

INDEPENDENT AUDITOR'S REPORT TO THE BOARD OF GOVERNORS OF THE AFRICAN DEVELOPMENT BANK

We have audited the accompanying annual financial statements of the African Development Bank (the Bank), which comprise the balance sheet as at 31 December 2006 and the income statement, the statement of recognised income and expense and the statement of cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes, as set out in notes A to T. The financial statements have been prepared under the accounting policies set out therein, for the purpose of submitting approved and audited financial statements to the Board of Governors as required by Article 32(d) of the Agreement establishing the Bank. This report is made solely to the Bank's Board of Governors, as a body, in accordance with Article 32(d) of the Agreement establishing the Bank. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Management's Responsibility for the Annual Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall financial statement presentation.

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

Basis for Qualified Opinion

As set out under the Member Countries' Subscription accounting policy in Note B to the financial statements, the Agreement Establishing the Bank provides that a member country (or "State") may withdraw from the Bank at any time (defined as the "termination date"). Exercising such right of withdrawal requires the Bank to arrange for the repurchase of such member country's shares as part of the settlement of accounts with that State. In our view, although the Bank is able to withhold any amount due to the member country for its shares so long as the State remains liable as borrower or guarantor to the Bank, and notwithstanding the fact that the member country remains liable for its direct and contingent liabilities to the Bank as long as any part of the loans or guarantees contracted before the termination date is outstanding, the Bank does not have the unconditional right to avoid settling its contractual obligations at termination date to the member country. Therefore, in accordance with International Financial Reporting Standard IAS 32, "Financial Instruments: Disclosure and Presentation", member countries' capital stock should be reclassified in the Bank's financial statements as financial liabilities instead of equity.

The impact of this accounting treatment would be to reclassify credit balances of UA 2,303,061,682 and UA 2,263,445,736 of capital stock and to reclassify debit balances of UA 155,742,042 and UA 151,758,878 of cumulative exchange adjustment on subscriptions from equity to liabilities in the balance sheet of the Bank for the years ended 31 December 2006 and 31 December 2005 respectively.

Disagreement with management – Qualified Opinion

In our opinion, except for the effect on the annual financial statements of the matter referred to in the preceding paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at 31 December 2006, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
London
30 March 2007