

NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2007 AND 2006

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

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

Monetary Basis of the Special Purpose Financial Statements

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

On April 1, 1978, when the second amendment to the Articles 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 UA of the ADB, which is defined as equivalent to the Special Drawing Right of the IMF. In compliance with this Resolution, the Board of Directors, on 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 UA.

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

The rates used for translating currencies into UA at December 31, 2007 and 2006 are as follows:

	2007	2006
1 Unit of Account equals:		
Argentinian Peso	4.454380	4.454380
Brazilian Real	2.797830	3.215210
Canadian Dollar	1.561440	1.753080
Danish Krone	8.020210	8.517020
Euro	1.073460	1.142290
Indian Rupee	62.277700	66.539800
Japanese Yen	179.947000	178.948000
Korean Won	1,482.590000	1,398.490000
Kuwaiti Dinar	0.431408	0.434622
Norwegian Krone	8.550740	9.410170
Pound Sterling	0.788780	0.766377
South African Rand	10.761500	10.485700
Swedish Krona	10.208800	10.339000
Swiss Franc	1.778570	1.835820
United States Dollar	1.580250	1.504400

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

Participants' Subscriptions and Contributions

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

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

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

By its resolutions F/BG/2006/12 and F/BG/2006/13 of 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 Heavily Indebted Poor Countries (HIPCs); 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 ADF, equivalent to the foregone debt service (service charges and principal) for each replenishment period, by submitting pledges over the life of the initiative. The compensatory financing arrangements will take the form of a general increase in the contribution of State Participants pursuant to Article 7 of the Agreement Establishing ADF. The contributions received from State Participants under the compensatory financing arrangements shall not be counted as part of the burden share for the replenishment period in which such resources are received, but shall carry voting rights in the same manner as normal subscriptions. Such contributions are separately disclosed within the total of subscriptions and contributions in the Statement of Net Development Resources.

Maintenance of Value of Currency Holdings

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

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

In accordance with Board of Governors' 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 (CEAS).

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 an AAA credit rating. Money market instruments include time deposits, certificates of deposit and other obligations with a maturity period of less than 1 year, issued or unconditionally guaranteed by banks and other financial institutions with a minimum rating of A.

Income on investments includes interest earned and unrealized gains and losses on 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 of the Fund.

The Fund participates in a multilateral debt relief initiative for addressing the debt problems of countries identified as Heavily Indebted Poor Countries (HIPCs) 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 HIPC countries 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 MDRI by additional contributions to be made by donors over the previously scheduled repayment periods of the cancelled loans. When MDRI becomes effective for a country, certain amounts previously disbursed to that country as loans are no longer repayable by the country and effectively take on the character of grants made by the Fund. Accordingly, loans cancelled under the MDRI are included in "Net Debt Relief" and reported in the Statement of Net Development Resources as allocation of development resources, with a corresponding offset to loans outstanding.

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, 2007 and 2006 were made up as follows:

(UA thousands)	2007	2006
Time deposits	395,693	249,619
Asset-backed securities	315,482	535,389
Government and agency obligations	107,813	36,339
Corporate bonds	1,099,054	1,176,838
Total	1,918,042	1,998,185

The contractual maturity profile of held-for-trading investments at December 31, 2007 and 2006 was as follows:

(UA thousands)	2007	2006
One year or less	617,762	335,608
More than one year but less than two years	552,061	253,784
More than two years but less than three years	330,283	655,679
More than three years but less than four years	14,094	192,431
More than four years but less than five years	52,814	39,210
More than five years	351,028	521,473
Total	1,918,042	1,998,185

Held-to-maturity investments at December 31, 2007 and 2006 were made up as follows:

(UA thousands)	2007	2006
Time deposits	33,731	-
Asset-backed securities	12,142	-
Government and agency obligations	274,663	531,439
Corporate bonds	1,124,458	404,449
Total	1,444,994	935,888

The contractual maturity profile of held-to-maturity investments at December 31, 2007 and 2006 was as follows:

(UA thousands)	2007	2006
One year or less	157,161	100,140
More than one year but less than two years	145,033	100,005
More than two years but less than three years	172,412	98,809
More than three years but less than four years	148,184	95,550
More than four years but less than five years	207,262	90,721
More than five years	614,942	450,663
Total	1,444,994	935,888

The currency composition of total investments at December 31, 2007 and 2006 was as follows:

(UA thousands)	2007			2006
	Held-for- Trading	Held-to- Maturity	Total	Total
Euro	745,836	-	745,836	448,820
Pound Sterling	43,589	486,935	530,524	454,595
Swedish Krona	-	-	-	5,036
United States Dollar	1,128,617	958,059	2,086,676	2,025,622
Total	1,918,042	1,444,994	3,363,036	2,934,073

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 and lines of credit approved after June 1996 carry a 0.5 percent per annum commitment charge on the undisbursed portion. Such a commitment charge commences to accrue 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, 2007, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 1.90 million (2006: UA 2.26 million).

As at December 31, 2007, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 534.46 million (2006: UA 568.02 million) of which UA 68.89 million (2006: UA 70.29 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, 2007, would have been higher by UA 3.57 million (2006: UA 4.53 million). At December 31, 2007, the cumulative charges not recognized on the non-accrual loans amounted to UA 38.28 million, compared to UA 39.52 million at December 31, 2006.

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.

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 debt sustainability. Under the seventh, eighth and ninth general replenishments, technical assistance may also be provided on a reimbursable basis.

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

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

Technical assistance loans do not carry charges.

HIPC Debt Relief Initiative

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

In 1999, the HIPC initiative was enhanced to provide greater, faster and more poverty-focused debt relief. This was achieved by reducing the eligibility criteria for qualification under the initiative and by commencing debt relief much earlier than under the original framework. Under the enhanced framework, where 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, 2007 amounted to UA 184.00 million and are shown as allocation of development resources in the Statement of Net Development Resources.

Multilateral Debt Relief Initiative

At the Gleneagles Summit on 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 intended thresholds. Since disbursed and outstanding loans are already excluded from net development resources, the debt cancellation did not have an impact on the Fund's balance of net development resources. Further cancellation of debts will be effected when other eligible countries reach the HIPC completion point.

At December 31, 2007, a gross amount of UA 4.51 billion (2006: UA 4.32 billion) of outstanding loans had been cancelled under MDRI for 18 (2006: 16) HIPC completion point countries. Of this amount, UA 905.77 million (2006: UA 806.27 million) in nominal terms were converted by the HIPC Trust Fund. The present value of the converted loans was UA 595.19 million (2006: UA 478.59 million). As of December 31, 2007, the present value amounts have been transferred from the HIPC Trust Fund to ADF. A summary of debt relief granted under HIPC and MDRI as at December 31, 2007 and 2006 follows:

(UA thousands)	2007			2006		
	HIPC	MDRI	Total	HIPC	MDRI	Total
Balance at January 1	398,766	3,513,634	3,912,400	71,079	-	71,079
Loans cancelled*	99,493	96,078	195,571	806,273	3,513,634	4,319,907
Cash received*	(116,600)	-	(116,600)	(478,586)	-	(478,586)
Balance at December 31	381,659	3,609,712	3,991,371	398,766	3,513,634	3,912,400

* 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 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 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 PCCF are included in the amount reported for "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 and Voting Power in Note O.

The tenth replenishment, approved by the Board of Governors resolution F/BG/2005/01 adopted on May 4, 2005, covered the 3-year operational period to 2007.

Negotiations for the eleventh replenishment of the Fund were concluded on December 11, 2007 when the deputies agreed to a replenishment level of UA 5.76 billion, of which UA 2.06 billion represents internally generated resources, for the 3-year operational period 2008 to 2010. The eleventh replenishment shall come into effect on the date when State Participants shall have deposited with the Fund, instruments of subscription amounting to at least thirty percent (30%) of the total intended subscriptions. This date shall not be later than March 31, 2008 or such later date as the Board of Directors may determine.

At December 31, 2007 cumulative contributions pledged on account of the MDRI amounted to UA 4.37 billion of which UA 109.37 million had been paid and included in total subscriptions. Consistent with the resolution approving MDRI, the contributions paid entitle the State Participants to voting rights, as reflected in Note O.

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

NOTE 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 158.30 million representing contributions by the Bank of UA 156.30 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, 2007 and 2006 were as follows:

(UA thousands)	2007	2006
Reserves at January 1	136,655	96,237
Surplus for the year	31,607	40,418
Reserves at December 31	168,262	136,655

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, 2007, the undisbursed balance of trust fund resources was UA 4.31 million (2006: UA 3.86 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 135.85 million (2006: UA 114.56 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 the Agreement, the Fund utilizes the officers, staff, organization, services and facilities of the ADB (the Bank) to carry out its functions, for which it reimburses the Bank as disclosed in Note K. In this regard, the Bank administers the resources of the Fund. The Fund also administers trust funds entrusted to it by some of its State Participants.

NOTE M – SUMMARY OF LOANS AS AT DECEMBER 31, 2007

(Amounts in UA thousands)

Country	No. of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Algeria	1	314	-	-	314	0.01
Angola	11	59,340	17,900	18,842	22,598	0.54
Benin	22	177,462	-	116,988	60,474	1.45
Botswana	12	58,222	-	-	58,222	1.40
Burkina Faso	28	294,671	-	178,903	115,769	2.78
Burundi	32	152,805	-	15,324	137,481	3.31
Cameroon	18	176,399	-	136,913	39,485	0.95
Cape Verde	25	80,899	-	4,922	75,977	1.83
Central African Republic	19	84,742	-	-	84,742	2.04
Chad	37	280,253	-	35,403	244,850	5.89
Comoros **	8	29,300	-	-	29,300	0.70
Congo	3	14,401	-	31	14,370	0.35
Côte D'Ivoire **	14	227,188	-	50,242	176,946	4.25
Democratic Republic of Congo	29	227,118	-	63,627	163,491	3.93
Djibouti	16	89,190	-	26,261	62,929	1.51
Egypt	17	154,980	-	9,336	145,644	3.50
Equatorial Guinea	11	28,512	-	-	28,512	0.69
Eritrea	6	68,485	-	15,399	53,086	1.28
Ethiopia	16	492,966	-	340,166	152,800	3.67
Gabon	3	1,659	-	-	1,659	0.04
Gambia	31	135,876	-	14,047	121,829	2.93
Ghana	31	434,225	67,600	279,463	87,162	2.10
Guinea	37	254,989	-	43,215	211,773	5.09
Guinea-Bissau	27	108,916	-	16,062	92,854	2.23
Kenya	36	630,619	52,190	339,157	239,272	5.75
Lesotho	31	142,505	-	15,540	126,966	3.05
Liberia **	3	11,888	-	-	11,888	0.29
Madagascar	16	196,819	9,204	109,531	78,084	1.88
Malawi	17	101,647	-	48,118	53,529	1.29
Mali	35	275,987	-	153,388	122,599	2.95
Mauritania	16	56,569	-	40,747	15,822	0.38
Mauritius	3	2,306	-	-	2,306	0.06
Morocco	6	34,790	-	-	34,790	0.84
Mozambique	25	348,496	-	178,589	169,907	4.09
Namibia	2	12,215	-	-	12,215	0.29
Niger	15	102,246	-	53,884	48,362	1.16
Nigeria	19	354,398	86,271	114,759	153,368	3.69
Rwanda	14	127,214	-	64,040	63,174	1.52
Sao Tome & Principe	4	4,793	-	3,228	1,565	0.04
Senegal	25	192,037	-	123,069	68,968	1.66
Seychelles	3	7,183	-	-	7,183	0.17
Sierra Leone	9	55,296	-	38,010	17,286	0.42
Somalia **	17	63,545	-	-	63,545	1.53
Sudan **	15	173,279	-	-	173,279	4.17
Swaziland	8	35,127	-	-	35,127	0.84
Tanzania	25	590,174	88,680	316,094	185,400	4.46
Togo **	12	90,513	-	3,983	86,531	2.08
Uganda	20	368,761	58,584	199,088	111,088	2.67
Zambia	12	105,623	-	58,257	47,366	1.14
Zimbabwe **	10	34,159	-	-	34,159	0.82
Multinational	23	288,052	75,151	199,891	13,010	0.31
Total	875	8,039,151	455,580	3,424,518	4,159,053	100.00

* Excludes fully repaid loans and cancelled loans.

** Countries in arrears as at December 31, 2007. The Board of Directors approved an arrears clearance mechanism for Comoros and Liberia in December 2007.

Slight differences may occur in totals due to rounding.

NOTE N – MATURITY AND CURRENCY COMPOSITION OF OUTSTANDING LOANS AS AT DECEMBER 31, 2007 AND 2006

The maturity distribution of outstanding loans as at December 31, 2007 and 2006 was as follows:

(Amounts in UA millions)

Period	2007		2006	
	Amount	%	Amount	%
One year or less	127.09	3.06	138.99	3.63
More than one year but less than two years	58.37	1.40	55.65	1.45
More than two years but less than three years	64.70	1.56	61.42	1.60
More than three years but less than four years	69.88	1.68	67.21	1.75
More than four years but less than five years	76.65	1.84	72.62	1.90
More than five years	3,762.36	90.46	3,434.51	89.67
Total	4,159.05	100.00	3,830.40	100.00

The currency composition of outstanding loans as at December 31, 2007 and 2006 was as follows:

(Amounts in UA millions)

Currency	2007		2006	
	Amount	%	Amount	%
Canadian Dollar	21.85	0.53	21.21	0.55
Danish Kroner	27.22	0.66	26.77	0.70
Euro	1,828.72	43.97	1,497.60	39.10
Japanese Yen	720.83	17.33	696.00	18.17
Norwegian Krone	53.63	1.29	54.40	1.42
Pound Sterling	14.65	0.35	16.29	0.43
Swedish Krona	28.46	0.68	30.01	0.78
Swiss Franc	116.09	2.79	120.96	3.16
United States Dollar	1,347.12	32.39	1,366.78	35.68
Others	0.48	0.01	0.38	0.01
Total	4,159.05	100.00	3,830.40	100.00

NOTE O – STATEMENT OF SUBSCRIPTIONS, CONTRIBUTIONS AND VOTING POWER AS AT DECEMBER 31, 2007

(Amounts in UA thousands)

PARTICIPANTS	SUBSCRIPTIONS				PAYMENT POSITIONS			MDRI	VOTING POWER	
	Initial	Special Increase	ADF-I to ADF-X Installments	Total Subscriptions	Total Installments Paid	Installments Due*	Installments not yet Payable	Payments Received	Number of votes	%
1 ADB	4,605	1,382	105,754	111,741	111,741	-	-	-	1,000.00	50.00
2 ARGENTINA	1,842	-	7,018	8,861	1,842	7,018	-	-	0.12	0.01
3 AUSTRIA	13,816	-	197,067	210,883	208,210	-	-	1,400	13.99	0.70
4 BELGIUM	2,763	-	281,319	284,082	284,083	-	-	1,827	19.08	0.95
5 BRAZIL	1,842	921	124,700	127,464	127,056	-	-	-	8.48	0.42
6 CANADA	13,816	6,908	1,168,159	1,188,883	1,188,883	-	-	5,304	79.70	3.98
7 CHINA	13,816	-	258,102	271,918	271,918	-	-	1,935	18.28	0.91
8 DENMARK	4,605	1,842	452,684	459,131	459,132	-	-	1,282	30.73	1.54
9 FINLAND	1,842	-	249,863	251,705	250,747	-	-	1,768	16.85	0.84
10 FRANCE	8,809	-	1,511,712	1,520,521	1,520,521	-	-	10,844	102.20	5.11
11 GERMANY	6,860	6,956	1,477,300	1,491,116	1,491,116	-	-	7,791	100.03	5.00
12 INDIA	5,526	-	57,910	63,436	63,436	-	-	205	4.25	0.21
13 ITALY *	9,211	-	950,561	959,772	959,771	-	-	4,715	61.91	3.10
14 JAPAN	13,816	-	1,921,953	1,935,769	1,935,769	-	-	7,876	129.71	6.49
15 KOREA	9,211	-	113,331	122,541	122,541	-	-	750	8.23	0.41
16 KUWAIT	4,974	-	152,828	157,802	157,802	-	-	13,540	11.43	0.57
17 NETHERLANDS	3,684	1,842	534,668	540,194	539,846	-	-	3,890	35.49	1.77
18 NORWAY	4,605	2,303	653,626	660,534	660,534	-	-	4,173	42.80	2.14
19 PORTUGAL	7,368	-	107,006	114,375	114,375	-	-	666	7.68	0.38
20 SAUDI ARABIA	8,290	-	216,270	224,560	223,628	-	-	355	14.95	0.75
21 SOUTH AFRICA	1,794	-	11,922	13,716	13,716	-	-	9,562	-	-
22 SPAIN	1,842	921	324,302	327,065	289,480	-	33,214	11,598	20.09	1.00
23 SWEDEN	4,605	3,684	786,925	795,214	795,214	-	-	4,715	52.05	2.60
24 SWITZERLAND	2,763	2,938	597,351	603,052	603,052	-	-	3,026	40.45	2.02
25 UNITED ARAB EMIRATES	4,145	-	4,145	8,289	8,289	-	-	-	0.55	0.03
26 UNITED KINGDOM	4,800	3,073	880,273	888,146	888,146	-	-	8,840	59.38	2.97
27 UNITED STATES OF AMERICA	12,434	8,290	1,915,761	1,936,486	1,818,537	-	117,948	3,308	121.58	6.08
TOTAL	173,684	41,060	15,062,511	15,277,255	15,109,385	7,018	151,162	109,370	2,000.00	100.00
Supplementary information:										
Supplementary contributions through accelerated encashment to reduce the gap	-	-	38,565	38,565	26,458	-	-	-	-	-

* Installments due excludes accelerated encashment of UA 2.75 million due from Italy.

Slight differences may occur in totals due to rounding.

NOTE P – APPROVAL OF FINANCIAL STATEMENTS

On April 2, 2008, the Board of Directors authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors at its annual meeting in May 2008.