

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

NOTE A – PURPOSE, ORGANIZATION AND RESOURCES

Purpose and Organization

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

The ADF's Board of Directors has twelve (12) members, made up of six (6) members selected by the Bank and six (6) members selected by State Participants. The Board of Directors reports to the Board of Governors, which is made up of representatives of the State Participants and the ADB. The ADB exercises fifty percent (50%) of the voting powers in the ADF and the President of the Bank is the ex-officio President of the Fund.

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

Resources

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

NOTE B – BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

Monetary Basis of Special Purpose Financial Statements

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

On April 1, 1978, when the second amendment to the Articles of the Agreement of the International Monetary Fund (IMF) came into effect, gold was abolished as a common denominator of the international monetary system. Computations relating to the currencies of IMF members were thereafter made on the basis of the Special Drawing Right (SDR) for purposes of applying the provisions of the Articles

of the IMF. The Fund's Unit of Account was therefore based on its relationship to the SDR at the time of establishment of the Fund. This was 1 Unit of Account equal to SDR 0.921052.

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

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

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

	2006	2005
1 Unit of Account equals:		
Argentinian Peso	4.454380	4.301570
Brazilian Real	3.215210	3.344340
Canadian Dollar	1.753080	1.664180
Danish Krone	8.517020	9.038810
Euro	1.142290	1.211550
Indian Rupee	66.539800	64.416800
Japanese Yen	178.948000	168.610000
Korean Won	1,398.490000	1,458.260000
Kuwaiti Dinar	0.434622	0.418938
Norwegian Krone	9.410170	9.674270
Pound Sterling	0.766377	0.830055
South African Rand	10.485700	9.040120
Swedish Krona	10.339000	11.336300
Swiss Franc	1.835820	1.878480
United States Dollar	1.504400	1.429270

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

Participant Subscriptions and Contributions

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

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

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

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

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

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

Maintenance of Value of Currency Holdings

Prior to the second general replenishment, subscriptions were denominated in UA and were subject to Article 13 of the Agreement which provided that, whenever the par value in the IMF of the currency of a State Participant is reduced in terms of the UA or its foreign exchange value has, in the opinion of the Fund, depreciated to a significant extent within that participant's territory, that participant shall pay to the Fund within a reasonable time an amount of its currency required to maintain the value, as of the time of subscription, of the amount of such currency paid into the Fund by that participant and which has not been disbursed or exchanged for another currency.

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

In accordance with Board of Governors' Resolutions 9-78, 9-82, 4-84, 01-88, 91-05, 96-04, 99-09, 2002-09 and 2005-01, which in turn stipulated that Article 13 shall not apply to the second, third, fourth, fifth, sixth, seventh, eighth, ninth and tenth general replenishments, subscribers to these replenishments fixed the amount of their subscriptions payable in national currencies in terms of agreed parities ruling at the date these replenishments came into force. Gains or losses arising on translating these subscriptions, when received, into UA are applied against subscriptions, with the offsetting debits or credits recorded as cumulative exchange adjustment on subscriptions.

Investments

The Fund's investment securities are classified based on the Fund's intention on the date of purchase. Securities which the Fund has the intention and ability to hold until maturity are classified as held-to-maturity and reported at amortized cost. Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Fund's management has the positive intention and ability to hold to maturity. All other investment securities are classified as held-for-trading and measured at market value. Government and agency obligations include marketable bonds or notes and other government obligations issued or unconditionally guaranteed by governments of member countries or other official entities with a minimum credit rating of AA-. For asset-backed securities, the Fund may only invest in securities with a AAA credit rating. Money market instruments include time deposits, certificates of deposit and other obligations with a maturity period of less than 1 year, issued or unconditionally guaranteed by banks and other financial institutions with a minimum rating of A.

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

Loans

The Fund provides concessional funding for development purposes to the least developed countries in Africa. Outstanding loans are not included in Net Development Resources. Accordingly, no provision for possible loan losses is required. The Fund places all loans to a borrower country in non-accrual status if the principal installments or service charges on any of the loans to such member country are overdue by 6 months or more, unless the Fund's management determines that the overdue amount will be collected in the immediate future. Further, management may place a loan in non-accrual status even if it is not yet overdue by 6 months, if the specific facts and circumstances, including consideration of events occurring subsequent to the balance sheet date, warrant such action. On the date a borrower's loans are placed in non-accrual status, unpaid charges that had previously been accrued on loans to the borrower are deducted from income on loans for that period. Charges on loans in non-accrual status are included in income only to the extent that payment of such charges has been received by the Fund.

Grants

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

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

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

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

Under the MDRI, loans due from eligible HIPCs are cancelled when the countries attain the completion point under the HIPC framework. The Fund is expected to be fully compensated for loans cancelled under the MDRI by additional contributions to be made by donors over the previously scheduled repayment periods of the cancelled loans. When the MDRI becomes effective for a country, certain amounts

previously disbursed to that country as loans are no longer repayable by the country and effectively take on the character of grants made by the Fund. Accordingly, loans cancelled under the MDRI are included in the amount reported as "Debt Relief" under the allocation of development resources in the Statement of Net Development Resources, with a corresponding offset to loans outstanding.

Reclassification

Certain reclassifications of prior year amounts have been made to conform with the current period's presentation.

NOTE C – INVESTMENTS

Held-for-trading investments at December 31, 2006 and 2005 were made up as follows:

(UA thousands)	2006	2005
Time deposits	249,619	55,095
Asset-backed securities	535,389	282,830
Government and agency obligations	36,339	56,700
Corporate bonds	1,176,838	578,745
Total	1,998,185	973,370

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

(UA thousands)	2006	2005
One year or less	335,608	124,321
More than one year but less than two years	253,784	138,020
More than two years but less than three years	655,679	195,251
More than three years but less than four years	192,431	141,321
More than four years but less than five years	39,210	32,400
More than five years	521,473	342,057
Total	1,998,185	973,370

Held-to-maturity investments at December 31, 2006 and 2005 were made up as follows:

(UA thousands)	2006	2005
Government and agency obligations	531,439	536,090
Corporate bonds	404,449	410,909
Total	935,888	946,999

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

(UA thousands)	2006	2005
One year or less	100,140	107,991
More than one year but less than two years	100,005	106,612
More than two years but less than three years	98,809	106,572
More than three years but less than four years	95,550	105,501
More than four years but less than five years	90,721	101,682
More than five years	450,663	418,641
Total	935,888	946,999

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

(UA thousands)	2006			2005
	Trading	Held-to-maturity	Total	Total
Euro	448,820	-	448,820	195,216
Pound Sterling	454,595	-	454,595	334,682
Swedish Krona	5,036	-	5,036	-
United States Dollar	1,089,734	935,888	2,025,622	1,390,471
Total	1,998,185	935,888	2,934,073	1,920,369

NOTE D – DEMAND OBLIGATIONS

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

NOTE E – DEVELOPMENT ACTIVITIES

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

Project Loans and Lines of Credit

Loans are generally granted under conditions that allow for repayment over 40 years, after a 10-year grace period commencing from the date of the loan agreement. Loan principal is generally repayable from years 11 through 20 at a rate of 1 percent per annum and from years 21 through 50 at a rate of 3 percent per annum. A service charge at a rate of 0.75 percent per annum on the principal amount disbursed and outstanding is payable by the borrower semi-annually. Loans approved after June 1996 carry a 0.5 percent per annum commitment charge on the undisbursed portion. Such commitment charge commences to accrue after 90 days from the date of signature of the loan agreement.

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

Of the undisbursed balances of loans signed, the Fund may enter into special irrevocable commitments to pay amounts to borrowers or others in respect of the cost of goods and services to be financed under loan agreements. As at December 31, 2006, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 2.26 million (2005: UA 3.18 million).

As at December 31, 2006, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 568.02 million (2005: UA 687.69 million) of which UA 70.29 million (2005: UA 78.36 million) that was overdue, were in non-accrual status. If these loans had not been in non-accrual status, income from loans for the year ended December 31, 2006, would have been higher by UA 4.53 million (2005: UA 5.39 million). At December 31, 2006, the cumulative charges not recognized on the non-accrual loans amounted to UA 39.52 million, compared to UA 43.19 million at December 31, 2005.

Lines of credit to national development banks and similar national finance institutions are generally granted for a maximum of 20 years, including a 5-year grace period. The service charge rate on utilized lines of credit is the same as for project loans.

Grants and Technical Assistance Activities

Under the Fund's lending policy, 5.00 percent of the resources available under the third and fourth general replenishments, 10.00 percent under the fifth and sixth general replenishments, and 7.50 percent under the seventh and eighth general replenishments were allocated as grants and grant-based technical assistance for the identification and preparation of development projects or programs in specified member countries. In addition, amounts in the range of 18 to 21 percent of the total resources under the ninth replenishment were set aside in the form of grants for permitted uses, including technical assistance and project financing. Grants do not bear charges. The share of grants under the tenth general replenishment is based on a country-by-country analysis of risk of debt distress. Under the seventh, eighth and ninth general replenishments, technical assistance may also be provided on a reimbursable basis.

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

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

Technical assistance loans do not carry charges.

HIPC Debt Relief Initiative

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

In 1999, the HIPC initiative was enhanced to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 32 African countries are currently eligible, debt relief is delivered through annual debt service reductions which allow the release of up to 80 percent of annual debt service obligations as they come due until the total net present value (NPV) of debt relief, determined by the debt sustainability analysis (DSA), is provided. Interim financing of up to 40 percent of total debt relief is granted between the decision and completion points. Total contributions by the Fund to the HIPC initiative at December 31, 2006 amounted to UA 184.00 million and are shown as an allocation of development resources in the Statement of Net Development Resources.

Multilateral Debt Relief Initiative

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

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

The MDRI became effective for the ADF on September 1, 2006, following the attainment of the thresholds. Since disbursed and outstanding loans are already excluded from net development resources, the debt cancellation does not have an impact on the Fund's balance of net development resources. Further cancellation of debts will be effected when other eligible countries reach the HIPC completion point.

At December 31, 2006, a gross amount of UA 4.32 billion of outstanding loans had been cancelled under MDRI for 16 HIPC completion point countries. Of this amount, UA 806.27 million in nominal terms (with a present value equivalent of UA 478.59 million) were covered by the HIPC Trust Fund. As of December 31 2006, the present value amount of UA 478.59 million had been transferred from the HIPC Trust Fund to ADF. A summary of debt relief granted under HIPC and MDRI as at December 31, 2006 and 2005 follows:

(UA thousands)	2006			2005		
	HIPC	MDRI	TOTAL	HIPC	MDRI	TOTAL
Balance at January 1	71,079	-	71,079	71,079	-	71,079
Loans cancelled*	806,273	3,513,634	4,319,907	-	-	-
Cash received*	(478,586)	-	(478,586)	-	-	-
Balance at December 31	398,766	3,513,634	3,912,400	71,079	-	71,079

* Upon implementation of MDRI

Special Arrears Clearance Mechanism

In connection with an internationally coordinated effort including the ADB Group, the IMF, the World Bank and other bilateral and multi-lateral 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 mechanism for the DRC. Under the arrears clearance mechanism, representatives of ADF State Participants (the Deputies) authorized an allocation of approximately UA 36.50 million of grant resources from the ninth replenishment of the ADF (ADF-IX) to clear the entire stock of the DRC's arrears to the Fund. The Deputies also authorized the use of approximately UA 11.77 million of the residual Supplementary Financing Mechanism (SFM) resources from ADF-VIII as a partial payment against the DRC's arrears on charges to the ADB.

Post-Conflict Countries Assistance

The Post Conflict Countries Facility (PCCF) was established as a framework to assist countries emerging from conflicts in clearing their arrears and prepare them for re-engagement with the donor communities in order to reactivate development assistance and help these countries reach the HIPC decision point to qualify for debt relief after clearing their loan arrears to the Bank Group. The framework entails the setting aside of a pool of resources through a separate facility with contributions from the ADF and other private donors and

allocations from the ADB's net income. 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. Contributions made by ADF to the PCCF are not used to clear the debt owed to the Fund by beneficiary post-conflict countries. Contributions by the Fund to the PCCF are included in the Grants and Technical Assistance Activities in the Statement of Net Development Resources.

NOTE F – SUBSCRIPTIONS AND CONTRIBUTIONS

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

The tenth general replenishment, approved by the Board of Governors resolution F/BG/2005/01 adopted on May 4, 2005, came into effect on September 6, 2005, when State Participants deposited with the Fund instruments of subscription representing an aggregate amount of 30.98 percent of the total intended subscription.

At December 31, 2006 cumulative contributions pledged on account of the MDRI amounted to UA 4.06 billion of which UA 43.25 million had been paid. Consistent with the resolution approving the MDRI, the contributions paid entitle the State Participants to voting rights, as reflected in Note O.

Gains or losses arising from translation of subscriptions and contributions received into UA are reported as cumulative exchange adjustment on subscriptions in the Statement of Net Development Resources.

NOTE G – OTHER RESOURCES

In conformity with the findings of the UN General Assembly, the Board of Directors accepted that the former Socialist Federal Republic of Yugoslavia no longer exists as a state under international law and hence is no longer a State Participant in the Fund or a member of the Bank. Pursuant to a decision of the Board of Directors of the Fund in 1993, the subscriptions of the former Socialist Federal Republic of Yugoslavia in the Fund less the unpaid portion (UA 12.97 million), are deemed to have become part of the permanent patrimony of the Fund and are not returnable to any entity. Accordingly, the amounts of the paid subscriptions are reported as part of other resources in the Statement of Net Development Resources.

Also included in other resources is a total of UA 144.60 million representing contributions by the Bank of UA 142.60 million, and by the Government of Botswana of UA 2.00 million towards the Fund's activities, in accordance with Article 8 of the Agreement.

NOTE H – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Investments: Since the Fund carries its held-for-trading investments at market value, the carrying amount represents the fair value of the portfolio. Fair values 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.

Loans: All loans of the Fund are intended to provide concessional assistance to low-income regional member countries of the Bank. While the principal amount is fully repayable, no interest is charged to the borrowers. However, a service fee of 0.75 percent of the disbursed and outstanding balance and a commitment charge of 0.5 percent on the undisbursed balance are charged to cover the cost of administering the loans. Due to the highly concessional nature of these loans, it is not meaningful to calculate fair values for outstanding loans.

NOTE I - RESERVES

Reserves as at December 31, 2006 and 2005 were as follows:

(UA thousands)	2006	2005
Reserves at January 1	96,237	76,528
Surplus for the year	40,418	19,709
Reserves at December 31	136,655	96,237

NOTE J - TRUST FUNDS

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

At December 31, 2006, the undisbursed balance of trust fund resources was UA 3.86 million (2005: UA 4.06 million) representing the balance of a grant received from Japan for the development of human resources in Africa.

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

NOTE K - ADMINISTRATIVE EXPENSES

Pursuant to Article 31 of the Agreement, the Fund reimburses the ADB for the estimated fair value of its use of the latter's offices, staff, organization, services and facilities. The amount of such administrative expenses reimbursed is based on a predetermined cost-sharing formula, which is driven, in large part, by the Fund's relative share of the number of programs and projects executed during the year by the Bank Group. The administrative expenses incurred by the Fund for the year amounted to UA 114.56 million (2005: UA 111.86 million).

NOTE L - RELATED PARTIES

The general operation of the Fund 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 ADF's voting power and the President of the Bank is the ex-officio President of the Fund. In accordance with its Agreement, the Fund utilizes the officers, staff, organization, services and facilities of the the Bank to carry out its functions, for which it reimburses the Bank as disclosed in Note K. In this regard, the Bank administers the resources of the Fund. The Fund also administers trust funds entrusted to it by some of its State Participants.

NOTE M – SUMMARY OF LOANS AS AT DECEMBER 31, 2006

(Amounts in UA thousands)

Country	No. of loans	Total loans*	Unsigned loans amounts	Undisbursed balances	Outstanding balances	% of Outstanding loans
Algeria	1	298	-	-	298	0.01
Angola	9	41,520	-	19,668	21,852	0.57
Benin	22	176,004	-	140,146	35,858	0.94
Botswana	12	59,539	-	-	59,539	1.55
Burkina Faso	25	271,083	-	196,825	74,258	1.94
Burundi	32	155,601	-	16,907	138,694	3.62
Cameroon	18	171,058	69,700	73,805	27,553	0.72
Cape Verde	24	81,803	-	8,756	73,047	1.91
Central African Republic	19	100,561	-	-	100,561	2.63
Chad	39	279,462	-	43,296	236,166	6.17
Comoros **	8	28,954	-	-	28,954	0.76
Congo	3	14,070	-	31	14,039	0.37
Côte D'Ivoire **	14	220,418	-	50,378	170,040	4.44
Democratic Republic of Congo	29	230,580	-	67,683	162,897	4.25
Djibouti	17	89,757	-	28,462	61,295	1.60
Egypt	17	156,249	-	12,262	143,987	3.76
Equatorial Guinea	11	28,784	-	134	28,650	0.75
Eritrea	6	68,209	-	18,273	49,936	1.30
Ethiopia	18	500,147	152,200	236,088	111,859	2.92
Gabon	3	1,815	-	-	1,815	0.05
Gambia	31	136,659	-	20,695	115,964	3.03
Ghana	27	369,323	-	292,164	77,159	2.01
Guinea	37	256,438	490	53,582	202,366	5.28
Guinea-Bissau	28	115,358	-	24,191	91,167	2.38
Kenya	33	412,318	-	190,191	222,127	5.80
Lesotho	30	138,619	-	13,553	125,066	3.27
Liberia **	3	15,750	-	-	15,750	0.41
Madagascar	15	191,627	2	136,546	55,079	1.44
Malawi	15	88,875	-	52,520	36,355	0.95
Mali	32	251,781	-	154,304	97,477	2.54
Mauritania	16	50,422	9,700	30,470	10,252	0.27
Mauritius	3	2,511	-	-	2,511	0.07
Morocco	6	34,781	-	-	34,781	0.91
Mozambique	23	332,890	-	210,404	122,486	3.20
Namibia	2	12,076	-	-	12,076	0.32
Niger	15	100,613	-	72,614	27,999	0.73
Nigeria	17	269,949	22,001	127,148	120,800	3.15
Rwanda	15	126,355	-	81,903	44,452	1.16
Sao Tome & Principe	20	71,839	-	3,772	68,067	1.78
Senegal	25	210,546	19,605	158,032	32,909	0.86
Seychelles	3	7,385	-	-	7,385	0.19
Sierra Leone	21	186,998	-	40,965	146,033	3.81
Somalia **	17	63,587	-	-	63,587	1.66
Sudan **	15	172,132	-	-	172,132	4.49
Swaziland	8	35,969	-	-	35,969	0.94
Tanzania	21	384,823	-	273,734	111,089	2.90
Togo **	12	92,873	-	9,365	83,508	2.18
Uganda	17	263,645	54,924	135,348	73,373	1.92
Zambia	12	105,131	35,000	35,641	34,490	0.90
Zimbabwe **	10	34,049	1	-	34,048	0.89
Multinational	18	191,884	87,538	91,703	12,643	0.33
Total	874	7,403,118	451,161	3,121,559	3,830,398	100.00

* Excludes fully repaid loans and cancelled loans.

** Countries in non-accrual status as at December 31, 2006.

Slight differences may occur in totals due to rounding.

NOTE N – MATURITY AND CURRENCY COMPOSITION OF OUTSTANDING LOANS AS AT DECEMBER 31, 2006 AND 2005

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

(Amounts in UA millions)

Periods	2006		2005	
	Amount	%	Amount	%
One year or less	138.99	3.63	183.56	2.36
More than one year but less than two years	55.65	1.45	111.54	1.43
More than two years but less than three years	61.42	1.60	121.89	1.56
More than three years but less than four years	67.21	1.75	133.67	1.72
More than four years but less than five years	72.62	1.90	144.41	1.85
More than five years	3,434.51	89.67	7,094.34	91.08
Total	3,830.40	100.00	7,789.41	100.00

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

(Amounts in UA millions)

Currency	2006		2005	
	Amount	%	Amount	%
Canadian Dollar	21.21	0.55	52.79	0.68
Danish Kroner	26.77	0.70	55.27	0.71
Euro	1,497.60	39.10	2,350.45	30.17
Japanese Yen	696.00	18.17	1,609.79	20.67
Norwegian Krone	54.40	1.42	117.04	1.50
Pound Sterling	16.29	0.43	50.67	0.65
Swedish Krona	30.01	0.78	58.49	0.75
Swiss Franc	120.96	3.16	244.14	3.13
United States Dollar	1,366.78	35.68	3,247.97	41.70
Others	0.38	0.01	2.80	0.04
Total	3,830.40	100.00	7,789.41	100.00

NOTE O – STATEMENT OF SUBSCRIPTIONS, CONTRIBUTIONS AND VOTING POWER AS AT DECEMBER 31, 2006

(Amounts in UA millions)

PARTICIPANTS	SUBSCRIPTIONS				PAYMENT POSITIONS				MDRI ¹²	VOTING POWER			
	10th General Replenishment				Total	Installments paid 10th General Replenishment ⁸	Installments paid 10th General Replenishment ⁸	Installments due ⁴		Installments not yet payable	Payments Received	Number of votes	%
	Special Increase	1st to 9th General Replenishments ¹	Normal Subscriptions ²	Supplementary Contributions Accelerated encashment To maintain Burden Share ³									
1 ADB ²	4,605	1,382	105,754	-	-	111,741	-	111,741	-	-	1,000,000	50,000	
2 ARGENTINA ¹⁰	1,842	-	7,018	-	8,860	1,842	1,842	1,842	-	-	0.131	0.007	
3 AUSTRIA	13,816	-	140,901	-	154,717	154,717	154,717	154,717	17,831	592	13,536	0,677	
4 BELGIUM ⁵	2,763	-	228,557	2,672	231,370	231,370	30,082	261,402	17,886	-	18,578	0,976	
5 BRAZIL ⁶	1,842	921	124,700	-	127,463	127,055	-	127,055	-	-	9,005	0,450	
6 CANADA ⁵	13,816	6,908	1,014,979	16,657	153,180	1,888,883	1,035,703	1,126,718	45,508	-	79,861	3,993	
7 CHINA	13,816	-	202,208	5,373	55,894	271,918	216,024	249,705	16,840	-	17,699	0,885	
8 DENMARK	4,605	1,842	415,654	3,591	37,030	422,101	22,293	444,394	11,146	1,282	31,589	1,579	
9 FINLAND	1,842	-	198,803	958	51,060	251,705	200,645	250,747	-	-	17,898	0,895	
10 FRANCE	8,909	-	1,198,543	29,120	313,169	1,520,521	1,207,352	1,396,718	94,683	3,730	99,262	4,963	
11 GERMANY	6,860	6,956	1,252,300	225,000	225,000	1,491,116	1,266,116	1,416,116	75,000	3,293	100,606	5,030	
12 INDIA	5,526	-	51,986	537	5,924	63,436	57,512	61,103	1,795	87	4,337	0,217	
13 ITALY ⁶	9,211	-	953,312	-	962,523	962,523	952,902	952,902	-	1,993	65,071	3,254	
14 JAPAN	13,816	-	1,694,501	-	227,452	1,935,768	1,708,317	1,859,951	75,817	-	131,831	6,592	
15 KOREA	9,211	-	91,681	-	21,650	122,541	100,892	115,325	7,217	-	8,174	0,409	
16 KUWAIT	4,974	-	147,143	-	5,685	157,801	152,117	157,802	-	-	11,185	0,559	
17 NETHERLANDS ¹³	3,684	1,842	404,121	1,543	130,547	540,195	409,647	502,559	37,287	3,890	34,963	1,748	
18 NORWAY ¹²	4,605	2,303	521,177	-	132,450	660,534	528,084	616,384	44,150	1,764	42,722	2,136	
19 PORTUGAL	7,368	-	87,766	-	19,240	114,374	95,135	107,961	6,413	282	7,672	0,384	
20 SAUDI ARABIA	8,289	-	206,022	-	10,249	224,561	213,379	223,628	-	-	15,851	0,793	
21 SOUTH AFRICA	1,794	-	7,909	460	4,014	13,717	9,703	12,072	1,185	9,562	-	-	
22 SPAIN ⁵	1,842	921	249,414	4,371	74,888	307,065	252,177	264,611	58,083	5,799	19,166	0,958	
23 SWEDEN	4,605	3,684	630,764	-	136,160	775,214	639,054	730,838	44,376	4,715	52,135	2,607	
24 SWITZERLAND	4,145	2,938	509,962	-	87,389	603,052	515,664	573,923	29,130	-	40,679	2,034	
25 U.A.E. ¹¹	4,800	-	4,145	-	8,289	8,289	8,289	8,289	-	-	0,588	0,029	
26 UNITED KINGDOM ⁶	4,800	3,073	624,972	-	221,251	854,096	632,845	780,346	73,750	3,737	55,068	2,753	
27 U.S.A. ⁷	12,434	8,290	1,637,660	-	278,101	1,936,494	1,634,945	1,726,741	209,744	760	122,443	6,122	
TOTAL	173,684	41,060	12,711,953	70,077	2,299,261	15,225,957	12,885,975	14,271,253	7,018	867,842	2,000,000	100,000	
Supplementary information:													
Supplementary Contributions through accelerated encashment to reduce the Gap	-	-	38,565	-	-	38,565	-	26,458	-	-	-	-	

Notes:

1 Include supplementary contributions through voluntary contributions to reduce ADF-X gap: UA 7,150,000 for the U.K. and UA 4,602,000 for Norway.

2 To date, the Board of Governors has approved a total ADB net income allocation of UA 30 million during ADF-VIII period, UA 30 million during ADF-IX period and UA 10 million during the ADF-X period.

3 These supplementary contributions and the attached voting powers rights will be credited at the end of each country's specific accelerated encashment period.

4 Qualified subscriptions are not included.

5 The subscription of State Participant to ADF-X is partially qualified.

6 State Participant has not subscribed to ADF-X.

7 U.S.A.'s subscription to ADF is qualified as follows: ADF-VIII: UA 162,337; ADF-IX: UA 23,276,286; ADF-X: UA 185,377,773.

8 Including supplementary contributions through accelerated encashment to maintain burden share.

9 Norway made a voluntary contribution of UA 11.9 million. Voluntary contributions do not carry voting power.

10 Argentina only subscribed to ADF-III.

11 U.A.E. only subscribed to ADF-III.

12 MDRI resolution provides in paragraph 8 (c) the allocation of voting rights.

13 During the ADF-X Mini-term review in the Hague, Netherlands made an additional pledge of UA 17,020,105.48 to reduce the ADF-X subscription gap.

Slight differences may occur in totals due to rounding.

NOTE P – 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.