1,192.03	1,557.50

Futures Contracts

The Fund has also entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at 31 December 2015, the Fund had 2,505 contracts in Euro, 2,941 contracts in Pound Sterling and 3,056 contracts in US Dollars. The nominal value of each contract is one million of each currency unit, except for 2,941 GBP contracts with a nominal value of 500,000 for each contract.

Note E — Demand obligations

Demand obligations represent subscription payments made by participants, in accordance with Article 9 of the Agreement, in the form of non-negotiable, non-interest-bearing notes payable at their par value on demand. The Board of Governors has agreed that the encashment of these notes will be governed by the Fund's disbursement requirements.

Note F — Development activities

According to the Fund's loan regulations, loans are expressed in UA and repaid in the currency disbursed.

Project Loans and Lines of Credit

Loans are generally granted under conditions that allow for repayment over 40 years after a 10-year grace period commencing from the date of the loan agreement. Loan principal is generally repayable from years 11 through 20 at a rate of 1 percent per annum and from years 21 through 50 at a rate of 3 percent per annum. A service charge at a rate of 0.75 percent per annum on the principal amount disbursed and outstanding is payable by the borrower semi-annually. Loans and lines of credit approved after June 1996 carry a 0.5 percent per annum commitment charge on the undisbursed portion. Such commitment charge commences to accrue after 90 days from the date of signature of the loan agreement. With effect from the ADF-12 replenishment, loans to blend, gap and graduating countries carry differentiated financing terms of thirty (30) years' maturity, grace period of 8 years and interest rate of 1 percent, in addition to the existing standard 0.50 percent commitment fee and 0.75 percent service charge. Under ADF-13, further differentiated lending terms were adopted with the view of preserving the long-term financial sustainability and capacity of the Fund. The new lending terms require the acceleration of loan repayment by regular and advanced ADF-only countries, and also to blend, gap and graduating countries; and the granting of financial incentives for voluntary loan repayment.

Prior to the establishment of the Technical Assistance Account, loans for pre-investment studies were normally granted for a period of 10 years, including a grace period of 3 years, with repayments in seven equal installments from years 4 through 10.

Of the undisbursed balances of loans signed, the Fund may enter into special irrevocable commitments to pay amounts to borrowers or others in respect of the cost of goods and services to be financed under loan agreements. As at 31 December 2015, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 12.91 million (2014: UA 6.44 million).

The Fund also provides innovative financial instruments in the form of Partial Reimbursement Guarantees (PRGs) and, Partial Credit Guarantee (PCG) for the purpose of better leveraging resources by crowding in ADB and commercial sources of financing.

The PRGs' product provides guarantees to private entities for development exposures on projects located in Regional Member Countries. Such guarantees represent potential risk to the Fund if amounts guaranteed for an entity are not reimbursed. As at 31 December 2015, guarantees provided by the Fund to private entities on account of its borrowers amounted to UA 145.75 million (2014: UA 145.75 million).

The PCGs' product serves to partially guarantee the debt service obligations of Regional Member Countries, which include extension of debt maturities, the improvement of access to domestic and foreign capital markets, and the reduction of borrowing costs. As at 31 December 2015, no PCGs have been provided.

Private Sector Credit Enhancement Facility

In 2014, the Fund allocated a grant of UA 165 million for the establishment of the Private Sector Enhancement Facility (the PSF) to encourage increased development financing in the ADF countries. The PSF provides credit enhancement guarantees to the ADB on certain eligible loans to the private sector in ADF countries. The PSF is operationally and financially autonomous from the Fund and its statutory framework explicitly preclude it from having recourse to the Fund for any losses that it may incur. As at 31 December 2015, credit enhancement approval of UA 56.50 million had been made.

As at 31 December 2015, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 273.79 million (2014: UA 272.59 million) of which UA 118.64 million (2014: UA 110.05 million) was overdue, were in non-accrual status. If these loans had not been in non-accrual status, income from loans for the year ended 31 December 2015, would have been higher by UA 2.05 million (2014: UA 2.06 million). At 31 December 2015, the cumulative charges not recognized on the non-accrual loans amounted to UA 42.64 million, compared to UA 40.42 million at 31 December 2014.

Lines of credit to national development banks and similar national finance institutions are generally granted for a maximum of 20 years, including a 5-year grace period.

At 31 December 2015, outstanding loans amounted to UA 9,802.67 million (2014: UA 8,965.21 million).

Maturity and Currency Composition of Outstanding Loans

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

(Amounts in UA millions)

	2015		2014	
	Amount	%	Amount	%
One year or less*	196.18	2.00	187.18	2.09
More than one year but less than two years	84.11	0.86	81.87	0.91
More than two years but less than three years	93.17	0.95	89.42	1.00
More than three years but less than four years	107.02	1.09	98.69	1.10
More than four years but less than five years	118.73	1.21	111.78	1.25
More than five years	9,203.45	93.89	8,396.27	93.65
Total	9,802.66	100.00	8,965.21	100.00

* Include the arrears on loans.

The currency composition of outstanding loans as at 31 December 2015 and 2014 was as follows:

(Amounts in UA millions)

Currency	2015		2014	
	Amount	%	Amount	%
Canadian Dollar	9.22	0.10	11.20	0.12
Danish Kroner	9.15	0.09	10.33	0.12
Euro	3,052.29	31.14	3,080.75	34.36
Japanese Yen	594.92	6.07	609.61	6.80
Norwegian Krone	14.66	0.15	17.31	0.19
Pound Sterling	662.60	6.76	569.09	6.35
Swedish Krona	10.70	0.11	12.16	0.14
Swiss Franc	49.28	0.50	52.57	0.59
United States Dollar	5,399.52	55.08	4,601.86	51.33
Others	0.32	0.00	0.33	0.00
Total	9,802.66	100.00	8,965.21	100.00

Slight differences may occur in total due to rounding.

Grants and Technical Assistance Activities

Under the Fund's lending policy, 5 percent of the resources available under the third and fourth general replenishments, 10 percent under the fifth and sixth general replenishments, and 7.5 percent under the seventh and eighth general replenishments were allocated as grants and grant-based technical assistance for the identification and preparation of development projects or programs in specified member countries. In addition, amounts in the range of 18 to 21 percent of the total resources under the ninth replenishment were set aside in the form of grants for permitted uses, including technical assistance and project financing. Grants do not bear charges. The share of grants under the tenth, eleventh and twelfth general replenishments is based on a country-by-country analysis of debt sustainability. Under the seventh, eighth and ninth general replenishments, technical assistance may also be provided on a reimbursable basis.

Technical assistance loans are granted under conditions that allow for repayment in 50 years, including a 10-year grace period, from the date of the loan agreement. However, the following categories of loans have different terms:

- i) where the loan is granted for the preparation of a pre-investment study and the study proves that the project is not feasible, the grace period is extended to 45 years with a repayment period of 5 years thereafter.
- (ii) where the loan is granted for strengthening Regional Member Countries' cooperation or for the improvement of the operations of existing institutions and is not related to specific projects or programs, the grace period is 45 years with a repayment period of 5 years thereafter.

Technical assistance loans do not carry charges.

HIPC Debt Relief Initiative

Under the original framework of HIPC, selected loans to beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the net present value of the loans as calculated using the methodology agreed under the initiative. Following the signature of a HIPC debt relief agreement, loans identified for payment were written down to their estimated net present value. The amount of the write-down, representing the difference between the book value and net present value of the loans, was shown as an allocation of development resources. The amount of UA 71.08 million which was the write-down in respect of the debt relief granted to Mozambique in 1999 under the original HIPC framework is included in the amount stated as net debt relief in the Statement of Net Development Resources. The outstanding balance and net present value of the loans owed by Mozambique and sold to the HIPC Trust Fund in 1999 were UA 132.04 million and UA 60.96 million, respectively.

In 1999, the HIPC initiative was enhanced 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 currently eligible, debt relief is delivered through annual debt service reductions which allow the release of up to 80 percent of annual debt service obligations as they come due until the total net present value (NPV) of debt relief, determined by the debt sustainability analysis (DSA), is provided. Interim financing of up to 40 percent of total debt relief is granted between the decision and completion points. Total contributions by the Fund to the HIPC initiative at 31 December 2015 amounted to UA 184 million and are shown as allocation of development resources in the Statement of Net Development Resources.

Multilateral Debt Relief Initiative

At the Gleneagles Summit on 8 July 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. Through the Development Committee Communiqué of 25 September 2005, the donor community expressed its support for the MDRI, and urged the institutions referred to above to proceed with the necessary steps to ensure implementation.

The main objective of the MDRI is to complete the process of debt relief for HIPC countries 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 is delivered by relieving post-completion-point HIPC countries' repayment obligations and adjusting their gross assistance flows downward by the same amount. To maintain the financial integrity of the ADF, donors are expected 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 1 September 2006. Since disbursed and outstanding loans are already excluded from net development resources, the debt cancellation did not have an impact on the Fund's balance of net development resources. Cancellation of ADF debts are effected when other eligible countries reach the HIPC completion point.

At 31 December 2015, a gross amount of UA 5.68 billion (2014: UA 5.53 billion) of outstanding loans had been canceled under MDRI for 30 (2014: 29) HIPC completion-point countries. Of this amount, UA 1,225.99 million (2014: UA 1,225.99 million) in nominal terms were converted by the HIPC Trust Fund. The present value of the converted loans was UA 942.71 million (2014: UA 942.71 million). As of 31 December 2015, the present value amounts have been transferred from the HIPC Trust Fund to ADF.

A summary of debt relief granted under HIPC and MDRI as at 31 December 2015 and 2014 follows:

(UA thousands)

	2015			2014		
	HIPC	MDRI	Total	HIPC	MDRI	Total
Balance at 1 January	235,096	4,564,345	4,799,441	235,096	4,564,345	4,799,441
Loans canceled*	-	164,947	164,947	-	-	-
Cash received*	-	(9,316)	(9,316)	-	-	-
Balance at 31 December	235,096	4,719,976	4,955,072	235,096	4,564,345	4,799,441

* Upon implementation of MDRI.

Special Arrears Clearance Mechanism

Arrears Clearance Mechanism for DRC – In connection with an internationally coordinated effort including the ADB Group, 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 26 June 2002, approved an arrears clearance mechanism for the DRC.

Under the arrears clearance mechanism, representatives of ADF State Participants (the Deputies) authorized an allocation of approximately UA 36.50 million of grant resources from the ninth replenishment of the ADF (ADF-9) to clear the entire stock of the DRC's arrears to the Fund. The Deputies also authorized the use of approximately UA 11.77 million of the residual Supplementary Financing Mechanism (SFM) resources from ADF-8 as a partial payment against the DRC's arrears on charges to the ADB.

Fragile States Facility Framework – The Fragile States Facility (FSF) was established in March 2008 to provide a broader and integrated framework for assistance to eligible states, typically Regional Member Countries of ADB emerging from conflict or crisis. The purposes of FSF are to consolidate peace, stabilize economies and lay the foundation for sustainable poverty reduction and long-term economic growth. The FSF assumes the arrears clearance activities of the now defunct Post Conflict Countries Facility (PCCF), which was established as a framework to assist countries emerging from conflicts in clearing their arrears and prepare them for re-engagement with the donor communities, in order to reactivate development assistance and help these countries reach the 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 contributions from the ADF, the ADB and private donors. Resources from the facility are provided on a case-by-case basis to genuine eligible fragile states not yet receiving debt relief to fill financing gaps after maximum effort by the country to clear its arrears to the Bank Group. Contributions made by the Fund to the facility cannot be used to clear the debt owed to the Fund by beneficiary fragile states. Contributions by the Fund to the Facility are included in “Grants and Technical Assistance Activities” in the Statement of Net Development Resources.

Note G — Subscriptions and contributions

The Fund's initial subscriptions were provided by the Bank and the original State Participants to the Agreement, and states acceding to the Agreement since the original signing date. Thereafter, further subscriptions were received from participants in the form of a special general increase and twelve general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note M.

The Board of Governors, by its resolution F/BG/2014/01 of 31 January 2014, approved the thirteenth general replenishment of the Fund (ADF-13), following the Deputies agreement for a replenishment level of UA 5.35 billion, of which UA 0.98 billion represents internally generated resources, for the three-year operational period, 2014 to 2016. ADF-13 came into effect in March 2014 after the State Participants had deposited with the Fund, enough instruments of subscriptions and the approval by the Board of Directors for the use of the internally generated resources for operational commitments. At 31 December 2015, subscriptions to ADF-13 amounted to UA 3.82 billion.

The Grand Duchy of Luxembourg was admitted to the ADF on 29 May 2014, becoming the Fund's 27th State Participant. As per the Board of Governors' Resolution F/BG/2009/04, Luxembourg's initial subscription amount was set to UA 14.51 million. This subscription amount was paid in full on 16 May 2014, and included in the Fund's resources.

At 31 December 2015, cumulative contributions pledged on account of the MDRI amounted to UA 5.68 billion of which UA 849.25 million had been paid and included in total subscriptions. Consistent with the resolution approving MDRI, the contributions paid entitle the State Participants to voting rights, as reflected in Note M.

Gains or losses arising from translation of subscriptions and contributions received into UA are recorded in the Cumulative Exchange Adjustment on Subscriptions account in the Statement of Net Development Resources.

Note H — Other resources

In conformity with the findings of the UN General Assembly, the Board of Directors accepted that the former Socialist Federal Republic of Yugoslavia no longer exists as a state under international law and hence is no longer a State Participant in the Fund or a member of the Bank. Pursuant to a decision of the Board of Directors of the Fund in 1993, the subscriptions of the former Socialist Federal Republic of Yugoslavia in the Fund less the unpaid portion, are deemed to have become part of the permanent patrimony of the Fund and are not returnable to any entity. Accordingly, the amounts of the paid subscriptions are reported as part of other resources in the Statement of Net Development Resources.

Also included in other resources is a total of UA 589.99 million, representing contributions by the Bank of UA 587.99 million, and by the Government of Botswana of UA 2 million towards the Fund's activities, in accordance with Article 8 of the Agreement.

Note I — Reserves

Reserves as at 31 December 2015 and 2014 were as follows:

(UA thousands)

	2015	2014
Reserves at 1 January	(257,267)	(131,915)
Deficit for the year	(83,249)	(125,352)
Balance at 31 December	(340,516)	(257,267)

Note J — Trust funds

The Fund has available resources entrusted to it under Article 8 of the Agreement, which empowers the Fund to receive other resources including grants from State Participants, non-participating countries, and from any public or private body or bodies.

At 31 December 2015, the undisbursed balance of trust fund resources was UA 5.10 million (2014: UA 4.11 million) representing the balance of a grant received from Japan for the development of human resources in Africa.

Resources of the trust funds are kept separate from those of the ADF.

Note K — Administrative expenses

Pursuant to Article 31 of the Agreement, the Fund reimburses the ADB for the estimated fair value of its use of the latter's offices, staff, organization, services and facilities. The amount of such administrative expenses reimbursed is based on a predetermined cost-sharing formula, which is driven, in large part, by the Fund's relative share of the number of programs and projects executed during the year by the Bank Group. The administrative expenses incurred by the Fund for the year amounted to UA 200.93 million (2014: UA 248.57 million).

Note L — Related parties

The general operation of the Fund is conducted by a 14-member Board of Directors, of which 7 members are selected by the Bank. The Bank exercises 50 percent of the ADF's voting power and the President of the Bank is the ex-officio President

of the Fund. In accordance with the Agreement, the Fund utilizes the offices, staff, organization, services and facilities of the ADB (the Bank) to carry out its functions, for which it reimburses the Bank as disclosed in Note K. In this regard, the Bank administers the resources of the Fund. The Fund also administers trust funds entrusted to it by one of its State Participants.

Note M — Statement of subscriptions, contributions and voting power as at 31 December 2015

(Amounts in UA thousands)

Participants	Subscriptions					Payment Positions				MDRI	Voting Power	
	Initial	Special Increase	ADF-1 to ADF-12 Installments	ADF-13 Installment	Grants Compensation	Total Subscriptions	Total Installments Paid	Installments Due	Installments not yet Payable	Payments Received	Number of Votes	%
1 ADB	4,605	1,382	105,754	-	-	111,741	111,741	-	-	-	1,000,000	50.000
2 Angola	9,691	-	-	1,057	-	10,748	10,748	-	-	-	-	-
3 Argentina	1,842	-	16,789	-	-	18,631	1,842	7,018	9,771	-	0.073	0.004
4 Austria	13,816	-	379,318	93,099	203	486,436	455,262	-	31,174	12,393	18,466	0.923
5 Belgium	2,763	-	442,331	90,003	278	535,375	504,564	-	28,904	16,178	20,414	1.021
6 Brazil	1,842	921	140,866	-	-	143,629	143,629	-	-	-	5.672	0.284
7 Canada	13,816	6,908	1,557,485	214,485	773	1,793,467	1,721,204	-	67,505	95,664	71.373	3.569
8 China	13,816	-	421,923	84,280	282	520,301	520,301	-	-	17,138	21.213	1.061
9 Denmark	4,605	1,842	581,148	75,172	418	663,185	662,419	-	-	11,354	24.696	1.235
10 Egypt	-	-	1,303	1,326	-	2,629	2,187	-	442	-	-	-
11 Finland	1,842	-	451,107	109,382	259	562,590	562,246	-	-	15,656	19.899	0.995
12 France	8,809	-	2,271,239	364,167	1,354	2,645,570	2,523,387	-	114,165	96,021	102.808	5.140
13 Germany	6,860	6,956	2,277,291	402,680	1,347	2,695,134	2,559,857	-	135,277	68,988	103.803	5.190
14 India	5,526	-	73,969	12,364	30	91,889	87,594	-	4,295	1,817	3.531	0.176
15 Italy	9,211	-	1,478,382	202,337	724	1,690,654	1,690,654	-	-	43,572	54.947	2.747
16 Japan	13,816	-	2,457,987	293,377	1,406	2,766,586	2,667,947	-	98,639	81,427	108.552	5.428
17 Korea	9,211	-	199,661	57,541	109	266,522	247,306	-	19,216	7,572	10.064	0.503
18 Kuwait	4,974	-	166,846	7,864	29	179,713	179,713	-	-	13,125	7.614	0.381
19 Luxembourg	14,514	-	-	-	-	14,514	14,514	-	-	-	0.573	0.029
20 Netherlands	3,684	1,842	936,792	166,606	643	1,109,567	1,109,158	-	409	34,442	44.679	2.234
21 Norway	4,605	2,303	983,880	201,519	608	1,192,915	1,125,355	-	67,560	36,947	45.622	2.281
22 Portugal	7,368	-	166,191	-	1	173,560	143,995	-	29,565	5,899	5.919	0.296
23 Saudi Arabia	8,290	-	252,207	23,202	81	283,780	283,780	-	-	5,508	11.421	0.571
24 South Africa	1,794	-	29,493	16,195	20	47,502	47,502	-	-	9,562	-	-
25 Spain	1,842	921	557,923	43,713	389	604,788	524,360	-	80,428	48,167	22.609	1.130
26 Sweden	4,605	3,684	1,105,956	207,302	687	1,322,234	1,252,905	-	69,329	41,749	51.117	2.556
27 Switzerland	2,763	2,938	789,377	131,073	493	926,644	926,644	-	-	57,758	38.855	1.943
28 Turkey	40,693	-	-	-	-	40,693	40,693	-	-	-	1.607	0.080
29 United Arab Emirates	4,145	-	4,145	-	-	8,290	8,290	-	-	-	0.327	0.016
30 United Kingdom	4,800	3,073	1,992,671	611,550	1,047	2,613,141	2,408,593	-	204,548	80,367	98.277	4.914
31 United States of America	12,434	8,290	2,603,776	385,980	1,845	3,012,325	2,632,911	-	379,414	47,945	105.869	5.293
Supplementary/voluntary contributions	-	-	94,709	15,000	-	109,709	101,763	-	7,946	-	-	-
Total	238,582	41,060	22,540,519	3,811,274	13,028	26,644,463	25,273,064	7,018	1,348,588	849,249	2,000,000	100.000
Supplementary information:												
Supplementary contributions through accelerated encashment to reduce the gap	-	-	60,001	5,320	-	65,321	60,001	5,320	6,195	-	-	-

Note N — Approval of special purpose financial statements

On 30 March 2016, 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 2016.

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Independent Auditor's Report on the special purpose financial statements of the African Development Fund to the Board of Governors of the African Development Fund

Year ended 31 December 2015

We have audited the accompanying special purpose financial statements of the African Development Fund (the Fund) prepared in compliance with the accounting and financial reporting matters as set out in the accounting policies in note B to the Special Purpose Financial Statements for the year ended 31 December 2015.

These special purpose financial statements have been prepared for the purposes of submitting approved and audited special purpose financial statements to the Board of Governors as required by Article 26(v), 35(1) and 35(3) of the Agreement establishing the Fund, and are not intended to be a presentation in conformity with a recognised accounting framework, such as, International Financial Reporting Standards.

This report is made solely to the Fund's Board of Governors, as a body, in accordance with Article 26(v), 35(1) and 35(3) of the Agreement establishing the Fund. Our audit work has been undertaken so that we might state to the Fund's Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Fund and its Board of Governors 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 presentation of these financial statements in accordance with articles 26(v), 35(1) and 35(3) of the Agreement Establishing the Fund and the accounting policies set out in note B to the special purpose financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and 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.

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

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comptable et de commissariat
aux comptes à directoire et
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Auditor's Responsibility

Our responsibility is to express an opinion on these special purpose 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 that the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the special purpose 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 presentation of the special purpose 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 special purpose financial statement presentation.

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

Opinion

In our opinion, the special purpose financial statements of the Fund have been prepared, in all material respects, in accordance with the accounting and financial reporting matters as set out in the accounting policies in note B to the special purpose financial statements for the year ended 31 December 2015.

Paris La Défense, 30 March 2016

KPMG Audit
A division of KPMG S.A.



Valéry Foussé
Partner

ADF administrative budget for financial year 2016

(UA thousands)

Management fees*	220,650
Direct expenses	150
Total	220,800

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

