

These financial statements were noted by ADB's Board of Directors on 8 April 2016. They are subject to the approval of ADB's Board of Governors at the ADB Annual Meeting in Frankfurt, Germany, to be held on 2-5 May 2016.

2015 FINANCIAL REPORT

ASIAN DEVELOPMENT BANK

SCALING UP TO MEET
NEW DEVELOPMENT
CHALLENGES



MANAGEMENT'S DISCUSSION AND ANALYSIS
AND ANNUAL FINANCIAL STATEMENTS





Management's Discussion and Analysis and Annual Financial Statements

31 December 2015

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MANAGEMENT'S DISCUSSION AND ANALYSIS

I. OVERVIEW

The Asian Development Bank (ADB), a multilateral development bank, was established in 1966 under the Agreement Establishing the Asian Development Bank (the Charter).¹ ADB is owned by 67 members, 48 of which are regional members, including Japan, Australia and New Zealand, providing 63.6% of its capital and 19 non-regional members, including the United States, Canada and 17 European countries, providing 36.4% of its capital.

The vision of ADB is of an Asia and Pacific region free of poverty. Its mission is to help its developing member countries (DMCs) reduce poverty and improve living conditions and quality of life. ADB's strategy for reducing poverty focuses on achieving three strategic agendas: inclusive economic growth, environmentally sustainable growth, and regional integration.

ADB provides various forms of financial assistance to its DMCs. The main instruments are loans, technical assistance (TA), grants, guarantees, and equity investments. These instruments are financed through ordinary capital resources (OCR), Special Funds, and trust funds. ADB's ordinary operations are financed from OCR and special operations from Special Funds. The Charter requires that funds from each resource be kept and used separately. Trust funds are generally financed by contributions and administered by ADB as the trustee.

ADB also offers debt management products to its members and entities fully guaranteed by members such as interest rate swaps and cross currency swaps (including local currency swaps) for their third party liabilities. ADB also provides policy dialogue and advisory services, and mobilizes financial resources through its cofinancing operations, which access official and other concessional, commercial, and export credit sources to maximize the development impact of its assistance. Cofinancing for ADB projects can be in the form of external loans, grants for TA and components of loan projects, equity, and credit enhancement products such as guarantees and syndications.

II. COMBINATION OF OCR AND ADF RESOURCES

On 29 April 2015, the Board of Governors adopted the resolution authorizing the termination of the lending operations of the Asian Development Fund (ADF), the concessional lending window of ADB, and the transfer of ADF loans and certain other assets to OCR effective 1 January 2017. The new initiative will expand ADB's lending capacity—particularly to poor countries and the private sector, enhance ADB's risk-bearing capacity, and strengthen its readiness to respond to future economic crises and natural disasters.

Currently, OCR loans are provided to middle-income countries at market-based rates. After the transfer, lower income countries currently eligible for ADF loans will continue to receive concessional loans from the expanded OCR on the same terms and conditions as current ADF loans, and the ADF will be retained as a grant-only operation providing assistance to eligible countries.

¹ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

III. ORDINARY CAPITAL RESOURCES

Funding for OCR operations comes from three distinct sources: funds borrowed from capital markets and private placements, paid-in capital provided by shareholders, and accumulated retained income (reserves). The financial strength of ADB is based on the support it receives from its shareholders and on its financial policies and practices; shareholder support is reflected by capital subscriptions of members and the record of ADB borrowing members in meeting their debt service obligations.

Borrowed funds, together with equity, are used to fund OCR lending and investment activities and other general operations. ADB is rated triple-A by the major rating agencies and its bonds are viewed as high quality debt by investors. ADB's funding strategy is aimed at ensuring availability of funds for its operations at the most stable and lowest possible cost. Such strategy has enabled ADB to achieve cost-efficient funding levels for its borrowing members.

Loans are generally provided to DMCs that have attained higher economic development and to nonsovereign borrowers. Sovereign loans are priced on a cost pass-through basis, which means the cost of funding the loans plus a contractual spread is passed to the borrowers. ADB applies market-based pricing for nonsovereign loans. In addition to direct lending, ADB also provides guarantees to assist DMC governments and nonsovereign borrowers in securing commercial funds for ADB-assisted projects.

A. Basis of Financial Reporting

Statutory reporting. ADB prepares OCR financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP), referred to in this document as the "statutory reporting basis."

ADB manages its balance sheet by selectively using derivatives to minimize interest rate and currency risks associated with its financial instruments. Derivatives are used to enhance asset and liability management of individual positions and overall portfolios. ADB has elected not to define any qualifying hedging relationships, not because economic hedges do not exist, but rather because the application of hedging criteria under US GAAP does not make fully evident ADB's risk management strategies.

ADB reports all derivative instruments on the balance sheet at fair value and recognizes the changes in fair value for the period as part of net income. ADB also elects to measure financial instruments at fair value on a selective basis and opts to measure at fair value all derivatives and selected borrowings that are swapped or have floating interest rates, in order to generally apply a consistent accounting treatment between the borrowings and their related swaps. ADB continues to report its loans and the remaining borrowings at amortized cost, and reports most of its investments (except time deposits that are recorded at cost) at fair value.

Management reporting. The asymmetric accounting treatment—in which certain financial instruments (including all derivatives, swapped and floating-rate borrowings, and certain investments) are recorded at their fair value, while loans and a portion of borrowings and investments are recorded at amortized cost—leads ADB Management to believe that statutory income may not fully reflect the overall economic value of ADB's financial position. Accordingly, ADB also reports operating income, which excludes the impact of the fair value adjustments associated with financial instruments from the results of OCR operations. ADB uses operating income as the key measure to manage its financial position, make financial management decisions, and monitor financial ratios and parameters.

Operating income does not include unrealized gains or losses of the portfolio. The unrealized gains or losses, although an important indicator of the portfolio performance, generally represent changes in income as a result of fluctuations in the fair value of selected borrowings and derivatives. Because ADB does not actively trade these financial instruments, such gains or losses are generally not realized, unless ADB is forced to do so by risk events before maturity. ADB has instituted conservative risk management policies to mitigate such risks.

Because ADB intends to hold most borrowings and related swaps until maturity or call, the interim unrealized gains and losses reported under the statutory reporting basis will eventually converge with the net realized income and expenses that ADB recognizes over the life of the financial instrument.

The management reporting basis balance sheet reconciled from the statutory reporting basis balance sheet as of 31 December 2015 is provided in the Appendix.

B. Selected Financial Data

Selected financial data are presented on a statutory reporting basis and management reporting basis (Table 1). Rates of return on equity and earning assets under the management reporting basis decreased in 2015 compared with 2014, mainly as a result of lower operating income brought about by the significant decrease in divestment gains. While return on investments remained stable, increases in the rate of return on loans and cost of borrowings were consistent with the applicable market interest rate trend (Table 2) and portfolio composition. Income and expenses are discussed in the next section.

C. Overall Financial Results

Net income. Table 3 presents the overall financial results for 2015. Net income was \$556 million, compared with \$387 million for 2014. The increased net income from 2014 is mainly attributed to the unrealized gains from ADB's borrowings and associated derivatives.

Table 1: Selected Financial Data for the Year Ended 31 December
(\$ million)

Item	2015	2014	2013	2012	2011
Statutory Reporting Basis					
Revenue					
From Loans	678	605	646	770	650
From Investments	322	305	339	390	365
From Guarantees	19	21	18	18	16
From Equity Investments	(19)	17	10	39	44
From Other Sources	29	25	22	21	20
Total Revenue	1,029	973	1,035	1,238	1,095
Borrowings and Related Expenses	374	317	400	520	368
Administrative Expenses ^a	383	352	411	351	316
(Write-back) Provision for Loan Losses	(1)	(1)	(6)	7	(7)
Other Expenses	12	13	8	9	5
Total Expenses	768	681	813	887	682
Net Realized Gains	56	288	194	122	190
Net Unrealized Gains (Losses)	239	(193)	150	(331)	6
Net Income	556	387	566	142	609
Average Earning Assets ^b	85,227	80,633	78,828	76,361	69,112
Annual Return on Average Earning Assets (%)	0.65	0.48	0.72	0.19	0.88
Return on Equity (%)	3.23	2.24	3.43	0.87	3.74
Return on Loans (%)	1.16	1.15	1.31	1.56	1.34
Return on Investments (%)	1.33	1.30	1.43	1.69	2.04
Cost of Borrowings (%)	0.19	0.82	0.51	0.91	1.13
Management Reporting Basis					
Operating Income ^c	343	571	469	465	587
Average Earning Assets ^b	85,227	80,639	78,839	76,386	69,099
Annual Return on Average Earning Assets ^d (%)	0.40	0.71	0.60	0.61	0.85
Return on Equity (%)	1.89	3.12	2.71	2.72	3.58
Return on Loans (%)	1.18	1.12	1.23	1.51	1.36
Return on Investments (%)	1.30	1.31	1.36	1.58	2.11
Cost of Borrowings (%)	0.54	0.50	0.64	0.84	0.69

() = negative.

^a Net of administrative expenses allocated to the Asian Development Fund and loan origination costs that are deferred.

^b Average of investments and related swaps, outstanding loans (excluding net unamortized loan origination cost and/or front-end fees) and related swaps and equity investments.

^c Operating income is defined as statutory net income before unrealized gains or losses and the Asian Development Bank's proportionate share in unrealized gains or losses from equity investment accounted for under the equity method.

^d Represents operating income over average earning assets.

Table 2: Selected US Dollar Interest Rates at 31 December
(%)

Item	2015	2014	2013	2012	2011
6-Month US Dollar LIBOR	0.85	0.36	0.35	0.51	0.81
3-Year US Dollar Swap Rate	1.42	1.30	0.88	0.50	0.82

LIBOR = London interbank offered rate, US = United States.

Source: Bloomberg Finance L.P.

Table 3: Overall Financial Results for the Year Ended 31 December
(\$ million)

Item	2015	2014	Change
Income from loans	678	604	74
Interest income	673	596	77
Write-back for loan losses	1	1	0
Others	4	7	(3)
Income from investments	365	352	13
Interest income	322	305	17
Realized gain	43	47	(4)
Income from equity investments	19	246	(227)
Profit on sale—net of impairment losses	12	241	(229)
Proportionate share of loss from EI accounted for under the equity method—realized	(1)	(6)	5
Others	8	11	(3)
Other income—net^a	37	38	(1)
Borrowings and related expenses	373	317	56
Interest and other expenses	374	317	57
Realized gain	(1)	—	(1)
Administrative expenses—OCR	383	352	31
Operating income	343	571	(228)
Net unrealized gains (losses)	239	(193)	432
Proportionate share of (loss) income from EI accounted for under the equity method—unrealized	(26)	9	(35)
Net income	556	387	169

- = nil, () = negative, EI = equity investments, OCR = ordinary capital resources.

Note: 0 = amount less than \$0.5 million.

^a Includes income and related expenses from guarantees and income from trust funds administration.

Operating income. Operating income in 2015 decreased to \$343 million, from \$571 million in 2014.² The change in operating income was primarily driven by:

- (i) \$227 million decrease in income from equity investments, mainly due to lower gain from divestment of equity investments;
- (ii) \$56 million increase in borrowings and related expenses resulting largely from increase in average outstanding borrowings, as well as higher market interest rates; and
- (iii) \$31 million increase in administrative expenses.

These were partially offset by:

- (iv) \$74 million increase in income from loans due to increase in average outstanding loans, higher interest rates and discontinuation of the lending spread waiver on selected sovereign loans; and
- (v) \$13 million increase in income from investments due mainly to the larger portfolio.

² Operating income is defined as statutory net income before unrealized gains or losses and ADB's proportionate share in unrealized gains or losses from equity investment accounted for under the equity method.

Net unrealized gains and losses. During 2015, ADB reported net unrealized gains of \$239 million (2014: \$193 million net unrealized losses), which primarily consisted of fair value adjustments on certain borrowings and derivatives used for hedging borrowings, investments and loans. For 2015, large portion of the movements in fair value resulted in net unrealized gains of \$244 million (2014: net unrealized losses of \$205 million) from borrowings and related swaps, reflecting the movements in ADB's credit spreads and interest rates.

D. Operating Activities

ADB provides financial assistance under its ordinary operations to its DMCs through loans, TA, guarantees and equity investments to help them meet their development needs. ADB also promotes cofinancing of its projects and programs to complement its assistance with funds from official and commercial sources, including export credit agencies. ADB also provides debt management products to its members and member-guaranteed entities for their third party liabilities.

1. Loans

ADB is authorized under the Charter to make, participate in or guarantee loans to its DMCs, to any of their agencies, instrumentalities or political subdivisions, and to any entities or enterprises operating within such countries, as well as to international or regional agencies or entities concerned with the economic development of the region. Such loans are made only for projects or programs of high developmental priority.

ADB's lending limitation policy limits the total amount of disbursed loans, disbursed equity investments and related prudential buffer, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. As of 31 December 2015, the total of such loans, equity investments and related prudential buffer, and guarantees was \$63,042 million (2014: \$57,126 million), compared with the maximum lending ceiling of \$159,136 million, which resulted in a headroom of \$96,094 million (2014: \$107,960 million).

ADB's projects undergo an evaluation and approval process that includes such factors as economic, social, environmental, technical, institutional and financial feasibility, effect on the general development activity of the country concerned, contribution to economic development, capacity of the borrowing country to service additional external debt, effect on domestic savings, balance of payments effects, impact of new technologies on productivity, and expansion of employment opportunities.

Except in special circumstances, ADB requires that the proceeds of its loans and equity investments and the proceeds of the loans it guarantees be used only for procurement of goods and services produced in and supplied from member countries. Loan disbursements must comply with the requirements specified in loan agreements. ADB's staff review progress and monitor compliance with ADB policies. ADB's Independent Evaluation Department, reporting directly to ADB's Board of Directors, evaluates the development effectiveness of ADB's operations.

ADB offers the multitranche financing facility (MFF), a debt financing facility that delivers financial resources for a program or investment in a series of separate financing tranches over a fixed period. Financing tranches may be provided as loans, guarantees, or any combination of these instruments based on periodic financing requests (PFRs) submitted by the borrower.

In 2011, ADB reviewed its policy-based lending and enhanced the program lending policy by mainstreaming programmatic budget support and enhancing crisis response capacity. Consequently, ADB offers four policy-based lending products, each catering to a different situation in a DMC: stand-alone policy-based lending, programmatic approach, special policy-based lending, and countercyclical support facility (CSF) lending.

In April 2011, ADB established the project design facility (PDF) on a pilot basis to support project preparation, particularly detailed engineering designs, through project design advances (PDA). The facility is designed to be refinanced from the proceeds of the ADB loan for the ensuing project. The pilot period has been extended for 3 years (until 31 December 2017).

In March 2013, the Board of Directors approved piloting results-based lending (RBL). This modality will support government-owned sector programs and disburse ADB financing based on program results. Loan terms under RBL are the same as for investment projects.

Nonsovereign operations. ADB provides lending without sovereign guarantee to privately-held or state-owned or subsovereign entities. In its nonsovereign operations, ADB provides financial assistance on market-based terms and conditions to provide investment capital. ADB's nonsovereign operations primarily focus on two of the core areas of operations identified in Strategy 2020, namely infrastructure (with particular emphasis on energy) and finance. Strategic interventions focus on renewable energy and other infrastructure sectors. ADB's participation is meant to catalyze or bring about financing from other sources – both local and foreign – and not to compete with these sources. ADB cannot be the largest single investor in an enterprise. As needed, ADB will help mobilize additional debt from commercial banks, other development institutions, and financing partners.

Loan approvals, disbursements, repayments, and prepayments. In 2015, approved loans totaled \$12,941 million, representing a \$2,708 million increase from 2014 (\$10,233 million).³ ADB approved 60 sovereign loans totaling \$10,791 million, including one PDA loan for \$3 million (2014: nil) and 24 nonsovereign loans totaling \$2,150 million, compared with 2014 approvals of 56 sovereign loans totaling \$8,520 million and 28 nonsovereign loans totaling \$1,713 million.

In 2015, MFFs totaling \$1,224 million (2014: \$2,532 million) were approved under OCR.⁴ Under the MFFs, PFRs totaling \$2,910 million were approved in 2015 (2014: \$2,952 million); a total of \$2,149 million was disbursed in 2015 (2014: \$2,210 million). In 2015, ADB approved three OCR loans totaling \$1,025 million under RBL (2014: three loans amounting \$450 million); and disbursed a total of \$193 million (2014: \$58 million).

Disbursements in 2015 totaled \$9,667 million (\$8,223 million for sovereign loans and \$1,444 million for nonsovereign loans), an increase of 31% from the \$7,368 million disbursed in 2014 (\$6,280 million for sovereign loans and \$1,088 million for nonsovereign loans). Regular principal repayments in 2015 were \$3,325 million (2014: \$3,989 million), while prepayments totaled \$154 million (2014: \$317 million). In 2015, four loans were fully prepaid for \$127 million, and four loans were partially prepaid for \$27 million. As of 31 December 2015, loans outstanding after allowance for loan losses and net unamortized loan origination cost totaled \$61,941 million, of which sovereign loans represented \$57,555 million and nonsovereign loans \$4,386 million.

³ These exclude adjustments prior to signing.

⁴ These amounts may be adjusted based on flexibility in the use of OCR and ADF funding.

A summary of the outstanding loan commitments by member country as of 31 December 2015 is set forth in OCR-6 of the Financial Statements. A breakdown by sector of loans as of 31 December 2015 is shown in Table 4.

Table 4: Sectoral Breakdown of Total OCR Loans^a
As of 31 December 2015

Sector	\$ million	%
Transport	35,209	36.0%
Energy	22,948	23.4%
Public Sector Management	9,681	9.9%
Water and Other Urban Infrastructure and Services	9,389	9.6%
Finance	8,548	8.7%
Agriculture, Natural Resources and Rural Development	5,295	5.4%
Multi-Sector	2,778	2.8%
Education	2,559	2.6%
Health	744	0.8%
Industry and Trade	563	0.6%
Information and Communication Technology	184	0.2%
Total	97,899	100.0%

^a Includes outstanding loans, undisbursed effective loans and approved loans that are not yet effective.

Note: Numbers and percentages may not sum precisely because of rounding.

The majority of outstanding loans (92.8%) have been made to the public sector (member countries and, with the guarantee of the concerned member, government agencies or other public entities) (Table 5). The rest have been made to private sector enterprises, financial institutions, and selected nonsovereign public sector entities.

Table 5: Loan Status at 31 December 2015 and 2014
(\$ million)

	Outstanding				Undisbursed			
	2015	%	2014	%	2015	%	2014	%
Sovereign	57,432	92.8%	52,239	93.5%	24,334	93.9%	24,249	92.8%
Nonsovereign	4,457	7.2%	3,606	6.5%	1,577	6.1%	1,891	7.2%
Total Loans	61,889	100.0%	55,845	100.0%	25,911	100.0%	26,140	100.0%

Status of loans. No loans were in nonaccrual status as of 31 December 2015 and 2014.

Lending windows. ADB's currently available lending windows are the LIBOR-based loan (LBL) window and the local currency loan (LCL) window. The LBL has been the primary lending facility for OCR sovereign operations since 2001. The LBL is designed to meet demand by borrowers for loan products that suit project needs and effectively manage their external debt. The LBL also gives borrowers a high degree of flexibility in managing interest rate and exchange rate risks, while providing low intermediation risk to ADB. ADB has offered LCLs to nonsovereign borrowers since November 2002, and this was expanded to sovereign borrowers in August 2005.

Discontinued lending windows. With the introduction of the LBL in July 2001, ADB's pool-based single currency loans (PSCL), market-based loans, and fixed-rate multicurrency loans were no longer offered.

A breakdown of ADB's loan portfolio by loan product as of 31 December 2015 and 2014 is presented in Table 6.

Table 6: Loan Portfolio by Lending Windows

as of 31 December 2015 and 2014

	(\$ million)			
	Sovereign		Nonsovereign	
	2015	2014	2015	2014
LIBOR-based loans				
Outstanding	54,586	48,714	3,534	2,779
Undisbursed	24,334	24,250	1,334	1,588
Local currency loans				
Outstanding	65	121	923	827
Undisbursed	–	–	243	302
Others				
Outstanding	2,781	3,404	–	–
Undisbursed	–	–	–	–
Total				
Outstanding	57,432	52,239	4,457	3,606
Undisbursed	24,334	24,250	1,577	1,890

- = nil, LIBOR = London interbank offered rate.

Sovereign loan charges. LBLs and loans approved under the CSF carry a floating lending rate that comprises a funding cost margin over or under the 6-month LIBOR and an effective contractual spread. LCLs may be made on a floating rate basis, and typically reset every 6 months. The cost-base rate of an LCL is based on back-to-back or a pool-based funding. The lending rate is reset every 6 months on each interest reset date and can be converted into a fixed rate at the request of the borrower. The lending rates for PSCLs are based on the previous semester's average cost of borrowing. Interest rates for market-based loans are either fixed or floating. The floating rates are determined based on the 6-month LIBOR, with reset dates of 15 March and 15 September or 15 June and 15 December. OCR loans under PDF carry standard OCR lending rates. Payment of interest is deferred until the PDA is refinanced out of the loan proceeds or other repayment terms take effect.

A commitment charge is levied on the undisbursed loans beginning 60 days after signing of the applicable loan agreement; charges begin to accrue when the loan becomes effective, except for PDAs where commitment charges start to accrue after two years from the date the PDA agreement is signed.

Lending spread. Effective in 2000, all sovereign loans without specific provisions in the loan agreements were charged a lending spread of 60 basis points over the base lending rate.

Starting in 2004, ADB provided a 20 basis points waiver on the lending spread for borrowers or guarantors that have no OCR loans in arrears under ADB sovereign operations.⁵ The waiver for the applicable loans is reviewed annually. In December 2014, the Board of Directors approved the continuation of this waiver⁶ for borrowers of US dollar PSCL covering interest periods commencing from 1 January 2015 to 31 December 2015. In November 2015, the Board approved extending this waiver to 31 December 2016. In 2015, the total waiver provided on the lending spread was \$6 million (2014: \$20 million).

In December 2007, the ADB Board of Directors approved a revision to the pricing structure for all LBLs and LCLs negotiated on or after 1 October 2007, eliminating the waiver mechanism and provided a credit of 0.4% for the duration of the loan. This resulted in an effective contractual spread of 20 basis points over the base lending spread.

The Board of Directors subsequently revised the loan charges, where for LBLs and LCLs (i) negotiated from 1 July 2010 up to and including 30 June 2011, that the credit of 0.4% be reduced to 0.3% for the duration of the loan, to result in a contractual spread of 0.3% over the base lending rate; and (ii) negotiated from 1 July 2011, that the credit of 0.4% be reduced to 0.2% for the duration of the loan. This resulted in a contractual spread of 0.4% over the base lending rate.

In December 2013, the Board of Directors approved a revision to the loan pricing for all LBLs and LCLs negotiated on or after 1 January 2014, reducing the credit of 0.2% to 0.1% for the duration of the loan. This resulted in a contractual spread of 0.5% over the base lending rate.

The loans approved under the CSF carry a lending spread of 200 basis points over the base lending rate.

Maturity premium. In December 2011, the Board of Directors approved the introduction of maturity premiums for all LBLs (other than PDF loans) and LCLs for which formal loan negotiations were completed on or after 1 April 2012 of:

- (i) 10 basis points per annum on loans with an average loan maturity of greater than 13 years and up to 16 years, and
- (ii) 20 basis points per annum on loans with an average loan maturity of greater than 16 years and up to 19 years.

ADB also introduced a limit on the average loan maturity for new loans to not exceed 19 years. As of 31 December 2015, 141 approved loans totaling \$21,023 million were subject to maturity premium (2014: 107 approved loans totaling \$16,560 million).

Rebates and surcharges. To maintain the principle of the cost pass-through pricing policy, ADB passes on the actual funding cost margin above or below LIBOR to its borrowers through a surcharge or rebate (Table 7). The funding cost margins are reset semi-annually (on 1 January and 1 July), and are based on the actual average funding cost margin for the preceding 6 months. The rebates or surcharges are passed on to borrowers by incorporating them into the interest rate for the succeeding interest period. ADB returned a sub-LIBOR funding cost margin of \$75 million to its LBL borrowers in 2015 (2014: \$70 million), no surcharge were collected on CSF loans in 2015 (2014: \$2 million).

⁵ Applicable for sovereign loans negotiated before 1 October 2007.

⁶ This applies to borrowers or guarantors that do not have any OCR loans in arrears under ADB's sovereign operations.

Table 7: Funding Cost Margin on LIBOR-based Loans^a
(% per year)

Type	(Rebate) or Surcharge			
	1 July 2015	1 January 2015	1 July 2014	1 January 2014
LIBOR-based Loans				
US dollar	(0.12)	(0.15)	(0.15)	(0.16)
Yen	(0.46)	(0.42)	(0.34)	(0.31)
New Zealand dollar	0.29	0.29	0.29	0.29
CSF Loans				
US dollar	n/a ^b	n/a ^b	0.27	0.28

() = negative, n/a = not applicable, CSF = Countercyclical Support Facility, LIBOR = London interbank offered rate, US = United States.

^a Funding cost margins are announced on 1 January and 1 July and are valid for 6 months.

^b Disbursements under CSF for 2015 were made only in December.

Lending rates for PSCLs are based on the previous semester's average cost of borrowing (Table 8) and carry a lending spread of 60 basis points.

Table 8: PSCL Lending Rates^a
(% per year)

	2015	2014	Currency
1 January	5.51	5.65	US dollar ^b
	0.48	0.71	Yen
1 July	5.59	5.57	US dollar ^b
	0.40	0.64	Yen

PSCL = pool-based single currency loan, US = United States.

^a Lending rates are set semi-annually on 1 January and 1 July and are valid for 6 months.

^b Net of 20 basis points lending spread waiver.

Commitment charge. ADB borrowers are charged commitment fees on the undisbursed loan balances for sovereign LBLs. The charges differ depending on when the loan was negotiated (Table 9).

Table 9: Commitment Fees
(% per year)

Date	Project loans	Policy-based loans	Results-based lending loans
Negotiated on or before 1 January 2007,			
with undisbursed balance as of 1 January 2007	0.75 ^a	—	n/a
Waiver	n/a	—	n/a
Net	0.75	—	n/a
Negotiated after 1 January 2007 and before 1 October 2007			
Waiver	(0.10) ^b	n/a	n/a
Net	0.25	n/a	n/a
Negotiated on or after 1 October 2007			
	0.15	0.15	0.15

() = negative, n/a = not applicable.

^a Progressive.

^b Applicable to all interest periods from 1 January 2007 to 31 December 2015.

Nonsovereign loan charges. For nonsovereign loans, ADB applies market-based pricing to determine the lending spread, front-end fees, and commitment charges for each loan. The lending spread is intended to cover ADB's risk exposure to specific borrowers and projects and the front-end fee to cover the administrative costs incurred in loan origination. Front-end fees are typically 1% to 1.5% depending on the transaction. ADB applies a commitment fee (typically 0.50% to 0.75% per year) on the undisbursed commitment.

LCLs are priced based on relevant local funding benchmarks or ADB's funding costs and a market-based spread.

Direct value-added official loan cofinancing. In 2015, \$5,296 million from official sources was mobilized for loan cofinancing for 33 loan projects, of which \$297 million is under ADB administration and \$4,999 million is under collaborative arrangements. (Refer to Note F of OCR Financial Statements for loans administered by ADB as of 31 December 2015).

2. Guarantees

Guarantees are typically designed to facilitate cofinancing by mitigating the risk exposure of commercial lenders and capital market investors. Guarantees can be provided when ADB has a direct or indirect participation in a project or a related sector, through a loan, equity investment or technical assistance, ADB provides two primary guarantee products – a credit guarantee and a political risk guarantee. ADB's credit guarantee is designed as credit enhancements for eligible projects to cover risks that the project and its commercial cofinancing partners cannot easily absorb or manage on their own. ADB also provides political risk guarantees to cover specifically defined political risks. Reducing these risks can make a significant difference in mobilizing debt funding for projects. ADB has used its guarantee instruments successfully for infrastructure projects, financial institutions, capital markets, and trade finance. These instruments generally are not recognized in the balance sheet and have off-balance-sheet risks. For guarantees issued and modified after 31 December 2002, ADB recognizes at the inception of a guarantee the noncontingent aspect of its obligations. In 2015, ADB approved two new guarantee facilities and an additional approval to one existing facility totaling \$341 million (2014: one guarantee amounting \$20 million).

ADB's exposure on guarantees as of 31 December 2015 and 2014 are shown in Table 10.

Table 10: Outstanding Guarantee Exposure
As of 31 December 2015 and 2014

(\$ million)		
Item	2015	2014
Credit guarantee		
Trade related	525	723
Non-Trade related	809	903
Political risk guarantee	73	114
Total	1,407	1,740

Trade Finance Program. The Trade Finance Program (TFP), which started operations in 2004, comprises of three products: (i) a credit guarantee facility, under which ADB issues guarantees to participating international and regional banks to guarantee payment obligations issued by an approved DMC and/or local banks in selected DMCs; (ii) a revolving credit facility, under which ADB provides trade-related loans to DMC banks in support of DMC companies' export and import activities; and (iii) a risk participation agreement, under which ADB shares risk with international banks to support and expand trade in challenging and frontier markets. The credit guarantee and risk participation agreement are unfunded products, while the revolving credit facility is funded.

In 2015, TFP supported \$2,548 million (2014: \$3,829 million) in trade through 49 DMC banks in 13 different countries. Of the trade supported, \$1,133 million was financed by ADB (2014: \$1,789 million) and \$1,415 million was cofinanced (2014: \$2,039 million).

TFP transactions have average maturities of less than 180 days which enabled the TFP to revolve its \$1 billion limit in 2015 to finance a total of \$1,133 million of guarantees and loans. As of 31 December 2015, TFP guarantees outstanding totaled \$525 million (2014: \$723 million) and loans outstanding totaled \$16 million (2014: \$12 million). Adding TFP unused commitments of \$276 million, total TFP gross exposure against its \$1 billion Board approved limit (which applies at any one point in time) was \$817 million, net of risk distribution was \$683 million.

Supply Chain Finance Program. In 2012, ADB established the Supply Chain Finance Program totaling \$200 million to provide guarantees and loans (both without government guarantee) through partner financial institutions to support payments to suppliers and distributors of goods in DMCs. In 2015, the program provided guarantees of \$46 million (2014: nil) and the outstanding guarantee amount as of 31 December 2015 was \$22 million (2014: nil).

3. Syndications

Syndications refer to the pooling of financing and sharing of risk among financiers. It enables ADB to mobilize cofinancing by transferring some or all of the risks associated with its loans and guarantees to other financing partners.⁷ Thus, syndications decrease and diversify the risk profile of ADB's financing portfolio. Syndications may be on a funded or unfunded basis, and they may be arranged on an individual, portfolio, or any other basis consistent with industry practices. Under this activity, in 2015, \$1,085 million of B-loans were approved for eight projects (2014: \$863 million for eight projects).⁸

⁷ Depending on whether ADB retains risk or not, ADB may or may not have a contingent liability.

⁸ A B-loan is a tranche of a direct loan nominally advanced by ADB, subject to eligible financial institutions taking funded risk participation within such a tranche and without recourse to ADB. It complements an A-loan funded by ADB. B-loan figures for 2014 and 2015 include US dollar and local currency complementary loans.

4. Equity Investments

The Charter allows the use of OCR for equity investments up to 10% of ADB's unimpaired paid-in capital actually paid up at any given time together with reserves and surplus, excluding special reserves. At the end of 2015, the total equity investment portfolio for OCR, including prudential buffers, totaled \$1,187 (2014: \$1,316 million), or about 67% (2014: 76%) of the ceiling defined by the Charter.

In 2015, ADB approved four equity investments totaling \$134 million (2014: eight equity investments totaling \$175 million⁹). Equity investments disbursements in 2015 totaled \$124 million, a 33% decrease from the \$184 million (footnote 9) in 2014, and received a total of \$74 million from capital distributions and divestments, whether in full or in part, in 22 projects. The divestments were carried out in a manner consistent with good business practices, after ADB's development role in its investments had been fulfilled, and without destabilizing the companies.

5. Debt Management Products

ADB offers debt management products to members and entities fully guaranteed by members in relation to their third-party liabilities.

Debt management products offered by ADB include currency swaps, including local currency swaps, and interest rate swaps. While currency swaps include the possibility of members or guaranteed entities transforming a foreign currency liability into a local currency liability, the reverse transformation of a local currency liability into a foreign currency liability is not offered.

E. Financing Resources

ADB's ordinary operations are financed from ADB's OCR, which consist primarily of its subscribed capital stock, proceeds from its borrowings, and funds derived from its ordinary operations.

1. Equity

As of 31 December 2015, ADB had 67 members with Japan and the United States as the two largest shareholders. Out of the 67 members, 27 members are non-borrowing members holding 66.7% of total shareholdings with a total voting power of 61.4%. The capital subscription of all ADB members is shown in OCR-8 of the Financial Statements.

The total authorized capital of ADB was 10,638,933 shares valued at \$147,547 million as of 31 December 2015. The details of ADB's equity as of 31 December 2015 and 2014 are shown in Table 11.

⁹ Excluding approval and disbursement for Compulsory Convertible Debentures, reported as Investment in other securities, of \$10 million and \$6 million respectively.

Table 11: Details of Equity
(\$ million)

	2015	2014
Subscribed	147,052	153,056
Less: Callable capital subscribed	139,678	145,376
Paid-in capital subscribed	7,374	7,680
Less: Other adjustments ^a	81	451
	7,293	7,229
Add: Reserves, Surplus, Accumulated Net Income and Other Comprehensive Loss ^b less nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital and net notional amounts required to maintain value of currency holdings	10,153	9,709
Total Equity	17,446	16,938

^a Comprises \$81 million (2014: \$84 million) of capital transferred to the Asian Development Fund and discount, and \$367 million of paid-in capital subscription installments not yet due in 2014. (See OCR-9 of the Financial Statements, Note L).

^b For a description of reserves, see OCR-9 of the Financial Statements, Note M.

Total shareholders' equity increased from \$16,938 million as of 31 December 2014 to \$17,446 million as of 31 December 2015. This was primarily the result of (i) the demand notes encashment totaling \$257 million; (ii) net income for the year of \$556 million; offset by (iii) \$180 million transfers to other Special Funds; and (iv) a \$128 million increase in other comprehensive loss due to unfavorable currency translation adjustments, fair value changes in available for sale investments, and actuarial losses.

Callable capital. Callable capital can be called only if required to meet ADB's obligations incurred on borrowings or guarantees under OCR. No call has ever been made on ADB's callable capital.

Paid-in capital. ADB's paid-in capital may be freely used in its ordinary operations, except that DMCs have the right under the Charter to restrict the use of a portion of their paid-in capital to making payments for goods and services produced and intended for use in their respective territories. (See OCR-9 of the Financial Statements, Note C).

The Charter authorizes the Board of Governors, by a vote of two-thirds of the total number of Governors representing at least three-quarters of the total voting power of the members, to set aside to Special Funds up to 10% of ADB's unimpaired capital paid-in by members. (See IV Special Funds). As of December 31, 2015, a total of \$66 million (0.9% of unimpaired paid-in capital) had been set aside and transferred to the ADF, one of ADB's Special Funds.

Allocation of OCR net income. In accordance with Article 40 of the Charter, the Board of Governors annually approves the allocation of the previous year's net income to reserves and/or surplus. In addition, to the extent feasible, it approves the transfer of part of net income to Special Funds to support development activities in the DMCs.

In May 2015, the Board of Governors approved the following with respect to ADB's 2014 net income of \$366 million, after appropriation of guarantee fees to special reserve: (i) \$183 million representing the Accounting Standards Codification (ASC) 815/825 adjustments and the unrealized portion of net income from equity investments accounted for under the equity method for the year ended 31 December 2014, be added from the Cumulative Revaluation Adjustments account; (ii) \$15 million representing the adjustment to the Loan Loss Reserve as of 31 December 2014, be added from the loan loss reserve to the net income; (iii) \$384 million be allocated to the Ordinary Reserve; (iv) \$120 million be allocated to ADF; (v) \$40 million be allocated to Technical Assistance Special Fund (TASF); and (vi) \$20 million be allocated to Asia Pacific Disaster Response Fund (APDRF).

2. Borrowings

General Borrowing Policies. Under the Charter, ADB may borrow only with the approval of the country in whose market ADB's obligations are to be sold and the member in whose currency such obligations are to be denominated. ADB must also obtain the approvals of the relevant countries so that the proceeds of its borrowings may be exchanged for the currency of any member without restriction. The Charter also requires ADB, before determining to sell its obligations in a particular country, to consider the amount of previous borrowings in that country, the amount of previous borrowings in other countries, and the availability of funds in such other countries, giving due regard to the general principle that its borrowings should to the greatest extent possible be diversified as to country of borrowing.

ADB's borrowing policy limits ADB's gross outstanding borrowings to no more than the sum of callable capital of non-borrowing members, paid-in capital, and reserves (including surplus). Based on such policy, the sum of such capital and reserves as of 31 December 2015 was \$112,755 million (\$116,741 million in 2014). The aggregate of ADB's gross outstanding borrowings of \$68,965 million as of 31 December 2015 (2014: \$63,676 million) was equivalent to 61% (55% in 2014) of such ceiling.

Funding Operations. ADB raises funds for its ordinary operations through the issue and sale of debt obligations in the international capital markets (including by means of private placements) and from official sources, as conditions permit. ADB's primary borrowing objective is to ensure the availability of funds for its operations at the most stable and lowest possible cost. Subject to this objective, ADB seeks to diversify its funding sources across markets, instruments, and maturities. In 2015, ADB continued to employ a strategy of issuing liquid benchmark bonds to maintain its strong presence in key currency bond markets, and raising funds through opportunistic financing and private placements, such as retail-targeted transactions and structured notes, which provide ADB with cost-efficient funding levels.

2015 funding operations. In 2015, ADB raised the equivalent of \$18,948 million (2014: \$14,249 million) in medium- and long-term funds with 56 borrowing transactions. The new borrowings were raised in 11 currencies: Australian dollar, Brazilian real, Canadian dollar, yuan, Euro, Georgian lari, Japanese yen, New Zealand dollar, South African rand, Turkish lira, and US dollar. Proceeds of the 2015 borrowings were swapped into US dollar floating-rate liabilities, except for one local currency note which remained in local currency. The average maturity to first call date of these borrowings is 4.7 years (2014: 4.3 years). Of the 2015 borrowings, \$16,666 million was raised through 26 public offerings, including five US dollar global benchmark bonds totaling \$9,250 million. The remaining \$2,282 million was raised through 30 private placements.

Among the highlights of ADB's capital markets activities in 2015 were the issuances of its inaugural green bond issue of \$500 million, its inaugural Georgian lari bond amounting to GEL 100 million (\$49.3 million equivalent), and a Canadian dollar maple issue amounting to C\$500 million (\$399 million equivalent). In addition, ADB undertook dual issues in the Australian dollar market comprising of a new issue of A\$700 million (\$569 million equivalent) and a tap of A\$350 million (\$284 million equivalent). This was followed by another tap of A\$500 million (\$365 million equivalent). ADB continued to issue thematic bonds, raising \$177 million equivalent from its sale of water bonds.

ADB also raised \$4,082 million (\$2,420 million in 2014) of short-term funds under its Euro-Commercial Paper Program (ECP). Of the ECPs issued in 2015, \$1,317 million were outstanding as of 31 December 2015. Table 12 shows details of 2015 borrowings as compared with 2014.

Table 12: Borrowings

(\$ million)

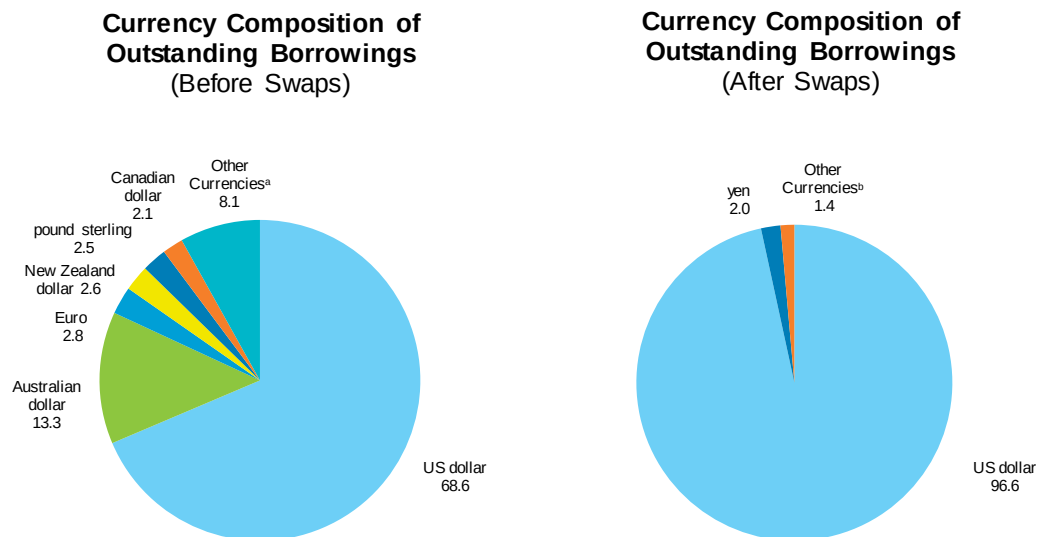
Item	2015	2014
Long Term		
Total Principal Amount	18,948	14,249
Average Maturity to		
First Call (years)	4.7	4.3
Average Final Maturity (years)	4.9	4.4
Number of Transactions		
Public Offerings	26	26
Private Placements	30	24
Number of Currencies (before swaps)		
Public Offerings	5	8
Private Placements	9	7
Short Term^a		
Total Principal Amount ^b	4,082	2,420
Number of Transactions	29	23
Number of Currencies	1	3

^a All euro commercial papers.

^b At year-end, the outstanding principal amount was \$1,317 million in 2015 (\$475 million in 2014).

Use of derivatives. ADB undertakes currency and interest rate swaps to cost-efficiently and on a fully hedged basis raise the currencies needed for its operations, while maintaining its borrowing presence in major capital markets. Figures 1 and 2 show the effects of swaps on the currency composition and interest rate structure of ADB's outstanding borrowings as of 31 December 2015. Interest rate swaps are also used for asset and liability management purposes to match the liabilities with the interest rate characteristics of loans.

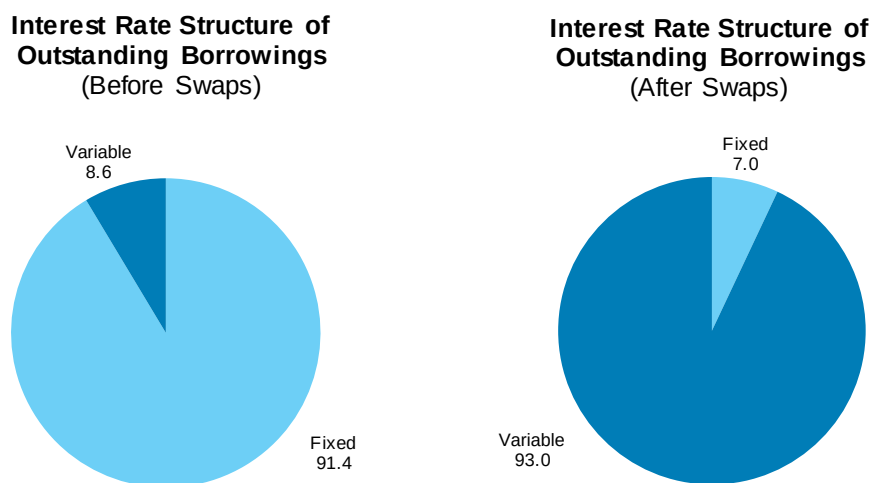
Figure 1: Effect of Swaps on Currency Composition of Borrowings
As of 31 December 2015
(%)



^a Other currencies include the Brazilian real, yuan, lari, Hong Kong dollar, Indian rupee, yen, ringgit, Mexican peso, Norwegian krone, Singapore dollar, South African rand, Swiss franc, baht and Turkish lira.

^b Other currencies include the yuan, lari, Indian rupee and Swiss franc.

Figure 2: Effect of Swaps on Interest Rate Structure of Borrowings
As of 31 December 2015
(%)



F. Liquidity Portfolio

The liquidity portfolio helps ensure the uninterrupted availability of funds to meet loan disbursements, debt servicing, and other cash requirements; provides a liquidity buffer in the event of financial stress; and contributes to ADB's earning base. ADB's Investment Authority governs ADB's investments in liquid assets. The primary objective is to maintain the security and liquidity of the funds invested. Subject to these two parameters, ADB seeks to maximize the total return on its investments. ADB does not switch currencies to maximize returns on investments, and investments are generally made in the same currencies in which they are received. At the end of 2015, ADB held liquid investments in 22 currencies.

Liquid investments are held in government or government-related debt instruments, time deposits, and other unconditional obligations of banks and financial institutions. To a limited extent, they are also held in corporate bonds that are rated at least A–. These investments are held in five portfolios—core liquidity, operational cash, cash cushion, discretionary liquidity, and ad hoc—all of which have different risk profiles and performance benchmarks. The year-end balance of the portfolios in 2015 and 2014 is presented in Table 13. The amortized cost and fair value returns of the portfolios are presented in Table 14.

Table 13: Year-End Balance of Liquidity Portfolio^a
(\$ million)

Item	2015	2014
Core Liquidity Portfolio	15,308	15,261
Cash Cushion Portfolio	550	2,960
Operational Cash Portfolio	113	232
Discretionary Liquidity Portfolio	7,771	5,945
Other Portfolio	127	422
Total	23,869	24,820

^a Including securities purchased under resale arrangements, securities transferred under repurchase agreements, and investment related swaps. The composition of the liquidity portfolio may shift from year to year as part of ongoing liquidity management.

Table 14: Return on Liquidity Portfolio
(%)

Item	Annualized Return			
	Amortized Cost		Fair Value	
	2015	2014	2015	2014
Core Liquidity Portfolio	1.8	1.9	1.3	1.7
Operational Cash Portfolio	0.3	0.0	0.3	0.0
Cash Cushion Portfolio	0.6	0.4	0.6	0.4
Discretionary Liquidity Portfolio ^a	0.3	0.2	0.3	0.2
Other Portfolio	3.1	2.9	0.9	1.5

Note: The amortized returns are based on income from investments and realized gains and losses reported in the Statement of Income and Expenses. The fair value return incorporate unrealized gains and losses that are reported as part of other comprehensive income loss and movements are dependent on prevailing market environment.

^a Spread over funding cost.

The core liquidity portfolio (CLP) is invested to ensure that the primary objective of a liquidity buffer is met. Cash inflows and outflows are minimized to maximize the total return relative to a defined level of risk. The portfolio has been funded by equity, and the average duration of the major currencies in the portfolio was about 2.6 years (2014: 2.4 years) as of 31 December 2015.

The operational cash portfolio, designed to meet net cash requirements over a 1-month horizon, is funded by equity and invested in short-term highly liquid money market instruments.

The cash cushion portfolio holds the proceeds of ADB's borrowing transactions pending disbursement. It is invested in short-term instruments and aims to maximize the spread earned between the borrowing cost and the investment income.

The discretionary liquidity portfolio is used to support medium-term funding needs and is funded by debt to provide flexibility in executing the funding program over the medium-term to opportunistically permit borrowing ahead of cash-flow needs, and to bolster ADB access to short-term funding through continuous presence in the market.

G. Contractual Obligations

In the normal course of business, ADB enters into contractual obligations that may require future cash payments. Table 15 summarizes ADB's significant contractual cash obligations as of 31 December 2015 and 2014. Long-term debt includes direct medium- and long-term borrowings, excluding swaps, and excludes unamortized premiums, discounts, and the effects of applying ASC 815. Other long-term liabilities correspond to accrued liabilities, including pension and postretirement medical benefits.

Table 15: Contractual Cash Obligations
(\$ million)

Item	2015	2014
Long-Term Debt	63,504	60,490
Undisbursed Loan Commitments	29,801	27,687
Undisbursed Equity Investment Commitments	436	437
Guarantee Commitments	1,975	2,186
Other Long-Term Liabilities	1,408	1,452
Total	97,124	92,252

H. Risk Management

In its operations, ADB faces various kinds of risks, including financial, operational, and other organizational risks. ADB has a risk management framework that is built on the three core components of governance, policies, and processes. Governance starts with the Board of Directors, which plays a key role in reviewing and approving risk policies that define ADB's risk appetite. ADB also maintains an independent risk management group and has various management-level committees with responsibility to oversee bank-wide risk issues and endorse related decisions for approval by the Board and President. ADB's risk management framework also includes the Risk Committee, which provides high-level oversight of ADB's risks and recommends risk policies and actions to the President.

ADB monitors the credit profile of existing transactions in the operations portfolio, conducts risk assessments of new nonsovereign transactions, and assumes responsibility for resolving distressed transactions when necessary. It also monitors market and credit risks in treasury operations, such as the credit quality of counterparties, interest rate risk, and foreign exchange risk. In addition, ADB has developed an operational risk management framework for the institution. For the aggregate portfolio, ADB monitors limits and concentrations; sets aside loan loss reserves; provides loan loss provisions, including collective provision requirements; and assesses its capital adequacy.

Risk to which ADB is exposed in carrying out its mission include: (i) credit risk, (ii) market risk, (iii) liquidity risk, and (iv) operational risk. This section discusses each of these risks as well as ADB's capital adequacy—ADB's ultimate protection against unexpected losses—and its asset and liability management.

1. Credit Risk

Credit risk is the risk of loss that could result if a borrower or counterparty defaults or if its creditworthiness deteriorates. Related to credit risk, ADB also faces concentration risk, which arises when a high proportion of the portfolio is allocated to a specific country, industry sector, obligor, type of instrument, or individual borrower.

ADB assigns a risk rating to each loan, guarantee, and treasury counterparty (Table 16). For nonsovereign transactions, the rating typically is not better than that of the sovereign.

Table 16: Asian Development Bank Internal Risk Rating Scale

ADB Internal Rating Scale	Credit Rating Agency Equivalent	ADB Definitions
1	AAA / Aaa to A / A2	Lowest expectation of credit risk
2	A– / A3	Very low credit risk
3	BBB+ / Baa1	Low credit risk
4	BBB / Baa2	Low credit risk
5	BBB– / Baa3	Low to medium credit risk
6	BB+ / Ba1	Medium credit risk
7	BB / Ba2	Medium credit risk
8	BB– / Ba3	Medium credit risk
9	B+ / B1	Significant credit risk
10	B / B2	Significant credit risk
11	B– / B3	Significant credit risk
12	CCC+ / Caa1	High credit risk
13	CCC / Caa2 to C	Very high credit risk
14	D	Default

ADB = Asian Development Bank.

ADB is exposed to credit risk in its sovereign, nonsovereign, and treasury operations. The sovereign portfolio includes sovereign loan and guarantees as well as one equity investment, while the nonsovereign portfolio includes nonsovereign loan and guarantees, and equity investments (direct and private equity funds). The treasury portfolio includes fixed-income securities, cash and cash equivalents, and derivatives. Table 17 details the credit risk exposure and weighted average risk rating for each asset class. Aggregate credit risk slightly weakened to 3.9 (BBB) in 2015 from 3.8 (BBB) in 2014 due to a change in the portfolio composition with less of the stronger credit quality treasury portfolio offset by a higher proportion of the growing sovereign and nonsovereign portfolios carrying weaker credit ratings.

Table 17: Exposure to Credit Risk
As of 31 December 2015 and 2014

Item	2015		2014	
	Exposure (\$ million)	Rating (1–14)	Exposure (\$ million)	Rating (1–14)
Sovereign operations	58,106		53,017	
a. Loan and guarantee ^a	57,956	4.9 / BBB–	52,867	4.9 / BBB–
b. Equity Investments ^b	150	n/a	150	n/a
Nonsovereign operations	5,837		5,108	
a. Loan and guarantee ^a	5,041	6.2 / BB+	4,342	6.4 / BB+
b. Equity Investments ^b	797	n/a	765	n/a
Treasury	24,656	1.1 / AA	25,228	1.0 / AA
a. Fixed income	20,710	1.1 / AA	18,879	1.1 / AA
b. Cash instruments	3,903	1.0 / AA	6,205	1.0 / AA–
c. Derivatives	43	1.0 / AA–	144	1.0 / AA–
Aggregate Exposure	88,599	3.9/BBB	83,352	3.8/BBB

n/a = not applicable.

Note: Numbers may not sum precisely because of rounding.

^a The sum of disbursed and outstanding loan balances and the present value of guaranteed obligations.

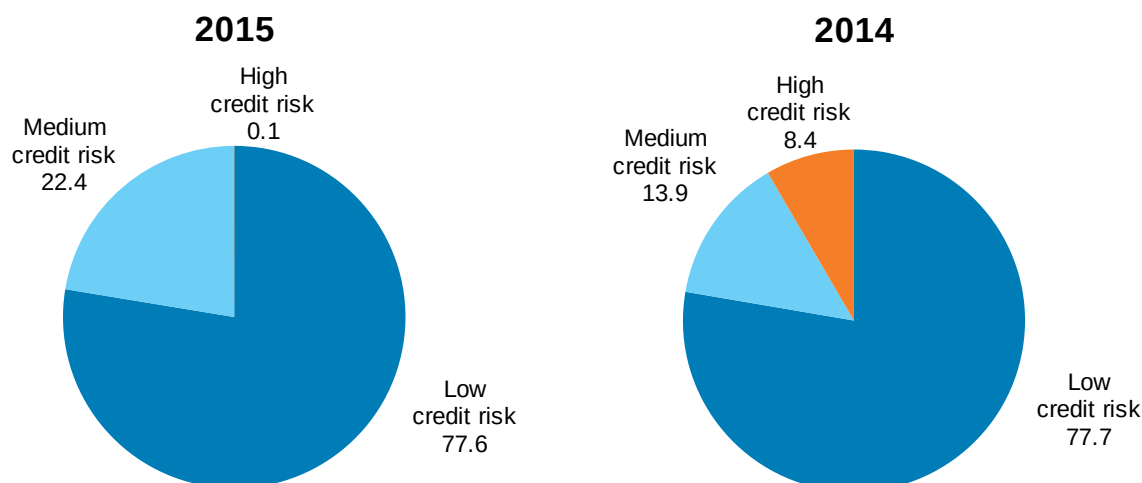
^b At fair values.

Credit risk in the sovereign portfolio. Sovereign credit risk is the risk that a sovereign borrower or guarantor will default on its loan or guarantee obligations. ADB manages its sovereign credit risk through loan loss reserves and by maintaining conservative equity levels. OCR has experienced no loss of principal from sovereign operations. When countries have delayed payments, they have returned their loans to accrual status, and ADB has never had to write off a sovereign loan funded from OCR.

ADB charges provisions against income for a specific transaction if it is considered impaired. In addition, ADB also appropriates loan loss reserves within equity for the average loss that ADB could incur in the course of lending. The provisions are based on projections of future repayment capacity. The loan loss reserve is based on the historical default experience of sovereign borrowers to multilateral development banks. The sum of the provisions and loan loss reserve represents ADB's expected loss for sovereign operations. The 2015 results are discussed below.

Sovereign loan and guarantee exposure. The weighted average risk rating of the sovereign loan and guarantee portfolio stayed at 4.9 (BBB–) in 2015 as improving sovereign credit conditions in some ADB DMCs were offset by rating downgrades of other ADB DMCs and higher disbursements to countries with weaker ratings (Figure 3). Refer to Note F of OCR Financial Statements for additional information.

Figure 3: Sovereign Loan and Guarantee Exposure by Credit Quality
As of 31 December 2015 and 2014
(%)



Notes: Low credit risk = exposures with risk rating 1–5, medium credit risk = exposures with risk rating 6–11, high credit risk = exposures with risk rating 12–14. Percentages may not total 100% because of rounding.

Sovereign concentrations. ADB has assumed some concentration risk to fulfill its development mandate. The three largest borrowers—the People’s Republic of China, India, and Indonesia—represented 61.5% of the portfolio in 2015 (Table 18).

Table 18: Sovereign Country Exposure^a
As of 31 December 2015 and 2014

Country	2015		2014	
	\$ million	%	\$ million	%
People’s Republic of China	14,646	25.2	14,039	26.5
India	12,916	22.2	12,133	22.9
Indonesia	8,214	14.1	7,586	14.3
Philippines	5,525	9.5	5,023	9.5
Pakistan	4,319	7.4	4,415	8.3
Others	12,486	21.6	9,821	18.5
Total	58,106	100.0	53,017	100.0

^a The sum of disbursed and outstanding loan balances, present value of guaranteed obligations and fair values of equities.

Expected loss. In 2015, ADB experienced an improvement in the credit quality of some countries in the sovereign portfolio. As a result, expected loss decreased from \$182 million in 2014 to \$136 million in 2015 (Table 19).

Table 19: Sovereign Portfolio Expected Loss
As of 31 December 2015 and 2014

Item	2015		2014	
	\$ million	% of SO portfolio	\$ million	% of SO portfolio
Provision for Loan Losses	—	—	—	—
Loan Loss Reserve Requirement	136 ^a	0.2	182	0.3
Expected Loss	136	0.2	182	0.3

— = nil, SO = sovereign operations.

^a The loan loss reserve requirement is subject to the Board of Governors’ approval during the Annual Meeting in May 2016.

Credit and equity risks in the nonsovereign portfolio. Nonsovereign credit risk is the risk that a borrower will default on a loan or guarantee obligation for which ADB does not have recourse to a sovereign entity. ADB's nonsovereign credit risk is considered more significant than in the sovereign operations because of the uncertain economic environment in some ADB markets. In addition, ADB's exposure is concentrated in the energy and finance sectors. ADB employs various policy-based measures to manage these risks.

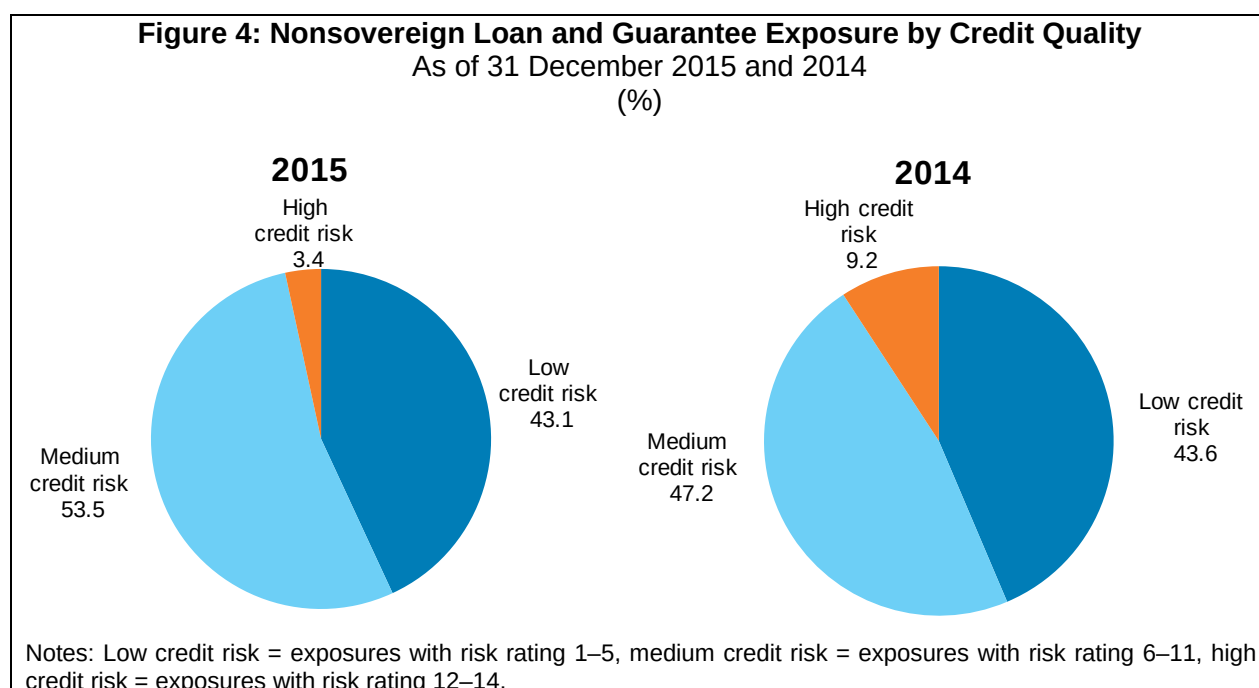
The Investment Committee and the Risk Committee oversee risks in the nonsovereign portfolio. The Investment Committee reviews all new nonsovereign transactions for creditworthiness and pricing. The Risk Committee monitors aggregate portfolio risks, and individual transactions with deteriorating creditworthiness. The Risk Committee also endorses changes in portfolio risks and management policy, and approves provisions for impaired transactions.

ADB manages its nonsovereign credit risk by assessing all new transactions at the concept clearance stage and before final approval. Following approval, all exposures are reviewed at least annually; more frequent reviews are performed for those that are more vulnerable to default or have defaulted. In each review, ADB assesses whether the risk profile has changed; takes necessary actions to mitigate risks and either confirms or adjusts the risk rating; and updates the valuation for equity investments including assessing whether impairments are considered other than temporary. ADB will provide specific provisions where necessary in accordance with its provisioning policy.

ADB recognizes specific provisions in net income for known or probable losses in individual loans or guarantees, and collective provisions for probable losses that exist collectively in disbursed loans rated below investment grade. In addition, ADB appropriates loan loss reserves within equity for the average loss that ADB would expect to incur in the course of lending for credit transactions that are rated investment grade and for the undisbursed portions of credit transactions rated worse than investment grade. Specific provisions are based on projections of future repayment capacity. The collective provision and loan loss reserve are based on historical default data from Moody's Investors Service that is mapped to ADB's portfolio. ADB annually tests whether this external data reasonably corresponds to ADB's actual loss experience and may adjust estimates on the basis of this back testing. The sum of the specific provision, collective provision, and loan loss reserve represents ADB's expected loss for nonsovereign operations.

ADB uses limits for countries, industry sectors, corporate groups, obligors, products and individual transactions to manage concentration risk in the nonsovereign portfolio. The 2015 results are discussed below.

Nonsovereign loan and guarantee exposure. ADB assigns a risk rating to each nonsovereign loan and guarantee. ADB's weighted average risk rating improved slightly to 6.2 (BB+) in 2015 from 6.4 (BB+) in 2014 because of a slight shift in credit mix within the bands (Figure 4). Refer to Note F of OCR Financial Statements for additional information.



Nonsovereign equity exposure. The nonsovereign private equity portfolio has two components: (i) direct equity investments, where ADB owns shares in investee companies; and (ii) private equity funds, where ADB has partial ownership of a private equity fund, managed by a fund manager, which acquires equity stakes in investee companies. ADB's nonsovereign private equity portfolio increased to \$797 million in 2015 from \$765 million in 2014. The increase was from equity disbursements and valuation improvements to some investments during the year. Equity exits over 2015 partially offset the increase. Refer to Note H of OCR Financial Statements for additional information.

Nonsovereign concentrations. The three largest nonsovereign country exposures as of 31 December 2015 were India (21.8%), the People's Republic of China (20.1%), and Thailand (8.8%). The exposure of the top three countries slightly increased from 49.2% in 2014 to 50.7% in 2015 (Table 20). All country exposures complied with ADB exposure limits.

Table 20: Nonsovereign Country Exposure^a

As of 31 December 2015 and 2014

Country	2015		2014	
	\$ million	%	\$ million	%
India	1,274	21.8	989	19.4
People's Republic of China	1,174	20.1	1,040	20.4
Thailand	515	8.8	481	9.4
Pakistan	343	5.9	450	8.8
Indonesia	263	4.5	243	4.8
Others	2,268	38.9	1,905	37.2
Total	5,837	100.0	5,108	100.0

^a The sum of disbursed and outstanding loan balances, present value of guaranteed obligations and fair values of equities.

ADB employs the Global Industry Classification Standard for its nonsovereign exposures. Under this system, ADB is dominated by the utilities sector (Table 21). ADB maintains higher exposures to this sector because of the importance of infrastructure to economic development. In addition, the high level of exposure to the utilities sector is deemed acceptable because of the systemic importance of utilities to the national economies in which they operate, and the lack of correlation between the utilities sector in one country and another. The utilities sector is also fragmented with seven major sub-industries. To mitigate sector concentration, ADB conducts additional monitoring of and reporting on this sector and employs specialists in these areas.

Table 21: Nonsovereign Sector Exposure

As of 31 December 2015 and 2014

Sector	2015		2014	
	\$ million	%	\$ million	%
Utilities	2,626	45.0	2,450	48.0
Banks	1,246	21.3	924	18.1
Diversified Financials	710	12.2	714	14.0
Insurance	469	8.0	368	7.2
Administration	297	5.1	327	6.4
Energy	209	3.6	132	2.6
Others	280	4.8	192	3.7
Total	5,837	100.0	5,107	100.0

Expected loss. Expected loss in the nonsovereign portfolio increased slightly in 2015 because of the increase in loan and guarantee exposure (Table 22).

Table 22: Nonsovereign Portfolio Expected Loss

As of 31 December 2015 and 2014

Item	2015		2014	
	\$ million	% of NSO portfolio ^a	\$ million	% of NSO portfolio ^a
Specific Provision for Loan Losses	6	0.1	7	0.2
Collective Provision for Loan Losses	28	0.6	28	0.6
Loan Loss Reserve Requirement	37 ^b	0.7	33	0.8
Expected Loss	71	1.4	68	1.6

NSO = nonsovereign operations.

^a Percentage only applies to the loan and guarantee operations of the nonsovereign portfolio.

^b The loan loss reserve requirement is subject to the Board of Governors' approval during the Annual Meeting in May 2016.

Credit risk in the treasury operations. Issuer default and counterparty default are credit risks that affect the liquidity portfolio. Issuer default is the risk that a bond issuer will default on its interest or principal payments, while counterparty default is the risk that a counterparty will not meet its contractual obligations to ADB.

To mitigate issuer and counterparty credit risks, ADB transacts only with institutions rated by reputable international rating agencies. Moreover, the liquidity portfolio is generally invested in conservative assets, such as money market instruments and government securities. In addition, ADB has established exposure limits for its corporate investments, depository relationships, and other investments.

ADB has counterparty eligibility criteria to mitigate counterparty credit risk arising through derivative transactions. In general, ADB will only undertake swap transactions with counterparties that meet the required minimum counterparty credit rating, have executed an International Swaps and Derivatives Association Master Agreement or its equivalent, and have signed a credit support annex. Under the credit support annex, derivative positions are marked to market daily, and the resulting exposures are generally collateralized by cash or US government securities. ADB also sets exposure limits for individual swap counterparties and monitors these limits against current and potential exposures. ADB enforces daily collateral calls as needed to ensure that counterparties meet their collateral obligations.

The weighted average credit rating for the liquidity portfolio was AA in 2015. About 99% of the portfolio was rated A– or better.

As of 31 December 2015 and 2014, no fixed-income instruments, derivatives, or other treasury exposures were past due or impaired.

Deposits. Generally, credit risk from investment deposits is low. ADB only invests with depository institutions that have a minimum long-term average credit rating of A+ or a short-term credit rating of A-1. ADB maintains a watch list of institutions that it perceives as potentially riskier based on regular internal credit risk assessments. Moreover, the size of the investment deposits is limited by the counterparty's equity and creditworthiness.

Fixed income. Sovereign and sovereign-guaranteed securities, and those issued by government-related enterprises, including supranationals represent 93% of ADB's fixed income assets. The remainder is in corporate bonds that are rated at least A– (Table 23). ADB has monitored market developments closely and adjusted its risk exposures accordingly.

Table 23: Fixed Income Portfolio by Asset Class

As of 31 December 2015 and 2014

Item	2015		2014	
	\$ million	%	\$ million	%
Government	11,906	57.5	11,349	60.1
Government Guaranteed	2,640	12.7	2,102	11.1
Government-Sponsored Enterprises and Supranationals	4,672	22.6	3,909	20.7
Corporates	1,492	7.2	1,519	8.1
Total	20,710	100.0	18,879	100.0

Derivatives. All eligible swap counterparties are rated at least A–. Current exposure to counterparties rated below A+ is generally fully collateralized, while the uncollateralized exposure to those rated AA– and above are subject to specified thresholds. ADB maintains a watch list of institutions that it perceives as potentially riskier based on regular internal credit risk assessments. At the end of 2015, all counterparty marked-to-market exposures were fully collateralized, except for one AA– rated counterparty whose uncollateralized exposure is within its established threshold.

Country exposure. At the end of 2015, treasury credit risk exposure was allocated across 30 countries with the largest exposure in Japan (Table 24).

Table 24: Treasury Country Exposure

As of 31 December 2015 and 2014

Country	2015		2014	
	\$ million	%	\$ million	%
Japan	6,715	27.2	6,577	26.1
United States	6,579	26.7	6,869	27.2
Korea	2,007	8.1	1,006	4.0
Germany	1,861	7.5	1,735	6.9
Supranational	1,608	6.5	1,154	4.6
Others	5,886	24.0	7,887	31.2
Total	24,656	100.0	25,228	100.0

2. Market Risk

Market risk is the risk of loss on financial instruments because of changes in market prices. ADB principally faces three forms of market risk: (i) equity price risk, which is the risk that the fair value of equities decreases as a result of changes in the levels of equity indices and the value of individual stocks; (ii) interest rate risk; and (iii) foreign exchange risk. Interest rate risk and foreign exchange risk are further discussed below.

Interest rate. Interest rate risk in the operations portfolio is hedged as the basis for borrowers' interest payments are matched to ADB's borrowing expenses. Therefore, the borrower must assume or hedge the risk of fluctuating interest rates, whereas ADB's margins remain largely constant.

ADB is primarily exposed to interest rate risk through the liquidity portfolio. ADB monitors and manages interest rate risks in the liquidity portfolio by employing various quantitative methods. It marks all positions to market, monitors interest rate risk metrics, and employs stress testing and scenario analysis.

ADB uses duration and interest rate value-at-risk (VaR) to measure interest rate risk in the liquidity portfolio. Duration is the estimated percentage change in the portfolio's value in response to a 1% parallel change in interest rates. Interest rate VaR is a measure of possible loss at a given confidence level in a given time frame because of changes in interest rates. ADB uses a 95% confidence level and a 1-year horizon. In other words, ADB would expect to lose at least this amount once every 20 years because of fluctuations in interest rates. ADB uses duration and VaR to measure interest rate risk across the liquidity portfolio, with particular attention to the major CLP, which is the most exposed to interest rate risk.

Foreign exchange. ADB endeavors to minimize exposure to exchange rate risk in its operations. In both the operations and liquidity portfolios, ADB is required to match the currency of its assets with the currencies of liabilities and equity. Borrowed funds or funds to be invested may only be converted into other currencies provided that they are fully hedged through cross currency swaps or forward exchange agreements. However, because of its multicurrency operations, ADB is exposed to fluctuations in reported US dollar results due to currency translation adjustments.

ADB monitors VaR and duration, and performs stress testing to manage market risk in the liquidity portfolio. The major currencies of the CLP bear the majority of ADB's market risks and account for 61% of ADB's OCR, while major currencies account for 93% of the CLP. Major currencies include the US dollar, yen, euro, pound sterling, Australian dollar, and Canadian dollar.

Value-at-risk. Aggregate VaR of major currencies of the CLP, which includes interest rate and foreign exchange risks, increased from 2.7% in 2014 to 3.0% in 2015. This means that there is a 5.0% probability that the portfolio will lose more than 3.0% (\$444 million) of its value over the next year.

Duration. The major CLP's interest rate sensitivity, as reflected in its weighted portfolio duration, increased from 2.4 years as of the end of 2014 to 2.6 years as of the end of 2015.

Stress testing. ADB measures how sensitive the major CLP is to interest rate changes. If interest rates were to rise 2%, the major CLP portfolio would be expected to lose 5.1% (\$768 million). ADB also uses scenario analysis to assess how the major CLP would respond to significant changes in market factors, such as those that have occurred in the past. Because of the high quality of ADB's investments, scenario analysis suggests that the liquidity portfolio would appreciate during many stressed scenarios, as demand for highly rated securities increases (flight to quality).

3. Liquidity Risk

Liquidity risk can arise if ADB is unable to raise funds to meet its financial and operational commitments. ADB maintains core liquidity to safeguard against a liquidity shortfall in case its access to the capital market is temporarily denied. The overriding objective of the liquidity policy is to enable ADB to obtain the most cost-efficient funding under both normal and stressed situations and manage liquidity optimally to achieve its development mission. The Board of Directors approved a revised liquidity policy framework in December 2011. The revised policy redefined the prudential minimum liquidity as 45% of the 3-year net cash requirements. This represents the minimum amount of liquidity necessary for ADB to continue operations even if access to capital markets is temporarily denied. Maintaining the prudential minimum liquidity level is designed to enable ADB to cover normal net cash requirements for 18 months under the normal and stressed situations without borrowing. The liquidity levels and cash requirements are monitored on an ongoing basis, with quarterly review by the Board of Directors. The policy allows for the discretionary liquidity portfolio to maintain a debt-funded sub-portfolio that will be excluded from the net cash requirements and prudential minimum liquidity calculations.

4. Operational Risk

ADB defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, and systems; or from external events. ADB manages its operational risks based on a framework endorsed by the Risk Committee and approved by the President in 2012. The framework enables ADB to implement an approach that focuses on identifying, accessing, and managing risks to minimize potential adverse impacts.

Key components of ADB's operational risk management approach include (i) employing the Operational Risk Self Assessment in its key business areas; (ii) using Key Risk Indicators for operational risk profile monitoring and the collection of risk event information; and (iii) promoting risk awareness, including through presentations to staff on the application of the methodologies. ADB has completed implementing its operational risk management approach across the organization in 2014. ADB will continue maintaining the framework, while retaining the key operational risk methodologies and tools.

Like any other organization, ADB is exposed to various types of operational risk, which it mitigates by applying internal controls and monitoring areas of particular concern. ADB uses risk transfer, including insurance, for mitigating low-frequency, high-severity operational risks. ADB continuously strengthens its business continuity process and particularly information technology (IT) to reduce the impact of disruptions.

5. Capital Adequacy

ADB's most significant risk is potential default of a large portion of its loan portfolio. Credit risk is measured in terms of both expected and unexpected losses. For expected losses, ADB holds loan loss reserves and provisions. For unexpected losses, ADB relies on its income-generating capacity and capital, which is a financial institution's ultimate protection against unexpected losses that may arise from credit and other risks.

ADB principally uses stress testing to assess the capacity of its capital to absorb unexpected losses. The framework has two objectives. First, it measures ADB's ability to absorb income losses because of a credit shock. Through this monitoring, ADB reduces the probability that it would have to rely on shareholder support, such as additional paid-in capital or a capital call.

Second, the framework evaluates ADB's ability to generate sufficient income to support loan growth after a credit shock. As a development institution, ADB's mandate becomes more important during a financial crisis when some DMCs may find their access to capital markets limited. Demand for ADB assistance may rise under such adverse conditions. For the stress test, ADB generates thousands of potential portfolio scenarios and imposes credit shocks that are large enough to account for 99% of those scenarios. ADB then assesses the impact of these shocks on its capital by modeling the ratio of equity to loans over the next 10 years. Throughout 2015, the stress test indicated that ADB had adequate capital to absorb the losses of a severe credit shock and to continue its development lending.

During 2015, ADB's AAA credit rating was reaffirmed by the three major international credit rating agencies.

6. Asset and Liability Management

ADB has an asset and liability management policy framework that guides all financial policies related to asset and liability management including liquidity, investments, equity management, and capital adequacy. The objectives of the asset and liability management are to safeguard ADB's net worth and capital adequacy, promote steady growth in ADB's risk-bearing capacity, and define financial policies to undertake acceptable financial risks. The aim is to provide resources for developmental lending at the lowest and most stable funding cost to borrowers, along with the most reasonable lending terms, while safeguarding ADB's financial strength. ADB's asset and liability management aims to safeguard net worth from foreign exchange rate risks, protect net interest margin from fluctuations in interest rates, and provide sufficient liquidity to meet the needs of ADB operations. ADB also uses a cost pass-through pricing policy for loans to sovereign borrowers, and allocates the most cost-efficient borrowing based on cost and maturity to fund the loans.

I. Internal Control over Financial Reporting

ADB Management has been assessing the effectiveness of its internal controls over financial reporting (ICFR) since 2008 using criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the *Internal Control—Integrated Framework (1992 Framework)*. ADB used the 1992 Framework to assess the effectiveness of ICFR from 2008–2013. In May 2013, COSO issued a revised *Internal Control—Integrated Framework (2013 Framework)*, which became effective for ADB's financial statements for the 2014 fiscal year. Significant enhancements in the 2013 Framework included: (i) codification of the 17 Principles that support the 5 components of internal control; (ii) the concept of considering the potential of fraud risk as part of risk assessment process; and (iii) considerations on outsourcing and increased relevance of information technology (IT) as a result of changes in the business and operating environment. For an effective system of internal control, the 2013 Framework requires that each of the 5 components and the 17 principles be present and functioning; and that the 5 components operate together in an integrated manner.

ADB continued to adopt the 2013 Framework for assessing the effectiveness of ADB's internal control over financial reporting for its 2015 financial statements. ADB applied a risk-based evaluation framework for the assertion and attestation of the effectiveness of internal control over financial reporting for OCR and Special Funds, except for the ADB Institute (ADBI) and trust funds. The scope included a review of 52 business processes for financial reporting and four domains for the IT general computer controls. ADB staff across several departments and offices were responsible for (i) identifying and testing key controls, and (ii) assessing and evaluating the design and operating effectiveness of the business processes. Concurrently in 2015, the external auditor performed an independent test of selected key controls and concurred with Management that ADB maintained effective internal control over financial reporting for OCR and Special Funds (except for ADBI).

J. Critical Accounting Policies and Estimates

Significant accounting policies are contained in Note B of the OCR financial statements. As disclosed in the financial statements, Management estimates the fair value of financial instruments. Because the estimates are based on judgment and available information, actual results may differ and could have a material impact on the financial statements.

Fair value of financial instruments. Under statutory reporting, ADB carries selected financial instruments and derivatives, as defined by ASC Topics 815 and 825, on a fair value basis. These financial instruments include embedded derivatives that are valued and accounted for in the balance sheet as a whole. Fair values are usually based on quoted market prices. If market prices are not readily available, fair values are usually determined using market-based pricing models incorporating market data requiring judgment and estimates. These are discussed in more detail in Note B of OCR's financial statements.

The pricing models used to determine the fair value of ADB's financial instruments are based on discounted cash-flow models. ADB reviews the pricing models to assess whether the assumptions are appropriate and produce results that reflect the reasonable valuation of the financial instruments. In addition, the fair values derived from the models are subject to ongoing internal and external verification and review. The models use market-sourced inputs, such as interest rates, exchange rates, and option volatilities. The selection of these inputs may involve some judgment and may impact net income. ADB believes that the estimates of fair values are reasonable.

Provision for loan losses and loan loss reserves. In 2006, the Board of Directors approved the revision of the loan loss provisioning methodology for ADB's nonsovereign operations to a risk-based model. Provision against loan losses for impaired loans reflects Management's judgment and estimate of the present value of expected future cash flows discounted at the loan's effective interest rate. ADB considers a loan impaired when, based on current information and events, ADB will probably be unable to collect all the amounts due according to the loan's contractual terms. The provisioning estimate is done quarterly. In 2010, ADB refined the provisioning methodology to include collective provisioning for the nonsovereign portfolio.

ADB uses an internal risk-rating system to estimate expected loss for unimpaired loans. The probability of default is based on the historical default experience of sovereign borrowers to multilateral development institutions; for nonsovereign loans, it is based on Moody's Investors Service default data. A loan loss reserve is established within equity for the expected losses as an allocation of net income, subject to the approval of the Board of Governors.

Pension and other postretirement benefits. ADB provides staff pension and postretirement medical benefit plans for all eligible staff members, provided they have not reached the normal retirement age of 60. Net periodic benefit costs are allocated between OCR and the ADF based on the agreed cost-sharing methodology. The underlying actuarial assumptions used to determine the projected benefit obligations, accumulated benefit obligations, and funded status associated with these plans are based on market interest rates, past experience, and Management's best estimate of future benefit changes and economic conditions. For further details, refer to Notes to Financial Statements—Note P—Staff Pension Plan and Postretirement Medical Benefits.

IV. SPECIAL FUNDS

ADB is authorized by its Charter to establish and administer Special Funds. These are the ADF, the TASF, the Japan Special Fund (JSF), ADBI, the Regional Cooperation and Integration Fund (RCIF), the Climate Change Fund (CCF), APDRF, and the Financial Sector Development Partnership Special Fund (FSDPSF). Financial statements for each Special Fund are prepared in accordance with US GAAP except for the ADF, for which special purpose financial statements are prepared.

A. Asian Development Fund

The ADF is ADB's concessional financing window for DMCs with per capita gross national income below the ADB operational cutoff and limited or low creditworthiness. It provides a multilateral source of concessional assistance dedicated exclusively to reducing poverty and improving the quality of life in Asia and the Pacific. The ADF has received contributions from 34 donors (regional and nonregional). Cofinancing with bilateral and multilateral development partners complements ADF resources.

In July 2012, the Board of Governors adopted a resolution providing for the 10th replenishment of the ADF (ADF XI) and the 5th regularized replenishment of the TASF. The resolution provides for a substantial replenishment of the ADF to finance ADB's concessional program for 4 years from January 2013, and for replenishment of the TASF in conjunction with the ADF replenishment to finance TA operations under the TASF. The total replenishment of SDR8,415 million (\$13,155 million equivalent at Resolution No. 357 exchange rates) comprised SDR8,174 million for ADF XI and SDR241 million for the TASF. About 38% of the replenishment will be financed from new donor contributions totaling SDR3,090 million (\$4,831 million equivalent). The replenishment became effective on 4 June 2013. As of 31 December 2015, ADB had received 31 instruments of contributions from donors totaling of SDR3,047 million (\$4,764 million equivalent).

Currency management. Based on ADF's currency management framework, its resources are managed using the SDR basket of currencies (US dollar, euro, pound sterling, and yen) as the basis. ADF donor contributions and loan reflows received in currencies that are not part of the SDR basket are converted into one of the currencies in the basket to maintain the SDR-based liquidity portfolio. In addition, the borrower's obligations for new ADF loans are determined in SDR. Starting in 2008, ADB extended the full-fledged SDR approach to ADF legacy loans by providing ADF borrowers the option to convert their existing liability (i.e., disbursed and outstanding loan balance) in various currencies into SDR, while the undisbursed portions were to be treated as new loans redenominated in SDR. As of 31 December 2015, 20 of 29 borrowing members agreed to the conversion. The outstanding balance of their SDR-converted loans amounted to \$10,332 million.

Framework for grants and hard-term facility. In September 2007, the Board of Directors approved the ADF grant framework, which limits grant eligibility to ADF-only countries and introduced a new hard-term ADF lending facility. The facility will have a fixed interest rate of 150 basis points below the weighted average of the 10-year fixed swap rates of the SDR basket of currencies plus the OCR lending spread, or the current ADF rate, whichever is higher. Other terms are similar to those of regular ADF loans.

In June 2012, the Board of Directors approved the hardening of lending terms to blend countries: (i) for project and policy-based loans financed from ADF resources, a 25-year tenor including a 5-year grace period, 2.0% per year interest rate throughout the loan tenor, and equal amortization; and (ii) for hard-term loans, a 25-year tenor including a 5-year grace period; an interest rate calculated as 150 basis points below the weighted average of the 10-year fixed swap rates of the SDR component currencies plus the OCR lending spread, or the applicable ADF interest rates, whichever is higher, throughout the loan tenor; and equal amortization. These new lending terms were applicable to loans for which formal loan negotiations were completed on or after 1 January 2013. In general, blend countries with per capita income not exceeding the International Development Association (IDA) operational cutoff for more than 2 consecutive years and with an active OCR lending program are eligible to borrow from this new facility. The interest rate, which is fixed for the life of hard-term loans approved during the year, is reset every January.

For hard-term ADF loans approved in 2015, the interest rate is set at (i) 1.0% during the grace period and 1.5% thereafter (2014: 1.77% fixed for the life of the loans) for ADF-only countries; and (ii) 2.0% fixed for the life of the loans for blend countries (2014: 2.0% fixed). During 2015, no loan was approved under this facility (2014: one loan for blend countries).

Liquidity management. ADF manages its liquidity assets under two tranches to enable the optimal use of financial resources. The main objective of the first tranche is to ensure adequate liquidity is available to meet expected cash requirements. The second tranche comprises the prudential minimum liquidity the ADF should hold to meet unexpected demands and any usable liquidity for future commitments. This approach ensures that liquidity is managed transparently and efficiently.

Heavily Indebted Poor Countries Initiative. In response to ADF donors' request, the ADB Board of Governors adopted a resolution on 7 April 2008 for ADB to participate in the Heavily Indebted Poor Countries (HIPC) Initiative and to provide Afghanistan with debt relief. The estimated principal amount of Afghanistan's ADF debt to be forgiven and charged against ADF income was \$82 million.

Launched in 1996 by the IDA and the International Monetary Fund (IMF), the HIPC Initiative provides partial debt relief to poor countries with external debt that severely burdens export earnings or public finance. In 1999, the initiative was enhanced to enable more countries to qualify for HIPC relief. The IDA and the IMF reported that several ADF borrowers met the income and indebtedness criteria of the HIPC Initiative and were potentially eligible for HIPC debt relief. Of these, only Afghanistan became eligible and reached the decision point under the HIPC Initiative on 9 July 2007. The decision point is where an HIPC country, having met certain conditions,¹⁰ becomes eligible to receive interim debt relief on a provisional basis following approval by the ADB Board of Directors to provide debt relief under the HIPC Initiative. Debt relief has been delivered by partial reduction of debt service payments as they come due.

On 26 January 2010, the executive boards of the IDA and the IMF agreed that Afghanistan had reached the completion point under the HIPC Initiative. Thus, debt relief to Afghanistan under the initiative had become irrevocable. The amount of debt relief including principal and interest was revised to \$106 million and was to be provided through a reduction of Afghanistan's debt service from July 2008 to February 2028. As of December 2015, the ADF had delivered \$22 million under this arrangement, bringing the balance to \$84 million.

Contributed resources. The total replenishment of SDR8,415 million for ADF XI and TASF V comprises SDR5,018 million financed from internal resources, SDR3,090 million from new donor contributions, and SDR307 million from net income transfers from OCR. This covers 2013–2016, which became effective in June 2013 after instruments of contribution deposited with ADB for unqualified contribution exceeded 50% of all pledged contributions. As of 31 December 2015, 31 donors had contributed a total of \$3,599 million equivalent, of which \$2,493 million (including the allocation to the TASF) had been received and made available for operational commitments. The remaining unpaid contributions under ADF IX, ADF X and ADF XI as of 31 December 2015 totaled \$439 million.¹¹ (For details of amounts released for operational commitments in 2015, see the column labeled “Addition” in Table 32 of the Operational Data).

The commitment authority available for future commitments comprises the resources available to the ADF for its future lending activities in the form of loans and grants. These resources are derived from donor contributions, reflow-based resources, and net income transfers from OCR. The balance of the commitment authority available for operations as of 31 December 2015 was \$436 million, compared with \$549 million as of 31 December 2014 (Table 25).

¹⁰ The conditions are that an HIPC country has a track record of macroeconomic stability and an interim poverty reduction strategy in place and has been cleared of any outstanding arrears.

¹¹ At US dollar equivalent at 31 December 2015 exchange rates.

Table 25: Asian Development Fund Commitment Authority^a
 31 December 2015 and 2014
 (\$ million)

Item	2015	2014
Carryover of ADF X Commitment Authority ^b	766	800
ADF XI Contributions	2,345	1,604
ADF X Contributions ^c	174	147
ADF IX Contributions ^d	11	10
ADF VIII Contributions ^d	144	150
Internal Resources ^e	5,219	3,634
Savings and Cancellations	671	612
OCR Net Income Transfer	360	240
Total ADF Commitment Authority	9,691	7,196
Loans and Grants Committed	9,255	6,647
ADF Commitment Authority Available for Future Commitments	436	549

ADF = Asian Development Fund, OCR = ordinary capital resources.

Note: Numbers may not sum precisely because of rounding.

^a The Asian Development Bank monitors the ADF commitment authority based on special drawing rights. All reported figures are based on special drawing rights translated to US dollar as of 31 December 2015 and 2014 exchange rates.

^b A portion of the carryover funds from ADF X would be used to finance loans and grants that overflowed from 2012 approval.

^c Represents the additional payments of Italy, Spain and the United States including the corresponding pro-rated amounts released by France, Germany and Turkey.

^d Represents payment from the United States including the corresponding pro-rated amounts released by Germany and Turkey.

^e Internal resources include (i) reflow-based resources, (ii) liquidity drawdown, and (iii) resources from the three enhancement options.

In May 2015, the Board of Governors approved the transfer of \$120 million to the ADF as part of the net income allocation for OCR (2014: \$120 million). In addition, \$671 million from loan and grant savings and cancellations were included in the commitment authority. This resulted from Management's continued assessment of opportunities to free committed resources through cancellations of unused loan and grant balances.

During 2015, deposited installments under ADF XI amounted to \$898 million, and ADF XI promissory notes encashed totaled \$588 million. About \$69 million was transferred to the TASF.

Loan approvals, disbursements, and repayments. In 2015, 43 ADF loans totaling \$2,514 million were approved compared with 52 ADF loans totaling \$2,682 million in 2014. Disbursements during 2015 totaled \$2,048 million, a decrease of 7% from \$2,203 million in 2014. At the end of 2015, cumulative disbursements from ADF resources were \$39,786 million. Loan repayments during 2015 totaled \$1,242 million (2014: \$1,291 million). At the end of 2015, outstanding ADF loans amounted to \$27,270 million (2014: \$27,604 million).

In 2015, MFFs for \$219 million (2014: \$773 million) were approved under the ADF.¹² PFRs under the MFFs totaling \$341 million were approved in 2015 (2014: \$314 million). A total of \$412 million was disbursed under the MFFs in 2015 (2014: \$337 million).

Results-based lending. In 2015, one ADF loan for \$88 million was approved under RBL (2014: one loan amounting \$50 million); disbursements totaled \$47 million (2014: \$38 million).

Project design facility. In April 2011, ADB established the PDF on a pilot basis to support project preparation, particularly detailed engineering designs, through PDA. ADF loans approved under the facility carry standard ADF interest rates. Payment of interest is deferred until the PDA is refinanced out of the loans proceeds, or other repayment terms take effect. No loans were approved under this facility in 2015 and 2014.

¹² These amounts are adjusted based on flexibility in the use of OCR and ADF funding.

Investment portfolio position. The ADF investment portfolio totaled \$6,030 million at the end of 2015 compared with \$6,559 million at the end of 2014.¹³ About 7% of the portfolio was invested in bank deposits, and 93% in fixed-income securities. The annualized rate of return on ADF investments, including unrealized gains and losses, was 0.7% (2014: 0.8%).

Grants. In 2015, ADB approved 15 grants (2014: 17) totaling \$358 million (2014: \$405 million), of which 200 million were PFRs under MFFs (2014: \$109 million) (footnote 12), while 16 grants (2014: 19) totaling \$348 million (2014: \$848 million) became effective, net of \$12 million (2014: \$7 million) in write-backs of undisbursed commitments for savings on financially closed and/or cancelled projects.

Direct value-added official and other concessional cofinancing for ADF loans and grants. In 2015, \$2,088 million (2014: \$1,723 million) was mobilized in official loan and grant cofinancing for 39 ADF-financed projects (2014: 32) totaling \$1,373 million (2014: \$2,003 million).

B. Technical Assistance Special Fund

The TASF was established to provide TA on a grant basis, both regionally and to ADB's DMCs.

In July 2012, as part of ADF XI replenishment, donors agreed to contribute 3% of the total replenishment size as the fifth replenishment of the TASF. The replenishment covers 2013–2016.

Contributed resources. As of 31 December 2015, 30 donors had committed a total of \$371 million to the TASF as part of the ADF XI and the fifth regularized replenishment of the TASF. Of the total commitment, \$262 million had been received.

As part of the ADF X and fourth regularized replenishment of TASF, \$318 million of the total commitment of \$339 million had been received as of 31 December 2015.

During the period, Pakistan made a direct voluntary contribution of \$0.07 million. In addition, \$40 million was allocated to the TASF as part of the OCR's 2014 net income allocation, and \$28 million was committed for the fifth regularized replenishment of the TASF. At the end of 2015, TASF resources totaled \$2,386 million, of which \$2,239 million was committed, leaving an uncommitted balance of \$147 million (\$221 million as of 31 December 2014) (Table 26).

Table 26: Technical Assistance Special Fund

Cumulative Resources (\$ million)		
Item	2015	2014
Regularized Replenishment		
Contributions	1,145	1,116
Allocations from OCR Net Income	949	909
Direct Voluntary Contributions	91	91
Income from Investment and Other Sources	204	195
Transfers from the TASF to the ADF	(3)	(3)
Total	2,386	2,308

() = negative, ADF = Asian Development Fund, OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.

Note: Numbers may not sum precisely because of rounding.

¹³ Includes securities purchased under resale arrangements.

Operations. TA commitments (approved and effective) increased from \$113 million in 2014 to \$124 million in 2015 for 153 TA projects and 45 supplementary approvals that were made effective during the year, net of \$24 million (2014: \$25 million) in write-backs of undisbursed commitments for completed and canceled TA projects. Undisbursed commitments net of advances for TA increased to \$339 million as of 31 December 2015 (\$337 million as of 31 December 2014). The TASF financed 57% of all TA activities approved in 2015 (2014: 53%).

Investment position. As of 31 December 2015, the total investment portfolio, including securities purchased under resale arrangements, amounted to \$367 million, compared with \$391 million at the end of 2014. Revenue from investments decreased from \$3 million in 2014 to \$2 million in 2015.

C. Japan Special Fund

The JSF was established in 1988 when ADB, acting as the administrator, entered into a financial arrangement with the Government of Japan, which agreed to make the initial contribution to help ADB's DMCs restructure their economies and broaden the scope of opportunities for new investments, mainly through TA operations.

Contributed resources. As of 31 December 2015, Japan's cumulative contribution to the fund since inception amounted to ¥113 billion (\$974 million equivalent), comprising regular contributions of ¥95 billion (\$823 million equivalent) and supplementary contributions of ¥18 billion (\$151 million equivalent). The uncommitted balance was \$68 million as of 31 December 2015 (\$65 million as of 31 December 2014).

Operations. In 2015, no new TA projects or grants were approved or made effective (2014: nil), and \$3 million was written back for financially completed and cancelled projects (2014: \$3 million). Undisbursed commitments net of advances for TA projects as of 31 December 2015 were \$3 million, compared with \$7 million as of the end of 2014.

Investment position. As of 31 December 2015, the total investment portfolio amounted to \$69 million, lower than the balance of \$73 million as of 31 December 2014. Revenue from investments increased from \$0.12 million in 2014 to \$0.14 million in 2015.

D. ADB Institute

ADBI was established in 1996 as a subsidiary body of ADB. ADBI's objectives are to identify effective development strategies and capacity improvements for sound development management in the DMCs. Its operating costs are met by ADBI, and it is administered in accordance with the Statute of the Asian Development Bank Institute.

In June 2015, the Government of Japan committed its 25th contribution for ¥672 million (\$5 million equivalent) and in December 2015, committed its 26th contribution for ¥672 million (\$6 million equivalent). In September 2015, the Government of Indonesia committed its 1st contribution for \$0.5 million. In December 2015, the Government of Republic of Korea committed its 2nd contribution for \$0.7 million.

As of 31 December 2015, cumulative contributions committed to ADBI amounted to ¥25 billion, A\$2 million, and \$3 million (about \$240 million equivalent). Of the total contributions received, \$230 million had been used by the end of 2015 mainly for research and capacity-building activities, including (i) organizing symposia, forums, and training sessions; (ii) preparing research reports, publications, and websites; and (iii) financing associated administrative expenses. The balance of net current assets (excluding property, furniture, and equipment) available for future projects and programs was about \$9 million.

E. Regional Cooperation and Integration Fund

The RCIF was established in February 2007 in response to the increasing demand for regional cooperation and integration activities among ADB's member countries in Asia and the Pacific. Its main objective is to improve regional cooperation and integration by facilitating the pooling and provision of additional financial and knowledge resources.

Contributed resources. In 2014, the Government of Japan committed contributions of ¥392 million (\$4 million equivalent) to the fund. As of 31 December 2015, RCIF resources totaled \$63 million, of which \$55 million had been used, leaving an uncommitted balance of \$8 million (\$8 million as of 31 December 2014).

Operations. In 2015, net TA expenses totaled \$0.1 million (2014: \$0.5 million), comprising two TA projects and one supplementary approval totaling \$1.4 million that became effective, and a \$1.3 million write-back on financially completed and/or cancelled projects (2014: three TA projects and one supplementary approval totaling \$2.2 million, and a \$1.7 million write-back). The balance of undisbursed commitments net of grant advances as of 31 December 2015 amounted to \$9 million (2014: \$11 million).

Investment position. As of 31 December 2015, the total investment portfolio amounted to \$15 million (\$17 million as of 31 December 2014). Annual revenue from investments for 2015 and 2014 was \$0.02 million.

F. Climate Change Fund

The CCF was established in April 2008 to facilitate greater investments in DMCs to address the causes and consequences of climate change in combination with ADB assistance in related sectors.

Contributed resources. As of 31 December 2015, CCF resources totaled \$60 million, of which \$49 million had been used, leaving an uncommitted balance of \$11 million (\$10 million as of 31 December 2014).

Operations. In 2015, a write-back of \$0.8 million and no TA and/or grant became effective (2014: net TA and/or grant expenses totaled \$2.8 million consisted of four TA projects and four supplementary approvals totaling \$3.3 million, and a \$0.5 million write-back). The balance of undisbursed commitments net of grant and/or TA advances as of 31 December 2015 amounted to \$11 million (2014: \$16 million).

Investment position. As of 31 December 2015, the total investment portfolio amounted to \$21 million (\$26 million as of 31 December 2014). Revenue from investments for 2015 was \$0.04 million (2014: \$0.05 million).

G. Asia Pacific Disaster Response Fund

The APDRF was established on 1 April 2009 to provide timely incremental grant resources to DMCs affected by natural disasters.

Contributed resources. In 2015, \$20 million was transferred to the APDRF from OCR allocable net income. As of 31 December 2015, fund resources totaled \$60 million, of which \$43 million had been used, leaving an uncommitted balance of \$17 million (\$4 million as of 31 December 2014).

Operations. In 2015, three grants amounting to \$7 million became effective (2014: one grant totaling \$0.2 million). The fund had no undisbursed commitments net of grant advances as of 31 December 2015 and 2014.

Investment position. As of 31 December 2015, the total investment portfolio amounted to \$11 million (2014: nil). Revenue from investments for 2015 was \$0.02 million (2014: nil).

H. Financial Sector Development Partnership Special Fund

The FSDPSF was approved by the Board of Directors and established on 31 January 2013 to strengthen regional, subregional, and national financial systems in Asia and the Pacific.

Contributed resources. In 2015, the Government of Luxembourg committed contribution of \$2 million equivalent of contributions (2014: \$2 million equivalent). As of 31 December 2015, fund resources totaled \$11 million, of which \$4 million had been used, leaving an uncommitted balance of \$7 million (2014: \$7 million as of 31 December 2014).

Operations. In 2015, two TA projects and three supplementary approvals totaling \$2 million became effective (2014: six TA projects and one supplementary approval totaling \$2 million became effective), and a \$0.1 million write-back for financially completed and/or cancelled projects (2014: nil). The balance of undisbursed commitments net of grant advances as of 31 December 2015 amounted to \$2 million (\$2 million as of 31 December 2014).

Investment position. As of 31 December 2015, the total investment portfolio amounted to \$5 million (\$7 million as of 31 December 2014). Annual revenue from investments for 2015 and 2014 was \$0.01 million.

V. GRANT COFINANCING

Trust funds and project-specific grants are key instruments to mobilize and channel financial resources from external sources to finance TA and components of investment projects. They play an important role in complementing ADB's own resources. Multilateral, bilateral, and private sector partners have contributed about \$2,258 million in grants to ADB operations (Table 27). In 2015, grant cofinancing for ADB-approved projects totaled \$875 million, comprising \$125 million for 85 TA projects and \$750 million for components of 42 investment projects. By the end of 2015, ADB was administering 41 trust funds, comprising 30 stand-alone trust funds,¹⁴ and 11 trust funds established under financing partnership facilities. Of these, 28 have balances totaling \$437 million in grants. Additional grant resources from external partners totaled \$257 million in 2015, comprising \$132 million in new commitments, \$70 million in replenishments to existing trust funds, and \$55 million in additional allocation from global funding initiatives.

¹⁴ Trust funds not related to financing partnership facilities and including the Japan Scholarship Program.

Financing partners provided the following commitments and replenishments to existing trust funds:

- (i) \$109 million from the Government of Japan for the Afghanistan Infrastructure Trust Fund, Asia Pacific Project Preparation Facility, Japan Fund for Poverty Reduction (JFPR), Japan Fund for the Joint Crediting Mechanism, and Japan Scholarship Program (JSP);
- (ii) \$35 million from ANA Trust Fund for the Afghanistan Infrastructure Trust Fund;
- (iii) \$16 million from the Government of Canada for the Asia Pacific Project Preparation Facility;
- (iv) \$15 million from the Government of the United Kingdom for the Clean Energy Fund under the Clean Energy Financing Partnership Facility;
- (v) \$10 million from the Government of Switzerland for the Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility;
- (vi) \$8 million from the Government of the United States for the Afghanistan Infrastructure Trust Fund;
- (vii) \$8 million from the Government of Australia for the Pacific Business Investment Trust Fund;
- (viii) \$1 million from the Government of Republic of Korea for the e-Asia Knowledge and Partnership Fund; and
- (ix) \$0.5 million from the Government of Finland for the Typhoon Yolanda Multi Donor Trust Fund.

Additional allocations from global funding initiatives comprised \$52 million from the Climate Investment Funds, and \$3 million from the Global Environment Facility.

Japan Fund for Poverty Reduction. The Government of Japan established the JFPR in May 2000 to provide grants for projects supporting poverty reduction and related social development activities that can add value to projects financed by ADB. In 2011, the JFPR expanded its scope of grant assistance to provide TA grants in addition to project grants. At the end of 2015, JFPR funds totaled about \$703 million. The Government of Japan had approved 173 grant projects (equivalent to \$508 million) and 207 TA projects (equivalent to \$245 million) of which ADB had subsequently approved 169 grant projects (equivalent to \$502 million) and 198 TA projects (equivalent to \$228 million) funded by JFPR.

Japan Scholarship Program. The Government of Japan established the JSP in 1988 to provide an opportunity for well-qualified citizens of DMCs to undertake postgraduate studies in economics, management, science and technology, and other development-related fields at selected educational institutions in Asia and the Pacific. Between 1988 and 2015, Japan has contributed \$165 million and 3,387 scholarships were awarded to recipients from 37 member countries. Of the total, 3,028 have completed their courses. Women have received 1,239 scholarships. An average of 148 new scholarships per year has been awarded since 2006. As of 2015, JSP has 29 participating institutions in 10 countries.

**Table 27: Schedule of Cumulative Contributions and Net Assets of
Grants from External Sources**

As of 31 December 2015

(\$ million)

Item	Contribution	Net Assets ^b	Item	Contribution	Net Assets ^b
Administered by ADB^a			Non-Sovereign entities and external trust funds		
Country					
Australia	754.1	0.7	Bill and Melinda Gates Foundation	15.0	6.8
Austria	20.0	0.6	Clean Technology Fund	774.7	754.6
Belgium	20.9	15.8	ENECO Energy Trade B.V.	13.7	12.7
Brunei Darussalam	0.3	0.0	Global Agriculture and Food Security Program	41.7	2.0
Canada	260.0	105.7	Global Environment Fund	199.8	14.1
China, People's Republic of	40.1	11.4	Special Climate Change Fund	6.6	0.3
Denmark	34.8	1.3	Least Developed Countries Fund	10.5	5.8
European Community	413.8	72.2	International Fund for Agricultural Development	0.5	0.0
Finland	68.0	15.5	Nordic Development Fund	40.3	(0.5)
France	35.9	1.7	POSCO	20.0	18.5
Germany	0.5	0.0	Public Private Infrastructure Advisory Facility	1.3	0.1
India	0.9	0.0	Strategic Climate Fund	320.8	143.4
Ireland	2.3	0.2	Trust Fund for Forest	11.1	2.1
Italy	2.2	–	The Rockefeller Foundation	5.0	4.6
Japan	1,158.0	253.5	Other	16.9	0.5
Korea, Republic of	78.6	39.5			
Luxembourg	9.4	1.3			
The Netherlands	395.8	44.5			
New Zealand	50.5	6.5			
Norway	212.2	(1.5)			
Portugal	0.6	–			
Spain	31.5	6.6			
Sweden	250.6	30.0			
Switzerland	60.5	10.8			
United Kingdom and Northern Ireland	1,353.3	638.0			
United States	154.6	39.2			
Subtotal	5,409.3	1,293.4	Subtotal	1,477.8	964.7
Grand Total			6,887.2 2,258.1		

– = nil, () = negative, ADB = Asian Development Bank.

Notes:

1. Numbers may not sum precisely because of rounding.

2. 0.0 = amount less than \$0.5 million.

^a Excludes capital contributions to Credit Guarantee and Investment Facility (CGIF).

^b Excludes projects approved but not yet effective.

ORDINARY CAPITAL RESOURCES
CONDENSED MANAGEMENT REPORTING BALANCE SHEETS

As of 31 December 2015 and 2014

(\$ million)

Item	2015		2014	
	Statutory Reporting Basis	Adjustments ^a	Management Reporting Basis	Management Reporting Basis
Due from banks	753		753	417
Investments	23,315		23,315	23,006
Securities transferred under repurchase agreements	—		—	30
Securities purchased under resale arrangements	126		126	1,257
Loans outstanding	61,889		61,889	55,845
Unamortized net loan origination costs, less allowance for loan losses	52		52	45
Equity investments	862	(23)	839	815
Accrued interest receivable				
Investments	77		77	82
Loans	184		184	150
Derivative Assets				
Borrowings	21,664	(1,065)	20,599	25,566
Investments	7,112	(21)	7,091	5,580
Loans	762	(14)	748	654
Other assets	901	860	1,761	1,972
TOTAL	117,697	(263)	117,434	115,419
Borrowings and accrued interest	66,054	(814)	65,240	61,381
Derivative Liabilities				
Borrowings	24,985	(79)	24,906	28,353
Investments	6,679	(48)	6,631	4,980
Loans	608	(26)	582	578
Payable under securities repurchase agreements	—		—	30
Payable for swap related collateral	494		494	478
Accounts payable and other liabilities	1,431		1,431	1,526
Total Liabilities	100,251	(967)	99,284	97,326
Paid-in capital	6,433	860	7,293	7,229
Net notional maintenance of value receivable	(1,616)		(1,616)	(1,537)
Ordinary reserve	11,981	3	11,984	11,562
Special reserve	322		322	303
Loan loss reserve	215		215	230
Surplus	1,065		1,065	1,065
Cumulative revaluation adjustments account	(125)	125	—	—
Net income ^b	537	(213)	324	549
Accumulated other comprehensive loss	(1,366)	(71)	(1,437)	(1,308)
Total Equity	17,446	704	18,150	18,093
TOTAL	117,697	(263)	117,434	115,419

— = nil, () = negative.

^a Includes reversal of ASC Topics 815 and 825 effects, Asian Development Bank's share in unrealized gains or losses from equity investments accounted for under the equity method, and nonnegotiable, and noninterest-bearing demand obligations on account of subscribed capital.

^b Net income after appropriation of guarantee fees to the Special Reserve.

Financial Statements

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ORDINARY CAPITAL RESOURCES

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying balance sheets of Asian Development Bank ("ADB") – Ordinary Capital Resources as of December 31, 2015 and 2014 and the related statements of income and expenses, comprehensive income (loss), changes in equity and cash flows, for the years then ended and the related notes to the financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink, appearing to read "Deloitte & [unclear]", with a large, stylized flourish extending from the end of the signature.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Ordinary Capital Resources, which comprise the balance sheets as of December 31, 2015 and 2014, and the related statements of income and expenses, comprehensive income (loss), changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB - Ordinary Capital Resources as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of summary statement of loans and summary statement of borrowings as of December 31, 2015 and 2014, and statement of subscriptions to capital stock and voting power as of December 31, 2015 are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to be "Deloitte" followed by a stylized signature, is written over a horizontal line.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
BALANCE SHEET
31 December 2015 and 2014
Expressed in Millions of US Dollars

A S S E T S				
	2015		2014	
DUE FROM BANKS (Note C)	\$	753	\$	417
INVESTMENTS (Notes D, I, N, and Q)				
Government or government-guaranteed obligations	\$	20,635	\$	18,177
Time deposits		1,308		3,971
Other securities		1,372		858
		23,315		23,006
SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENTS (Notes D, E, and Q)		—		30
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Notes D and Q)		126		1,257
LOANS OUTSTANDING (OCR-6) (Notes A, F, I, Q, and S) (Including net unamortized loan origination costs of \$86 – 2015 and \$80 – 2014)				
Sovereign		57,555		52,351
Nonsovereign		4,420		3,574
		61,975		55,925
Less—allowance for loan losses		34		35
		61,941		55,890
EQUITY INVESTMENTS (Notes A, H, Q, and S)		862		862
ACCRUED INTEREST RECEIVABLE				
Investments		77		82
Loans		184		150
		261		232
DERIVATIVE ASSETS (Notes D, I, K, and Q)				
Borrowings		21,664		26,830
Investments		7,112		5,596
Loans		762		666
		29,538		33,092
OTHER ASSETS				
Property, furniture, and equipment (Note J)		168		173
Investment related receivables		10		9
Swap related collateral (Notes I and Q)		494		478
Miscellaneous (Notes G, O, and Q)		229		214
		901		874
TOTAL	\$	117,697	\$	115,660

The accompanying notes are an integral part of these financial statements (OCR-9).

OCR-1

LIABILITIES AND EQUITY				
	2015		2014	
BORROWINGS (OCR-7) (Notes I, K, and Q)				
At amortized cost	\$	4,259	\$	3,662
At fair value		61,795		59,039
		\$ 66,054		\$ 62,701
DERIVATIVE LIABILITIES (Notes D, I, K, and Q)				
Borrowings		24,985		28,372
Investments		6,679		5,034
Loans		608		581
		32,272		33,987
PAYABLE UNDER SECURITIES				
REPURCHASE AGREEMENTS (Notes E and Q)		—		30
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Investment related payables		10		6
Swap related collateral (Notes I and Q)		494		478
Accrued pension and postretirement medical benefit costs (Note P)		1,258		1,352
Miscellaneous (Notes G, J, O, and Q)		163		168
		1,925		2,004
TOTAL LIABILITIES		100,251		98,722
EQUITY (OCR-4)				
Capital stock (OCR-8) (Note L)				
Authorized (SDR106,389 – 2015 and 2014)				
Subscribed				
(SDR106,149 – 2015 and 2014, less temporary reduction of SDR117 – 2015 and SDR475 – 2014)		147,052		153,056
Less—"callable" shares subscribed				
(SDR100,827 – 2015 and 2014, less temporary reduction of SDR112 – 2015 and SDR456 – 2014)		139,678		145,376
"Paid-in" shares subscribed		7,374		7,680
(SDR5,322 – 2015 and 2014, less temporary reduction of SDR5 – 2015 and SDR19 – 2014)				
Less—subscription installments not due		0		367
Subscription installments matured		7,374		7,313
Less—capital transferred to the Asian Development Fund and discount		81		84
		7,293		7,229
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital (Note L)		(860)		(1,098)
		6,433		6,131
Net notional amounts required to maintain value of currency holdings (Note L)		(1,616)		(1,537)
Ordinary reserve (Note M)		11,981		11,559
Special reserve (Note M)		322		303
Loan loss reserve (Note M)		215		230
Surplus (Note M)		1,065		1,065
Cumulative revaluation adjustments account (Note M)		(125)		59
Net income after appropriation (OCR-4) (Note M)		537		366
Accumulated other comprehensive loss (Note M)		(1,366)		(1,238)
		17,446		16,938
TOTAL	\$	117,697	\$	115,660

0 = less than \$0.5 million.

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF INCOME AND EXPENSES
For the Years Ended 31 December 2015 and 2014
Expressed in Millions of US Dollars

	2015	2014
REVENUE (Note N)		
From loans (Notes F and I)		
Interest	\$ 673	\$ 596
Commitment charge	49	50
Other, net	(44)	(41)
	\$ 678	\$ 605
From investments (Notes D and I)		
Interest	322	305
From guarantees	19	21
From equity investments	(19)	17
From other sources—net (Notes F and R)	29	25
TOTAL REVENUE	\$ 1,029	\$ 973
EXPENSES (Note N)		
Borrowings and related expenses (Notes I and K)	374	317
Administrative expenses (Note M)	383	352
Write-back for loan losses (Note F)	(1)	(1)
Other expenses	12	13
TOTAL EXPENSES	768	681
NET REALIZED GAINS		
From investments (Notes D, I, M, and N)	43	47
From equity investments (Notes M and N)	12	241
From borrowings (Note I)	1	—
NET REALIZED GAINS	56	288
NET UNREALIZED GAINS (LOSSES) (Notes H, I, K, and N)	239	(193)
NET INCOME	\$ 556	\$ 387

The accompanying notes are an integral part of these financial statements (OCR-9).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF COMPREHENSIVE INCOME (LOSS)
For the Years Ended 31 December 2015 and 2014
Expressed in Millions of US Dollars

	2015		2014	
NET INCOME (OCR-2)	\$	556	\$	387
Other comprehensive (loss) income (Note M)				
Currency translation adjustments	\$	(136)	\$	(100)
Unrealized investment holding losses		(125)		(57)
Pension/postretirement liability adjustments		133		(440)
		(128)		(597)
COMPREHENSIVE INCOME (LOSS)	\$	428	\$	(210)

The accompanying notes are an integral part of these financial statements (OCR-9).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF CHANGES IN EQUITY
For the Years Ended 31 December 2015 and 2014
Expressed in Millions of US Dollars (Note L)

	Capital Stock	Nonnegotiable, Noninterest- bearing Demand Obligations	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Loan Loss Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Loss	Total
Balance, 1 January 2014	\$ 6,843	\$ (958)	\$ (1,390)	\$ 11,166	\$ 282	\$ 261	\$ 1,065	\$ (38)	\$ 548	\$ (641)	\$ 17,138
Comprehensive loss (OCR-3, Note M)									387	(597)	(210)
Appropriation of guarantee fees (Note M)					21				(21)		—
Change in subscription installments not due and paid-in shares	662	(264)									398
Effect of change in SDR/USD rate on capital transferred to ADF	4			(4)							—
Effect of change in SDR/USD rate on paid-in capital	(281)		219	62							—
Encashment of demand obligations		41									41
Change in US Dollar value (Note L)	1	83	(366)								(282)
Allocation of prior year income (Note M)				332		(31)		97	(398)		—
Allocation of prior year income to ADF and TASF (Note M)									(150)		(150)
Transfer of unutilized PEF funds (Note M)				3							3
Balance, 31 December 2014	\$ 7,229	\$ (1,098)	\$ (1,537)	\$ 11,559	\$ 303	\$ 230	\$ 1,065	\$ 59	\$ 366	\$ (1,238)	\$ 16,938
Comprehensive income (OCR-3, Note M)									556	(128)	428
Appropriation of guarantee fees (Note M)					19				(19)		—
Change in subscription installments not due and paid-in shares	321	(74)									247
Effect of change in SDR/USD rate on capital transferred to ADF	3			(3)							—
Effect of change in SDR/USD rate on paid-in capital	(262)		221	41							—
Encashment of demand obligations		257									257
Change in US Dollar value (Note L)	2	55	(300)								(243)
Allocation of prior year income (Note M)				384		(15)		(183)	(186)		—
Allocation of prior year income to ADF, TASF and APDRF (Note M)									(180)		(180)
Balance, 31 December 2015	\$ 7,293	\$ (860)	\$ (1,616)	\$ 11,981	\$ 322	\$ 215	\$ 1,065	\$ (125)	\$ 537	\$ (1,366)	\$ 17,446

ADF - Asian Development Fund, APDRF - Asia Pacific Disaster Response Fund, PEF - Pakistan Earthquake Fund, SDR - Special Drawing Rights, TASF - Technical Assistance Special Fund, US - United States.

The accompanying notes are an integral part of these financial statements (OCR-9).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014
Expressed in Millions of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and other charges on loans received	\$ 613	\$ 554
Interest on investments received	341	346
Interest paid for securities purchased under resale/repurchase arrangements	0	(0)
Interest and other financial expenses paid	(281)	(233)
Administrative expenses paid	(346)	(665)
Others—net	27	38
Net Cash Provided by Operating Activities	354	40
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	12,377	8,858
Maturities of investments	161,404	179,009
Purchases of investments	(174,769)	(187,506)
Receipts from securities purchased under resale arrangements	125,837	155,519
Payments for securities purchased under resale arrangements	(124,743)	(156,523)
Principal collected on loans	3,479	4,306
Loans disbursed	(9,623)	(7,327)
Receipts from derivatives	438	947
Payments for derivatives	—	(69)
Property, furniture, and equipment acquired	(17)	(30)
Change in swap related collateral	17	(108)
Purchases of equity investments	(124)	(184)
Sales of equity investments	74	348
Net Cash Used in Investing Activities	(5,650)	(2,760)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new borrowings	23,175	16,733
Borrowings redeemed	(16,583)	(14,389)
Capital subscriptions collected ¹	243	399
Issuance expenses paid	(25)	(21)
Demand obligations of members encashed	257	41
Receipts from derivatives	95	261
Payments for derivatives	(1,315)	—
Resources transferred from PEF	—	3
Resources transferred to ADF	(120)	(120)
Resources transferred to TASF	(40)	(30)
Resources transferred to APDRF	(20)	—
Net Cash Provided by Financing Activities	5,667	2,877
Effect of Exchange Rate Changes on Due from Banks	(35)	(56)
Net Increase in Due from Banks	336	101
Due from Banks at Beginning of Year	417	316
Due from Banks at End of Year	\$ 753	\$ 417
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (OCR-2)	\$ 556	\$ 387
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	86	125
Write-back of loan losses	(1)	(1)
Net realized gains from investments, equity investments and other borrowings	(56)	(288)
Proportionate share in losses (earnings) on equity investments	28	(3)
Net unrealized (gains) losses	(239)	193
Change in accrued revenue from loans, investments and other swaps	(85)	(47)
Change in receivable from ADF—allocation of administrative expenses	(10)	(6)
Change in accrued interest on borrowings and swaps, and other expenses	(34)	120
Change in pension and postretirement benefit liability	132	(440)
Others—net	(23)	(0)
Net Cash Provided by Operating Activities	\$ 354	\$ 40

ADF - Asian Development Fund, APDRF - Asia Pacific Disaster Response Fund, PEF - Pakistan Earthquake Fund,
TASF - Technical Assistance Special Fund.

0 = less than \$0.5 million.

Supplementary disclosure of noncash financing activities:

¹ Nonnegotiable, noninterest-bearing demand promissory notes amounting to \$74 million (\$266 million – 2014) were received from members.

The accompanying notes are an integral part of these financial statements (OCR-9).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
SUMMARY STATEMENT OF LOANS
31 December 2015 and 2014

Expressed in Millions of US Dollars

Borrowers/Guarantors	Loans Outstanding ¹	Undisbursed Balances of Effective Loans ²	Loans Not Yet Effective ³	Total Loans	Percent of Total Loans
Armenia	\$ 102	\$ 219	\$ 113	\$ 434	0.44
Azerbaijan	1,040	1,015	20	2,075	2.12
Bangladesh	1,825	1,139	870	3,834	3.92
Bhutan	50	70	—	120	0.12
Cambodia	75	—	—	75	0.08
China, People's Republic	15,715	5,596	2,074	23,385	23.89
Cook Islands	22	9	—	31	0.03
Fiji	130	100	3	233	0.24
Georgia	282	349	170	801	0.82
India	14,301	6,802	2,248	23,351	23.85
Indonesia	8,411	791	735	9,937	10.15
Kazakhstan	2,526	381	—	2,907	2.97
Kyrgyz Republic	7	10	—	17	0.02
Lao People's Democratic Republic	102	79	—	181	0.18
Malaysia	55	—	—	55	0.06
Maldives	1	—	—	1	0.00
Marshall Islands	0	—	—	0	0.00
Micronesia, Federated States of	5	4	—	9	0.01
Mongolia	180	261	95	536	0.54
Myanmar	23	177	142	342	0.34
Pakistan	4,522	2,840	754	8,116	8.29
Palau	12	26	16	54	0.06
Papua New Guinea	355	258	—	613	0.63
Philippines	5,067	899	638	6,604	6.74
Sri Lanka	1,448	852	328	2,628	2.68
Tajikistan	—	—	5	5	0.01
Thailand	829	56	160	1,045	1.07
Timor-Leste	25	57	53	135	0.14
Turkmenistan	95	22	—	117	0.12
Uzbekistan	1,728	1,265	600	3,593	3.67
Viet Nam	2,915	2,622	1,048	6,585	6.73
	61,848	25,899	10,072	97,819	99.92
Regional	41	12	27	80	0.08
TOTAL – 31 December 2015	61,889	25,911	10,099	97,899	100.00
Allowance for loan losses	(34)	—	—	(34)	
Unamortized loan origination cost—net	86	—	—	86	
NET BALANCE – 31 December 2015	\$ 61,941	\$ 25,911	\$ 10,099	\$ 97,951	
Made up of:					
Sovereign Loans	\$ 57,555	\$ 24,334	\$ 8,235	\$ 90,124	
Nonsovereign Loans					
Private Sector	3,968	1,483	1,344	6,795	
Public Sector	418	94	520	1,032	
NET BALANCE – 31 December 2015	\$ 61,941	\$ 25,911	\$ 10,099	\$ 97,951	
TOTAL – 31 December 2014	\$ 55,845	\$ 26,140	\$ 8,078	\$ 90,063	
Allowance for loan losses	(35)	—	—	(35)	
Unamortized loan origination cost—net	80	—	—	80	
NET BALANCE – 31 December 2014	\$ 55,890	\$ 26,140	\$ 8,078	\$ 90,108	
Made up of:					
Sovereign Loans	\$ 52,351	\$ 24,249	\$ 6,428	\$ 83,028	
Nonsovereign Loans					
Private Sector	3,168	1,425	1,595	6,188	
Public Sector	371	466	55	892	
Net Balance – 31 December 2014	\$ 55,890	\$ 26,140	\$ 8,078	\$ 90,108	

¹ Amounts outstanding on the pool-based loans totaled \$2,781 million (\$3,404 million – 2014) and on LIBOR-based loans, market-based and local currency loans totaled \$59,108 million (\$52,441 million – 2014). The average yield on loans was 1.16% (1.15% – 2014).

² Refer to the unwithdrawn portions of effective loans as of 31 December 2015. Of the undisbursed balances, ADB has made irrevocable commitments to disburse various amounts totaling \$575 million (\$385 million – 2014).

³ Loans totaling \$6,209 million (\$6,531 million – 2014) have been approved by ADB, but the related agreements have not been signed. Agreements for loans totaling \$3,890 million (\$1,547 million – 2014) have been signed, but the loans are not effective and disbursements will not start until the relevant conditions to the effectiveness of the loans have been fulfilled.

continued

MATURITY OF EFFECTIVE LOANS AS OF 31 DECEMBER 2015

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2016	\$ 3,920	2025	24,098
2017	4,071	2030	20,287
2018	4,587	2035	14,176
2019	5,912	2040	4,056
2020	6,260	over 2040	433
		Total	\$ 87,800

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2015	2014	Currency	2015	2014
Yuan	\$ 479	\$ 425	Rupiah	17	25
Euro	56	40	Tenge	65	121
Lari	42	—	New Zealand dollar	22	26
Yen	1,259	1,657	Philippine peso	7	5
Indian rupee	105	89	Baht	273	283
			US dollar	59,564	53,174
			Total	\$ 61,889	\$ 55,845

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
SUMMARY STATEMENT OF BORROWINGS
31 December 2015 and 2014

Expressed in Millions of US Dollars

	Borrowings		Swap Arrangements²		Net Currency Obligation³	
	Principal Outstanding¹		Payable (Receivable)³			
	2015	2014	2015	2014	2015	2014
Australian dollar	\$ 8,750	\$ 9,643	\$ (8,773)	\$ (9,587)	\$ (23)	\$ 56
Brazilian real	874	1,127	(874)	(1,124)	(0)	3
Canadian dollar	1,391	1,264	(1,412)	(1,266)	(21)	(2)
Yuan	552	694	12	27	484	692
			(80)	(29)		
Euro	1,819	1,850	(1,827)	(1,849)	(8)	1
Hong Kong dollar	10	10	(10)	(10)	0	0
Indian rupee	45	47	—	—	45	47
Yen	1,026	1,694	1,317	1,560	1,401	1,617
			(942)	(1,637)		
Ringgit	120	148	(120)	(148)	(0)	0
Mexican peso	264	310	(294)	(344)	(30)	(34)
New Zealand dollar	1,730	1,721	(1,736)	(1,714)	(6)	7
Norwegian krone	118	141	(118)	(140)	(0)	1
Pound sterling	1,675	2,665	(1,675)	(2,658)	0	7
Singapore dollar	343	371	(343)	(370)	(0)	1
South African rand	319	930	(319)	(928)	(0)	2
Swiss franc	769	739	(291)	(281)	478	458
Baht	29	33	(29)	(33)	(0)	(0)
Turkish lira	855	2,292	(856)	(2,288)	(1)	4
Lari	42	—	—	—	42	—
US dollar	45,323	37,022	23,656	26,785	67,014	61,383
			(1,965)	(2,424)		
Total	\$ 66,054	\$ 62,701	\$ 3,321	\$ 1,542	\$ 69,375	\$ 64,243

0 = less than \$0.5 million.

¹ Includes accrued interest and commission. Reported at fair value except for unswapped borrowings which are reported at principal amount net of unamortized discount/premium. The aggregate face amounts and discounted values of zero coupon and deep discount borrowings (in US dollar equivalents) are:

Currency	Aggregate Face Amount		Discounted Value	
	2015	2014	2015	2014
Australian dollar	\$ 335	\$ 377	\$ 274	\$ 294
Brazilian real	154	231	120	184
South African rand	149	735	144	701
Swiss franc	495	494	492	467
Turkish lira	415	949	376	866
Mexican peso	170	200	132	150
US dollar	1,848	3,516	1,348	2,175

The average cost of borrowings after swaps was 0.19% (0.82% - 2014).

continued

MATURITY STRUCTURE OF BORROWINGS OUTSTANDING AS OF 31 DECEMBER 2015⁴

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2016	\$ 14,234	2025	7,549
2017	15,084	2030	2,527
2018	11,400	2035	44
2019	7,021	over 2035	—
2020	8,195	Total	\$ 66,054

INTEREST RATE SWAP ARRANGEMENTS AS OF 31 DECEMBER 2015

	Notional Amount	Average Rate (%)		Maturing Through⁶
		Receive	Pay Floating⁵	
Receive Fixed Swaps:				
Australian dollar ⁷	\$ 41	2.64	(0.12)	2027-2032
Yuan	140	3.85	2.58	2019-2020
US dollar	40,956	1.65	0.47	2016-2025
US dollar ⁸	41	2.14	(0.26)	2016-2027
Receive Floating Swaps:				
Yen	41	3.43	(0.27)	2016-2032
US dollar	7,005	0.43	0.51	2016-2021
Total	\$ 48,224			

² Include currency and interest rate swaps. At 31 December 2015, the remaining maturity of swap agreements range from less than one year to 20 years. Approximately 83% of the swap receivables and 85% of the payables are due before 1 January 2021.

³ Adjusted by the cumulative effect of the adoption of ASC 815 effective 1 January 2001.

⁴ Bonds with put and call options were considered maturing on the first put or call date.

⁵ Represents average current floating rates, net of spread.

⁶ Swaps with early termination date were considered maturing on the first termination date.

⁷ Consists of dual currency swaps with interest receivable in Australian dollar and interest payable in yen.

⁸ Consists of dual currency swaps with interest receivable in US dollar and interest payable in yen.

The accompanying notes are an integral part of these financial statements (OCR-9).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER
31 December 2015

Expressed in Millions of US Dollars

MEMBERS	SUBSCRIBED CAPITAL						VOTING POWER	
	Number of Shares	Percent of Total	Par Value Of Shares ¹			Paid-in	Number of Votes	Percent of Total
			Total	Callable				
REGIONAL								
Afghanistan	3,585	0.034	\$ 49.7	\$ 43.1	\$ 6.6		43,149	0.326
Armenia	31,671	0.299	439.2	417.2	22.0		71,235	0.537
Australia	614,220	5.793	8,518.4	8,092.4	426.0		653,784	4.933
Azerbaijan	47,208	0.445	654.7	621.9	32.8		86,772	0.655
Bangladesh	108,384	1.022	1,503.1	1,428.0	75.2		147,948	1.116
Bhutan	660	0.006	9.2	8.6	0.6		40,224	0.303
Brunei Darussalam	37,386	0.353	518.5	492.5	26.0		76,950	0.581
Cambodia	5,250	0.050	72.8	66.7	6.1		44,814	0.338
China, People's Republic of	684,000	6.451	9,486.1	9,011.7	474.5		723,564	5.459
Cook Islands	282	0.003	3.9	3.7	0.2		39,846	0.301
Fiji	7,218	0.068	100.1	95.1	5.0		46,782	0.353
Georgia	36,243	0.342	502.6	477.5	25.2		75,807	0.572
Hong Kong, China	57,810	0.545	801.7	761.6	40.1		97,374	0.735
India	672,030	6.338	9,320.1	8,854.0	466.1		711,594	5.369
Indonesia	578,100	5.452	8,017.4	7,616.5	400.9		617,664	4.660
Japan	1,656,630	15.624	22,975.1	21,826.1	1,149.0		1,696,194	12.798
Kazakhstan	85,589	0.807	1,187.0	1,127.6	59.4		125,153	0.944
Kiribati	426	0.004	5.9	5.6	0.3		39,990	0.302
Korea, Republic of	534,738	5.043	7,416.1	7,045.2	370.9		574,302	4.333
Kyrgyz Republic	31,746	0.299	440.3	418.2	22.0		71,310	0.538
Lao People's Democratic Republic	1,476	0.014	20.5	19.2	1.3		41,040	0.310
Malaysia	289,050	2.726	4,008.7	3,808.2	200.5		328,614	2.479
Maldives	426	0.004	5.9	5.6	0.3		39,990	0.302
Marshall Islands	282	0.003	3.9	3.7	0.2		39,846	0.301
Micronesia, Federated States of	426	0.004	5.9	5.6	0.3		39,990	0.302
Mongolia	1,596	0.015	22.1	21.0	1.1		41,160	0.311
Myanmar	57,810	0.545	801.7	761.6	40.1		97,374	0.735
Nauru	426	0.004	5.9	5.6	0.3		39,990	0.302
Nepal	15,606	0.147	216.4	205.6	10.8		55,170	0.416
New Zealand	163,020	1.537	2,260.9	2,147.8	113.1		202,584	1.528
Pakistan	231,240	2.181	3,207.0	3,046.6	160.4		270,804	2.043
Palau	342	0.003	4.7	4.5	0.2		39,906	0.301
Papua New Guinea	9,960	0.094	138.1	131.2	6.9		49,524	0.374
Philippines	252,912	2.385	3,507.5	3,332.1	175.4		292,476	2.207
Samoa	348	0.003	4.8	4.5	0.3		39,912	0.301
Singapore	36,120	0.341	500.9	475.9	25.0		75,684	0.571
Solomon Islands	708	0.007	9.8	9.3	0.5		40,272	0.304
Sri Lanka	61,560	0.581	853.8	811.1	42.7		101,124	0.763
Taipei, China	115,620	1.090	1,603.5	1,523.3	80.2		155,184	1.171
Tajikistan	30,402	0.287	421.6	400.5	21.1		69,966	0.528
Thailand	144,522	1.363	2,004.3	1,904.1	100.2		184,086	1.389
Timor-Leste	1,050	0.010	14.6	13.8	0.7		40,614	0.306
Tonga	426	0.004	5.9	5.6	0.3		39,990	0.302
Turkmenistan	26,874	0.253	372.7	354.0	18.7		66,438	0.501
Tuvalu	150	0.001	2.1	2.0	0.1		39,714	0.300
Uzbekistan	71,502	0.674	991.6	942.0	49.6		111,066	0.838
Vanuatu	708	0.007	9.8	9.3	0.5		40,272	0.304
Viet Nam	36,228	0.342	502.4	469.8	32.6		75,792	0.572
Total Regional (Forward)	6,743,966	63.603	93,529.4	88,837.2	4,692.2		8,643,038	65.211

continued

MEMBERS	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value Of Shares ¹			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
Total Regional (Forward)	6,743,966	63.603	93,529.4	88,837.2	4,692.2	8,643,038	65.211
NONREGIONAL							
Austria	36,120	0.341	500.9	475.9	25.0	75,684	0.571
Belgium	36,120	0.341	500.9	475.9	25.0	75,684	0.571
Canada	555,258	5.237	7,700.7	7,315.5	385.1	594,822	4.488
Denmark	36,120	0.341	500.9	475.9	25.0	75,684	0.571
Finland	36,120	0.341	500.9	475.9	25.0	75,684	0.571
France	247,068	2.330	3,426.5	3,255.1	171.4	286,632	2.163
Germany	459,204	4.331	6,368.5	6,050.0	318.5	498,768	3.763
Ireland	36,120	0.341	500.9	475.8	25.1	75,684	0.571
Italy	191,850	1.809	2,660.7	2,527.6	133.1	231,414	1.746
Luxembourg	36,120	0.341	500.9	475.8	25.1	75,684	0.571
The Netherlands	108,882	1.027	1,510.0	1,434.5	75.5	148,446	1.120
Norway	36,120	0.341	500.9	475.9	25.0	75,684	0.571
Portugal	12,040	0.114	167.0	155.2	11.7	51,604	0.389
Spain	36,120	0.341	500.9	475.9	25.0	75,684	0.571
Sweden	36,120	0.341	500.9	475.9	25.0	75,684	0.571
Switzerland	61,950	0.584	859.2	816.2	43.0	101,514	0.766
Turkey	36,120	0.341	500.9	475.9	25.0	75,684	0.571
United Kingdom	216,786	2.045	3,006.5	2,856.2	150.3	256,350	1.934
United States	1,645,007	15.514	22,813.9	21,671.4	1,142.6	1,684,571	12.710
Total Nonregional	3,859,245	36.397	53,522.3	50,840.6	2,681.7	4,610,961	34.789
TOTAL	10,603,211	100.000	147,051.7	139,677.8	7,373.9	13,253,999	100.000

Note: Numbers may not sum precisely because of rounding.

¹ The authorized capital stock of the ADB has a par value of \$10,000 in terms of US dollars of the weight and fineness in effect on 31 January 1966. Pending ADB's selection of the appropriate successor to the 1966 dollar, the par value of each share is SDR 10,000 for financial reporting purposes. Exchange rate at 31 December 2015 was \$1.38686. (Notes B and L)

The accompanying notes are an integral part of these financial statements (OCR-9).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014**

**NOTE A—NATURE OF OPERATIONS AND LIMITATIONS ON LOANS,
GUARANTEES AND EQUITY INVESTMENTS**

Nature of Operations

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration.

ADB conducts its operations through the ordinary capital resources (OCR) and Special Funds (See Note R). Mobilizing financial resources, including cofinancing, is another integral part of ADB's operational activities, where ADB, alone or jointly, administers on behalf of donors funds provided for specific uses.

ADB's OCR operations comprise loans, equity investments, and guarantees. ADB finances its ordinary operations through borrowings, paid-in capital, and reserves.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

Combined ADF-OCR Lending Operations

In April 2015, the Board of Governors adopted the resolution authorizing the termination of Asian Development Fund (ADF) loan operations and the transfer of ADF loans, resources originally set-aside from the OCR, and certain other assets as may be determined by the Board of Directors to OCR effective 1 January 2017. After the effective date of this transfer, concessional lending to lower-income countries will continue from the expanded OCR.

Limitations on Loans, Guarantees, and Equity Investments

Article 12, paragraph 1 of the Charter provides that the total amount outstanding of loans, equity investments, and guarantees made by ADB shall not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. ADB's policy on lending limitations limits the total amount of disbursed loans, disbursed equity investments and related prudential buffer, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves and surplus exclusive of the special reserve. At 31 December 2015, the total of such loans, equity investments and related prudential buffers, and guarantees aggregated approximately 39.6% (34.6% – 2014) of the total subscribed capital, reserves, and surplus exclusive of the special reserve.

Article 12, paragraph 3 of the Charter provides that equity investments shall not exceed 10% of the unimpaired paid-in capital actually paid up at any given time together with reserves and surplus, exclusive of the special reserve. At 31 December 2015, such equity investments represented approximately 6.7% (7.6% – 2014) of the paid-in capital, reserves, and surplus, as defined.

continued

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of OCR are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

Functional Currencies and Reporting Currency

The currencies of members are all functional currencies of ADB as these are the currencies of the primary economic environment in which OCR generates and expends cash. The reporting currency is the US dollar.

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions in currencies other than the US dollar to be translated to the reporting currency using exchange rates applicable at the time of transactions. At the end of each accounting month, translations of assets, liabilities, capital, and reserves denominated in non-US dollar currencies are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments, other than those relating to the non-functional currencies (Note N) and to the maintenance of special drawing right (SDR) capital values (Notes L and M), are charged or credited to Accumulated translation adjustments and reported in EQUITY as part of Accumulated other comprehensive loss.

Valuation of Capital Stock

The authorized capital stock of ADB is defined in Article 4, paragraph 1 of the Charter “in terms of US dollars of the weight and fineness in effect on 31 January 1966” (1966 dollar) and the value of each share is defined as 10,000 1966 dollars. The capital stock had historically been translated into the current US dollar (ADB’s unit of account) on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was \$1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer have par values in terms of gold. Pending ADB’s selection of the appropriate successor to the 1966 dollar, the capital stock has been valued for purposes of these financial statements in terms of the SDR at the value in US dollars as determined by the IMF, with each share valued at SDR10,000.

As of 31 December 2015, the value of the SDR in terms of the US dollar was \$1.38686 (\$1.44838 – 2014) giving a value for each share of ADB’s capital equivalent to \$13,868.60 (\$14,483.80 – 2014).

Derivative Financial Instruments

ADB reports all derivative transactions in accordance with Accounting Standards Codification (ASC) 815, “Derivatives and Hedging.” ADB has elected not to define any qualifying hedging relationships, not because economic hedges do not exist, but rather because the application of ASC 815 hedging criteria does not make fully evident ADB’s risk management strategies. All derivative instruments, as defined by ASC 815, have been marked to fair value (FV), and all changes in FV have been recognized in net income. ADB records derivatives in the Balance Sheet as either assets or liabilities measured at FV, consistent with the legal rights and way the instruments are settled. Individual interest rate swaps under the Master Agreement of the International Swaps and Derivatives Association (ISDA), absent of local market constraints, are recorded on a net basis, while all other swaps, including cross currency and foreign exchange swaps, are recorded on a gross basis.

continued

Investments

All investment securities and negotiable certificates of deposit held by ADB are considered by Management to be "Available for Sale" and are reported at FV. Unrealized gains and losses are reported in EQUITY as part of Accumulated other comprehensive loss. Realized gains and losses are reported in the Statement of Income and Expenses under NET REALIZED GAINS From investments and are measured by the difference between amortized cost and the net proceeds of sales using the specific identification method for internally managed investment portfolio and the weighted average cost method for externally managed investment portfolio.

Interest income on investment securities and time deposits is recognized as earned and reported, net of amortization of premiums and discounts.

Unrealized losses on investment securities are assessed to determine whether the impairment is deemed to be other than temporary. If the impairment is deemed to be other than temporary, the investment is written down to the impaired value, which becomes the new cost basis of the investment. Impairment losses are not reversed for subsequent recoveries in the value of the investment, until it is sold.

Securities Transferred Under Repurchase Agreements and Securities Purchased Under Resale Arrangements

ADB accounts for transfers of financial assets in accordance with ASC 860, "Transfers and Servicing." Transfers are accounted for as sales when control over the transferred assets has been relinquished. Otherwise the transfers are accounted for as repurchase/resale agreements and collateralized financing arrangements. Under repurchase agreements, securities transferred are recorded as assets and reported at estimated FV and cash received is recorded as a liability. ADB monitors the FV of the securities transferred under repurchase agreements and the collateral. Under resale arrangements, securities purchased are recorded as assets and are not re-pledged.

Loans

ADB's loans are made to or guaranteed by members, with the exception of nonsovereign loans. Loan interest income and loan commitment fees are recognized on accrual basis. In line with ADB's principle of cost pass-through pricing, the funding cost margin is passed on to LIBOR-based loan borrowers as a surcharge or rebate.

It is the policy of ADB to place loans in non-accrual status for which principal, interest, or other charges are overdue by six months. Interest and other charges on non-accruing loans are included in income only to the extent that payments have been received by ADB. Accordingly, loans are reinstated to accrual status when all the principal, interest and other charges due on the loan have been paid. ADB maintains a position of not taking part in debt rescheduling agreements with respect to sovereign loans. In the case of nonsovereign loans, ADB may agree to debt rescheduling only after alternative courses of action have been exhausted.

ADB's periodic evaluation of the adequacy of the allowance for loan losses is based on its past loan loss experience, known and inherent risks in existing loans, and adverse situations that may affect a borrower's ability to repay.

For sovereign loans, ADB determines that a loan is impaired and therefore subject to provisioning when principal or interest is in arrears for more than one year. Specific provision for sovereign loan losses is written-back when the borrower's arrears have been fully settled and the borrower has re-established regular loan service payments. The nonsovereign loans are individually reviewed and subject to provisioning when the loan is considered impaired. The impairment is determined based on the difference between the loan carrying value and the present value of expected future cash flows discounted at the loan's effective

continued

interest rate. In addition, ADB provides collective provisions for nonsovereign loans based on the credit risk ratings and probability of default and assumed loss given default.

ADB establishes loan loss reserves for both sovereign and nonsovereign credit exposures to be used as a basis for capital adequacy against expected losses in loans and guarantees. The amount of expected loss pertaining to credit exposures that is not impaired or subject to collective provision is recorded as loan loss reserve in the EQUITY section of the balance sheet. Any adjustment to loan loss reserve following this methodology is subject to the approval of the Board of Governors.

From 2000 to 2003, ADB levied front-end fees on all new sovereign loans. These fees are deferred and amortized over the life of the loans after offsetting deferred direct loan origination costs. Front-end fees were waived on sovereign loans approved from 2004 and were eliminated for sovereign loans negotiated on or after 1 October 2007. Since 1988, ADB has charged front-end fees for nonsovereign loans.

ADB levies a commitment charge on the undisbursed balance of effective loans. Unless otherwise provided by the loan agreement, the charges take effect commencing on the 60th day after the loan signing date and are credited to loan income.

Guarantees

ADB provides guarantees under its sovereign and nonsovereign operations. Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred. ADB would be required to perform under its guarantees if the payments guaranteed were not made by the debtor, and the guaranteed party called the guarantee by demanding payments from ADB in accordance with the term of the guarantee.

For guarantees issued and modified on or after 1 January 2003, ADB recognizes at the inception of a guarantee, a liability for the stand-by obligation to perform on guarantees. A front-end fee on guarantees received is deferred and amortized over the term of the guarantee contract. ADB records a contingent liability for the probable losses related to guarantees outstanding. This provision, as well as the unamortized balance of the deferred guarantee fee income, and the unamortized balance of the obligation to stand ready, are included in ACCOUNTS PAYABLE AND OTHER LIABILITIES - Miscellaneous on the Balance Sheet.

Collateral

ADB requires collateral from individual swap counterparties in the form of approved liquid securities or cash to mitigate its credit exposure to these counterparties. ADB records the restricted cash in OTHER ASSETS with a corresponding obligation to return the cash in ACCOUNTS PAYABLE AND OTHER LIABILITIES. Collateral received in the form of liquid securities is disclosed in Note I and not recorded on OCR's Balance Sheet.

Equity Investments

Investments in equity securities with readily determinable market price are considered "Available for Sale" and are reported at FV, with unrealized gains and losses reported in EQUITY as part of Accumulated other comprehensive loss. ADB reports equity investments with associated derivatives at FV, with changes in FV reported in the Statement of Income and Expenses under NET UNREALIZED GAINS (LOSSES).

ADB applies the equity method of accounting to investments where it has the ability to exercise significant influence such as in limited liability partnerships (LLPs) and certain limited liability companies (LLCs) that maintain a specific ownership account for each investor in accordance with ASC 323-30, "Partnerships, Joint Ventures, and Limited Liability Entities" and direct equity investment that fall under the purview of ASC 323, "Investments—Equity Method and Joint Ventures."

continued

Investments in equity securities without readily determinable FVs are reported at cost or at written down value. ADB has determined that it is not practicable to estimate the FV of equity investments reported at cost or written down. These investments are assessed each quarter to reflect the amount that can be realized using valuation techniques appropriate to the market and industry of each investment. When impairment is identified and is deemed to be other than temporary, the equity investment is written down to the impaired value, which becomes the new cost basis of the equity investments. Impairment losses are not reversed for subsequent recoveries in the value of the equity investments.

Variable Interest Entities

ADB complies with ASC 810, "Consolidated Financial Statements." ASC 810 requires an entity to consolidate and provide disclosures for any Variable Interest Entity (VIE) for which it is the primary beneficiary. ASC 810 defines the primary beneficiary as the entity that both has the (i) power to direct the activities that most significantly impact the economic performance of the VIE and the (ii) obligation to absorb losses or the right to receive residual returns of the entity. Variable interests can arise from equity investments, loans, guarantees, and other contractual agreements that change with the changes in the FV of the VIE's net assets exclusive of variable interests. ADB is required to disclose information about its involvement in VIEs where ADB holds variable interest (see Note S).

Property, Furniture, and Equipment

Property, furniture, and equipment are stated at cost and, except for land, depreciated over estimated useful lives on a straight-line basis. Maintenance, repairs, and minor betterments are charged to expense. Land is stated at cost and is not amortized.

Borrowings

Borrowings are used as a source to provide funds for ADB's operations. ADB diversifies its funding sources across markets, instruments, and maturities. In conjunction, ADB uses currency and interest rate swaps for asset and liability management.

ADB reports selected borrowings that are swapped or have floating interest rates at FV. Changes in FV are reported in the Statement of Income and Expenses under NET UNREALIZED GAINS (LOSSES). Fixed rate borrowings, including legacy borrowings that do not have associated swaps continue to be reported at amortized cost. Amortization of discounts and premiums and issuance costs associated with new borrowings are deferred and amortized over the period during which the borrowing is outstanding.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines FV as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The FV measurement is not adjusted for transaction cost.

The Fair Value Option

ADB has adopted the Fair Value Option subsections of ASC 825, "Financial Instruments" (ASC 825 or the Fair Value Option). ASC 825 permits the measurement of eligible financial assets, financial liabilities and firm commitments at FV on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at FV under other accounting standards. The election to use the FV Option is available when an entity first recognizes a financial asset or liability or upon entering into a firm commitment.

continued

In adopting ASC 825, ADB elected to record and report at FV all borrowings that are swapped or have floating interest rates. This election allows ADB to apply a consistent accounting treatment between borrowings and their related swaps. ADB continues to report its loans and fixed rate borrowings, including legacy borrowings that do not have associated swaps at amortized cost and reports most of its investments (except time deposits that are recorded at cost) at FV.

Fair Value Hierarchy

ASC 820 establishes a FV hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

The FVs of ADB's financial assets and liabilities are categorized as follows:

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of the financial statements requires Management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the year and the reported amounts of revenues and expenses during the year. The actual results could differ from those estimates. Judgments have been used in the valuation of certain financial instruments, the determination of the adequacy of the accumulated provisions for losses on loans and other exposures (irrevocable commitments and guarantees), the determination of net periodic cost from pension and other postretirement benefits plans, and the present value of benefit obligations.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 "Revenue from Contracts with Customers (Topic 606)" to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on OCR's financial statements.

In June 2014, the FASB issued ASU 2014-10 "Development Stage Entities (Topic 915) – Elimination of Certain Financial Reporting Requirements, Including an Amendment to Variable Interest Entities Guidance in Topic 810, Consolidation". The amendments in this Update remove all incremental financial reporting requirements for development stage entities under US GAAP. In addition, the amendments in Topic 810 may affect the consolidation analysis and decision for a reporting entity that has an interest in an entity in the development stage, by eliminating the exception to the sufficiency-of-equity-at-risk criterion for development stage entities. The amendments to Topic 810 should be applied retrospectively

continued

for annual reporting periods beginning after 15 December 2015, and interim periods therein. This ASU is not expected to impact OCR's financial statements.

Also in June 2014, the FASB issued ASU 2014-11 *"Transfers and Servicing (Topic 860) – Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures"* to change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments require an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and to provide increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. An entity is required to apply the disclosure amendments prospectively for annual reporting periods beginning after 15 December 2014, and for interim periods after 15 March 2015. Additional disclosure requirements have been incorporated in Note E.

In August 2014, the FASB issued ASU 2014-15, *"Presentation of Financial Statements – Going Concern (Subtopic 205-40)"*, to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact OCR's financial statements.

In November 2014, the FASB issued ASU 2014-16 *"Derivatives and Hedging (Topic 815) - Determining Whether the Host Contract in a Hybrid Financial Instrument Issued in the Form of a Share Is More Akin to Debt or to Equity a Consensus of the FASB Emerging Issues Task Force"*. The amendment requires an entity to consider all of a hybrid instrument's stated and implied substantive terms and features, including any embedded derivative features evaluated for bifurcation to determine the nature of a host contract in a hybrid financial instrument issued in the form of a share. An entity is required to apply the amendments for fiscal years, and interim periods within those fiscal years beginning after 15 December 2015. ADB is currently assessing the impact of this ASU on OCR's financial statements.

In 2015, the FASB issued the following ASUs which are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after 15 December 2015. ADB is currently assessing the impact of these ASUs on OCR's financial statements. ASU 2015-02 *"Consolidation (Topic 810) – Amendments to the Consolidation Analysis"*, which amends the consolidation requirements and significantly changes the consolidation analysis required. The amendments reduce the number of consolidation models and place more emphasis on risk of loss when determining a controlling financial interest. A reporting entity may apply the amendments in this Update retrospectively or by using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. ASU 2015-03 *"Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs"*, requires that debt issuance costs related to a recognized debt liability, currently reported as deferred charges, be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This Update does not change the recognition and measurement guidance for debt issuance costs. ASU 2015-05 *"Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customer's Accounting for Fees Paid in a Cloud Computing Arrangement"*, provides guidance to customers on accounting for cloud computing arrangement, giving consideration of whether the arrangement includes license software or not.

In January 2016, the FASB issued ASU 2016-01, *"Financial Instruments—Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities"*. This Update enhances the reporting requirements for financial instruments. Specifically, this Update (i) requires that investments in equity securities measured at FV, recognize changes in FV in net income, (ii) simplifies the impairment assessment of equity investments for which FV is not readily determinable by requiring entities to perform a

continued

qualitative assessment to identify impairment, (iii) amends certain disclosure requirements associated with the FV of financial instruments, and (iv) requires to present separately in other comprehensive income the portion of the total change in the FV of financial liabilities measured at FV resulting from a change in the instrument-specific credit risk. This Update is effective for fiscal years beginning after 15 December 2017 and interim periods thereafter. ADB is currently assessing the impact of this ASU on OCR's financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*". This amendment requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. It also requires qualitative disclosures along with specific quantitative disclosures. This Update is effective for fiscal years beginning after 15 December 2018 and interim periods thereafter. ADB is currently assessing the impact of this ASU on OCR's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, ADB considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consist of cash on hand and current accounts in banks used for (i) operational disbursements, (ii) receipt of funds from encashment of members' promissory notes, and (iii) clearing accounts.

NOTE C—RESTRICTIONS ON USE OF CURRENCIES OF MEMBERS

In accordance with Article 24, paragraph 2(i) of the Charter, the use by ADB or by any recipient from ADB of certain currencies may be restricted by members to payments for goods or services produced and intended for use in their territories. With respect to the currencies of 40 DMCs for 2015 (41 – 2014), cash in banks (due from banks) totaling \$88 million (\$107 million – 2014) may be, but are not currently so restricted.

In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, no member has restricted the use by ADB or by any recipient from ADB of its currency to payments for goods or services produced in its territory.

NOTE D—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

ADB enters into currency and interest rate swaps, and forward rate agreements. Exposure to interest rate risk may be adjusted within defined bands to reflect changing market conditions. These adjustments are made through the purchase and sale of securities.

Other securities as of 31 December 2015 consisted of corporate obligations and debt securities totaling \$1,372 million (\$858 million – 2014).

ADB may engage in securities lending of government or government-guaranteed obligations and corporate obligations, for which ADB receives a guarantee from the securities custodian and a fee. Transfers of securities by ADB to counterparties are not accounted for as sales as the accounting criteria for the treatment of a sale have not been met. These securities must be available to meet ADB's obligation to counterparties. Included in Investments as of 31 December 2015 were securities transferred under securities lending arrangements of government or government-guaranteed obligations totaling \$24 million (\$32 million – 2014).

continued

The currency composition of the investment portfolio as of 31 December 2015 and 2014 expressed in US dollars was as follows:

(\$ million)

Currency	2015	2014
US dollar	\$ 12,677	\$ 14,682
Yen	5,779	3,877
Won	2,005	1,002
Euro	614	517
Australian dollar	598	633
Canadian dollar	377	408
Yuan	283	349
New Zealand dollar	274	300
Indian Rupee	186	183
Others	522	1,055
Total	\$ 23,315	\$ 23,006

The estimated FV and amortized cost of the investments by contractual maturity at 31 December 2015 and 2014 were as follows:

(\$ million)

	2015		2014	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	\$ 7,279	\$ 7,274	\$ 8,462	\$ 8,443
Due after one year through five years	15,735	15,758	13,983	13,922
Due after five years through ten years	282	264	542	523
Due after ten years through fifteen years	19	14	19	14
Total	\$ 23,315	\$ 23,310	\$ 23,006	\$ 22,902

Additional information relating to investments in government or government-guaranteed obligations and other securities classified as available for sale are as follows:

(\$ million)

	2015	2014
As of 31 December		
Amortized cost	\$ 22,002	\$ 18,932
Estimated fair value	22,007	19,036
Gross unrealized gains	86	141
Gross unrealized losses	(81)	(37)
For the year ended 31 December		
Change in net unrealized gains		
from prior year	(99)	\$ (31)
Proceeds from sales	12,377	8,858
Gross gain on sales	44	48
Gross loss on sales	(1)	(1)

continued

The table below provides a listing of investments that sustained unrealized losses as of 31 December 2015. Five government or government-guaranteed obligations (34 – 2014), and 31 corporate obligations (66 – 2014) sustained unrealized losses for over one year, representing 2.92% (9.74% – 2014) of the total investments. Comparative details for 2015 and 2014 are as follows:

(\$ million)

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015						
Government or government-guaranteed obligations	\$ 10,142	\$ 69	\$ 164	\$ 6	\$ 10,306	\$ 75
Other securities						
Corporate obligations	645	4	518	2	1,163	6
Total	\$ 10,787	\$ 73	\$ 682	\$ 8	\$ 11,469	\$ 81
2014						
Government or government-guaranteed obligations	\$ 4,530	\$ 13	\$ 2,152	\$ 22	\$ 6,682	\$ 35
Other securities						
Corporate obligations	402	1	88	1	490	2
Total	\$ 4,932	\$ 14	\$ 2,240	\$ 23	\$ 7,172	\$ 37

continued

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2015 and 2014 was as follows:

(\$ million)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
2015				
Investments				
Government or government-guaranteed obligations	\$ 20,635	\$ 19,303	\$ 1,332	\$ –
Time deposits	1,308	–	1,308	–
Other securities	1,372	1,353	13	6
Securities transferred under repurchase agreements	–	–	–	–
Securities purchased under resale arrangements	126	–	126	–
Total at fair value	\$ 23,441	\$ 20,656	\$ 2,779	\$ 6
2014				
Investments				
Government or government-guaranteed obligations	\$ 18,177	\$ 16,138	\$ 2,039	\$ –
Time deposits	3,971	–	3,971	–
Other securities	858	849	3	6
Securities transferred under repurchase agreements	30	30	–	–
Securities purchased under resale arrangements	1,257	–	1,257	–
Total at fair value	\$ 24,293	\$ 17,017	\$ 7,270	\$ 6

If available, active market quotes are used to assign fair values to investment securities and related financial assets. These include most government or government-guaranteed obligations, corporate obligations, and other debt securities. Investments and related financial assets where active market quotes are not available are categorized as Level 2 or Level 3, and valuation is provided by independent valuation services, custodians, and asset managers, or based on discounted cash flow model using market observable inputs, such as interest rates, foreign exchange rates, basis spreads, cross currency rates, and volatilities, and unobservable inputs, such as option adjusted spreads, and other techniques. Time deposits are reported at cost, which approximates FV.

OCR's INVESTMENTS are governed by the Investment Authority approved by the Board of Directors. The asset and liability management committee and risk committee are involved in overseeing the activities and performance of the investment portfolio. ADB maintains documented processes and internal controls to value the investment securities and financial assets. The data management unit in the treasury department is responsible for providing the valuation in accordance with the business process. In instances where ADB relies primarily on prices from third party pricing information, there are procedures in place to validate the appropriateness of those values in determining the hierarchy levels. This involves evaluating the nature of prices provided by third party pricing sources to determine if they are indicative or binding prices.

The significant unobservable inputs used in valuing the other securities classified as Level 3 include the internal rate of return (IRR) incorporating fluctuation in the foreign exchange rate between the US dollar and the Indian rupee. The IRR ranged from 10% - 15% as of 31 December 2015 and 31 December 2014.

continued

The table below provides the details of transfers between Levels 1 and 2, which are attributed to the availability or absence of market quotes for the years ended 31 December 2015 and 2014:

(\$ million)

	2015		2014	
	Level 1	Level 2	Level 1	Level 2
Investments				
Government or government-guaranteed obligations				
Transfers into (out of)	\$ 20	\$ (20)	\$ 68	\$ (68)
Transfers (out of) into	(35)	35	(20)	20
Corporate obligations				
Transfers into (out of)	249	(249)	10	(10)
Transfers (out of) into	(11)	11	(2)	2
	<u>\$ 223</u>	<u>\$ (223)</u>	<u>\$ 56</u>	<u>\$ (56)</u>

The following table presents the changes in the carrying amounts of ADB's Level 3 investments for the years ended 31 December 2015 and 2014:

(\$ million)

	2015	2014
Balance, beginning of year	\$ 6	\$ –
Total gains (losses) - (realized/unrealized)		
Included in other comprehensive loss (Note M)		
Accumulated translation adjustments	(0)	(0)
Unrealized investment holding gains	0	0
Purchases	–	6
Balance, end of year	<u>\$ 6</u>	<u>\$ 6</u>
The amount of total gains for the year		
recognized in other comprehensive loss		
attributable to the change in net unrealized gains		
or losses ^a relating to assets still held		
at the reporting date	<u>\$ 0</u>	<u>\$ 0</u>

Note: There were no realized gains and losses included in earnings and transfers in and out of Level 3.

^a Included in unrealized investment holding gains for the period (Note M).

0 = less than \$0.5 million

continued

NOTE E—SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENTS

ADB has entered into Global Master Repurchase Agreements with counterparties in which ADB agrees to transfer securities under repurchase agreements. The agreements provide for the right of a party to terminate if any of the various events of default and termination events specified occur and includes provisions to offset the sum due from one party against the sum due from the other. All securities transferred under repurchase agreements are in government or government-guaranteed securities that are rated investment grade. ADB monitors daily the FV of margin securities for compliance with the repurchase agreement.

The gross amounts of PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS subject to enforceable master netting agreements presented in the balance sheet as of 31 December 2014 are summarized below. There is none as of 31 December 2015. (See Note I for Derivative Instruments.)

(\$ million)

	(a)		(b)		(c) = (a) - (b)	
	Gross amount of liabilities presented in the balance sheet		Gross amounts not offset in the balance sheet			
			Financial instruments	Collateral pledged	Net amount	
2014						
Payable under securities repurchase agreement	\$	30	\$	30	\$	0
Total	\$	30	\$	30	\$	0

0 = less than \$0.5 million

There are no repurchase agreements accounted for as secured borrowings as of 31 December 2015. The following table shows the details as of 31 December 2014.

(\$ million)

2014	Remaining contractual maturity of the agreements			
	1-30 Days	31-90 Days	> 90 Days	Total
Payable under securities repurchase agreement				
Government or government-guaranteed obligations	\$ 30	\$ –	\$ –	\$ 30
Total	\$ 30	\$ –	\$ –	\$ 30
Gross amount of recognized liabilities for repurchase agreements disclosed above				30
Amounts related to agreements not included in offsetting disclosure				–

continued

NOTE F—LOANS

Loans

The carrying amount and estimated FV of loans outstanding by lending window at 31 December 2015 and 2014 were as follows:

(\$ million)

	2015		2014	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Pool-based single currency loans (yen)	\$ 181	\$ 181	\$ 391	\$ 391
Pool-based single currency loans (US\$)	2,600	3,019	3,013	3,524
LIBOR-based loans ^a	58,181	58,385	51,546	51,748
Local currency loans	979	1,019	940	1,394
Total	\$ 61,941	\$ 62,604	\$ 55,890	\$ 57,057

^a This includes market-based loans.

On 1 July 1986, ADB adopted a multicurrency pool-based variable lending rate system. In July 1992, ADB introduced a US dollar pool-based variable lending rate system, and in November 1994, a market-based lending rate system was made available to sovereign and nonsovereign borrowers. The outstanding balances of pool-based multicurrency loans were subsequently transformed into pool-based single currency loans in yen, effective 1 January 2004.

ADB introduced LIBOR-based loans (LBLs) in the following currencies – US dollar, euro, and yen on 1 July 2001. The LBL lending facility offers borrowers (i) choice of currency and interest rate basis; (ii) flexibility to change the original loan terms (currency and interest rate basis) at any time during the life of the loan; and (iii) options to cap or collar the floating lending rate at any time during the life of the loan. With the introduction of LBLs, prior loan windows are no longer offered to borrowers. ADB enhanced the LBL lending facility to sovereign LBLs negotiated after 1 January 2007, offering additional major currencies that ADB can efficiently intermediate, and additional repayment options including (i) annuity method with various discount factors, (ii) straight-line repayment, (iii) bullet repayment, and (iv) custom-tailored repayment.

In November 2002, ADB started to offer local currency loans (LCL) to nonsovereign borrowers and extended the LCL to sovereign borrowers in 2005.

In June 2009, ADB established a Countercyclical Support Facility (CSF) in response to the global economic crisis that spread to Asia and the Pacific. Loans approved under the CSF carry a lending spread of 2.0% above ADB's average funding cost, and have a maturity of 5 years, including a 3-year grace period. As of 31 December 2015, outstanding CSF loans amounted to \$1,500 million (nil – 2014).

In April 2011, ADB established the project design facility on a pilot basis to support project preparation, particularly detailed engineering designs, through project design advances (PDA). The facility is designed to be refinanced from the proceeds of the ADB loan for the ensuing project. PDAs approved carry standard lending rates. Payment of interest is deferred until the PDA is refinanced out of the loans proceeds, or other repayment terms take effect.

During 2015, ADB received prepayments for eight loans (six loans – 2014) amounting to \$154 million (\$317 million – 2014), of which \$39 million was for sovereign loans (\$5 million – 2014) and \$115 million was for nonsovereign loans (\$312 million – 2014).

continued

Waiver on Loan Charges

For eligible sovereign loans negotiated before 1 October 2007, ADB continued to provide a waiver of a portion of interest on loans and commitment charges on undisbursed balances. The reduction in net income from the waivers on loan charges for the years ended 31 December 2015 and 2014 is summarized below:

(\$ million)			
	2015		2014
Interest waiver	\$	6	\$ 20
Commitment charge waiver		0	0
Total	\$	6	\$ 20

0 = less than \$0.5 million

Loans in Non-accrual Status

ADB places loans in non-accrual status when they are past due by six months. As of 31 December 2015 and 2014, there were no loans in non-accrual status.

An analysis of the age of the recorded loans outstanding that are past due as of 31 December 2015 and 2014 is as follows:

(\$ million)					
	Overdue Loan Service Payments			Current	Total Loans
	1-90 Days	> 90 Days	Total		
2015					
Sovereign Loans	\$ 0	\$ —	\$ 0	\$ 57,432	\$ 57,432
Nonsovereign Loans	2	1	3	4,454	4,457
Total	\$ 2	\$ 1	\$ 3	\$ 61,886	61,889
Allowance for loan losses					(34)
Unamortized loan origination costs—net					86
Net Loans Outstanding					\$ 61,941
2014					
Sovereign Loans	\$ 0	\$ —	\$ 0	52,239	\$ 52,239
Nonsovereign Loans	—	—	—	3,606	3,606
Total	\$ 0	\$ —	\$ 0	\$ 55,845	55,845
Allowance for loan losses					(35)
Unamortized loan origination costs—net					80
Net Loans Outstanding					\$ 55,890

0 = less than \$0.5 million

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continued

Undisbursed loan commitments and an analysis of loans by borrower as of 31 December 2015 are shown in OCR-6. The carrying amounts of loan outstanding by loan products at 31 December 2015 and 2014 were as follows:

(\$ million)	2015	2014
Sovereign Loans		
Pool-based single currency loans (yen)	\$ 181	\$ 391
Pool-based single currency loans (US\$)	2,600	3,013
LIBOR-based loans	54,586	48,714
Local currency loans	65	121
	<u>57,432</u>	<u>52,239</u>
Allowance for loan losses	–	–
Unamortized direct loan origination cost—net	<u>123</u>	<u>112</u>
	<u>123</u>	<u>112</u>
Subtotal	<u>57,555</u>	<u>52,351</u>
Nonsovereign Loans		
LIBOR-based loans	3,534	2,779
Local currency loans	<u>923</u>	<u>827</u>
	<u>4,457</u>	<u>3,606</u>
Allowance for loan losses	(34)	(35)
Unamortized front-end fee—net	<u>(37)</u>	<u>(32)</u>
	<u>(71)</u>	<u>(67)</u>
Subtotal	<u>4,386</u>	<u>3,539</u>
Total	<u><u>\$ 61,941</u></u>	<u><u>\$ 55,890</u></u>

Allowance for Loan Losses

ADB has not suffered any losses of principal on sovereign loans to date. During the year, no loan loss provision has been made against outstanding sovereign loans (nil – 2014). There was no accumulated loan loss provision for sovereign loans as of 31 December 2015 and 2014.

A net writeback of \$1 million was made for nonsovereign loans (\$1 million writeback – 2014) consisting of \$2 million provision (\$3 million – 2014), and \$3 million write-back (\$4 million write-back – 2014).

continued

The changes in the allowance for loan losses during 2015 and 2014 as well as information pertaining to loans which were subject to specific allowance for loan losses were as follows:

(\$ million)

	2015			2014		
	Sovereign Loans	Nonsovereign Loans	Total	Sovereign Loans	Nonsovereign Loans	Total
Allowance for Credit Losses:						
Beginning balance	\$ —	\$ 35	\$ 35	\$ —	\$ 36	\$ 36
Provision during the year	—	2	2	—	3	3
Written back/off	—	(3)	(3)	—	(4)	(4)
Ending Balance	<u>\$ —</u>	<u>\$ 34</u>	<u>\$ 34</u>	<u>\$ —</u>	<u>\$ 35</u>	<u>\$ 35</u>
Outstanding Allowance on:						
Individually evaluated for loan losses	\$ —	\$ 6	\$ 6	\$ —	\$ 7	\$ 7
Collectively evaluated for loan losses	\$ —	\$ 28	\$ 28	\$ —	\$ 28	\$ 28
Outstanding Loans	<u>\$ 57,432</u>	<u>\$ 4,457</u>	<u>\$ 61,889</u>	<u>\$ 52,239</u>	<u>\$ 3,606</u>	<u>\$ 55,845</u>
Individually evaluated for loan losses	\$ —	\$ 18	\$ 18	\$ —	\$ 21	\$ 21
Collectively evaluated for loan losses	\$ —	\$ 4,439	\$ 4,439	\$ —	\$ 3,585	\$ 3,585

Loans subject to provisioning with related allowance for loan losses during 2015 and 2014 were as follows:

(\$ million)

	2015			2014		
	Recorded Loan Receivable	Unpaid Principal balance	Related allowance	Recorded Loan Receivable	Unpaid Principal balance	Related allowance
Sovereign Loans	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
Nonsovereign Loans	18	3	6	21	—	7

No loans were modified or restructured for the years ended 31 December 2015 and 2014.

Credit Risks and Quality of Loans

ADB is exposed to credit risks in the loan portfolio if a borrower defaults or its creditworthiness deteriorates. Credit risks represent the potential loss due to possible nonperformance by obligors and counterparties under the terms of the contract. ADB manages credit risk for lending operations through continuous monitoring of creditworthiness of the borrowers and the capital adequacy framework.

ADB monitors credit quality of the loans by assigning a risk rating to each loan on an internal scale from 1 to 14 with 1 denoting the lowest expectation of credit risk and 14 denoting that the borrower has defaulted. The rating scale corresponds to the rating scales used by international rating agencies. For sovereign loans, ADB has a process of assigning internal ratings to provide more accurate inputs for risk measurements. For nonsovereign loans, each transaction is reviewed and assigned a rating based on a methodology that is broadly aligned with the rating approach of international rating agencies. The risk ratings are used to monitor the credit risks in the portfolio.

continued

The following table summarizes the credit quality of sovereign and nonsovereign loans after the effect of risk transfers. High credit risk includes \$18 million in nonsovereign loans that were considered impaired (\$21 million in nonsovereign loans – 2014).

(\$ million)

Risk Class	Risk Rating	Sovereign Loans		Nonsovereign Loans	
		2015	2014	2015	2014
Low credit risk	1–5 (AAA to BBB–)	\$ 44,447	\$ 40,458	\$ 2,001	\$ 1,576
Medium credit risk	6–11 (BB+ to B–)	12,955	7,335	2,368	1,741
High credit risk	12–14 (CCC+ to D)	30	4,446	88	289
Total		\$ 57,432	\$ 52,239	\$ 4,457	\$ 3,606

As of 31 December 2015, ADB's loan and guarantee portfolios had a significant concentration of credit risk to Asia and the Pacific region. The credit exposure determined based on FV amounted to \$64,011 million (\$58,797 million – 2014).

Fair Value Disclosure

ADB does not sell its sovereign loans, nor does it believe there is a market for its sovereign loans. As of 31 December 2015 and 2014, all loans are carried at amortized cost.

Fair valuation is based on internal discounted cash flow models in which expected cash flows are discounted at applicable market yield curves, plus ADB's lending spread, reduced by the specific and collective provisions. Inputs for the models are based on available market data such as yield curves, interest rates, volatilities, credit curves, and foreign exchange rates. Parameters and models used for valuation are subject to internal review and periodic external validation. The accounting division is responsible for determining and reporting the FV of the loan portfolio. The office of risk management is primarily responsible for determining the specific and collective provisions for the nonsovereign loans and the accounting division, in coordination with regional departments, is responsible for determining the specific provisions for sovereign loans. The provisioning levels are discussed at the risk committee and reported to the Board of Directors quarterly.

The significant observable inputs used in valuing the various classes of loans classified as Level 2 include foreign exchange rates and yield curves specified to index fixed rates, deposit and swap interest rates, and yield curves specified to LIBOR. The significant unobservable inputs used in valuing the various classes of loans classified as Level 3 include probability of default, weighted average cost of fixed and floating rate borrowings attached to pool-based single currency loans and swaps spreads for selected currencies.

Significant increase (decrease) in these unobservable inputs, independently, will generally decrease (increase) the FV of the loan.

The hierarchy of estimated FV of ADB loans as of 31 December 2015 and 2014 was as follows:

(\$ million)

	2015	2014
Level 1	\$ –	\$ –
Level 2	56,815	50,362
Level 3	5,789	6,695
Total loans at fair value	\$ 62,604	\$ 57,057

continued

Cofinancing

ADB functions as lead lender in cofinancing arrangements with other participating financial institutions who also provide funds to ADB's sovereign and nonsovereign borrowers. In such capacity, ADB provides loan administration services, which include loan disbursements and/or loan collections. The participating financial institutions have no recourse to ADB for their outstanding loan balances. These loans are not recorded as part of OCR's Balance Sheet.

Loans administered by ADB on behalf of participating institutions during the year ended 31 December 2015 and 2014 were as follows:

(\$ million)

	2015		2014	
	Amount	No. of Loans	Amount	No. of Loans
Sovereign loans	\$ 1,755	59	\$ 1,443	57
Nonsovereign loans	1,200	16	874	12
Total	\$ 2,955	75	\$ 2,317	69

NOTE G—GUARANTEES

ADB provides guarantees under its sovereign and nonsovereign operations. Such guarantees include (i) credit guarantees where certain principal and/or interest payments are covered; (ii) political risk guarantees, which provide coverage against well-defined country risk events; and (iii) guarantees for certain trade-related obligations. While counter-guarantees from the host government are required for all sovereign guarantees, guarantees for nonsovereign projects may be provided with or without a host government counter-guarantee. ADB also seeks risk-sharing arrangements that set ADB's net exposure under a guarantee at the lowest level required to mobilize the necessary financing while maintaining a participation that is meaningful to its financing partners. A counter-guarantee takes the form of a counter-guarantor's agreement to indemnify ADB for any payment it makes under the guarantee. In the event that a guarantee is called, ADB has the contractual right to require payment from the counter-guarantor, on demand, or as ADB may otherwise direct.

Tenors of guarantees are subject to risk considerations and market conditions. They should normally not exceed the maximum tenor of ADB's ordinary capital resources lending operations, as may be adjusted from time to time, and there is no minimum tenor. In some cases however, guarantees may be for short tenors if the underlying obligations are short term, such as trade related products.

continued

The committed and outstanding amounts of these guarantee obligations as of 31 December 2015 and 2014 covered:

(\$ million)

	2015		2014	
	Committed Amount	Outstanding Amount	Committed Amount	Outstanding Amount
Credit Guarantees				
Trade Related				
with counter guarantee	\$ 135	\$ 135	\$ 280	\$ 280
without counter guarantee	666	390	689	443
	<u>801</u>	<u>525</u>	<u>969</u>	<u>723</u>
Non-Trade Related				
with counter guarantee	814	712	922	847
without counter guarantee	174	97	105	56
	<u>988</u>	<u>809</u>	<u>1,027</u>	<u>903</u>
Subtotal	<u>1,789</u>	<u>1,334</u>	<u>1,996</u>	<u>1,626</u>
Political Risk Guarantees				
Non-Trade Related				
with counter guarantee	127	59	130	89
without counter guarantee	59	14	60	25
Subtotal	<u>186</u>	<u>73</u>	<u>190</u>	<u>114</u>
Total	<u>\$ 1,975</u>	<u>\$ 1,407</u>	<u>\$ 2,186</u>	<u>\$ 1,740</u>

The committed amount represents the maximum potential amount of undiscounted future payments that ADB could be required to make, inclusive of standby portion for which ADB is committed but not currently at risk. The outstanding amount represents the guaranteed amount utilized under the related loans, which have been disbursed as of the end of the year, exclusive of the standby portion.

As of 31 December 2015, a total liability of \$21 million (\$25 million – 2014) relating to standby ready obligations for eight credit risk guarantees (six – 2014) and three political risk guarantees (three – 2014) has been included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous on the Balance Sheet for all guarantees issued after 31 December 2002.

As of 31 December 2015 and 2014, no credit guarantee with nonsovereign counter-guarantee had collateral from a counter-guarantor.

Fair Value Disclosure

As of 31 December 2015 and 2014, all of ADB's future guarantee receivables and guarantee liabilities are classified as Level 3 within the FV hierarchy.

The accounting division is responsible for determining and reporting the FV of guarantees reported in the balance sheet. Future guarantee receivables and guarantee liabilities are stated at discounted present value using significant unobservable inputs such as discount rates applicable to individual guarantee contracts that are internally determined and are classified under Level 3. An increase (decrease) in discount rates generally results in a decrease (increase) in the FV of the guarantees.

continued

The valuation technique and significant unobservable quantitative inputs for guarantee receivables/ guarantee liabilities classified as Level 3 as of 31 December 2015 and 2014 were summarized below:

Portfolio	Valuation Technique	Unobservable Inputs	Range (Average)	
			2015	2014
Guarantee receivable/ Guarantee liability	Discounted cash flows	Discount rates	3.04% to 5.37% (3.5%)	3.04% to 5.37% (3.6%)

The following table presents the changes in the carrying amounts of ADB's Level 3 future guarantee receivable/liability for the years ended 31 December 2015 and 2014:

(\$ million)

	Guarantee Receivable/Liability	
	2015	2014
Balance, 1 January	\$ 25	\$ 32
Issuances	13	12
Amortization	(17)	(19)
Balance, 31 December	<u>\$ 21</u>	<u>\$ 25</u>

Note: There were no realized/unrealized gains and losses included in earnings and other comprehensive loss.

NOTE H—EQUITY INVESTMENTS

ADB's equity investments may be in the form of direct equity investments (e.g. common, preferred, or other capital stock) or through investment funds (e.g. private equity funds). They are reported: (i) at fair value; (ii) under the equity method; and (iii) at cost or written down value as follows:

(\$ million)

	2015	2014
Equity method	\$ 578	\$ 577
Cost method	250	213
Fair value method	34	72
Total	<u>\$ 862</u>	<u>\$ 862</u>

Equity investments with readily determinable FVs that are not accounted for under the equity method are reported at FV. As of 31 December 2015, these included an equity investment which was classified as available for sale amounting to \$23 million (\$63 million – 2014) and equity investments with associated derivative amounting to \$11 million (\$9 million – 2014).

There were no equity investments classified as available for sale that sustained unrealized losses in 2015 and 2014.

continued

Additional information relating to equity investments classified as available for sale is as follows:

(\$ million)

	2015	2014
As of 31 December		
Amortized cost	\$ 11	\$ 24
Estimated fair value	23	63
Gross unrealized gains	12	39
Gross unrealized losses	–	–
For the years ended 31 December		
Change in unrealized gains from prior year	(27)	(45)
Proceeds from sales	29	116
Gross gain on sales	17	109
Gross loss on sales	–	–

Approved equity investments that have not been disbursed totaled \$432 million at 31 December 2015 (\$433 million – 2014).

Fair Value Disclosure

ADB's equity investments reported at FV as of 31 December 2015 were \$34 million (\$72 million – 2014). Equity investments with readily determinable market prices are valued using quoted prices in active markets and are classified as Level 1. Equity investments valued with financial models using unobservable inputs are classified as Level 3.

The office of risk management is primarily responsible for determining the FV of equity investments with associated derivatives using discounted cash flow models. Inputs for the models are based on significant unobservable inputs such as discount rates and asset growth rates applicable to individual equity investment contracts that are internally determined and are classified as Level 3. An increase (decrease) in discount rates results in a decrease (increase) in the FV of the equity investments.

The FV hierarchy of ADB's equity investments at FV as of 31 December 2015 and 2014 was as follows:

(\$ million)

	2015	2014
Level 1	\$ 23	\$ 63
Level 2	–	–
Level 3	11	9
Total equity investments at fair value	\$ 34	\$ 72

continued

The valuation technique and significant unobservable inputs for equity investment classified as Level 3 as of 31 December 2015 and 2014 were as presented below.

Portfolio	Valuation Technique	Unobservable Inputs	Range (Average)	
			2015	2014
Equity investment	Discounted cash flows	Discount rates	23.35%	20.00% to 25.00% (23.35%)
		Asset growth rates	20.00% to 30.00% (23.33%)	20.00% to 25.00% (25.00%)

The following table presents the changes in the carrying amounts of ADB's Level 3 equity investments for the years ended 31 December 2015 and 2014:

(\$ million)

	2015	2014
Balance, beginning of year	\$ 9	\$ 6
Total gains (losses) - (realized/unrealized)		
Included in earnings ^a	2	3
Included in other comprehensive loss ^b	(2)	(1)
Purchases	2	1
Balance, end of year	<u>\$ 11</u>	<u>\$ 9</u>

The amount of total gains for the year included
in earnings attributable to the change in unrealized
gains relating to assets still held at reporting date ^a

\$ 2	\$ 3
------	------

^a Included in net unrealized gains (losses) (OCR-2).

^b Included in accumulated translation adjustments (Note M).

NOTE I—DERIVATIVE INSTRUMENTS

ADB uses derivative instruments such as interest rate swaps, currency swaps, and foreign exchange swaps and forwards for asset and liability management of individual positions and portfolios. The FV of outstanding currency and interest rate swap agreements is determined at the estimated amount that ADB would receive or pay to terminate the agreements using market-based valuation models. The basis of valuation is the present value of expected cash flows based on market data.

Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Borrowings are interest rate and currency swaps that ADB has entered into for the purpose of hedging specific borrowings. The terms of ADB's interest rate swap and currency swap agreements usually match the terms of particular borrowings. Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Investments are interest rate, currency and foreign exchange swaps and forwards that ADB has entered into for the purpose of hedging specific investments. Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Loans are interest rate and currency swaps that ADB has entered into for the purpose of hedging specific loans. The loan related swaps were executed to better align the composition of certain outstanding loans with funding sources. Future dated derivatives as of 31 December 2015 amounted to \$9 million for derivative assets (\$9 million – 2014) and \$0.04 million for derivative liabilities (\$0.2 million – 2014).

continued

Fair Value Disclosure

The FV hierarchy of ADB's derivatives and the balance sheet location as of 31 December 2015 and 2014 were as follows:

(\$ million)						
2015	Balance Sheet Location	Fair Value Measurements				
		Total	Level 1	Level 2	Level 3	
Assets						
Borrowings related derivatives	Derivative Assets					
Currency swaps	- Borrowings	\$ 21,194	\$ —	\$ 19,576	\$ 1,618	
Interest rate swaps		470	—	470	—	
Investments related derivatives	Derivative Assets					
Currency swaps	- Investments	5,822	—	5,822	—	
Interest rate swaps		—	—	—	—	
Foreign exchange swaps		1,286	—	1,286	—	
Foreign exchange forwards		4	—	4	—	
Loans related derivatives	Derivative Assets					
Currency swaps	- Loans	761	—	761	0	
Interest rate swaps		1	—	1	0	
Total assets at fair value		\$ 29,538	\$ —	\$ 27,920	\$ 1,618	
Liabilities						
Borrowings related derivatives	Derivative Liabilities					
Currency swaps	- Borrowings	\$ 24,886	—	24,886	—	
Interest rate swaps		99	—	99	—	
Investments related derivatives	Derivative Liabilities					
Currency swaps	- Investments	5,341	—	5,341	—	
Interest rate swaps		47	—	47	—	
Foreign exchange swaps		1,287	—	1,287	—	
Foreign exchange forwards		4	—	4	—	
Loans related derivatives	Derivative Liabilities					
Currency swaps	- Loans	593	—	109	484	
Interest rate swaps		15	—	14	1	
Total liabilities at fair value		\$ 32,272	\$ —	\$ 31,787	\$ 485	

continued

(\$ million)

2014	Balance Sheet Location	Fair Value Measurements			
		Total	Level 1	Level 2	Level 3
Assets					
Borrowings related derivatives	Derivative Assets				
Currency swaps	- Borrowings	\$ 26,149	\$ —	\$ 20,173	\$ 5,976
Interest rate swaps		681	—	653	28
Investments related derivatives	Derivative Assets				
Currency swaps	- Investments	5,099	—	5,099	—
Interest rate swaps		—	—	—	—
Foreign exchange swaps		497	—	497	—
Foreign exchange forwards		—	—	—	—
Loans related derivatives	Derivative Assets				
Currency swaps	- Loans	664	—	664	0
Interest rate swaps		2	—	1	1
Total assets at fair value		\$ 33,092	\$ —	\$ 27,087	\$ 6,005
Liabilities					
Borrowings related derivatives	Derivative Liabilities				
Currency swaps	- Borrowings	\$ 28,295	\$ —	\$ 28,295	\$ —
Interest rate swaps		77	—	50	27
Investments related derivatives	Derivative Liabilities				
Currency swaps	- Investments	4,495	—	4,495	—
Interest rate swaps		53	—	53	—
Foreign exchange swaps		486	—	486	—
Foreign exchange forwards		—	—	—	—
Loans related derivatives	Derivative Liabilities				
Currency swaps	- Loans	557	—	23	534
Interest rate swaps		24	—	22	2
Total liabilities at fair value		\$ 33,987	\$ —	\$ 33,424	\$ 563

0 = less than \$0.5 million.

The office of risk management is primarily responsible for determining the FV of derivatives using discounted cash flow models. Market inputs, such as yield curves, foreign exchange rates, basis spreads, cross currency rates, and volatilities are obtained from pricing services and brokers and applied to the models. ADB has a process to validate the appropriateness of the models and inputs in determining the hierarchy levels. This involves evaluating the nature of rates and spreads to determine if they are indicative and binding. For derivatives classified under Level 3, basis swaps spreads for selected currencies are considered to be significant unobservable inputs to derive the discount rates based on benchmark yield curves adjusted with a basis swap spread.

A significant increase (decrease) in the basis swap spread will generally decrease (increase) the FV of derivatives.

There were no transfers between Levels 1 and 2 in the derivatives portfolio during 2015 and 2014.

continued

The valuation techniques and quantitative information on significant unobservable inputs used in valuing ADB's derivative instruments classified as Level 3 as of 31 December 2015 and 2014 are presented below:

Portfolio	Valuation Technique	Unobservable Inputs	Range (Weighted Average)	
			2015	2014
Borrowings related swaps/ Loans related swaps	Discounted cash flows	Basis swap spreads	-1.06% to 10% (-1.53%)	-1.17% to 8.10% (-0.58%)

The following tables present the changes in the carrying amounts of ADB's Level 3 derivative assets and derivative liabilities for the years ended 31 December 2015 and 2014:

(\$ million)

2015	Borrowings related derivatives		Loans related derivatives	
	Assets	Liabilities	Assets	Liabilities
Balance, beginning of year	\$ 6,004	\$ (27)	\$ 1	\$ (536)
Total gains (losses) - (realized/unrealized)				
Included in earnings ^a	(177)	—	(0)	(28)
Included in other comprehensive loss ^b	(386)	—	(0)	86
Issuances	239	—	—	(82) ^c
Maturities/Redemptions	(1,799)	—	—	50
Transfer out of Level 3 ^d	(2,263)	27	(0)	25
Balance, end of year	<u>\$ 1,618</u>	<u>\$ —</u>	<u>\$ 0</u>	<u>\$ (485)</u>

The amount of total (losses) gains for the year included in earnings attributable to the change in net unrealized gains or losses^a relating to assets/liabilities still held at the reporting date

\$ (33)	\$ —	\$ (0)	\$ 27
---------	------	--------	-------

^a Included in net unrealized gains (losses) (OCR-2).

^b Included in accumulated translation adjustments (Note M).

^c Including accretion of \$24 million.

^d Transferred to Level 2 due to availability of observable market data.

0 = less than \$0.5 million

(\$ million)

2014	Borrowings related derivatives		Loans related derivatives	
	Assets	Liabilities	Assets	Liabilities
Balance, beginning of year	\$ 6,096	\$ (52)	\$ 2	\$ (521)
Total gains (losses) - (realized/unrealized)				
Included in earnings ^a	107	13	(0)	4
Included in other comprehensive loss ^b	(389)	1	(0)	26
Issuances	1,171	—	—	(88)
Maturities/Redemptions	(981)	11	(1)	43
Transfer out of Level 3	—	—	—	—
Balance, end of year	<u>\$ 6,004</u>	<u>\$ (27)</u>	<u>\$ 1</u>	<u>\$ (536)</u>

The amount of total gains (losses) for the year included in earnings attributable to the change in net unrealized gains or losses^a relating to assets/liabilities still held at the reporting date

\$ 118	\$ 14	\$ (0)	\$ 4
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^a Included in net unrealized gains (losses) (OCR-2).

^b Included in accumulated translation adjustments (Note M).

0 = less than \$0.5 million

continued

Effect of Derivative Instruments on the Statement of Income and Expenses

ADB reports changes in the FV of its derivative instruments as part of net unrealized gains and losses in its Statement of Income and Expenses while all interest income, expenses, and related amortization of discounts, premiums, and fees are reported as part of revenue and expenses. These are summarized below:

(\$ million)

(\$ million)

		Amount of Gain (Loss) recognized in Income (Expenses) on Derivatives	
	Location of Gain (Loss) recognized in Income (Expenses) on Derivatives	2015	2014
Borrowings related derivatives			
Currency swaps	Net Unrealized Gains (Losses)	\$ (16)	\$ 828
	Borrowing and related expenses	734	999
Interest rate swaps	Net Unrealized Gains (Losses)	231	(108)
	Net Realized Gains	9	—
	Borrowing and related expenses	534	576
Foreign exchange swaps	Net Unrealized Gains (Losses)	—	(0)
	Borrowing and related expenses	—	1
		<u>\$ 1,492</u>	<u>\$ 2,296</u>
Investments related derivatives			
Currency swaps	Net Unrealized Gains (Losses)	\$ 4	\$ (1)
	Revenue from Investments	8	2
Interest rate swaps	Net Unrealized Gains (Losses)	6	(3)
	Revenue from Investments	(12)	(10)
Foreign exchange swaps	Net Unrealized Gains (Losses)	(0)	(0)
	Revenue from Investments	14	4
Foreign exchange forwards	Net Unrealized Gains (Losses)	(0)	—
	Net Realized Gains	0	—
		<u>\$ 20</u>	<u>\$ (8)</u>
Loans related derivatives			
Currency swaps	Net Unrealized Gains (Losses)	\$ (22)	\$ 8
	Revenue from Loans	(20)	(20)
Interest rate swaps	Net Unrealized Gains (Losses)	9	8
	Revenue from Loans	(15)	(13)
		<u>\$ (48)</u>	<u>\$ (17)</u>

0 = less than \$0.5 million.

continued

Counterparty Credit Risks

ADB undertakes derivative transactions with its eligible counterparties and transacts in various financial instruments as part of liquidity and asset/liability management purposes that may involve credit risks. For all investment securities and their derivatives, ADB manages credit risks by following the policies set forth in the Investment Authority and other risk management guidelines. ADB has a potential risk of loss if the derivative counterparty fails to perform its obligations.

In order to reduce credit risk, ADB transacts with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have at least a credit rating of A– or higher and generally requires entering into master swap agreements which contain legally enforceable close-out netting provisions for all counterparties with outstanding swap transactions. The reduction in exposure as a result of these netting provisions can vary as additional transactions are entered into under these agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

Counterparty credit risk is also mitigated by requiring counterparties to post collateral based on specified credit rating driven thresholds. As of 31 December 2015, ADB had received collateral of \$912 million (\$1,116 million – 2014) in connection with the swap agreements. Of this amount, \$494 million (\$478 million – 2014) was recorded as swap related collateral in the balance sheet.

ADB has entered into several agreements with its derivative counterparties under the ISDA Master Agreement and the Master Agreement of the National Association of Financial Market Institutional Investors (NAFMII). The agreements provide for the right of a party to terminate the derivative transaction if any of the various events of default and termination events specified occur. Events of default include failure to pay and cross default. Termination events include the situation where the long term unsecured and unsubordinated indebtedness of ADB or the counterparty ceases to be rated at least Baa3 by Moody's Investor Service, Inc. or BBB– by Standard and Poor's Ratings Group, or such indebtedness ceases to be rated by Moody's or S&P. If ADB's counterparties are entitled under the agreements to terminate their derivative transactions with ADB, ADB will be required to pay an amount equal to its net liability position with each counterparty (in the case of counterparties who have entered into the ISDA Master Agreement absent of local market constraints) and an amount equal to its gross liability position with each counterparty (in the case of counterparties without enforceable netting agreement). The aggregate FV of all derivative instruments that ADB has under the enforceable ISDA Master Agreement that are in a net liability (negative marked-to-market) position as of 31 December 2015 was \$3,559 million (\$1,983 million – 2014). The gross liability position in the aggregate FV of all derivative instruments that ADB has no enforceable netting agreement amounted to \$12 million as of 31 December 2015 (\$26 million – 2014).

ADB has elected not to offset any derivative instruments by counterparty in the balance sheet. Gross amounts of DERIVATIVE ASSETS and DERIVATIVE LIABILITIES not offset in the balance sheet that are subject to enforceable master netting arrangements as of 31 December 2015 and 2014 were as follows: (See Note E for PAYABLE UNDER SECURITIES REPURCHASE ARRANGEMENTS.)

(\$ million)

(\$ in millions)																
	2015						2014									
	(a)		(b)		(c) = (a) - (b)		(a)		(b)		(c) = (a) - (b)					
	Gross amount of assets presented in the balance sheet ^a		Gross amounts not offset in the balance sheet		Net amount		Gross amount of assets presented in the balance sheet ^a		Gross amounts not offset in the balance sheet		Net amount					
			Financial instruments	Collateral received ^b					Financial instruments	Collateral received ^b						
Derivative Assets	\$	29,518	\$	28,701	\$	761	\$	56	\$	33,063	\$	31,978	\$	913	\$	172
Total	\$	29,518	\$	28,701	\$	761	\$	56	\$	33,063	\$	31,978	\$	913	\$	172

continued

(\$ million)									
2015					2014				
	(a)	(b)		(c) = (a) - (b)		(a)	(b)		(c) = (a) - (b)
	Gross amount of liabilities presented in the balance sheet ^c	Gross amounts not offset in the balance sheet				Gross amount of liabilities presented in the balance sheet ^c	Gross amounts not offset in the balance sheet		
		Financial instruments	Collateral pledged	Net amount			Financial instruments	Collateral pledged	Net amount
Derivative Liabilities	\$ 32,260	\$ 28,701	\$ —	\$ 3,559		\$ 33,961	\$ 31,978	\$ —	\$ 1,983
Total	\$ 32,260	\$ 28,701	\$ —	\$ 3,559		\$ 33,961	\$ 31,978	\$ —	\$ 1,983

^a This excludes gross amount of DERIVATIVE ASSETS presented in the balance sheet not subject to enforceable master netting agreements amounting to \$20 million (\$29 million - 2014).

^b Collateral received includes both cash and securities collateral.

^c This excludes gross amount of DERIVATIVE LIABILITIES presented in the balance sheet not subject to enforceable master netting agreements amounting to \$12 million (\$26 million - 2014).

NOTE J—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters (HQ) premises, which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, ADB was compensated \$22,657,000 for the return of these premises. The compensation is in lieu of being provided premises under the agreement and accordingly, is deferred and amortized over the estimated life of the current HQ building as a reduction of occupancy expense. HQ depreciation for the year ended 31 December 2015 amounted to \$4 million (\$4 million – 2014), net of amortization of the compensation for the former HQ building. At 31 December 2015, the unamortized deferred compensation balance (included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous) was \$6 million (\$6 million – 2014). In 2014, the expansion of the HQ building was completed and \$25 million was transferred from Work in Progress and capitalized. At 31 December 2015, accumulated depreciation for property, furniture, and equipment was \$278 million (\$257 million – 2014).

The changes in the property, furniture, and equipment during 2015 and 2014, as well as information pertaining to accumulated depreciation, were as follows:

(\$ million)		Property, Furniture and Equipment				
		Land	Buildings and Improvements	Office Furniture and Equipment	Work in Progress	Total
Cost:						
Balance, 1 January 2015	\$	10	\$ 252	\$ 167	\$ 1	\$ 430
Additions during the year		—	5	11	3	19
Transfers during the year		—	—	1	(1)	—
Disposals during the year		—	—	(3)	—	(3)
Balance, 31 December 2015		10	257	176	3	446
Accumulated Depreciation:						
Balance, 1 January 2015		—	(122)	(135)	—	(257)
Depreciation during the year		—	(8)	(15)	—	(23)
Disposals during the year		—	—	2	—	2
Balance, 31 December 2015		—	(130)	(148)	—	(278)
Net Book Value, 31 December 2015	\$	10	\$ 127	\$ 28	\$ 3	\$ 168

continued

(\$ million)

	Property, Furniture and Equipment				
	Land	Buildings and Improvements	Office Furniture and Equipment	Work in Progress	Total
Cost:					
Balance, 1 January 2014	\$ 10	\$ 218	\$ 163	\$ 17	\$ 408
Additions during the year	–	9	11	9	29
Transfers during the year	–	25	0	(25)	–
Disposals during the year	–	–	(7)	–	(7)
Balance, 31 December 2014	10	252	167	1	430
Accumulated Depreciation:					
Balance, 1 January 2014	–	(114)	(127)	–	(241)
Depreciation during the year	–	(8)	(15)	–	(23)
Disposals during the year	–	–	7	–	7
Balance, 31 December 2014	–	(122)	(135)	–	(257)
Net Book Value, 31 December 2014	\$ 10	\$ 130	\$ 32	\$ 1	\$ 173

0 = less than \$0.5 million.

NOTE K—BORROWINGS

The key objective of ADB's borrowing strategy is to raise funds at the most stable and lowest possible cost for the benefit of its borrowers. ADB uses financial derivative instruments in connection with its borrowing activities to increase cost efficiency, while achieving risk management objectives. Currency and interest rate swaps enable ADB to raise operationally needed currencies in a cost-efficient way and to maintain its borrowing presence in the major capital markets. Interest rate swaps are used to reduce interest rate mismatches arising from lending and liquidity operations.

Fair Value Disclosure

The office of risk management is primarily responsible for determining the FV of the borrowings. Parameters and models used for determining the FV of borrowings are subject to internal review and periodic external validation. Plain vanilla borrowings are valued using discounted cash flow methods with market-based observable inputs such as yield curves, foreign exchange rates, basis spreads and funding spreads. On some borrowings, significant unobservable input is also used such as derived credit spread. Structured borrowings issued by ADB are valued using financial models that discount future cash flows and simulated expected cash flows. These involve the use of pay-off profiles within the realm of accepted market valuation models such as Hull-White and Black-Scholes. The model incorporates market observable inputs, such as yield curves, foreign exchange rates, basis spreads, funding spreads and interest rate volatilities.

continued

The FV hierarchy of ADB's outstanding borrowing as of 31 December 2015 and 2014 were as follows:

(\$ million)	2015	2014
<u>at Amortized cost</u>		
Level 1	\$ —	\$ —
Level 2	4,685	4,426
Level 3	202	—
Sub-total	\$ 4,887	\$ 4,426
<u>at Fair value</u>		
Level 1	\$ —	\$ —
Level 2	59,341	52,551
Level 3	2,454	6,488
Sub-total	\$ 61,795	\$ 59,039
Total borrowings at fair value	\$ 66,682	\$ 63,465

ADB uses the discounted cash flow method using derived credit spreads in determining the FVs of borrowings classified as Level 3. The derived credit spread adjusts the discount rate in valuing the borrowings. A significant increase (decrease) in credit spreads generally decreases (increases) the FV of the borrowings.

There were no transfers between Levels 1 and 2 in the borrowings portfolio during 2015 and 2014.

For borrowings carried at FV, the quantitative information on significant unobservable inputs used for valuation as of 31 December 2015 and 2014 are presented below:

Portfolio	Valuation Technique	Unobservable Inputs	Range (Weighted Average)	
			2015	2014
Borrowings	Discounted cash flows	Derived credit spreads	-0.96% to 0.93% (-0.15%)	-1.67% to 0.92% (-0.65%)

OCR-9

continued

The following table presents the changes in the carrying amounts of ADB's Level 3 borrowings reported at FV for the years ended 31 December 2015 and 2014:

(\$ million)	2015	2014
Balance, beginning of year	\$ 6,488	\$ 6,674
Total (gains) losses - (realized/unrealized)		
Included in earnings ^a	(203)	83
Included in other comprehensive loss ^b	(455)	(405)
Issuances	302	1,187
Maturities/Redemptions	(1,957)	(1,051)
Transfer out of Level 3 ^c	(1,721)	—
Balance, end of year	<u>\$ 2,454</u>	<u>\$ 6,488</u>
The amount of total (gains) losses for the year included in earnings attributable to the change in net unrealized gains or losses ^a relating to liabilities still held at the reporting date		
	<u>\$ (62)</u>	<u>\$ 104</u>

^a Included in net unrealized gains (losses) (OCR-2).

^b Included in accumulated translation adjustments (Note M).

^c Transferred to Level 2 due to availability of observable market data.

Refer to OCR-7 for Summary Statement of Borrowings.

NOTE L—CAPITAL STOCK, CAPITAL TRANSFERRED TO ASIAN DEVELOPMENT FUND, MAINTENANCE OF VALUE OF CURRENCY HOLDINGS, AND MEMBERSHIP

Capital Stock

The authorized capital stock of ADB as of 31 December 2015 and 2014 consists of 10,638,933 shares, of which 10,603,211 shares (10,567,394 – 2014) have been subscribed by members. Of the subscribed shares, 10,071,512 (10,037,127 – 2014) are “callable” and 531,699 (530,267 – 2014) are “paid-in”. The “callable” share capital is subject to call by ADB only as and when required to meet ADB's obligations incurred on borrowings of funds for inclusion in its OCR or on guarantees chargeable to such resources. The “paid-in” share capital has been paid or is payable in installments, partly in convertible currencies and partly in the currency of the subscribing member which may be convertible. In accordance with Article 6, paragraph 3 of the Charter, ADB accepts nonnegotiable, noninterest-bearing demand obligations in satisfaction of the portion payable in the currency of the member, provided such currency is not required by ADB for the conduct of its operations. Nonnegotiable, noninterest-bearing demand obligations received on demand amounted to \$257 million (\$420 million – 2014), while those notes received with fixed encashment schedules totaled \$603 million (\$678 million – 2014).

In January 2011, the Board of Directors approved the temporary reduction of shares and voting power of members in proportion to the delayed amount of paid-in shares if ADB does not receive confirmation of subscription payments within 45 days of the respective due dates thereof. The affected shares and voting power will be automatically restored upon receipt of the installment to the extent that the installment payments are made by 1 April 2015. In March 2015, the Board of Directors deferred this deadline to 18 May 2015. Payments received beyond this date will be referred to the Board of Directors for approval of the restoration of affected shares and voting power.

continued

As of 31 December 2015, all matured installments amounting to \$7,374 million (\$7,313 million – 2014) had been received.

Capital Transferred to Asian Development Fund

Pursuant to the provisions of Article 19, paragraph 1(i) of the Charter, the Board of Governors has authorized the setting aside of 10% of the unimpaired “paid-in” capital paid by members pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by members pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973 to be used as a part of the Special Funds of ADB. The resources so set aside amounting to \$66 million as of 31 December 2015 (\$69 million – 2014) expressed in terms of the SDR on the basis of \$1.38686 (\$1.44838 – 2014) per SDR (\$57 million in terms of \$1.20635 per 1966 dollar—*Note B*), were allocated and transferred to the Asian Development Fund.

Maintenance of Value of Currency Holdings

Prior to 1 April 1978, the effective date of the Second Amendment to the IMF Articles, ADB implemented maintenance of value (MOV) in respect of holdings of member currencies in terms of 1966 dollars, in accordance with the provisions of Article 25 of the Charter and relevant resolutions of the Board of Directors. Since then, settlement of MOV has been put in abeyance.

In as much as the valuation of ADB’s capital stock and the basis of determining possible MOV obligations are still under consideration, notional amounts have been calculated provisionally in terms of the SDR as receivable from or payable to members in order to maintain the value of members’ currency holdings. The notional MOV amounts of receivables and payables are offset against one another and shown as net notional amounts required to maintain value of currency holdings in the EQUITY portion of the Balance Sheet. The carrying book value for such receivables and payables approximates its FV.

The net notional amounts as of 31 December 2015 consisted of (i) the net increase of \$954 million (\$1,176 million – 2014) in amounts required to maintain the value of currency holdings to the extent of matured and paid-in capital subscriptions due to the increase in the value of the SDR in relation to the US dollar during the period from 1 April 1978 to 31 December 2015 and (ii) the net increase of \$662 million (net increase of \$361 million – 2014) in the value of such currency holdings in relation to the US dollar during the same period. In terms of receivable from and payable to members, they are as follows:

(\$ million)		
	2015	2014
Notional MOV Receivables	\$ 1,621	\$ 1,542
Notional MOV Payables	5	5
Total	\$ 1,616	\$ 1,537

Membership

As of 31 December 2015 and 2014, ADB’s shareholders consist of 67 members, 48 from the region and 19 from outside the region (OCR-8).

continued

NOTE M—RESERVES

Ordinary Reserve and Net Income

Under the provisions of Article 40 of the Charter, the Board of Governors shall determine annually what part of the net income shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members.

In May 2015, the Board of Governors approved the following with respect to ADB's 2014 net income of \$366 million, after appropriation of guarantee fees to special reserve: (i) \$183 million representing the ASC 815/825 adjustments and the unrealized portion of net income from equity investments accounted for under the equity method for the year ended 31 December 2014, be added from the Cumulative Revaluation Adjustments account; (ii) \$15 million representing the adjustment to the Loan Loss Reserve as of 31 December 2014, be added from the loan loss reserve to the net income; (iii) \$384 million be allocated to the Ordinary Reserve; (iv) \$120 million be allocated to ADF; (v) \$40 million be allocated to Technical Assistance Special Fund (TASF) ; and (vi) \$20 million be allocated to Asia Pacific Disaster Response Fund (APDRF).

In May 2014, the Board of Governors approved the allocation of 2013 net income of \$548 million, after appropriation of guarantee fees to special reserve, as follows: (i) \$31 million representing adjustment to the Loan Loss Reserve as of 31 December 2013, be added from the Loan Loss Reserve to the net income; (ii) \$97 million representing the ASC 815/825 adjustments and the unrealized portion of net income from equity investments accounted for under the equity method, to the Cumulative Revaluation Adjustment account; (iii) \$332 million to the Ordinary Reserve; (iv) \$120 million to the ADF; and (v) \$30 million to the TASF.

The revaluation of the capital stock for purposes of these financial statements on the basis of the SDR instead of the 1966 dollar (*Note B*) resulted in a net credit of \$38 million to the Ordinary Reserve during the year ended 31 December 2015 (net credit of \$58 million – 2014). That credit is the decrease in the value of the matured and paid-in capital subscriptions caused by the change during the year in the value of the SDR in relation to the US dollar not allocated to members as notional maintenance of value adjustments in accordance with resolutions of the Board of Directors.

In 2014, the unutilized funds of the Pakistan Earthquake Fund amounting to \$3 million were returned to ordinary reserve.

Cumulative Revaluation Adjustments Account

In May 2002, the Board of Governors approved the allocation of net income representing the cumulative net unrealized gains (losses) on derivatives, as required by ASC 815 to a separate category of Reserves – Cumulative Revaluation Adjustments Account. Beginning 2008, the unrealized portion of net income from equity investments accounted under equity method is also transferred to this account. During 2015, the 2014 net unrealized losses on derivatives of \$193 million (net unrealized gains of \$150 million – 2014) and net unrealized gains from equity investments accounted for under the equity method of \$9 million (net unrealized losses of \$53 million – 2014) resulted in a debit balance in the Cumulative Revaluation Adjustments account at 31 December 2015 of \$125 million (credit balance of \$59 million – 2014).

Special Reserve

The Special Reserve includes commissions on loans and guarantee fees received which are required to be set aside pursuant to Article 17 of the Charter to meet liabilities on guarantees. For the year ended 31 December 2015, guarantee fees amounting to \$19 million (\$21 million – 2014) were appropriated to Special Reserve.

continued

Loan Loss Reserve

ADB sets aside Loan Loss Reserve as part of EQUITY to be used as a basis for capital adequacy against the estimated expected loss in ADB's sovereign and nonsovereign loans and guarantees portfolio. The loan loss reserve is estimated based on expected loss using ADB's credit risk model net of allowance for loan losses recorded in the balance sheet.

As of 31 December 2015, the loan loss reserve was \$215 million (\$230 million – 2014).

Surplus

Surplus represents funds for future use to be determined by the Board of Governors.

Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) has two major components: net income (loss) and other comprehensive income (loss) comprising gains and losses affecting equity that, under US GAAP, are excluded from net income (loss). Other comprehensive income (loss) includes items such as unrealized gains and losses on financial instruments classified as available for sale, translation adjustments, and pension and post-retirement liability adjustment.

The changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2015 and 2014 were as follows:

(\$ million)

	Accumulated Translation Adjustments		Unrealized Holding Gains				Pension/Postretirement Liability		Accumulated Other Comprehensive Loss	
	2015		Investments		Equity Investments ^a		Adjustments		2015	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Balance, 1 January	\$ (156)	\$ (56)	\$ 104	\$ 123	\$ 36	\$ 74	\$ (1,222)	\$ (782)	\$ (1,238)	\$ (641)
Other comprehensive (loss) income before reclassifications	(136)	(100)	(76)	13	(12)	71	51	(497)	(173)	(513)
Amounts reclassified from accumulated other comprehensive loss	–	–	(23)	(32)	(14)	(109)	82	57	45	(84)
Net current-period other comprehensive (loss) income	(136)	(100)	\$ (99)	\$ (19)	\$ (26)	\$ (38)	\$ 133	\$ (440)	\$ (128)	\$ (597)
Balance, 31 December	\$ (292)	\$ (156)	\$ 5	\$ 104	\$ 10	\$ 36	\$ (1,089)	\$ (1,222)	\$ (1,366)	\$ (1,238)

^a This represents unrealized gains/(losses) on equity investments classified as available for sale (AFS). It also includes ADB's proportionate share on the unrealized gains/ (losses) of AFS of investee companies accounted under the equity method.

The reclassifications of Accumulated Other Comprehensive Income (Loss) to Net Income for the year ended 31 December 2015 and 2014 are presented below:

(\$ million)

Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss) ^a		Affected Line Item in the Statement of Income and Expenses
	2015	2014	
Unrealized Holding Gains (Losses)			
Investments	\$ 23	\$ 32	NET REALIZED GAINS From investments
Equity investments	14	109	NET REALIZED GAINS From equity investments
	<u>\$ 37</u>	<u>\$ 141</u>	
Pension/Postretirement Liability Adjustments			
Actuarial losses	<u>\$ (82)</u>	<u>\$ (57)</u>	Administrative expenses
Total reclassifications for the period	<u>\$ (45)</u>	<u>\$ 84</u>	

^a Amounts in parentheses indicate debits to net income.

continued

NOTE N—INCOME AND EXPENSES

Total income from loans for the year ended 31 December 2015 was \$678 million (\$605 million – 2014). The average yield on the loan portfolio during the year was 1.16% (1.15% – 2014), including risk transfer costs.

Total income from investments including net realized gains on sales, interest earned for securities transferred under repurchase agreements and resale arrangements for the year ended 31 December 2015 was \$365 million (\$352 million – 2014). The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month, was 1.33% (1.30% – 2014) excluding unrealized gains and losses on investments and 0.98% (1.23% – 2014) including unrealized gains and losses on investments.

Net income from equity investment operations resulted in net loss of \$7 million (net income of \$258 million – 2014) for the year ended 31 December 2015. This included net equity losses of \$28 million (net equity gain of \$3 million – 2014), and \$7 million (\$9 million – 2014) other than temporary impairment losses. These were offset by gains from divestments of \$19 million (\$250 million – 2014) and dividend income of \$8 million (\$13 million – 2014).

Income from other sources primarily included income received as executing agency amounting to \$16 million (\$15 million – 2014), and other miscellaneous income amounting to \$10 million (\$8 million – 2014).

Total borrowing expense of \$374 million (\$317 million – 2014) consisted of interest expense and other related expenses such as amortization of issuance costs and derivatives, while the average cost of borrowings outstanding after swaps was 0.19% (0.82% – 2014).

Total depreciation expense incurred for the year ended 31 December 2015 amounted to \$23 million (\$22 million – 2014).

ADB leases office spaces and other assets. Annual rental expenses under operating leases for the years ended 31 December 2015 and 2014 were about \$11 million. The minimum rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of 31 December 2015 are as follows:

Year ending 31 December	Minimum amount of future rentals (\$ million)
2016	3
2017	3
2018	2
2019	2
Later years	5

Administrative expenses (other than those pertaining directly to ordinary operations and special operations) for the year ended 31 December 2015 were apportioned between OCR and ADF in proportion to the relative volume of operational activities. Of the total administrative expenses of \$682 million (\$666 million – 2014), \$278 million (\$289 million – 2014) was charged to ADF. The balance of administrative expenses represents the amount allocated to OCR which was reduced by the deferral of direct loan origination costs of \$21 million (\$25 million – 2014) related to new loans made effective in 2015 (*Note B*).

For the year ended 31 December 2015, net write-back for loan losses of \$1 million (\$1 million – 2014) consisted of \$2 million additional loan loss provision (\$3 million – 2014) and \$3 million (\$4 million writeback – 2014) write-backs.

continued

The following table provides information on the unrealized gains or losses included in income for the years ended 31 December 2015 and 2014:

(\$ million)		
	2015	2014
Unrealized gains (losses) on:		
Borrowings and related swaps	\$ 244	\$ (205)
Investments related swaps	10	(3)
Loans related swaps	(13)	16
Equity investments	2	3
Translation adjustments of non-functional currencies	(4)	(4)
Total	\$ 239	\$ (193)

NOTE O—RELATED PARTY TRANSACTIONS

At 31 December 2015 and 2014, ADB had the following net receivables from and payable to Special Funds and externally funded trust funds under ADB administration (Agency Trust Funds) resulting from administrative arrangements and operating activities which are included in Miscellaneous under OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES:

(\$ million)		
	2015	2014
Amounts receivable from:		
Asian Development Fund	\$ 51	\$ 41
Other Special Funds	0	0
Employee Benefit Plans	2	13
Total	\$ 53	\$ 54
Amounts payable to:		
Agency Trust Funds—net	\$ 1	\$ 2
Total	\$ 1	\$ 2

0 = less than \$0.5 million

As of 31 December 2015 and 2014, the related parties include (i) other Special Funds consisting of TASF, Japan Special Fund, ADB Institute, Regional Cooperation and Integration Fund, Climate Change Fund, APDRF, and Financial Sector Development Partnership Special Fund; and (ii) employee benefit plans such as the Staff Retirement Plan (SRP) and the Retiree Medical Plan Fund (RMPF).

continued

NOTE P—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

ADB has a contributory defined pension benefit plan called the SRP. Every employee, as defined under the SRP, shall, as a condition of service, become a participant from the first day of service, provided the employee has not reached the normal retirement age of 60 at that time. The plan applies also to members of the Board of Directors who elect to join. Retirement benefits are based on an annual accrual rate, length of service and the highest average two years remuneration during eligible service. The plan assets are segregated in a separate fund. The costs of administering the plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the Plan.

Participants hired prior to 1 October 2006 are required to contribute 9 1/3% of their salary to the plan while those hired on or after 1 October 2006 are not required to contribute. The annual accrual rate is 2.95% for staff hired prior to 1 October 2006 and 1.5% for those hired on or after 1 October 2006. Participants may also make discretionary contributions. ADB's contribution is determined at a rate sufficient to cover that part of the costs of the SRP not covered by the participants' contributions.

Expected Contributions

ADB's contribution to the SRP varies from year to year, as determined by the Pension Committee, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the plan. ADB is expected to contribute \$52 million for 2016 based on a budgeted contribution of 23% of salary.

ADB's staff members are expected to contribute \$24 million representing participants' mandatory contribution of \$9 million and discretionary contributions of \$15 million.

Investment Strategy

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. The SRP employs nine external asset managers and one global custodian who are required to operate within the guidelines established by the SRP's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. The investment policy incorporates the plan's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The SRP's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

The SRP's investment policy is periodically reviewed and revised to reflect the best interest of the SRP's participants and beneficiaries. As approved by the Pension Committee on 27 October 2015, the SRP's new long-term target asset-mix, which will be implemented in 2016, is 35% US equity, 30% non-US equity, 15% global fixed income, 10% globally high yield, and 10% diversified asset. The asset mix approved for 2015 was based on the policy adopted in 2011, which is 40% US equity, 30% non-US equity and 30% global fixed income.

For the year ended 31 December 2015, the net return on the SRP assets was -0.47% (6.33% – 2014). ADB expects the long-term rate of return on the assets to be 7.0% (7.5% – 2014).

continued

Assumptions

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the SRP's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, as well as in the liability/benefit policy side, the assumed average long-term investment return of 7.0% on the SRP's assets is expected to remain on average broadly the same, year to year.

Effective for the 2015 actuarial valuation, as part of the regular assumptions review, some revisions were made to the previous actuarial assumptions based on the 2010-2014 experience. The assumptions that were revised include changes to the investment return, salary progression, pension increases, rates of withdrawal, early and incapacity retirement rates, retirement and post-incapacity retirement mortality rates, percent of international staff who commute, and other commutation factors.

Post-Retirement Group Medical Insurance Plan

In 1993, ADB adopted a cost-sharing arrangement for the Post-Retirement Group Medical Insurance Plan (PRGMIP). Under this plan, ADB is obligated to pay 75% of the PRGMIP premiums for retirees, which includes retired members of the Board of Directors, and their eligible dependents who elected to participate.

In December 2014, the Board of Directors approved the funding of the PRGMIP. ADB established the Retiree Medical Plan Fund (RMPF) where the ADB's contributions would be deposited and invested to fund the accumulated obligations of the PRGMIP. The income of RMPF consists of ADB's contributions and investment earnings; it does not have any component attributable to participants' share of PRGMIP costs. The RMPF assets are segregated in a separate fund and held in trust, hence are not included in the balance sheet of ADB. In 2015, insurance premium paid by ADB for the PRGMIP is considered ADB's contribution to the fund. The costs of administering the RMPF are absorbed by ADB, while investment management and custodian fees are paid from the RMPF.

The SRP Pension Committee is responsible for the overall financial management of the RMPF and is assisted by the SRP Investment Committee.

Expected Contribution

Subsequent to the establishment of the RMPF, ADB transferred \$315 million into the RMPF. ADB's expected contribution to the RMPF is based on the recommendation of the SRP Pension Committee. For 2016, ADB is expected to contribute \$5 million, which is equivalent to 2% of salary.

Investment Strategy

The RMPF employs three external asset managers and one global custodian who are required to operate within the guidelines established by the SRP's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. Similar to SRP, the investment policy incorporates the RMPF's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The RMPF's assets are diversified among different markets and asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

In October 2015, the Pension Committee approved the RMPF's investment policy. Based on the approved policy, the RMPF's long-term target asset-mix is 40% US equity, 30% non-US equity, and 30% global fixed income.

continued

Assumptions

The overall long-term rate of return is 7% per annum, similar to the SRP.

Effective for the 2015 actuarial valuation, as part of the regular assumptions review, some revisions were made to the previous actuarial assumptions based on the 2010-2014 experience. The assumptions that were revised include retirement mortality rates and PRGMIP election rates, among others.

The following table sets forth the funded status of pension and postretirement medical benefits at 31 December 2015 and 2014:

(\$ million)				
	Pension Benefits		Postretirement Medical Benefits	
	2015	2014	2015	2014
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 3,542	\$ 2,935	\$ 430	\$ 334
Service cost	95	73	24	19
Interest cost	149	149	19	17
Plan participants' contributions	84	71	—	—
Actuarial (gain) loss	(197)	427	(50)	63
Benefits paid	(116)	(113)	(5)	(3)
Projected benefit obligation at end of year	<u>\$ 3,557</u>	<u>\$ 3,542</u>	<u>\$ 418</u>	<u>\$ 430</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 2,305	\$ 2,021	\$ 315	\$ —
Actual return on plan assets	(9)	129	(7)	—
Employer's contribution	145	197	4	318
Plan participants' contributions	84	71	—	—
Benefits paid	(116)	(113)	(4)	(3)
Fair value of plan assets at end of year	<u>\$ 2,409</u>	<u>\$ 2,305</u>	<u>\$ 308</u>	<u>\$ 315</u>
Funded status	<u>\$ (1,148)</u>	<u>\$ (1,237)</u>	<u>\$ (110)</u>	<u>\$ (115)</u>
Amounts recognized in the Balance sheet as Accrued pension and postretirement medical benefit costs	<u>\$ (1,148)</u>	<u>\$ (1,237)</u>	<u>\$ (110)</u>	<u>\$ (115)</u>
Amounts recognized in the Accumulated other comprehensive loss as Pension/Postretirement liability adjustments (Note M)	<u>\$ 1,034</u>	<u>\$ 1,139</u>	<u>\$ 55</u>	<u>\$ 83</u>
Weighted-average assumptions as of 31 December (%)				
Discount rate	4.55	4.15	4.55	4.15
Expected return on plan assets	7.00	7.50	7.00	7.50
Rate of compensation increase varies with age and averages	4.00	4.00	N/A	N/A

continued

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered postretirement medical benefits was assumed for the valuation as of 31 December 2015 and 2014. The rate was assumed to decrease gradually to 5.0% by 2021 and remain at the level thereafter.

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the year ended 31 December 2015 and 2014:

(\$ million)

	Pension Benefits		Postretirement Medical Benefits	
	2015	2014	2015	2014
Components of net periodic benefit cost:				
Service cost	\$ 95	\$ 73	\$ 24	\$ 19
Interest cost	149	149	19	17
Expected return on plan assets	(162)	(136)	(19)	–
Recognized actuarial loss (Note M)	79	57	3	–
Net periodic benefit cost	\$ 161	\$ 143	\$ 27	\$ 36

The accumulated benefit obligation of the pension plan as of 31 December 2015 was \$3,346 million (\$3,312 million – 2014).

The estimated net loss for the defined benefit pension plans and postretirement medical benefits plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year amounted to \$52 million and \$0.2 million, respectively.

Assumed postretirement medical benefits cost trend rates have a significant effect on the amounts reported for the postretirement medical benefits plan. A one-percentage-point change in the assumed trend rates would have the following effects:

(\$ million)

	<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total service and interest cost components	13	(9)
Effect on postretirement medical benefit obligation	96	(73)

Estimated Future Benefits Payments

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at 31 December 2015:

(\$ million)

<u>Year</u>	<u>Pension Benefits</u>	<u>Postretirement Medical Benefits</u>
2016	\$ 130	\$ 7
2017	136	8
2018	146	9
2019	156	10
2020	167	11
2021–2025	1,001	73

continued

Fair Value Disclosure

The FV of the SRP and RMPF's assets measured on a recurring basis as of 31 December 2015 and 2014 was shown below:

(\$ million)

2015	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Staff Retirement Plan				
Cash and cash equivalents	\$ 60	\$ —	\$ 60	\$ —
Common/preferred stocks	465	465	—	—
Investment funds	1,076	1,076	—	—
Government or government-guaranteed securities	358	352	6	—
Corporate debt securities	305	295	4	6
Mortgage/Asset-backed securities:				
Mortgage-backed securities	71	45	26	—
Collateralized mortgage obligations	11	—	9	2
Asset-backed securities	2	—	1	1
Short term investments	105	7	98	—
Derivatives	(5)	(0)	(5)	—
Other asset/liabilities ^a —net	(39)	—	(39)	—
Total fair value of SRP assets	\$ 2,409	\$ 2,240	\$ 160	\$ 9
Retiree Medical Plan Fund				
Cash and cash equivalents	\$ 10	\$ —	\$ 10	\$ —
Common/preferred stocks	90	90	—	—
Investment funds	116	116	—	—
Government or government-guaranteed securities	51	51	0	—
Corporate debt securities	36	35	1	—
Mortgage/Asset-backed securities:				
Mortgage-backed securities	11	6	5	—
Collateralized mortgage obligations	—	—	—	—
Asset-backed securities	0	—	—	0
Short term investments	0	—	0	—
Derivatives	(1)	(0)	(1)	—
Other asset/liabilities ^a —net	(5)	—	(5)	—
Total fair value of RMPF assets	\$ 308	\$ 298	\$ 10	\$ 0

^a Includes receivables and liabilities carried at amounts that approximate fair value.

0 = less than \$0.5 million.

continued

(\$ million)

2014	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Staff Retirement Plan				
Cash and cash equivalents	\$ 52	\$ –	\$ 52	\$ –
Common/preferred stocks	484	484	–	0
Investment funds	1,160	1,160	–	–
Government or government-guaranteed securities	311	309	2	–
Corporate debt securities	260	257	2	1
Mortgage/Asset-backed securities:				
Mortgage-backed securities	29	22	7	–
Collateralized mortgage obligations	9	–	4	5
Asset-backed securities	1	–	1	–
Short term investments	21	5	16	–
Derivatives	8	0	8	–
Other asset/liabilities ^a —net	(30)	–	(30)	–
Total fair value of SRP assets	\$ 2,305	\$ 2,237	\$ 62	\$ 6
Retiree Medical Plan Fund				
Short term investments	\$ 315	\$ –	\$ 315	\$ –
Total fair value of RMPF assets	\$ 315	\$ –	\$ 315	\$ –

^a Includes receivables and liabilities carried at amounts that approximate fair value.

0 = less than \$0.5 million.

The SRP's Investment Committee and SRP investment unit meet periodically and are involved in overseeing the activities and performance of the investment portfolios. The FV of the SRP investments is provided by the SRP's global custodian from various independent pricing providers. The accounting division in coordination with data management unit of treasury services division evaluates the FV in determining the hierarchy level. All investments including equity securities, fixed income securities and derivatives are provided by independent pricing providers. Equity securities include common and preferred stocks and mutual funds. Fixed income securities include government or government-guaranteed securities, corporate obligations, asset and mortgage-backed securities, and short-term investments. Derivatives include futures, swaps and currency forward contracts.

The table below provides details of transfers of SRP's assets between Levels 1 and 2, which are attributed to the availability or absence of market quotes, for the years ended 31 December 2015 and 2014. There were no inter level transfers for RMPF.

(\$ million)

	2015		2014	
	Level 1	Level 2	Level 1	Level 2
Investments - Staff Retirement Plan				
Government or government-guaranteed securities				
Transfers into (out of)	\$ –	\$ –	\$ 0	\$ (0)
Transfers (out of) into	(4)	4	–	–
Corporate debt securities				
Transfers into (out of)	2	(2)	2	(2)
Transfers (out of) into	(2)	2	–	–
	\$ (4)	\$ 4	\$ 2	\$ (2)

0 = less than \$0.5 million.

continued

The following tables present the changes in the carrying amounts of SRP and RMPF's Level 3 investments for the years ended 31 December 2015 and 2014:

(\$ million)

	Staff Retirement Plan				Retiree Medical Plan Fund
	Common / preferred stocks	Government or gov't-guaranteed securities	Corporate debt securities	Mortgage / Asset-backed securities	Mortgage / Asset-backed securities
2015					
Balance, beginning of the year	\$ 0	\$ –	\$ 1	\$ 5	\$ –
Total realized/unrealized (losses)/gains in:					
Net increase (decrease) in net assets available for benefits	(0)	–	(0)	(0)	(0)
Purchases	–	–	20	1	0
Sales/Maturities	–	–	(15)	(1)	–
Settlement and others	–	–	0	(1)	–
Transfers out of Level 3	–	–	–	(1)	–
Balance, end of the year	\$ –	\$ –	\$ 6	\$ 3	\$ 0
Total unrealized gains (losses) included in income related to financial assets still held at the reporting date	\$ –	\$ –	\$ 0	\$ 0	\$ –
2014					
Balance, beginning of the year	\$ 0	\$ 2	\$ 1	\$ 5	\$ –
Total realized/unrealized (losses)/gains in:					
Net increase (decrease) in net assets available for benefits	0	–	0	(0)	–
Purchases	–	–	2	2	–
Sales/Maturities	(0)	–	(1)	(0)	–
Settlement and others	–	–	–	(2)	–
Transfers out of Level 3	–	(2)	(1)	(0)	–
Balance, end of the year	\$ 0	\$ –	\$ 1	\$ 5	\$ –
Total unrealized gains (losses) included in income related to financial assets still held at the reporting date	\$ 0	\$ –	\$ 0	\$ (0)	\$ –

0 = less than \$0.5 million.

Transfers into and out of Level 3 in 2015 and 2014 are due to the availability or absence of market observable inputs.

continued

NOTE Q—OTHER FAIR VALUE DISCLOSURES

The carrying amounts and estimated FVs of ADB's financial instruments as of 31 December 2015 and 2014 are summarized below:

(\$ million)

	2015		2014	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
On-balance sheet financial instruments:				
ASSETS:				
Due from banks	\$ 753	\$ 753	\$ 417	\$ 417
Investments (Note D)	23,315	23,315	23,006	23,006
Securities transferred under repurchase agreements (Note E)	—	—	30	30
Securities purchased under resale arrangements	126	126	1,257	1,257
Loans outstanding (Note F)	61,941	62,604	55,890	57,057
Equity investments carried at fair value (Note H)	34	34	72	72
Derivative assets - borrowings (Note I)	21,664	21,664	26,830	26,830
Derivative assets - investments (Note I)	7,112	7,112	5,596	5,596
Derivative assets - loans (Note I)	762	762	666	666
Swap related collateral (Note I)	494	494	478	478
Future guarantee receivable (Note G)	21	21	25	25
LIABILITIES:				
Borrowings (Note K)	66,054	66,682	62,701	63,465
Derivative liabilities - borrowings (Note I)	24,985	24,985	28,372	28,372
Derivative liabilities - investments (Note I)	6,679	6,679	5,034	5,034
Derivative liabilities - loans (Note I)	608	608	581	581
Payable under securities repurchase agreements (Note E)	—	—	30	30
Swap related collateral (Note I)	494	494	478	478
Guarantee liability (Note G)	21	21	25	25
Off-balance sheet financial instruments:				
ASSETS:				
Future guarantee receivable	n/a	\$ 7	n/a	\$ 8
LIABILITIES:				
Guarantee liability	n/a	7	n/a	8

As of 31 December 2015 and 2014, ADB has no material assets or liabilities measured at FV on a non-recurring basis.

continued

NOTE R—SPECIAL AND OTHER FUNDS

ADB's operations include special operations, which are financed from Special Funds resources. The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The Board of Governors may approve allocation of the net income of OCR to Special Funds, based on the funding and operational requirements for the funds. The administrative and operational expenses pertaining to the OCR and Special Funds are charged to the respective Special Funds. The administrative expenses of ADB are allocated amongst OCR and Special Funds and are settled regularly.

In addition, ADB, alone or jointly with donors, administers on behalf of the donors, including members of ADB, their agencies and other development institutions, projects/programs supplementing ADB's operations. Such projects/programs are funded with external funds administered by ADB and with external funds not under ADB's administration (referred as trust funds). ADB charges administrative fees for external funds administered by ADB. The trust funds are restricted for specific uses including technical assistance to borrowers and for regional programs, grants for projects, and loans. The responsibilities of ADB under these arrangements range from project processing to project implementation including the facilitation of procurement of goods and services. These funds are held in trust with ADB, and are held in a separate investment portfolio. The assets of trust funds are not commingled with ADB's resources, nor are they included in the assets of ADB.

Special Funds and trust funds are not included in the assets of OCR. The net assets as of 31 December 2015 and 2014 are summarized below:

(\$ million)

	2015		2014	
	Total Net Assets	No.	Total Net Assets	No.
Special Funds				
Asian Development Fund	\$ 30,784	1	\$ 31,478	1
Technical Assistance Special Fund	147	1	221	1
Japan Special Fund	105	1	102	1
Asian Development Bank Institute	9	1	8	1
Regional Cooperation and Integration Fund	8	1	8	1
Climate Change Fund	11	1	10	1
Asia Pacific Disaster Response Fund	17	1	4	1
Financial Sector Development Partnership Special Fund	7	1	7	1
Subtotal	<u>31,088</u>	<u>8</u>	<u>31,838</u>	<u>8</u>
Trust Funds (including project specific cofinancing)	<u>2,258</u>	<u>117</u>	<u>1,763</u>	<u>115</u>
Total	<u>\$ 33,346</u>	<u>125</u>	<u>\$ 33,601</u>	<u>123</u>

During the year ended 31 December 2015, a total of \$12 million (\$12 million – 2014) was recorded as compensation for administering projects/programs. The amount has been included in REVENUE From other sources—net.

continued

NOTE S—VARIABLE INTEREST ENTITIES

An entity is subject to the ASC 810 VIE Subsections and is considered a VIE if it (i) lacks equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) if holders of the equity investment at risk lack decision-making rights about the entity's activities that most significantly impact the entity's economic performance; or do not have the obligation to absorb the expected losses or the right to receive the residual returns of the entity.

A VIE is consolidated by the primary beneficiary, which is the party that has the power to direct the VIE's activities that most significantly impact its economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE.

As of 31 December 2015, ADB did not identify any VIE in which ADB is the primary beneficiary, requiring consolidation in OCR financial statements. ADB may hold variable interests in VIE, which require disclosures.

The review of ADB's loan, equity investments, and guarantee portfolio, has identified 33 (31– 2014) investments in VIEs in which ADB is not the primary beneficiary. These non-consolidated VIEs are operating entities where the total equity invested is considered insufficient to finance its activities without additional subordinated financial support and investment funds, where the general partner or fund manager does not have substantive equity at risk and the equity holders lack decision making rights. These VIEs are in the finance, telecommunication, and energy sectors.

ADB's involvement in these non-consolidated VIEs includes loans, guarantees and equity investments. Based on the most recent available data from these VIEs at 31 December 2015, the assets of these non-consolidated VIEs totaled \$13,765 million (\$13,076 million – 2014).

The table below shows the carrying value of ADB interests in the non-consolidated VIEs and the maximum exposure to loss of these interests. For guarantees, the maximum exposure is the notional amount of such guarantee, less any counter-guarantee.

(\$ million)

	2015	2014
Carrying value of the ADB's Variable Interests		
Assets	\$ 1,108	\$ 1,295
Liabilities	3	4
Maximum Exposure to Loss in Nonconsolidated VIEs		
Loans	\$ 992	\$ 1,166
Equity Investments	198	153
Guarantees	60	68
Total	\$ 1,250	\$ 1,387
No. of VIEs	33	31
Total Assets of the Entities	\$ 13,765	\$ 13,076

continued

NOTE T—SEGMENT REPORTING

Based on an evaluation of OCR's operations, Management has determined that OCR has only one reportable segment since OCR does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers.

The following table presents OCR's loan, guarantee and equity investments outstanding balances and associated revenue, by geographic region, as of and for the years ended 31 December 2015 and 2014:

(\$ million)

Country	2015		2014	
	Outstanding Balance	Revenue	Outstanding Balance	Revenue
People's Republic of China	\$ 15,795	\$ 231	\$ 15,031	\$ 212
India	14,557	124	13,343	96
Indonesia	8,456	109	7,800	115
Pakistan	4,744	43	4,984	46
Philippines	5,711	40	5,201	32
Others	14,947	131	12,134	142
Total	\$ 64,210	\$ 678	\$ 58,493	\$ 643

Revenue comprises income from loans, equity investments, and guarantees and excludes net realized gains.

For the year ended 31 December 2015, sovereign loans to three members (three – 2014) individually generated more than 10 percent of loan revenue which amounted to \$186 million, \$103 million, and \$97 million (\$176 million, \$109 million, and \$80 million – 2014).

NOTE U—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. During this period, ADB has raised additional borrowings of approximately \$8,398 million in various currencies.

**ASIAN DEVELOPMENT FUND
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of special purpose financial statements in accordance with accounting policies as described in Note B of the special purpose financial statements.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of special purpose financial statements in accordance with accounting policies as described in Note B of the special purpose financial statements, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the special purpose financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
Controller

11 March 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

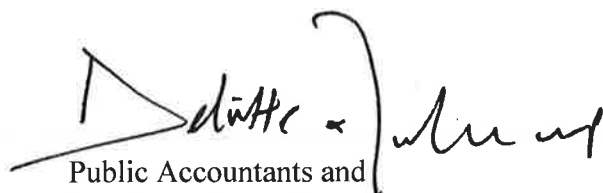
ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of special purpose financial statements in accordance with accounting policies as described in Note B to the special purpose financial statements. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of special purpose financial statements in accordance with accounting policies as described in Note B to the special purpose financial statements, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the special purpose financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying special purpose statement of assets, liabilities, and fund balances of Asian Development Bank ("ADB") – Asian Development Fund as of December 31, 2015 and 2014, and the related special purpose statements of revenue and expenses, comprehensive loss, changes in fund balances and cash flows for the years then ended and the related notes to the special purpose financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those special purpose financial statements.



Public Accountants and
Chartered Accountants
Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying special purpose statements of assets, liabilities, and fund balances of Asian Development Bank ("ADB") – Asian Development Fund as of December 31, 2015 and 2014, and the related special purpose statements of revenue and expenses, comprehensive loss, changes in fund balances and cash flows for the years then ended, and the related notes to the special purpose financial statements.

Management's Responsibility for the Special Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the accounting policies described in Note B to the special purpose financial statements; this includes determining that the basis of accounting is an acceptable basis for the preparation of the special purpose financial statements in the circumstance. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of special purpose financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these special purpose financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the special purpose financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the special purpose financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the special purpose financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the special purpose financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the special purpose financial statements.

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



Opinion

In our opinion, the special purpose financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances of ADB – Asian Development Fund as of December 31, 2015 and 2014, and its revenues and expenses and cash flows for the years then ended, in accordance with the accounting policies described in Note B to the special purpose financial statements.

Basis of Accounting

We draw attention to Note B to the special purpose financial statements, which describes the basis of accounting. The financial statements are prepared by ADB – Asian Development Fund in accordance with the accounting policies described in Note B to the special purpose financial statements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the special purpose financial statements as a whole. The supplementary schedules of special purpose summary statement of loans as of December 31, 2015 and 2014 and special purpose statement of resources as of December 31, 2015, are presented for the purpose of additional analysis and are not a required part of the special purpose financial statements. These schedules are the responsibility of the ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the special purpose financial statements.

Such schedules have been subjected to the auditing procedures applied in our audits of the special purpose financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the special purpose financial statements or to the special purpose financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the special purpose financial statements as a whole.

**Restriction on Use**

This report is intended solely for the information and use of the Board of Governors, Board of Directors, management, and members of the ADB and is not intended to be used and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized flourish.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
31 December 2015 and 2014
Expressed in Millions of US Dollars

Expressed in millions of US Dollars

	2015		2014	
ASSETS				
DUE FROM BANKS	\$	63	\$	60
INVESTMENTS (Notes C and K)				
Government or government-guaranteed obligations	\$	5,591	\$	5,363
Time deposits		402		835
		5,993		6,198
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Note C)		37		361
LOANS OUTSTANDING (ADF-6) (Notes D and K)				
Sovereign		27,270		27,604
Less—allowance for HIPC Debt Relief		65		70
		27,205		27,534
ACCRUED REVENUE				
On investments		26		28
On loans		66		58
		92		86
OTHER ASSETS (Note F)		193		200
TOTAL		\$ 33,583		\$ 34,439
LIABILITIES AND FUND BALANCES				
PAYABLE TO RELATED FUNDS (Note E)	\$	51	\$	41
ADVANCE PAYMENTS ON CONTRIBUTIONS (Note F)		167		185
UNDISBURSED COMMITMENTS (Notes J and K)		2,581		2,735
TOTAL LIABILITIES		2,799		2,961
FUND BALANCES (ADF-4)				
Contributions received (ADF-7)				
Contributed resources (Note F)	\$	31,830	\$	31,830
Unamortized discount		(28)		(36)
		31,802		31,794
Set-aside resources (Note H)		66		69
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund		1,583		1,463
		33,451		33,326
Nonnegotiable, noninterest-bearing demand obligations on account of contributions (Note F)		(1,738)		(1,841)
Accumulated (deficit) surplus		(111)		206
Accumulated other comprehensive loss (Note I)		(818)		(213)
		30,784		31,478
TOTAL		\$ 33,583		\$ 34,439

The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

ADF-2

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSES
For the Years Ended 31 December 2015 and 2014
Expressed in Millions of US Dollars

	2015		2014	
REVENUE				
From loans (Note D)	\$ 308		\$ 321	
From investments (Note C)	56	364	53	374
EXPENSES				
Grants (Note J)	348		848	
Administrative expenses (Note G)	278		289	
Amortization of discounts on contributions	7	633	19	1,156
NET REALIZED GAINS				
FROM INVESTMENTS (Notes C and I)		8		11
NET UNREALIZED LOSSES		(56)		(72)
REVENUE LESS THAN EXPENSES		\$ (317)		\$ (843)

The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

ADF-3

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE LOSS
For the Years Ended 31 December 2015 and 2014
Expressed in Millions of US dollars

	2015		2014	
REVENUE LESS THAN EXPENSES (ADF-2)	\$ (317)		\$ (843)	
Other comprehensive (loss) income (Note I)				
Currency translation adjustments	\$ (586)		\$ 294	
Unrealized investment holding losses	(19)	(605)	(7)	287
COMPREHENSIVE LOSS		\$ (922)		\$ (556)

The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF CHANGES IN FUND BALANCES
For the Years Ended 31 December 2015 and 2014

Expressed in Millions of US dollars

	Contributed Resources	Set-Aside Resources	Transfers from OCR & TASF	Nonnegotiable, Noninterest- bearing Demand Obligations	Accumulated Surplus	Accumulated Other Comprehensive Loss	Total
Balance, 1 January 2014	\$ 33,499	\$ 73	\$ 1,344	\$ (2,106)	\$ 1,049	\$ (500)	\$ 33,359
Comprehensive (loss) income (ADF-3) (Note I)					(843)	287	(556)
Contributions made available for operational commitment	1,093						1,093
Amortization of discount on donor's contribution	19						19
Demand obligations received				(823)			(823)
Encashment of demand obligations				914			914
Transfer from OCR			120				120
Translation adjustment	(2,817)	(4)	(1)	174			(2,648)
Balance, 31 December 2014	\$ 31,794	\$ 69	\$ 1,463	\$ (1,841)	\$ 206	\$ (213)	\$ 31,478
Comprehensive loss (ADF-3) (Note I)					(317)	(605)	(922)
Contributions made available for operational commitment	838						838
Amortization of discount on donor's contribution	7						7
Demand obligations received				(568)			(568)
Encashment of demand obligations				615			615
Transfer from OCR			120				120
Translation adjustment	(837)	(3)		56			(784)
Balance, 31 December 2015	\$ 31,802	\$ 66	\$ 1,583	\$ (1,738)	\$ (111)	\$ (818)	\$ 30,784

OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.

The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

ADF-5

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014
Expressed in Millions of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest charges on loans received	\$ 273	\$ 307
Interest received from investments	85	99
Administrative expenses paid	(267)	(282)
Grants disbursed	(503)	(429)
Net Cash Used in Operating Activities	(412)	(305)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	2,422	2,586
Maturities of investments	62,015	109,958
Purchases of investments	(64,558)	(112,424)
Receipts from securities purchased under resale arrangements	41,941	92,936
Payments for securities purchased under resale arrangements	(41,624)	(93,109)
Principal collected on loans	1,242	1,291
Loans disbursed	(2,024)	(2,180)
Net Cash Used in Investing Activities	(586)	(942)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received and encashed ¹	880	1,192
Cash received from ordinary capital resources	120	120
Net Cash Provided by Financing Activities	1,000	1,312
Effect of Exchange Rate Changes on Due from Banks	1	(8)
Net Increase in Due from Banks	3	57
Due from Banks at Beginning of Year	60	3
Due from Banks at End of Year	\$ 63	\$ 60
RECONCILIATION OF REVENUE LESS THAN EXPENSES TO NET CASH USED IN OPERATING ACTIVITIES:		
Revenue less than expenses (ADF-2)	\$ (317)	\$ (843)
Adjustments to reconcile revenue less than expenses to net cash used in operating activities:		
Amortization of discounts/premiums on investments	27	35
Amortization of discount on donor's contributions	8	19
Grants approved and effective	348	848
Capitalized charges on loans	(24)	(24)
Net gain on sale of investments	(8)	(11)
Change in accrued revenue on investments and loans	(10)	20
Change in other assets	(1)	(3)
Change in payable to related funds	11	6
Change in undisbursed commitments	(502)	(425)
Exchange losses—net	56	73
Net Cash Used in Operating Activities	\$ (412)	\$ (305)

Supplementary disclosure on noncash financing activities:

¹ Nonnegotiable, noninterest-bearing demand promissory notes amounting to \$668 million (\$809 million – 2014) were received from contributing members.

The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE SUMMARY STATEMENT OF LOANS
31 December 2015 and 2014
Expressed in Millions of US dollars

Borrowers/Guarantors¹	Loans Outstanding	Undisbursed Balances of Effective Loans^{2,3}	Loans Not Yet Effective⁴	Total Loans	Percent of Total Loans
Afghanistan	\$ 614	\$ 13	\$ –	\$ 627	1.76
Armenia	347	133	–	480	1.35
Azerbaijan	41	1	–	42	0.12
Bangladesh	5,864	1,536	224	7,624	21.44
Bhutan	200	89	–	289	0.81
Cambodia	1,052	394	129	1,575	4.43
Cook Islands	25	–	–	25	0.07
Georgia	553	189	32	774	2.18
Indonesia	884	13	–	897	2.52
Kazakhstan	4	–	–	4	0.01
Kiribati	21	7	–	28	0.08
Kyrgyz Republic	577	115	60	752	2.11
Lao People's Democratic Republic	839	215	69	1,123	3.16
Maldives	97	1	–	98	0.28
Marshall Islands	56	–	–	56	0.16
Micronesia, Federated States of	46	5	–	51	0.14
Mongolia	562	193	30	785	2.21
Myanmar	509	123	236	868	2.44
Nepal	1,437	978	91	2,506	7.05
Pakistan	5,346	674	119	6,139	17.26
Palau	4	1	8	13	0.04
Papua New Guinea	435	150	–	585	1.65
Philippines	381	–	–	381	1.07
Samoa	108	1	–	109	0.31
Solomon Islands	34	11	10	55	0.15
Sri Lanka	2,363	427	29	2,819	7.93
Tajikistan	285	–	15	300	0.84
Timor-Leste	8	9	23	40	0.11
Tonga	27	–	–	27	0.08
Tuvalu	5	–	–	5	0.01
Uzbekistan	435	268	75	778	2.19
Vanuatu	39	29	4	72	0.20
Viet Nam	4,068	1,278	282	5,628	15.83
Regional	4	1	–	5	0.01
TOTAL – 31 December 2015	\$ 27,270	\$ 6,854	\$ 1,436	\$ 35,560	100.00
Allowance for HIPC Debt Relief	(65)	–	–	(65)	
NET BALANCE – 31 December 2015	\$ 27,205	\$ 6,854	\$ 1,436	\$ 35,495	
NET BALANCE – 31 December 2014	\$ 27,534	\$ 6,586	\$ 1,680	\$ 35,800	

0 = less than \$0.5 million.

¹ Loans other than those made directly to a member or to its central bank have been guaranteed by the member.

² Loans negotiated before 1 January 1983 were denominated in current US dollars. Loans negotiated after that date are denominated in special drawing rights (SDR) for the purpose of commitment. The undisbursed portions of such SDR loans are translated into US dollars at the applicable exchange rates as of the end of a reporting period. Of the undisbursed balances, ADB has entered into irrevocable commitments to disburse various amounts totaling \$45 million (\$34 million - 2014).

MATURITY OF EFFECTIVE LOANS AS OF 31 DECEMBER 2015

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2016	\$ 1,320	2025	8,807
2017	1,431	2030	7,396
2018	1,506	2035	5,681
2019	1,610	2040	3,289
2020	1,698	2045	1,189
		2050	147
		2055	50
		Total	\$ 34,124

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2015	2014	Currency	2015	2014
Australian dollar	\$ 30	\$ 50	Norwegian krone	60	81
Canadian dollar	147	205	Pound sterling	169	216
Danish krone	18	23	Singapore dollar	0	0
Euro	1,293	1,714	Swedish krona	50	74
Yen	2,504	3,075	Swiss franc	73	99
Won	16	23	Baht	0	1
Ringgit	0	1	US dollar	1,581	1,861
New Zealand dollar	1	1	Special Drawing Rights ⁵	21,328	20,180
			Total	\$ 27,270	\$ 27,604

³ Refer to the unwithdrawn portions of effective loans as of 31 December 2015.

⁴ Refer to approved loans that have not become effective as of 31 December 2015, pending borrowers' compliance with effectiveness conditions specified in the loan regulations and the loan agreements.

⁵ Basket of currencies defined by the International Monetary Fund consisting of the euro, yen, pound sterling, and US dollar.
The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF RESOURCES**

31 December 2015

Expressed in Millions of US dollars

	Effective Amounts Committed¹	Contributions Received
CONTRIBUTED RESOURCES		
Australia	\$ 2,393	\$ 2,014
Austria	275	263
Belgium	244	223
Brunei Darussalam	21	19
Canada	1,951	1,940
China, People's Republic of	102	91
Denmark	254	301
Finland	190	154
France	1,363	1,237
Germany	1,862	1,751
Hong Kong, China	109	101
India	30	23
Indonesia	15	15
Ireland	95	70
Italy	1,153	872
Japan	11,959	14,055
Kazakhstan	5	4
Korea, Republic of	570	473
Luxembourg	53	47
Malaysia	29	24
Nauru	0	0
The Netherlands	761	740
New Zealand	174	158
Norway	287	254
Portugal	92	92
Singapore	21	20
Spain	414	384
Sweden	470	388
Switzerland	382	535
Taipei, China	106	97
Thailand	17	16
Turkey	122	115
United Kingdom	1,557	1,256
United States	4,522	4,069
Total	31,599	31,802
SET-ASIDE RESOURCES		66
TRANSFERS FROM ORDINARY CAPITAL RESOURCES		1,580
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND		3
TOTAL	\$ 31,599	\$ 33,451

Notes: Numbers may not sum precisely because of rounding. 0 = less than \$0.5 million.

¹ At exchange rates per Resolutions.

The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
31 December 2015 and 2014**

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

The Asian Development Fund (ADF) was established in 1974 to more effectively carry out the special operations of the ADB by providing resources on concessional terms for economic and social development of the less developed member countries.

The resources of ADF have been augmented by ten replenishments, the most recent of which (ADF XI and the fifth regularized replenishment of the Technical Assistance Special Fund [TASF]) was adopted by the Board of Governors in July 2012 and became effective on 4 June 2013 for the four-year period from January 2013. The replenishment provided substantial resources to the ADF to finance ADB's concessional program, and to the TASF to finance technical assistance operations. Total replenishment size was SDR8,415 million, of which SDR3,090 million was to come from new donor contributions. The donors agreed to allocate 3% of the total replenishment size (equivalent to about 8% of total donor contributions) to TASF. As of 31 December 2015, ADB had received instruments of contribution from 31 donors with a total amount equivalent to SDR3,047 million, including qualified contributions amounting to SDR368 million.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

Combined ADF-OCR Lending Operations

In April 2015, the Board of Governors adopted a resolution authorizing the termination of ADF loan operations and the transfer of ADF loans, resources originally set-aside from the OCR, and certain other assets as may be determined by the Board of Directors to OCR effective 1 January 2017. After the effective date of this transfer, ADF will continue to provide assistance to developing member countries through its grant operations.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In May 2001, the Board of Directors approved the adoption of the special purpose financial statements for ADF. The financial statements have been prepared for the specific purpose of reflecting the sources and applications of member contributions and are presented in US dollar equivalents at the reporting dates. With the adoption of the special purpose financial statements, loan loss provisioning, other than those for the debt relief loan write-off resulting from the implementation of the Heavily Indebted Poor Countries (HIPC)

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Debt Initiative discussed in Note D, has been eliminated. With the exception of the aforementioned, the ADF financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

In November 2005, the Board of Governors accepted a resolution to adopt a special drawing rights (SDR) currency management framework to facilitate resource administration and operational planning for the benefit of borrowers. The currency management framework was implemented on 1 January 2006 whereby ADB is authorized to convert ADF resources held in various currencies into one of the SDR basket of currencies (US dollar, euro, pound sterling, and yen), to value disbursements, repayments and loan charges in terms of SDR, and to determine the value of contributors' paid-in contributions and all other resources of the ADF in terms of SDR, in case of withdrawal of a Contributor or termination of ADF.

In July 2007 ADB offered ADF borrowers the option to convert their existing liability (i.e., disbursed and outstanding loan balance) in various currencies into SDR, while the undisbursed portions would be treated as new loans. The conversion was made available beginning 1 January 2008, and as of 31 December 2015, 20 out of 29 ADF borrowing countries had opted to convert their loans, which were carried out on the nearest loan service payment dates at least one month from their concurrence.

Functional Currencies and Reporting Currency

The US dollar is the reporting currency of the ADF for the purpose of presenting the financial position and the result of its operations.

With the implementation of the SDR currency management framework, ADF conducts its operations in SDRs and the SDR basket of currencies, which are US dollar, euro, pound sterling, and yen. The SDR and the SDR basket of currencies comprise the functional currencies of ADF.

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions in currencies other than USD to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Assets and liabilities are translated using the applicable exchange rates at the end of each reporting period, except for Contributed Resources received in non-functional currencies. Translation adjustments relating to set-aside resources (Note H) are recorded as notional amounts receivable from or payable to OCR. Translation adjustments relating to revaluation of assets, liabilities, and fund balances denominated in ADF's functional currencies and all investments classified as available for sale are reported as Accumulated Translation Adjustments in FUND BALANCES as part of Accumulated other comprehensive loss. Translation adjustments relating to other non-functional currencies are reported as NET UNREALIZED LOSSES in the Special Purpose Statement of Revenue and Expenses.

Investments

Investment securities and negotiable certificates of deposit are classified as available for sale and are reported at fair value. Unrealized gains and losses are reported in FUND BALANCES as part of Accumulated other comprehensive loss. Realized gains and losses are measured by the difference between amortized cost and the net proceeds of sales.

Interest income on investment securities and time deposits is recognized as earned and reported, net of amortizations of premiums and discounts.

continued

Securities Purchased Under Resale Arrangements

ADF accounts for transfers of financial assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860, "Transfers and Servicing." Transfers are accounted for as sales when control over the transferred assets has been relinquished. Otherwise the transfers are accounted for as resale agreements and collateralized financing arrangements. Under resale arrangements, securities purchased are recorded as assets and are not re-pledged.

Loans

Loan interest income is recognized on an accrual basis. It is the policy of ADF to place in non-accrual status loans made to eligible borrowing member countries if the principal or interest with respect to any such loans is overdue by six months. Interest on non-accruing loans is included in revenue only to the extent that payments have actually been received by ADF. ADB maintains a position of not taking part in debt rescheduling agreements with respect to sovereign loans. When ADB decides that a particular loan is no longer collectible, the entire amount is expensed during the period.

Contributed Resources

Contributions by donors are included in the special purpose financial statements as amounts committed and are reported in Contributed Resources as part of FUND BALANCES from the date Instruments of Contribution are deposited and related formalities are completed and made available for operational commitments.

Contributions are generally received in the currency of the contributor either in cash or notes.

Under ADF IX, ADF X, and ADF XI, contributors have the option to pay their contributions under the accelerated note encashment program and receive a discount. ADF invests the cash generated from this program and the investment income is used to finance operations. The related contributions are recorded at the full undiscounted amount, and the discount is amortized over the standard encashment period of 10 years for ADF IX and 9 years for ADF X and ADF XI.

Advanced Payments on Contributions

Payments received in advance or as qualified contributions that cannot be made available for operational commitment are recorded as advance payments on contributions and included under LIABILITIES.

Grants and Undisbursed Commitments

Grants are recognized in the special purpose financial statements when the grant is approved and becomes effective. Upon completion of a project or cancellation of a grant, any undisbursed amount is written back as a reduction in the grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction costs.

continued

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of special purpose financial statements requires management to make reasonable estimates and assumptions that affect the reported amounts of assets, liabilities, and fund balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates. Judgments have been used in the valuation of certain financial instruments.

Accounting and Reporting Developments

In April 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-08, "*Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*," to change the requirements for reporting discontinued operations in Subtopic 205-20. The new guidance requires discontinued operations treatment for disposals of a (group of) component(s) that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The ASU is applicable to all entities and is effective for annual periods beginning on or after 15 December 2014 and interim periods within those years. The planned termination and transfer of ADF loan operations are disclosed in Note A.

In May 2014, the FASB issued ASU 2014-09 "*Revenue from Contracts with Customers (Topic 606)*" to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on ADF's financial statements.

In June 2014, the FASB issued ASU 2014-11 "*Transfers and Servicing (Topic 860) – Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures*" to change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and to provide increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. An

continued

entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2014, and for interim periods after 15 March 2015. This ASU is not applicable to ADF.

In August 2014, the FASB issued ASU 2014-15, "*Presentation of Financial Statements – Going Concern (Subtopic 205-40)*," to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact ADF's financial statements.

In January 2016, the FASB issued ASU 2016-01, "*Financial Instruments—Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*". This Update enhances the reporting requirements for financial instruments. Specifically, this Update (i) requires that investments in equity securities measured at FV, recognize changes in FV in net income, (ii) simplifies the impairment assessment of equity investments for which FV is not readily determinable by requiring entities to perform a qualitative assessment to identify impairment, (iii) amends certain disclosure requirements associated with the FV of financial instruments, and (iv) requires to present separately in other comprehensive income the portion of the total change in the FV of financial liabilities measured at FV resulting from a change in the instrument-specific credit risk. This Update is effective for fiscal years beginning after 15 December 2017 and interim periods thereafter. ADB is currently assessing the impact of this ASU on ADF's financial statements.

Special Purpose Statement of Cash Flows

For the purposes of the Special Purpose Statement of Cash Flows, ADF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for (i) operational disbursements, (ii) receipt of funds from encashment of donor countries' promissory notes, and (iii) clearing accounts.

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

ADB may engage in securities lending of government or government-guaranteed obligations for which ADB receives a guarantee from the securities custodian and a fee. Transfers of securities by ADB to counterparties are not accounted for as sales as the accounting criteria for the treatment of a sale have not been met. These securities must be available to meet ADB's obligation to counterparties. Included in Investments as of 31 December 2015 were government or government-guaranteed obligations transferred under securities lending arrangements amounting to \$17 million (\$4 million – 2014).

continued

The currency composition of the investment portfolio as of 31 December 2015 and 2014 expressed in US dollars was as follows:

(\$ million)

Currency	2015	2014
US dollar	\$ 2,983	\$ 2,798
Euro	1,891	2,401
Pound sterling	752	812
Yen	367	187
Total	\$ 5,993	\$ 6,198

The estimated fair value and amortized cost of the investments as of 31 December 2015 and 2014 were as follows:

(\$ million)

	2015		2014	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	\$ 1,443	\$ 1,440	\$ 2,327	\$ 2,323
Due after one year through five years	4,133	4,136	3,713	3,700
Due after five years through ten years	403	400	158	153
Due after ten years through fifteen years	14	14	—	—
Total	\$ 5,993	\$ 5,990	\$ 6,198	\$ 6,176

Additional information relating to investments in government or government-guaranteed obligations classified as available for sale is as follows:

(\$ million)

	2015	2014
As of 31 December		
Amortized cost	\$ 5,588	\$ 5,341
Estimated fair value	5,591	5,363
Gross unrealized gains	16	26
Gross unrealized losses	(13)	(4)
For the years ended 31 December		
Change in net unrealized losses from prior year	(19)	\$ (7)
Proceeds from sales	2,422	2,586
Gross gain on sales	8	11
Gross loss on sales	(0)	(0)

0 = less than \$0.5 million.

continued

The rate of return on the average investments held during the year, including securities purchased under resale arrangements, based on the portfolio held at the beginning and end of each month, was 0.95% (0.90% – 2014) excluding unrealized gains and losses on investment securities, and 0.67% (0.80% – 2014) including unrealized gains and losses on investments.

There were no government or government-guaranteed obligations (nil – 31 December 2014) that sustained losses for over one year. Comparative details for 2015 and 2014 are as follows:

(\$ million)

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of 31 December 2015						
Government or government-guaranteed obligations	\$ 2,639	\$ 13	\$ –	\$ –	\$ 2,639	\$ 13

(\$ million)

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of 31 December 2014						
Government or government-guaranteed obligations	\$ 1,420	\$ 4	\$ –	\$ –	\$ 1,420	\$ 4

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2015 and 2014 was as follows:

(\$ million)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
31 December 2015				
Investments				
Government or government-guaranteed obligations	\$ 5,591	\$ 5,586	\$ 5	\$ –
Time deposits	402	–	402	–
Securities purchased under resale arrangements	37	–	37	–
Total at fair value	\$ 6,030	\$ 5,586	\$ 444	\$ –

(\$ million)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
31 December 2014				
Investments				
Government or government-guaranteed obligations	\$ 5,363	\$ 5,247	\$ 116	\$ –
Time deposits	835	–	835	–
Securities purchased under resale arrangements	361	–	361	–
Total at fair value	\$ 6,559	\$ 5,247	\$ 1,312	\$ –

continued

If available, investment securities are fair valued based on active market quotes. These include most government or government-guaranteed obligations. For investments where active market quotes are not available, investments are categorized as Level 2 or Level 3, and valuation is provided by independent valuation services or based on discounted cash flow models using market observable inputs, such as interest rates, foreign exchange rates, basis spreads, cross currency rates, and volatilities. Time deposits are reported at cost, which approximates fair value.

The table below provides details of transfers between Level 1 and Level 2 for the years ended 31 December 2015 and 2014:

(\$ million)					
		2015		2014	
		Level 1	Level 2	Level 1	Level 2
Investments					
Government or government-guaranteed obligations					
Transfers into (out of)	\$	—	\$	—	\$ 16
Transfers (out of) into		(5)	5	—	(16)

The inter-level transfers are attributed to the absence or availability of market quotes.

ADB maintains documented processes and internal controls to value the investment securities and financial assets. The data management unit in the treasury department is responsible for providing the valuation in accordance with the business process. In instances where ADB relies primarily on prices from third party pricing information, there are procedures in place to validate the appropriateness of those values in determining the hierarchy levels. This involves evaluating the nature of prices provided by third party pricing sources to determine if they are indicative or binding prices. There were no investments categorized as Level 3 as of 31 December 2015 and 2014.

NOTE D—LOANS AND HIPC INITIATIVE

Prior to 1 January 1999, loans of ADF extended to eligible borrowing members bore a service charge of 1% and required repayment over periods ranging from 35 to 40 years. On 14 December 1998, the Board of Directors approved an amendment to ADF loan terms, as follows: (i) for loans to finance specific projects, the maturity was shortened to 32 years including an 8-year grace period; (ii) for program loans to support sector development, the maturity was shortened to 24 years including an 8-year grace period; and (iii) all new loans bear a 1% interest charge during the grace period, and 1.5% during the amortization period, with equal amortization. The revised ADF lending terms took effect on 1 January 1999 for loans for which formal loan negotiations were completed on or after 1 January 1999. ADF requires borrowers to absorb exchange rate risks attributable to fluctuations in the value of the currencies disbursed.

In September 2007, the Board of Directors approved a new hard-term ADF lending facility. The facility will have a fixed interest rate of 150 basis points below the weighted average of the ten-year fixed swap rates of the special drawing rights component currencies plus the OCR lending spread, or the current ADF rate, whichever is higher. Other terms are similar to those of regular ADF loans. The interest rate will be reset every January and will apply to all hard-term loans approved that year and will be fixed for the life of the loan.

In June 2012, the Board of Directors approved the hardening of lending terms to blend countries: (a) for project and policy-based loans financed from ADF resources, a 25-year tenor including a 5-year grace period, 2.0% per year interest rate throughout the loan tenor, and equal amortization; and (b) for hard-term loans, a 25-year tenor including a 5-year grace period, an interest rate calculated as 150 basis points below the weighted average of the 10-year fixed swap rates of the SDR component currencies plus the OCR lending spread, or the applicable ADF interest rates, whichever is higher, throughout the loan

continued

tenor, and equal amortization. These new lending terms were applicable to loans for which formal loan negotiations were completed on or after 1 January 2013.

For hard-term ADF loans approved in 2015, the interest rate was set at (i) 1.0% during the grace period and 1.5% thereafter (1.77% fixed for the life of the loans – 2014) for ADF-only countries; and (ii) 2.0% fixed for the life of the loans for blend countries (2.0% fixed – 2014).

In April 2008, the Board of Governors adopted the resolution on providing HIPC Relief from ADF Debt which allowed ADB to participate in the HIPC Initiative. Subsequently, the Board of Directors approved the provision of debt relief under HIPC to Afghanistan.

ADB believes that because there is no comparable market for ADF loans and because they do not intend to sell these loans, using market data to calculate the fair value of the loans is not meaningful. As such, the fair value of loans is determined based on the terms at which a similar loan would currently be made by ADB to a similar borrower. For such loans, carrying amount approximates the fair value. Any credit risks adjustment on the fair value of loans is considered not to have a material effect based on ADB's experience with its borrowers.

Undisbursed loan commitments and an analysis of loans by country as of 31 December 2015 are shown in ADF-6.

As of 31 December 2015 and 2014, outstanding loans to borrowers that exceeded 5% of total outstanding loans were as follows:

(\$ million)

	2015	2014
Bangladesh	\$ 5,864	\$ 6,022
Pakistan	5,346	5,422
Viet Nam	4,068	3,907
Sri Lanka	2,363	2,433
Nepal	1,437	1,456
Others (individually less than 5% of total loans)	8,192	8,364
Total Outstanding Loans	27,270	27,604
Allowance for HIPC Debt Relief	(65)	(70)
Net Outstanding Loans	\$ 27,205	\$ 27,534

There were no outstanding loans in non-accrual status as of 31 December 2015 and 2014.

Credit Quality of Loans

ADF loans are provided for the economic and social development of the less developed member countries, which generally have lower credit quality than OCR borrowers. ADB uses a performance based allocation (PBA) system to allocate ADF resources among the many competing needs in the region and to direct the funds to where they will be used most effectively. ADB regularly reviews the borrowers' debt sustaining capacity in determining the proportion of grant and loan that would be provided to each borrower.

The credit quality of ADF loans has been classified by mapping the external sovereign ratings of the borrowers to ADB's internal risk rating scale used for OCR loans.

continued

The credit quality of ADF loans was as follows:

(\$ million)

Risk Class	Risk Rating	2015	2014
Low credit risk	1–5 (AAA to BBB–)	\$ 1,310	\$ 1,585
Medium credit risk	6–11 (BB+ to B–)	23,614	17,419
High credit risk	12–14 (CCC+ to D)	2,346	8,600
Total		\$ 27,270	\$ 27,604

Provision for HIPC Debt Relief amounting to \$82 million relating to the Afghanistan debt relief under the HIPC Initiative was recognized and charged to income in 2008. Of this amount, a total of \$17 million was written-off as the loan service payments of affected loans fell due. This brought the balance of Allowance for HIPC debt relief as of 31 December 2015 to \$65 million.

NOTE E—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separate from each other.

Payable to related funds of \$51 million (\$41 million – 2014) is an amount due to OCR, representing the unpaid balance of ADF's share in the administrative and operational expenses of ADB. The allocation of expenses is based on operational activities and are settled regularly. See Note G—ADMINISTRATIVE EXPENSES.

Under ADF XI and the fifth regularized replenishment of TASF, a specific portion of the total contributions is to be allocated to TASF. ADF receives contributions from members and subsequently transfers the specified portion to TASF. As of 31 December 2015 and 2014, ADF has transferred all allocated contributions to TASF.

NOTE F—CONTRIBUTED RESOURCES AND ADVANCED CONTRIBUTIONS

In May 2015, the Board of Governors approved the transfer of \$120 million to the ADF as part of OCR's 2014 net income allocation.

ADF receives cash or nonnegotiable, noninterest-bearing demand obligations as payment for the contributions. Subject to certain restrictions imposed by applicable Board of Governors' resolutions, demand obligations are encashable by ADB at par upon demand. The unencashed balance as of 31 December 2015 is reported as a reduction in the Fund Balances, which ADB currently expects to be encashed in varying amounts over the standard encashment period ending 31 December 2017 for ADF X, and 31 December 2021 for ADF XI.

As of 31 December 2015, contributions from 31 donors totaling \$3,564 million were committed for ADF XI. Of these, \$2,391 million including amortized discount of \$2 million were received and recorded in Contributed Resources.

Advance contributions received from donors outstanding as of 31 December 2015 total \$167 million (\$185 million – 2014). Of this, contributions totaling \$120 million (\$117 million – 2014) were received in demand obligations, and are included in OTHER ASSETS. The remaining \$47 million (\$68 million – 2014) was received in cash.

continued

NOTE G—ADMINISTRATIVE EXPENSES

Administrative expenses represent administration charges from OCR which is an apportionment of all administrative expenses of ADB (other than those pertaining directly to ordinary operations and special operations), in the proportion of the relative volume of operational activities.

NOTE H—SET-ASIDE RESOURCES

Pursuant to the provisions of Article 19, paragraph 1(i) of the Charter, the Board of Governors has authorized the setting aside of 10% of the unimpaired “paid-in” capital paid by members pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by members pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973, to be used as a part of the Special Funds of ADB. The set aside capital was allocated and transferred from the OCR to ADF as Set-Aside Resources.

The capital stock of ADB is defined in Article 4, paragraph 1 of the Charter, “in terms of US dollars of the weight and fineness in effect on 31 January 1966” (the 1966 dollar). Therefore, Set-Aside Resources had historically been translated into the current US dollar (ADB’s unit of account), on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was \$1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer had par values in terms of gold.

Pending ADB’s selection of the appropriate successor to the 1966 dollar, the Set-Aside Resources have been valued for purposes of the accompanying special purpose financial statements in terms of the SDR, at the value in current US dollars as denominated by the IMF. As of 31 December 2015, the value of the SDR in terms of the current US dollar was \$1.38686 (\$1.44838 – 2014). On this basis, Set-Aside Resources amounted to \$66 million (\$69 million – 2014). If the capital stock of ADB as of 31 December 2015 had been valued in terms of \$12,063.50 per share, Set-Aside Resources would have been \$57 million.

NOTE I—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Comprehensive Income (Loss) has two major components: revenue less than expenses (ADF-2) and other comprehensive income (loss) (ADF-3). Other Comprehensive Income (Loss) includes unrealized gains and losses on “Available for Sale” securities and translation adjustments of assets and liabilities denominated in one of the functional currencies.

The changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2015 and 2014 were as follows:

(\$ million)

	Accumulated Translation Adjustments		Unrealized Holding Gains (Losses) Investments		Accumulated Other Comprehensive Loss	
	2015	2014	2015	2014	2015	2014
Balance, 1 January	\$ (235)	\$ (529)	\$ 22	\$ 29	\$ (213)	\$ (500)
Other comprehensive (loss) income before reclassification	(586)	294	(12)	(2)	(598)	292
Amounts reclassified from accumulated other comprehensive loss	—	—	(7)	(5)	(7)	(5)
Net current-period other comprehensive (loss) income	(586)	294	(19)	(7)	(605)	287
Balance, 31 December	\$ (821)	\$ (235)	\$ 3	\$ 22	\$ (818)	\$ (213)

continued

The reclassifications of Accumulated Other Comprehensive Loss to Revenue and Expenses for the year ended 31 December 2015 and 2014 were as follows:

(\$ million)

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Special Purpose Statement of Revenue and Expenses
	2015	2014	
Unrealized Holding Gains on Investments	\$ 7	\$ 5	NET REALIZED GAINS FROM INVESTMENTS

NOTE J—GRANTS AND UNDISBURSED COMMITMENTS

ADF IX introduced financing in the form of grants for the first time. During 2015, 15 grants (17 – 2014) totaling \$358 million (\$405 million – 2014) were approved, while \$348 million (\$848 million – 2014), net of \$12 million (\$7 million – 2014) write-back of undisbursed commitments for financially closed and/or cancelled grants, became effective.

The fair value of undisbursed commitments approximates the amount outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE K—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, ADF has no assets or liabilities measured at fair value on a non-recurring basis. See Notes C, D, and J for discussions relating to investments, loans, and undisbursed commitments, respectively. In all other cases, the carrying amounts of ADF's assets and liabilities are considered to approximate fair values.

NOTE L—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Special Purpose Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the ADF's Financial Statements as of 31 December 2015.

TECHNICAL ASSISTANCE SPECIAL FUND MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
Controller



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statement of financial position of Asian Development Bank ("ADB") – Technical Assistance Special Fund as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized flourish.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Technical Assistance Special Fund which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB - Technical Assistance Special Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of statement of resources as of December 31, 2015 and summary statement of technical assistance approved and effective for the year then ended, are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized signature, is written over a faint, larger "Deloitte" logo.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2015 and 2014
Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
ASSETS		
DUE FROM BANKS	\$ 6,972	\$ 1,228
INVESTMENTS (Notes C and G)		
Time deposits	366,555	390,457
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Note C)	—	84
ACCRUED REVENUE	50	85
DUE FROM CONTRIBUTORS (Note F)	112,809	164,839
ADVANCES FOR GRANTS AND OTHER ASSETS (Note D)	2,550	5,024
TOTAL	\$ 488,936	\$ 561,717
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Notes D and E)	\$ 1,443	\$ 471
UNDISBURSED COMMITMENTS (Notes E and G)	340,594	340,378
TOTAL LIABILITIES	342,037	340,849
UNCOMMITTED BALANCES (TASF-2 and TASF-4) (Note F), represented by:		
Unrestricted net assets	146,899	220,868
TOTAL	\$ 488,936	\$ 561,717

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-2

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015	2014
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (TASF-4) (Note F)	\$ 68,407	\$ 32,013
REVENUE		
From investments (Note C)	2,214	2,595
From other sources (Notes D and E)	7,570	9
Total	78,191	34,617
EXPENSES		
Technical assistance—net (TASF-5) (Note E)	123,601	113,316
Administrative expenses (Note D)	6,169	—
Financial expenses	13	10
Other expenses	—	297
Total	129,783	113,623
CONTRIBUTIONS AND REVENUE LESS THAN EXPENSES	(51,592)	(79,006)
EXCHANGE LOSSES—net	(22,377)	(29,720)
DECREASE IN NET ASSETS	(73,969)	(108,726)
NET ASSETS AT BEGINNING OF YEAR	220,868	329,594
NET ASSETS AT END OF YEAR	\$ 146,899	\$ 220,868

The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 113,489	\$ 105,743
Interest on investments received	2,245	2,559
Net cash received from other activities	6	9
Technical assistance disbursed	(121,187)	(120,783)
Financial expenses paid	(13)	(10)
Other expenses paid	1,395	(297)
Net Cash Used In Operating Activities	(4,065)	(12,779)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	14,514,359	16,542,793
Purchases of investments	(14,504,112)	(16,529,407)
Receipts from securities purchased under resale arrangements	5,620	734,977
Payments for securities purchased under resale arrangements	(5,537)	(736,759)
Net Cash Provided by Investing Activities	10,330	11,604
Effect of Exchange Rate Changes on Due from Banks	(521)	(179)
Net Increase (Decrease) in Due from Banks	5,744	(1,354)
Due from Banks at Beginning of Year	1,228	2,582
Due from Banks at End of Year	\$ 6,972	\$ 1,228
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Decrease in net assets (TASF-2)	\$ (73,969)	\$ (108,726)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Change in accrued revenue	30	(36)
Change in due from contributors	66,469	86,946
Change in advances for grants and other assets	3,623	(4,140)
Change in accounts payable and other liabilities	980	(53)
Change in undisbursed commitments	217	(6,370)
Exchange (gains) losses—net	(1,415)	19,600
Net Cash Used in Operating Activities	\$ (4,065)	\$ (12,779)

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-4

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF RESOURCES

31 December 2015

Expressed in Thousands of US Dollars

Contributor	Contributions Committed During 2015	Direct Voluntary Contributions	Regularized Replenishment ¹	Total Contributions
Australia	\$ —	\$ 2,484	\$ 103,809	\$ 106,294
Austria	—	159	10,582	10,741
Bangladesh	—	47	—	47
Belgium	—	1,394	8,535	9,929
Brunei Darussalam	—	—	917	917
Canada	—	3,346	58,087	61,433
China, People's Republic of	—	1,600	8,358	9,958
Denmark	—	1,963	7,656	9,618
Finland	—	237	6,979	7,216
France	—	1,697	43,704	45,402
Germany	—	3,315	59,811	63,126
Hong Kong, China	—	100	6,120	6,220
India	—	4,494	—	4,494
Indonesia	—	250	40	290
Ireland	—	—	5,771	5,771
Italy	—	774	36,458	37,232
Japan	—	47,710	447,634	495,345
Kazakhstan	—	—	410	410
Korea, Republic of	—	1,900	33,347	35,247
Luxembourg	—	—	1,502	1,502
Malaysia	—	909	1,572	2,481
Nauru	—	—	67	67
The Netherlands	—	1,337	26,869	28,206
New Zealand	—	1,096	7,400	8,496
Norway	—	3,279	11,430	14,709
Pakistan	70	2,086	—	2,086
Portugal	—	—	3,635	3,635
Singapore	—	1,100	1,398	2,498
Spain	—	190	16,564	16,754
Sri Lanka	—	6	—	6
Sweden	—	861	18,209	19,071
Switzerland	—	1,035	13,498	14,533
Taipei, China	—	200	5,215	5,415
Thailand	—	—	875	875
Turkey	—	—	3,694	3,694
United Kingdom	—	5,617	64,238	69,855
United States	28,337	1,500	130,457	131,957
Total	28,407	90,688	1,144,840	1,235,528
Transfer to Asian Development Fund				(3,472)
Allocation from OCR Net Income	40,000			949,000
Other Resources ²				204,728
TOTAL	\$ 68,407			\$ 2,385,785

Note: Numbers may not sum precisely because of rounding.

¹ Represents TASF portion of contributions to the replenishment of the Asian Development Fund and the Technical Assistance Special Fund authorized by Governors' Resolution Nos. 182, 214, 300, 333 and 357 at historical values.² Represents income, repayments, and reimbursements accruing to TASF since 1980.

The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
SUMMARY STATEMENT OF TECHNICAL ASSISTANCE APPROVED AND EFFECTIVE
For the Year Ended 31 December 2015

Expressed in Thousands of US Dollars

Recipient	Project Preparation	Advisory	Research and Development	Policy and Advisory	Capacity Development	Total
Afghanistan	\$ —	\$ —	\$ —	\$ (16)	\$ 1,516	\$ 1,501
Armenia	546	—	—	(30)	1,225	1,741
Azerbaijan	2,200	—	—	—	—	2,200
Bangladesh	(26)	—	—	(330)	2,028	1,673
Bhutan	—	—	—	—	2,137	2,137
Cambodia	748	(4)	—	(135)	2,088	2,697
China, People's Republic of	5,053	(169)	—	4,177	1,341	10,402
Cook Islands	—	—	—	—	(4)	(4)
Fiji	—	—	—	—	976	976
Georgia	(254)	—	—	705	—	451
India	1,245	—	—	—	2,264	3,509
Indonesia	1,670	(768)	—	1,725	(243)	2,385
Kazakhstan	1,625	—	—	1,000	—	2,625
Kiribati	—	—	—	—	(275)	(275)
Kyrgyz Republic	909	—	—	475	—	1,384
Lao People's Democratic Republic	2,175	—	—	(109)	1,049	3,115
Malaysia	—	—	—	—	(15)	(15)
Maldives	1,350	—	—	—	500	1,850
Mongolia	2,500	—	—	1,600	2,579	6,679
Myanmar	1,375	—	—	1,355	1,813	4,543
Nauru	(136)	—	—	—	—	(136)
Nepal	2,168	—	—	—	2,913	5,081
Pakistan	6,025	—	—	(27)	1,832	7,830
Papua New Guinea	—	—	—	(162)	—	(162)
Philippines	852	—	—	(224)	(79)	548
Samoa	(85)	—	—	500	150	565
Solomon Islands	76	—	—	—	—	76
Sri Lanka	195	—	—	(80)	1,854	1,970
Tajikistan	927	—	—	—	(33)	895
Thailand	—	—	—	(226)	—	(226)
Timor-Leste	500	—	—	—	(19)	481
Tonga	—	—	—	—	300	300
Tuvalu	600	—	—	—	—	600
Uzbekistan	2,476	—	—	—	273	2,749
Vanuatu	(86)	—	—	—	—	(86)
Viet Nam	1,607	—	—	409	1,648	3,664
Regional	(104)	—	12,428	6,196	32,604	51,125
Total	\$ 36,132	\$ (941)	\$ 12,428	\$ 16,804	\$ 60,424	124,846
Regional Activities						(1,246)
TOTAL						\$ 123,601

Notes:

(i) Numbers may not sum precisely because of rounding.

(ii) Negative amounts represent net undisbursed commitments written back to balances available for future commitments (Note E).

The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

The TASF was established to provide technical assistance on a grant basis to DMCs of the ADB and for regional technical assistance. TASF resources consist of regularized replenishments and direct voluntary contributions by members, allocations from the net income of OCR, and revenue from investments and other sources.

In July 2012, the Board of Governors adopted the resolution providing for the tenth replenishment of the Asian Development Fund (ADF XI) and the fifth regularized replenishment of the TASF. The replenishment provides substantial resources to the ADF to finance ADB's concessional program, and to the TASF to finance technical assistance operations. Total replenishment size was SDR8,415 million, of which SDR3,090 million will come from new donor contributions. The donors agreed to allocate 3% of the total replenishment size (equivalent to about 8% of total donor contributions) to TASF. The replenishment became effective on 4 June 2013. As of 31 December 2015, ADB had received instruments of contribution from 31 donors with the total amount equivalent to SDR3,047 million including qualified contributions amounting to SDR368 million.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the TASF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

TASF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to TASF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of TASF.

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets, liabilities, and uncommitted balances which are denominated in non-US dollar currencies are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

Investments

All investment securities held by TASF are reported at fair value. Realized and unrealized gains and losses are included in REVENUE From investments.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments.

Securities Purchased Under Resale Arrangements

TASF accounts for the transfer of financial assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860, "Transfers and Servicing." Transfers are accounted for as sales under ASC 860 when control over the transferred assets has been relinquished. Otherwise, the transfers are accounted for as resale arrangements and collateralized financing arrangements. Securities purchased under resale arrangements are recorded as assets and are not re-pledged.

Contributions

The contributions from donors and the allocations from OCR net income are included in the financial statements from the date of effectivity of the contribution agreement, and the Board of Governors' approval, respectively.

Technical Assistance, Grants and Undisbursed Commitments

Technical assistance (TA) and grants are recognized in the financial statements when the project is approved and becomes effective. Upon completion or cancellation of a TA project or grant, any undisbursed amount is written back as a reduction in TA or grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Advances are provided from TA and grants to the executing agency or co-operating institution, for the purpose of making payments for eligible expenses. The advances are subject to liquidation and charged against undisbursed commitments. Any unutilized portion is required to be returned to the fund. These are included in ADVANCES FOR GRANTS AND OTHER ASSETS.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction costs.

continued

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.
 Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
 Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2013-06, *“Not-for-Profit Entities (Topic 958),”* to require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. The recipient not-for-profit entity may elect to recognize that service received either at the cost recognized by the affiliate for the personnel providing that services or at the fair value. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. See Note D for the required disclosures.

In May 2014, the FASB issued ASU 2014-09 *“Revenue from Contracts with Customers (Topic 606)”* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on TASF's financial statements.

In June 2014, the FASB issued ASU 2014-11 *“Transfers and Servicing (Topic 860) – Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”* to change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and to provide increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2014, and for interim periods after 15 March 2015. This ASU is not applicable to TASF.

continued

In August 2014, the FASB issued ASU 2014-15 “*Presentation of Financial Statements – Going Concern (Subtopic 205-40)*” to require management to perform interim and annual assessments of an entity’s ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity’s ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact TASF’s financial statements.

In January 2016, the FASB issued ASU 2016-01, “*Financial Instruments—Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities*”. This Update enhances the reporting requirements for financial instruments. Specifically, this Update (i) requires that investments in equity securities measured at FV, recognize changes in FV in net income, (ii) simplifies the impairment assessment of equity investments for which FV is not readily determinable by requiring entities to perform a qualitative assessment to identify impairment, (iii) amends certain disclosure requirements associated with the FV of financial instruments, and (iv) requires to present separately in other comprehensive income the portion of the total change in the FV of financial liabilities measured at FV resulting from a change in the instrument-specific credit risk. This Update is effective for fiscal years beginning after 15 December 2017 and interim periods thereafter. ADB is currently assessing the impact of this ASU on TASF’s financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the TASF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for (i) operational disbursements, (ii) receipt of funds from encashment of donor countries’ promissory notes, and (iii) clearing accounts.

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

All investments held as of 31 December 2015 and 2014 were in time deposits.

The currency composition of the investment portfolio as of 31 December 2015 and 2014 expressed in US dollars was as follows:

(\$ thousand)

Currency	2015	2014
US dollar	\$ 235,246	\$ 262,033
Australian dollar	67,763	66,054
Pound sterling	38,078	34,855
Canadian dollar	25,468	27,515
Total	\$ 366,555	\$ 390,457

The annualized rate of return on the average investments held during the period ended 31 December 2015, including securities purchased under resale arrangements, based on the portfolio held at the beginning and end of each month, was 0.60% (0.65% – 2014).

continued

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2015 and 2014 was as follows:

(\$ thousand)

		Fair Value Measurements			
	Total	Level 1	Level 2	Level 3	
31 December 2015					
Investments					
Time deposits	\$ 366,555	\$ —	\$ 366,555	\$ —	
31 December 2014					
Investments					
Time deposits	\$ 390,457	\$ —	\$ 390,457	\$ —	
Securities purchased under resale arrangements	84	—	84	—	
Total at fair value	\$ 390,541	\$ —	\$ 390,541	\$ —	

ADB maintains documented processes and internal controls to value investment securities. If available, investment securities are fair valued based on active market quotes. Time deposits are reported at cost, which approximates fair value.

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. Under ADF IX, ADF X, and ADF XI, a specific portion of the total contributions under each is to be allocated to the TASF as third, fourth and fifth regularized replenishments, respectively. ADF receives the contributions from members and subsequently transfers the specified portion to the TASF. Regional technical assistance projects and programs activities may be cofinanced by ADB's other Special Funds and trust funds administered by ADB (Agency Trust Funds). Interfund accounts are settled regularly between the TASF and the other funds.

ADB does not allocate any service fees to TASF for administering TA which involves a range of personnel services. Effective 1 January 2015, TASF has estimated the fair value of personnel services involved in administering TAs to be 5% of amounts disbursed for TA projects. For the year ended 31 December 2015, the calculated service fee was \$6,169,000 and recorded as EXPENSES Administrative expenses and REVENUE From other sources. The transaction has no impact on the net assets of TASF.

continued

The interfund account balances included in ADVANCES FOR GRANTS AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

(\$ thousand)

	2015	2014
Receivable from:		
Japan Special Fund	\$ –	10
Regional Cooperation and Integration Fund	162	33
Financial Sector Development Partnership Special Fund	–	28
Agency Trust Funds—net	335	903
Total	\$ 497	\$ 974
Payable to:		
Ordinary capital resources	\$ 91	\$ 92
Climate Change Fund	0	37
Total	\$ 91	\$ 129

0 = Less than \$500.

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective ongoing grant-financed TA projects/programs which are not yet disbursed and unliquidated as of the end of the year. During 2015, \$23,975,000 (\$25,243,000 – 2014) representing completed and canceled TA projects was written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The fair value of undisbursed commitments approximates the amounts undisbursed, because ADB expects that disbursements will be made for all projects/programs covered by the commitments.

ADB normally finances all TA on a grant basis. However, some TA operations are subject to arrangements for recovery of the full cost of the TA or provided on a reimbursable basis. During 2015, \$1,395,000 (nil – 2014) was included in REVENUE From other sources as reimbursement for the TA.

As of 31 December 2015, \$1,240,000 (nil - 2014) was included in ACCOUNTS PAYABLE AND OTHER LIABILITIES as reimbursement for the TA, received in advance of the TA approval.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

Since inception in 1967, direct contributions have been made by 29 member countries. In 2015, TASF received direct and voluntary contributions from Pakistan amounting to \$70,000.

In 1986, 1992, 2005, 2009 and 2013, the Board of Governors of ADB, in authorizing replenishments of the ADF, provided for allocations to the TASF in aggregate amounts equivalent to \$72,000,000, \$141,000,000, \$221,000,000, \$339,000,000 and \$371,000,000, respectively, to be used for technical assistance to ADF borrowing DMCs and for regional technical assistance. During the year, the fund received \$94,806,000 (\$103,000 – ADF IX; \$4,019,000 – ADF X; \$90,684,000 – ADF XI) in cash and promissory notes, leaving a total of \$112,809,000 (\$7,156,000 – ADF IX; \$20,120,000 – ADF X; \$85,533,000 – ADF XI) as DUE FROM CONTRIBUTORS.

In 2015, \$40,000,000 was allocated from OCR net income to TASF bringing the accumulated allocation from OCR net income to \$949,000,000.

continued

Some of the direct contributions received can be subject to restricted procurement sources, while some are given on condition that the technical assistance be made on a reimbursable basis. The total contributions received for the years ended 31 December 2015 and 2014 were without any restrictions.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2015 and 2014. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, TASF has no assets or liabilities measured at fair value on a non-recurring basis. See Notes C and E for discussions relating to investments and undisbursed commitments, respectively. In all other cases, the carrying amount of TASF's assets and liabilities is considered to approximate fair value.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the TASF's Financial Statements as of 31 December 2015.

**JAPAN SPECIAL FUND
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
Controller



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

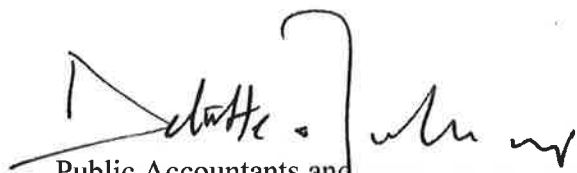
ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statement of financial position of Asian Development Bank ("ADB") – Japan Special Fund as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those financial statements.



Public Accountants and
Chartered Accountants
Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Japan Special Fund which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB - Japan Special Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized flourish.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015			2014		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
ASSETS						
DUE FROM BANKS	\$ 181	\$ 2,010	\$ 2,191	\$ 181	\$ 287	\$ 468
INVESTMENTS (Notes C and G)						
Time deposits	36,845	68,708	105,553	36,765	72,549	109,314
ACCRUED REVENUE	3	4	7	4	5	9
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	—	0	0	—	15	15
TOTAL	\$ 37,029	\$ 70,722	\$ 107,751	\$ 36,950	\$ 72,856	\$ 109,806
LIABILITIES AND NET ASSETS						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ —	\$ 39	\$ 39	\$ 0	\$ 43	\$ 43
UNDISBURSED COMMITMENTS (Notes E and G)	—	2,744	2,744	—	7,357	7,357
TOTAL LIABILITIES	—	2,783	2,783	—	7,400	7,400
NET ASSETS (JSF-2), represented by:						
Uncommitted balances (Note F)						
Unrestricted	—	67,939	67,939	—	65,456	65,456
Temporarily restricted	28,199	—	28,199	28,199	—	28,199
	28,199	67,939	96,138	28,199	65,456	93,655
Net accumulated investment income (Note F)						
Temporarily restricted	8,830	—	8,830	8,751	—	8,751
	37,029	67,939	104,968	36,950	65,456	102,406
TOTAL	\$ 37,029	\$ 70,722	\$ 107,751	\$ 36,950	\$ 72,856	\$ 109,806

0 = Less than \$500.

The accompanying notes are an integral part of these financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015			2014		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS (Note C)	\$ —	\$ 138	\$ 138	\$ —	\$ 124	\$ 124
REVENUE FROM OTHER SOURCES	—	9	9	—	—	—
NET ASSETS REVERTED FROM TEMPORARILY RESTRICTED ASSETS	0	—	0	0	—	0
Total	0	147	147	0	124	124
EXPENSES						
Technical assistance—net (Note E)	—	(2,631)	(2,631)	—	(2,978)	(2,978)
Administrative and financial expenses	0	295	295	0	280	280
Total	0	(2,336)	(2,336)	0	(2,698)	(2,698)
REVENUE IN EXCESS OF EXPENSES	—	2,483	2,483	—	2,822	2,822
EXCHANGE GAINS (LOSSES)—net	—	0	0	—	(0)	(0)
INCREASE IN UNRESTRICTED NET ASSETS	—	2,483	2,483	—	2,822	2,822
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS AND OTHER SOURCES	79	—	79	80	—	80
NET ASSETS REVERTED TO TEMPORARILY RESTRICTED ASSETS	(0)	—	(0)	(0)	—	(0)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	79	—	79	80	—	80
INCREASE IN NET ASSETS	79	2,483	2,562	80	2,822	2,902
NET ASSETS AT BEGINNING OF YEAR	36,950	65,456	102,406	36,870	62,634	99,504
NET ASSETS AT END OF YEAR	\$ 37,029	\$ 67,939	\$ 104,968	\$ 36,950	\$ 65,456	\$ 102,406

0 = Less than \$500.

The accompanying notes are an integral part of these financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
STATEMENT OF CASH FLOWS

For the Years Ended 31 December 2015 and 2014

Expressed in Thousands of US Dollars

	2015			2014		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Interest on investments received	\$ 79	\$ 139	\$ 218	\$ 78	\$ 122	\$ 200
Net cash received from other sources	0	9	9	–	0	0
Technical assistance disbursed	–	(1,964)	(1,964)	–	(3,481)	(3,481)
Administrative and financial expenses paid	(0)	(302)	(302)	0	(282)	(282)
Net Cash Provided by (Used in) Operating Activities	79	(2,118)	(2,039)	78	(3,641)	(3,563)
CASH FLOWS FROM INVESTING ACTIVITIES						
Maturities of investments	1,656,361	3,470,529	5,126,890	1,652,454	3,637,311	5,289,765
Purchases of investments	(1,656,440)	(3,466,688)	(5,123,128)	(1,652,532)	(3,634,014)	(5,286,546)
Net Cash (Used in) Provided by Investing Activities	(79)	3,841	3,762	(78)	3,297	3,219
Net (Decrease) Increase in Due from Banks	(0)	1,723	1,723	0	(344)	(344)
Due from Banks at Beginning of Year	181	287	468	181	631	812
Due from Banks at End of Year	\$ 181	\$ 2,010	\$ 2,191	\$ 181	\$ 287	\$ 468
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Increase in net assets (JSF-2)	\$ 79	\$ 2,483	\$ 2,562	\$ 80	\$ 2,822	\$ 2,902
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:						
Change in accrued revenue	(0)	1	1	(2)	(2)	(4)
Change in advances for technical assistance and other assets	–	15	15	–	70	70
Change in accounts payable and other liabilities	–	(4)	(4)	–	(9)	(9)
Change in undisbursed commitments	–	(4,613)	(4,613)	–	(6,522)	(6,522)
Exchange gains—net	–	(0)	(0)	–	(0)	(0)
Net Cash Provided by (Used in) Operating Activities	\$ 79	\$ (2,118)	\$ (2,039)	\$ 78	\$ (3,641)	\$ (3,563)

0 = Less than \$500.

The accompanying notes are an integral part of these financial statements (JSF-4).

**ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014**

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

The JSF was established in March 1988 when the Government of Japan and ADB entered into a financial arrangement whereby the Government of Japan agreed to make an initial contribution and ADB became the administrator. The purpose of JSF is to help DMCs of ADB restructure their economies and broaden the scope of opportunities for new investments, thereby assisting the recycling of funds to DMCs of ADB. While JSF resources are used mainly to finance technical assistance (TA) operations, these resources may also be used for equity investment operations in ADB's DMCs. Under the agreement between ADB and Japan, ADB may invest the proceeds of JSF pending disbursement.

In March 1999, the Board approved the acceptance and administration by ADB of the Asian Currency Crisis Support Facility (ACCSF) to assist Asian currency crisis-affected member countries (CAMCs). Funded by the Government of Japan, ACCSF was established within JSF to assist in the economic recovery of CAMCs through interest payment assistance (IPA) grants, TA grants, and guarantees. With the general fulfillment of the purpose of the facility, the Government of Japan and ADB agreed to terminate the ACCSF on 22 March 2002 and all projects were financially completed as of 31 December 2011. Subject to the Government of Japan's instruction, the remaining funds will be retained in ACCSF.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of JSF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations and as unrestricted and temporarily restricted net assets. ACCSF funds are separately reported in the financial statements.

JSF reports the contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as NET ASSETS REVERTED TO TEMPORARILY RESTRICTED ASSETS.

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of JSF.

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets, liabilities, and uncommitted balances which are denominated in non-US dollar currencies are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

Investments

All investment securities held by JSF are reported at fair value. Realized and unrealized gains and losses are included in REVENUE FROM INVESTMENTS.

Interest income on time deposits are recognized as earned and reported, as REVENUE FROM INVESTMENTS.

Technical Assistance, Grants and Undisbursed Commitments

Technical assistance (TA) and grants are recognized in the financial statements when the project is approved and becomes effective. Upon completion or cancellation of a TA project or grant, any undisbursed amount is written back as a reduction in the TA or grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Advances are provided from TA and grants to the executing agency or co-operating institution, for the purpose of making payments for eligible expenses. The advances are subject to liquidation and charged against undisbursed commitments. Any unutilized portion is required to be returned to the fund. These are included in ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction costs.

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

continued

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 "*Revenue from Contracts with Customers (Topic 606)*" to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on JSF's financial statements.

In August 2014, the FASB issued ASU 2014-15 "*Presentation of Financial Statements – Going Concern (Subtopic 205-40)*" to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact JSF's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the JSF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

continued

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

All investments held as of 31 December 2015 and 2014 were in US dollar time deposits.

The annualized rates of return on the average investments held under ACCSF and JSF during the year, based on the portfolio held at the beginning and end of each month, were 0.22% and 0.20%, respectively (0.22% and 0.17%, respectively – 2014).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2015 and 2014 was as follows:

(\$ thousand)

31 December 2015	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Investments				
Time deposits	\$ 105,553	\$ –	\$ 105,553	\$ –
31 December 2014				
Investments				
Time deposits	\$ 109,314	\$ –	\$ 109,314	\$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates fair value.

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to JSF are settled regularly with OCR and other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds.

The interfund account balances included in ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES were as follows:

(\$ thousand)

	2015	2014
Amounts Receivable by:		
JSF from: Regional Cooperation Integration Fund	\$ 0	\$ –
Amounts Payable by:		
JSF to: Ordinary Capital Resources	\$ 23	\$ 17
Technical Assistance Special Fund	–	10
Total	\$ 23	\$ 27

0 = less than \$500.

continued

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA projects/programs not yet disbursed and unliquidated. During 2015, \$2,631,000 (\$2,978,000 – 2014) representing completed but partially cancelled TA projects were written back as a reduction in technical assistance for the period, and the corresponding undisbursed commitments were eliminated. None of this amount corresponds to ACCSF (nil – 2014). The fair value of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—UNCOMMITTED BALANCES

Effective 31 December 2002, all remaining temporarily restricted net assets under JSF were transferred and integrated into the unrestricted regular net assets, as concurred by Japan, to optimize the use of JSF. Similarly, Japan lifted the restriction over the use of net accumulated investment income, which under the original terms of agreement between ADB and Japan, may only be used for defraying JSF's administrative expenses. Japan agreed to use the net accumulated investment income as additional resources for funding future JSF operations.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2015 and 2014. These balances include approved TA projects/programs that are not yet effective. As of 31 December 2015 and 2014 these balances were as follows:

(\$ thousand)

	2015			2014		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
Uncommitted balances available for new commitments	\$ 28,199	\$ 67,939	\$ 96,138	\$ 28,199	\$ 65,456	\$ 93,655

The temporarily restricted uncommitted balance remaining available as of 31 December 2015 corresponds to funds under ACCSF of \$28,199,000 (\$28,199,000 – 2014) and the amount of net accumulated investment income of \$8,830,000 (\$8,751,000 – 2014) for settlement of all administrative expenses.

Net assets reverted to temporarily restricted assets under ACCSF relate to savings on financially completed technical assistance net of amounts from accumulated investment income, released from restrictions to defray the administrative expenses of ACCSF.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, JSF has no assets or liabilities measured at fair value on a non-recurring basis. See Notes C and E for discussions relating to investments and undisbursed commitments, respectively. In all other cases, the carrying amount of JSF's assets and liabilities is considered to approximate fair value.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the JSF's Financial Statements as of 31 December 2015.



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of Asian Development Bank:

We have audited the accompanying financial statements of Asian Development Bank ("ADB") — Asian Development Bank Institute, which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Asian Development Bank Institute's (the "Institute") management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB — Asian Development Bank Institute as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink, appearing to read "Deloitte & Touche", written over a horizontal line.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

ADBI-1

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
STATEMENT OF FINANCIAL POSITION
31 December 2015 and 2014
Expressed in Thousands of US Dollars

Expressed in thousands of US Dollars

	2015		2014	
ASSETS				
DUE FROM BANKS		\$ 10,396		\$ 1,231
INVESTMENTS (Notes C and L)		–		1,000
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Notes C and L)		–		6,194
PROPERTY, FURNITURE, AND EQUIPMENT (Note D)				
Property, Furniture, and Equipment	\$ 2,889		\$ 2,915	
Less—allowance for depreciation	<u>2,850</u>	39	<u>2,846</u>	69
DUE FROM CONTRIBUTORS (Note G)		6,076		5,625
LONG-TERM GUARANTEE DEPOSITS (Note E)		1,328		1,340
OTHER ASSETS (Note J)		279		365
TOTAL		\$ 18,118		\$ 15,824
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Accrued pension and postretirement medical benefit costs (Note K)	\$ 6,716		\$ 6,653	
Asset reinstatement obligations (Note F)	897		905	
Others (Note J)	<u>1,116</u>	\$ 8,729	<u>673</u>	\$ 8,231
UNCOMMITTED BALANCES (ADBI-2)				
Unrestricted net assets		9,389		7,593
TOTAL		\$ 18,118		\$ 15,824

The accompanying notes are an integral part of these financial statements (ADBI-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note G)	\$ 12,260	\$ 12,254
REVENUE		
From rental (Note H)	324	366
From investments (Note C)	1	2
From other sources—net (Note J)	54	23
Total	<u>12,639</u>	<u>12,645</u>
EXPENSES		
Administrative expenses (Notes I and J)	8,183	9,333
Program expenses	3,002	3,309
Total	<u>11,185</u>	<u>12,642</u>
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES	1,454	3
EXCHANGE LOSSES—net	(60)	(808)
TRANSLATION ADJUSTMENTS	(28)	(448)
PENSION/POST RETIREMENT LIABILITY ADJUSTMENTS	430	(346)
INCREASE (DECREASE) IN NET ASSETS	1,796	(1,599)
NET ASSETS AT BEGINNING OF YEAR	7,593	9,192
NET ASSETS AT END OF YEAR	\$ 9,389	\$ 7,593

The accompanying notes are an integral part of these financial statements (ADBI-4).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 11,863	\$ 13,045
Interest on investments received	1	2
Expenses paid	(10,131)	(12,238)
Others—net	317	(419)
Net Cash Provided by Operating Activities	2,050	390
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from securities purchased under resale arrangements	1,404,045	2,170,718
Payments for securities purchased under resale arrangements	(1,398,303)	(2,172,477)
Maturities of investments	1,000	—
Purchases of investments	—	(1,000)
Net Cash Provided by (Used in) Investing Activities	6,742	(2,759)
Effect of Exchange Rate Changes on Due from Banks	373	523
Net Increase (Decrease) in Due from Banks	9,165	(1,846)
Due from Banks at Beginning of Year	1,231	3,077
Due from Banks at End of Year	\$ 10,396	\$ 1,231
RECONCILIATION OF INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase (Decrease) in unrestricted net assets (ADBI-2)	\$ 1,796	\$ (1,599)
Adjustments to reconcile increase (decrease) in unrestricted net assets to net cash provided by operating activities:		
Depreciation	29	54
Change in due from contributors	(399)	792
Change in long-term guarantee deposits	12	182
Change in other assets	86	(49)
Change in accrued pension and postretirement medical benefit costs	63	866
Change in asset reinstatement obligations	(8)	(124)
Change in other liabilities	443	(180)
Translation adjustments	28	448
Net Cash Provided by Operating Activities	\$ 2,050	\$ 390

The accompanying notes are an integral part of these financial statements (ADBI-4).

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014**

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

In 1996, ADB approved the establishment of the Asian Development Bank Institute (the Institute) in Tokyo, Japan as a subsidiary body of ADB. The Institute commenced its operations upon the receipt of the first funds from Japan on 24 March 1997, and it was inaugurated on 10 December 1997. The Institute's funds may consist of voluntary contributions, donations, and grants from ADB members, non-government organizations, and foundations. The Special Fund for the Institute is administered by ADB. The objectives of the Institute, as defined under its Statute, are to identify effective development strategies and capacity improvement for sound development management in developing member countries.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the Institute are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

The Institute reports donor's contributed cash and other assets as unrestricted support as these are made available to the Institute without conditions other than for the purposes of pursuing the objectives of the Institute.

Functional Currency and Reporting Currency

The functional currency of the Institute is yen, representing the currency of primary economic operating environment of the Institute. The reporting currency is the US dollar.

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Translation of Currencies

Assets, liabilities, and uncommitted balances are translated from the functional currency to the reporting currency at the applicable rates of exchange at the end of a reporting period. Commitments included in the financial statements during the year are recognized at the applicable exchange rates as of the end of the month of commitment. Revenue and expense amounts are translated at the applicable rates of exchange at the end of each month; such practice approximates the application of average rates in effect during the period. Translation adjustments are recorded as TRANSLATION ADJUSTMENTS and included in CHANGES IN UNRESTRICTED ASSETS.

Monetary assets and liabilities denominated in currency other than yen are translated into yen at year-end exchange rates. Exchange gains and losses are recorded as EXCHANGE LOSSES—net and included in the CHANGES IN UNRESTRICTED ASSETS.

Investments

All investment securities held in the Institute Special Fund are reported at fair value. Realized and unrealized gains and losses are included in REVENUE From investments.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments.

Securities Purchased Under Resale Arrangements

The Institute accounts for transfer of financial assets in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 860, "Transfers and Servicing." Transfers are accounted for as sales under ASC 860 when control over the transferred assets has been relinquished. Otherwise, the transfers are accounted for as resale arrangements and collateralized financing arrangements. Securities purchased under resale arrangements are recorded as assets and are not repledged.

Interest income on investment securities is recognized as earned and reported net of amortizations of premiums and discounts in REVENUE From investments.

Property, Furniture, and Equipment

Property, furniture, and equipment are stated at cost and depreciated over their estimated useful lives using the straight-line method. Maintenance, repairs and minor betterments are charged to expense.

Expenditures amounting to more than \$30,000 for a single asset or a combination of assets forming an integral part of a separate asset are capitalized.

Contributions

Contributions from donors are included in the financial statements from the date committed.

continued

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction cost.

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. Actual results could differ from those estimates.

Accounting and Reporting Developments

In April 2013, the FASB issued Accounting Standard Update (ASU) 2013-06, "*Not-for-Profit Entities (Topic 958)*," to require a recipient not-for-profit entity to recognize all services received from personnel of an affiliate that directly benefit the recipient not-for-profit entity. The recipient not-for-profit entity may elect to recognize that service received either at the cost recognized by the affiliate for the personnel providing that service or at the fair value. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. See Note J for the required disclosures.

continued

In May 2014, the FASB issued ASU 2014-09 *“Revenue from Contracts with Customers (Topic 606)”* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on the Institute's financial statements.

In June 2014, the FASB issued ASU 2014-11 *“Transfers and Servicing (Topic 860) – Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures”* to change the accounting for repurchase-to-maturity transactions and linked repurchase financings to secured borrowing accounting, which is consistent with the accounting for other repurchase agreements. The amendments also require an entity to disclose information on transfers accounted for as sales in transactions that are economically similar to repurchase agreements and to provide increased transparency about the types of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2014, and for interim periods after 15 March 2015. This ASU is not applicable to the Institute.

In August 2014, the FASB issued ASU 2014-15, *“Presentation of Financial Statements – Going Concern (Subtopic 205-40)”*, to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact the Institute's financial statements.

In January 2016, the FASB issued ASU 2016-01, *“Financial Instruments—Overall (Subtopic 825-10) - Recognition and Measurement of Financial Assets and Financial Liabilities”*. This Update enhances the reporting requirements for financial instruments. Specifically, this Update (i) requires that investments in equity securities measured at FV, recognize changes in FV in net income, (ii) simplifies the impairment assessment of equity investments for which FV is not readily determinable by requiring entities to perform a qualitative assessment to identify impairment, (iii) amends certain disclosure requirements associated with the FV of financial instruments, and (iv) requires to present separately in other comprehensive income the portion of the total change in the FV of financial liabilities measured at FV resulting from a change in the instrument-specific credit risk. This Update is effective for fiscal years beginning after 15 December 2017 and interim periods thereafter. ADB is currently assessing the impact of this ASU on the Institute's financial statements.

In February 2016, the FASB issued ASU 2016-02, *“Leases (Topic 842), Amendments to the FASB Accounting Standards Codification”*. The amendment requires the recognition of lease assets and lease liabilities by lessees for those leases classified as operating leases. The updates require qualitative disclosures along with specific quantitative disclosures. The Update is effective for fiscal years beginning after 15 December 2018 and interim periods thereafter. ADB is currently assessing the impact of this ASU on the Institute's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Institute considers that its cash and cash equivalents are limited to Due from Banks, which consists of cash on hand and current accounts in banks used for operational disbursements.

continued

NOTE C—INVESTMENTS

All investments held as of 31 December 2014 were in time deposits. As of 30 September 2015, all time deposits have matured.

The annualized rate of return on the average investments held during the period ended 31 December 2015, including securities purchased under resale arrangements, based on the portfolio held at the beginning and end of each month was 0.04% (0.03% – 2014).

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2014 was as follows:

(\$ thousand)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
31 December 2014				
Investments				
Time deposits	\$ 1,000	\$ –	\$ 1,000	\$ –
Securities purchased under resale arrangements	6,194	–	6,194	–
Total at fair value	\$ 7,194	\$ –	\$ 7,194	\$ –

ADB maintains documented processes and internal controls to value the investment securities. If available, investment securities are fair valued based on active market quotes. Time deposits are reported at cost, which approximates fair value.

NOTE D—PROPERTY, FURNITURE, AND EQUIPMENT

Property, furniture and equipment consist of one-time establishment cost (comprising the office furniture, fixtures and equipment purchased at inception for use in the operations of the Institute), and subsequently purchased furniture and equipment.

continued

The changes in the property, furniture, and equipment during 2015 and 2014, as well as information pertaining to accumulated depreciation, were as follows:

(\$ thousand)

	Property, Furniture and Equipment				
	One-time establishment cost	Furniture	Equipment	Leased Property	Grand Total
Cost:					
Balance, 1 January 2015	\$ 2,385	\$ 50	\$ 296	\$ 184	\$ 2,915
Additions during the year	–	–	–	–	–
Disposals during the year	–	–	–	–	–
Translation adjustments	(22)	–	(2)	(2)	(26)
Balance, 31 December 2015	2,363	50	294	182	2,889
Accumulated Depreciation:					
Balance, 1 January 2015	2,385	50	227	184	2,846
Depreciation during the year	–	–	29	–	29
Disposals during the year	–	–	–	–	–
Translation adjustments	(22)	–	(1)	(2)	(25)
Balance, 31 December 2015	2,363	50	255	182	2,850
Net Book Value, 31 December 2015	\$ –	\$ –	\$ 39	\$ –	\$ 39

(\$ thousand)

	Property, Furniture and Equipment				
	One-time establishment cost	Furniture	Equipment	Leased Property	Grand Total
Cost:					
Balance, 1 January 2014	\$ 2,709	\$ 57	\$ 337	\$ 209	\$ 3,312
Additions during the year	–	–	–	–	–
Disposals during the year	–	–	–	–	–
Translation adjustments	(324)	(7)	(41)	(25)	(397)
Balance, 31 December 2014	2,385	50	296	184	2,915
Accumulated Depreciation:					
Balance, 1 January 2014	2,709	57	204	209	3,179
Depreciation during the year	–	–	54	–	54
Disposals during the year	–	–	–	–	–
Translation adjustments	(324)	(7)	(31)	(25)	(387)
Balance, 31 December 2014	2,385	50	227	184	2,846
Net Book Value, 31 December 2014	\$ –	\$ –	\$ 69	\$ –	\$ 69

Total depreciation expense incurred for the year ended 31 December 2015 amounted to \$29,000 (\$54,000 – 2014).

continued

NOTE E—LONG-TERM GUARANTEE DEPOSITS

The Institute leases office space and deposits the equivalent of six months of office rent to the lessor, as stipulated in the contract of lease signed in 1997. The amount is updated every contract renewal. The last renewal date was 1 April 2014.

NOTE F—ASSET REINSTATEMENT OBLIGATIONS

The Institute has recorded the estimated asset reinstatement obligations related to leased office space.

NOTE G—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In December 2015, the Government of Japan committed its 26th contribution to the Institute amounting to ¥672,069,000 (\$5,576,000). As of 31 December 2015, this was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS.

In December 2015, the Government of Republic of Korea committed its 2nd contribution to the Institute amounting to \$700,000. This was received on 15 December 2015.

In September 2015, the Government of Indonesia committed its 1st contribution to the Institute amounting to \$500,000. As of 31 December 2015, this was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS.

In June 2015, the Government of Japan committed its 25th contribution to the Institute amounting to ¥672,070,000 (\$5,484,000 equivalent). This was received on 1 July 2015.

In December 2014, the Government of Japan committed its 24th contribution to the Institute amounting to ¥672,069,000 (\$5,625,000 equivalent). This was received on 7 January 2015.

In June 2014, the Government of Japan committed its 23rd contribution to the Institute amounting to ¥672,070,000 (\$6,629,000 equivalent). This was received on 2 July 2014.

Uncommitted balances comprise amounts which have not been committed by the Institute as of 31 December 2015 and 2014.

NOTE H—REVENUE FROM RENTAL

REVENUE From rental in 2015 consists of sublease rental income of \$324,000 (\$366,000 – 2014), received according to a space-sharing agreement with the Japanese Representative Office of ADB. The transactions with ADB were made in the ordinary course of business and were negotiated at arm's length.

NOTE I—LEASES

The Institute leases office space and other assets. Rental expenses under operating leases for the years ended 31 December 2015 and 2014 were \$2,731,000 and \$3,087,000, respectively. As of 31 December 2015, the Institute has the following operating lease commitments:

(\$ thousand)	
<u>Year ending 31 December</u>	<u>Minimum future rentals</u>
2016	2,736
2017	684

continued

NOTE J—RELATED PARTY TRANSACTIONS

ADB has not allocated service fees to the Institute for a range of administrative and financial services such as managing the investments or administering the Staff Retirement Plan (SRP) and Post-Retirement Group Medical Insurance Plan (PRGMIP). Effective 1 January 2015, the fair value of those personnel services has been estimated to be 10 basis points of the average balance of the Institute's liquid assets. For the year ended 31 December 2015, the calculated service fee was \$11,000 and recorded as Administrative expenses and REVENUE From other sources—net. The transaction has no impact on the net assets of the Institute.

ACCOUNTS PAYABLE AND OTHER LIABILITIES include amounts net payable to OCR of \$237,000 at 31 December 2015 (\$31,000 net receivable – 31 December 2014). The payable resulted from transactions in the normal course of business.

NOTE K—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

Eligible employees of the Institute are entitled by its Statute to be participants of ADB's defined benefit SRP. An eligible employee, as defined under SRP, shall, as a condition of service, become a participant from the first day of service, provided the employee has not reached the normal retirement age of 60 at that time. Retirement benefits are based on an annual accrual rate, length of service and the highest average remuneration during two years of eligible service. The SRP assets are segregated in a separate fund. The costs of administering the SRP are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the SRP.

Participants hired prior to 1 October 2006 are required to contribute 9 1/3% of their salary to the SRP while those hired on or after 1 October 2006 are not required to contribute. The annual accrual rate is 2.95% for staff hired prior to 1 October 2006 and 1.5% for those hired on or after 1 October 2006. Participants may also make discretionary contributions. The Institute's contribution is determined at a rate sufficient to cover that part of the costs of the SRP not covered by the participants' contributions.

Expected Contributions

The Institute is expected to contribute \$280,000 to the SRP for 2016 based on the budgeted contribution of 23% of salary of Institute participants. The Institute's staff members are expected to contribute \$108,000 representing participants' mandatory contribution of \$16,000 assuming full year service and discretionary contributions of \$92,000.

Investment Strategy

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. The SRP employs nine external asset managers and one global custodian who are required to operate within the guidelines established by the SRP's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. The investment policy incorporates the SRP's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The SRP's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

continued

The SRP's investment policy is periodically reviewed and revised to reflect the best interest of the SRP's participants and beneficiaries. As approved by the Pension Committee on 27 October 2015, the SRP's new long-term target asset-mix, which will be implemented in 2016, is 35% US equity, 30% non-US equity, 15% global fixed income, 10% globally high yield, and 10% diversified asset. The asset mix approved for 2015 was based on the policy adopted in 2011, which is 40% US equity, 30% non-US equity and 30% global fixed income.

For the year ended 31 December 2015, the net return on the SRP assets was -0.47% (6.3% – 2014). ADB expects the long-term rate of return on the assets to be 7.0% (7.5% – 2014).

Assumptions

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the SRP's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, as well as in the liability/benefit policy side, the assumed average long term investment return of 7.0% on the SRP's assets is expected to remain on average broadly the same, year to year.

Effective for the 2015 actuarial valuation, as part of the regular assumptions review, some revisions were made to the previous actuarial assumptions based on the 2010-2014 experience. The assumptions that were revised include changes to the investment return, salary progression, pension increases, rates of withdrawal, early and incapacity retirement rates, retirement and post-incapacity retirement mortality rates, and percent of international staff who commute, and other commutation factors.

Post-Retirement Group Medical Insurance Plan

The Institute participates in the cost-sharing arrangement of ADB's PRGMIP. Under this plan, the Institute is obligated to pay 75% of the PRGMIP premiums for its retirees, which includes retired members and their eligible dependents who elected to participate. Currently, no Institute retiree has elected to participate.

In December 2014, the Board of Directors approved the funding of the PRGMIP. ADB established the Retiree Medical Plan Fund (RMPF) where the ADB's contributions would be deposited and invested to fund the accumulated obligations of the PRGMIP. The income of RMPF consists of ADB's contributions and investment earnings; it does not have any component attributable to participants' share of PRGMIP costs. The RMPF assets are segregated in a separate fund and held in trust, hence are not included in the balance sheet of ADB. In 2015, insurance premium paid by ADB for the PRGMIP is considered ADB's contribution to the fund. The costs of administering RMPF are absorbed by ADB, while investment management and custodian fees are paid from the RMPF.

The SRP Pension Committee is responsible for the overall financial management of the RMPF and is assisted by the SRP Investment Committee.

Expected Contribution

Subsequent to the establishment of the RMPF, ADB transferred \$315 million into the RMPF, none of which relates to the Institute's contribution. The Institute's expected contribution to the RMPF will be determined based on the recommendation of the SRP Pension Committee. For 2016, the Institute is not expected to contribute to the RMPF.

continued

Investment Strategy

The RMPF employs three external asset managers and one global custodian who are required to operate within the guidelines established by the SRP's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. Similar to SRP, the investment policy incorporates the RMPF's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The RMPF's assets are diversified among different markets and asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

In October 2015, the Pension Committee approved the RMPF's investment policy. Based on the approved policy, the RMPF's long-term target asset-mix is 40% US equity, 30% non-US equity, and 30% global fixed income.

Assumptions

The overall long-term rate of return is 7.0% per annum, similar to the SRP.

Effective for the 2015 actuarial valuation, as part of the regular assumptions review, some revisions were made to the previous actuarial assumptions based on the 2010-2014 experience. The assumptions that were revised include retirement mortality rates and PRGMIP election rates, among others.

The following table sets forth the Institute's participants' pension and postretirement medical benefits at 31 December 2015 and 2014:

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2015	2014	2015	2014
Change in benefit obligation:				
Projected benefit obligation at beginning of year	\$ 11,427	\$ 10,324	\$ 457	\$ 402
Service cost	468	433	107	131
Interest cost	492	532	23	27
Plan participants' contributions	182	118	—	—
Actuarial (gain) loss	(536)	453	(233)	(82)
Benefits paid	(481)	(433)	(22)	(21)
Projected benefit obligation at end of year	<u>\$ 11,552</u>	<u>\$ 11,427</u>	<u>\$ 332</u>	<u>\$ 457</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 5,231	\$ 4,939	\$ —	\$ —
Actual return on plan assets	(17)	303	—	—
Employer's contribution	253	304	22	21
Plan participants' contributions	182	118	—	—
Benefits paid	(481)	(433)	(22)	(21)
Fair value of plan assets at end of year	<u>\$ 5,168</u>	<u>\$ 5,231</u>	<u>\$ —</u>	<u>\$ —</u>
Funded Status	\$ (6,384)	\$ (6,196)	\$ (332)	\$ (457)

continued

table continued

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2015	2014	2015	2014
Amounts recognized in the Balance sheet consist of:				
Noncurrent liabilities	\$ (6,384)	\$ (6,196)	\$ (332)	\$ (457)
Amounts recognized in the Unrestricted net assets consist of:				
Net actuarial loss (gain)	\$ 2,034	\$ 2,270	\$ (629)	\$ (435)
Weighted-average assumptions as of 31 December				
Discount rate	4.55%	4.15%	4.55%	4.15%
Expected return on plan assets	7.00%	7.50%	7.00%	7.50%
Rate of compensation increase varies with age and averages	3.25%	3.25%	N/A	N/A

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered postretirement medical care benefits was assumed for the valuation as of 31 December 2015 and 2014. The rate was assumed to decrease gradually to 5.0% by 2021 and remain at the level thereafter.

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the years ended 31 December 2015 and 2014:

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2015	2014	2015	2014
Components of net periodic benefit cost:				
Service cost	\$ 468	\$ 433	\$ 107	\$ 131
Interest cost	492	532	23	27
Expected return on plan assets	(398)	(356)	(1)	–
Recognized actuarial loss (gain)	115	111	(38)	(33)
Net periodic benefit cost	\$ 677	\$ 720	\$ 91	\$ 125

The Institute's accumulated benefit obligation of the pension plan as of 31 December 2015 was \$11,392,000 (\$11,097,000 – 2014).

The estimated net loss for the defined benefit pension plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year amounted to \$96,000. The estimated net gains for the postretirement medical benefits plan that will be amortized from unrestricted net assets into net periodic benefit cost over the next fiscal year is \$48,000.

continued

Assumed postretirement medical benefits cost trend rates have a significant effect on the amounts reported for the postretirement medical benefits plan. A one-percentage-point change in the assumed trend rates would have the following effects:

(\$ thousand)

		<u>1-Percentage- Point Increase</u>	<u>1-Percentage- Point Decrease</u>
Effect on total service and interest cost components	\$	35	\$ (27)
Effect on postretirement medical benefit obligation		83	(67)

Estimated Future Benefits Payments

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at 31 December 2015:

(\$ thousand)

	<u>Pension Benefits</u>	<u>Postretirement Medical Benefits</u>
2016	\$ 411	\$ 0
2017	430	1
2018	521	2
2019	807	4
2020	520	6
2021–2025	3,255	55

0 = less than \$500.

Fair Value Disclosure

The fair value of the Institute's SRP asset's measured on a recurring basis as of 31 December 2015 and 2014 was shown below:

(\$ thousand)

	<u>Total</u>	<u>Fair Value Measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
31 December 2015				
Cash and cash equivalents	\$ 128	\$ –	\$ 128	\$ –
Common/preferred stocks	997	997	–	–
Investment funds	2,309	2,309	–	–
Government or government-guaranteed securities	768	756	12	–
Corporate debt securities	655	632	10	13
Mortgage/asset-backed securities:				
Mortgage-backed securities	152	96	56	–
Collateralized mortgage obligations	24	–	19	5
Asset-backed securities	3	–	2	1
Short-term investments	225	14	211	–
Derivatives	(10)	(0)	(10)	–
Other asset/liabilities ^a —net	(83)	–	(83)	–
Total fair value of SRP assets	\$ 5,168	\$ 4,804	\$ 345	\$ 19

0 = Less than \$500.

^a Includes receivables and liabilities carried at amounts that approximate fair value.

continued

(\$ thousand)

(\$ thousands)

		Fair Value Measurements			
	Total	Level 1	Level 2	Level 3	
31 December 2014					
Cash and cash equivalents	\$ 117	\$ –	\$ 117	\$ –	
Common/preferred stocks	1,098	1,098	–	0	
Investment funds	2,632	2,632	–	–	
Government or government-guaranteed securities	705	702	3	–	
Corporate debt securities	590	582	5	3	
Mortgage/asset-backed securities:					
Mortgage-backed securities	65	49	16	–	
Collateralized mortgage obligations	21	–	10	11	
Asset-backed securities	3	–	3	–	
Short-term investments	48	12	36	–	
Derivatives	20	1	19	–	
Other asset/liabilities ^a —net	(68)	–	(68)	–	
Total fair value of SRP assets	\$ 5,231	\$ 5,076	\$ 141	\$ 14	

0 = Less than \$500.

^a Includes receivables and liabilities carried at amounts that approximate fair value.

The SRP's Investment Committee and SRP investment unit meet periodically and are involved in overseeing the activities and performance of the investment portfolios. The fair value of the SRP investments is provided by the SRP's global custodian from various independent pricing providers. ADB's accounting division in coordination with data management unit of treasury services division evaluates the fair value in determining the hierarchy level. All investments including equity securities, fixed income securities and derivatives are provided by independent pricing providers. Equity securities include common and preferred stocks and mutual funds. Fixed income securities include government or government-guaranteed securities, corporate obligations, asset and mortgage-backed securities, and short-term investments. Derivatives include futures, swaps and currency forward contracts.

The table below provides details of transfers of the Institute's SRP's assets between Levels 1 and 2, which are attributed to the availability or absence of market quotes, for the years ended 31 December 2015 and 2014:

(\$ thousand)

	2015		2014	
	Level 1	Level 2	Level 1	Level 2
Investments				
Government or government-guaranteed securities				
Transfers into (out of)	\$ –	\$ –	\$ 0	\$ (0)
Transfers (out of) into	(9)	9	–	–
Corporate debt securities				
Transfers into (out of)	4	(4)	5	(5)
Transfers (out of) into	(4)	4	–	–
	\$ (9)	\$ 9	\$ 5	\$ (5)

0 = Less than \$500.

continued

The following tables present the changes in the carrying amounts of the Institute's SRP Level 3 investments for the years ended 31 December 2015 and 2014:

(\$ thousand)

	Investments			
	Common/ preferred stocks	Government or gov't.- guaranteed securities	Corporate debt securities	Mortgage/ Asset-backed securities
Balance, 31 December 2014	\$ 0	\$ –	\$ 3	\$ 11
Total realized/unrealized (losses)/gains in:				
Net increase (decrease) in net assets available for benefits	(0)	–	(1)	(0)
Purchases	–	–	43	2
Sales/Maturities	–	–	(32)	(2)
Settlement and others	–	–	(1)	(2)
Transfers out of Level 3	–	–	–	(2)
Balance, 31 December 2015	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 12</u>	<u>\$ 7</u>
Total unrealized gains (losses) included in income related to financial assets and liabilities still held at the reporting date	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (0)</u>	<u>\$ 0</u>

0 = Less than \$500.

(\$ thousand)

	Investments			
	Common/ preferred stocks	Government or gov't.- guaranteed securities	Corporate debt securities	Mortgage/ Asset-backed securities
Balance, 31 December 2013	\$ 0	\$ 4	\$ 3	\$ 13
Total realized/unrealized (losses)/gains in:				
Net decrease in net assets available for benefits	0	–	0	(1)
Purchases	–	–	6	5
Sales/Maturities	(0)	–	(3)	(1)
Settlement and others	–	–	–	(4)
Transfers into Level 3	–	(4)	(3)	(1)
Balance, 31 December 2014	<u>\$ 0</u>	<u>\$ –</u>	<u>\$ 3</u>	<u>\$ 11</u>
Total unrealized gains (losses) included in income related to financial assets and liabilities still held at the reporting date	<u>\$ 0</u>	<u>\$ –</u>	<u>\$ 0</u>	<u>\$ (1)</u>

0 = Less than \$500.

Transfers into and out of Level 3 in 2015 and 2014 are due to the availability or absence of market observable inputs.

NOTE L—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, the Institute has no assets or liabilities measured at fair value on a non-recurring basis. See Note C for discussions relating to investments and securities purchased under resale arrangements. In all other cases, the carrying amounts of the Institute's assets and liabilities are considered to approximate fair values.

continued

NOTE M—SUBSEQUENT EVENTS

The Institute has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. On 5 January and 15 January 2016, the Institute received the 1st contribution from the Government of Indonesia and 26th contribution from the Government of Japan, respectively.

REGIONAL COOPERATION AND INTEGRATION FUND MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
Controller



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statement of financial position of Asian Development Bank ("ADB") – Regional Cooperation and Integration Fund as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink, appearing to read "Deloitte & [unclear]", written over the printed name "Deloitte & [unclear]".

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Regional Cooperation and Integration Fund which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB – Regional Cooperation and Integration Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Deloitte & Touche", written over a faint, larger "Deloitte" logo.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND
STATEMENT OF FINANCIAL POSITION
31 December 2015 and 2014
Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
ASSETS		
DUE FROM BANKS	\$ 2,503	\$ 333
INVESTMENTS (Notes C and G)		
Time deposits	14,692	17,268
ACCRUED REVENUE	1	0
DUE FROM CONTRIBUTORS (Note F)	—	1,218
ADVANCES FOR GRANTS AND OTHER ASSETS (Note D)	64	352
TOTAL	\$ 17,260	\$ 19,171
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 241	\$ 75
UNDISBURSED COMMITMENTS (Notes E and G)	<u>9,177</u>	<u>11,048</u>
TOTAL LIABILITIES	9,418	11,123
UNCOMMITTED BALANCES (RCIF-2) (Note F), represented by:		
Unrestricted net assets	7,842	8,048
TOTAL	\$ 17,260	\$ 19,171

0 = Less than \$500.

The accompanying notes are an integral part of these financial statements (RCIF-4).

RCIF-2

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2015 and 2014

Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	\$ —	\$ 3,631
REVENUE		
From investments (Note C)	24	22
From other sources	<u>5</u>	<u>4</u>
Total	<u>29</u>	<u>3,657</u>
EXPENSES		
Technical assistance—net (Note E)	115	538
Administrative and financial expenses (Note D)	<u>115</u>	<u>158</u>
Total	<u>230</u>	<u>696</u>
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(201)	2,961
EXCHANGE LOSSES—net	<u>(5)</u>	<u>(33)</u>
(DECREASE) INCREASE IN NET ASSETS	(206)	2,928
NET ASSETS AT BEGINNING OF YEAR	8,048	5,120
NET ASSETS AT END OF YEAR	\$ 7,842	\$ 8,048

The accompanying notes are an integral part of these financial statements (RCIF-4).

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 1,215	\$ 2,380
Interest on investments received	24	23
Cash received from other sources	5	4
Technical assistance disbursed	(1,608)	(2,440)
Administrative and financial expenses paid	(42)	(177)
Net Cash Used in Operating Activities	(406)	(210)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	756,696	788,319
Purchases of investments	(754,120)	(788,042)
Net Cash Provided by Investing Activities	2,576	277
Net Increase in Due From Banks	2,170	67
Due from Banks at Beginning of Year	333	266
Due from Banks at End of Year	\$ 2,503	\$ 333
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (RCIF-2)	\$ (206)	\$ 2,928
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Change in due from contributors	1,226	(1,226)
Change in accrued revenue	(1)	—
Change in advances for grants and other assets	288	465
Change in accounts payable and other liabilities	166	(60)
Change in undisbursed commitments	(1,871)	(2,325)
Exchange (gains) losses—net	(8)	8
Net Cash Used in Operating Activities	\$ (406)	\$ (210)

The accompanying notes are an integral part of these financial statements (RCIF-4).

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

The RCIF, together with the Regional Cooperation and Integration (RCI) Trust Funds, was established on 26 February 2007 under the "umbrella" of the Regional Cooperation and Integration Financing Partnership Facility (RCIFPF), in response to the increasing demand for regional cooperation and integration activities among ADB's members in Asia and the Pacific. Its main objective is to enhance regional cooperation and integration in Asia and the Pacific by facilitating the pooling and provision of additional financial and knowledge resources to support RCI activities.

Financial assistance will be provided in the form of untied grants for technical assistance (TA), including advisory, project preparatory, and regional TA.

RCIF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the RCIF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

RCIF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to RCIF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of RCIF.

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets, liabilities, and uncommitted balances which are denominated in non-US dollar currencies are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

Investments

All investment securities held by RCIF are reported at fair value. Realized and unrealized gains and losses are included in REVENUE From investments.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments.

Contributions

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

Technical Assistance, Grants and Undisbursed Commitments

Technical assistance (TA) and grants are recognized in the financial statements when the project is approved and becomes effective. Upon completion or cancellation of a TA project or grant, any undisbursed amount is written back as a reduction in TA or grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Advances are provided from TA and grants to the executing agency or co-operating institution, for the purpose of making payments for eligible expenses. The advances are subject to liquidation and charged against undisbursed commitments. Any unutilized portion is required to be returned to the fund. These are included in ADVANCES FOR GRANTS AND OTHER ASSETS.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction costs.

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

continued

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers (Topic 606)" to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on RCIF's financial statements.

In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements – Going Concern (Subtopic 205-40)" to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact RCIF's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, RCIF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

continued

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

All investments held as of 31 December 2015 and 2014 were in time deposits.

The annualized rate of return on the average investments held during the period ended 31 December 2015, based on the portfolio held at the beginning and end of each month, was 0.17% (0.14% – 2014).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2015 and 2014 was as follows:

(\$ thousand)

<u>31 December 2015</u>	<u>Total</u>	<u>Fair Value Measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Investments				
Time deposits	\$ 14,692	\$ –	\$ 14,692	\$ –
<u>31 December 2014</u>				
Investments				
Time deposits	\$ 17,268	\$ –	\$ 17,268	\$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates fair value.

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to RCIF are settled regularly with OCR and the other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's incremental cost for the administration, management, supervision and operation of the RCIF and RCI Trust Fund, a trust fund administered by ADB. The service fee is currently 5% of the amount disbursed for technical assistance and 2% of the amount disbursed for grant components of investment projects.

continued

The interfund account balances included in ADVANCES FOR GRANTS AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

(\$ thousand)

	2015	2014
Receivable from:		
Agency Trust Funds—net	\$ 37	\$ –
Payable to:		
Ordinary capital resources	\$ 39	\$ 26
Technical Assistance Special Fund	162	33
Japan Special Fund	0	–
Financial Sector Development Partnership Special Fund	24	–
Agency Trust Funds—net	–	9
Total	\$ 225	\$ 68

0 = Less than \$500.

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA and grants not yet disbursed and unliquidated. During 2015, \$1,334,000 (\$1,662,000 – 2014) representing completed and canceled TA projects and grants were written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The fair value of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In December 2014, the Government of Japan committed its 2nd contribution to the RCIF amounting to ¥145,500,000 (\$1,226,000 equivalent). This was received on 9 January 2015.

In March 2014, the Government of Japan committed and paid its 1st contribution to the RCIF amounting to ¥246,000,000 (\$2,405,000 equivalent). This was received on 13 March 2014.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2015 and 2014.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, RCIF has no assets or liabilities measured at fair value on a non-recurring basis. See Notes C and E for discussions relating to investments and undisbursed commitments, respectively. In all other cases, the carrying amount of RCIF's assets and liabilities is considered to approximate fair value.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the RCIF's Financial Statements as of 31 December 2015.

CLIMATE CHANGE FUND MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
Controller



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statement of financial position of Asian Development Bank ("ADB") – Climate Change Fund as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized name, possibly "Julian" or "John".

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Climate Change Fund which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

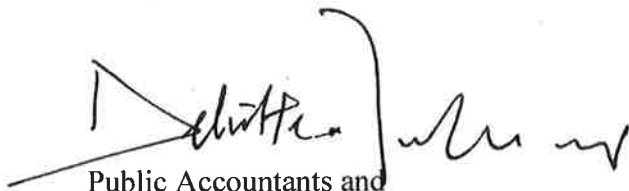


Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB – Climate Change Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.



Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

CCF-1

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
STATEMENT OF FINANCIAL POSITION
31 December 2015 and 2014
Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
ASSETS		
DUE FROM BANKS	\$ 1,562	\$ 514
INVESTMENTS (Notes C and G)		
Time deposits	20,725	26,290
ACCRUED REVENUE	2	0
ADVANCES FOR GRANTS AND OTHER ASSETS (Note D)	669	1,105
TOTAL	\$ 22,958	\$ 27,909
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 133	\$ 97
UNDISBURSED COMMITMENTS (Notes E and G)	<u>12,114</u>	<u>17,348</u>
TOTAL LIABILITIES	12,247	17,445
UNCOMMITTED BALANCES (CCF-2) (Note F), represented by:		
Unrestricted net assets	10,711	10,464
TOTAL	\$ 22,958	\$ 27,909

0 = Less than \$500.

The accompanying notes are an integral part of these financial statements (CCF-4).

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2015 and 2014

Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE FROM INVESTMENTS (Note C)	\$ 37	\$ 45
EXPENSES		
Technical assistance and grants—net (Note E)	(830)	2,767
Administrative and financial expenses (Note D)	<u>617</u>	<u>379</u>
Total	<u>(213)</u>	<u>3,146</u>
REVENUE IN EXCESS OF (LESS THAN) EXPENSES	250	(3,101)
EXCHANGE LOSSES—net	<u>(3)</u>	<u>(8)</u>
INCREASE (DECREASE) IN NET ASSETS	247	(3,109)
NET ASSETS AT BEGINNING OF YEAR	10,464	13,573
NET ASSETS AT END OF YEAR	\$ 10,711	\$ 10,464

The accompanying notes are an integral part of these financial statements (CCF-4).

CCF-3

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest on investments received	\$ 36	\$ 47
Technical assistance and grants disbursed	(4,276)	(11,573)
Administrative and financial expenses paid	(276)	(289)
Net Cash Used in Operating Activities	(4,516)	(11,815)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	1,129,661	1,643,580
Purchases of investments	(1,124,097)	(1,632,927)
Net Cash Provided by Investing Activities	5,564	10,653
Net Increase (Decrease) in Due From Banks	1,048	(1,162)
Due from Banks at Beginning of Year	514	1,676
Due from Banks at End of Year	\$ 1,562	\$ 514
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase (Decrease) in net assets (CCF-2)	\$ 247	\$ (3,109)
Adjustments to reconcile increase (decrease) in net assets to net cash used in by operating activities:		
Change in accrued revenue	(1)	2
Change in advances for grants and other assets	436	(14)
Change in accounts payable and other liabilities	36	48
Change in undisbursed commitments	(5,234)	(8,742)
Net Cash Used in Operating Activities	\$ (4,516)	\$ (11,815)

The accompanying notes are an integral part of these financial statements (CCF-4).

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

The CCF was established on 7 April 2008 to facilitate greater investments in DMCs to address the causes and consequences of climate change alongside ADB's own assistance in various related sectors. The CCF is a key mechanism to pool resources within ADB to address climate change through (i) technical assistance (TA), (ii) investment components for both private and public sector projects, and (iii) any other form of cooperation that ADB and its partners may agree upon for a defined program of activities.

Financial assistance is provided in the form of untied grants for components of investment projects, for advisory, project preparatory, and regional TA; as well as for any other activities that may be agreed between external contributors and ADB.

CCF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the CCF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

CCF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to CCF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of CCF.

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets, liabilities, and uncommitted balances which are denominated in non-US dollar currencies are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

Investments

All investment securities held by CCF are reported at fair value. Realized and unrealized gains and losses are included in REVENUE FROM INVESTMENTS.

Interest income on time deposits is recognized as earned and reported in REVENUE FROM INVESTMENTS.

Contributions

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

Technical Assistance, Grants and Undisbursed Commitments

Technical assistance and grants are recognized in the financial statements when the project is approved and becomes effective. Upon completion or cancellation of a TA project or grant, any undisbursed amount is written back as a reduction in TA or grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Advances are provided from TA and grants to the executing agency or co-operating institution, for the purpose of making payments for eligible expenses. The advances are subject to liquidation and charged against undisbursed commitments. Any unutilized portion is required to be returned to the fund. These are included in ADVANCES FOR GRANTS AND OTHER ASSETS.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction costs.

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

continued

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers (Topic 606)" to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on CCF's financial statements.

In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements – Going Concern (Subtopic 205-40)" to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact CCF's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, CCF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

All investments held as of 31 December 2015 and 2014 were in time deposits.

continued

The annualized rate of return on the average investments held during the period ended 31 December 2015, based on the portfolio held at the beginning and end of each month, was 0.17% (0.14% – 2014).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2015 and 2014 was as follows:

(\$ thousand)

31 December 2015	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
Investments				
Time deposits	\$ 20,725	\$ –	\$ 20,725	\$ –
31 December 2014				
Investments				
Time deposits	\$ 26,290	\$ –	\$ 26,290	\$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates fair value.

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to CCF are settled regularly with OCR and the other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's incremental cost for the administration, management, supervision and operation of the CCF. The service fee is currently 5% of the amount disbursed for technical assistance and 2% of the amount disbursed for grant components of investment projects.

The interfund account balances included in ADVANCES FOR GRANTS AND OTHERS ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

(\$ thousand)

	2015	2014
Receivable from:		
Technical Assistance Special Fund	\$ 0	\$ 37
Agency Trust Funds	0	6
Total	\$ 0	\$ 43
Payable to:		
Ordinary capital resources	\$ 118	\$ 83

0 = Less than \$500.

continued

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA not yet disbursed and unliquidated. During 2015, \$830,000 (\$556,000 – 2014) representing completed and canceled TA projects were written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The fair value of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

No contributions were received during 2015 and 2014.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2015 and 2014. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, CCF has no assets or liabilities measured at fair value on a non-recurring basis. See Notes C and E for discussions relating to investments and undisbursed commitments, respectively. In all other cases, the carrying amount of CCF's assets and liabilities is considered to approximate fair value.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the CCF's Financial Statements as of 31 December 2015.

ASIA PACIFIC DISASTER RESPONSE FUND MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
Controller



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statement of financial position of Asian Development Bank ("ADB") – Asia Pacific Disaster Response Fund as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink, appearing to be "Deloitte" followed by a stylized flourish, is written over the Deloitte logo.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Asia Pacific Disaster Response Fund which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB – Asia Pacific Disaster Response Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized flourish.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND**STATEMENT OF FINANCIAL POSITION****31 December 2015 and 2014**

Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
ASSETS		
DUE FROM BANKS	\$ 6,345	\$ 4,344
INVESTMENTS (Notes C and G)	11,018	—
ACCRUED REVENUE	1	—
ADVANCES FOR GRANTS	10,008	3,729
TOTAL	\$ 27,372	\$ 8,073
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 15	\$ 14
UNDISBURSED COMMITMENTS (Notes E and G)	<u>10,008</u>	<u>3,729</u>
TOTAL LIABILITIES	10,023	3,743
UNCOMMITTED BALANCES (APDRF-2) (Note F), represented by:		
Unrestricted net assets	17,349	4,330
TOTAL	\$ 27,372	\$ 8,073

The accompanying notes are an integral part of these financial statements (APDRF-4).

APDRF-2

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	\$ 20,000	\$ —
REVENUE		
From investments (Note C)	19	—
From other sources	<u>4</u>	<u>6</u>
Total	<u>20,023</u>	<u>6</u>
EXPENSES		
Grants—net (Note E)	6,975	200
Administrative and financial expenses (Note D)	<u>29</u>	<u>133</u>
Total	<u>7,004</u>	<u>333</u>
INCREASE (DECREASE) IN NET ASSETS	13,019	(327)
NET ASSETS AT BEGINNING OF YEAR	4,330	4,657
NET ASSETS AT END OF YEAR	\$ 17,349	\$ 4,330

The accompanying notes are an integral part of these financial statements (APDRF-4).

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014
Expressed in Thousands of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 20,000	\$ —
Interest on investments received	18	—
Cash received from other sources	4	6
Grants disbursed	(6,975)	(200)
Administrative and financial expenses paid	(28)	(133)
Net Cash Provided by (Used) in Operating Activities	<u>13,019</u>	<u>(327)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	682,322	—
Purchases of investments	(693,340)	—
Net Cash Used in Investing Activities	<u>(11,018)</u>	<u>—</u>
Net Increase (Decrease) in Due From Banks	2,001	(327)
Due from Banks at Beginning of Year	<u>4,344</u>	<u>4,671</u>
Due from Banks at End of Year	<u><u>\$ 6,345</u></u>	<u><u>\$ 4,344</u></u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Increase (Decrease) in net assets (APDRF-2)	\$ 13,019	\$ (327)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Change in accrued revenue	(1)	—
Change in advances for grants	6,279	5,771
Change in accounts payable and other liabilities	1	0
Change in undisbursed commitments	(6,279)	(5,771)
Net Cash Provided by (Used in) Operating Activities	<u><u>\$ 13,019</u></u>	<u><u>\$ (327)</u></u>

0 = Less than \$500.

The accompanying notes are an integral part of these financial statements (APDRF-4).

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

The APDRF was established on 1 April 2009, to provide timely incremental grant resources to DMCs affected by a natural disaster. The APDRF will help bridge the gap between existing ADB arrangements that assist DMCs to reduce disaster risk through hazard mitigation loans and grants, and longer-term post-disaster reconstruction lending. The APDRF will provide quick-disbursing grants to assist DMCs in meeting immediate expenses to restore life-saving services to affected populations following a declared disaster and to augment aid provided by other donors in times of national crisis.

Financial assistance will be provided in the form of grants in an amount totaling up to \$3,000,000 per event.

APDRF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the APDRF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

APDRF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to APDRF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of APDRF.

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets, liabilities, and uncommitted balances which are denominated in non-US dollar currencies are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

Investments

All investment securities held by APDRF are reported at fair value. Realized and unrealized gains and losses are included in REVENUE From investments.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments.

Contributions

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

Technical Assistance, Grants and Undisbursed Commitments

Technical assistance (TA) and grants are recognized in the financial statements when the project is approved and becomes effective. Upon completion or cancellation of a TA project or grant, any undisbursed amount is written back as a reduction in TA or grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Advances are provided from TA and grants to the executing agency or co-operating institution, for the purpose of making payments for eligible expenses. The advances are subject to liquidation and charged against undisbursed commitments. Any unutilized portion is required to be returned to the fund. These are included in ADVANCES FOR GRANTS.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction costs.

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

continued

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 "Revenue from Contracts with Customers (Topic 606)" to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on APDRF's financial statements.

In August 2014, the FASB issued ASU 2014-15 "Presentation of Financial Statements – Going Concern (Subtopic 205-40)" to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact APDRF's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, APDRF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

continued

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

All investments held as of 31 December 2015 were in time deposits.

The annualized rate of return on the average investments held during the period ended 31 December 2015, based on the portfolio held at the beginning and end of each month, was 0.20% (nil – 2014).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2015 was as follows:

(\$ thousand)

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
31 December 2015				
Investments				
Time deposits	\$ 11,018	\$ –	\$ 11,018	\$ –

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to APDRF are settled regularly with OCR and the other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's cost for the administration, management, supervision and operation of the APDRF. The service fee is currently 2% of the amount disbursed for investment projects. As of 31 December 2015, there was no payable to OCR (\$7,000 – 2014).

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA and grants not yet disbursed and unliquidated. During 2015, \$25,000 (nil – 2014) undisbursed amounts were written back from financially completed and/or cancelled grant. The fair value of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In May 2015, \$20,000,000 was allocated from OCR's 2014 net income to APDRF.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2015 and 2014.

continued

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, APDRF has no assets or liabilities measured at fair value on a non-recurring basis. See Notes C and E for discussions relating to investments and undisbursed commitments, respectively. In all other cases, the carrying amount of APDRF's assets and liabilities is considered to approximate fair value.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the APDRF's Financial Statements as of 31 December 2015.

FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2015. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework (2013)*. Based on that assessment, management believes that as of 31 December 2015, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework (2013)*.



Takehiko Nakao
President



Thierry de Longuemar
Vice-President (Finance and Risk Management)



Chai S. Kim
Controller



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited management's assertion, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Asian Development Bank ("ADB") maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. ADB's management is responsible for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on management's assertion based on our audit.

We conducted our audit in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

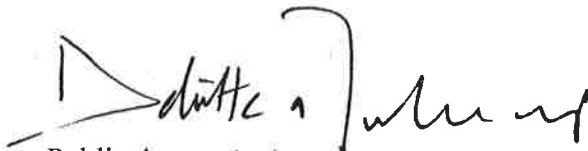
ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.



Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected and corrected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, is fairly stated, in all material respects, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statement of financial position of Asian Development Bank ("ADB") – Financial Sector Development Partnership Special Fund as of December 31, 2015 and 2014 and the related statements of activities and changes in net assets, and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 11, 2016 expressed an unmodified opinion on those financial statements.



Public Accountants and
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Singapore

March 11, 2016



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and the Board of Governors of Asian Development Bank

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Financial Sector Development Partnership Special Fund which comprise the statement of financial position as of December 31, 2015 and 2014, and the related statements of activities and changes in net assets, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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



Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB – Financial Sector Development Partnership Special Fund as of December 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Management's Assertion on Internal Control over Financial Reporting

We have also audited, in accordance with attestation standards established by the American Institute of Certified Public Accountants, management's assertion that ADB maintained effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 11, 2016 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized flourish.

Public Accountants and
Chartered Accountants
Singapore

March 11, 2016

FSDPSF-1

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2015 and 2014

Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
ASSETS		
DUE FROM BANKS	\$ 2,097	\$ 435
INVESTMENTS (Notes C and G)		
Time deposits	5,417	6,608
DUE FROM CONTRIBUTORS (Note F)	1,640	1,823
ADVANCES FOR GRANTS AND OTHER ASSETS (Note D)	59	5
TOTAL	\$ 9,213	\$ 8,871
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 21	\$ 52
UNDISBURSED COMMITMENTS (Notes E and G)	<u>2,266</u>	<u>1,833</u>
TOTAL LIABILITIES	2,287	1,885
UNCOMMITTED BALANCES (FSDPSF-2) (Note F), represented by:	6,926	6,986
Unrestricted net assets		
TOTAL	\$ 9,213	\$ 8,871

The accompanying notes are an integral part of these financial statements (FSDPSF-4).

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended 31 December 2015 and 2014

Expressed in Thousands of US Dollars

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	\$ 1,650	\$ 1,856
REVENUE		
From investments (Note C)	9	8
From other sources	<u>4</u>	<u>2</u>
Total	<u>1,663</u>	<u>1,866</u>
EXPENSES		
Technical assistance (Note E)	1,556	1,970
Administrative and financial expenses (Note D)	<u>72</u>	<u>21</u>
Total	1,628	1,991
CONTRIBUTION AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	35	(125)
EXCHANGE LOSSES—net	<u>(95)</u>	<u>(52)</u>
DECREASE IN NET ASSETS	(60)	(177)
NET ASSETS AT BEGINNING OF YEAR	6,986	7,163
NET ASSETS AT END OF YEAR	\$ 6,926	\$ 6,986

The accompanying notes are an integral part of these financial statements (FSDPSF-4).

FSDPSF-3

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2015 and 2014

Expressed in Thousands of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 1,736	\$ 2,052
Interest on investments received	9	8
Cash received from other sources	4	3
Technical assistance and grants disbursed	(1,210)	(108)
Administrative and financial expenses paid	(68)	(14)
Net Cash Provided by Operating Activities	471	1,941
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	296,828	272,593
Purchases of investments	(295,637)	(274,401)
Net Cash Provided by (Used in) Investing Activities	1,191	(1,808)
Net Increase in Due From Banks	1,662	133
Due from Banks at Beginning of Year	435	302
Due from Banks at End of Year	\$ 2,097	\$ 435
RECONCILIATION OF DECREASE IN NET ASSETS		
TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Decrease in net assets (FSDPSF-2)	\$ (60)	\$ (177)
Adjustments to reconcile decrease in net assets		
to net cash provided by operating activities:		
Change in due from contributors	183	247
Change in advances for grants and other assets	(54)	(5)
Change in accounts payable and other liabilities	(31)	43
Change in undisbursed commitments	433	1,833
Net Cash Provided by Operating Activities	\$ 471	\$ 1,941

The accompanying notes are an integral part of these financial statements (FSDPSF-4).

**ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2015 and 2014**

NOTE A—NATURE OF OPERATIONS

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the long-term strategic framework for 2008-2020 (Strategy 2020). Under Strategy 2020, ADB's corporate vision continues to be "An Asia and Pacific Free of Poverty" and its mission has been to help its DMCs reduce poverty and improve living conditions and quality of life. ADB has been pursuing its mission and vision by focusing on three complementary strategic agendas: inclusive growth, environmentally sustainable growth, and regional integration. ADB provides financial and technical assistance for projects and programs, which will contribute to achieve this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.¹

The Financial Sector Development Partnership Special Fund (FSDPSF) was approved by the Board of Directors and established on 31 January 2013 to strengthen regional, subregional, and national financial systems in Asia and the Pacific. The FSDPSF will provide financial assistance through grants for components of investments projects and technical assistance (TA) projects.

FSDPSF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the FSDPSF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

FSDPSF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to FSDPSF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of FSDPSF.

¹ Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets, liabilities, and uncommitted balances which are denominated in non-US dollar currencies are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

Investments

All investment securities held by FSDPSF are reported at fair value. Realized and unrealized gains and losses are included in REVENUE From investments.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments.

Contributions

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

Technical Assistance, Grants and Undisbursed Commitments

Technical assistance and grants are recognized in the financial statements when the project is approved and becomes effective. Upon completion or cancellation of a TA project or grant, any undisbursed amount is written back as a reduction in TA or grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Advances are provided from TA and grants to the executing agency or co-operating institution, for the purpose of making payments for eligible expenses. The advances are subject to liquidation and charged against undisbursed commitments. Any unutilized portion is required to be returned to the fund.

Fair Value of Financial Instruments

ASC 820, "Fair Value Measurement" defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction costs.

Fair Value Hierarchy

ASC 820 establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

continued

The fair values of ADB's financial assets and liabilities are categorized as follows:

Level 1: fair values are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: fair values are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: fair values are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09 "*Revenue from Contracts with Customers (Topic 606)*" to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. In August 2015, FASB issued ASU 2015-14 deferring the effective date by one year. ADB is currently assessing the impact on FSDPSF's financial statements.

In August 2014, the FASB issued ASU 2014-15, "*Presentation of Financial Statements – Going Concern (Subtopic 205-40)*," to require management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. The ASU applies to all entities and is effective for annual periods ending after 15 December 2016, and interim periods thereafter. This ASU is not expected to impact FSDPSF's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, FSDPSF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

All investments held as of 31 December 2015 and 2014 were in time deposits.

continued

The annualized rate of return on the average investments held during the period ended 31 December 2015, based on the portfolio held at the beginning and end of each month, was 0.16% (0.14% – 2014).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2015 and 2014 was as follows:

(\$ thousand)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
31 December 2015				
Investments				
Time deposits	\$ 5,417	\$ –	\$ 5,417	\$ –
31 December 2014				
Investments				
Time deposits	\$ 6,608	\$ –	\$ 6,608	\$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates fair value.

NOTE D—RELATED PARTY TRANSACTIONS

The ordinary capital resources (OCR) and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to FSDPSF are settled regularly with OCR and the other funds. Grant programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's incremental cost for the administration, management, supervision, and operation of the FSDPSF. The service fees are set at (i) 5% of amounts disbursed for TA projects; and (ii) 5% of amounts disbursed for grant components of investment projects up to \$5,000,000, or 2% of amounts disbursed for grant components of investment projects above \$5,000,000 with a minimum of \$250,000, whichever is greater.

The interfund account balances included in ADVANCES FOR GRANTS AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

(\$ thousand)

	2015	2014
Receivable from:		
Regional Cooperation and Integration Fund	\$ 24	\$ –
Agency Trust Funds—net	1	–
	<u>\$ 25</u>	<u>\$ –</u>
Payable to:		
Ordinary capital resources	\$ 6	\$ 17
Technical Assistance Special Fund	–	28
Total	<u>\$ 6</u>	<u>\$ 45</u>

continued

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA and grants not yet disbursed and unliquidated. During 2015, \$64,000 (nil – 2014) representing completed and cancelled TA projects were written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The fair value of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

The committed contributions in 2015 and 2014 were from the Government of Luxembourg. As of 31 December 2015, the amount committed in 2015 was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2015 and 2014. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2015 and 2014, FSDPSF has no assets or liabilities measured at fair value on a non-recurring basis. See Notes C and E for discussions relating to investments and undisbursed commitments, respectively. In all other cases, the carrying amount of FSDPSF's assets and liabilities is considered to approximate fair value.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2015 through 11 March 2016, the date these Financial Statements are available for issuance. On 7 January 2016, FSDPSF received its 4th contribution from the Government of Luxembourg.

