NOTES TO THE FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

NOTE A – OPERATIONS AND AFFILIATED ORGANIZATIONS

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

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

Currency translation
Income and expenses are translated to UA at the rates prevailing on the date of the transaction. Monetary assets and liabilities are translated into UA at rates prevailing at the balance sheet date. Non-monetary assets and liabilities are translated into UA at historical rates. Translation differences are included in the determination of net income. Capital subscriptions are recorded in UA at the rates prevailing at the time of receipt. The translation difference relating to payments of capital subscriptions is reported in the financial statements as the Cumulative Exchange Adjustment on Subscriptions (CEAS). This is composed of the difference between the UA amount at the predetermined rate and the UA amount using the rate at the time of receipt. When currencies are converted into other currencies, the resulting gains or losses are included in the determination of net income.

Member Countries' Subscriptions

Although the Agreement establishing the ADB allows for a member country to withdraw from the Bank, no member has ever withdrawn its membership voluntarily, nor has any indicated to the Bank that it intends to do so. Moreover, there is a significant financial disincentive to withdrawing membership. The stability in the membership reflects the fact that the members are independent African and non-African countries, and that the purpose of the Bank is to contribute to the sustainable economic development and social progress of its regional member countries individually and jointly.

In the unlikely event of a withdrawal by a member, the Bank shall arrange for the repurchase of the former member's shares. The Bank may partially or fully offset amounts due for shares purchased against the member's liabilities on loans and guarantees due to the Bank. The repurchase price of the shares is the value shown by the books of the Bank on the date the country ceases to be a member, hereafter referred to as "the termination date". The former member would remain liable for direct obligations and contingent liabilities to the Bank for so long as any parts of the loans or guarantees contracted before the termination date are outstanding.

Were a member to withdraw, the Bank may set the dates in respect of payments for shares repurchased. If, for example, paying a former member would have adverse consequences for the Bank's financial position, the Bank could defer payment until the risk had passed, and indefinitely if appropriate. Further, shares that become unsubscribed for any reason may be offered by the Bank for purchase by eligible member countries, based on the share transfer rules approved by the Board of Governors. In any event, no payments shall be made until six months after the termination date. If the Bank were to terminate its operations within six months of the termination date, all liabilities of the Bank would first be settled out of the assets of the Bank and then, if necessary, out of members' callable capital, before any distribution could be made to any member country, including the withdrawing member.

If at a date subsequent to the termination date, it becomes evident that losses may not have been sufficiently taken into account when the repurchase price was determined, the former member may be required to pay, on demand, the amount by which the repurchase price of the shares would have been reduced had the losses been taken into account when the repurchase price was determined. In addition, the former member remains liable on any call, subsequent to the termination date, for unpaid subscriptions, to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

Employee benefits

1) Pension obligations

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

2) Post-employment medical benefits

The Bank operates a contributory defined Medical Benefit Plan (MBP), which provides post-employment healthcare benefits to eligible former staff, including retirees. Membership of the MBP includes both staff and retirees of the Bank. The entitlement to the post-retirement healthcare benefit is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits derive from contributions from plan members as well as the Bank and are accrued over the period of employment and during retirement. Contributions by the Bank to the MBP are charged to expenses and included in the statement of income and expenses. The MBP Board, an independent Board created by the Bank, determines the adequacy of the contributions and is authorized to recommend changes to the contribution rates of both the Bank and plan members.

Financial instruments

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

1) Financial assets

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

i) *Financial assets at fair value through profit or loss*
All trading assets are carried at fair value through the income statement. The investments in the trading portfolio are acquired principally for the purpose of selling in the short term. Derivatives are also categorized as held-for-trading.

ii) *Loans and receivables*
The Bank has classified demand obligations, accrued income and receivables from loans and investments and other sundry amounts as receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. Accrued income and receivables include accrued interest on derivatives.

iii) *Held-to-maturity investments*
The Bank has classified its investments in certain debt securities as held-to-maturity. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Held-to-maturity investments are subsequently measured at amortized cost.

iv) *Available-for-sale financial assets*
The Bank has classified equity investments over which it does not have control or significant influence as available-for-sale. Available-for-sale investments are those intended to be held for an indefinite period of time, and may or may not be sold in the future.

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

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

Loans and receivables as well as held-to-maturity investments are carried at amortized cost using the effective interest method. Available-for-sale financial assets and financial assets at fair value through profit or loss are carried at fair value. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in the income statement in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity is recognized in profit or loss. Accrued interest on financial assets is included in other accounts receivable.

2) Financial liabilities

i) Borrowings

In the ordinary course of its business, the Bank borrows funds in the major capital markets for lending and liquidity purposes. The Bank issues debt instruments denominated in various currencies, with differing maturities at fixed or variable interest rates. The Bank's borrowing strategy is driven by three major factors, namely: timeliness in meeting cash flow requirements, optimizing asset and liability management with the objective of mitigating exposure to financial risks, and providing cost-effective funding. In addition to long and medium-term borrowings, the Bank also undertakes short-term borrowing for cash and liquidity management purposes only. Borrowings not designated at fair value through profit or loss are carried on the balance sheet at amortized cost with interest expense determined using the effective interest method. When these borrowings contain embedded derivatives that require bifurcation, the embedded derivatives are separated from the borrowing contract and carried on the balance sheet at fair value. Borrowing expenses are recognized in profit or loss and include the amortization of issuance costs, discounts and premiums, which is determined using the effective interest method. The unamortized balance of the issuance costs is netted off against borrowings in the balance sheet. Certain of the Bank's borrowings have been obtained from the governments of some member countries of the Bank and are interest free. In accordance with IAS 20 – "Accounting for Government Grants and Disclosure of Government Assistance", the benefit of borrowing at subsidized rates from member countries' governments has not been recognized through the imputation of interest expense in the financial statements.

ii) Financial liabilities at fair value through profit or loss

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

iii) Other liabilities

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

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

Derivatives

The Bank uses derivative instruments in its portfolios for asset/liability management, cost reduction, risk management and hedging purposes. These instruments include currency swaps and interest rate swaps. The derivatives on borrowings are used to modify the interest rate or currency characteristics of the borrowings portfolio linked to the related borrowings at inception, and remain so throughout the terms of the contracts. The interest component of these derivatives is disclosed as borrowing cost over the life of the derivative contract and included in the income statement.

Although IAS 39 allows special hedge accounting for certain qualifying hedging relationships, the application of such special hedge accounting criteria does not make fully evident the asset/liability and risk management strategy of the Bank and would result in inconsistent treatment of similar hedged instruments. Therefore, the Bank has elected not to designate any qualifying hedging relationships, but rather classifies all derivatives as held-for-trading at fair value, with all changes in fair value recognized in the income statement.

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

Impairment of financial assets

1) Assets carried at amortized cost

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

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

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Interest and charges are accrued on all loans including those in arrears.

2) Available-for-sale assets

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

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

Offsetting financial instruments

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

Fair value disclosure

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

financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable. Management believes that these methodologies and assumptions are reasonable, however, the values actually realized in a sale might be different from the fair values disclosed.

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

Cash: The carrying amount is the fair value.

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

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

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

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

Loans: The Bank does not sell its loans, nor does it believe there is a comparable market for its loans. The fair value of loans reported in these financial statements represents management's best estimates of the present value of the expected cash flows of these loans. For multi-currency and single currency fixed rate loans, fair values are estimated using a discounted cash flow model based on the year-end variable lending rate in that currency, adjusted for impairment. For all loans not impaired, fair value adjustments are made to reflect expected loan losses. The estimated fair value of loans is disclosed in Note G.

Day one profit and loss

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

Investment in associate

Under IAS 28, "Investments in Associates", the ADF is considered an associate of the Bank. An associate is an entity over which the Bank has significant influence, but not control, over the entity's financial and operating policy decisions. The relationship between the Bank and

the ADF is described in more detail in Note H. IAS 28 requires that the equity method be used to account for investments in associates. Under the equity method, an investment in an associate is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The investor's share of the profit or loss of the investee is recognized in the investor's income statement. The subscriptions by the Bank to the capital of the ADF occurred between 1974 and 1990. At December 31, 2006, such subscriptions cumulatively represented approximately 1% of the economic interest in the capital of the ADF. Although ADF is a not-for-profit entity and has never distributed any dividend to its subscribers since its creation in 1972, the revisions to IAS 28 require that the equity method be used to account for the Bank's investment in the ADF. Further, in accordance with IAS 36, the net investment in the ADF is assessed for impairment. Cumulative losses as measured under the equity method are limited to the investment's original cost as the ADB has not guaranteed any potential losses of the ADF.

Retained earnings

Retained earnings of the Bank consist of amounts allocated to reserves from prior year's income, unallocated current year net income and expenses recognized directly in equity as required by IFRS.

Property and equipment

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

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

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

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

Intangible assets

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

Leases

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

Critical accounting judgments and key sources of estimation uncertainty

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

1) Impairment losses on loans and advances

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

2) Fair value of financial instruments

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

3) Impairment of available-for-sale equity investments

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

4) Held-to-maturity investments

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

NOTE C – CHANGE IN ACCOUNTING TREATMENT AND THE EFFECT OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

1) Change in accounting treatment for transfers of income approved by the Board of Governors

In the current year, the Bank changed its accounting treatment for the transfers of income approved by the Board of Governors. Article 42 of the Agreement establishing the Bank authorizes the Board of Governors to distribute part of the net income of the Bank after making provision for reserves. In prior years and in the exercise of the above provision of the Agreement, the Bank after approval by its shareholders at its annual general meetings has made transfers from its annual net income to organizations and institutions for purposes congruent with the Bank's mission. Previously, the Bank accounted for such transfers from net income similar to dividends and reported them as reduction in equity. This previous accounting for the transfers of income approved by the Board of Governors placed emphasis on the role of the

Governors acting on behalf of shareholders and viewed as being constructively a transaction with owners. In effect, the Bank viewed these transactions as being equivalent to distributions whereby the shareholders constructively received these funds and simultaneously agreed to contribute them to the designated recipient. The Bank effected the distributions via transfers to the designated recipients. This accounting reflected the shareholders' view of the substance and intent of these transfers and had been consistently applied over the years.

Description of the change in accounting treatment

In the light of the increasing frequency of these transfers and varying nature of recipients, the Bank has re-evaluated its accounting treatment of these types of transactions and determined that effective in 2006 all distributions approved by the Board of Governors would be reported as expenses within the Income Statement in the year that the distribution is approved.

This change in accounting principle has been applied retrospectively and has therefore resulted in the restatement of prior year comparative figures. Net income transfers previously treated as a reduction in reserves in 2005 amounted to UA 144.00 million.

2) New and Revised IFRS

The International Accounting Standards Board (IASB) and its International Financial Reporting Interpretations Committee (IFRIC) issued certain new and revised Standards and Interpretations, which took effect during the year ended December 31, 2006. These were either inapplicable to the Bank or did not have a material impact on the Bank's financial condition, results of operations or cash flows.

At the date of authorization of these financial statements, a number of new and amended International Financial Reporting Standards and Interpretations had been promulgated, but will be effective for periods after December 31, 2006. Of these, the two that are most relevant to the Bank are IFRS 7, "Financial Instruments: Disclosures" and amendments to IAS 1, "Presentation of Financial Statements" – "Capital Disclosures". IFRS 7, which becomes effective for the Bank's financial statements for the period beginning on January 1, 2007, introduces additional qualitative and quantitative disclosures about exposures to risks arising from financial instruments and how entities manage those risks. Management is reviewing the additional disclosures that are required starting in 2007 as a result of the implementation of this standard. The amendments to IAS 1 are also expected to be effective for the 2007 financial statements of the Bank, but are not expected to have any significant impact on the financial reporting of the Bank. Also, IFRS 8, ''Operating Segments", which becomes effective for financial statements for the period beginning January 1, 2009, replaces the segmental reporting requirements of IAS 14, Segment Reporting. IFRS 8 requires alignment of the segments in the financial statements with those used internally by management in the allocation of resources and assessing performance. IFRS 8 is not expected to have a significant impact on the Bank's financial statements. None of the other new and amended standards and interpretations are expected to have a significant impact on the Bank's financial statements.

NOTE D – INVESTMENTS

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

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

The Bank uses external managers in the management of certain of its liquid assets, in accordance with the Bank's *Asset and Liability Management Guidelines*. At December 31, 2006, investments under external management were UA 120.39 million (2005: UA 42.20 million).

Securities sold under repurchase agreements (Repos) with a nominal value of UA 877.83 million and a market value including accrued interest of UA 879.41 million were outstanding at December 31, 2006 (2005: UA 466.96 million). The securities pledged as collateral have a carrying value of UA 757.49 million at December 31, 2006 (2005: UA 422.68 million). The nominal value of securities sold under repurchase agreements, but not yet settled and therefore not requiring collateral to be pledged was UA 117.64 million (2005: nil). These securities include trading and held-to-maturity instruments, which have been included in the respective balance sheet captions.

The composition of investments as at December 31, 2006 and 2005 was as follows:

(UA thousands)	**2006**	2005
Held-for-trading	3,451,886	2,954,053
Held-to-maturity	2,641,475	2,201,000
Total	**6,093,361**	**5,155,053**

Held-for-trading investments

A summary of the Bank's held-for-trading investments at December 31, 2006 and 2005 follows:

(UA millions)

	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**2006**	2005
Time deposits	535.08	446.31	43.62	47.87	464.70	37.94	168.58	170.02	1,211.98	702.14
Asset-backed securities	509.56	469.54	355.32	224.38	-	-	-	-	864.88	693.92
Government and agency obligations	-	255.62	17.99	75.00	-	-	9.04	0.53	27.03	331.15
Corporate bonds and commercial paper	784.16	594.19	519.21	538.21	-	44.50	44.63	49.94	1,348.00	1,226.84
Total held-for-trading investments	**1,828.80**	**1,765.66**	**936.14**	**885.46**	**464.70**	**82.44**	**222.25**	**220.49**	**3,451.89**	**2,954.05**
Repos	**(284.48)**	**(317.48)**	**(110.06)**	**(74.12)**	**(454.48)**	**(75.36)**	**(28.81)**	-	**(877.83)**	**(466.96)**

The nominal balance of the Bank's held-for-trading investments as at December 31, 2006 was UA 3,449.01 million (2005: UA 2,950.54 million). The average yield of held-for-trading investments in 2006 was 4.28% (2005: 3.07%).

The contractual maturity structure of held-for-trading investments as at December 31, 2006 and 2005 was as follows:

(UA millions)	**2006**	2005
One year or less	1,588.07	1,104.97
More than one year but less than two years	272.92	351.37
More than two years but less than three years	584.19	377.40
More than three years but less than four years	331.13	182.57
More than four years but less than five years	66.36	57.98
More than five years	609.22	879.76
Total	**3,451.89**	**2,954.05**

The maturity structure of repos as at December 31, 2006 and 2005 was as follows:

(UA millions)	2006	2005
One year or less	(877.83)	(466.96)

Held-to-maturity investments

A summary of the Bank's held-to-maturity investments at December 31, 2006 and 2005 was as follows:

(UA millions)

	US Dollar		Euro		GBP		Other Currencies		All Currencies	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Time deposits	14.74	6.40	-	9.18	65.33	19.36	-	-	80.07	34.94
Asset-backed securities	156.67	13.98	10.34	60.11	-	7.92	-	-	167.01	82.01
Government and agency obligations	484.56	551.86	188.33	169.69	225.24	285.53	126.29	164.26	1,024.42	1,171.34
Corporate bonds and others	503.41	351.69	508.52	295.21	268.23	193.11	89.82	72.70	1,369.98	912.71
Total held-to-maturity investments	**1,159.38**	**923.93**	**707.19**	**534.19**	**558.80**	**505.92**	**216.11**	**236.96**	**2,641.48**	**2,201.00**

The nominal balance of the Bank's held-to-maturity investments as at December 31, 2006, was UA 2,639.68 million (2005: UA 2,168.50 million). The average yield of held-to-maturity investments in 2006 was 4.16% (2005: 4.17%).

The contractual maturity structure of held-to-maturity investments as at December 31, 2006 and 2005 was as follows:

(UA millions)	2006	2005
One year or less	313.15	222.22
More than one year but less than two years	238.22	223.52
More than two years but less than three years	340.64	228.78
More than three years but less than four years	368.94	307.45
More than four years but less than five years	380.37	355.98
More than five years	1,000.16	863.05
Total	**2,641.48**	**2,201.00**

The fair value of held-to-maturity investments at December 31, 2006 was UA 2,633.74 million (2005: UA 2,220.56 million).

NOTE E – DERIVATIVE ASSETS AND LIABILITIES

The fair values of derivative financial assets and financial liabilities at December 31, 2006 and 2005 were as follows:

(UA thousands)	2006		2005	
	Assets	Liabilities	Assets	Liabilities
Borrowings-related (including loan swaps):				
Cross-currency swaps	198,550	394,460	195,019	210,125
Interest rate swaps	49,960	54,080	78,883	71,829
Loan swaps	23,203	24,834	10,681	25,948
Embedded derivatives	319	1,189	284	1,536
	272,032	474,563	284,867	309,438
Investments-related:				
Asset swaps	1,071	775	1,060	2,472
Macro-hedge swaps	207	6,599	-	5,335
	1,278	7,374	1,060	7,807
Total	**273,310**	**481,937**	**285,927**	**317,245**

The notional amounts of derivative financial assets and financial liabilities at December 31, 2006 and 2005 were as follows:

(UA thousands)	2006	2005
Borrowings-related (including loan swaps):		
Cross-currency swaps	4,139,026	3,672,511
Interest rate swaps	3,772,252	3,837,001
Loan swaps	880,152	822,718
Embedded derivatives	18,441	33,213
	8,809,871	8,365,443
Investments-related:		
Asset swaps	126,176	219,486
Macro-hedge swaps	289,817	261,322
	415,993	480,808
Total	**9,225,864**	**8,846,251**

Loan swaps

In addition to the swaps on borrowings, the Bank has entered into interest rate swaps, which transform fixed rate income on loans in certain currencies into variable rate income.

Administrative expenses hedge

To insulate the Bank from possible significant increases in administrative expenses that could arise from an appreciation of the principal currencies of administrative expenditure i.e. EUR, GBP and USD vis-à-vis the UA, the Bank executed forward exchange transactions to economically hedge its administrative expenses. As at December 31, 2006, there were no open positions with respect to the forward exchange transactions (2005: nominal value of UA 64.12 million with an unfavorable market value of UA 0.65 million).

NOTE F – NON-NEGOTIABLE INSTRUMENTS ON ACCOUNT OF CAPITAL

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

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

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

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

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

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

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

At December 31, 2006 and 2005, the non-negotiable notes balances were as follows:

(UA thousands)	**2006**	2005
Balance at January 1	25,897	31,180
Net movement for the year	(5,514)	(5,283)
Balance at December 31	**20,383**	**25,897**

NOTE G – LOANS

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

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

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

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

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

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

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

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

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

Maturity and currency composition of outstanding loans

The contractual maturity structure of loans as at December 31, 2006 and 2005 was as follows:

(UA millions)	2006				2005
Periods	**Fixed Rate**	**Floating Rate**	**Variable Rate**	**Total**	**Total**
One year or less	409.71	152.62	366.98	929.31	895.04
More than one year but less than two years	190.43	143.94	168.34	502.71	533.51
More than two years but less than three years	162.66	145.63	166.57	474.86	528.75
More than three years but less than four years	146.83	140.23	161.28	448.34	494.36
More than four years but less than five years	146.14	126.68	142.81	415.63	441.95
More than five years	1,645.39	680.49	194.22	2,520.10	2,618.83
Total	**2,701.16**	**1,389.59**	**1,200.20**	**5,290.95**	**5,512.44**

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

The currency composition and type of loans as at December 31, 2006 and 2005 were as follows:

(Amounts in UA millions)			2006		2005	
			Amount	**%**	**Amount**	**%**
Fixed Rate:	Multi-Currency	Euro	100.93		118.28	
		Japanese Yen	143.72		195.60	
		Pound Sterling	0.67		1.07	
		Swiss Franc	36.17		40.34	
		US Dollar	192.83		248.14	
		Others	1.54		9.83	
			475.86	8.99	613.26	11.13
	Single Currency	Euro	1,433.01		1,073.72	
		Japanese Yen	311.34		335.63	
		Pound Sterling	2.55		2.36	
		South African Rand	54.35		43.89	
		Swiss Franc	129.72		129.08	
		US Dollar	294.00		338.75	
		Others	0.33		0.30	
			2,225.30	42.07	1,923.73	34.90
Floating Rate:	Single Currency	Euro	457.46		458.31	
		Japanese Yen	11.26		6.32	
		South African Rand	153.30		179.08	
		US Dollar	767.57		922.83	
			1,389.59	26.26	1,566.54	28.42
Variable Rate:	Multi-Currency	Euro	190.88		203.33	
		Japanese Yen	42.22		53.33	
		Swiss Franc	1.15		1.35	
		US Dollar	181.88		207.12	
		Others	0.24		0.34	
			416.37	7.87	465.47	8.44
	Single Currency	Euro	336.53		367.54	
		Japanese Yen	132.19		190.08	
		Swiss Franc	17.16		17.51	
		US Dollar	297.91		368.26	
		Others	0.04		0.05	
			783.83	14.81	943.44	17.11
Total			**5,290.95**	**100.00**	**5,512.44**	**100.00**

The weighted-average yield on outstanding loans for the year ended December 31, 2006 was 6.20% (2005: 5.88%).

The summary of the currency composition of loans at December 31, 2006 and 2005 was as follows:

(Amounts in UA millions)	2006		2005	
	Amount	**%**	**Amount**	**%**
Euro	2,518.81	47.61	2,221.18	40.29
Japanese Yen	640.72	12.11	780.97	14.17
Pound Sterling	3.22	0.06	3.42	0.06
South African Rand	207.65	3.92	222.97	4.04
Swiss Franc	184.20	3.48	188.27	3.42
US Dollar	1,734.19	32.78	2,085.10	37.83
Others	2.16	0.04	10.53	0.19
Total	**5,290.95**	**100.00**	**5,512.44**	**100.00**

Fair value of loans

At December 31, 2006 and 2005, the carrying and estimated fair values of loans were as follows:

(UA thousands)	2006		2005	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Fixed rate loans	2,701,177	2,948,806	2,536,990	2,979,681
Floating rate loans	1,389,586	1,342,702	1,566,542	1,531,636
Variable rate loans	1,200,188	1,063,353	1,408,910	1,286,671
	5,290,951	5,354,861	5,512,442	5,797,988
Accumulated provision for impairment	(214,180)	-	(194,613)	-
Net loans	**5,076,771**	**5,354,861**	**5,317,829**	**5,797,988**

Loans are expressed in Units of Account but repaid in the currencies disbursed.

Provision for impairment on loan principal and charges receivable

At December 31, 2006, loans with an aggregate principal balance of UA 670.11 million (2005: UA 702.49 million), of which UA 418.59 million (2005: UA 377.92 million) was overdue, were considered to be impaired. The gross amounts of loans and charges receivables that were impaired and the cumulative impairment on them at December 31, 2006 and 2005 were as follows:

(UA thousands)	2006	2005
Outstanding balance on impaired loans	670,111	702,489
Less: accumulated provision for impairment	(214,180)	(194,613)
Net balance on impaired loans	**455,931**	**507,876**
Charges receivable and accrued income on impaired loans	330,103	306,915
Less: accumulated provision for impairment	(222,588)	(197,764)
Net charges receivable and accrued income on impaired loans	**107,515**	**109,151**

The movements in the accumulated provision for impairment on outstanding loan principal for the years ended December 31, 2006 and 2005 were as follows:

(UA thousands)	**2006**	2005
Balance at January 1	194,613	213,593
Provision for impairment on loan principal for the year	22,566	(21,169)
Translation effects	(2,999)	2,189
Balance at December 31	**214,180**	**194,613**

Provision for loan impairment included those relating to private sector loans. During the year ended December 31, 2006, provisions on private sector loans of UA 0.13 million (2005: UA 4.80 million) were made. The accumulated provisions on private sector loans at December 31, 2006 amounted to UA 15.40 million (2005: UA 16.11 million).

The movements in the accumulated provision for impairment on loan interest and charges receivable for the years ended December 31, 2006 and 2005 were as follows:

(UA thousands)	**2006**	2005
Balance at January 1	197,764	188,076
Provision for impairment on loan interest and charges for the year	29,120	7,317
Translation effects	(4,296)	2,371
Balance at December 31	**222,588**	**197,764**

Guarantees

The Bank may enter into special irrevocable commitments to pay amounts to the borrowers or other parties for goods and services to be financed under loan agreements. At December 31, 2006, irrevocable reimbursement guarantees issued by the Bank to commercial banks on undisbursed loans amounted to UA 8.09 million (2005: nil).

Also, the Bank may provide guarantees for securities issued by an entity eligible for the Bank's loans. Guarantees are regarded as outstanding when the borrower incurs the underlying financial obligation and are called when a guaranteed party demands payment under the guarantee. Guarantees represent potential risk to the Bank if the payments guaranteed for an entity are not made. At December 31, 2006 and 2005, the Bank had no outstanding guarantee to any entity.

NOTE H – EQUITY PARTICIPATIONS

Investment in Associate: ADF

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

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

To carry out its functions, the Fund utilizes the offices, staff, organization, services and facilities of the Bank, for which it pays a share of the administrative expenses. The share of administrative expenses paid by the Fund to the Bank is calculated annually on the basis of a

cost-sharing formula, approved by the Board of Directors, which is driven in large part by the number of programs and projects executed during the year. Based on the cost-sharing formula, the share of administrative expenses incurred by ADF for the year ended December 31, 2006 amounted to UA 114.56 million (2005: UA 111.86 million), representing 71.39 percent (2005: 68.76 percent) of the shareable administrative expenses incurred by the Bank. The accounts of the ADF are kept separate and distinct from those of the Bank.

Although the ADB by agreement exercises fifty percent (50%) of the voting powers in the ADF, the Agreement establishing the ADF also provides that in the event of termination of the ADF's operations, the assets of the Fund shall be distributed pro-rata to its participants in proportion to the amounts paid-in by them on account of their subscriptions, after settlement of any outstanding claims against the participants. At December 31, 2006, the Bank's pro-rata or economic share in ADF was 0.93% (2005: 1.01%).

During the year ended December 31, 2006, as a result of the implementation of the Multilateral Debt Relief Initiative described in note T-2, the net asset value of ADF declined. Consequently, the Bank recorded an impairment loss of UA 34.75 million on its investment in the Fund.

Other Equity Participations

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

Although the Bank is allowed to take equity positions of up to twenty five percent (25%) the Bank currently holds less than 20% of the total equity capital of each institution in which it participates. The Bank therefore does not seek a controlling interest in the companies in which it invests, but closely monitors its equity investments through Board representation. In accordance with the Board of Governors' Resolution B/BG/2001/09 of May 29, 2001, total equity investment by the Bank shall not at any time exceed ten percent (10%) of the aggregate amount of the Bank's paid-up capital and reserves and surplus included in its ordinary capital resources.

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

The Bank's equity interests in the ADF and in other regional or sub-regional development institutions are summarized below:

(Amounts in UA thousands)

Institutions	Year Established	% Shareholding	Callable Capital	Carrying Value 2006	Carrying Value 2005
African Development Fund	1972	0.93	-	111,741	111,741
Accumulated share of net profit/(loss) & (impairment) on January 1				(14,377)	(14,575)
Share of profit for the year				379	198
Impairment for the year				(34,745)	-
				62,998	97,364
Regional Development Banks (Carried at Cost)					
BDEAC	1975	3.68	2,402	1,601	1,510
East African Development Bank	1967	11.30	-	5,000	5,000
PTA Bank	1985	5.76	9,040	5,000	5,000
Afreximbank	1993	6.70	9,971	6,647	6,997
BOAD	1973	0.31	2,002	667	629
BDEGL	1980		-	1,946	1,946
			23,415	20,861	21,082
Other Development Institutions (Carried at Cost)					
K-REP Bank Limited	1997	15.14	-	718	714
Zimbabwe Development Bank	1984	-	-	9	-
Africa - Re	1977	8.00	-	5,790	6,095
Shelter Afrique	1982		-	3,323	3,498
National Development Bank of Sierra Leone *			-	-	-
			-	9,840	10,307
Investment Funds (Carried at Fair value)**					
AIG Africa Infrastructure Fund	1999	12.27	3,616	14,405	32,235
South Africa Infrastructure Fund	1996	14.03	-	7,049	9,955
Acacia Fund Limited	1996	10.40	-	808	720
Zambia Venture Capital Fund	1996	16.11	-	592	399
Indian Ocean Regional Fund Limited	1999	16.83	-	92	131
EMP Africa Fund II LLC	2005	13.06	27,257	5,979	-
			30,873	28,925	43,440
Total			54,288	122,624	172,193
Less: Accumulated provision for impairment			-	(3,505)	(3,496)
Net			**54,288**	**119,119**	**168,697**

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

** *The cost of equity investments carried at fair value at December 31, 2006 amounted to UA 29.37 million (2005: UA 35.14 million).*

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

(UA thousands)	2006	2005
Balance at January 1	3,496	4,247
Provision for the year	-	(750)
Translation effects	9	(1)
Balance at December 31	**3,505**	**3,496**

NOTE I – PROPERTY, EQUIPMENT AND INTANGIBLE ASSETS

(UA thousands)

	Property and Equipment					Intangible Assets	Grand Total
2005	**Land**	**Building and Improve-ments**	**Furniture, Fixtures & Fittings**	**Equipment & Motor Vehicles**	**Total Property & Equipment**	**Computer Software**	**Property, Equipment & Intangible Assets**
Cost:							
Balance at January 1	141	22,752	6,197	33,683	**62,773**	15,049	**77,822**
Additions during the year	-	-	1,153	3,751	**4,904**	1,233	**6,137**
Disposals during the year	-	-	(13)	(497)	**(510)**	-	**(510)**
Transfers	-	-	-	(234)	**(234)**	234	**-**
Balance at December 31	141	22,752	7,337	36,703	**66,933**	16,516	**83,449**
Accumulated Depreciation:							
Balance at January 1	-	21,080	3,809	23,321	**48,210**	12,007	**60,217**
Depreciation during the year	-	102	882	3,464	**4,448**	2,653	**7,101**
Disposals during the year	-	-	(13)	(206)	**(219)**	-	**(219)**
Balance at December 31	-	21,182	4,678	26,579	**52,439**	14,660	**67,099**
Net Book Values:							
December 31, 2005	**141**	**1,570**	**2,659**	**10,124**	**14,494**	**1,856**	**16,350**

(UA thousands)

	Property and Equipment					Intangible Assets	Grand Total
2006	**Land**	**Building and Improve-ments**	**Furniture, Fixtures & Fittings**	**Equipment & Motor Vehicles**	**Total Property & Equipment**	**Computer Software**	**Property, Equipment & Intangible Assets**
Cost:							
Balance at January 1	141	22,752	7,337	36,703	**66,933**	16,516	**83,449**
Additions during the year	-	27	656	1,990	**2,673**	1,465	**4,138**
Disposals during the year	-	-	(737)	(118)	**(855)**	-	**(855)**
Transfers	-	-	-	-	**-**	-	**-**
Balance at December 31	141	22,779	7,256	38,575	**68,751**	17,981	**86,732**
Accumulated Depreciation:							
Balance at January 1	-	21,182	4,678	26,579	**52,439**	14,660	**67,099**
Depreciation during the year	-	101	982	3,830	**4,913**	1,319	**6,232**
Disposals during the year	-	-	(733)	(107)	**(840)**	-	**(840)**
Balance at December 31	-	21,283	4,927	30,302	**56,512**	15,979	**72,491**
Net Book Values:							
December 31, 2006	**141**	**1,496**	**2,329**	**8,273**	**12,239**	**2,002**	**14,241**

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

NOTE J – BORROWINGS

It is the Bank's policy to limit senior borrowing and guarantees chargeable to the Bank's ordinary capital resources to 80 percent of the callable capital of its non-borrowing members and also to limit the total borrowing represented by both senior and subordinated debt to 80 percent of the total callable capital of all its member countries. At December 31, 2006, total borrowings amounted to UA 5,870.47 million (2005: UA 5,940.40 million) comprising senior debt and subordinated debt amounting to UA 5,178.74 million (2005: UA 5,210.66 million) and UA 691.73 million (2005: UA 729.74 million), respectively. As of the same date, the ratio of senior debt to the non-borrowing members' callable capital of UA 8,533.51 million (2005: UA 8,523.93 million) was 60.69 percent (2005: 61.13 percent). Also at December 31, 2006, the ratio of total outstanding borrowings to the total callable capital of UA 19,436.76 million (2005: UA 19,367.00 million) was 30.20 percent (2005: 30.67 percent). At December 31, 2006, borrowings with embedded callable options amounted to UA 381.05 million (2005: UA 466.60 million). The Bank uses derivatives in its borrowing and liability management activities to take advantage of cost-savings opportunities and to lower its funding costs.

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

A summary of the Bank's borrowings portfolio at December 31, 2006 and 2005 was as follows:

Borrowings and Swaps at December 31, 2006:

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements[a]			Interest Rate Swaps		
Currency	Rate Type	Carried at Fair Value	Carried at Amortized Cost	Wgtd. Avg. Cost[b] (%)	Wgtd. Average Maturity (Years)	Amount payable/ (receivable)	Wgtd. Avg. Cost[b] (%)	Average Maturity (Years)	Notional amount payable/ (receivable)	Wgtd. Avg. Cost[b] (%)	Average Maturity (Years)
Euro	Fixed	-	-	-	-	149.39	8.71	12.9	205.13	5.16	1.4
	Adjustable	66.59	-	3.79	0.3	2,453.29	3.48	4.6	66.73	3.13	0.3
		-	-	-	-	(182.48)	3.09	5.7	(271.86)	3.36	1.1
Sterling	Fixed	75.41	-	11.13	3.1	-	-	-	-	-	-
		-	-	-	-	-	-	-	(65.24)	11.13	3.1
	Adjustable	-	-	-	-	26.10	4.68	2.6	65.24	10.48	3.1
		-	-	-	-	(65.24)	10.48	3.1	-	-	-
Japanese Yen	Fixed	755.65	355.69	3.23	4.7	-	-	-	223.53	4.64	1.3
		-	-	-	-	(289.47)	2.69	6.5	(718.41)	2.29	2.3
	Adjustable	601.10	18.44	4.08	6.5	86.55	0.35	0.8	780.44	0.38	2.6
		-	-	-	-	(1,021.49)	2.49	4.6	(285.56)	1.16	2.3
US Dollars	Fixed	2,226.72	604.89	4.77	7.7	-	-	-	-	-	-
		-	-	-	-	(299.12)	7.57	11.9	(2,135.40)	3.58	3.7
	Adjustable	39.67	6.65	5.21	0.3	1,254.24	5.23	4.1	2,069.99	5.45	3.4
		-	-	-	-	(1,273.79)	5.32	2.8	(46.53)	6.61	0.2
Others	Fixed	1,058.51	66.71	3.77	4.6	8.38	3.67	3.4	-	-	-
		-	-	-	-	(1,007.44)	3.80	5.2	(249.25)	3.47	2.0
	Adjustable	-	-	-	-	194.13	8.08	6.2	249.25	3.87	2.0
Total	Fixed	4,116.29	1,027.29	4.31	5.5	157.77	8.44	12.3	428.66	4.89	1.4
		-	-	-	-	(1,596.03)	4.31	6.7	(3,168.30)	3.43	3.2
	Adjustable	707.36	25.09	4.13	5.5	4,014.31	4.19	4.4	3,231.65	4.16	3.0
		-	-	-	-	(2,543.00)	4.16	3.7	(603.95)	2.57	1.6
Principal at face value		4,823.65	1,052.38	4.29	5.5	33.05	-	-	(111.94)	-	-
Net unamortized premium/(discount)		-	(5.56)	-	-	175.82	-	-	111.10	-	-
		4,823.65	1,046.82	4.29	5.5	208.87	-	-	(0.84)	-	-
Fair valuation adjustment		-	-	-	-	(12.96)[c]	-	-	7.46[c]	-	-
Total		**4,823.65**	**1,046.82**	**4.29**	**5.5**	**195.91**	**-**	**-**	**6.62**	**-**	**-**

Supplementary disclosure (direct borrowings):

The notional amount of borrowings at December 31, 2006 was UA 6,088.55 million and the estimated fair value was UA 6,058.45 million.

a. Currency swap agreements include cross-currency interest rate swaps.

b. The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at December 31, 2006.

c. These amounts are included in derivative assets and liabilities on the balance sheet.

Slight differences may occur in totals due to rounding.

Borrowings and Swaps at December 31, 2005:

(Amounts in UA millions)

		Direct Borrowings				Currency Swap Agreements[a]			Interest Rate Swaps		
Currency	**Rate Type**	**Carried at Fair Value**	**Carried at Amortized Cost**	**Wgtd. Avg. Cost[b] (%)**	**Wgtd. Average Maturity (Years)**	**Amount payable (receivable)**	**Wgtd. Avg. Cost[b] (%)**	**Average Maturity (Years)**	**Notional amount payable (receivable)**	**Wgtd. Avg. Cost[b] (%)**	**Average Maturity (Years)**
Euro	Fixed	-	251.66	6.50	0.7	140.85	8.71	13.7	193.41	5.16	2.4
		-	-	-	-	-	-	-	(251.66)	6.50	0.7
	Adjustable	62.68	-	3.07	1.3	1,789.05	2.03	6.5	314.58	3.29	0.9
		-	-	-	-	(172.04)	1.66	6.6	(256.32)	2.21	2.1
Sterling	Fixed	78.41	-	11.13	4.0	-	-	-	-	-	-
		-	-	-	-	-	-	-	(60.24)	11.13	4.0
	Adjustable	-	-	-	-	-	-	-	60.24	10.45	4.0
		-	-	-	-	(60.24)	6.90	4.0	-	-	-
Japanese Yen	Fixed	811.04	377.50	3.21	5.3	-	-	-	237.23	4.64	2.3
		-	-	-	-	(301.29)	2.55	7.3	(762.46)	2.20	3.3
	Adjustable	695.39	33.21	3.78	6.6	91.86	(0.10)	1.2	828.29	(0.05)	3.5
		-	-	-	-	(1,166.56)	2.33	5.2	(303.07)	0.05	3.3
US Dollars	Fixed	1,986.16	636.69	4.47	7.3	-	-	-	-	-	-
		-	-	-	-	(314.85)	7.57	12.7	(1,902.02)	3.33	4.9
	Adjustable	41.62	-	4.83	0.7	1,178.05	2.45	5.6	1,806.87	3.18	4.6
		-	-	-	-	(745.37)	2.85	4.7	(41.98)	4.83	0.7
Others	Fixed	929.40	42.02	2.16	6.7	12.34	3.76	6.1	-	-	-
		-	-	-	-	(912.16)	1.73	7.6	(259.26)	0.26	3.5
	Adjustable	-	-	-	-	238.19	7.11	7.1	259.26	2.10	3.1
Total	Fixed	3,805.01	1,307.87	3.77	6.6	153.19	8.31	13.1	430.64	4.87	2.3
		-	-	-	-	(1,528.30)	3.09	8.6	(3,235.64)	3.21	4.1
	Adjustable	799.69	33.21	3.78	5.9	3,297.15	2.49	6.1	3,269.24	2.42	3.8
		-	-	-	-	(2,144.21)	2.59	5.1	(601.37)	1.30	2.6
Principal at face value		4,604.70	1,341.08	3.78	6.5	(222.17)	-	-	(137.13)	-	-
Net unamortized premium/(discount)		-	(5.38)	-	-	227.61	-	-	106.64	-	-
		4,604.70	1,335.70	3.78	6.5	5.44	-		(30.49)	-	-
Fair valuation adjustment		-	-	-	-	9.67[c]	-	-	39.95[c]	-	-
Total		**4,604.70**	**1,335.70**	**3.78**	**6.5**	**15.11**	**-**	**-**	**9.46**	**-**	**-**

Supplementary disclosure (direct borrowings):

The notional amount of borrowings at December 31, 2005 was UA 6,232.12 million and the estimated fair value was UA 6,185.16 million.

a. Currency swap agreements include cross-currency interest rate swaps.

b. The average repricing period of the net currency obligations for adjustable rate borrowings was six months. The rates indicated are those prevailing at December 31, 2005.

c. These amounts are included in derivative assets and liabilities on the balance sheet.

Slight differences may occur in totals due to rounding.

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at December 31, 2006 was as follows:

i) Borrowings carried at fair value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	207.34	300.41	507.75
More than one year but less than two years	1,050.54	4.90	1,055.44
More than two years but less than three years	929.55	1.42	930.97
More than three years but less than four years	883.88	-	883.88
More than four years but less than five years	166.73	-	166.73
More than five years	1,278.88	-	1,278.88
Total	**4,516.92**	**306.73**	**4,823.65**

ii) Borrowings carried at amortized cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	115.93	74.32	190.25
More than one year but less than two years	29.82	-	29.82
More than two years but less than three years	-	-	-
More than three years but less than four years	-	-	-
More than four years but less than five years	-	-	-
More than five years	832.31	-	832.31
Sub-total	**978.06**	**74.32**	**1,052.38**
Net unamortized premium and discount	(5.56)	-	(5.56)
Total	**972.50**	**74.32**	**1,046.82**

The contractual (except for callable borrowings) maturity structure of outstanding borrowings as at December 31, 2005 was as follows:

i) Borrowings carried at fair value

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	-	356.22	356.22
More than one year but less than two years	216.17	12.93	229.10
More than two years but less than three years	1,079.02	4.93	1,083.95
More than three years but less than four years	420.13	-	420.13
More than four years but less than five years	956.78	-	956.78
More than five years	1,558.52	-	1,558.52
Total	**4,230.62**	**374.08**	**4,604.70**

ii) Borrowings carried at amortized cost

(UA millions)

Periods	Ordinary	Callable	Total
One year or less	251.66	92.52	344.18
More than one year but less than two years	119.07	-	119.07
More than two years but less than three years	-	-	-
More than three years but less than four years	-	-	-
More than four years but less than five years	-	-	-
More than five years	877.83	-	877.83
Sub-total	**1,248.56**	**92.52**	**1,341.08**
Net unamortized premium and discount	(5.38)	-	(5.38)
Total	**1,243.18**	**92.52**	**1,335.70**

The fair value of borrowings carried at fair value through profit or loss at December 31, 2006 was UA 4,823.65 million (2005: UA 4,604.70 million). For these borrowings, the amount the Bank will be contractually required to pay at maturity at December 31, 2006 was UA 4,748.81 million (2005: UA 4,553.43 million). The surrender value of callable borrowings is equivalent to the notional amount plus accrued finance charges.

As per note M, there was a net gain of UA 10.67 million on borrowings and related derivatives designated at fair value through profit or loss for the year ended December 31, 2006 (2005: loss of UA 30.77 million). This included a loss of UA 33.89 million which was attributable to changes in the Bank's credit risk during the year ended December 31, 2006 (2005: UA 10.18 million). Fair value changes attributable to changes in the Bank's credit risk are determined by comparing the discounted cash flows for the borrowings at fair value through profit or loss using the Bank's credit spread versus LIBOR both at the beginning and end of the relevant period.

For borrowings designated at fair value through profit or loss at December 31, 2006, the cumulative unrealized fair value losses to date were UA 74.64 million (2005: losses of UA 51.27 million).

The valuation of some borrowings and derivatives is based on valuation techniques and not market prices and the effect for 2006 amounted to a loss of UA 35.03 million (2005: loss of UA 45.70 million).

NOTE K – EQUITY

Equity is composed of capital, retained earnings and fair value gains or losses on available-for-sale equity investments. These are further detailed as follows:

Capital

Subscriptions paid in

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

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

The Bank's capital as at December 31, 2006 and 2005 was as follows:

(UA thousands)	**2006**	2005
Capital Authorized (in shares of UA 10 000 each)	21,870,000	21,870,000
Less: Unsubscribed	(75,463)	(152,330)
Subscribed Capital	21,794,537	21,717,670
Less: Callable Capital	(19,436,756)	(19,366,999)
Paid-up Capital	2,357,781	2,350,671
Shares to be issued upon payment of future installments	(51,879)	(81,609)
Add: Amounts paid in advance	328	286
	2,306,230	2,269,348
Less: Amounts in arrears	(3,168)	(5,902)
Capital as at December 31	**2,303,062**	**2,263,446**

Included in the total unsubscribed shares of UA 75.46 million at December 31, 2006, was an amount of UA 38.83 million representing the balance of the shareholding of the former Socialist Federal Republic of Yugoslavia (former Yugoslavia).

Since the former Yugoslavia has ceased to exist as a state under international law, its shares (composed of UA 41.93 million callable, and UA 5.99 million paid-up, shares) were held as treasury shares of the Bank in accordance with Article 6 (6) of the Bank Agreement. In 2002, the Board of Directors of the Bank approved the proposal to invite each of the successor states of the former Yugoslavia to apply for membership in the Bank, though such membership would be subject to their fulfilling certain conditions including the assumption pro-rata of the contingent liabilities of the former Yugoslavia to the Bank, as of December 31, 1992. In the event that a successor state declines or otherwise does not become a member of the Bank, the pro-rata portion of the shares of former Yugoslavia, which could have been reallocated to such successor state, would be reallocated to other interested non-regional members of the Bank in accordance with the terms of the Share Transfer Rules. The proceeds of such reallocation will however be transferable to such successor state. Furthermore, pending the response from the successor states, the Bank may, under its Share Transfer Rules, reallocate the shares of former Yugoslavia to interested non-regional member states and credit the proceeds on a pro-rata basis to the successor states. In 2003, one of the successor states declined the invitation to apply for membership and instead offered to the Bank, as part of the state's Official Development Assistance its pro-rata interest in the proceeds of any reallocation of the shares of former Yugoslavia. The Bank has since accepted the offer.

Subscriptions by member countries and their voting power at December 31, 2006 were as follows:

(Amounts in UA thousands)

	MEMBER STATES	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
1	ALGERIA	83,055	3.820	92,960	737,600	83,680	3.782
2	ANGOLA	25,371	1.167	28,500	225,212	25,996	1.175
3	BENIN	4,245	0.195	4,817	37,633	4,870	0.220
4	BOTSWANA	46,571	2.142	52,306	413,405	47,196	2.133
5	BURKINA FASO	9,502	0.437	10,163	84,231	9,419	0.426
6	BURUNDI	5,173	0.238	6,465	45,256	5,798	0.262
7	CAMEROON	22,588	1.039	25,526	200,371	23,213	1.049
8	CAPE VERDE	1,672	0.077	2,090	14,630	2,297	0.104
9	CENTRAL AFRICAN REPUBLIC	973	0.045	1,217	8,512	1,598	0.072
10	CHAD	1,641	0.075	2,052	14,360	2,266	0.102
11	COMOROS	481	0.022	566	4,250	1,083	0.049
12	CONGO	9,861	0.454	11,450	87,170	10,485	0.474
13	COTE D'IVOIRE	81,008	3.726	101,260	708,820	81,633	3.689
14	DEMOCRATIC REPUBLIC OF CONGO	22,740	1.046	28,426	198,975	23,365	1.056
15	DJIBOUTI	1,213	0.056	1,517	10,618	1,838	0.083
16	EGYPT	111,680	5.136	125,436	991,370	112,305	5.075
17	EQUATORIAL GUINEA	3,463	0.159	3,930	30,713	3,816	0.172
18	ERITREA	2,289	0.105	2,506	20,028	2,628	0.119
19	ETHIOPIA	34,731	1.597	39,009	308,310	35,356	1.598
20	GABON	27,229	1.252	32,684	238,255	26,765	1.210
21	GAMBIA	3,395	0.156	3,828	30,130	3,915	0.177
22	GHANA	49,488	2.276	53,151	441,752	50,113	2.265
23	GUINEA	9,063	0.417	10,525	80,106	9,480	0.428
24	GUINEA BISSAU	600	0.028	750	5,250	1,225	0.055
25	KENYA	31,664	1.456	35,569	281,080	32,289	1.459
26	LESOTHO	3,319	0.153	3,729	29,470	3,944	0.178
27	LIBERIA	4,230	0.195	5,287	37,017	4,855	0.219
28	LIBYA	79,756	3.668	89,583	707,978	80,381	3.633
29	MADAGASCAR	14,143	0.650	15,883	125,550	14,768	0.667
30	MALAWI	6,472	0.298	8,090	56,630	7,097	0.321
31	MALI	9,523	0.438	10,807	84,411	10,147	0.459
32	MAURITANIA	3,872	0.178	4,015	33,884	3,838	0.173
33	MAURITIUS	14,075	0.647	15,813	124,940	14,700	0.664
34	MOROCCO	72,268	3.324	82,020	640,660	72,893	3.294
35	MOZAMBIQUE	13,747	0.632	15,454	122,038	14,372	0.650
36	NAMIBIA	7,387	0.340	8,301	65,570	8,012	0.362
37	NIGER	5,526	0.254	6,908	48,353	6,151	0.278
38	NIGERIA	197,236	9.071	218,280	1,754,094	193,268	8.734
39	RWANDA	2,965	0.136	3,333	26,310	3,590	0.162
40	SAO TOME & PRINCIPE	1,489	0.068	1,864	13,024	2,114	0.096
41	SENEGAL	22,810	1.049	25,317	202,793	22,969	1.038
42	SEYCHELLES	1,224	0.056	1,501	10,739	1,849	0.084
43	SIERRA LEONE	5,298	0.244	6,624	46,361	5,923	0.268
44	SOMALIA	1,941	0.089	2,427	16,986	2,566	0.116
45	SOUTH AFRICA	97,225	4.472	73,860	898,410	97,850	4.422
46	SUDAN	8,830	0.406	11,036	77,257	9,455	0.427
47	SWAZILAND	7,241	0.333	8,134	64,280	7,866	0.355
48	TANZANIA	18,248	0.839	20,685	161,805	18,874	0.853
49	TOGO	3,452	0.158	4,314	30,201	4,077	0.184
50	TUNISIA	30,451	1.401	34,205	270,310	31,076	1.404
51	UGANDA	11,206	0.515	13,199	98,863	11,623	0.525
52	ZAMBIA	26,952	1.240	30,966	238,553	27,578	1.246
53	ZIMBABWE	46,013	2.116	53,423	406,704	45,586	2.060
Total Regionals		**1,306,593**	**60.093**	**1,451,758**	**11,611,224**	**1,330,051**	**60.109**

Slight differences may occur in totals due to rounding.

(Amounts in UA thousands)

MEMBER STATES	Total Shares	% of Total Shares	Amount Paid	Callable Capital	Number of Votes	% of Total Voting Power
Total Regionals	**1,306,593**	**60.093**	**1,451,758**	**11,611,224**	**1,330,051**	**60.109**
54 ARGENTINA	5,828	0.268	5,921	52,364	6,453	0.292
55 AUSTRIA	9,679	0.445	9,441	87,350	10,304	0.466
56 BELGIUM	13,917	0.640	13,579	125,600	14,542	0.657
57 BRAZIL	9,646	0.444	9,421	87,036	10,270	0.464
58 CANADA	81,413	3.744	79,406	734,730	82,038	3.708
59 CHINA	24,230	1.114	23,633	218,670	24,855	1.123
60 DENMARK	25,168	1.158	25,200	226,480	25,793	1.166
61 FINLAND	10,627	0.489	10,640	95,630	11,252	0.509
62 FRANCE	81,648	3.755	81,750	734,730	82,273	3.718
63 GERMANY	89,631	4.122	89,740	806,570	90,256	4.079
64 INDIA	4,846	0.223	4,730	43,730	5,471	0.247
65 ITALY	52,437	2.412	51,166	473,214	53,062	2.398
66 JAPAN	119,057	5.476	116,123	1,074,450	119,682	5.409
67 KOREA	9,679	0.445	9,441	87,350	10,304	0.466
68 KUWAIT	9,707	0.446	9,720	87,350	10,332	0.467
69 NETHERLANDS	18,530	0.852	16,858	168,450	19,155	0.866
70 NORWAY	25,168	1.158	25,200	226,480	25,793	1.166
71 PORTUGAL	5,182	0.238	4,851	46,980	5,807	0.262
72 SAUDI ARABIA	4,199	0.193	4,099	37,900	4,824	0.218
73 SPAIN	22,998	1.058	21,510	208,470	23,623	1.068
74 SWEDEN	33,495	1.541	32,666	302,290	34,120	1.542
75 SWITZERLAND	31,790	1.462	31,005	286,900	32,415	1.465
76 UNITED KINGDOM	36,449	1.676	35,551	328,940	37,074	1.675
77 UNITED STATES OF AMERICA	142,352	6.547	139,654	1,283,869	142,977	6.462
Total Non-Regionals	**867,676**	**39.907**	**851,304**	**7,825,532**	**882,675**	**39.891**
Grand Total	**2,174,269**	**100.000**	**2,303,062**	**19,436,756**	**2,212,726**	**100.000**

Slight differences may occur in totals due to rounding.

Cumulative Exchange Adjustment on Subscriptions (CEAS)

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

At December 31, 2006 and 2005, the Cumulative Exchange Adjustment on Subscriptions was as follows:

(UA thousands)	**2006**	2005
Balance at January 1	151,759	147,203
Net conversion losses on new subscriptions	3,983	4,556
Balance at December 31	**155,742**	**151,759**

Retained Earnings

Retained earnings as at December 31, 2006 and 2005 were as follows:

(UA thousands)	
Balance at January 1, 2005	2,652,116
Net income for the year (Restated - Note C)	77,321
Net expenses recognized directly in equity	(3,785)
Cumulative Currency Translation Adjustment balance	(467,974)
Balance at December 31, 2005	**2,257,678**
Net income for the current year	54,832
Net expenses recognized directly in equity	(7,165)
Balance at December 31, 2006	**2,305,345**

On May 17, 2006, the Board of Governors of the Bank approved the transfer of part of the income earned for the year ended December 31, 2005. Previously, Board of Governors' approved transfers of net income were reported as a distribution from retained earnings. As discussed in Note C, with effect from 2006, Board of Governors' approved transfers from net income are reported as expenses in the Income Statement in the year such transfers are approved. The approvals in the years ended December 31, 2006 and 2005 were as follows:

(UA thousands)	**2006**	2005
Post Conflict Countries - DRC	67,300	36,700
African Development Fund (ADF)	21,300	46,300
Highly Indebted Poor Countries	10,600	11,000
Special Relief Fund	15,000	5,000
Post Conflict Countries Facility	25,000	30,000
Middle Income Country Technical Assistance Fund	-	15,000
Balance at December 31	**139,200**	**144,000**

Fair value gains on available-for-sale equity investments

At December 31, 2006 and 2005, the fair value gains on available-for-sale equity investments were as follows:

(UA thousands)	2006	2005
Balance at January 1	8,710	2,467
Net (losses)/gains for the year	(8,574)	6,243
Balance at December 31	**136**	**8,710**

NOTE L – INCOME FROM LOANS AND INVESTMENTS AND RELATED DERIVATIVES

Income from loans

Income from loans for the years ended December 31, 2006 and 2005 was as follows:

(UA thousands)	2006	2005
Interest income on loans not impaired	284,769	279,009
Interest income on impaired loans	38,687	37,891
Commitment charges	3,848	5,226
Statutory commission	1,723	2,104
Total	**329,027**	**324,230**

Income from investments and related derivatives

Income from investments for the years ended December 31, 2006 and 2005 was as follows:

(UA thousands)	2006	2005
Interest income	214,989	161,762
Realized and unrealized fair value losses	(1,165)	(6,387)
Total	**213,824**	**155,375**

Total interest income from investments at amortized cost for the year ended December 31, 2006 was UA 106.22 million (2005: UA 100.82 million).

NOTE M – BORROWING EXPENSES

Interest and amortized issuance costs

Interest and amortized issuance costs on borrowings for the years ended December 31, 2006 and 2005 were as follows:

(UA thousands)	2006	2005
Interest costs	242,477	221,203
Amortization of issuance costs	2,936	(2,687)
Total	**245,413**	**218,516**

Total interest expense for financial liabilities not at fair value through profit or loss for the year ended December 31, 2006 was UA 76.38 million (2005: UA 75.86 million).

Net interest on borrowing-related derivatives

Net interest on borrowing-related derivatives for the years ended December 31, 2006 and 2005 was as follows:

(UA thousands)	**2006**	2005
Interest on derivatives payable	(322,500)	(207,741)
Interest on derivatives receivable	287,363	209,140
Total	**(35,137)**	**1,399**

Unrealized gain/(loss) on fair-valued borrowings and related derivatives

Unrealized gain/(loss) on fair-valued borrowings and related derivatives for the years ended December 31, 2006 and 2005 was as follows:

(UA thousands)	**2006**	2005
Borrowings	48,799	(90,647)
Cross currency swaps	(25,780)	84,593
Interest rate swaps	(12,347)	(24,719)
Total	**10,672**	**(30,773)**

The prior year net unrealized loss on fair-valued borrowings and related derivatives was restated due to changes in the classification between the treatment of the bonds and swap discounts and premiums respectively. These changes in classification and treatment have been made in conformity with the current year presentation and have no impact on either the total net unrealized loss on fair-valued borrowings and related derivatives, or on the disclosure on the face of the income statement.

Unrealized gain on derivatives on non-fair valued borrowings and others

Unrealized net gain on derivatives on non-fair valued borrowings and others for the years ended December 31, 2006 and 2005 was as follows:

(UA thousands)	**2006**	2005
Interest rate swaps on borrowings	586	658
Cross currency swaps on borrowings	6,464	2,643
Macro hedge swaps	(8,061)	(1,810)
Interest rate swaps on loans	21,697	6,331
Embedded derivatives on borrowings	381	(603)
Total	**21,067**	**7,219**

NOTE N – ADMINISTRATIVE EXPENSES

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

Administrative expenses comprised the following:

(UA thousands)	**2006**	2005
Personnel expenses	123,234	124,517
Other general expenses	31,106	31,174
Total	**154,340**	**155,691**
Reimbursable by ADF	(114,561)	(111,859)
Reimbursable by NTF	(2,920)	(2,157)
Net	**36,859**	**41,675**

Included in general administrative expenses is an amount of UA 3.91 million (2005: UA 3.87 million) incurred under operating lease agreements for offices in Tunisia and in certain other regional member countries.

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

(UA thousands)	**2006**	2005
Within one year	3,941	3,419
In the second to fifth years inclusive	2,285	4,528
Total	**6,226**	**7,947**

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

NOTE O – EMPLOYEE BENEFITS

Staff Retirement Plan

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

The SRP is administered as a separate fund by a committee of trustees appointed by the Bank on behalf of its employees. In November 2004, the Board of Directors of the Bank approved certain revisions to the SRP, including simplification of the calculation of the employee contribution rate, more explicit reference to the Bank's residual responsibility and rights as the SRP sponsor, changes in survivor child benefits and an increase in the pension accumulation rate from 2 percent to 2.5 percent for each year of service. The past service cost associated with these changes amounted to UA 1.64 million and has been recorded in 2004. Most participants have switched to the revised SRP. Staff joining the Bank after January 1, 2005 can benefit only from the revised SRP. Under the revised SRP, employees contribute at a rate of 9 percent of regular salary. A tax factor included in the basis for the determination of contribution in the previous SRP has been eliminated. The Bank typically contributes twice the employee contribution, but may vary such contribution based on the results of annual actuarial valuations.

All contributions to the SRP are irrevocable and are held by the Bank separately in a retirement fund to be used in accordance with the provisions of the SRP. Neither the contributions nor any income thereon shall be used for or diverted to purposes other than the exclusive benefit of active and retired participants or their beneficiaries or estates, or to the satisfaction of the SRP's liabilities. At December 31, 2006, virtually all of the SRP's investments were under external management and these were invested in indexed funds, with the following objectives: a) Equity portfolio – to track as closely as possible, the returns of the Morgan Stanley Capital International World Index as well as hedging the currency exposure of the SRP's anticipated future liabilities; b) Bond portfolio – to track as closely as possible, the returns of the Citigroup World Government Bond Index as well as hedge the currency exposure of the SRP's anticipated future liabilities.

Medical Benefit Plan

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

In accordance with IAS 19, and based on actuarial valuations, the pension and medical benefit expenses for 2006 and 2005 for the Bank, the ADF and the NTF combined (the Bank Group) comprised the following:

	SRP		MBP	
(UA millions)	**2006**	2005	**2006**	2005
Current service cost – gross	16.56	15.42	3.87	3.87
Less: employee contributions	(5.05)	(4.77)	(0.97)	(0.95)
Net current service cost	**11.51**	**10.65**	**2.90**	**2.92**
Interest cost	9.39	8.78	2.07	1.82
Expected return on plan assets	(10.44)	(8.87)	(0.27)	(0.19)
Expense for the year	**10.46**	**10.56**	**4.70**	**4.55**

At December 31, 2006, the Bank group's liability to the SRP and MBP amounted to UA 34.40 million and UA 35.86 million respectively (2005: UA 33.81 million and UA 39.32 million respectively). At December 31, 2006 and 2005 the determination of these liabilities, which are included in "Other accounts payable" on the Balance Sheet is set out below:

	SRP		MBP	
(UA millions)	**2006**	2005	**2006**	2005
Fair value of plan assets:				
Market value of plan assets at beginning of year	166.76	140.89	4.76	3.07
Actual return on assets	10.92	11.84	0.26	(0.07)
Employer's contribution	23.14	14.91	1.99	1.89
Plan participants' contribution	5.05	4.77	0.99	0.95
Benefits paid	(6.39)	(5.65)	(1.00)	(1.08)
Market value of plan assets at end of year	**199.48**	**166.76**	**7.00**	**4.76**
Present value of defined benefit obligation:				
Benefit obligation at beginning of year	200.57	177.83	44.08	37.17
Current service cost	11.51	10.64	2.90	2.92
Employee contributions	5.05	4.77	0.99	0.95
Interest cost	9.39	8.78	2.07	1.82
Actuarial loss/(gain)	13.75	4.20	(6.18)	2.30
Benefits paid	(6.39)	(5.65)	(1.00)	(1.08)
Benefit obligation at end of year	**233.88**	**200.57**	**42.86**	**44.08**
Funded status:				
Liability recognized on the balance sheet at December 31, representing excess of benefit over plan asset	**(34.40)**	**(33.81)**	**(35.86)**	**(39.32)**

There were no unrecognized past service costs at December 31, 2006 and 2005. The cumulative amounts of actuarial gains and losses recognized in the statement of recognized income and expenses up to December 31, 2006 for the SRP and MBP were a net loss of UA 14.50 million and a net gain of UA 3.55 million respectively (2005: SRP – UA 1.23 million; MBP – UA 2.55 million).

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

(UA millions)	**2006**	2005	2004	2003	2002
Staff Retirement Plan					
Fair value of plan assets	199.48	166.76	140.89	119.81	99.51
Present value of defined benefit obligation	(233.88)	(200.57)	(177.83)	(156.74)	(145.76)
Plan deficit	(34.40)	(33.81)	(36.94)	(36.93)	(46.25)
Experience adjustments on plan assets	3.45	2.97	1.56	(1.26)	16.15
Experience adjustments on plan liabilities	(17.95)	(4.20)	(1.53)	(5.37)	(4.15)
Net experience adjustment	**(14.50)**	**(1.23)**	**0.03**	**(6.63)**	**12.00**

The funding status of the MBP at the end of 2006, 2005 and 2004 was as follows:

(UA millions)	**2006**	2005	2004
Medical Benefit Plan			
Fair value of plan assets	7.00	4.76	3.07
Present value of defined benefit obligation	(42.86)	(44.08)	(37.17)
Plan deficit	(35.86)	(39.32)	(34.10)
Experience adjustments on plan assets	(0.01)	(2.55)	(0.06)
Experience adjustments on plan liabilities	3.56	-	-
Net experience adjustment	**3.55**	**(2.55)**	**(0.06)**

Assumptions used in the latest available actuarial valuations at December 31, 2006 and 2005 were as follows:

	SRP		**MBP**	
(percentages)	**2006**	2005	**2006**	2005
Discount rate	5.00	4.75	5.00	4.75
Expected return on plan assets	6.00	6.00	5.00	4.75
Rate of salary increase	4.00	3.00	4.00	3.00
Future pension increase	2.50	2.25		
Health care cost growth rate				
- at end of fiscal year			8.00	9.00
- ultimate health care cost growth rate			5.00	5.00
Year ultimate health cost growth rate reached			2009	2009

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

For measurement purposes, the annual growth rate in the per capita cost of covered health care benefits is assumed to decrease ratably between the current period and 2009, with the growth rate assumed to remain at that level thereafter.

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

The following table presents the weighted-average asset allocation at December 31, 2006 and 2005 for the SRP:

(UA thousands)	**2006**	2005
Debt securities	79,794	100,058
Equity securities	99,742	66,705
Others	19,948	-
Total	**199,484**	**166,763**

At December 31, 2006 and 2005, all of the assets of the MBP were invested primarily in time deposits.

The Bank's estimate of contributions it expects to make to the SRP and the MBP for the year ended December 31, 2007, are UA 24.20 million and UA 3.01 million respectively.

The health care cost growth rate can significantly affect the reported post-retirement benefit income or costs and benefit obligations for the MBP. The following table shows the effects of a one-percentage-point change in the assumed health care cost growth rate:

	1% Increase		**1% Decrease**	
(UA millions)	**2006**	2005	**2006**	2005
Effect on total service and interest cost	1.065	1.014	(0.900)	(0.859)
Effect on post-retirement benefit obligation	10.242	10.442	(8.271)	(8.475)

NOTE P – RISK MANAGEMENT

In the normal course of its development banking business, the Bank may be exposed to the following types of financial risks:

Country Credit Risk: Country credit risk includes potential losses arising from a country's inability or unwillingness to service its obligations to the Bank. The Bank manages country credit risk through financial policies and lending strategies, including individual country exposure limits and overall creditworthiness assessments. These include the assessment of the country's macroeconomic performance as well as its socio-political conditions and future growth prospects.

The individual country's exposure to the Bank on outstanding loans as at December 31, 2006 was as follows:

(Amounts in UA thousands)

Country	No. of Loans*	Total Loans*	Unsigned Loans Amount	Undisbursed Balance	Outstanding Balance	% of Total Outstanding Loans
Angola	3	1,387	-	-	1,387	0.03
Botswana	7	17,567	-	-	17,567	0.33
Cameroon	6	75,954	-	17,604	58,350	1.10
Central African Republic	1	2,391	-	-	2,391	0.05
Comoros**	1	6,026	-	-	6,026	0.11
Congo	4	47,006	-	-	47,006	0.89
Côte D'Ivoire**	15	358,574	7	2,543	356,024	6.73
Democratic Republic of Congo	10	708,551	-	-	708,551	13.39
Egypt	11	852,903	-	677,230	175,673	3.32
Ethiopia	7	38,250	-	-	38,250	0.72
Gabon	17	230,361	-	39,191	191,170	3.61
Ghana	5	16,108	7	-	16,101	0.30
Guinea	5	17,853	-	-	17,853	0.34
Kenya	4	14,075	-	-	14,075	0.27
Lesotho	1	1,253	-	-	1,253	0.02
Liberia**	19	39,246	47	-	39,199	0.74
Malawi	1	6,433	-	-	6,433	0.12
Mauritania	3	32,149	275	-	31,874	0.60
Mauritius	6	24,799	-	19,643	5,156	0.10
Morocco	21	1,707,094	-	612,343	1,094,751	20.69
Namibia	8	111,265	-	45,299	65,966	1.25
Nigeria	13	296,939	-	7,213	289,726	5.48
Senegal	3	36,879	513	-	36,366	0.69
Seychelles	5	5,315	-	-	5,315	0.10
Somalia**	3	3,673	-	-	3,673	0.07
South Africa	4	190,831	-	-	190,831	3.61
Sudan**	5	51,772	-	-	51,772	0.98
Swaziland	10	100,505	-	16,996	83,509	1.58
Tanzania	1	3,689	-	-	3,689	0.07
Tunisia	40	1,644,628	-	497,644	1,146,984	21.68
Uganda	1	1,644	-	-	1,644	0.03
Zambia	7	17,414	-	-	17,414	0.33
Zimbabwe**	12	195,137	-	-	195,137	3.69
Multinational	5	64,922	32	11,271	53,619	1.01
Total Public Sector	**264**	**6,922,593**	**881**	**1,946,977**	**4,974,735**	**94.02**
Total Private Sector	**31**	**628,956**	**229,626**	**83,114**	**316,216**	**5.98**
Total	**295**	**7,551,549**	**230,507**	**2,030,091**	**5,290,951**	**100.00**

**Excludes fully repaid loans and cancelled loans.*
*** Country in arrears as at December 31, 2006.*

Slight differences may occur in totals due to rounding.

At December 31, 2006, the Bank had UA 2,030.09 million of loans which were committed but not yet disbursed (2005: 1,857.00 million). The lending margin on these undisbursed loans has been fixed pursuant to signed loan agreements.

The distribution of outstanding loans at December 31, 2006 and 2005 by sector was as follows:

	2006		2005	
(Amounts in UA millions)	**Amount**	**%**	**Amount**	**%**
Multi-Sector	1,518.24	28.70	1,641.50	29.78
Finance	1,178.45	22.27	1,181.19	21.43
Transport	861.62	16.29	792.32	14.37
Agriculture & Rural Development	395.17	7.47	441.34	8.01
Water Supply and Sanitation	330.88	6.25	334.05	6.05
Power	319.50	6.04	402.27	7.30
Industry, Mining and Quarrying	311.32	5.88	361.11	6.55
Social	190.16	3.59	196.53	3.57
Communications	185.56	3.51	162.09	2.94
Urban Development	0.05	-	0.04	-
Total	**5,290.95**	**100.00**	**5,512.44**	**100.00**

Commercial Credit Risk: In the ordinary course of business, the Bank uses a variety of financial instruments, some of which involve elements of commercial credit risk. Commercial credit risk exposure represents the maximum potential accounting loss due to possible non-performance by counterparties under the terms of the contracts. Additionally, the nature of certain instruments involves contract value and notional principal amounts that are not reflected in the basic financial statements.

For investments in securities, the Bank limits trading to a list of authorized dealers and counterparties with the highest credit ratings. Credit risk is controlled through application of eligibility criteria and limits for transactions with individual counterparties, based on their credit rating and size, subject to a maximum of 10 percent of the Bank's total risk capital for any single counterparty. For swap transactions, the Bank has a potential risk of loss if the swap counterparty fails to perform its obligations. In order to reduce such credit risk, the Bank only enters into long-term swap transactions with counterparties eligible under the Bank's *Asset and Liability Management Guidelines*, which include a requirement that the counterparties have a minimum credit rating of AA-/Aa3. The Bank does not anticipate that any of its counterparties will fail to perform their obligations under such agreements.

The Bank may require collateral in the form of cash or other approved liquid securities from individual counterparties in order to mitigate its credit exposure. At December 31, 2006, the fair value of such collateral held by the Bank was UA 5.61 million.

Currency Rate Risk: In order to minimize exchange rate risks the Bank matches, to the extent practicable, its borrowing obligations in any one currency (after swap activities) with assets in the same currency. To avoid currency mismatches, borrowers are required to service their loans in the currencies disbursed by the Bank. Because a large portion of the Bank's funding comes from equity resources, which are denominated in UA, the Bank's policy is to minimize the potential fluctuation of its net worth measured in UA by matching, to the extent possible, the currency composition of its net assets with the proportions of the four currencies (US dollar, Euro, Japanese yen and British pound) whose values affect the value of the UA.

Net currency position at December 31, 2006 and 2005 was as follows:

Net currency position at December 31, 2006

(UA thousands)

	Euro	United States Dollar	Japanese Yen	Pound Sterling	Other	Sub-total	Units of Account	Total
Assets								
Cash	13,892	55,659	58,319	1,475	(16)	129,329	-	129,329
Demand obligations	-	-	-	-	3,801	3,801	-	3,801
Investments – trading (net of repos) [(a)]	825,376	1,538,925	50,661	10,206	142,789	2,567,957	-	2,567,957
Investments – held-to-maturity	707,189	1,159,385	216,105	558,796	-	2,641,475	-	2,641,475
Non-negotiable instruments on account of capital	990	15,607	-	-	-	16,597	3,786	20,383
Accounts receivable	135,660	214,359	73,400	123,386	41,849	588,654	12,318	600,972
Loans	2,453,622	1,628,117	610,555	2,994	381,483	5,076,771	-	5,076,771
Equity participations	2,269	37,637	-	-	7,766	47,672	71,447	119,119
Other assets	1,448	186	-	474	(1,394)	714	14,240	14,954
	4,140,446	4,649,875	1,009,040	697,331	576,278	11,072,970	101,791	11,174,761
Liabilities								
Accounts payable	(152,113)	(194,261)	(43,633)	(125,056)	(51,573)	(556,636)	(82,324)	(648,960)
Borrowings	(66,730)	(2,832,915)	(1,741,848)	(65,242)	(1,089,090)	(5,795,825)	(74,644)	(5,870,469)
	(218,843)	(3,027,176)	(1,785,481)	(190,298)	(1,140,663)	(6,362,461)	(156,968)	(6,519,429)
Currency swaps on borrowings and related derivatives [(b)]	(2,420,203)	313,666	1,224,654	39,145	634,707	(208,031)	5,500	(202,531)
Currency position of equity as at December 31, 2006	**1,501,400**	**1,936,365**	**448,213**	**546,178**	**70,322**	**4,502,478**	**(49,677)**	**4,452,801**
% of sub-total	33.35	43.01	9.95	12.13	1.56	100.00	-	100.00
SDR composition as at December 31, 2006	**35.90**	**42.02**	**10.29**	**11.79**	-	**100.00**	-	**100.00**

(a) Investments held for trading comprise:

Investments held for trading, net of repos	2,574,053
Derivative assets	1,278
Derivative liabilities	(7,374)
Amount per statement of net currency position	2,567,957

(b) Currency swaps on borrowings comprise:

Derivative assets	272,032
Derivative liabilities	(474,563)
Net swaps on borrowings per statement of net currency position	(202,531)

Net currency position at December 31, 2005

(UA thousands)

	Euro	United States Dollar	Japanese Yen	Pound Sterling	Other	Sub-total	Units of Account	Total
Assets								
Cash	11,635	13,000	40,181	1,566	3,958	70,340	-	70,340
Demand obligations	-	-	-	-	3,801	3,801	-	3,801
Investments – trading (net of repos) [(a)]	811,346	1,443,382	-	7,085	218,532	2,480,345	-	2,480,345
Investments – held-to-maturity	534,185	923,935	236,966	505,914	-	2,201,000	-	2,201,000
Non-negotiable instruments on account of capital	1,401	18,725	-	-	-	20,126	5,771	25,897
Accounts receivable	118,369	269,013	66,092	18,486	72,721	544,681	11,699	556,380
Loans	2,164,673	1,989,951	750,359	3,226	409,612	5,317,821	8	5,317,829
Equity participations	2,139	50,075	-	-	10,668	62,882	105,815	168,697
Other assets	1,447	186	-	228	792	2,653	14,325	16,978
	3,645,195	4,708,267	1,093,598	536,505	720,084	10,703,649	137,618	10,841,267
Liabilities								
Accounts payable	(129,264)	(146,022)	(32,134)	(1,207)	(99,266)	(407,893)	(90,330)	(498,223)
Borrowings and embedded derivatives	(314,366)	(2,641,645)	(1,919,909)	(60,237)	(952,975)	(5,889,132)	(51,266)	(5,940,398)
	(443,630)	(2,787,667)	(1,952,043)	(61,444)	(1,052,241)	(6,297,025)	(141,596)	(6,438,621)
Currency swaps on borrowings and related derivatives [(b)]	(1,757,860)	(92,667)	1,375,977	60,236	439,362	25,048	(49,619)	(24,571)
Currency position of equity as at December 31, 2005	**1,443,705**	**1,827,933**	**517,532**	**535,297**	**107,205**	**4,431,672**	**(53,597)**	**4,378,075**
% of sub-total	32.58	41.25	11.68	12.08	2.41	100.00	-	100.00
SDR composition as at December 31, 2005	**35.22**	**40.43**	**12.47**	**11.88**	-	**100.00**	-	**100.00**

(a) Investments held for trading comprise:

Investments held for trading, net of repos	2,487,092
Derivative assets	1,060
Derivative liabilities	(7,807)
Amount per statement of net currency position	2,480,345

(b) Currency swaps on borrowings comprise:

Derivative assets	284,867
Derivative liabilities	(309,438)
Net swaps on borrowings per statement of net currency position	(24,571)

Liquidity Risk: The Bank's liquidity policy ensures that it has the resources to meet its net disbursement and debt service obligations and allows it flexibility in deciding the appropriate time to access the capital market. As a long-term development lender, the Bank holds sufficient liquid assets to enable it continue normal operations even in the unlikely event that it is unable to obtain fresh resources from the capital markets for an extended period of time. To achieve this objective, the Bank operates on a prudential minimum level of liquidity, which is based on the projected net cash requirement for a rolling 1-year period. The prudential minimum level of liquidity is updated quarterly and includes all potential debt service payments due to early redemption of swaps and borrowings with embedded options. To enable it to take advantage of low-cost funding opportunities as they arise, the Bank's policy permits a judicious increase of liquid resources where there is an economic benefit. The Bank maintains interest rate limits for each internally managed or externally managed active currency portfolio.

The borrowing cost pass-through formulation incorporated in the lending rates charged on the Bank's loans has helped to limit the interest rate sensitivity of the net spread earnings on its loan portfolio. The Bank holds or lends the proceeds of its borrowings in the same currencies borrowed (after swap activities).

The table below provides an analysis of assets, liabilities and equity into relevant maturity groupings based on the remaining period from the balance sheet date to the contractual maturity date. It is presented under the most prudent consideration of maturity dates where options or repayment patterns allow for early repayment possibilities. Therefore, liabilities are classified according to the earliest possible repayment date, while assets are classified according to the latest possible repayment date. Assets and liabilities that do not have a contractual maturity date are grouped together in the "Maturity undefined" category.

Liquidity position at December 31, 2006 and 2005 was as follows:

Liquidity position at December 31, 2006

(UA thousands)

	One year or less	More than one year but less than two years	More than two years but less than three years	More than three years but less than four years	More than four years but less than five years	More than five years	Maturity undefined	Total
Assets								
Cash	129,329	-	-	-	-	-	-	129,329
Demand obligations	3,801	-	-	-	-	-	-	3,801
Derivative assets	21,071	48,294	15,523	13,878	5,030	169,514	-	273,310
Investments – trading (net of repos)	2,574,053	-	-	-	-	-	-	2,574,053
Investments – held-to-maturity	313,146	238,221	340,641	368,941	380,365	1,000,161	-	2,641,475
Non-negotiable instruments on account of capital	4,637	3,971	3,760	3,842	1,616	2,557	-	20,383
Accounts receivable	823,560	-	-	-	-	-	(222,588)	600,972
Loans – disbursed and outstanding	929,311	502,714	474,852	448,338	415,627	2,520,109	-	5,290,951
Accumulated impairment for loans losses	-	-	-	-	-	-	(214,180)	(214,180)
Equity participations	-	-	-	-	-	-	119,119	119,119
Other assets	-	-	-	-	-	-	14,954	14,954
Total assets	**4,798,908**	**793,200**	**834,776**	**834,999**	**802,638**	**3,692,341**	**(302,695)**	**11,454,167**
Liabilities and Equity								
Accounts payable	(648,960)	-	-	-	-	-	-	(648,960)
Derivative liabilities	(95,947)	(88,325)	(35,317)	(61,062)	(4,632)	(196,654)	-	(481,937)
Borrowings and embedded derivatives	(698,010)	(1,085,259)	(930,971)	(883,875)	(166,734)	(2,111,184)	5,564	(5,870,469)
Equity	-	-	-	-	-	-	(4,452,801)	(4,452,801)
Total liabilities and equity	**(1,442,917)**	**(1,173,584)**	**(966,288)**	**(944,937)**	**(171,366)**	**(2,307,838)**	**(4,447,237)**	**(11,454,167)**
Liquidity position as at December 31, 2006	**3,355,991**	**(380,384)**	**(131,512)**	**(109,938)**	**631,272**	**1,384,503**	**(4,749,932)**	**-**

Supplementary information:

	One year or less	More than one year but less than two years	More than two years but less than three years	More than three years but less than four years	More than four years but less than five years	More than five years	Maturity undefined	Total
Loans in chronic arrears (more than 2 years) included in loan balance above.	442,510	53,637	41,064	34,809	28,263	73,167	-	673,450

Liquidity position at December 31, 2005

(UA thousands)

	One year or less	More than one year but less than two years	More than two years but less than three years	More than three years but less than four years	More than four years but less than five years	More than five years	Maturity undefined	Total
Assets								
Cash	70,340	-	-	-	-	-	-	70,340
Demand obligations	3,801	-	-	-	-	-	-	3,801
Derivative assets	136,366	14,504	49,449	6,959	33,488	45,161	-	285,927
Investments – trading (net of repos)	2,487,092	-	-	-	-	-	-	2,487,092
Investments – held-to-maturity	222,220	223,520	228,780	307,450	355,980	830,548	32,502	2,201,000
Non-negotiable instruments on account of capital	6,615	4,428	4,090	3,918	4,004	2,842	-	25,897
Accounts receivable	754,144	-	-	-	-	-	(197,764)	556,380
Loans – disbursed and outstanding	895,040	533,510	528,750	494,360	441,950	2,618,832	-	5,512,442
Accumulated provision for loan impairment	-	-	-	-	-	-	(194,613)	(194,613)
Equity participations	-	-	-	-	-	-	168,697	168,697
Other assets	-	-	-	-	-	-	16,978	16,978
Total assets	**4,575,618**	**775,962**	**811,069**	**812,687**	**835,422**	**3,497,383**	**(174,200)**	**11,133,941**
Liabilities and Equity								
Accounts payable	(498,223)	-	-	-	-	-	-	(498,223)
Derivative liabilities	(63,136)	(20,359)	(62,658)	(7,093)	(40,370)	(123,629)	-	(317,245)
Borrowings and embedded derivatives	(700,400)	(348,170)	(1,083,950)	(420,130)	(956,780)	(2,436,348)	5,380	(5,940,398)
Equity	-	-	-	-	-	-	(4,378,075)	(4,378,075)
Total liabilities and equity	**(1,261,759)**	**(368,529)**	**(1,146,608)**	**(427,223)**	**(997,150)**	**(2,559,977)**	**(4,372,695)**	**(11,133,941)**
Liquidity position as at December 31, 2005	**3,313,859**	**407,433**	**(335,539)**	**385,464**	**(161,728)**	**937,406**	**(4,546,895)**	**-**
Supplementary information:								
Loans in chronic arrears (more than 2 years) included in loan balance above.*	435,960	67,385	55,374	42,577	36,018	54,690	-	692,004

** The 2005 figures have been restated to include the private sector loans in chronic arrears.*

Interest Rate Risk: Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates. The extent of exposure to interest rate risk is largely determined by the length of time for which the rate of interest is fixed for a financial instrument. The Bank's principal interest rate risk management objective is to generate a stable overall net interest margin by matching the interest rate characteristic and repricing profile of the assets with those of the underlying borrowings and equity sources, respectively. The table below provides information on the extent of the Bank's interest rate exposure based either on the contractual maturity date of its financial instruments or, in the case of instruments that reprice to a market rate of interest before maturity, the next repricing date. Securities that comprise the Bank's trading portfolio are assumed to reprice within the "one year or less" category.

Interest rate risk position as at December 31, 2006 and 2005 was as follows:

Interest rate risk position as at December 31, 2006

(UA thousands)

	One year or less	More than one year but less than two years	More than two years but less than three years	More than three years but less than four years	More than four years but less than five years	More than five years	Non interest bearing funds	Total
Assets								
Cash	129,329	-	-	-	-	-	-	129,329
Demand obligations	3,801	-	-	-	-	-	-	3,801
Investments [(a)]	2,879,721	237,347	337,710	381,255	378,585	1,012,782	(17,968)	5,209,432
Non-negotiable instruments on account of capital	4,637	3,971	3,760	3,842	1,616	2,557	-	20,383
Accounts receivable	823,560	-	-	-	-	-	(222,588)	600,972
Loans – disbursed and outstanding	2,271,415	286,961	239,624	211,502	200,596	2,080,853	-	5,290,951
Accumulated provision for loan impairment	-	-	-	-	-	-	(214,180)	(214,180)
Equity participations	-	-	-	-	-	-	119,119	119,119
Other assets	-	-	-	-	-	-	14,954	14,954
	6,112,463	528,279	581,094	596,599	580,797	3,096,192	(320,663)	11,174,761
Liabilities								
Accounts payable	(648,960)	-	-	-	-	-	-	(648,960)
Borrowings [(b)]	(4,612,678)	(326,422)	(57,022)	(8,605)	(56,985)	(1,077,633)	66,345	(6,073,000)
Macro hedge swaps	(290,482)	31,242	-	-	259,240	-	-	-
	(5,552,120)	(295,180)	(57,022)	(8,605)	202,255	(1,077,633)	66,345	(6,721,960)
Position of interest rate risk as at December 31, 2006	**560,343**	**233,099**	**524,072**	**587,994**	**783,052**	**2,018,559**	**(254,318)**	**4,452,801**

(a) Investments comprise:

Investments	6,093,361
Derivative assets - investments	1,278
Derivative liabilities - investments	(7,374)
Securities sold under agreements to repurchase	(877,833)
Amount per statement of interest rate risk	5,209,432

(b) Borrowings comprise:

Borrowings	5,870,469
Derivative assets - borrowings	(272,032)
Derivative liabilities - borrowings	474,563
Net borrowings per statement of interest rate risk	6,073,000

Interest rate risk position as at December 31, 2005

(UA thousands)

	One year or less	More than one year but less than two years	More than two years but less than three years	More than three years but less than four years	More than four years but less than five years	More than five years	Non interest bearing funds	Total
Assets								
Cash	70,340	-	-	-	-	-	-	70,340
Demand obligations	3,801	-	-	-	-	-	-	3,801
Investments [(a)]	2,796,958	226,915	302,019	343,721	357,724	654,008	-	4,681,345
Non-negotiable instruments on account of capital	6,399	4,418	4,039	3,835	4,138	3,068	-	25,897
Accounts receivable	750,993	-	-	-	-	-	(194,613)	556,380
Loans – disbursed and outstanding	1,852,608	605,843	276,974	219,773	169,836	2,387,408	-	5,512,442
Accumulated provision for loan impairment	-	-	-	-	-	-	(194,613)	(194,613)
Equity participations	-	-	-	-	-	-	168,697	168,697
Other assets	-	-	-	-	-	-	16,978	16,978
	5,481,099	837,176	583,032	567,329	531,698	3,044,484	(203,551)	10,841,267
Liabilities								
Accounts payable	(498,223)	-	-	-	-	-	-	(498,223)
Borrowings [(b)]	(4,136,033)	(554,768)	(86,558)	(53,766)	(8,405)	(1,217,599)	92,160	(5,964,969)
Macro hedge swaps	(238,583)	9,795	23,788	-	-	205,000	-	-
	(4,872,839)	(544,973)	(62,770)	(53,766)	(8,405)	(1,012,599)	92,160	(6,463,192)
Position of interest rate risk as at December 31, 2005*	**608,260**	**292,203**	**520,262**	**513,563**	**523,293**	**2,031,885**	**(111,391)**	**4,378,075**

** Position of interest rate risk represents equity*

(a) Investments comprise:	
Investments	5,155,053
Derivative assets - investments	1,060
Derivative liabilities - investments	(7,807)
Securities sold under agreements to repurchase	(466,961)
Amount per statement of interest rate risk	4,681,345

(b) Borrowings comprise:	
Borrowings	5,940,398
Derivative assets - borrowings	309,438
Derivative liabilities - borrowings	(284,867)
Net borrowings per statement of interest rate risk	5,964,969

Equity Price Risk: The Bank's equity price risk results from exposures to changes in the fair value of individual equity participations. The Bank limits its exposure to equity price risk by limiting the size of its individual equity participations and regularly assessing and reviewing risk ratings on each equity participation.

NOTE Q – RELATED PARTIES

The following related parties have been identified:

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

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

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

The Bank's investment in the ADF is included in Equity Participations and disclosed in Note H. In addition to the amount reported as an equity participation, the Bank periodically makes allocations to the Fund, to further its objectives. Net income allocations by the Bank to ADF are reported as Other Resources in the Fund's financial statements. Net income allocation to the Fund in 2006 amounted to UA 21.30 million (2005: UA 46.30 million).

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

The grant resources administered by the Bank on behalf of other donors, including its member countries, agencies and other entities are generally restricted for specific uses, which include the co-financing of Bank's lending projects, debt reduction operations and technical assistance for borrowers including feasibility studies. Details of the outstanding balance on such grant funds at December 31, 2006 and 2005 are disclosed in note T-5.

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

Management personnel compensation

Compensation paid to the Bank's management personnel and executive directors during the years ended December 31, 2006, and 2005 was made up as follows:

(UA thousands)	**2006**	2005
Salaries	12,211	14,839
Termination benefits	317	332
Contribution to retirement and medical plan	2,420	2,699
Other benefits	3,612	4,035
Total	**18,560**	**21,905**

The Bank may also provide personal loans and advances to its staff, including those in management. Such loans and advances, guaranteed by the terminal benefits payable at the time of departure from the Bank, are granted in accordance with the Bank's rules and regulations. At December 31, 2006 outstanding balances on loans and advances to management staff amounted to UA 1.93 million (2005: UA 3.29 million). No expense was recognized during the year in respect of impairment on debts due from related parties.

NOTE R – SEGMENT REPORTING

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

NOTE S – APPROVAL OF FINANCIAL STATEMENTS

On March 28, 2007, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements will be approved by the Board of Governors at its annual meeting in May 2007.

NOTE T – SUPPLEMENTARY DISCLOSURES

NOTE T-1: EXCHANGE RATES

The rates used for translating currencies into Units of Account at December 31, 2006 and 2005 were as follows:

		2006	2005
1 UA = SDR =	Algerian Dinar	107.190000	106.172000
	Angolan Kwanza	120.940000	115.024000
	Botswana Pula	9.090080	7.870420
	Brazilian Real	3.215210	3.344340
	Canadian Dollar	1.753080	1.664180
	Chinese Yuan	11.747400	11.534500
	CFA Franc	749.293000	794.725000
	Danish Kroner	8.517020	9.038810
	Egyptian Pound	8.474270	8.315660
	Ethiopian Birr	13.127200	12.359500
	Euro	1.142290	1.211550
	Gambian Dalasi	41.391100	40.771100
	Ghanaian Cedi	13,915.500000	12,958.800000
	Guinean Franc	8,283.200000	5,532.230000
	Indian Rupee	66.539800	64.416800
	Japanese Yen	178.948000	168.610000
	Kenyan Shilling	105.462000	106.078000
	Korean Won	1,398.490000	1,458.260000
	Kuwaiti Dinar	0.434622	0.418938
	Libyan Dinar	1.932370	1.932370
	Mauritian Rupee	51.656400	43.830800
	Moroccan Dirham	12.728400	13.199900
	Nigerian Naira	191.482000	187.274000
	Norwegian Krone	9.410170	9.674270
	Pound Sterling	0.766377	0.830055
	Sao Tomé Dobra	17,360.200000	14,533.100000
	Saudi Arabian Riyal	5.641490	5.359750
	South African Rand	10.485700	9.040120
	Swedish Krona	10.339000	11.336300
	Swiss Franc	1.835820	1.878480
	Tunisian Dinar	1.960350	1.945380
	Ugandan Shilling	2,726.760000	2,603.460000
	US Dollar	1.504400	1.429270
	Zimbabwean Dollar	372.130000	37,598.000000

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

NOTE T-2: OTHER DEVELOPMENT ASSISTANCE ACTIVITIES

(i) Democratic Republic of Congo (DRC)

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

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

(ii) Post-Conflict Countries Assistance

The Post Conflict Countries' Fund was established as a framework to assist countries emerging from conflict in their efforts towards re-engagement with the donor community in order to reactivate development assistance and help these countries reach the Heavily Indebted Poor Countries (HIPC) decision point to qualify for debt relief after clearing their loan arrears to the Bank Group. The framework entails the setting aside of a pool of resources through a separate facility with allocations from the ADB's net income, and contributions from the ADF and other private donors. Resources from the facility are provided on a case-by-case basis to genuine post-conflict countries not yet receiving debt relief to fill financing gaps after maximum effort by the post-conflict country to clear its arrears to the Bank Group. In this connection, the Board of Governors by its Resolution B/BG/2004/07 of May 25, 2004, established the Post-Conflict Countries Facility (PCCF) under the administration of the ADF and approved an allocation of UA 45 million from the 2003 net income of the Bank. The Board of Governors also, by its resolution B/BG/2005/05 of May 18, 2005, approved an additional allocation of UA 30 million from the 2004 net income as the second installment of the Bank's contribution to the facility and by its resolution B/BG/2006/04 of May 17, 2006, the Board of Governors also approved the third and final installment of the Bank's allocation of UA 25 million from the 2005 net income. By policy, contributions made by ADB to the PCCF are not used to clear the debt owed to the Bank by beneficiary post-conflict countries.

(iii) Heavily Indebted Poor Countries (HIPC) Initiative

The Bank participates in a multilateral initiative for addressing the debt problems of countries identified as HIPCs. Under this initiative, creditors provide debt relief for eligible countries that demonstrate good policy performance over an extended period to bring their debt burdens to sustainable levels. Under the original HIPC framework, selected loans to eligible beneficiary countries were paid off by the HIPC Trust Fund at a price equivalent to the lower of the net present value of the loans, as calculated using the methodology agreed under the initiatives, and their nominal values.

Following the signature of a HIPC debt relief agreement, the relevant loans were paid off at the lower of their net present value or their carrying value. On average, loans in the ADB's portfolio carry higher interest rates than the present value discount rates applied

and therefore the net present value of the loans exceeds the book value. Consequently, affected ADB loans were paid off by the HIPC Trust Fund at book values.

The HIPC initiative was enhanced in 1999 to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 32 African countries are eligible, the debt relief is delivered through annual debt service reductions, as well as the release of up to 80 percent of annual debt service obligations as they come due until the total debt relief is provided. In addition, interim financing between the decision and completion points of up to 40 percent of total debt relief is provided whenever possible within a 15-year horizon. At December 31, 2006, the Board of Directors had approved relief for 17 ADB borrowing countries, of which 13 had reached the completion point. During the year ended December 31, 2006, debt relief of UA 52.28 million (2005: UA 106.05 million) was received on behalf of the ADB borrowing countries.

(iv) Multilateral Debt Relief Initiative (MDRI)

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

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

The MDRI became effective for the ADF on September 1, 2006. As of that date, the ADF wrote down its balance of disbursed and outstanding loans net of HIPC relief by an amount of UA 3.84 billion, with a corresponding decrease as of that date in the ADF's net assets. The reduction in the net asset value of the ADF has resulted in a reduction in the value of the Bank's investment in the Fund by UA 34.75 million during the year.

NOTE T-3: SPECIAL FUNDS

Under Article 8 of the Agreement Establishing the Bank, the Bank may establish or be entrusted with the administration of special funds. At December 31, 2006 and 2005, the following funds were held separately from those of the ordinary capital resources of the Bank:

(i) The NTF was established under an agreement signed on February 26, 1976 (the Agreement) between the African Development Bank and the Federal Republic of Nigeria. The Agreement stipulates that the NTF shall be in effect for a period of 30 years from the date the Agreement became effective and that the resources of the NTF shall be transferred to Nigeria upon termination. However, the 30-year sunset period may be extended by mutual agreement between the Bank and Nigeria. The terms of the current agreement terminated on April 25, 2006. The Nigerian authorities in May 2006 granted a one-year extension, for the agreement to April 25, 2007. On March 27, 2007, the Government of Nigeria granted a further 1-year extension of the NTF Agreement to April 25, 2008. The initial capital of the NTF was Naira 50 million payable in two equal installments of Naira 25 million each, in freely convertible currencies. The first installment, equivalent to US$ 39.90 million, was received by the Bank on July 14, 1976, and payment of the second installment, equivalent to US$ 39.61 million, was made on February 1, 1977.

During May 1981, the Federal Republic of Nigeria announced the replenishment of the NTF with Naira 50 million. The first installment of Naira 35 million (US$ 52.29 million) was paid on October 7, 1981. The second installment of Naira 8 million (US$ 10.87 million) was received on May 4, 1984. The payment of the third installment of Naira 7 million (US$ 7.38 million) was made on September 13, 1985.

Following a request by the Government of Nigeria on June 14, 2006, a payment of US$ 200 million (UA 135.74 million) was made to the Government of Nigeria from the resources of the Fund.

The resources of the NTF at December 31, 2006 and 2005 are summarized below:

(UA thousands)	2006	2005
Contribution received	128,586	128,586
Funds generated (net)	251,201	374,183
Adjustment for translation of currencies	(111,666)	(93,693)
	268,121	**409,076**
Represented by:		
Due from banks	2,404	1,916
Investments	191,760	321,736
Accrued income and charges receivable on loans	9,685	10,770
Accrued interest on investments	960	4,970
Other amounts receivable	89	10
Loans outstanding	64,274	70,908
	269,172	410,310
Less: Current accounts payable	(1,051)	(1,234)
	268,121	**409,076**

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

The summary statement of the resources and assets of the Special Relief Fund (for African countries affected by drought) as at December 31, 2006 and 2005 follows:

(UA thousands)	2006	2005
Fund balance	62,448	47,448
Funds generated	3,808	3,083
Funds allocated to SDA	1	1
Less: Relief disbursed	(46,996)	(40,133)
	19,261	**10,399**
Represented by:		
Due from banks	757	102
Investments	18,466	10,635
Interest receivable	38	9
	19,261	10,746
Less: Accounts payable	-	(347)
	19,261	**10,399**

At December 31, 2006, a total of UA 4.67 million (2005: UA 7.03 million) had been committed but not yet disbursed under the Special Relief Fund.

NOTE T-4: TRUST FUNDS

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

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

(ii) The Arab Oil Fund (contribution of Algeria) was established following Board of Governors' Resolution 19-74 of July 4, 1974. Under a protocol agreement dated November 15, 1974, the Bank received the sum of US$ 20 million from the Government of Algeria to be kept as a Trust Fund from which loans could be granted to member countries affected by high oil prices. On August 11, 1975, an amount of US$ 5.55 million was refunded to Algeria upon request, leaving a balance of US$ 14.45 million, from which loans refundable directly to Algeria have been made. At December 31, 2006, a total of US$ 13.45 million (2005: US$ 13.45 million) had been so repaid.

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

The financial highlights of these Trust Funds at December 31, 2006 and 2005 are summarized below:

(UA thousands)	**2006**	2005
i) Mamoun Beheiry Fund		
Contribution	152	152
Income from investments	233	197
	385	349
Less: Prizes awarded	(30)	(30)
Gifts	(25)	(25)
	330	294
Represented by:		
Short-term deposits	310	277
Due from banks	17	15
Accrued interest	3	2
	330	294
ii) Arab Oil Fund (contribution of Algeria)		
Net contribution	665	700
Represented by:		
Loans disbursed net of repayments	665	700
iii) Special Emergency Assistance Fund for Drought and Famine in Africa		
Contributions	20,927	22,027
Funds generated	5,331	5,395
	26,258	27,422
Relief granted	(21,995)	(23,012)
	4,263	4,410
Represented by:		
Due from banks	68	207
Investments	4,193	4,200
Accrued interest	2	3
	4,263	4,410
Total Resources & Assets of Trust Funds	**5,258**	**5,404**

NOTE T-5: GRANTS

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

The undisbursed balances of the grant resources at December 31, 2006 and 2005 were as follows:

(UA thousands)	**2006**	2005
Africa Water Facility Fund	16,359	-
AMINA	1,475	1,455
AMTA/NAMTA	172	141
Austria	906	-
Belgium	2,204	2,314
Canada	278	372
China	229	55
Denmark	1,578	1,585
FAPA	6,921	-
Finland	1,248	727
France	2,907	3,120
ICP -Africa	221	434
India	945	1,169
Italy	4,694	7,714
Korea	1,068	1,484
Multi-donor Water Partnership Program	1,828	-
Nepad Infrastructure	2,596	2,387
Nordic	1,108	1,611
Norway	1,000	1,274
The Netherlands	2,398	3,681
The Nigeria Technical Cooperation Fund	16,980	17,763
The United Kingdom	1,322	-
RWSSI	21,145	-
Spain	354	375
Sweden	988	1,250
Switzerland	272	269
Others	158	172
Total	**91,354**	**49,352**