

**African Development Fund**  
Special Purpose Financial Statements and  
Report of the Independent Auditor  
Year ended December 31, 2010

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## STATEMENT OF NET DEVELOPMENT RESOURCES AS AT DECEMBER 31, 2010 (UA thousands – Note B)

	2010	2009
<b>DEVELOPMENT RESOURCES</b>		
DUE FROM BANKS	103,477	29,206
INVESTMENTS (Notes C & H)		
Held-for-trading	1,686,945	1,944,427
Held-to-maturity	1,416,901	1,203,945
Total investments	3,103,846	3,148,372
DEMAND OBLIGATIONS (Note D)	2,322,623	2,378,200
RECEIVABLES		
Accrued income on loans and investments	49,246	48,131
Other receivables	6,744	13,345
	55,990	61,476
LIABILITIES	(161,144)	(116,310)
<b>NET DEVELOPMENT RESOURCES</b>	<b>5,424,792</b>	<b>5,500,944</b>
<b>FUNDING OF DEVELOPMENT RESOURCES</b>		
SUBSCRIPTIONS AND CONTRIBUTIONS (Notes F & O)		
Amount subscribed including contributions through accelerated encashment of subscriptions	18,770,173	18,770,173
Less: Portion of accelerated encashment not yet effected	(1,306)	(122,070)
	18,768,867	18,648,103
Less: Installments not yet payable	(122,228)	(1,105,850)
	18,646,639	17,542,253
Less: Installments due	(7,018)	(7,018)
	18,639,621	17,535,235
Contributions paid on Multilateral Debt Relief Initiative	390,698	318,788
	19,030,319	17,854,023
Less: Unamortized discounts on subscriptions and contributions (Note B)	(167,712)	(74,130)
	18,862,607	17,779,893
Cumulative exchange adjustment on subscriptions and contributions (Note B)	(309,106)	(288,710)
Total subscriptions and contributions	18,553,501	17,491,183
OTHER RESOURCES (Note G)	355,270	305,270
RESERVES (Note I)	114,688	177,618
CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B)	(295,218)	(383,442)
	18,728,241	17,590,629
<b>ALLOCATION OF DEVELOPMENT RESOURCES</b>		
GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note E)	(2,572,296)	(2,238,258)
HIPC GRANTS DISBURSED (Note E)	(184,000)	(184,000)
NET DEBT RELIEF (Note E)	(4,250,362)	(4,234,133)
LOANS DISBURSED AND OUTSTANDING (Notes E, M & N)	(6,296,791)	(5,433,294)
<b>NET DEVELOPMENT RESOURCES</b>	<b>5,424,792</b>	<b>5,500,944</b>

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

## STATEMENT OF INCOME AND EXPENSES AND OTHER CHANGES IN DEVELOPMENT RESOURCES FOR THE YEAR ENDED DECEMBER 31, 2010

(UA thousands – Note B)

	2010	2009
<b>INCOME AND EXPENSES</b>		
Service charges on loans	40,856	41,778
Commitment charges on loans	18,256	17,299
Income on investments	84,399	131,589
Provision for impairment on held-to-maturity investments	1,384	683
Administrative expenses (Note K)	(163,960)	(157,649)
Discount on accelerated encashment of participants' demand obligations	(41,287)	(28,015)
Financial charges	(118)	(163)
Loss on exchange	(2,460)	(825)
<b>(Deficit)/Surplus</b>	<b>(62,930)</b>	<b>4,697</b>
<b>CHANGE IN DEVELOPMENT RESOURCES FUNDING</b>		
Increase in paid-up subscriptions	1,104,386	1,127,791
Contributions received on account of Multilateral Debt Relief Initiative	71,910	160,215
Changes in accumulated exchange adjustment on subscriptions and contributions	(20,396)	(45,737)
Increase in other resources	50,000	25,000
Changes in unamortized discounts on subscriptions and contributions	(93,582)	(8,321)
Changes in accumulated translation adjustment	88,224	74,222
	<b>1,200,542</b>	<b>1,333,170</b>
<b>CHANGE IN DEVELOPMENT RESOURCES ALLOCATION</b>		
Disbursement of grants	(334,158)	(887,425)
Disbursement of loans	(831,289)	(839,009)
Repayment of loans	46,945	50,827
Recoveries on account of Multilateral Debt Relief Initiative	1,345	49,963
Translation adjustment on loans	(96,607)	7,341
	<b>(1,213,764)</b>	<b>(1,618,303)</b>
Change in Net Development Resources	(76,152)	(280,436)
Net Development Resources at the beginning of the year	5,500,944	5,781,380
<b>NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR</b>	<b>5,424,792</b>	<b>5,500,944</b>

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

**STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED DECEMBER 31, 2010**  
(UA thousands – Note B)

	2010	2009
(DEFICIT)/SURPLUS	(62,930)	4,697
OTHER COMPREHENSIVE INCOME		
Changes in accumulated translation adjustment	88,224	74,222
<b>COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>25,294</b>	<b>78,919</b>

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

## STATEMENT OF CASH FLOWS FOR THE YEAR ENDED DECEMBER 31, 2010 (UA thousands – Note B)

	2010	2009
<b>CASH FLOWS FROM:</b>		
<b>OPERATING ACTIVITIES:</b>		
(Deficit)/Surplus	(62,930)	4,697
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of premium and discount on held-to-maturity investments	(11,387)	(8,121)
Provision for impairment on held-to-maturity investments	(1,384)	(683)
Discount on accelerated encashment of participants' demand obligations	41,287	28,015
Changes in accrued income on loans and investments	(1,115)	2,062
Changes in net current assets	77,149	60,640
Net cash provided by operating activities	41,620	86,610
<b>INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:</b>		
Disbursements of grants	(334,158)	(887,425)
Disbursements of loans	(831,289)	(839,009)
Repayments of loans	46,945	50,827
Recoveries on account of Multilateral Debt Relief Initiative	1,345	49,963
Investments maturing after 3 months of acquisition:		
Held-to-maturity	(236,533)	118,300
Held-for-trading	224,104	(111,545)
Net cash used in investment, lending and development activities	(1,129,586)	(1,618,889)
<b>FINANCING ACTIVITIES:</b>		
Subscriptions and contributions received in cash	232,675	286,458
Participants' demand obligations encashed	877,314	873,665
Increase in other resources	50,000	25,000
Net cash provided by financing activities	1,159,989	1,185,123
Effect of exchange rate changes on cash and cash equivalents	(18,951)	11,867
Net increase/(decrease) in cash and cash equivalents	53,072	(335,289)
Cash and cash equivalents at the beginning of the year	383,327	718,616
<b>Cash and cash equivalents at the end of the year</b>	<b>436,399</b>	<b>383,327</b>
<b>COMPOSED OF:</b>		
Cash	103,941	29,206
Investments maturing within 3 months of acquisition:		
Held-for-trading	332,458	354,121
<b>Cash and cash equivalents at the end of the year</b>	<b>436,399</b>	<b>383,327</b>
<b>SUPPLEMENTARY DISCLOSURE:</b>		
Movements resulting from exchange rate fluctuations on:		
Loans	96,607	(7,341)
Subscriptions and contributions	(20,396)	(45,737)

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

## NOTES TO THE SPECIAL PURPOSE FINANCIAL STATEMENTS YEAR ENDED DECEMBER 31, 2010

### NOTE A – PURPOSE, ORGANIZATION AND RESOURCES

#### Purpose and Organization

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

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

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

#### Resources

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

### NOTE B – BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

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

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

#### Monetary Basis of the Special Purpose Financial Statements

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

On 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 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, 2010 and 2009 are as follows:

	2010	2009
<b>1 Unit of Account equals:</b>		
Argentinian Peso	6.106830	6.106830
Brazilian Real	2.584640	2.728410
Canadian Dollar	1.541420	1.643990
Danish Krone	8.644690	8.106880
Euro	1.159660	1.088220
Indian Rupee	69.147700	73.179700
Japanese Yen	125.436000	143.797000
Korean Won	1,765.040000	1,830.440000
Kuwaiti Dinar	0.432133	0.449610
Norwegian Krone	9.067420	9.056080
Pound Sterling	0.997755	0.968010
South African Rand	10.215100	11.569600
Swedish Krona	10.476100	11.307000
Swiss Franc	1.447020	1.615510
United States Dollar	1.540030	1.567690

*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-9, ADF-10 and ADF-11 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 (HIPC); and
- 2) Receipt of unqualified Instruments of Commitments from donors for an amount not less than the equivalent of at least seventy five percent (75%) of the total cost of debt relief incurred during the remainder of ADF-10 period.

Upon satisfaction of the above two thresholds, the Board of Directors of the Fund approved the effectiveness of the MDRI with effect from 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, 2005-01 and 2008-01, which in turn stipulated that Article 13 shall not apply to the second, third, fourth, fifth, sixth, seventh, eighth, ninth, tenth and eleventh 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 intent 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. The Fund assesses whether objective evidence of impairment exists for held-to-maturity investments. If the Fund determines that there is objective evidence that an impairment loss on held-to-maturity investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the investment is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. All other investment securities are classified as held-for-trading and measured at market value. Fair values for investment securities are based on quoted market prices where available using the bid prices. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. Government and agency obligations include marketable bonds or notes and other government obligations issued or unconditionally guaranteed by governments of member countries or other official entities with a minimum credit rating of AA-. For asset-backed securities, the Fund may only invest in securities with 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 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 Multilateral Debt Relief Initiative (MDRI), loans due from eligible HIPCs are canceled when the countries attain the completion point under the HIPC framework. The Fund is expected to be fully compensated for loans canceled under MDRI by additional contributions to be made by donors over the previously scheduled repayment periods of the canceled loans. When MDRI becomes effective for a country, certain amounts previously disbursed to that country as loans are no longer repayable by the country and effectively take on the character of grants made by the Fund. Accordingly, loans canceled under the MDRI are included in "Net Debt Relief" and reported in the Statement of Net Development Resources as allocation of development resources, with a corresponding offset to loans outstanding.

#### Events after the Balance Sheet date

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

Events that are indicative of conditions that arose after the date of statement of net development resources are disclosed, but do not result in an adjustment of the financial statements themselves. The nature and potential financial statements effect of such events are detailed in Note P to these financial statements.

#### Reclassification

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

## NOTE C – INVESTMENTS

The composition of investments as at December 31, 2010 and 2009 was as follows:

(UA thousands)	2010	2009
Held-to-maturity	1,416,901	1,205,292
Provision for impairment on investments	-	(1,347)
Held-for-trading	1,686,945	1,203,945
<b>Total</b>	<b>3,103,846</b>	<b>3,148,372</b>

## Held-for-Trading Investments

A summary of the held-for-trading investments at December 31, 2010 and 2009 follows:

(UA millions)

	US Dollar		Euro		GBP		All Currencies	
	2010	2009	2010	2009	2010	2009	2010	2009
Time deposits	76.36	117.97	256.10	214.10	-	22.06	332.46	354.13
Asset-backed securities	45.37	61.13	37.66	51.56	-	-	83.03	112.69
Government & agency obligations	615.72	632.11	156.62	376.75	-	-	772.34	1,008.86
Corporate bonds	195.59	245.42	286.86	177.11	-	-	482.45	422.53
Supranational	16.67	46.22	-	-	-	-	16.67	46.22
<b>Total</b>	<b>949.71</b>	<b>1,102.85</b>	<b>737.24</b>	<b>819.52</b>	<b>-</b>	<b>22.06</b>	<b>1,686.95</b>	<b>1,944.43</b>

The contractual maturity profile of the held-for-trading investments at December 31, 2010 and 2009 was as follows:

(UA thousands)

	2010	2009
One year or less	654,602	969,050
More than one year but less than two years	617,944	218,073
More than two years but less than three years	248,058	563,094
More than three years but less than four years	40,831	9,221
More than four years but less than five years	58,666	83,352
More than five years	66,844	101,637
<b>Total</b>	<b>1,686,945</b>	<b>1,944,427</b>

## Held-to-Maturity Investments

A summary of the held-to-maturity investments at December 31, 2010 and 2009 follows:

(UA millions)

	US Dollar		Euro		GBP		All Currencies	
	2010	2009	2010	2009	2010	2009	2010	2009
Asset-backed securities	12.62	12.34	-	-	-	-	12.62	12.34
Government & agency obligations	557.40	376.94	44.07	-	163.68	168.41	765.15	545.35
Corporate bonds	141.51	170.08	24.94	-	82.48	124.72	248.93	294.80
Supranational	329.13	306.42	18.18	-	42.89	46.38	390.20	352.80
	<b>1,040.66</b>	<b>865.78</b>	<b>87.19</b>	<b>-</b>	<b>289.05</b>	<b>339.51</b>	<b>1,416.90</b>	<b>1,205.29</b>
Provision for impairment on investments	-	(1.35)	-	-	-	-	-	(1.35)
<b>Total</b>	<b>1,040.66</b>	<b>864.43</b>	<b>87.19</b>	<b>-</b>	<b>289.05</b>	<b>339.51</b>	<b>1,416.90</b>	<b>1,203.94</b>

The contractual maturity profile of the held-to-maturity investments at December 31, 2010 and 2009 was as follows:

(UA thousands)	2010	2009
One year or less	140,179	139,389
More than one year but less than two years	204,489	140,072
More than two years but less than three years	158,877	201,960
More than three years but less than four years	185,244	148,383
More than four years but less than five years	133,162	173,962
More than five years	594,950	401,526
<b>Total</b>	<b>1,416,901</b>	<b>1,205,292</b>

## 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 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, 2010, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 4.93 million (2009: UA 21.66 million).

As at December 31, 2010, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 284.91 million (2009: UA 278.54 million) of which UA 83.09 million (2009: UA 73.85 million) was overdue, were in non-accrual status. If these loans had not been in non-accrual status, income from loans for the year ended December 31, 2010, would have been higher by UA 2.12 million (2009: UA 2.07 million). At December 31, 2010, the cumulative charges not recognized on the non-accrual loans amounted to UA 33.65 million, compared to UA 30.83 million at December 31, 2009.

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 percent of the resources available under the third and fourth general replenishments, 10 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 and eleventh general replenishments is based on a country-by-country analysis of debt sustainability. Under the seventh, eighth and ninth general replenishments, technical assistance may also be provided on a reimbursable basis.

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

- (i) where the loan is granted for the preparation of a pre-investment study and the study proves that the project is not feasible, the grace period is extended to 45 years with a repayment period of 5 years thereafter.
- (ii) where the loan is granted for strengthening regional member countries' 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 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, 2010 amounted to UA 184 million and are shown as allocation of development resources in the Statement of Net Development Resources.

### Multilateral Debt Relief Initiative

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

At December 31, 2010, a gross amount of UA 4.85 billion (2009: UA 4.84 billion) of outstanding loans had been canceled under MDRI for 23 (2009: 21) HIPC completion point countries. Of this amount, UA 1,225.99 million (2009: UA 1,225.99 million) in nominal terms were converted by the HIPC Trust Fund. The present value of the converted loans was UA 942.71 million (2009: UA 942.71 million). As of December 31, 2010, 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, 2010 and 2009 follows:

(UA thousands)						
	2010			2009		
	HIPC	MDRI	Total	HIPC	MDRI	Total
Balance at January 1	304,203	3,929,930	4,234,133	354,166	3,715,730	4,069,896
Loans canceled*	-	17,574	17,574	-	214,200	214,200
Cash received*	(1,345)	-	(1,345)	(49,963)	-	(49,963)
<b>Balance at December 31</b>	<b>302,858</b>	<b>3,947,504</b>	<b>4,250,362</b>	<b>304,203</b>	<b>3,929,930</b>	<b>4,234,133</b>

\* Upon implementation of MDRI.

### Special Arrears Clearance Mechanism

**Arrears Clearance Mechanism for DRC** – In connection with an internationally coordinated effort including the ADB Group, the IMF, the World Bank and other bilateral and multilateral donors to assist the Democratic Republic of Congo (DRC) in its reconstruction efforts, the Board of Directors on 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.

**Fragile States Facility Framework** – The Fragile States Facility (FSF) was established in March 2008 to provide a broader and integrated framework for assistance to eligible states, typically regional member countries of ADB emerging from conflict or crisis. The purposes of FSF are to consolidate peace, stabilize economies and lay the foundation for sustainable poverty-reduction and long-term economic growth. The FSF assumes the arrears clearance activities of the now defunct Post Conflict Countries Facility (PCCF), which was established as a framework to assist countries emerging from conflicts in clearing their arrears and prepare them for re-engagement with the donor communities, in order to reactivate development assistance and help these countries reach the HIPC decision point to qualify for debt relief after clearing their loan arrears to the Bank Group. The framework entails the setting aside of a pool of resources through a separate facility with contributions from the ADF, the ADB and private donors. Resources from the facility are provided on a case-by-case basis to genuine eligible fragile states not yet receiving debt relief to fill financing gaps after maximum effort by the country to clear its arrears to the Bank Group. Contributions made by the Fund to the facility cannot be used to clear the debt owed to the Fund by beneficiary fragile state. Contributions by the Fund to the Facility are included in "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 eleven general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note O.

Negotiations for the eleventh replenishment of the Fund (ADF-11) 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 three year operational period 2008 to 2010. ADF-11 came into effect on May 8, 2008 after the State Participants had deposited with the Fund instruments of subscriptions exceeding the threshold of 30 percent of pledged subscriptions. At December 31, 2010 subscriptions to ADF-11 amounted to UA 3.37 billion.

At their meeting held in Tunis on 7-8 September 2010, the Deputies reached agreement on the terms of the Twelfth General replenishment (ADF-12) of the Fund. In accordance with the Agreement establishing the Fund, the replenishment report authorizing the ADF-12 replenishment has been submitted to, and approved by the Board of Governors by its resolution F/BG/2011/01 of January 20, 2011. The twelfth Replenishment will come into effect on the date when State Participants shall have deposited with the Fund, Instruments of Subscription representing an aggregate amount equivalent to at least thirty percent (30%) of the total intended subscriptions.

At December 31, 2010 cumulative contributions pledged on account of the MDRI amounted to UA 5.58 billion of which UA 390.70 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 342.30 million representing contributions by the Bank of UA 340.30 million, and by the Government of Botswana of UA 2 million towards the Fund's activities, in accordance with Article 8 of the Agreement.

## NOTE 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, 2010 and 2009 were as follows:

(UA thousands)	2010	2009
Reserves at January 1	177,618	172,921
(Deficit)/Surplus for the year	(62,930)	4,697
<b>Reserves at December 31</b>	<b>114,688</b>	<b>177,618</b>

**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, 2010, the undisbursed balance of trust fund resources was UA 4.29 million (2009: UA 4.37 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 163.96 million (2009: UA 157.65 million).

**NOTE L – RELATED PARTIES**

The general operation of the Fund is conducted by a 14-member Board of Directors, of which 7 members are selected by the Bank. The Bank exercises 50 percent of the ADF's voting power and the President of the Bank is the ex-officio President of the Fund. In accordance with the Agreement, the Fund utilizes the 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, 2010

(Amounts in UA thousands)

Country	No. of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Angola	12	70,629	-	42,308	28,321	0.45
Benin	26	229,082	-	106,816	122,266	1.94
Botswana	12	54,329	-	-	54,329	0.86
Burkina Faso	28	362,723	-	120,688	242,036	3.84
Burundi	6	26,602	-	5,668	20,934	0.33
Cameroon	23	261,928	-	143,440	118,487	1.88
Cape Verde	27	107,619	7,000	3,387	97,232	1.54
Chad	36	281,973	-	10,159	271,814	4.32
Comoros	8	23,181	-	-	23,181	0.37
Congo	1	7,287	-	-	7,287	0.12
Côte d'Ivoire	14	198,446	-	33,239	165,206	2.62
Democratic Republic of Congo	28	229,719	-	32,227	197,492	3.14
Djibouti	16	91,404	-	5,798	85,607	1.36
Egypt	17	155,205	-	555	154,650	2.46
Equatorial Guinea	11	28,996	-	-	28,996	0.46
Eritrea	6	75,459	-	6,548	68,911	1.09
Ethiopia	18	667,773	-	298,075	369,698	5.87
Gabon	3	1,442	-	-	1,442	0.02
Gambia	11	34,180	-	1,291	32,889	0.52
Ghana	34	623,576	-	317,280	306,296	4.86
Guinea	35	262,522	-	10,515	252,007	4.00
Guinea-Bissau	26	110,477	-	10,517	99,960	1.59
Kenya	41	799,610	35,000	397,092	367,518	5.84
Lesotho	33	147,790	-	12,400	135,390	2.15
Liberia	3	245	-	-	245	-
Madagascar	18	245,383	500	83,607	161,276	2.56
Malawi	18	151,015	-	50,344	100,671	1.60
Mali	35	448,955	-	159,948	289,007	4.59
Mauritania	13	65,404	-	15,613	49,791	0.79
Mauritius	3	2,074	-	-	2,074	0.03
Morocco	6	35,174	-	-	35,174	0.56
Mozambique	30	477,108	-	164,962	312,146	4.96
Namibia	2	12,697	-	-	12,697	0.20
Niger	17	152,005	-	67,040	84,965	1.35
Nigeria	21	510,895	150,000	154,446	206,449	3.28
Rwanda	14	129,911	-	21,584	108,328	1.72
Sao Tome & Principe	4	5,037	-	2,986	2,051	0.03
Senegal	24	305,071	-	105,262	199,809	3.17
Seychelles	3	6,663	-	-	6,663	0.11
Sierra Leone	11	73,498	-	23,864	49,634	0.79
Somalia **	17	67,231	-	-	67,231	1.07
Sudan ** <sup>(i)</sup>	15	180,840	-	-	180,840	2.87
Swaziland	8	35,495	-	-	35,495	0.56
Tanzania	32	920,110	104,360	322,079	493,671	7.84
Togo	12	78,653	-	2,990	75,664	1.20
Uganda	28	689,198	-	413,578	275,620	4.38
Zambia	15	191,041	-	52,644	138,397	2.20
Zimbabwe **	10	36,838	-	-	36,838	0.59
Multinational	30	925,220	85,309	719,804	120,107	1.91
<b>Total</b>	<b>861</b>	<b>10,597,713</b>	<b>382,169</b>	<b>3,918,753</b>	<b>6,296,791</b>	<b>100.00</b>

(i) The results of the referendum conducted in Southern Sudan in January 2011 supported the creation of an independent state of Southern Sudan. After the split of the current state of Sudan into two separate nations becomes effective in July 2011, the number and amounts of loans shown against Sudan in this statement would be split between the emerging states, on a basis agreed upon following the ongoing negotiations between the North and South Sudan.

\* Excludes fully repaid loans and canceled loans.

\*\* Countries in non-accrual status as at December 31, 2010.

Slight differences may occur in totals due to rounding.

## NOTE N – MATURITY AND CURRENCY COMPOSITION OF OUTSTANDING LOANS AS AT DECEMBER 31, 2010 AND 2009

The maturity distribution of outstanding loans as at December 31, 2010 and 2009 was as follows:

(Amounts in UA millions)

Period	2010		2009	
	Amount	%	Amount	%
One year or less	149.96	2.38	132.79	2.44
More than one year but less than two years	72.16	1.15	64.01	1.18
More than two years but less than three years	79.22	1.26	71.68	1.32
More than three years but less than four years	88.05	1.40	77.95	1.43
More than four years but less than five years	95.06	1.51	85.56	1.58
More than five years	5,812.34	92.30	5,001.30	92.05
<b>Total</b>	<b>6,296.79</b>	<b>100.00</b>	<b>5,433.29</b>	<b>100.00</b>

The currency composition of outstanding loans as at December 31, 2010 and 2009 was as follows:

(Amounts in UA millions)

Currency	2010		2009	
	Amount	%	Amount	%
Canadian Dollar	18.39	0.29	17.98	0.33
Danish Kroner	16.46	0.26	17.99	0.33
Euro	2,136.30	33.93	2,100.24	38.66
Japanese Yen	1,516.86	24.09	1,171.08	21.55
Norwegian Krone	29.68	0.47	31.04	0.57
Pound Sterling	6.33	0.10	6.63	0.12
Swedish Krona	20.39	0.32	20.38	0.38
Swiss Franc	110.64	1.76	101.65	1.87
United States Dollar	2,441.41	38.77	1,966.00	36.18
Others	0.33	0.01	0.30	0.01
<b>Total</b>	<b>6,296.79</b>	<b>100.00</b>	<b>5,433.29</b>	<b>100.00</b>

## NOTE O – STATEMENT OF SUBSCRIPTIONS, CONTRIBUTIONS AND VOTING POWER AS AT DECEMBER 31, 2010

(Amounts in UA thousands)

Participants	Subscriptions					Payment Positions			MDRI	Voting Power	
	Initial	Special Increase	ADF-1 to ADF-10	ADF-11	Total Subscriptions	Total Installments Paid	Installments Due	Installments not yet Payable	Payments Received	Number of Votes	%
1 ADB	4,605	1,382	105,754	-	111,741	111,741	-	-	-	1,000,000	50.000
2 Argentina	1,842	-	7,018	-	8,860	1,842	7,018	-	-	0.098	0.005
3 Austria	13,816	-	197,067	86,545	297,428	297,428	-	-	4,475	16.106	0.805
4 Belgium	2,763	-	281,319	76,731	360,813	360,813	-	-	4,937	19.512	0.976
5 Brazil	1,842	921	124,700	6,558	134,021	127,463	-	6,558	-	6.800	0.340
6 Canada	13,816	6,908	1,168,159	212,351	1,401,234	1,401,234	-	-	95,664	78.390	3.920
7 China	13,816	-	258,102	79,901	351,819	351,819	-	-	5,229	19.048	0.952
8 Denmark	4,605	1,842	452,684	51,170	510,301	510,301	-	-	3,465	27.408	1.370
9 Finland	1,842	-	249,863	89,222	340,927	339,969	-	-	4,777	18.391	0.920
10 France	8,809	-	1,511,712	403,329	1,923,850	1,923,850	-	-	29,301	104.196	5.210
11 Germany	6,860	6,956	1,477,300	400,000	1,891,116	1,891,116	-	-	21,052	102.010	5.100
12 India	5,526	-	57,910	6,434	69,870	69,870	-	-	554	3.757	0.188
13 Italy	9,211	-	1,075,832	-	1,085,043	1,085,041	-	-	21,231	57.052	2.853
14 Japan	13,816	-	1,921,953	261,439	2,197,208	2,197,208	-	-	21,281	118.351	5.918
15 Korea	9,211	-	113,331	32,474	155,016	155,016	-	-	2,960	8.428	0.421
16 Kuwait	4,974	-	152,828	6,657	164,459	164,459	-	-	13,003	9.467	0.473
17 Netherlands	3,684	1,842	534,668	201,062	741,256	740,908	-	-	10,510	39.448	1.972
18 Norway	4,605	2,303	653,626	167,029	827,563	827,564	-	-	11,274	43.504	2.175
19 Portugal	7,368	-	107,006	29,622	143,996	143,996	-	-	1,800	7.778	0.389
20 Saudi Arabia	8,290	-	216,270	16,395	240,955	240,955	-	-	2,997	13.014	0.651
21 South Africa	1,794	-	11,922	7,147	20,863	20,863	-	-	9,562	-	-
22 Spain	1,842	921	324,302	127,307	454,372	454,372	-	-	47,702	25.911	1.296
23 Sweden	4,605	3,684	786,925	160,994	956,208	956,208	-	-	12,739	50.624	2.531
24 Switzerland	2,763	2,938	597,351	91,186	694,238	694,239	-	-	13,817	37.773	1.889
25 United Arab Emirates	4,145	-	4,145	-	8,290	8,290	-	-	-	0.442	0.022
26 United Kingdom	4,800	3,073	880,273	547,151	1,435,297	1,435,297	-	-	30,220	77.800	3.890
27 United States of America	12,434	8,290	1,915,761	306,944	2,243,429	2,127,759	-	115,670	22,148	114.692	5.735
<b>Total</b>	<b>173,684</b>	<b>41,060</b>	<b>15,187,781</b>	<b>3,367,648</b>	<b>18,770,173</b>	<b>18,639,621</b>	<b>7,018</b>	<b>122,228</b>	<b>390,698</b>	<b>2,000.00</b>	<b>100.00</b>
<b>Supplementary information:</b>											
Supplementary contributions through accelerated encashment to reduce the gap	-	-	38,565	-	38,565	38,565	-	-	-	-	-

*Slight differences may occur in totals due to rounding.*

## NOTE P – EVENTS AFTER THE BALANCE SHEET DATE

*The Sudan:* Pursuant to a Comprehensive Peace Agreement (CPA) signed at the end of the civil war in the Islamic Republic of Sudan in 2005, a referendum was held in January 2011 in southern Sudan to decide whether it should separate from the North and become an independent state. The final outcome of the referendum, announced on February 7, 2011, was a vote for the separation of South Sudan as an independent state. The separation is expected to take effect in July 2011. For the Fund, the split will have effect on the respective rights and obligations of the two states with regards to loans given by the Fund currently reported against Sudan in the Summary Statement of Loans in Note M. These are among matters currently being negotiated between representatives of the North and South Sudan. While this non-adjusting event will eventually impact the Statement of Loans it is not expected to have an impact on the overall financial position or performance of the Fund.



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

Year ended 31 December 2010

We have audited the accompanying special purpose financial statements of the African Development Fund ("the Fund") prepared in compliance with the accounting and financial reporting matters as set out in the accounting policies in note B to the Special Purpose Financial Statements for the year ended 31 December 2010.

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

This report is made solely to the Fund's Board of Governors, as a body, in accordance with Article 26(v), 35(1) and 35(3) of the Agreement establishing the Fund. Our audit work has been undertaken so that we might state to the Fund's Board of Governors those matters we are required to state to them in an 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 Fund and its Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

### **Management's Responsibility for the Annual Financial Statements**

Management is responsible for the preparation and presentation of these financial statements in accordance with articles 26(v), 35(1) and 35(3) of the Agreement Establishing the Fund and the accounting policies set out in Note B to the special purpose financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### **Auditor's Responsibility**

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

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

Société anonyme d'expertise  
comptable et de commissariat  
aux comptes à directoire et  
conseil de surveillance.  
Inscrite au Tableau de l'Ordre  
à Paris sous le n° 14-30080101  
et à la Compagnie Régionale  
des Commissaires aux Comptes  
de Versailles.

Siège social :  
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Capital : 5 497 100 €.   
Code APE 6920Z  
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TVA Union Européenne  
FR 77 775 726 417



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

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

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

### **Opinion**

In our opinion, the special purpose financial statements of the Fund have been prepared, in all material respects, in accordance with the accounting and financial reporting matters as set out in the accounting policies in note B to the special purpose financial statements for the year ended 31 December 2010.

Paris La Défense, 30 March 2011

KPMG Audit  
A division of KPMG S.A.

A handwritten signature in black ink, appearing to read 'P. Brouard', written over a horizontal line.

Pascal Brouard  
Partner

**ADF ADMINISTRATIVE BUDGET FOR FINANCIAL YEAR 2011**

(UA thousands)

Description	
Management Fees*	201,120
Direct Expenses	150
<b>Total</b>	<b>201,270</b>

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

## NIGERIA TRUST FUND

### Financial Management

#### Investments

The cash and treasury investments of the NTF are denominated in US Dollars and amounted to UA 107.95 million at December 31, 2010, compared to UA 102.79 million at the end of 2009. Investment income for 2010 amounted to UA 0.41 million, representing a return of 0.38 percent, on an average liquidity level of UA 108.40 million, compared with an income of UA 1.99 million in 2009, representing a return of 1.06 percent on an average liquidity of UA 187.15 million.

#### Loan Portfolio

Loans signed, net of cancellations, as at December 31, 2010, slightly decreased by UA 0.16 million to UA 245.65 million compared to UA 245.81 million at the end of 2009. As at the same date, there were 32 active signed loans and 39 fully repaid loans amounting to UA 52.55 million and UA 101.85 million, respectively.

#### Disbursements

Disbursements increased from UA 4.87 million in 2009 to UA 5.02 million in 2010 representing an increase of 3 percent.

As at December 31, 2010, cumulative disbursements amounted to UA 226.72 million. 61 loans were fully disbursed for a total amount of UA 205.34 million, representing 91 percent of cumulative disbursements.

#### Risk Management

##### Policies and Processes

Similar to the African Development Bank, the Nigeria Trust Fund seeks to reduce its exposure to risks that are not essential to its core business of providing development related assistance, such as liquidity, currency and interest rate risks. Note D to the Financial Statements provides the details of the risk management policies and practices employed by the NTF.

### Financial Results

The NTF's income before distributions approved by the Board of Governors decreased from UA 3.17 million in 2009 to UA 1.83 million in 2010, due mainly to the decrease in investment income. Investment income in 2010 decreased by UA 1.58 million as a result of the decline in interest rates as well as the reduction in average investment funds.

Administrative expenses, which represent the Fund's share of the total shareable expenses of the ADB group, decreased by UA 0.33 million from UA 0.80 million in 2009 to UA 0.47 million in 2010. The Fund's share of the total shareable expenses of the ADB group is based on a predetermined cost-sharing formula, which is driven by the relative levels of certain operational volume indicators and relative balance sheet size. However, the Fund's total administrative expense is subject to a ceiling of 20 percent of its gross income.

The Fund's reserves net of cumulative currency translation adjustments increased from UA 28.14 million at the end of 2009 to UA 32.28 million on December 31, 2010.