# THE AFRICAN DEVELOPMENT FUND

## FINANCIAL MANAGEMENT

### Subscriptions

*ADF Replenishments*

The resources of the African Development Fund (the ADF or the Fund) primarily consist of subscriptions by the Bank, subscriptions and contributions made by State Participants and Donors, together with other resources received by the Fund. Cumulative subscriptions to the ADF amounted to UA 30.06 billion at 31 December 2019.

Subsequent to the initial subscriptions, additional resources have been provided to the ADF in the form of periodic general replenishments, typically on a three-year cycle.

The Fourteenth Replenishment of the ADF (ADF-14) became effective on 20 June 2017 following its adoption by the Board of Governors on 27 April 2017. State participants agreed on an ADF-14 resource level of UA 4,224.05 million comprised of: (i) Donor subscriptions of UA 3,362.94 million[1]; (ii) Concessional Donor Loans of UA 116.05 million (net of grant element[2]); (iii) Advanced Commitment Capacity of UA 743.81 million; and (iv) supplementary contribution of UA 1.25 million from Luxembourg.

As of 31 December, 2019, State Participants had subscribed a total amount of UA 3.34 billion, representing 99.28 percent of the ADF-14 pledged amount.

In 2019, State Participants completed a successful 15th replenishment of the African Development Fund (ADF-15). When effective, the replenishment of UA 5.62 billion will support development projects and programs over the replenishment cycle 2020–2022 for the 37 low-income African countries, including fragile states. The replenishment also reverses the lower ADF envelopes of the two previous replenishment cycles and was 34 percent higher than ADF-14. Three Regional Member Countries—Angola, Egypt, and South Africa—pledged contributions to ADF-15. Underlining the continuing importance of addressing the roots of fragility and improving resilience as key ADF-15 priorities, the resources allocated to the Transition States Facility was increased by 13 percent. The State Participants also agreed to replenish the ADF Project Preparation Facility with UA 75 million and to increase the Regional Operations Envelope from 21 percent to 25 percent of the total resources available for commitment. Finally, the continuing relevance of the Private Sector Facility in low-income countries, particularly in transition states, with the approval of an additional allocation of UA 100 million.

### Financial Products

The ADF is the concessional financing window of the Bank Group that provides low-income regional member countries with concessional loans as well as grants for projects and programs, risk guarantees and support through technical assistance for studies and capacity building.

*Loans*

Prior to the ADF-13 replenishment, the ADF was operating under differentiated lending terms for ADF-eligible countries classified as blend, gap and graduating versus ADF-only countries.

Accordingly, loans extended to blend, gap and graduating countries had a maturity period of 30 years, including an 8-year grace period with an interest rate of 1 percent per annum. For ADF-only countries, their loans had a maturity period of 50 years, including a grace period of 10 years, with no interest rate. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum on outstanding balances, were still applicable for all ADF loans.

With a view to preserving the long-term financial sustainability and capacity of the ADF, the ADF-13 replenishment introduced (i) hardened and differentiated lending terms, and (ii) two sub-groups of ADF-only countries: the "regular" and the "advance" group. The financing terms for regular and advance ADF-only countries, as well as for blend, gap and graduating countries, were hardened. An accelerated repayment clause and a voluntary prepayment framework were also introduced.

Accordingly, new loans extended under ADF-13 and thereafter to regular ADF countries have a maturity of up to 40 years, including a grace period of 10 years; and loans extended to advance ADF countries have a maturity of up to 40 years, including a grace period of 5 years. The standard commitment fee of 0.50 percent per annum on undisbursed amounts and service charge of 0.75 percent per annum in outstanding balances remain applicable. Loans to blend, gap and graduating countries have a maturity of up to 30 years including a 5-year grace period, and an interest rate charge of 1 percent per annum in addition to the standard commitment and service fees.

*Guarantees*

As a means of stimulating additional private sector investments in Low-Income Countries (LICs), the ADF Partial Risk Guarantee (ADF-PRG) instrument was introduced as part of ADF-12 to leverage resources from the private sector and other co-financiers for ADF countries, including fragile states. The ADF-PRG protects private lenders against well-defined political risks related to the failure of a government or a government-related entity to honor certain specified commitments. The PRG is aimed at incentivizing governments to undertake policy and fiscal reforms necessary to mitigate performance-related risks.

[1] *Includes the grant element of the Concessional Donor Loan and Bridge Loans, amounting to UA 135.22 million.*
[2] *The grant element of a CDL is defined as the present value of the financial benefit that the Fund derives when contracting the CDL, between the interest rate paid on the CDL and a discount rate (set at 2.65% in SDR terms for this replenishment).*

## Table 1.6
## Lending Status, 2015-2019
(UA millions)

| | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|
| Loans Approved* | 1,259.58 | 1,267.91 | 959.48 | 1,088.20 | 1,230.47 |
| Disbursements* | 1,398.36 | 1,447.41 | 1,692.46 | 1,358.32 | 1,266.03 |
| Undisbursed Balances* | 6,762.39 | 6,413.75 | 5,669.29 | 5,329.53 | 5,039.85 |

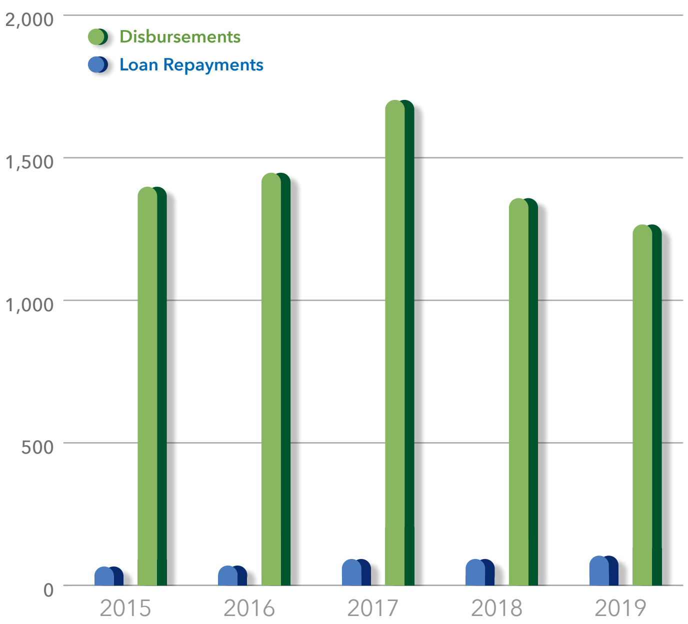
** Excludes approvals of special funds but includes guarantees and grants.*

Starting with the ADF-13 replenishment, the Partial Credit Guarantee (ADF-PCG) was added to the suite of ADF instruments. The ADF-PCG is an instrument designed to address the challenges faced by well-performing ADF-only countries and State-Owned Enterprises (SOEs), in their quest to mobilize both domestic and external commercial financing for developmental purposes. The product serves to partially guarantee debt-service obligations of LICs and well performing SOEs in LICs. The ADF PCG is available only to; (1) ADF countries with low risk and moderate risk of debt distress (green light and yellow light countries, respectively) and adequate debt management capacity; and (2) SOEs in ADF countries with low risk and moderate risk of debt distress, subject to meeting certain defined eligibility criteria. Similar to the ADF-PRG, the ADF-PCG enables well performing LICs and SOEs to catalyze larger volumes of development financing at more attractive terms.

### *Investments*

ADF cash and treasury investments amounted to UA 3.41 billion at 31 December 2019, compared to UA 3.18 billion at the end of 2018. Investment income for the year amounted to UA 65.40 million, representing a return of 1.75 percent, on an average liquidity level of UA 3.73 billion, compared with an income of UA 73.31 million, representing a return of 2.26 percent, on an average liquidity of UA 3.25 billion in 2018.

## Figure 1.3 Loan Disbursements and Repayments, 2015-2019
(UA millions)




### Development Activities

Cumulative loans and grants signed, net of cancellations, at 31 December 2019, amounted to UA 32.33 billion, compared to UA 31.35 billion at the end of 2018. Table 1.6 presents loans approved, disbursed and undisbursed balances from 2015 to 2019.

Total outstanding loans, as at 31 December 2019, was UA 13.18 billion, which is UA 0.66 billion higher than the UA 12.52 billion outstanding at the end of 2018.

The number of active loans and grants as at December 2019 was 1,392 while 733 loans amounting to UA 5.78 billion had been fully repaid or canceled through MDRI.

### *Disbursements*

Loans and grants disbursed by the Fund decreased by 6.67 percent to stand at UA 1.26 billion in 2019 from UA 1.35 billion in 2018. As at 31 December 2019, cumulative disbursements on loans and grants amounted to UA 27.29 billion compared to UA 26.02 billion at the end of the previous year. A total of 2,390 loans and grants were fully disbursed amounting to UA 21.92 billion, which represents 80.32 percent of cumulative disbursements. Figure 1.3 tracks the evolution of loan disbursements and repayments over the past five years.

### *Repayments*

Principal loan repayments for the Fund amounted to UA 104.34 million in 2019 compared to UA 92.77 million in 2018, representing an increase of 12.48 percent over the previous year. Cumulative repayments as of 31 December 2019, stood at UA 7.72 billion.

### Risk Management Policies and Processes

As in the case of the Bank, the Fund employs stringent risk management procedures in order to prudently reduce its exposure to risks, such as liquidity, currency and interest rate risks, that are not essential to its core business of providing development-related assistance to its clients. The details of the risk management policies and practices employed by the Fund to manage these risks are provided in Note C to the Financial Statements.

## FINANCIAL RESULTS

The Fund reported a deficit of UA 86.88 million in 2019, compared with a deficit of UA 74.07 million in 2018, the increased deficit is explained primarily by the decrease in investment income. Investment income decreased from UA 73.31 million in 2018 to UA 65.40 million in 2019, which is largely attributable to a reduction of the Chinese Yuan Renminbi (CNY) portfolio, which generated higher yields in 2018. Loan income increased from UA 109.94 million in 2018 to UA 114.46 in 2019, reflecting increased lending activities.

Persistent losses over recent years are mainly due to structural changes to the Fund, including the cancellation of loans to certain beneficiaries under the Multilateral Debt Relief Initiative (MDRI, described in Note F to the financial statements), the increased grant element included in the recent ADF resource allocations and the impact of the prevailing low interest rates on investment of subscriptions encashed early, leaving the Fund with a negative income gap. Although these structural changes affect the reported income in the Fund's financial statements, their impact does not adversely affect the commitment capacity or the financial sustainability of the Fund because the Fund is expected to be compensated through additional donor subscriptions, payable over the life of the canceled loans.

Discounts on the accelerated encashment of promissory notes deposited towards the payment of the subscriptions to the Fund amounted to UA 18.36 million in 2019, compared to UA 17.78 million recorded in 2018.

The Fund's share of the total shareable administrative expenses of the Bank Group increased marginally, to stand at 60.29 percent for 2019, compared with 58.38 percent for 2018. Despite the increase in the Fund's share of the total expenses, its final cost share decreased marginally, from UA 235.75 million in 2018 to UA 234.18 million in 2019 due to higher private sector costs borne by the Bank, compared to the previous year. As noted earlier, the Fund's share of administrative expenses 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.

The Fund continues to cancel qualifying debts under MDRI for countries that reached the HIPC completion point. No new country reached the completion point during 2019. A summary of the cumulative loan cancellations under the MDRI and HIPC is presented in Note F to these Special Purpose Financial Statements.

According to the Fund's non-accrual policy, service charges on loans made to or guaranteed by borrowers are excluded from loan income, if principal installments or service charges on any such loans are in arrears for six months or more, until such time that payment is received. As a result of this policy, UA 2.16 million of non-accrued loan income was excluded from 2019 income compared to UA 2.14 million in 2018. The number of borrowers in non-accrual status at 31 December 2019, remained unchanged at three (3); for the fifth year in a row.

### Performance Management and Monitoring

As with the African Development Bank (the Bank) management monitors performance measures and indicators which reflect the critical success factors in the ADF's business. To the extent that the ADF extends grants in addition to lending at highly concessional rates, the conventional profitability and financial ratios are not deemed to be an appropriate means of determining its effectiveness in delivering development resources to its regional member countries. One proxy that the Fund applies for measuring effective delivery of development resources is the level of disbursements made to RMCs from one period to another. As already noted previously, during the year under review a total of UA 1.26 billion was disbursed for loans and grants compared to UA 1.35 billion in 2018, representing a 6.67 percent decrease over the previous year.

# African Development Fund

## Special Purpose Financial Statements
## For the year ended 31 December 2019

## Statement of net development resources as at 31 December 2019

(UA thousands – Note B)

| | | 2019 | 2018 |
|---|---|---|---|
| **DEVELOPMENT RESOURCES** | | | |
| DUE FROM BANKS | | 1,413,598 | 1,297,505 |
| INVESTMENTS (Note D) | | | |
| Treasury Investments, mandatorily at fair value | 1,082,943 | | 1,009,439 |
| Treasury Investments at amortized cost | 916,845 | | 876,518 |
| Total investments | | 1,999,788 | 1,885,957 |
| DEMAND OBLIGATIONS (Note E) | | 2,153,717 | 2,294,453 |
| RECEIVABLES | | | |
| Accrued income on loans and investments | 48,282 | | 41,401 |
| Other receivables | 20,262 | | 20,804 |
| | | 68,544 | 62,205 |
| OTHER LIABILITIES | | (71,756) | (76,046) |
| BORROWINGS (Note J) | | (680,780) | (510,491) |
| **NET DEVELOPMENT RESOURCES** | | **4,883,111** | **4,953,583** |
| | | | |
| **FUNDING OF DEVELOPMENT RESOURCES** | | | |
| SUBSCRIPTIONS AND CONTRIBUTIONS (Notes G & N) | | | |
| Amount subscribed including contributions through accelerated encashment of subscriptions | 30,062,450 | | 30,062,450 |
| Less: Portion of accelerated encashment not yet effected | - | | (12,231) |
| | 30,062,450 | | 30,050,219 |
| Less: Installments not yet payable | (452,636) | | (1,457,331) |
| | 29,609,814 | | 28,592,888 |
| Less: Installments due | (7,018) | | (7,018) |
| | 29,602,796 | | 28,585,870 |
| Contributions paid on Multilateral Debt Relief Initiative | 1,322,114 | | 1,199,482 |
| | 30,924,910 | | 29,785,352 |
| Less: Unamortized discounts on subscriptions and contributions (Note B) | (56,020) | | (62,150) |
| Less: Unamortized grant element on borrowings (Notes B & J) | (128,007) | | (109,070) |
| | 30,740,883 | | 29,614,132 |
| Cumulative exchange adjustment on subscriptions and contributions (Note B) | (353,358) | | (340,247) |
| Total subscriptions and contributions | | 30,387,525 | 29,273,885 |
| OTHER RESOURCES (Note H) | | 750,961 | 715,961 |
| RESERVES (Note I) | | (687,510) | (600,627) |
| CUMULATIVE CURRENCY TRANSLATION ADJUSTMENT (Note B) | | (371,942) | (407,230) |
| | | 30,079,034 | 28,981,989 |
| **ALLOCATION OF DEVELOPMENT RESOURCES** | | | |
| GRANTS AND TECHNICAL ASSISTANCE ACTIVITIES (Note F) | | (6,881,022) | (6,368,431) |
| HIPC GRANTS DISBURSED (Note F) | | (184,000) | (184,000) |
| NET DEBT RELIEF (Note F) | | (4,955,072) | (4,955,072) |
| LOANS DISBURSED AND OUTSTANDING (Note F) | | (13,175,829) | (12,520,903) |
| **NET DEVELOPMENT RESOURCES** | | **4,883,111** | **4,953,583** |

*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 31 December 2019

(UA thousands – Note B)

| | 2019 | 2018 |
|---|---|---|
| **INCOME AND EXPENSES** | | |
| Service charges on loans | 97,388 | 90,499 |
| Commitment charges on loans | 17,070 | 19,440 |
| Income on investments | 65,399 | 73,311 |
| Administrative expenses (Note L) | (234,179) | (235,746) |
| Discount on accelerated encashment of participants' demand obligations | (18,361) | (17,775) |
| Grant element on concessional loans | (4,784) | (2,468) |
| Interest charges on borrowings | (1,675) | (335) |
| Financial charges | (319) | (343) |
| Loss on exchange | (7,422) | (654) |
| **Deficit** | **(86,883)** | **(74,071)** |
| | | |
| **CHANGE IN DEVELOPMENT RESOURCES FUNDING** | | |
| Increase in paid-up subscriptions | 1,016,926 | 1,136,719 |
| Contributions received on account of Multilateral Debt Relief Initiative | 122,633 | 111,506 |
| Increase in other resources | 35,000 | 35,000 |
| Changes in accumulated exchange adjustment on subscriptions and contributions | (13,111) | 10,905 |
| Changes in unamortized discounts on subscriptions and contributions | 6,130 | (36) |
| Changes in unamortized grant element on concessional loans | (18,937) | (109,070) |
| Changes in accumulated translation adjustment | 35,288 | (32,660) |
| | **1,183,929** | **1,152,364** |
| **CHANGE IN DEVELOPMENT RESOURCES ALLOCATION** | | |
| Disbursement of grants | (512,591) | (461,111) |
| Disbursement of loans | (749,798) | (895,788) |
| Repayment of loans | 104,342 | 92,765 |
| Translation adjustment on loans | (9,471) | (80,390) |
| | **(1,167,518)** | **(1,344,524)** |
| | | |
| Change in Net Development Resources | (70,472) | (266,231) |
| Net Development Resources at the beginning of the year | 4,953,583 | 5,219,814 |
| | | |
| **NET DEVELOPMENT RESOURCES AT THE END OF THE YEAR** | **4,883,111** | **4,953,583** |

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

## Statement of comprehensive income for the year ended 31 December 2019

(UA thousands – Note B)

| | 2019 | 2018 |
|---|---|---|
| DEFICIT | (86,883) | (74,071) |
| | | |
| OTHER COMPREHENSIVE INCOME | | |
| Changes in accumulated translation adjustment | 35,288 | (32,660) |
| | | |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **(51,595)** | **(106,731)** |

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

## Statement of cash flows
## for the year ended 31 December 2019
(UA thousands – Note B)

| | 2019 | 2018 |
|---|---|---|
| **CASH FLOWS FROM:** | | |
| | | |
| **OPERATING ACTIVITIES:** | | |
| Deficit | (86,883) | (74,071) |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Unrealized (gains)/losses on investments | (3,150) | 1,719 |
| Discount on accelerated encashment of participants' demand obligations | 18,361 | 17,775 |
| Grant element on concessional loans | 4,784 | 2,468 |
| Changes in accrued income on loans and investments | (6,881) | 24,305 |
| Changes in net current assets | (672) | (21,237) |
| Net cash used in operating activities | (74,441) | (49,041) |
| | | |
| **INVESTING, LENDING AND DEVELOPMENT ACTIVITIES:** | | |
| Disbursement of grants | (512,591) | (461,111) |
| Disbursement of loans | (749,798) | (895,788) |
| Repayment of loans | 104,342 | 92,765 |
| Investments maturing after 3 months of acquisition: | | |
| Treasury investments, mandatorily at fair value | (57,232) | 573,510 |
| Treasury investments at amortized cost | (88,348) | (28,840) |
| Net cash used in investment, lending and development activities | (1,303,627) | (719,464) |
| | | |
| **FINANCING ACTIVITIES:** | | |
| Subscriptions and contributions received in cash | 496,525 | 517,904 |
| Participants' demand obligations encashed | 734,079 | 799,681 |
| Borrowings | 170,289 | 321,012 |
| Increase in other resources | 35,000 | 35,000 |
| Net cash provided by financing activities | 1,435,893 | 1,673,597 |
| | | |
| Effect of exchange rate changes on cash and cash equivalents | 74,540 | (96,142) |
| Net increase/(decrease) in cash and cash equivalents | 132,365 | 808,950 |
| Cash and cash equivalents at the beginning of the year | 1,373,139 | 564,189 |
| **Cash and cash equivalents at the end of the year** | **1,505,504** | **1,373,139** |
| | | |
| **COMPOSED OF:** | | |
| Cash | 1,413,598 | 1,297,505 |
| Investments maturing within 3 months of acquisition: | | |
| Treasury investments, mandatorily at fair value | 91,906 | 75,634 |
| **Cash and cash equivalents at the end of the year** | **1,505,504** | **1,373,139** |
| | | |
| **SUPPLEMENTARY DISCLOSURE:** | | |
| Movements resulting from exchange rate fluctuations on: | | |
| Loans | 9,471 | 80,390 |
| Subscriptions and contributions | (13,111) | 10,905 |

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

# Notes to the special purpose financial statements
# Year ended 31 December 2019

## 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 50 percent of the voting powers in the ADF and the President of the Bank is the ex-officio President of the Fund.

The ADB, the ADF and, the Nigeria Trust Fund (NTF), which is a special fund administered by the ADB, 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 (RMCs). 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 as appropriate.

### Resources

The resources of the Fund primarily consist of subscriptions by the Bank, subscriptions and contributions made by State Participants and Donors, as well as 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 (NDR) 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 an 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 1 April 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 reset 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 16 November 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 22 June 1993, adopted 1 January 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 International Monetary Fund (IMF) formally approved the inclusion of the Chinese Yuan Renminbi (CNY) in the IMF's Special Drawing Rights (SDR) Basket with effect from 1 October 2016 with a weight of 10.92 percent. In line with the Fund's policy, Management approved the execution of currency exchange transactions to align, to the extent possible, the net assets composition of the Fund to the SDR. The related transactions were executed in October 2016 using a combination of spot currency exchange and foreign exchange forwards. The gain on the foreign exchange forwards was recognized in the 2016 income statement.

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 31 December 2019 and 2018 are as follows:

| | 2019 | 2018 |
|---|---|---|
| **1 Unit of Account equals:** | | |
| Angolan Kwanza | 651.131000 | 429.208000 |
| Argentinian Peso | 82.021200 | 51.402100 |
| Brazilian Real | 5.572920 | 5.388190 |
| Canadian Dollar | 1.804970 | 1.891530 |
| Chinese Renminbi Yuan | 9.661840 | 9.531070 |
| Danish Kroner | 9.231560 | 9.067090 |
| Euro | 1.235880 | 1.214240 |
| Indian Rupee | 98.657300 | 97.325500 |
| Japanese Yen | 150.894000 | 154.141000 |
| Korean Won | 1,605.320000 | 1,559.500000 |
| Kuwaiti Dinar | 0.419070 | 0.422174 |
| Norwegian Krone | 12.168500 | 12.110600 |
| Pound Sterling | 1.053860 | 1.095500 |
| Saudi Arabian Riyal | 5.162200 | 5.215480 |
| South African Rand | 19.445700 | 20.016800 |
| Swedish Krona | 12.887900 | 12.476800 |
| Swiss Franc | 1.343620 | 1.364510 |
| Turkish Lira | 8.234300 | 7.452680 |
| United States Dollar | 1.382830 | 1.390790 |

*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 18 May 2006 and 31 August 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 70 percent 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 1 September 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 fourteenth 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 and the characteristics of the contractual cash flows. 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.

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.

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.

### *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.

## Derecognition

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.

Investments of the proceeds of accelerated encashment of notes are classified at amortised cost or fair value depending on whether they are held to collect contractual cash flows or to realize fair value. The primary objective of such investments is to recoup the discount granted to State Participants on the accelerated encashment program.

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 for 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 (Gap Countries): Countries that are not deemed creditworthy for non-concessional financing but whose income levels are above the operational cut-off. These have access to ADF funds with modified financing terms at par with those of blend countries.

- Category B: Countries that are deemed creditworthy for non-concessional financing but whose income levels are below the operational cut-off (blend countries). These have 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. The applicable 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 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's Partial Risk Guarantees (PRGs) program provides guarantees to cover private sector projects against a government or government owned entity's failure to meet its specified contractual obligations to the project. The PRGs cover projects 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 and non-transferability, confiscation, expropriation, nationalization and deprivation, regulatory risks and various forms of breach of contract including non-honoring of financial obligations.

Under the PRGs framework, the Fund executes the payment obligations if the government (or its entity whose obligations are covered) defaults and the guarantee is called. Any amount paid by the Fund under the guarantee is immediately (or as otherwise decided by the Fund) due from the host government under the counter-indemnity agreement signed between the Fund and the host government.

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

## Partial Credit Guarantee

The Partial Credit Guarantee (PCGs) is another credit enhancement instrument provided by the Fund. Like the PRG, it is a risk mitigation instrument designed to better leverage resources by crowding-in private capital.

Serving as a partial guarantee towards debt service obligations the PCGs help to: (i) extend debt maturities; (ii) improve access to capital markets for public sector investment projects, especially in infrastructure; (iii) reduce effective borrowing costs; (iv) support mobilization of long-term resources from international and domestic capital markets; and (v) support sovereign mobilization of commercial financing for policy or sectoral reforms.

Guarantee fee income received upfront under the PCGs 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.

## Heavily Indebted Poor Countries (HIPC Debt Initiative)

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

## Financial Liabilities

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

## Derivatives

The Fund uses foreign exchange forwards to mitigate its exposure to potential loss due to adverse movements in market foreign exchange rates. The Fund's policy is to minimize the potential fluctuation of the value of its net worth measured in Units of Account by matching, to the extent possible, the currency composition of its Net Development Resources and outstanding loans, with the currency basket of the SDR (the Unit of Account). In keeping with the Fund's currency risk management policy, the Fund uses a combination of spot currency exchange transactions and foreign exchange forwards to realign any misalignment.

All foreign exchange forwards transactions are fair valued, with all realized and unrealized gains or losses recognized in income statement.

## 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. For government and agency obligations with final maturities longer than 1 year, the Fund may only invest in obligations with counterparties having a minimum credit rating of AA-, issued or unconditionally guaranteed by governments of member countries of the Bank or other official entities. 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.

*Borrowings:* Borrowings are carried at amortized cost. These borrowings are concessional, unsecured and unsubordinated. The Fund retains the option to prepay, in part or in whole, the outstanding amounts without penalty. The providers of the concessional loans are allocated voting rights based on the cash paid, computed as the derived grant element of the loan that is a function of an agreed discount rate. The grant element is recorded as equity.

### Events after the reporting period

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.

The 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.

### COVID-19

The World Health Organization declared the outbreak of COVID-19 - a pneumonia-like disease affecting people worldwide - a global pandemic on 11th March 2020. Currently, there are relatively few cases in Africa, the primary area of the Fund's business operations. However, due to its likely negative impact on commodity prices, financial markets, projected GDP growth, etc., this outbreak is expected to affect the global economy and markets.

As of 31st December 2019, the outbreak had no direct effect on the financial position of the Fund. However, because of its potential impact on the volatility of the fair value of certain financial assets and liabilities, the outbreak may affect the Fund's 2020 financial results. For now, it is not easy to determine the effect of the outbreak on the Fund's 2020 operations and financial results. The Fund continues to monitor the impact of the pandemic on its operations and financial results while ensuring the well-being and safety of its customers and other stakeholders.

## 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 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 regularly to perform its oversight role. ALCO is supported by several standing working groups that report on specific issues including interest rate risk, currency 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 to the Fund. 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 31 December 2019 from its lending activities are summarized below:

## Summary of Loans as at 31 December 2019

(UA thousands)

| Country | N° of Loans * | Total Loans* | Unsigned Loan Amounts | Undisbursed Balance | Outstanding Balance | % of Total Outstanding Loans |
|---|---|---|---|---|---|---|
| Angola | 14 | 71,711 | - | 10,761 | 60,950 | 0.46 |
| Benin | 71 | 388,777 | - | 71,671 | 317,106 | 2.41 |
| Botswana | 14 | 36,211 | - | - | 36,211 | 0.27 |
| Burkina Faso | 65 | 507,655 | 6,500 | 96,422 | 404,733 | 3.07 |
| Burundi | 34 | 22,443 | - | - | 22,443 | 0.17 |
| Cameroon | 53 | 614,286 | 13,234 | 150,254 | 450,798 | 3.42 |
| Cabo Verde | 30 | 87,447 | - | 351 | 87,096 | 0.66 |
| Central African Republic | 21 | 3,753 | - | 53 | 3,700 | 0.03 |
| Chad | 45 | 107,126 | - | 14,705 | 92,421 | 0.70 |
| Comoros | 10 | 18,751 | 16,070 | 1,581 | 1,100 | 0.01 |
| Congo | 6 | 54,302 | - | 34,090 | 20,212 | 0.15 |
| Côte D'Ivoire | 30 | 251,978 | - | 133,826 | 118,152 | 0.90 |
| Democratic Republic of Congo | 41 | 307,447 | 39,998 | 178,461 | 88,988 | 0.68 |
| Djibouti | 22 | 104,014 | - | 22,351 | 81,663 | 0.62 |
| Egypt | 17 | 107,704 | - | - | 107,704 | 0.82 |
| Equatorial Guinea | 11 | 19,834 | - | - | 19,834 | 0.15 |
| Eritrea | 8 | 77,682 | - | 10,828 | 66,854 | 0.51 |
| Eswatini | 9 | 25,066 | - | - | 25,066 | 0.19 |
| Ethiopia | 73 | 1,680,225 | - | 216,273 | 1,463,952 | 11.11 |
| Gabon | 3 | 930 | - | - | 930 | 0.01 |
| Gambia | 34 | 40,518 | - | 7,079 | 33,439 | 0.25 |
| Ghana | 69 | 1,025,276 | 78,300 | 109,635 | 837,341 | 6.36 |
| Guinea | 48 | 239,931 | - | 130,985 | 108,946 | 0.83 |
| Guinea-Bissau | 32 | 37,732 | 1,060 | 15,712 | 20,960 | 0.16 |
| Kenya | 67 | 1,912,501 | 26,900 | 317,810 | 1,567,791 | 11.90 |
| Lesotho | 41 | 145,624 | 10,110 | 15,081 | 120,433 | 0.91 |
| Liberia | 13 | 165,890 | 4,590 | 70,940 | 90,360 | 0.69 |
| Madagascar | 66 | 346,931 | 9,650 | 25,772 | 311,509 | 2.36 |
| Malawi | 65 | 307,919 | - | 57,592 | 250,327 | 1.90 |
| Mali | 98 | 618,917 | - | 116,807 | 502,110 | 3.81 |
| Mauritania | 52 | 103,219 | - | 37,839 | 65,380 | 0.50 |
| Mauritius | 3 | 1,332 | - | - | 1,332 | 0.01 |
| Morocco | 6 | 23,904 | - | - | 23,904 | 0.18 |
| Mozambique | 69 | 767,365 | - | 112,124 | 655,241 | 4.97 |
| Namibia | 2 | 9,503 | - | - | 9,503 | 0.07 |
| Niger | 53 | 402,350 | 15,810 | 149,468 | 237,072 | 1.80 |
| Nigeria | 36 | 890,133 | - | 230,373 | 659,760 | 5.01 |
| Rwanda | 63 | 544,670 | - | 132,245 | 412,425 | 3.13 |
| São Tomé & Principe | 23 | 18,334 | - | 5,908 | 12,426 | 0.09 |
| Senegal | 73 | 598,173 | 10,000 | 104,475 | 483,698 | 3.67 |
| Seychelles | 3 | 3,531 | - | - | 3,531 | 0.03 |
| Sierra Leone | 31 | 125,590 | - | 28,457 | 97,133 | 0.74 |
| Somalia** | 18 | 66,070 | - | - | 66,070 | 0.50 |
| South Sudan | 1 | 8,434 | - | - | 8,434 | 0.06 |
| Sudan**+ | 15 | 178,413 | - | - | 178,413 | 1.35 |
| Tanzania | 92 | 1,939,898 | 40,000 | 311,497 | 1,588,400 | 12.06 |
| Togo | 18 | 38,741 | - | 19,974 | 18,767 | 0.14 |
| Uganda | 74 | 1,323,178 | 37,540 | 324,439 | 961,199 | 7.30 |
| Zambia | 51 | 426,891 | 15,500 | 78,010 | 333,381 | 2.53 |
| Zimbabwe** | 10 | 35,863 | - | - | 35,863 | 0.27 |
| Multinational | 18 | 282,699 | 222,650 | 49,280 | 10,769 | 0.08 |
| **Total** | **1,821** | **17,116,872** | **547,912** | **3,393,129** | **13,175,829** | **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 Sudan and South Sudan. At end of December 2019, no decision has been taken by the states of Sudan 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 31 December 2019.*

*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 versus 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 |
| | Maximum remaining maturity of 5 years in the trading portfolios and 10 years in the held at amortized cost portfolio for SDR denominated securities rated A+/a1 or below. | | | | | |
| 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 | | |
| Mortgage Backed Securities (MBS) / Asset Backed Securities (ABS) | AAA<br>Maximum legal maturity of 50 years. 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 International Swaps and Derivatives Association (ISDA) master agreement and collateral exchange agreement with its derivative counterparties prior to undertaking any transactions. Derivative counterparties 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 counterparty 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 |
| 2019 | 32% | 21% | 47% |
| 2018 | 31% | 15% | 54% |
| 2017 | 16% | 15% | 69% |
| 2016 | 26% | 31% | 43% |
| 2015 | 38% | 54% | 8% |

## 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 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 to collect the contractual cash flows 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.

In October 2016, the International Monetary Fund formally approved the inclusion of the Chinese Renminbi Yuan (CNY) in the IMF's Special Drawing Rights (SDR) basket with a weight of 10.92 percent. In line with the Fund's policy to align, to the extent possible, its net assets to SDR, Management approved the disposal of certain financial assets held at amortized cost (denominated in USD, Euro and GBP) to fund the acquisition of Chinese Yuan Renminbi financial assets.

## Interest Rate Risk Position as at 31 December 2019

(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 | 1,413,598 | - | - | - | - | - | 1,413,598 |
| Investments | 442,790 | 498,082 | 313,601 | 52,951 | 146,611 | 545,753 | 1,999,788 |
| Demand obligations | 616,231 | 421,436 | 455,889 | 264,769 | 178,111 | 217,281 | 2,153,717 |
| Accounts receivable | 68,544 | - | - | - | - | - | 68,544 |
| | 2,541,163 | 919,518 | 769,490 | 317,720 | 324,722 | 763,034 | 5,635,647 |
| **Liabilities** | | | | | | | |
| Accounts payable | (71,756) | - | - | - | - | - | (71,756) |
| Borrowings | - | - | - | - | - | (680,780) | (680,780) |
| | (71,756) | - | - | - | - | (680,780) | (752,536) |
| **Net Development Resources at 31 December 2019** | **2,469,407** | **919,518** | **769,490** | **317,720** | **324,722** | **82,254** | **4,883,111** |

## Interest Rate Risk Position as at 31 December 2018

(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 | 1,297,505 | - | - | - | - | - | 1,297,505 |
| Investments | 1,138,467 | 103,054 | 54,010 | 54,680 | 53,720 | 482,026 | 1,885,957 |
| Demand obligations | 716,429 | 625,600 | 420,311 | 300,972 | 101,929 | 129,212 | 2,294,453 |
| Accounts receivable | 62,205 | - | - | - | - | - | 62,205 |
| | 3,214,606 | 728,654 | 474,321 | 355,652 | 155,649 | 611,238 | 5,540,120 |
| **Liabilities** | | | | | | | |
| Accounts payable | (76,046) | - | - | - | - | - | (76,046) |
| Borrowings | - | - | - | - | - | (510,491) | (510,491) |
| | (76,046) | - | - | - | - | (510,491) | (586,537) |
| **Net Development Resources at 31 December 2018** | **3,138,560** | **728,654** | **474,321** | **355,652** | **155,649** | **100,747** | **4,953,583** |

## 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)

| 31 December 2019 | Financial Assets and Liabilities through Profit or Loss: Mandatorily at Fair value | Financial Assets and Liabilities through Profit or Loss: Designated at Fair Value | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|---|---|---|---|---|---|
| Cash | - | - | 1,413,598 | 1,413,598 | 1,413,598 |
| Treasury investments | 1,082,943 | - | 916,845 | 1,999,788 | 1,999,731 |
| Demand obligations | - | - | 2,153,717 | 2,153,717 | 2,153,717 |
| Accounts receivable | - | - | 68,544 | 68,544 | 68,544 |
| **Total financial assets** | **1,082,943** | **-** | **4,552,704** | **5,635,647** | **5,635,590** |
| | | | | | |
| Other Liabilities | - | - | 71,756 | 71,756 | 71,756 |
| Borrowings | - | - | 680,780 | 680,780 | 680,780 |
| **Total financial liabilities** | **-** | **-** | **752,536** | **752,536** | **752,536** |

(UA thousands)

| 31 December 2018 | Financial Assets and Liabilities through Profit or Loss: Mandatorily at Fair value | Financial Assets and Liabilities through Profit or Loss: Designated at Fair Value | Financial Assets and Liabilities at Amortized Cost | Total Carrying Amount | Fair Value |
|---|---|---|---|---|---|
| Cash | - | - | 1,297,505 | 1,297,505 | 1,297,505 |
| Treasury investments | 1,009,439 | - | 876,518 | 1,885,957 | 1,885,982 |
| Demand obligations | - | - | 2,294,453 | 2,294,453 | 2,294,453 |
| Accounts receivable | - | - | 62,205 | 62,205 | 62,205 |
| **Total financial assets** | **1,009,439** | **-** | **4,530,681** | **5,540,120** | **5,540,145** |
| | | | | | |
| Other Liabilities | - | - | 76,046 | 76,046 | 76,046 |
| Borrowings | - | - | 510,491 | 510,491 | 510,491 |
| **Total financial liabilities** | **-** | **-** | **586,537** | **586,537** | **586,537** |

The composition of investments as at 31 December 2019 and 2018 was as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Treasury Investments Mandatorily measured at FVTPL | 1,082,943 | 1,009,439 |
| Treasury investments at amortized cost | 916,845 | 876,518 |
| **Total** | **1,999,788** | **1,885,957** |

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

A summary of the Fund's treasury investments measured at FVTPL at 31 December 2019 and 2018 follows:

(UA millions)

| | Chinese Yuan | | US Dollar | | Euro | | Other currencies | | All Currencies | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Time deposits | - | - | 28.74 | 34.35 | 28.22 | 21.11 | 10.10 | 20.18 | 67.06 | 75.64 |
| Asset-backed securities | - | - | 0.03 | 0.05 | - | - | - | - | 0.03 | 0.05 |
| Government and agency obligations | 31.03 | 31.47 | 58.51 | 64.77 | 127.54 | - | 228.31 | 317.11 | 445.39 | 413.35 |
| Corporate bonds | - | - | 7.80 | 44.33 | 14.13 | 8.29 | - | - | 21.93 | 52.62 |
| Financial institutions | - | - | 62.18 | 100.39 | 47.05 | 17.64 | 308.99 | 267.14 | 418.22 | 385.17 |
| Supranational | 62.06 | - | 31.18 | 25.14 | - | 20.97 | 37.07 | 36.50 | 130.31 | 82.61 |
| **Total** | **93.09** | **31.47** | **188.44** | **269.03** | **216.94** | **68.01** | **584.47** | **640.93** | **1,082.94** | **1,009.44** |

The contractual maturity structure of investments measured at FVTPL at 31 December 2019 and 2018 was as follows:

(UA millions)

| | 2019 | 2018 |
|---|---|---|
| One year or less | 341.63 | 455.13 |
| More than one year but less than two years | 391.17 | 153.50 |
| More than two years but less than three years | 313.60 | 347.08 |
| More than three years but less than four years | - | 9.29 |
| More than four years but less than five years | 36.51 | 44.38 |
| More than five years | 0.03 | 0.06 |
| **Total** | **1,082.94** | **1,009.44** |

## Treasury Investments at Amortized Cost

A summary of the Fund's treasury investments at amortized cost at 31 December 2019 and 2018 follows:

(UA millions)

| | Chinese Yuan | | US Dollar | | Euro | | Other currencies | | All Currencies | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Government and agency obligations | 375.74 | 436.38 | 5.22 | 13.92 | 23.86 | 24.21 | 482.04 | 315.94 | 886.86 | 790.45 |
| Supranational | - | - | 16.70 | 27.11 | 13.29 | 58.96 | - | - | 29.99 | 86.07 |
| **Total** | **375.74** | **436.38** | **21.92** | **41.03** | **37.15** | **83.17** | **482.04** | **315.94** | **916.85** | **876.52** |

The contractual maturity structure of investments at amortized cost at 31 December 2019 and 2018 was as follows:

(UA millions)

| | 2019 | 2018 |
|---|---|---|
| One year or less | 101.16 | 129.04 |
| More than one year but less than two years | 106.91 | 103.05 |
| More than two years but less than three years | - | 54.01 |
| More than three years but less than four years | 52.95 | 54.68 |
| More than four years but less than five years | 110.10 | 53.72 |
| More than five years | 545.73 | 482.02 |
| **Total** | **916.85** | **876.52** |

### Futures Contracts

The Fund has entered into futures contracts to hedge fixed interest rate bonds against interest rate variations. As at 31 December 2019, the Fund had futures with a notional value of Euro 601 million, GBP 1,258 million, USD 2,272 million and CAD 637 million. The carrying value of Euro, GBP, USD and CAD had a positive market value of UA 0.49 million, UA 1.19 million, UA 1.64 million and UA 0.35 million, respectively (in the money).

## Note E – Demand obligations

Demand obligations represent subscription payments made by participants, in accordance with Article 9 of the Agreement. These obligations take 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 to ADF-Only Countries are generally granted under conditions that allow for repayment over 40 years including 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 2 percent per annum and from years 21 through 40 at a rate of 4 percent per annum. A service charge at a rate of 0.75 percent per annum on the principal amount disbursed and outstanding is payable by the borrower semi-annually. Loans approved after June 1996 carry a 0.50 percent per annum commitment charge on the undisbursed portion. Such commitment charge commences to accrue after 120 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 including a grace period of 5 years and interest rate of 1 percent, in addition to the existing standard 0.50 percent commitment fee and 0.75 percent service charge. Under ADF-13, further differentiated lending terms were adopted with the view of preserving the long-term financial sustainability and capacity of the Fund. ADF-Only Countries are grouped into two subgroups based on their GNI per capita. Countries with GNI per capita below the average for the group are called "ADF-Only Regular Countries" and benefit from the standard terms referred to above. Countries with GNI per capita above the average of the group are called "ADF-Only Advance Countries"; their financing terms differ from the Regular subgroup through a shorter grace period of 5 years and equal and consecutive principal amortization after grace period. The new lending terms require the acceleration of loan repayment for member countries that fulfil the requirements for graduation to ADB window. Financial incentives are also offered to ADB graduated countries for voluntary loan prepayment to ADF.

ADF Lending Terms:

| Category | Sub-groups | Maturity (years) | Grace period (years) | First period (years) | Amorti-zation rate | Second period (years) | Amorti-zation rate | Service charge (%) | Commitment fee (%) | Interest rate | Conces-sionality |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **ADF-only** | Regular: 40/10 | 40 | 10 | 10 | 2.0% | 20 | 4.0% | 0.75 | 0.50 | 0.0% | 61% |
| | Advance: 40/5 | 40 | 5 | - | 2.9% | - | 2.9% | 0.75 | 0.50 | 0.0% | 51% |
| **Blend, Gap and Graduating** | Blend/Gap/ Graduating: 30/5 | 30 | 5 | - | 4.0% | - | 4.0% | 0.75 | 0.50 | 1.0% | 35% |

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 31 December 2019, outstanding irrevocable reimbursement guarantees to commercial banks amounted to UA 0.51 million (2018: UA 16.70 million).

As at 31 December 2019, loans made to or guaranteed by certain borrowers with an aggregate principal balance outstanding of UA 280.35 million (2018: UA 279.26 million) of which UA 152.78 million (2018: UA 144.29 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 31 December 2019, would have been higher by UA 2.16 million (2018: UA 2.14 million). At 31 December 2019, the cumulative charges not recognized on the non-accrual loans amounted to UA 52.14 million, compared to UA 49.80 million at 31 December 2018.

The Fund also provides innovative financial instruments in the form of "Partial Risk Guarantees (PRGs) and, Partial Credit Guarantee (PCG) for the purpose of better leveraging resources by sharing or mitigating risk and crowding in other sources of financing. ADF guarantees allow borrowers and project companies to get access to new sources of financing and to improve financing terms and conditions.

The PRGs product is a financial guarantee that covers private sector projects against a government or government owned entity's failure to meet its specified contractual obligations to the project. As at 31 December 2019, guarantees provided by the Fund to private entities on account of its borrowers amounted to UA 239.86 million (2018: UA 159.65 million).

The PCGs covers debt service on scheduled payments of commercial debt, against all risks or specific events of defaults by borrowers from both public and private sectors. PCGs support private sector entities, government and State Owned Enterprises (SOEs) in mobilizing debt from commercial lenders/investors to finance their activities and projects. Governments can also use PCGs in the form of Policy Based Guarantees (PBGs) to raise commercial financing in support of their strategic reforms under the Policy Based Operations Framework (Budget Support operations). As at 31 December 2019, PCGs provided by the Fund amounted to UA 30.18 million (2018:UA 30.72 million).

At 31 December 2019, outstanding loans amounted to UA 13,175.83 million (2018: UA 12,520.90 million).

### Private Sector Credit Enhancement Facility

The Private Sector Credit Enhancement Facility (the Facility or PSF) was established with the approval of the Board of Governors of the Consultative Meeting on the Thirteenth replenishment (ADF-13 Report) on January 31, 2014. The PSF provides credit enhancement guarantees to eligible private sector loans in ADF – eligible countries. This is geared towards catalyzing additional private investment in these countries. The PSF is operationally and financially autonomous from the Fund and its establishing framework explicitly precludes it from having recourse to the Fund for any losses that it may incur.

As at December 31, 2019, the total available resources to the Private Sector Enhancement Facility (the PSF) were UA 365 million. This is made up of a UA 165 million grant allocated by the Fund in 2014 for the establishment of the PSF to encourage increased development financing in the ADF countries and an additional contribution of UA 200 million, approved in 2017, under the Fourteenth Replenishment of the ADF.

As at 31 December 2019, credit enhancement of UA 440.73 million had been signed.

## Maturity and Currency Composition of Outstanding Loans

The maturity distribution of outstanding loans as at 31 December 2019 and 2018 was as follows:

(Amounts in UA millions)

| | 2019 | | 2018 | |
|---|---|---|---|---|
| | Amount | % | Amount | % |
| One year or less* | 287.54 | 2.18 | 257.85 | 2.06 |
| More than one year but less than two years | 149.09 | 1.13 | 128.95 | 1.03 |
| More than two years but less than three years | 178.45 | 1.35 | 145.97 | 1.17 |
| More than three years but less than four years | 199.67 | 1.52 | 173.27 | 1.38 |
| More than four years but less than five years | 223.85 | 1.70 | 192.66 | 1.54 |
| More than five years | 12,137.23 | 92.12 | 11,622.20 | 92.82 |
| **Total** | **13,175.83** | **100.00** | **12,520.90** | **100.00** |

** Include the arrears on loans.*

The currency composition of outstanding loans as at 31 December 2019 and 2018 was as follows:

(Amounts in UA millions)

| | 2019 | | 2018 | |
|---|---|---|---|---|
| Currency | Amount | % | Amount | % |
| Canadian Dollar | 9.20 | 0.07 | 8.92 | 0.07 |
| Danish Krone | 8.65 | 0.07 | 9.01 | 0.07 |
| Euro | 3,969.79 | 30.13 | 3,900.78 | 31.15 |
| Japanese Yen | 616.10 | 4.68 | 617.14 | 4.93 |
| Norwegian Krone | 14.16 | 0.11 | 14.36 | 0.11 |
| Pound Sterling | 620.05 | 4.71 | 601.97 | 4.81 |
| Swedish Krona | 8.29 | 0.06 | 8.88 | 0.07 |
| Swiss Franc | 43.45 | 0.33 | 44.23 | 0.35 |
| United States Dollar | 7,863.38 | 59.68 | 7,315.27 | 58.44 |
| Others | 22.76 | 0.16 | 0.34 | 0.00 |
| **Total** | **13,175.83** | **100.00** | **12,520.90** | **100.00** |

*Slight differences may occur in total 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, twelfth, thirteenth and fourteenth general replenishments are based on a country-by-country analysis of debt sustainability.

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 31 December 2019 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 8 July 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 25 September 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 1 September 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 31 December 2019, a gross amount of UA 5.68 billion (2018: UA 5.68 billion) of outstanding loans had been cancelled under MDRI for 30 (2018: 30) HIPC completion-point countries. Of this amount, 1,225.99 million (2018: 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 (2018: UA 942.71 million). As of 31 December 2019, 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 31 December 2019 and 2018 follows:

(UA thousands)

| | 2019 | | | 2018 | | |
|---|---|---|---|---|---|---|
| | HIPC | MDRI | Total | HIPC | MDRI | Total |
| Balance at 31 December | **235,096** | **4,719,976** | **4,955,072** | 235,096 | 4,719,976 | 4,955,072 |

## Special Arrears Clearance Mechanism

*Arrears Clearance Mechanism for DRC* – In connection with an internationally coordinated effort between the Bank, the International Monetary Fund (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 26 June 2002 approved an arrears clearance plan for the DRC. Under the arrears clearance plan, contributions received from the donor community were used immediately for partial clearance of the arrears owed by the DRC. The residual amount of DRC's arrears to the Bank and loan amounts not yet due were consolidated into new contractual receivables, such that the present value of the new loans was equal to the present value of the amounts that were owed under the previous contractual terms. The new loans carry the weighted average interest rate of the old loans. In approving the arrears clearance plan, the Board of Directors considered the following factors: a) the arrears clearance plan is part of an internationally coordinated arrangement for the DRC; b) the magnitude of DRC's arrears to the Bank ruled out conventional solutions; c) the prolonged armed conflict in the DRC created extensive destruction of physical assets, such that the DRC had almost no capacity for servicing its debt; and d) the proposed package would result in a significant improvement in its repayment capacity, if appropriate supporting measures are taken. Furthermore, there was no automatic linkage between the arrears clearance mechanism and the debt relief that may be subsequently provided on the consolidated facility. In June 2004, the DRC reached its decision point under the HIPC initiative. Consequently, the consolidated facility has since that date benefited from partial debt service relief under HIPC.

A special account, separate from the assets of the Bank, was established for all contributions towards the DRC arrears clearance plan. Such contributions may include allocations of the net income of the Bank that the Board of Governors may from time to time make to the special account, representing the Bank's contribution to the arrears clearance plan. The amount of such net income allocation is subject to the approval of the Boards of Governors of the Bank, typically occurring during the annual general meeting of the Bank. Consequently, income recognized on the consolidated DRC loans in current earnings is transferred out of reserves to the special account only after the formal approval of such transfer, in whole or in part, by the Board of Governors of the Bank.

*Fragile States Facility Framework* – The Post Conflict Countries' Fund was established as a framework to assist countries emerging from conflict in their efforts towards re-engagement with the donor community 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 allocations from the ADB's net income, and contributions from the ADF and other private donors.

Resources from the facility are provided on a case-by-case basis to genuine post-conflict countries not yet receiving debt relief to fill financing gaps after maximum effort by the post-conflict country to clear its arrears to the Bank Group. In this connection, the Board of Governors by its Resolution B/BG/2004/07 of 25 May 2004 established the Post Conflict Countries Facility (PCCF) under the administration of the ADF and approved an allocation of UA 45 million from the 2003 net income of the Bank. The Board of Governors also, by its resolution B/BG/2005/05 of 18 May 2005, approved an additional allocation of UA 30 million from the 2004 net income as the second installment of the Bank's contribution to the facility and by its resolution B/BG/2006/04 of 17 May 2006, the Board of Governors also approved the third and final installment of the Bank's allocation of UA 25 million from the 2005 net income. In March 2008, the Board of Directors approved the establishment of the Transition Support Facility (TSF) to take over the activities of the PCCF and in addition provide broader and integrated framework for assistance to eligible states. The purposes of the TSF are to consolidate peace, stabilize economies and lay the foundation for sustainable poverty-reduction and long-term economic growth of the eligible countries. By policy, contributions made by ADB to the PCCF/TSF are not used to clear the debt owed to the Bank by beneficiary countries.

## 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 fourteen general replenishments. Details of these movements are shown in the Statement of Subscriptions and Voting Power in Note N.

The Board of Governors, by its resolution ADF/BG/2017/01 of April 27, 2017, approved the fourteenth general replenishment of the Fund (ADF-14), following the Deputies agreement for a replenishment level of UA 4.23 billion, of which UA 0.98 billion represents internally generated resources, for the three-year operational period, 2017 to 2019. ADF-14 came into effect in June 2017 after the State Participants had deposited with the Fund, enough instruments of subscriptions and the approval by the Board of Directors for the use of the internally generated resources for operational commitments. As at December 31, 2019, subscriptions to ADF-14 amounted to UA 3.34 billion.

At 31 December 2019, cumulative contributions pledged on account of the MDRI amounted to UA 5.79 billion of which UA 1.32 billion 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 N.

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 737.99 million representing contributions by the Bank of UA 735.99 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 31 December 2019 and 2018 were as follows:

(UA thousands)

| | 2019 | 2018 |
|---|---|---|
| Reserves at 1 January | (600,627) | (526,556) |
| Deficit for the year | (86,883) | (74,071) |
| **Balance at 31 December** | **(687,510)** | **(600,627)** |

## Note J – Borrowings

The Fund's borrowings comprise of concessional loans from three State participants. The borrowings are concessional, unsecured and unsubordinated and the Fund retains the option to prepay, in part or in whole, the outstanding amounts without penalty. These borrowings are carried and reported at amortized cost. The lenders are allocated voting rights based on the cash paid, computed as the derived grant element. The grant element, is recorded as equity and is a function of the agreed discount rate. The grant element is amortized over the life of the borrowing. As of 31 December 2019, the Fund's borrowings outstanding amounted to UA 680.78 million (2018: UA 510.49 million). These borrowings have original maturities of 20 years and 40 years, with the final maturity being 2057.

## Note K – 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 31 December 2019, the undisbursed balance of trust fund resources was UA 5.64 million (2018: UA 4.87 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 L – 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 ended 31 December 2019 amounted to UA 234.18 million (2018: UA 235.75 million).

## Note M – 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 offices, 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 L. 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 N – Statement of subscriptions, contributions and voting power as at 31 December 2019

(UA thousands)

| | Subscriptions | | | | | | Payment Positions | | | MDRI | Voting Power | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| State participants / Donors | Initial & Special Increase | ADF-1 to ADF-13 Installments | ADF-14 Installment | Grants Compensation | Grant element of Concessional Loans | Total Subscriptions | Total Installments Paid | Installments Due | Installments not yet Payable | Payments Received | Number of Votes | % |
| 1 ADB | 5,987 | 105,754 | - | - | - | 111,741 | 111,741 | - | - | - | 1,000.000 | 50.000 |
| 2 Angola | 9,691 | - | 5,204 | - | - | 14,895 | 14,895 | - | - | - | 0.492 | 0.024 |
| 3 Argentina | 1,842 | 16,789 | - | - | - | 18,631 | 1,842 | 7,018 | 9,771 | - | 0.061 | 0.003 |
| 4 Austria | 13,816 | 472,417 | 91,868 | 1,209 | - | 579,310 | 579,310 | - | - | 21,864 | 19.855 | 0.986 |
| 5 Belgium | 2,763 | 532,334 | 56,587 | 1,338 | - | 593,022 | 558,261 | - | 34,761 | 28,542 | 19.381 | 0.962 |
| 6 Brazil | 2,763 | 140,866 | - | - | - | 143,629 | 143,629 | - | - | - | 4.664 | 0.234 |
| 7 Canada | 20,724 | 1,771,970 | 179,162 | 773 | - | 1,972,629 | 1,972,629 | - | - | 95,664 | 68.628 | 3.407 |
| 8 China | 13,816 | 506,203 | 86,292 | 282 | - | 606,593 | 606,593 | - | - | 30,234 | 20.962 | 1.046 |
| 9 Denmark | 6,447 | 656,320 | 66,340 | 1,464 | - | 730,571 | 730,571 | - | - | 20,031 | 24.804 | 1.231 |
| 10 Egypt* | - | 2,629 | 1,427 | - | - | 4,056 | 4,056 | - | - | - | 0.000 | 0.000 |
| 11 Finland | 1,842 | 560,489 | 48,956 | 1,290 | - | 612,577 | 572,526 | - | 40,051 | 27,620 | 19.721 | 0.979 |
| 12 France | 8,809 | 2,635,406 | 290,037 | 7,156 | 64,096 | 3,005,504 | 3,005,504 | - | - | 169,419 | 104.932 | 5.210 |
| 13 Germany | 13,816 | 2,679,971 | 403,800 | 6,193 | - | 3,103,780 | 3,103,780 | - | - | 121,710 | 106.530 | 5.289 |
| 14 India | 5,526 | 86,333 | 10,657 | 144 | 2,691 | 105,351 | 105,351 | - | - | 3,204 | 3.585 | 0.178 |
| 15 Italy | 9,211 | 1,680,719 | 197,424 | 3,460 | - | 1,890,814 | 1,771,767 | - | 119,047 | 82,280 | 56.419 | 2.887 |
| 16 Japan | 13,816 | 2,751,364 | 234,702 | 6,153 | 68,471 | 3,074,506 | 3,074,506 | - | - | 123,036 | 105.606 | 5.243 |
| 17 Korea | 9,211 | 257,202 | 62,628 | 539 | - | 329,580 | 329,580 | - | - | 12,645 | 11.303 | 0.561 |
| 18 Kuwait | 4,974 | 174,710 | 8,462 | 139 | - | 188,285 | 188,285 | - | - | 13,118 | 6.652 | 0.330 |
| 19 Luxembourg | 14,514 | - | 8,356 | - | - | 22,870 | 22,869 | - | - | - | 0.755 | 0.038 |
| 20 Netherlands | 5,526 | 1,103,398 | 149,422 | 3,218 | - | 1,261,564 | 1,261,564 | - | - | 60,767 | 43.278 | 2.149 |
| 21 Norway | 6,908 | 1,185,399 | 139,163 | 2,978 | - | 1,334,448 | 1,334,448 | - | - | 65,184 | 46.427 | 2.305 |
| 22 Portugal | 7,368 | 174,766 | 7,611 | 502 | - | 190,247 | 187,399 | - | 2,848 | 10,408 | 6.533 | 0.324 |
| 23 Saudi Arabia | 8,290 | 275,409 | 14,267 | 81 | - | 298,047 | 298,047 | - | - | 6,206 | 10.061 | 0.500 |
| 24 South Africa* | 1,794 | 45,688 | 7,809 | 102 | - | 55,393 | 55,393 | - | - | 9,562 | 0.000 | 0.000 |
| 25 Spain | 2,763 | 601,636 | 12,912 | 1,888 | - | 619,200 | 607,089 | - | 12,111 | 49,373 | 21.682 | 1.076 |
| 26 Sweden | 8,289 | 1,313,258 | 171,529 | 3,323 | - | 1,496,399 | 1,496,399 | - | - | 73,654 | 51.855 | 2.574 |
| 27 Switzerland | 5,701 | 920,450 | 125,795 | 2,239 | - | 1,054,185 | 1,054,185 | - | - | 104,694 | 38.275 | 1.900 |
| 28 Turkey | 40,693 | - | 713 | - | - | 41,406 | 41,406 | - | - | - | 1.368 | 0.068 |
| 29 United Arab Emirates | 4,145 | 4,145 | - | - | - | 8,290 | 8,290 | - | - | - | 0.274 | 0.014 |
| 30 United Kingdom | 7,873 | 2,604,221 | 437,042 | 6,025 | - | 3,055,161 | 3,055,161 | - | - | 144,955 | 100.449 | 5.247 |
| 31 United States of America | 20,724 | 2,989,756 | 360,638 | 7,801 | - | 3,378,919 | 3,127,072 | - | 234,045 | 47,944 | 105.450 | 5.235 |
| Supplementary/ Voluntary contributions | - | 109,714 | 46,812 | 4,320 | - | 160,846 | 178,648 | - | - | - | 0.000 | 0.000 |
| **Total** | **279,642** | **26,359,316** | **3,225,616** | **62,618** | **135,258** | **30,062,450** | **29,602,796** | **7,018** | **452,634** | **1,322,114** | **2,000.000** | **100.000** |
| **Supplementary information:** | | | | | | | | | | | | |
| Supplementary contributions through accelerated encashment to reduce the gap | - | 65,321 | 9,260 | 4,318 | - | 78,899 | 95,302 | - | 5,320 | 6,892 | | |

**Donors to the Fund.*
*Slight differences may occur in totals due to rounding.*

## Note O – Approval of special purpose financial statements

On March 31, 2020, the Board of Directors authorized these financial statements for issue to the Board of Governors. Due to the COVID-19 Pandemic, the financial statements are expected to be approved by the Board of Governors by postal ballot.

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## Independent Auditor's Report on the special purpose Financial Statements

## Year ended December 31, 2019

To the Board of Governors of the African Development Fund

**Opinion**

We have audited the accompanying special purpose financial statements of the African Development Fund which comprise the statement of net development resources as at December 31, 2019 and the statement of income and expenses and other changes in development resources, the statement of comprehensive income and the statement of cash flows for the year then ended, and notes comprising significant accounting policies and other explanatory information as set out in notes A to O.

These special purpose financial statements were approved on March 31, 2020 by the Board for transmission to the Board of Governors considering the information available at that time regarding the evolving context of the health crisis related to the COVID-19 pandemic.

In our opinion, the accompanying special purpose financial statements 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 December 31, 2019.

**Basis for Opinion**

***Audit Framework***

We conducted our audit in accordance with International Standards on Auditing (ISA). We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

***Independence***

We are independent of the Fund in accordance with the International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Deloitte.

**Other information**

Management is responsible for the other information. The other information comprises the information included in the African Development Bank Group Annual Report but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information, and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

**Responsibilities of Management and Those Charged with Governance for the Financial Statements**

Management is responsible for the preparation and fair presentation of the special purpose 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, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the special purpose financial statements, management is responsible for assessing the Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Fund or to cease operations.

The Audit & Finance Committee of the Board, and more generally those charged with governance, are responsible for overseeing the Fund's financial reporting process and to monitor the effectiveness of the internal control and risk management systems, as well as the internal audit, as regards the procedures relating to the preparation and processing of accounting and financial information.

The special purpose financial statements were approved by the Board for transmission to the Board of Governors.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

In accordance with International Standards on Auditing (ISA), our role as external auditor does not consist in guaranteeing the viability or quality of management of the audited entity.

As part of an audit conducted in accordance with ISA, the auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for expressing an opinion on the effectiveness of the internal control;
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the financial statements;
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Fund's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Fund to cease to continue as a going concern. If the auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- Evaluates the overall presentation of the financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal controls that we identify during our audit.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Paris – La Défense, March 31st 2020

The independent auditor
**Deloitte & Associés**

**Pascal COLIN**

## ADF administrative budget for financial year 2020
(UA thousands)

| | |
|---|---|
| Management Fees* | 243,120 |
| Direct Expenses | 170 |
| **Total** | **243,290** |

** 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 Fund's Board.*