African Development Fund

Special Purpose Financial Statements and Report of the Independent Auditor Year ended December 31, 2013

STATEMENT OF NET DEVELOPMENT RESOURCES AS AT DECEMBER 31, 2013

(UA thousands – Note B)

		2013	2012
DEVELOPMENT RESOURCES			
DUE FROM BANKS		165,394	106,018
INVESTMENTS (Note D)			
Treasury investments, mandatorily at fair value	1,004,275		1,195,002
Treasury investments at amortized cost	2,067,836		2,116,268
Total investments		3,072,111	3,311,270
DEMAND OBLIGATIONS (Note E)		2,389,924	2,373,461
RECEIVABLES			
Accrued income on loans and investments	56,011		48,871
Other receivables	30,024		18,563
		86,035	67,434
LIABILITIES		(111,618)	(107,506)
NET DEVELOPMENT RESOURCES		**5,601,846**	**5,750,677**
FUNDING OF DEVELOPMENT RESOURCES			
SUBSCRIPTIONS AND CONTRIBUTIONS (Notes G & M)			
Amount subscribed including contributions through accelerated encashment of subscriptions	22,766,462		22,439,309
Less: Portion of accelerated encashment not yet effected	(1,503)		(39,105)
	22,764,959		22,400,204
Less: Installments not yet payable	(341,133)		(1,354,425)
	22,423,826		21,045,779
Less: Installments due	(7,018)		(7,018)
	22,416,808		21,038,761
Contributions paid on Multilateral Debt Relief Initiative	667,239		583,523
	23,084,047		21,622,284
Less: Unamortized discounts on subscriptions and contributions (Note B)	(127,726)		(128,855)
	22,956,321		21,493,429
Cumulative exchange adjustment on subscriptions and contributions (Note B)	(279,301)		(273,923)
Total subscriptions and contributions		22,677,020	21,219,506
OTHER RESOURCES (Note H)		509,960	425,270
RESERVES (Note I)		(131,915)	(8,390)
CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B)		(285,959)	(305,441)
		22,769,106	21,330,945
ALLOCATION OF DEVELOPMENT RESOURCES			
GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note F)		(4,001,175)	(3,358,986)
HIPC GRANTS DISBURSED (Note F)		(184,000)	(184,000)
NET DEBT RELIEF (Note F)		(4,799,441)	(4,823,297)
LOANS DISBURSED AND OUTSTANDING (Note F)		(8,182,644)	(7,213,985)
NET DEVELOPMENT RESOURCES		**5,601,846**	**5,750,677**

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, 2013

(UA thousands – Note B)

	2013	2012
INCOME AND EXPENSES		
Service charges on loans	58,054	47,157
Commitment charges on loans	19,524	18,512
Income on investments	67,334	87,958
Other income	179	595
Administrative expenses (Note K)	(225,874)	(185,270)
Discount on accelerated encashment of participants' demand obligations	(38,937)	(31,871)
Financial charges	(184)	(305)
Loss on exchange	(3,621)	(1,390)
Deficit	**(123,525)**	**(64,614)**
CHANGE IN DEVELOPMENT RESOURCES FUNDING		
Increase in paid-up subscriptions	1,378,047	1,106,042
Contributions received on account of Multilateral Debt Relief Initiative	83,716	87,919
Increase in other resources	84,690	35,000
Changes in accumulated exchange adjustment on subscriptions and contributions	(5,378)	18,470
Changes in unamortized discounts on subscriptions and contributions	1,129	10,668
Changes in accumulated translation adjustment	19,482	(13,876)
	1,561,686	**1,244,223**
CHANGE IN DEVELOPMENT RESOURCES ALLOCATION		
Disbursement of grants	(642,189)	(401,937)
Disbursement of loans	(1,060,019)	(767,664)
Repayment of loans	56,770	55,058
Recoveries on account of Multilateral Debt Relief Initiative	43,406	-
Translation adjustment on loans	15,040	36,694
	(1,586,992)	**(1,077,849)**
Change in Net Development Resources	(148,831)	101,760
Net Development Resources at the beginning of the year	5,750,677	5,648,917
NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR	**5,601,846**	**5,750,677**

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

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2013
(UA thousands – Note B)

	2013	2012
DEFICIT	(123,525)	(64,614)
OTHER COMPREHENSIVE INCOME		
Changes in accumulated translation adjustment	19,482	(13,876)
COMPREHENSIVE LOSS	**(104,043)**	**(78,490)**

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

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2013
(UA thousands – Note B)

	2013	2012
CASH FLOWS FROM:		
OPERATING ACTIVITIES:		
Deficit	(123,525)	(64,614)
Adjustments to reconcile net income to net cash provided by operating activities:		
Unrealized losses/(gains) on investments	3,199	(9,420)
Discount on accelerated encashment of participants' demand obligations	38,937	31,871
Changes in accrued income on loans and investments	(7,140)	(4,746)
Changes in net current assets	(14,443)	66,007
Net cash (used in)/provided by operating activities	(102,972)	19,098
INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:		
Disbursement of grants	(642,189)	(401,937)
Disbursement of loans	(1,060,019)	(767,664)
Repayment of loans	56,770	55,058
Recoveries on account of Multilateral Debt Relief Initiative	43,406	-
Investments maturing after 3 months of acquisition:		
Treasury investments, mandatorily at fair value	112,918	198,140
Treasury investments at amortized cost	94,945	(725,602)
Net cash used in investment, lending and development activities	(1,394,169)	(1,642,005)
FINANCING ACTIVITIES:		
Subscriptions and contributions received in cash	429,211	320,924
Participants' demand obligations encashed	936,407	1,064,037
Increase in other resources	84,690	35,000
Net cash provided by financing activities	1,450,308	1,419,961
Effect of exchange rate changes on cash and cash equivalents	9,695	2,676
Net decrease in cash and cash equivalents	(37,138)	(200,270)
Cash and cash equivalents at the beginning of the year	287,890	488,160
Cash and cash equivalents at the end of the year	**250,752**	**287,890**
COMPOSED OF:		
Cash	165,394	106,018
Investments maturing within 3 months of acquisition:		
Treasury investments, mandatorily at fair value	85,358	181,872
Cash and cash equivalents at the end of the year	**250,752**	**287,890**
SUPPLEMENTARY DISCLOSURE:		
Movements resulting from exchange rate fluctuations on:		
Loans	(15,040)	(36,694)
Subscriptions and contributions	(5,378)	18,470

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, 2013

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, where there are, 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, 2013 and 2012 are as follows:

	2013	2012
1 Unit of Account equals:		
Argentinian Peso	9.397020	6.106830
Brazilian Real	3.624860	3.148070
Canadian Dollar	1.638560	1.529540
Danish Krone	8.335560	8.697620
Euro	1.142710	1.165830
Indian Rupee	95.484500	84.295700
Japanese Yen	162.162000	133.020000
Korean Won	1,625.620000	1,648.350000
Kuwaiti Dinar	0.434665	0.432105
Norwegian Krone	9.413980	8.554320
Pound Sterling	0.935148	0.953662
South African Rand	16.154400	13.065600
Swedish Krona	10.022900	10.014000
Swiss Franc	1.372910	1.408740
Turkish Lira	3.099970	2.734570
United States Dollar	1.540000	1.536920

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.

Starting with the ADF-9 replenishment, 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-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' successive Resolutions governing the second through to the twelfth general replenishments of the Fund, which stipulated that Article 13 shall not apply to these 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).

Financial Assets

The Fund's financial assets are classified into the following categories: financial assets at amortized cost and financial assets at fair value through profit or loss (FVTPL). These classifications are determined based on the Fund's business model. In accordance with the Fund's business model, financial assets are held either for the stabilization of income through the management of net interest margin or for liquidity management. Management determines the classification of its financial assets at initial recognition.

i) Financial Assets at Amortized cost

A financial asset is classified at 'amortized cost' only if the asset meets the objective of the Fund's business model to hold the asset to collect the contractual cash flows; and the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding. The nature of any derivatives embedded in financial assets are considered in determining whether the cash flows of the investment are solely payment of principal and interest on the principal outstanding and are not accounted for separately.

If either of the two criteria above is not met, the financial asset is classified at 'fair value through profit or loss'.

Financial assets at amortized cost include mainly demand obligations and accrued income on loans and receivables and certain investments that meet the criteria of financial assets at amortized cost. Demand obligations are non-negotiable, non-interest-bearing notes payable on demand deposited for subscription payment.

The Fund also classifies at amortized cost, investments of the proceeds of accelerated encashment of notes. This is consistent with the business model of the Fund of collecting contractual cash flows. The primary objective of such financial assets is to recoup the discount granted to State Participants on the accelerated encashment program.

ii) Financial Assets at Fair Value through Profit or Loss (FVTPL)

Financial assets that do not meet the amortized cost criteria as described above are measured at FVTPL. This category includes all treasury assets held for resale to realize short-term fair value changes. Gains and losses on these financial assets are reported in the income statement in the period in which they arise. Derivatives are also categorized as financial assets at fair value through profit or loss.

Cash and cash equivalents include amounts due from banks, demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash, are subject to an insignificant risk of changes in value and have a time to maturity upon acquisition of three months or less.

Purchases and sales of financial assets are recognized on a trade-date basis, which is the date the Fund commits to purchase or sell the asset. Loans are recognized when cash is advanced to the borrowers. Income on investments includes interest earned and unrealized gains and losses on financial assets at FVTPL.

Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or where the Fund has transferred substantially all risks and rewards of ownership.

Investments

The Fund's investment securities are classified either as financial assets at amortized cost or as at fair value. Investments classified as financial assets at amortized cost include non-derivative financial assets with fixed or determinable payments and fixed maturities. These investments are carried and subsequently measured at amortized cost using the effective interest method. All other investment securities are classified as investments at fair value through profit or loss and measured at market value.

Income on investments includes interest earned and unrealized gains and losses on the portfolio held at fair value through profit or loss. 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. Country eligibility is determined by assessing gross national income per capita, creditworthiness and performance. Annual Debt Sustainability Analysis is used to determine the risk of debt distress of each beneficiary country and set appropriate financing terms.

The following categories of countries are eligible to ADF loans:

- Category A countries that are not deemed creditworthy for non-concessional financing and whose income levels are below the operational cut-off.
- Category A countries that are not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off (blend countries) have access to ADF funds with modified financing terms at par with those of blend countries.
- Category B countries are those deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off with access to a blend of ADB and ADF resources.

Graduating countries are those that are graduating from the category of ADF borrowing countries to the category of ADB borrowing countries and the graduating policies are determined for each new ADF replenishment.

Disbursed and outstanding loans are reported at amortized cost and not included in Net Development Resources in the special purpose financial statements as they represent an allocation of development resources. Accordingly, no provision for possible loan losses is required.

Loan income arising from interest, service and commitment charges is recognized on an accrual basis. The Fund places all loans to a borrower country in non-accrual status if the principal installments, interest 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 interests and charges that had previously been accrued on loans to the borrower are deducted from income on loans for that period. Interests and 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.

Partial Risk Guarantee

The Fund provides guaranties, through the Partial Risk Guarantees (PRGs) program, for credits issued in support of projects located within a member county that are undertaken by private entities. Under the PRGs program, the Fund provides financial guaranties for private lenders to a member country in the event that a member country fails to honor its contractual obligations with respect to private lenders to a project. The PRGs insure private lenders against well-defined political risks related to the failure of a government or government related entity to honor certain specified commitments such as political force majeure, currency inconvertibility, regulatory risks and various forms of breach of contract.

Under the PRGs framework the Fund executes the payment obligations if the borrower defaults and the lender consequently demanding payment from the Fund. In the event that a guarantee is called, the Fund has the contractual right to require payment from the member country that has provided the counter guarantee to the Fund.

Guarantee fee income received is deferred and amortized over the life of the guarantee.

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.

HIPC Debt Initiative

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.

Multilateral Debt Relief Initiative (MDRI)

Under the 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.

Financial Liabilities

Financial liabilities include accounts payable and are subsequently measured at amortized cost. Financial liabilities are derecognized upon discharge, cancellation or expiration.

Impairment of Financial Assets

The Fund assesses at each balance sheet date whether there is objective evidence that a financial asset or group of financial assets included in its Net Development Resources is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

If the Fund determines that there is objective evidence that an impairment loss has been incurred on its receivable or treasury investments held at amortized cost (described in prior years as held-to-maturity investment), the amount of the loss is measured as the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred), discounted at the financial asset's original effective interest rate. The estimated impairment loss may arise from delays that may be experienced in receiving amounts due, and the impairment calculations reflect management's best estimate of the effect of such delays.

The impairment loss is reported as a reduction to the carrying amount of the asset through the use of an allowance account and recognized in the income statement. If a treasury investment at amortized cost has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Loans are not included in Net Development Resources and are therefore not subject to impairment.

Fair Value Disclosure

The fair values of quoted financial assets in active markets are based on current bid prices, while those of liabilities are based on current asking prices. For financial instruments with inactive markets, the Fund establishes fair value by using valuation techniques that incorporate the maximum use of market data inputs. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Financial instruments for which market quotations are not readily available have been valued using methodologies and assumptions that necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not readily determinable. Management believes that these methodologies and assumptions are reasonable; however, the values actually realizable in a sale might be different from the fair values disclosed.

The following three hierarchical levels are used for the determination of fair value:

Level 1: Quoted prices in active markets for the same instrument (i.e. without modification or repackaging).

Level 2: Quoted prices in active markets for similar assets or liabilities or other valuation techniques for which all significant inputs are based on observable market data.

Level 3: Valuation techniques for which any significant input is not based on observable market data.

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

Investments: 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 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.

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

Events after the Balance Sheet date

The financial statements are adjusted to reflect events that occurred between the date of the 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 the Statement of Net Development Resources.

Events that are indicative of conditions that arose after the date of the Statement of Net Development resources are disclosed, but do not result in an adjustment of the financial statements themselves.

Reclassification

Certain reclassifications of prior year's amounts have been made to conform to the presentation in the current year. These reclassifications did not affect the prior year's reported result.

NOTE C – RISK MANAGEMENT POLICIES AND PROCEDURES

In carrying out its development mandate, the Fund seeks to maximize its capacity to assume core business risks resulting from its lending and investing operations while at the same time minimizing its non-core business risks (market risk, counterparty risk, and operational risk) that are incidental but nevertheless critical to the execution of its mandate.

The degree of risk the Fund is willing to assume to achieve its development mandate is limited by its commitment capacity. The Fund's overall risk management strategy is to minimize the exposure of its replenishment resources (the Commitment Capacity) to the risk of over-commitment and also to protect its Net Development Resources from currency translation losses that could negatively affect the Fund's long-term capacity to meet its development needs.

The policies, processes and procedures which the Fund uses to manage its risk profile continually evolve in response to market, credit, product, and other developments. The highest level of risk management oversight is assured by the Fund's Board of Executive Directors, which is chaired by the President. The Board of Directors is committed to the highest standards of corporate governance. In addition to approving all risk management policies, the Board of Directors regularly reviews trends in the Fund's risk profiles and performance to ensure compliance with the underlying policies.

The guiding principles by which the Fund manages its core and non-core risks are governed by the General Authority on Asset Liability Management (the ALM Authority) approved by the Board of Directors of the Fund.

The ALM Authority is the overarching framework through which Management has been vested with the authority to manage the Fund's liquid assets and liabilities within defined parameters. The ALM Authority sets out the guiding principles for managing the Fund's interest rate risk, currency exchange rate risk, liquidity risk, counterparty credit risk and operational risk. The ALM Authority covers the Fund's entire array of ALM activities.

Under the umbrella of the ALM Authority, the President is authorized to approve and amend more detailed operational guidelines as necessary, upon the recommendations of the Asset and Liability Management Committee (ALCO). The ALCO, chaired by the Vice President for Finance, is the oversight and control organ of the Fund's finance and treasury risk management activities.

The ALCO meets on a regular basis to perform its oversight role. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency risk, operational risk, financial projections, and financial products and services. In June 2012 the Bank Group also created the Credit Risk Committee (CRC), to ensure effective implementation of the Fund's credit policies and oversee all credit risk issues related to loan operations.

Day-to-day operational responsibility for implementing the Fund's financial and risk management policies and guidelines are delegated to the appropriate business units. The Financial Management Department is responsible for monitoring the day-to-day compliance with those policies and guidelines.

The following sections describe in detail the manner in which the individual sources of risk are managed by the Fund.

Credit Risk

Credit risk arises from the inability or unwillingness of counterparties to discharge their financial obligations. It is the potential financial loss due to default of one or more debtors/obligors. Credit risk is the largest source of risk for the Fund arising essentially from its lending and treasury operations.

The Fund's credit risk arises from two principal sources: (i) sovereign credit risk arising from lending to its qualifying RMCs and (ii) counterparty credit risk on its portfolio of treasury investments and derivative transactions.

Sovereign Credit Risk

The Fund provides concessional loans in order to fund economic and social development of its member countries which generally have a lower credit quality than ADB borrowers. Although loans are included in the financial statements as resources already allocated for development and therefore not included in the Net Development Resources, the Fund still manages sovereign credit risks to ensure equitable allocation of resources to eligible beneficiaries and ensure that expected reflows from loan repayments are properly monitored and managed. Country eligibility for loans is determined by assessing among other things, gross national income per capita, credit worthiness and performance. The Fund uses the International Monetary Fund/World Bank Debt Sustainability Framework (DSF) for Low-Income Countries, to make performance-based allocation (PBA) of ADF resources among the many competing needs in the continent and to ensure the funds are directed to areas they will be used most effectively. The PBA process, which is reviewed regularly, is also used to determine the proportion of ADF resources that is allocated in the form of grants to each qualifying borrower. On the basis of the debt sustainability analysis, certain countries are allocated grants-only resources, while others may receive a combination of loan and grant resources or loan resources only.

Country Exposure

The Fund's exposures as at December 31, 2013 from its lending activities are summarized below:

SUMMARY OF LOANS AS AT DECEMBER 31, 2013

(Amounts in UA thousands)

Country	No. of Loans*	Total Loans*	Unsigned Loan Amounts	Undisbursed Balances	Outstanding Balances	% of Total Outstanding Loans
Angola	14	79,327	2,900	45,328	31,099	0.38
Benin	31	335,722	39,500	102,282	193,940	2.37
Botswana	12	48,363	-	-	48,363	0.59
Burkina Faso	32	412,700	31,218	46,463	335,019	4.09
Burundi	6	23,628	-	1,925	21,703	0.27
Cabo Verde	28	98,586	-	8,951	89,635	1.10
Cameroon	29	583,588	13,610	302,625	267,353	3.27
Central African Republic	1	1,040	-	1,040	-	-
Chad	40	275,954	3,970	25,854	246,130	3.01
Congo	2	17,563	-	10,000	7,563	0.09
Côte d'Ivoire	2	37,855	-	13,906	23,949	0.29
Democratic Republic of Congo	7	87,045	2,135	1,895	83,015	1.01
Djibouti	17	79,393	-	269	79,124	0.97
Egypt	17	135,414	-	-	135,414	1.65
Equatorial Guinea	11	25,346	-	-	25,346	0.31
Eritrea	6	67,891	-	-	67,891	0.83
Ethiopia	26	1,305,415	84,080	482,788	738,547	9.03
Gabon	1	1,170	-	-	1,170	0.01
Gambia	10	30,857	-	-	30,857	0.38
Ghana	38	730,768	-	202,545	528,223	6.46
Guinea	12	62,303	-	4,690	57,613	0.70
Guinea-Bissau	8	22,624	-	2,598	20,026	0.24
Kenya	54	1,625,504	138,720	712,554	774,230	9.46
Lesotho	35	139,081	9,220	1,109	128,752	1.57
Liberia	5	26,466	-	26,230	236	0.00
Madagascar	22	303,095	-	108,045	195,050	2.38
Malawi	23	210,189	-	74,577	135,612	1.66
Mali	42	568,822	33,856	118,151	416,815	5.09
Mauritania	14	63,844	-	10,094	53,750	0.66
Mauritius	2	1,773	-	-	1,773	0.02
Morocco	5	30,633	-	-	30,633	0.37
Mozambique	35	703,793	-	266,681	437,112	5.34
Namibia	2	11,929	-	-	11,929	0.15
Niger	21	207,813	-	73,186	134,627	1.65
Nigeria	25	783,089	120,580	281,415	381,094	4.66
Rwanda	19	213,244	-	64,565	148,679	1.82
São Tomé & Príncipe	4	4,628	-	560	4,068	0.05
Senegal	35	453,967	21,190	65,354	367,423	4.49
Seychelles	3	5,546	-	-	5,546	0.07
Sierra Leone	13	76,220	-	19,199	57,021	0.70
Somalia **	17	64,328	-	-	64,328	0.79
Sudan ** +	15	176,617	-	-	176,617	2.16
Swaziland	8	31,324	-	-	31,324	0.38
Tanzania	41	1,342,301	38,385	490,000	813,916	9.95
Togo	2	21,003	-	17,800	3,203	0.04
Uganda	34	945,681	72,940	334,437	538,304	6.58
Zambia	22	388,997	22,220	176,533	190,244	2.32
Zimbabwe **	10	34,848	-	-	34,848	0.43
Multinational	12	83,380	16,000	53,850	13,530	0.17
Total	**870**	**12,980,667**	**650,524**	**4,147,499**	**8,182,644**	**100.00**

\+ *The outcome of the referendum conducted in South Sudan in January 2011 supported the creation of an independent state of South Sudan. After the split of the current state of Sudan into two separate nations became 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. At end of December 2013, no decision has been taken by the states of the North and South Sudan regarding the terms and conditions of such exchange.*

* *Excludes fully repaid loans and canceled loans.*
** *Countries in non-accrual status as at December 31, 2013.*

Slight differences may occur in totals due to rounding.

Counterparty Credit Risk

In the normal course of business, the Fund utilizes various financial instruments to meet the needs of its borrowers, manage its exposure to fluctuations in market interest and currency rates, and to temporarily invest its liquid resources prior to disbursement. All of these financial instruments involve, to varying degrees, the risk that the counterparty to the transaction may be unable to meet its obligation to the Fund. Given the nature of the Fund's business, it is not possible to completely eliminate counterparty credit risk, however, the Fund minimizes this risk by executing transactions within a prudential framework of approved counterparties, minimum credit rating standards, counterparty exposure limits, and counterparty credit risk mitigation measures.

Counterparties must meet the Fund's minimum credit rating requirements and are approved by the Bank Group's Vice President for Finance. ALCO approves counterparties that are rated below the minimum rating requirements.

Counterparties are classified as investment counterparties, derivative counterparties, and trading counterparties. Their ratings are closely monitored by the Financial Management Department.

For trading counterparties, the Fund requires a minimum short-term credit rating of A-2/P-2/F-2 for trades settled under delivery vs. payment (DVP) terms and a minimum long-term credit rating of A/A2 for non-DVP-based transactions.

The following table details the minimum credit ratings for authorized investment counterparties:

	Maturity					
	6 months	1 year	5 years	10 years	15 years	30 years
Government		A/A2			AA-/Aa3	AAA/Aaa
Government agencies and supranationals		A/A2			AA-/Aa3	AAA/Aaa
Banks	A/A2		AA-/Aa3	AAA/Aaa		
Corporations including non-bank financial institutions	A/A2		AA-/Aa3	AAA/Aaa		
MBS/ABS	AAA Maximum legal maturity of 50 years for ABS/MBS with the underlying collateral originated in the UK and 40-year maximum legal maturity for all other eligible ABS/MBS. Also, the maximum weighted average life for all ABS/MBS at the time of acquisition shall not exceed 5 years.					

The Fund uses derivatives in the management of its assets and liabilities. As a rule, the Fund executes an ISDA master agreement and collateral exchange agreement with its derivative counterparties prior to undertaking any transactions. Derivative counter- parties are required to be rated AA-/Aa3 by at least two approved rating agencies or A-/A3 for counterparties with whom the Fund has entered into a collateral exchange agreement. These counterparties require the approval of ALCO. Approved transactions with derivative counterparties include swaps, forwards, options and other over-the-counter derivatives.

In addition to these minimum rating requirements, the Fund operates within a framework of exposure limits based on the counter- party credit rating and size, subject to a stipulated maximum for any single counterparty. Individual counterparty credit exposures are aggregated across all instruments using the Bank for International Settlements (BIS) potential future exposure methodology and monitored regularly against the Fund's credit limits after considering the benefits of any collateral.

	Credit Risk Profile of the Investment and Derivative Portfolios		
	AAA	AA+ to AA-	A+ and lower
2013	48%	48%	4%
2012	61%	33%	6%
2011	55%	34%	11%

Liquidity Risk

Liquidity risk is the potential for loss resulting from insufficient liquidity to meet cash flow needs in a timely manner. The Fund's principal liquidity risk management objective is to hold sufficient liquid resources to enable it to meet all probable cash flow needs for between 50 and 75 percent of the three years' moving average of expected disbursements.

To strike a balance between generating adequate investment returns and holding securities that can be easily sold for cash if the need arises, the Fund divides its investment portfolio into two tranches with different liquidity objectives and benchmarks. The Fund's core liquidity portfolio, which is fair valued, is invested in highly liquid securities that can be readily liquidated if the need arises to meet the Fund's short-term liquidity needs. In addition to the trading portfolio, the Fund maintains a second tranche of liquidity under the broad category of amortized cost portfolio, which is held in a portfolio of fixed income securities intended to earn contractual cash flows.

Currency Exchange Risk

Currency risk is the potential loss due to adverse movements in market foreign exchange rates. To promote stable growth in the Fund's Net Assets, including its Net Development Resources (NDR) and outstanding loans, the Fund's principal currency risk management objective is to ensure that it is able to provide the disbursement currencies requested by borrowers while minimizing the exposure of its net development resources to adverse exchange rate movements. To the extent possible, the Fund shall maintain the alignment of the currency composition of its Net Assets with the UA as the primary benchmark of its currency composition. The Fund may conduct currency exchange transactions for the following two reasons: (1) to align the currency composition of its Net Assets (loan and investment portfolios) with the UA, (2) for the purpose of providing ADF borrowers with the disbursement currencies requested.

Interest Rate Risk

Interest rate risk is the potential for loss due to adverse movements in market interest rates. In seeking to earn a stable and reasonable return on invested liquidity, the Fund's principal interest rate risk management is to reduce the sensitivity of the Fund's investment returns to changes in market interest rates. To achieve this objective, the Fund's investments are managed in two portfolios: (1) an actively managed portfolio (the "Operational" Portfolio); and (2) a passively managed portfolio (the "Investment" Portfolio).

The Operational Portfolio provides a readily available source of liquidity to cover both expected and unexpected disbursements as well as any other probable cash outflows. The Operational Portfolio is managed against a 3-month LIBOR reference benchmark in each currency. Generally, investments in the Operational Portfolio are held for trading and are regularly marked to market.

The Investment Portfolio consists of funds that are not immediately required for loan disbursements and therefore may be invested for a longer horizon. Generally, investments in the Investment Portfolio are purchased with the intention to hold them until their maturity and are not marked to market. The Investment Portfolio comprises two sub-portfolios, (1) an investment portfolio for income stabilization for the purpose of generating a stable income for the Fund and reducing the Fund's investment income sensitivity to interest rates. This portfolio is managed against a ten-year uniform re-pricing profile for each invested currency, and (2) an investment portfolio for accelerated encashments for the purpose of investing proceeds from accelerated encashments to recoup the discount granted to State Participants, minimizing or eliminating interest rate risk on accelerated encashments. This portfolio is managed against a target rate, which is the discount rate agreed with State Participants.

Interest Rate Risk Position as at December 31, 2013

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	165,394	-	-	-	-	-	165,394
Investments	1,032,335	749,467	295,405	301,331	238,063	455,510	3,072,111
Demand obligations	678,047	547,256	436,977	286,479	192,138	249,027	2,389,924
Accounts receivable	86,035	-	-	-	-	-	86,035
	1,961,811	1,296,723	732,382	587,810	430,201	704,537	5,713,464
Liabilities							
Accounts payable	(111,618)	-	-	-	-	-	(111,618)
	(111,618)	-	-	-	-	-	(111,618)
Net Development Resources at December 31, 2013	**1,850,193**	**1,296,723**	**732,382**	**587,810**	**430,201**	**704,537**	**5,601,846**

Interest Rate Risk Position as at December 31, 2012

(UA thousands)

	1 year or less	More than 1 year but less than 2 years	More than 2 years but less than 3 years	More than 3 years but less than 4 years	More than 4 years but less than 5 years	More than 5 years	Total
Assets							
Cash	106,018	-	-	-	-	-	106,018
Investments	855,749	843,590	559,220	190,019	304,220	558,472	3,311,270
Demand obligations	928,778	617,877	492,749	272,798	35,680	25,579	2,373,461
Accounts receivable	67,434	-	-	-	-	-	67,434
	1,957,979	1,461,467	1,051,969	462,817	339,900	584,051	5,858,183
Liabilities							
Accounts payable	(107,506)	-	-	-	-	-	(107,506)
	(107,506)	-	-	-	-	-	(107,506)
Net Development Resources at December 31, 2012	**1,850,473**	**1,461,467**	**1,051,969**	**462,817**	**339,900**	**584,051**	**5,750,677**

NOTE D – FINANCIAL ASSETS AND LIABILITIES

The tables below set out the classification of each class of financial assets and liabilities, and their respective fair values:

Analysis of Financial Assets and Liabilities by Measurement Basis.

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss					
December 31, 2013	**Mandatorily at Fair Value**	**Designated at Fair Value**	**Fair Value through Other Compre-hensive Income**	**Financial Assets and Liabilities at Amortized Cost**	**Total Carrying Amount**	**Fair Value**
Cash	-	-	-	165,394	165,394	165,394
Treasury investments	1,004,275	-	-	2,067,836	3,072,111	3,151,184
Demand obligations	-	-	-	2,389,924	2,389,924	2,389,924
Accounts receivable	-	-	-	86,035	86,035	86,035
Total financial assets	**1,004,275**	**-**	**-**	**4,709,189**	**5,713,464**	**5,792,537**
Liabilities	-	-	-	111,618	111,618	111,618
Total financial liabilities	**-**	**-**	**-**	**111,618**	**111,618**	**111,618**

(UA thousands)

	Financial Assets and Liabilities through Profit or Loss					
December 31, 2012	**Mandatorily at Fair Value**	**Designated at Fair Value**	**Fair Value through Other Compre-hensive Income**	**Financial Assets and Liabilities at Amortized Cost**	**Total Carrying Amount**	**Fair Value**
Cash	-	-	-	106,018	106,018	106,018
Treasury investments	1,195,002	-	-	2,116,268	3,311,270	3,447,257
Demand obligations	-	-	-	2,373,461	2,373,461	2,373,461
Accounts receivable	-	-	-	67,434	67,434	67,434
Total financial assets	**1,195,002**	**-**	**-**	**4,663,181**	**5,858,183**	**5,994,170**
Liabilities	-	-	-	107,506	107,506	107,506
Total financial liabilities	**-**	**-**	**-**	**107,506**	**107,506**	**107,506**

The composition of investments as at December 31, 2013 and 2012 was as follows:

(UA thousands)

	2013	2012
Treasury investments mandatorily measured at FVTPL	1,004,275	1,195,002
Treasury investments at amortized cost	2,067,836	2,116,268
Total	**3,072,111**	**3,311,270**

Treasury Investments Mandatorily Measured at Fair Value through Profit or Loss (FVTPL)

A summary of the Fund's treasury investments measured at FVTPL at December 31, 2013 and 2012 follows:

(UA millions)

	US Dollar		Euro		GBP		All Currencies	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Time deposits	10.28	57.74	-	-	75.08	124.14	85.36	181.88
Asset-backed securities	26.10	29.53	23.32	22.72	33.90	-	83.32	52.25
Government and agency obligations	144.52	442.25	151.71	76.60	223.42	5.24	519.65	524.09
Corporate bonds	107.42	173.84	78.55	147.54	65.03	-	251.00	321.38
Supranational	20.47	55.72	5.38	39.61	39.10	20.07	64.95	115.40
Total	**308.79**	**759.08**	**258.96**	**286.47**	**436.53**	**149.45**	**1,004.28**	**1,195.00**

The contractual maturity structure of investments measured at FVTPL at December 31, 2013 and 2012 was as follows:

(UA millions)

	2013	2012
One year or less	505.36	446.02
More than one year but less than two years	380.16	404.83
More than two years but less than three years	66.48	244.24
More than three years but less than four years	4.01	18.25
More than four years but less than five years	-	43.53
More than five years	48.27	38.13
Total	**1,004.28**	**1,195.00**

Treasury Investments at Amortized Cost

A summary of the Fund's treasury investments at amortized cost at December 31, 2013 and 2012 follows:

(UA millions)

	US Dollar		Euro		GBP		All Currencies	
	2013	2012	**2013**	2012	**2013**	2012	**2013**	2012
Asset-backed securities	12.82	12.78	-	-	-	-	12.82	12.78
Government and agency obligations	647.88	732.49	406.60	312.61	120.57	140.76	1,175.05	1,185.86
Corporate bonds	146.07	217.38	155.24	191.50	32.87	34.24	334.18	443.12
Supranational	347.89	335.46	153.65	95.15	44.25	43.90	545.79	474.51
Total	**1,154.66**	**1,298.11**	**715.49**	**599.26**	**197.69**	**218.90**	**2,067.84**	**2,116.27**

The contractual maturity structure of investments at amortized cost at December 31, 2013 and 2012 was as follows:

(UA millions)

	2013	2012
One year or less	526.98	409.73
More than one year but less than two years	369.31	438.76
More than two years but less than three years	228.92	314.98
More than three years but less than four years	297.32	171.77
More than four years but less than five years	238.06	260.69
More than five years	407.25	520.34
Total	**2,067.84**	**2,116.27**

The Fund has also entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at December 31, 2013, the Fund had 402 contracts in Euro, 1,040 contracts in Pound Sterling and 639 contracts in US Dollars. The nominal value of each contract is one million of each currency unit, except for 1,040 GBP contracts with a nominal value of 500,000 for each contract.

NOTE E – 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 F – 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. With effect from the ADF 12 replenishment, loans to blend, gap and graduating countries carry differentiated financing terms of thirty (30) years' maturity, grace period of 8 years and interest rate of 1 percent, in addition to the existing standard 0.50 percent commitment fee and 0.75 percent service charge.

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, 2013, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 33.40 million (2012: UA 13.83 million).

The Fund also provides Partial Reimbursement Guarantees (PRGs) to private entities for development exposures on projects located in Regional Member Countries. Such guarantees represent potential risk to the Fund if amounts guaranteed for an entity are not reimbursed. As at December 31, 2013, guarantees provided by the Fund to private entities on account of its borrowers amounted to UA 137.50 million (2012: nil).

As at December 31, 2013, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 275.79 million (2012: UA 283.56 million) of which UA 103.17 million (2012: UA 98.10 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, 2013, would have been higher by UA 2.07 million (2012: UA 3.84 million). At December 31, 2013, the cumulative charges not recognized on the non-accrual loans amounted to UA 38.79 million, compared to UA 39.47 million at December 31, 2012.

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.

At December 31, 2013, outstanding loans amounted to UA 8,182.64 million (2012: UA 7,213.99 million).

Maturity and Currency Composition of Outstanding Loans

The maturity distribution of outstanding loans as at December 31, 2013 and 2012 was as follows:

(Amounts in UA millions)

	2013		2012	
Period	**Amount**	**%**	**Amount**	**%**
One year or less	173.83	2.12	162.05	2.25
More than one year but less than two years	77.39	0.95	71.87	1.00
More than two years but less than three years	82.10	1.00	78.71	1.09
More than three years but less than four years	89.32	1.09	83.11	1.15
More than four years but less than five years	98.07	1.20	89.84	1.25
More than five years	7,661.93	93.64	6,728.41	93.26
Total	**8,182.64**	**100.00**	**7,213.99**	**100.00**

The currency composition of outstanding loans as at December 31, 2013 and 2012 was as follows:

(Amounts in UA millions)

	2013		2012	
Currency	**Amount**	**%**	**Amount**	**%**
Canadian Dollar	11.69	0.14	12.98	0.18
Danish Kroner	11.28	0.14	11.40	0.16
Euro	3,120.98	38.14	2,767.56	38.37
Japanese Yen	660.34	8.07	722.73	10.02
Norwegian Krone	21.05	0.26	23.79	0.33
Pound Sterling	369.31	4.51	226.61	3.14
Swedish Krona	14.24	0.18	16.06	0.22
Swiss Franc	56.92	0.70	57.01	0.79
United States Dollar	3,916.51	47.86	3,375.50	46.79
Others	0.32	-	0.35	-
Total	**8,182.64**	**100.00**	**7,213.99**	**100.00**

Slight differences may occur in totals due to rounding.

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 7.5 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, eleventh and twelfth 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' 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 33 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, 2013 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 the 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 HIPCs by providing additional resources to help 38 countries worldwide, 33 of which are in Africa, to make progress towards achieving the Millennium Development Goals (MDGs), while simultaneously safeguarding the long-term financing capacity of the ADF and the IDA. The debt cancellation is delivered by relieving post-completion-point HIPCs’ repayment obligations and adjusting their gross assistance flows downward by the same amount. To maintain the financial integrity of the ADF, donors 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, 2013, a gross amount of UA 5.53 billion (2012: UA 5.52 billion) of outstanding loans had been canceled under MDRI for 29 (2012: 28) HIPC completion-point countries. Of this amount, UA 1,225.99 million (2012: 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 (2012: UA 942.71 million). As of December 31, 2013, 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, 2013 and 2012 follows:

(UA thousands)

	2013			2012		
	HIPC	**MDRI**	**Total**	**HIPC**	**MDRI**	**Total**
Balance at January 1	235,096	4,588,201	4,823,297	235,096	4,247,658	4,482,754
Loans canceled*	-	19,550	19,550	-	340,543	340,543
Cash received*	-	(43,406)	(43,406)	-	-	-
Balance at December 31	**235,096**	**4,564,345**	**4,799,441**	**235,096**	**4,588,201**	**4,823,297**

** 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-9) 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-8 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 G – 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 twelve general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note M.

The Board of Governors, by its resolution F/BG/2011/01 of January 20, 2011, approved the twelfth general replenishment of the Fund (ADF-12), following the Deputies agreement for a replenishment level of UA 6.10 billion, of which UA 2.01 billion represents internally generated resources, for the three-year operational period, 2011 to 2013. ADF-12 came into effect on May 3, 2011 after the State Participants had deposited with the Fund, enough instruments of subscriptions to meet the threshold of 30 percent of pledged subscriptions. At December 31, 2013, subscriptions to ADF-12 amounted to UA 3.77 billion.

The Republic of Turkey was admitted to the ADF on October 29, 2013, becoming the Fund's 26th State Participant. As per the Board of Governors' Resolution F/BG/2008/05, Turkey's initial subscription amount was set to UA 40.69 million. This subscription amount was paid in full on June 25, 2013, and included in the Fund's resources.

At their meeting held in Paris on September 25 and 26, 2013, the Deputies reached agreement on the terms of the Thirteenth General Replenishment (ADF-13) of the Fund. In accordance with the Agreement establishing the Fund, the replenishment report authorizing the ADF-13 replenishment has been submitted to, and approved by the Board of Governors by its Resolution F/BG/2014/01 of January 31, 2014. The thirteenth 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, 2013, cumulative contributions pledged on account of the MDRI amounted to UA 5.67 billion of which UA 667.24 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 M.

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 H – 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, 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 496.99 million representing contributions by the Bank of UA 494.99 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 I – RESERVES

Reserves as at December 31, 2013 and 2012 were as follows:

(UA thousands)

	2013	2012
Reserves at January 1	(8,390)	56,224
Deficit for the year	(123,525)	(64,614)
Reserves at December 31	**(131,915)**	**(8,390)**

NOTE J – TRUST FUNDS

The Fund has available resources 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, 2013, the undisbursed balance of trust fund resources was UA 3.22 million (2012: UA 2.68 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 225.87 million (2012: UA 185.27 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 one of its State Participants.

NOTE M – STATEMENT OF SUBSCRIPTIONS, CONTRIBUTIONS AND VOTING POWER AS AT DECEMBER 31, 2013

(Amounts in UA thousands)

		Subscriptions					Payment Positions			MDRI	Voting Power	
	Participants	Initial	Special Increase	ADF-1 to ADF-11	ADF-12 Installments including ADF-9 Grants Compen-sation	Total Subscrip-tions	Total Install-ments Paid	Install-ments Due	Install-ments 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	9,771	18,631	1,842	7,018	9,771	-	0.082	0.004
3	Austria	13,816	-	283,612	95,706	393,134	393,134	-	-	9,396	17.827	0.891
4	Belgium	2,763	-	358,050	84,281	445,094	445,094	-	-	12,266	20.255	1.013
5	Brazil	1,842	921	131,258	9,608	143,629	143,629	-	-	-	6.361	0.318
6	Canada	13,816	6,908	1,353,038	204,452	1,578,214	1,578,214	-	-	95,664	74.131	3.707
7	China	13,816	-	338,003	83,922	435,741	435,741	-	-	12,994	19.873	0.994
8	Denmark	4,605	1,842	503,854	77,294	587,595	587,595	-	-	8,608	26.404	1.320
9	Egypt	-	-	-	1,303	1,303	1,303	-	-	-	-	-
10	Finland	1,842	-	339,085	112,024	452,951	451,993	-	-	11,870	20.543	1.027
11	France	8,809	-	1,915,041	356,206	2,280,056	2,280,056	-	-	72,803	104.201	5.210
12	Germany	6,860	6,956	1,877,300	400,000	2,291,116	2,291,116	-	-	52,306	103.783	5.189
13	India	5,526	-	64,344	9,624	79,494	79,297	-	-	1,377	3.573	0.179
14	Italy	9,211	-	1,284,113	194,271	1,487,595	1,487,595	-	-	29,637	56.715	2.836
15	Japan	13,816	-	2,183,392	274,604	2,471,812	2,471,812	-	-	52,876	111.810	5.591
16	Korea	9,211	-	145,805	53,857	208,873	208,873	-	-	5,967	9.515	0.476
17	Kuwait	4,974	-	159,485	7,361	171,820	171,820	-	-	13,118	8.190	0.410
18	Netherlands	3,684	1,842	735,730	201,066	942,322	941,974	-	-	26,114	42.343	2.117
19	Norway	4,605	2,303	804,106	179,774	990,788	990,788	-	-	28,013	44.818	2.241
20	Portugal	7,368	-	136,628	-	143,996	143,996	-	-	4,473	6.575	0.329
21	Saudi Arabia	8,290	-	232,665	19,543	260,498	260,498	-	-	3,997	11.714	0.586
22	South Africa	1,794	-	19,069	10,424	31,287	31,287	-	-	9,562	-	-
23	Spain	1,842	921	435,241	122,684	560,688	452,252	-	108,436	48,167	22.162	1.108
24	Sweden	4,605	3,684	927,919	178,041	1,114,249	1,114,249	-	-	31,653	50.748	2.537
25	Switzerland	2,763	2,938	688,537	100,843	795,081	795,081	-	-	25,296	36.332	1.817
26	Turkey	40,693	-	-	-	40,693	40,693	-	-	-	1.802	0.090
27	United Arab Emirates	4,145	-	4,145	-	8,290	8,290	-	-	-	0.367	0.018
28	United Kingdom	4,800	3,073	1,420,274	572,403	2,000,550	2,000,550	-	-	63,137	91.394	4.570
29	United States of America	12,434	8,290	2,222,705	381,083	2,624,512	2,401,586	-	222,926	47,945	108.482	5.424
	Supplementary/ voluntary contributions	-	-	87,539	7,170	94,709	94,709	-	-	-	-	-
	Total	**214,377**	**41,060**	**18,763,710**	**3,747,315**	**22,766,462**	**22,416,808**	**7,018**	**341,133**	**667,239**	**2,000.000**	**100.000**
	Supplementary information:											
	Supplementary contributions through accelerated encashment to reduce the gap	-	-	38,565	21,614	60,179	38,565	-	21,614	6,195	-	-

NOTE N – APPROVAL OF SPECIAL PURPOSE FIANCIAL STATMEENTS

On March 26, 2014, the Board of Directors of the Bank authorized these financial statements for issue to the Board of Governors. The financial statements are expected to be approved by the Board of Governors of the African Development Bank at its annual meeting in May 2014.

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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 2013

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 2013.

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(l) 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(l) 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 auditor's 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(l) 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.

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 2013.

Paris La Défense, 26th March 2014

KPMG Audit
A division of KPMG S.A.

Valéry Foussé
Partner

ADF ADMINISTRATIVE BUDGET FOR FINANCIAL YEAR 2014

(UA thousands)

Management Fees*	241, 970
Direct Expenses	150
Total	**242,120**

* *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

NTF Replenishment

The Nigeria Trust Fund (NTF) is a special fund administered by the Bank. The Fund's resources primarily consist of subscriptions by the Federal Republic of Nigeria. The NTF was established in 1976, for an initial period of thirty (30) years, when an agreement establishing the NTF was executed between the Bank and the Federal Republic of Nigeria, with a provision for extension by mutual agreement. After two annual extensions in 2006 and 2007, the operation of the NTF was extended for ten years with effect from April 25, 2008, following a positive evaluation of its performance during the initial thirty (30) years of operation.

Loan Products

NTF provides financing in the form of loans to the least developed and low income Regional Member Countries at concessionary rates in order to enhance economic development and social progress in Africa. While in the past the NTF has provided concessional financing exclusively to public sector operations, for the extension period to 2018, the Fund's mandate has been expanded to cover financial support to private sector operations as well, including the microfinance subsector.

Investments

The cash and treasury investments of the NTF, all denominated in US Dollars, amounted to UA 120.75 million at December 31, 2013, compared to UA 126.57 million at the end of 2012. Investment income for 2013 was UA 0.45 million, representing a return of 0.38 percent, on an average liquidity level of UA 117.89 million, compared to an income of UA 0.98 million representing a return of 0.93 percent on an average liquidity of UA 105.71 million in 2012. The stabilization of credit spreads at tighter levels in 2013 did not generate large capital gains similar to 2012. As a result, the relative performance of the portfolio versus its benchmark is therefore lower.

Loan Portfolio

Cumulative loans signed, net of cancellations, as at December 31, 2013, increased by UA 18.77 million to UA 278.77 million compared to UA 260 million at the end of 2012. During 2013, there were new loan approvals of UA 31.17 million compared with UA 12.90 million in 2012. Table 7.8 presents the evolution of loans approved, loans disbursed and the undisbursed balances from 2009 to 2013. From the table, the level of loan approvals continues to show an upward trend since 2010.

As at December 31, 2013, there were 35 active loans with an outstanding amount of UA 45.75 million and 43 fully repaid loans amounting to UA 123.33 million.

Disbursements

Disbursements decreased from UA 1.76 million in 2012 to UA 0.96 million in 2013. As at December 31, 2013, cumulative disbursements amounted to UA 238.07 million. A total of 69 loans amounting to UA 235.06 million were fully disbursed as at December 31, 2013, representing 98.73 percent of cumulative disbursements on that date. Figure 7.4 shows the evolution of loan disbursements and repayments over the past five years.

Repayments

Principal loan repayments amounted to UA 6.09 million in 2013 compared to UA 6.28 million in 2012, representing a decrease of 3.01 percent over the previous year. Cumulative repayments as of December 2013 stood at UA 160.05 million.

Figure 7.4
Loan Disbursements and Repayments, 2009-2013 (UA millions)

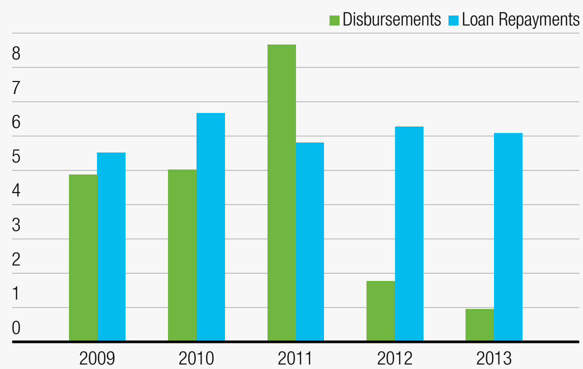

Table 7.8
Lending Status, 2009-2013
(UA millions)

	2009	2010	2011	2012	2013
Loans approved	5.00	0.70	10.00	12.90	31.17
Disbursements	4.87	5.02	8.67	1.76	0.96
Undisbursed Balances	24.12	18.94	9.73	22.86	40.70

Risk Management Policies and Processes

The NTF, similar to the Bank, 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. The Fund follows stringent risk management procedures in managing these risks. Note D to the Financial Statements of the Fund provides the details of the risk management policies and practices employed by NTF.

Financial Results

The highlights of the Nigeria Trust Fund's financial performance in 2013 include the following:

- NTF's income before distributions approved by the Board of Governors decreased by UA 0.59 million from UA 2.17 million in 2012 to UA 1.58 million in 2013, mainly due to a decrease in investment income, owing to the low interest rates. Loan income also decreased slightly from UA 1.70 million in 2012 to UA 1.53 million as a result of the reduction in the interest rates charged on NTF loans from 4 percent to a range of 2 percent to 4 percent following the revision to its Agreement.

- Administrative expenses representing the NTF's share of the total shareable expenses of the ADB Group, decreased by UA 0.14 million from UA 0.56 million in 2012 to UA 0.40 million in 2013. The NTF'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 NTF's share of the total administrative expenses is capped at no more than 20 percent of its gross income in any year.

The NTF's reserves net of cumulative currency translation adjustments increased from UA 36.03 million at the end of 2012 to UA 37.19 million on December 31, 2013, a 3.22 percent increase.

Nigeria Trust Fund

Financial Statements and Report of the Independent Auditor Year ended December 31, 2013