2014 FINANCIAL REPORT

ASIAN DEVELOPMENT BANK

Improving lives throughout Asia and the Pacific

MANAGEMENT'S DISCUSSION AND ANALYSIS AND ANNUAL FINANCIAL STATEMENTS

ADB

Management's Discussion and Analysis and Annual Financial Statements

31 December 2014

ADB

CONTENTS

Management's Discussion and Analysis

Financial Statements, Management's Report on Internal Control over Financial Reporting, and Independent Auditors' Reports

IX. Financial Sector Development Partnership Special Fund (FSDPSF)

MANAGEMENT'S DISCUSSION AND ANALYSIS

I. OVERVIEW

The vision of the Asian Development Bank (ADB), an international development financial institution, is of an Asia and Pacific region free of poverty. ADB was established in 1966 through the Agreement Establishing the Asian Development Bank (the Charter).[1] ADB is owned by 67 members, 48 of which are in Asia and the Pacific.

ADB provides various forms of financial assistance to its developing member countries (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 operations are financed from OCR and 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 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. 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 members' capital subscriptions from 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. 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.

---

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

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 transaction.

The management reporting basis balance sheet reconciled from the statutory reporting basis balance sheet as of 31 December 2014 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 increased in 2014 compared with 2013, mainly as a result of increased operating income. Decreases in the rate of return on loans and cost of borrowings were consistent with the applicable market interest rate trend and portfolio composition. Return on investments decreased due to the lag effect between the rising medium-term market interest rate and the actual return from investments. Income and expenses are discussed below under Overall Financial Results section.

C. Overall Financial Results

Net income. Table 3 presents the overall financial results for 2014. Net income was $387 million, compared with $566 million for 2013. The decreased net income is mainly attributed to the unrealized losses from ADB's derivatives and associated borrowings, compared with the unrealized gains in 2013.

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

Item	2014	2013	2012	2011	2010
Statutory Reporting Basis					
Revenue					
From Loans	605	646	770	650	681
From Investments	305	339	390	365	368
From Guarantees	21	18	18	16	11
From Equity Investments	17	10	39	44	58
From Other Sources	25	22	21	20	24
Total Revenue	**973**	**1,035**	**1,238**	**1,095**	**1,142**
Borrowings and Related Expenses	317	400	520	368	386
Administrative Expenses[a]	352	411	351	316	294
(Write-back) Provision for Loan Losses	(1)	(6)	7	(7)	(45)
Other Expenses	13	8	9	5	4
Total Expenses	**681**	**813**	**887**	**682**	**639**
Net Realized Gains	288	194	122	190	80
Net Unrealized (Losses) Gains	(193)	150	(331)	6	43
Net Income	**387**	**566**	**142**	**609**	**626**
Average Earning Assets[b]	80,633	78,828	76,361	69,112	62,445
Annual Return on Average Earning Assets (%)	0.48	0.72	0.19	0.88	1.00
Return on Equity (%)	2.24	3.43	0.87	3.74	3.97
Return on Loans (%)	1.15	1.31	1.56	1.34	1.61
Return on Investments (%)	1.30	1.43	1.69	2.04	2.17
Cost of Borrowings (%)	0.82	0.51	0.91	1.13	2.06
Management Reporting Basis					
Operating Income[c]	571	469	465	587	548
Average Earning Assets[b]	80,639	78,839	76,386	69,099	62,555
Annual Return on Average Earning Assets[d] (%)	0.71	0.60	0.61	0.85	0.88
Return on Equity (%)	3.12	2.71	2.72	3.58	3.54
Return on Loans (%)	1.12	1.23	1.51	1.36	1.56
Return on Investments (%)	1.31	1.36	1.58	2.11	2.16
Cost of Borrowings (%)	0.50	0.64	0.84	0.69	0.81

( ) = 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	2014	2013	2012	2011	2010
6-Month US Dollar LIBOR	0.36	0.35	0.51	0.81	0.46
3-Year US Dollar Swap Rate	1.30	0.88	0.50	0.82	1.28

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	2014	2013	Change
Income from loans	**605**	**652**	**(47)**
Interest income	596	637	(41)
Write-back of loan losses	1	6	(5)
Others	8	9	(1)
Income from investments	**352**	**351**	**1**
Interest income	305	339	(34)
Realized gain	47	12	35
Income from equity investments	**248**	**239**	**9**
Profit on sale	250	178	72
Proportionate share of (loss) income from EI accounted for under the equity method—realized	(6)	47	(53)
Others	4	14	(10)
Other income—net	**35**	**32**	**3**
Borrowings and related expenses	**317**	**394**	**(77)**
Interest and other expenses	317	400	(83)
Realized gain	–	(6)	6
Administrative expenses—OCR	**352**	**411**	**(59)**
Operating income	**571**	**469**	**102**
Net unrealized (losses) gains	**(193)**	**150**	**(343)**
Proportionate share of income (loss) from EI accounted for under the equity method—unrealized	**9**	**(53)**	**62**
Net income	**387**	**566**	**(179)**

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

Operating income. Operating income in 2014 increased to $571 million, from $469 million in 2013.[2] The change in operating income was primarily driven by:

(i) a $77 million decrease in borrowings and related expenses due to the decrease in the average cost of borrowings;

(ii) a $59 million decrease in administrative expenses; and

(iii) a $9 million increase in income from equity investments, mainly because of a $72 million increase in profit on the sale of equity investments, offset by a $53 million decrease in ADB's share of reported income of investee companies accounted for under the equity method.

These were partially offset by a $47 million decrease in income from loans, mainly because of the repayments of loans—Countercyclical Support Facility (CSF) loans and pool-based single currency loans (PSCL)—which carry higher lending rates. These were partially offset by an increase in interest income from the discontinued lending spread waiver on some OCR sovereign loans.

[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 losses and gains. Movements in interest rates and credit spreads on ADB's own borrowings generally contribute to movements in the fair value. During 2014, ADB posted net unrealized losses of $193 million (2013: $150 million net unrealized gains). These primarily consisted of fair value adjustments on certain borrowings and derivatives used for hedging borrowings, investments and loans. The change in fair value resulted in net unrealized losses of $205 million (2013: net unrealized gains of $83 million) for borrowings and related swaps, reflecting the movements in ADB's credit spreads and interest rates.

D. Operating Activities

ADB provides financial assistance 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.

1. Loans

Loans based on the London interbank offered rate (LIBOR) have been the primary lending facility for OCR sovereign operations since 2001. The LIBOR-based loan (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 local currency loans (LCLs) to nonsovereign borrowers since November 2002, and this was expanded to sovereign borrowers in August 2005. In June 2009, ADB established the CSF in response to the global economic crisis, which spread to Asia and the Pacific. The CSF is a sovereign lending instrument available to support the countercyclical development expenditure and/or policy program of DMCs.

In 2011, ADB introduced policy-based lending, which enhanced the program lending policy by mainstreaming programmatic budget support and enhancing crisis response capacity. ADB has 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 lending.

In April 2011, ADB established the project design facility on a pilot basis to provide quick-disbursing resources for project formulation, encompassing detailed engineering design and broader project and program preparatory work. 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).

Before 2001, ADB's loan products pool-based single currency loans, market-based loans, and fixed-rate multicurrency loans. With the introduction of the LBLs, these are no longer offered.

Loan approvals, disbursements, repayments, and prepayments. In 2014, approved loans totaled $10,233 million, representing a $75 million increase from 2013 ($10,158 million).[3] ADB approved 56 sovereign loans totaling $8,520 million and 28 nonsovereign loans totaling $1,713 million, compared with 2013 approvals of 56 sovereign loans totaling $8,733 million (footnote 3) and 19 nonsovereign loans totaling $1,425 million.

[3] These exclude adjustments prior to signing.

Disbursements in 2014 totaled $7,368 million ($6,280 million for sovereign loans and $1,088 million for nonsovereign loans), an increase of 23.1% from the $5,985 million disbursed in 2013 ($5,178 million for sovereign loans and $807 million for nonsovereign loans). Regular principal repayments in 2014 were $3,989 million (2013: $4,461 million), while prepayments totaled $317 million (2013: $665 million). In 2014, two loans were fully prepaid for $282 million, and four loans were partially prepaid for $35 million. As of 31 December 2014, loans outstanding after allowance for loan losses and net unamortized loan origination cost totaled $55,890 million, of which sovereign loans represented $52,351 million and nonsovereign loans $3,539 million.

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 2014, MFFs totaling $2,532 million (2013: $1,555 million) were approved under OCR.[4] Under the MFFs, PFRs totaling $2,952 million were approved in 2014 (2013: $2,969 million); a total of $2,210 million was disbursed in 2014 (2013: $2,072 million).

ADB provides lending without sovereign guarantee to entities that can be considered public sector borrowers but are structurally separate from the sovereign or central government. Such entities include state-owned enterprises, government agencies, municipalities, and local government units.

Status of loans. No loans were in nonaccrual status as of 31 December 2014 and 2013.

Loan charges on sovereign loans. 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 pool-based single currency loans 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.

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.

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 policy for the applicable loans is reviewed annually. In December 2014, the Board of Directors approved the continuation of this waiver policy for borrowers of US dollar PSCLs only covering the period commencing from 1 January 2015 to 31 December 2015. In 2014, the total waiver provided on the lending spread was $20 million (2013: $59 million).

---

[4] These amounts may be adjusted based on flexibility in the use of OCR and Asian Development Fund funding.
[5] Applicable for sovereign loans negotiated before 1 October 2007.

In December 2007, the ADB Board of Directors revised 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.

In April 2010, the Board of Directors 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, to result in a contractual spread of 0.4% over the base lending rate.

In December 2013, the Board of Directors approved 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, resulting 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 project design facility 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 2014, 107 approved loans totaling $16,560 million were subject to maturity premium (2013: 74 approved loans totaling $11,747 million).

Results-based lending. In March 2013, the Board of Directors approved piloting results-based lending (RBL). This is a new modality to support government-owned sector programs and disburse ADB financing based on program results. Loan terms under RBL are the same as for investment projects. In 2014, ADB approved three OCR loans totaling for $450 million under RBL (2013: one loan amounting $100 million); disbursements totaled $58 million (2013: $20 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 4). 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 $70 million to its LBL borrowers in 2014 (2013: $79 million), and collected a surcharge of $2 million on CSF loans in 2014 (2013: $3 million).

Table 4: Funding Cost Margin
(% per year)

	(Rebate) or Surcharge			
Type	1 July 2014	1 January 2014	1 July 2013	1 January 2013
LIBOR-based Loans				
US dollar	(0.15)	(0.16)	(0.17)	(0.19)
Yen	(0.34)	(0.31)	(0.27)	(0.29)
New Zealand dollar	0.29	0.29	0.34	n/a
CSF Loans				
US dollar	0.27	0.28	0.24	0.19

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

Lending rates for PSCLs are based on the previous semester's average cost of borrowing (Table 5) and carry a lending spread of 60 basis points.

Table 5: Lending Rates[a]
(% per year)

	2014	**2013[b]**	**PSCLs**
1 January	5.65[b]	4.95	US dollar
	0.71	1.94	Yen
1 July	5.57[b]	5.27	US dollar
	0.64	0.97	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 6).

Table 6: Commitment Fees
(% per year)

Date	**Project loans**	**Policy-based loans**	**Results-based lending**
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	0.35	–	n/a
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.

Loan charges on nonsovereign loans. 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 2014, $3,873 million from official sources was mobilized for loan cofinancing for 33 loan projects, of which $658 million is under ADB administration and $3,215 million is under collaborative arrangements (refer to Note F of OCR Financial Statements for loans administered by ADB as of 31 December 2014).

2. Guarantees

Guarantees are typically designed to facilitate cofinancing by mitigating the risk exposure of commercial lenders and capital market investors. ADB provides guarantees 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 2014, ADB approved one new guarantee facility totaling $20 million (2013: one guarantee amounting $35 million).

Trade Finance Program. In 2014, the Trade Finance Program (TFP) supported $3,829 million (2013: $4,030 million) in trade through 53 DMC banks in 13 different countries. Of the trade supported, $1,789 million was financed by ADB (2013: $1,754 million) and $2,039 million was cofinanced (2013: $2,279 million).

TFP transactions have average maturities of less than 180 days which enabled the TFP to revolve its $1 billion limit in 2014 to finance a total of $1,789 million of guarantees and loans. As of 31 December 2014, TFP guarantees outstanding totaled $723 million (2013: $595 million) and loans outstanding totaled $12 million (2013: nil). Adding TFP unused commitments of $245 million, total TFP gross exposure against its $1 billion Board approved limit (which applies at any one point in time) was $980 million, net of risk distribution was $701 million.

In 2014, TFP gross revenue totaled $12 million (2013: $9 million) and TFP net revenues (net of risk-distribution fees) totaled $8 million (2013: $7 million). Net revenues expanded at a lower percentage than gross revenues, as TFP paid out a total of $4 million in fees to risk participation partners (2013: $3 million). The main contributing factor was insufficient limits in certain countries such as Viet Nam and Bangladesh, where the TFP was required to distribute more of each transaction to risk sharing partners.

Supply Chain Finance Program. In 2012, ADB approved 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. There was no outstanding amount as of 31 December 2014 (2013: 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.[6] 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 2014, $863 million of B-loans were approved for eight projects (2013: $220 million for two projects).[7]

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 together with reserves and surplus, excluding special reserves. At the end of 2014, the total equity investment portfolio for OCR, for both outstanding and undisbursed approved facilities, totaled $1,316 million, or about 76% of the ceiling defined by the Charter.

In 2014, ADB approved eight equity investments totaling $175 million[8] (2013: four equity investments totaling $142 million), and disbursed $184 million in equity investments[9] (a 10.8% increase from the $166 million disbursed in 2013), and received a total of $349 million from capital distributions and divestments, whether in full or in part, in 32 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.

---

[6] Depending on whether ADB retains risk or not, ADB may or may not have a contingent liability.

[7] 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 2013 and 2014 include US dollar and local currency complementary loans. The 2014 figure is based on total amount approved and includes additional B loans provided for a project originally approved in 2013.

[8] Excluding approval for debt security of $10 million.

[9] Excluding disbursement for debt security of $6 million.

E. Financing Resources

1. Capital and Reserves

The total authorized capital of ADB was 10,638,933 shares valued at $154,092 million as of 31 December 2014; subscribed capital was 10,567,394 shares valued at $153,056 million. Of the subscribed capital, $7,680 million was paid-in ($6,131 million of which was received as of 31 December 2014) and $145,376 million was callable. 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.

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 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 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 Asian Development Fund (ADF); and (v) $30 million to the Technical Assistance Special Fund (TASF).

Total shareholders' equity decreased from $17,138 million as of 31 December 2013 to $16,938 million as of 31 December 2014. This was primarily the result of (i) an increase in paid-in capital, net of demand notes of $246 million; (ii) net income for the year of $366 million, after appropriation of guarantee fees to the special reserve; (iii) transfer of $150 million to Special Funds; and (iv) a $597 million increase in other comprehensive loss due to unfavorable currency translation adjustments, fair value changes in available for sale investments, and actuarial losses.

ADB limits the total amount of outstanding loans and guarantees, as well as outstanding equity investments including undisbursed commitments, to the total amount of ADB's unimpaired subscribed capital, reserves, and surplus, excluding special reserves. In addition, ADB policy limits gross outstanding borrowings to no more than the sum of callable capital from nonborrowing members, paid-in capital, and reserves (including surplus). As of 31 December 2014, the headroom for lending was $107,960 million ($120,577 million as of 31 December 2013) and for borrowings $53,065 million ($61,292 million as of 31 December 2013).

2. Borrowings

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 2014, 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.

2014 funding operations. In 2014, ADB raised the equivalent of $14,249 million (2013: $11,975 million) in medium- and long-term funds with 50 borrowing transactions. The new borrowings were raised in 11 currencies: Australian dollar, Brazilian real, Canadian dollar, yuan, Euro, Hong Kong dollar, Indian rupee, New Zealand dollar, pound sterling, Turkish lira, and US dollar. Proceeds of the 2014 borrowings were swapped into US dollar floating-rate liabilities, except for two local currency notes which remained in local currency. The average maturity to first call date of these borrowings is 4.3 years (2013: 4.2 years). Of the 2014 borrowings, $12,147 million was raised through 26 public offerings, including two global benchmark bond issues denominated in euro and US dollars totaling $3,576 million. The remaining $2,102 million was raised through 24 private placements.

Among the highlights of ADB's capital market activities in 2014 were the issuance of its inaugural euro benchmark bonds totaling €1.5 billion ($2.1 billion equivalent) in April 2014, first offshore Indian rupee-linked bonds totaling Rs3.0 billion ($49 million equivalent) in August, a return to the Canadian dollar Maple market with C$400 million ($364 million equivalent) in September, and a second Dimsum bond amounting to CNY1.0 billion ($164 million equivalent) in November. ADB continued to issue thematic bonds, raising $284 million equivalent from its sale of water bonds.

ADB also raised $2,420 million ($2,518 million in 2013) of short-term funds under its Euro-Commercial Paper Program (ECP). Of the ECPs issued in 2014, $475 million were outstanding as of 31 December 2014. Table 7 shows details of 2014 borrowings as compared with 2013.

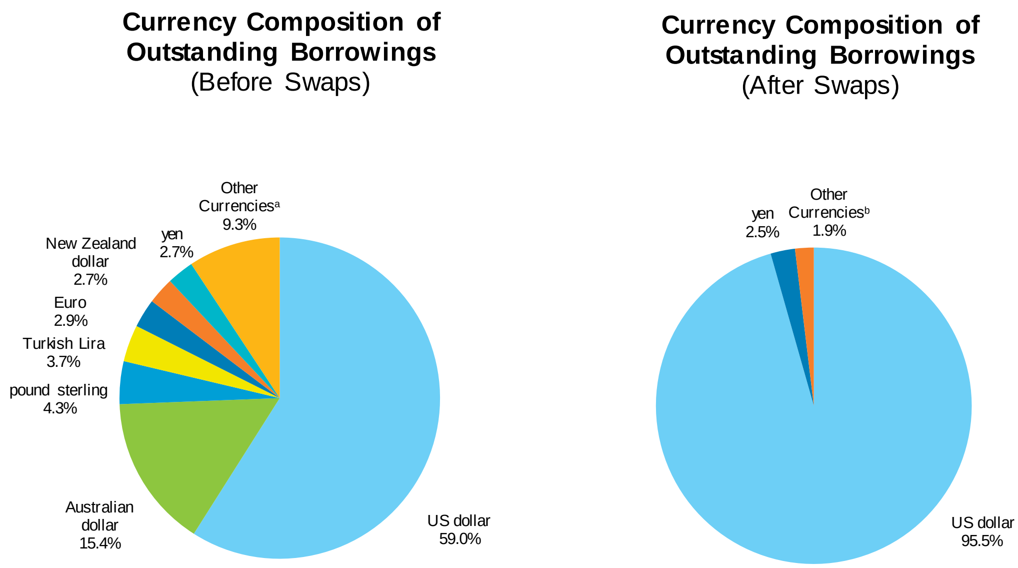
Table 7: Borrowings
($ million)

Item	2014	2013
Long Term		
Total Principal Amount	14,249	11,975
Average Maturity to		
First Call (years)	4.3	4.2
Average Final Maturity (years)	4.4	4.6
Number of Transactions		
Public Offerings	26	22
Private Placements	24	36
Number of Currencies (before swaps)		
Public Offerings	8	5
Private Placements	7	9
Short Term[a]		
Total Principal Amount[b]	2,420	2,518
Number of Transactions	23	12
Number of Currencies	3	2

[a] All euro commercial papers.
[b] At year-end, the outstanding principal amount was $475 million in 2014 ($750 million in 2013).

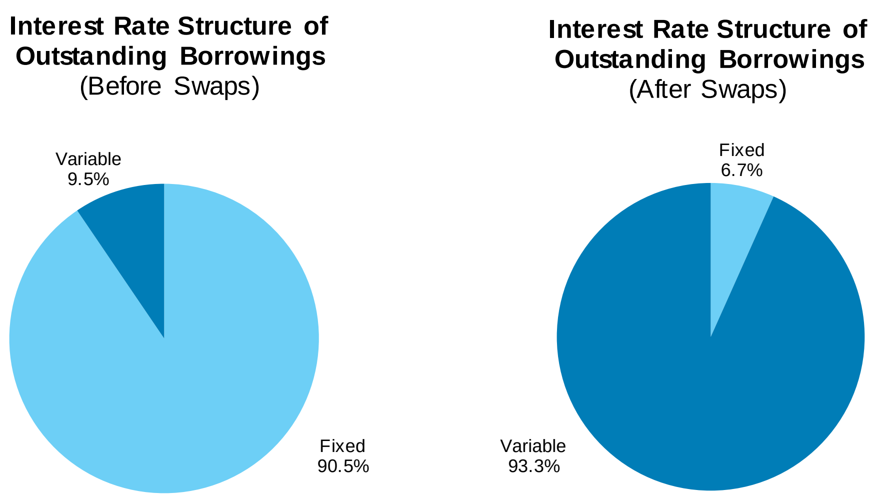
Use of derivatives. ADB undertakes currency and interest rate swaps to cost-efficiently and on a fully hedged basis raise the currencies needed for its operations, while maintaining its borrowing presence in major capital markets. Figures 1 and 2 show the effects of swaps on the currency composition and interest rate structure of ADB's outstanding borrowings as of 31 December 2014. 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 2014



[a] Other currencies include the Brazilian real, Canadian dollar, yuan, Hong Kong dollar, Indian rupee, ringgit, Mexican peso, Norwegian krone, Singapore dollar, South African rand, Swiss franc and baht.
[b] Other currencies include the yuan, Indian rupee and Swiss franc.

Figure 2: Effect of Swaps on Interest Rate Structure of Borrowings
As of 31 December 2014



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 2014, ADB held liquid investments in 24 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 2014 and 2013 is presented in Table 8. The amortized cost and fair value returns of the portfolios are presented in Table 9.

Table 8: Year-End Balance of Liquidity Portfolio[a]

($ million)

Item	2014	2013
Core Liquidity Portfolio	15,261	15,890
Operational Cash Portfolio	232	222
Cash Cushion Portfolio	2,960	2,778
Discretionary Liquidity Portfolio	5,945	5,981
Other Portfolio	422	543
Total	**24,820**	**25,414**

[a] Including securities purchased under resale arrangements, securities transferred under repurchase agreements, and unsettled trades. The composition of the liquidity portfolio may shift from year to year as part of ongoing liquidity

Table 9: Return on Liquidity Portfolio

(%)

	Annualized Return			
	Amortized Cost		Fair Value	
Item	2014	2013	2014	2013
Core Liquidity Portfolio	1.9	1.9	1.7	0.2
Operational Cash Portfolio	0.0	0.1	0.0	0.1
Cash Cushion Portfolio	0.4	0.4	0.4	0.4
Discretionary Liquidity Portfolio[a]	0.2	0.3	0.2	0.3
Other Portfolio	2.9	2.7	1.5	0.7

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 2.4 years as of 31 December 2014.

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 10 summarizes ADB's significant contractual cash obligations as of 31 December 2014 and 2013. 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 10: Contractual Cash Obligations
($ million)

Item	2014	2013
Long-Term Debt	60,490	60,011
Undisbursed Loan Commitments	34,218	32,134
Undisbursed Equity Investment Commitments	437	587
Guarantee Commitments	2,186	2,302
Other Long-Term Liabilities	1,452	1,347
Total	**98,783**	**96,381**

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 11). For nonsovereign transactions, the rating typically is not better than that of the sovereign.

Table 11: 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, while the nonsovereign portfolio includes nonsovereign loan and guarantees, publicly traded equity, and private equity. The treasury portfolio includes fixed-income securities, cash and cash equivalents, and derivatives. Table 12 details the credit risk exposure and weighted average risk rating for each asset class. Overall, aggregate credit risk stayed constant at 3.8 (BBB) in 2014.

Table 12: Exposure to Credit Risk
As of 31 December 2014 and 2013

Item	2014 Exposure ($ million)	2014 Rating (1–14)	2013 Exposure ($ million)	2013 Rating (1–14)
Sovereign operations	53,017		50,685	
a. Loan and guarantee	52,867	4.9 / BBB–	50,585	5.0 / BBB–
b. Equity	150	n/a	100	n/a
Nonsovereign operations	5,108		4,594	
a. Loan and guarantee	4,342	6.4 / BB+	3,742	6.3 / BB+
b. Publicly traded equity	64	n/a	114	n/a
c. Private equity	702	n/a	738	n/a
Treasury	25,228	1.0 / AA	26,514	1.0 / AA
a. Fixed income	18,879	1.1 / AA	18,021	1.0 / AA+
b. Cash instruments	6,205	1.0 / AA–	8,316	1.1 / AA–
c. Derivatives	144	1.0 / AA–	177	1.0 / AA–
Aggregate Exposure	**83,352**	**3.8/BBB**	**81,794**	**3.8/BBB**

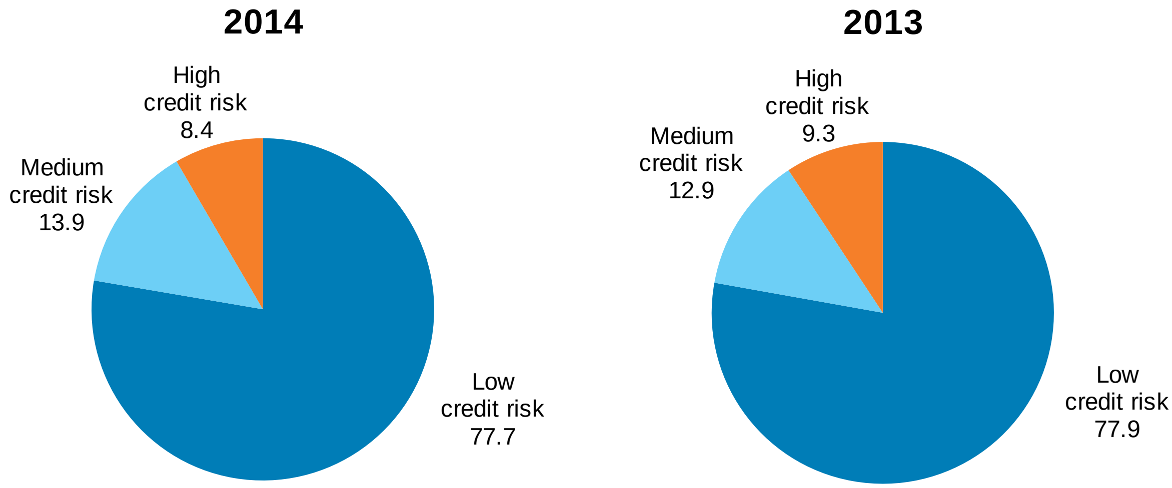
n/a = not applicable.
Note: Numbers may not sum precisely because of rounding.

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 2014 results are discussed below.

Sovereign loan and guarantee exposure. The weighted average risk rating of the sovereign loan and guarantee portfolio improved from 5.0 (BBB–) in 2013 to 4.9 (BBB–) in 2014 because of improving sovereign credit conditions in many ADB DMCs, and more disbursements to high rated countries (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 2014 and 2013
(%)



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 63.7% of the portfolio in 2014 (Table 13).

Table 13: Sovereign Country Exposure
As of 31 December 2014 and 2013

	2014		2013	
Country	**$ million**	**%**	**$ million**	**%**
People's Republic of China	14,039	26.5	13,225	26.1
India	12,133	22.9	11,249	22.2
Indonesia	7,586	14.3	8,169	16.1
Philippines	5,023	9.5	4,741	9.4
Pakistan	4,415	8.3	4,660	9.2
Others	9,821	18.5	8,641	17.0

Expected loss. In 2014, ADB experienced an increase in the credit quality of some countries in the sovereign portfolio. As a result, expected loss decreased from $199 million in 2013 to $182 million in 2014 (Table 14).

Table 14: Sovereign Portfolio Expected Loss
As of 31 December 2014 and 2013

	2014		2013	
Item	**$ million**	**% of SO portfolio**	**$ million**	**% of SO portfolio**
Provision for Loan Losses	–	–	–	–
Loan Loss Reserve Requirement	182[a]	0.3	199	0.4
Expected Loss	**182**	**0.3**	**199**	**0.4**

– = nil, SO = sovereign operations.
[a] The loan loss reserve requirement is subject to the Board of Governors' approval during the Annual Meeting in May 2015.

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 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.

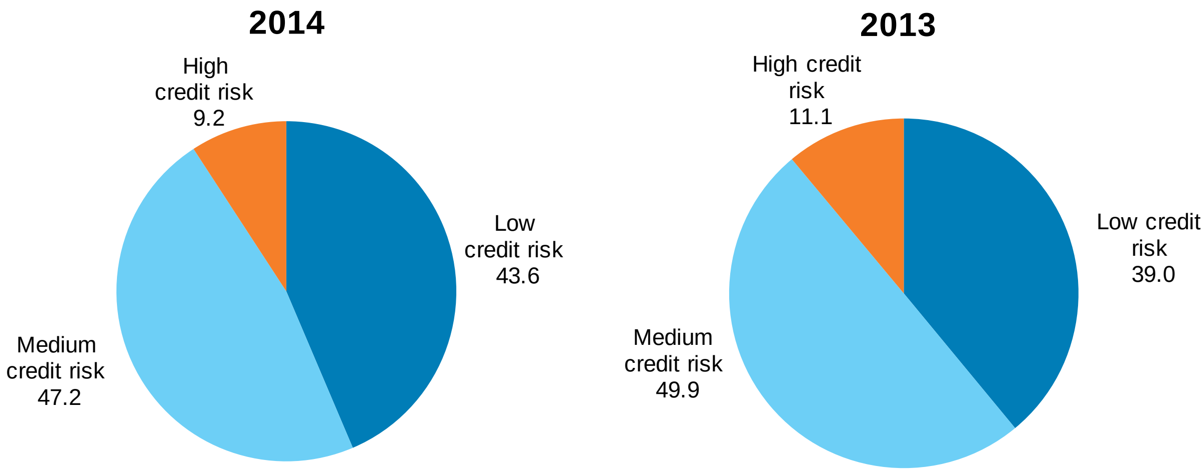
ADB manages its nonsovereign credit risk by assessing all new transactions at the concept clearance stage and before final approval. Following approval, all exposures are reviewed at least annually; more frequent reviews are performed for those that are more vulnerable to default or have defaulted. In 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 loans or guarantee transactions, and collective provisions for unidentified probable losses that exist in disbursed loan transactions 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 2014 results are discussed below.

Nonsovereign loan and guarantee exposure. ADB assigns a risk rating to each nonsovereign loan and guarantee. During 2014, ADB's weighted average risk rating declined slightly to 6.4 (BB+) from 6.3 (BB+) in 2013 because of a slight shift in credit mix within the bands (Figure 4). Refer to Note F of OCR Financial Statements for additional information.

Figure 4: Nonsovereign Loan and Guarantee Exposure by Credit Quality
As of 31 December 2014 and 2013
(%)



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.

Publicly traded equity exposure. The exposure of ADB's publicly traded equity portfolio declined from $114 million in 2013 to $64 million in 2014. The drop was from equity exits conducted during the year rather than declining value.

Private 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 dropped to $702 million in 2014 from $738 million in 2013. The drop was from equity exits conducted during the year rather than declining value. Additional disbursements over 2014 partially offset the decline. Refer to Note H of OCR Financial Statements for additional information.

Nonsovereign concentrations. The three largest nonsovereign country exposures as of 31 December 2014 were the People's Republic of China (20.4%), India (19.4%), and Thailand (9.4%). The exposure of the top three countries increased from 47.4% in 2013 to 49.2% in 2014 (Table 15). All country exposures complied with ADB exposure limits.

Table 15: Nonsovereign Country Exposure
As of 31 December 2014 and 2013

	2014		2013	
Country	**$ million**	**%**	**$ million**	**%**
People's Republic of China	1,040	20.4	914	19.9
India	989	19.4	819	17.8
Thailand	481	9.4	397	8.6
Pakistan	450	8.8	444	9.7
Indonesia	243	4.8	297	6.5
Others	1,905	37.3	1,723	37.5

Note: Percentages may not total 100% because of rounding.

ADB employs the Global Industry Classification Standard for its nonsovereign exposures. Under this system, ADB is dominated by the utilities sector (Table 16). ADB maintains higher exposures to this sector because of the importance of infrastructure to economic development. To mitigate sector concentration, ADB conducts additional monitoring of and reporting on this sector and employs specialists in these areas.

Table 16: Nonsovereign Sector Exposure
As of 31 December 2014 and 2013

	2014		2013	
Sector	**$ million**	**%**	**$ million**	**%**
Utilities	2,450	48.0	2,114	46.0
Banks	924	18.1	732	15.9
Diversified Financials	714	14.0	559	12.2
Insurance	368	7.2	171	3.7
Administration	327	6.4	355	7.7
Energy	132	2.6	524	11.4
Others	192	3.8	141	3.1

Note: Percentages may not total 100% because of rounding.

Expected loss. Expected loss in the nonsovereign portfolio increased slightly in 2014 because of the increase in loan and guarantee exposure (Table 17).

Table 17: Nonsovereign Portfolio Expected Loss
As of 31 December 2014 and 2013

	2014		2013	
Item	**$ million**	**% of NSO portfolio[a]**	**$ million**	**% of NSO portfolio[a]**
Specific Provision for Loan Losses	7	0.2	7	0.2
Collective Provision for Loan Losses	28	0.6	29	0.8
Loan Loss Reserve Requirement	33[b]	0.8	31	0.8
Expected Loss	**68**	**1.6**	**67**	**1.8**

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 2015.

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 2014 results are discussed below.

The weighted average credit rating for the liquidity portfolio was AA in 2014. About 99% of the portfolio was rated A– or better.

As of 31 December 2014, no fixed-income instruments, derivatives, or other treasury exposures were past due or impaired; the same as in 2013.

Deposits. Generally, depository credit risk is low. ADB deposits funds only in 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 internal credit risk assessments. Moreover, the size of the deposit 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 92% of ADB's fixed income assets. The remainder is in corporate bonds that are rated at least A– (Table 18). ADB has monitored market developments closely and adjusted its risk exposures accordingly.

Table 18: Fixed Income Portfolio by Asset Class
As of 31 December 2014 and 2013

	2014		2013	
Item	**$ million**	**%**	**$ million**	**%**
Government	11,349	60.1	10,676	59.2
Government Guaranteed	2,102	11.1	2,636	14.6
Government-Sponsored Enterprises and Supranationals	3,909	20.7	3,626	20.1
Corporates	1,519	8.0	1,083	6.0
Total	**18,879**	**100.0**	**18,021**	**100.0**

Note: Numbers may not sum precisely because of rounding.

Derivatives. All eligible swap counterparties are rated at least A–. The current exposure to counterparties rated A– through 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 internal credit risk assessments. At the end of 2014, the marked-to-market exposure was fully collateralized. The average rating of all swap counterparties to which ADB has net exposure after collateral is AA–.

Country exposure. At the end of 2014, treasury credit risk exposure was allocated across 30 countries with the largest exposure in the United States (Table 19).

Table 19: Treasury Country Exposure
As of 31 December 2014 and 2013

	2014		2013	
Country	**$ million**	**%**	**$ million**	**%**
United States	6,869	27.2	7,038	26.5
Japan	6,577	26.1	9,413	35.5
Singapore	2,236	8.9	673	2.5
Germany	1,735	6.9	1,744	6.6
Supranational	1,154	4.6	397	1.5
Others	6,657	26.4	7,249	27.3
Total	**25,228**	**100.0**	**26,514**	**100.0**

Note: Percentages may not total 100% because of rounding.

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 was discussed above with the nonsovereign portfolio; (ii) interest rate risk; and (iii) foreign exchange risk. Interest rate risk and foreign exchange risk are discussed in this section.

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 58% of ADB's OCR, while major currencies account for 94% 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, decreased from 2.9% in 2013 to 2.7% in 2014. This means that there is a 5% probability that the portfolio will lose more than 2.7% ($393 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 2.1 years as of the end of 2013 to 2.4 years as of the end of 2014.

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 4.6% ($673 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.

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 new 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. In 2014, ADB has completed implementing its operational risk management approach across the organization. ADB will now move to 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 business continuity and particularly information technology (IT) to reduce the impact of disruptions.

5. Capital Adequacy

ADB's most significant risk is if a large portion of its loan portfolio were to default. 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 2014, 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 2014, 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.

To transition to the 2013 Framework, ADB (i) conducted a comprehensive impact assessment; (ii) performed gap analysis; (iii) designed and implemented a transition plan to ensure compliance; (iv) conducted training sessions across ADB; (v) updated testing and evaluation templates; and (vi) mapped key controls (entity level controls, process level controls, spreadsheet controls and IT general controls) to the codification principles in the 2013 Framework. The mapping exercise concluded that ADB has met all principles to support the components of internal control.

ADB continues to apply 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 includes a review of 50 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 2014, 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 retirement benefit 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 Retirement Plan and Postretirement Medical Benefits.

III. 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), Asia Pacific Disaster Response Fund (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 SDR8,084 million ($12,638 million at Resolution No. 357 exchange rates) comprised SDR7,843 million for ADF XI and SDR241 million for the TASF. About 38% of the replenishment will be financed from new donor contributions totaling SDR3,086 million ($4,826 million equivalent). The replenishment became effective on 4 June 2013. As of 31 December 2014, ADB had received 30 instruments of contributions from donors for a total of SDR2,814 million ($4,399 million).[10]

Currency management. ADB revised the currency management framework for the ADF in 2006. The previous practice of managing ADF resources in as many as 15 currencies was discontinued, and an approach based on an SDR basket of currencies (US dollar, euro, pound sterling, and yen) was introduced. 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 2014, 18 of 29 borrowing members had signified their agreement to the conversion. The outstanding balance of their SDR-converted loans amounted to $10,748 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.

[10] In February 2015, ADB's Board of Directors approved the acceptance of Norway's Instrument of Contribution as an additional contribution to ADF XI in the amount of NKr30 million ($5 million equivalent), of which an installment of NKr7 million ($1 million equivalent) was received. In March 2015, ADB's Board of Directors approved the acceptance of the United States' Instrument of Contribution for ADF XI in the amount of $360 million, of which an installment of $105 million was received.

For hard-term ADF loans approved in 2014, the interest rate is set at (i) 1.77% fixed for the life of the loans (2013: 1.0% during the grace period and 1.5% thereafter) for ADF-only countries; and (ii) 2.0%, fixed for the life of the loans for blend countries (2013: 2.0% fixed). During 2014, one loan for blend countries was approved under this facility (2013: two loans for ADF-only countries and one 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.[11] 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,[12] 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 2014, the ADF had delivered $16 million under this arrangement, bringing the balance to $90 million.

Contributed resources. The total replenishment of SDR8,084 million for ADF XI and TASF V comprises SDR4,691 million financed from internal resources, SDR3,086 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 2014, 30 donors had contributed a total of $3,438 million equivalent, of which $1,712 million (including the allocation to the TASF) had been received and made available for operational commitments. The remaining unpaid contributions under ADF VIII, ADF IX, ADF X

[11] These included Bhutan, Kyrgyz Republic, Lao People's Democratic Republic (Lao PDR), Nepal, and Sri Lanka. Subsequently, Afghanistan was assessed to be potentially eligible for HIPC debt relief. At that time, the authorities of Bhutan, Lao PDR, and Sri Lanka had indicated to International Monetary Fund and World Bank staff that they did not wish to avail of the HIPC Initiative. In the absence of data, no debt assessment could be made for Myanmar. The authorities of Myanmar also indicated that they could not provide the data needed for the assessment and that they did not want to benefit from debt relief under the HIPC Initiative at that time.

[12] 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.

and ADF XI as of 31 December 2014 totaled $447 million.[13] (For details of amounts released for operational commitments in 2014, 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 2014 was $549 million, compared with $422 million as of 31 December 2013 (Table 20).

In May 2014, the Board of Governors approved the transfer of $120 million to the ADF as part of the net income allocation for OCR (2013: $120 million). In addition, $612 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 2014, deposited installments under ADF XI amounted to $848 million, and ADF XI promissory notes encashed totaled $421 million. About $67 million was transferred to the TASF.

Loan approvals, disbursements, and repayments. In 2014, 52 ADF loans totaling $2,682 million were approved compared with 46 ADF loans totaling $3,007 million in 2013. Disbursements during 2014 totaled $2,203 million, an increase of 11.5% from $1,975 million in 2013. At the end of 2014, cumulative disbursements from ADF resources were $37,738 million. Loan repayments during 2014 totaled $1,291 million (2013: $1,677 million). At the end of 2014, outstanding ADF loans amounted to $27,604 million (2013: $28,680 million).

In 2014, MFFs for $686 million (2013: $505 million) were approved under the ADF. PFRs under the MFFs totaling $314 million were approved in 2014 (2013: $325 million). A total of $337 million was disbursed under the MFFs in 2014 (2013: $242 million).

Results-based lending. In 2014, one ADF loan for $50 million was approved under RBL (2013: one loan amounting $100 million); disbursements totaled $38 million (2013: $20 million).

Project design facility. 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. Loans approved under the facility carry standard interest for OCR or ADF. Payment of interest is deferred until the project design advance is refinanced out of the loans proceeds, or other repayment terms take effect. No ADF project design advances loan was approved under the project design facility in either 2014 or 2013.

Investment portfolio position. The ADF investment portfolio totaled $6,559 million at the end of 2014 compared with $6,966 million at the end of 2013.[14] About 18.2% of the portfolio was invested in bank deposits, and 81.8% in fixed-income securities. The annualized rate of return on ADF investments, including unrealized gains and losses, was 0.8% (2013: 0.2%).

[13] At US dollar equivalent at 31 December 2014 exchange rates.
[14] Includes securities purchased under resale arrangement.

Table 20: Asian Development Fund Commitment Authority[a]
31 December 2014 and 2013
($ million)

Item	2014	2013
Carryover of ADF X Commitment Authority[b]	800	851
ADF XI Contributions	1,604	861
ADF X Contributions[c]	147	135
ADF IX Contributions[d]	10	–
ADF VIII Contributions[d]	150	–
Internal Resources[e]	3,634	1,806
OCR Net Income Transfer	240	120
Savings and Cancellations	612	532
Total ADF Commitment Authority	7,196	4,305
Loans and Grants Committed	6,647	3,882
ADF Commitment Authority Available for Future Commitments	**549**	**422**

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 2014 and 2013 exchange rates.
[b] The US dollar equivalent of SDR552 million–the remaining ADF X commitment authority–at 31 December 2014 and 2013 exchange rates.
[c] Represents the additional payments of Italy 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.

Grants. In 2014, ADB approved 17 grants (2013: 20) totaling $405 million (2013: $843 million), of which $109 million were PFRs under MFFs (2013: $369 million),[15] while 19 grants (2013: 18) totaling $848 million (2013: $448 million) became effective, net of $7 million (2013: $100 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 Asian Development Fund loans and grants. In 2014, $1,723 million (2013: $977 million) was mobilized in official loan and grant cofinancing for 32 ADF-financed projects (2013: 19) totaling $2,003 million (2013: $1,125 million).

B. Technical Assistance Special Fund

The TASF was established to provide TA on a grant basis, both regionally and to ADB 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 2014, 29 donors had committed a total of $342.8 million to the TASF as part of the ADF XI and the fifth regularized replenishment of the TASF. Of the total commitment, $171.4 million had been received.

As part of the ADF X and fourth regularized replenishment of TASF, $313.7 million of the total commitment of $339.3 million had been received as of 31 December 2014.

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

During the period, India made a direct voluntary contribution of Rs10.0 million ($0.2 million). In addition, $30.0 million was allocated to the TASF as part of the OCR's 2013 net income allocation, and $2.0 million was committed for the fifth regularized replenishment of the TASF. At the end of 2014, TASF resources totaled $2,307.6 million, of which $2,086.7 million was committed, leaving an uncommitted balance of $220.9 million ($329.6 million as of 31 December 2013) (Table 21).

Table 21: Technical Assistance Special Fund
Cumulative Resources
($ million)

Item	2014	2013
Regularized Replenishment		
Contributions	1,116.5	1,114.7
Allocations from OCR Net Income	909.0	879.0
Direct Voluntary Contributions	90.6	90.5
Income from Investment and		
Other Sources	194.9	192.6
Transfers from the TASF to the ADF	(3.5)	(3.5)
Total	**2,307.6**	**2,273.3**

( ) = negative, ADF = Asian Development Fund, OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.
Note: Numbers may not sum precisely because of rounding.

Operations. TA commitments (approved and effective) decreased from $133.3 million in 2013 to $113.3 million in 2014 for 177 TA projects and 55 supplementary approvals that were made effective during the year, net of $25.2 million (2013: $15.5 million) in write-backs of undisbursed commitments for completed and canceled TA projects. Undisbursed commitments net of advances for TA decreased to $336.6 million as of 31 December 2014 ($342.7 million as of 31 December 2013). The TASF financed 52.7% of all TA activities approved in 2014 (2013: 34.3%).

Investment position. As of 31 December 2014, the total investment portfolio, including securities purchased under resale arrangements, amounted to $390.5 million, compared with $414.0 million at the end of 2013. Revenue from investments increased from $2.5 million in 2013 to $2.6 million in 2014.

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 DMCs restructure their economies and broaden the scope of opportunities for new investments, mainly through TA operations.

Contributed resources. As of 31 December 2014, Japan's cumulative contribution to the fund since its inception in 1988 amounted to ¥112.9 billion ($973.7 million equivalent), comprising regular contributions of ¥94.8 billion ($822.9 million equivalent) and supplementary contributions of ¥18.1 billion ($150.8 million equivalent). The uncommitted balance, including approved TA projects that are not yet effective, was $65.5 million as of 31 December 2014 ($62.6 million as of 31 December 2013).

Operations. In 2014, no new TA projects or grants were approved or made effective (2013: nil), and $3.0 million was written back for financially completed and cancelled projects (2013: $1.5 million). Undisbursed commitments net of advances for TA projects as of 31 December 2014 were $7.3 million, compared with $13.8 million as of the end of 2013.

Investment position. As of 31 December 2014, the total investment portfolio amounted to $72.5 million, lower than the balance of $75.8 million as of 31 December 2013. Revenue from investments decreased from $0.15 million in 2013 to $0.12 million in 2014.

D. ADB Institute

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

In June 2014, the Government of Japan committed its 23rd contribution for ¥672.1 million ($6.6 million equivalent) and in December 2014, committed its 24th contribution for ¥672.1 million ($5.6 million equivalent).

As of 31 December 2014, cumulative contributions committed to the Institute amounted to ¥24.0 billion, A$1.6 million, and $1.5 million (about $227.4 million equivalent), excluding translation adjustments. Of the total contributions received, $219.8 million had been used by the end of 2014 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 $7.5 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 May 2013, $6.0 million was transferred to the RCIF from OCR allocable net income. In 2014, the Government of Japan committed contributions to the fund: ¥246.0 million ($2.4 million equivalent) in March 2014 and ¥145.5 million ($1.2 million equivalent) in December 2014. As of 31 December 2014, RCIF resources totaled $62.8 million, of which $54.7 million had been used, leaving an uncommitted balance of $8.1 million ($5.1 million as of 31 December 2013).

Operations. In 2014, net TA expenses totaled $0.5 million (2013: $2.2 million), comprising three TA projects and one supplementary approval totaling $2.2 million that became effective, and a $1.7 million write-back on financially completed and/or cancelled projects (2013: five TA projects and two supplementary approvals totaling $3.0 million, and an $0.8 million write-back). The balance of undisbursed commitments net of grant advances as of 31 December 2014 amounted to $10.7 million (2013: $12.6 million).

Investment position. As of 31 December 2014, the total investment portfolio amounted to $17.3 million ($17.5 million as of 31 December 2013). Revenue from investments for 2014 was $0.02 million (2013: $0.03 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. In May 2013, $9.0 million was transferred to the CCF from OCR allocable net income. As of 31 December 2014, CCF resources totaled $60.3 million, of which $49.8 million had been used, leaving an uncommitted balance of $10.5 million ($13.6 million as of 31 December 2013).

Operations. In 2014, net TA and/or grant expenses totaled $2.8 million (2013: $2.9 million), comprising four TA projects and four supplementary approvals totaling $3.3 million that became effective, and a $0.5 million write-back for financially completed and/or cancelled projects (2013: four TA projects and a grant totaling $3.3 million, and a $0.4 million write-back). The balance of undisbursed commitments net of grant and/or TA advances as of 31 December 2014 amounted to $16.2 million (2013: $25.0 million).

Investment position. As of 31 December 2014, the total investment portfolio amounted to $26.3 million ($36.9 million as of 31 December 2013). Revenue from investments for 2014 was $0.05 million (2013: $0.06 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. As of 31 December 2014, fund resources totaled $40.2 million, of which $35.9 million had been used, leaving an uncommitted balance of $4.3 million ($4.7 million as of 31 December 2013).

Operations. In 2014, one grant amounting to $0.2 million (2013: $5.5 million) that became effective (2013: six grants totaling $7.0 million and $1.5 million write-back). The fund had no undisbursed commitments net of grant advances as of 31 December 2014 and 2013.

Investment position. By 31 December 2013, all time deposit placements have matured and revenue from investments for 2013 was $0.01 million.

H. Financial Sector Development Partnership Special Fund

The Financial Sector Development Partnership Special Fund 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 May 2013, the Board of Governors approved the initial contribution of $2.7 million as part of OCR's 2012 net income allocation. In 2013, the Government of Luxembourg committed the following contributions to the fund: $2.4 million in October and €1.5 million ($2.0 million equivalent) in December. In December 2014, the Government of Luxembourg committed a contribution of €1.5 million ($1.9 million equivalent). As of 31 December 2014, fund resources totaled $9.0 million, of which $2.0 million had been used, leaving an uncommitted balance of $7.0 million ($7.2 million as of 31 December 2013).

Operations. In 2014, six TA projects and one supplementary approval totaling $2.0 million became effective (2013: nil). The balance of undisbursed commitments net of grant advances as of 31 December 2014 amounted to $1.8 million (2013: nil).

Investment position. As of 31 December 2014, the total investment portfolio amounted to $6.6 million ($4.8 million as of 31 December 2013).

IV. 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 $1,763.2 million in grants to ADB operations (Table 22). In 2014, grant cofinancing for ADB-approved projects totaled $460.6 million, comprising $144.4 million for 111 TA projects and $316.2 million for components of 31 investment projects. By the end of 2014, ADB was administering 41 trust funds, comprising 29 stand-alone trust funds,[16] and 12 trust funds established under financing partnership facilities. Of these, 29 have balances totaling $437.6 million in grants. Additional grant resources from external partners totaled $421.6 million in 2014, comprising $46.8 million in new commitments, $295.0 million in replenishments to existing trust funds, and $79.8 million in additional allocation from global funding initiatives.[17]

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

(i) $224.4 million from the Government of the United Kingdom for the Afghanistan Infrastructure Trust Fund, and the Typhoon Yolanda Multidonor Trust Fund;
(ii) $87.9 million from the Government of Japan for the Afghanistan Infrastructure Trust Fund, Japan Fund for Poverty Reduction (JFPR), Japan Fund for the Joint Crediting Mechanism, and Japan Scholarship Program (JSP);
(iii) $16.2 million from the Government of Australia for the Regional Malaria and Other Communicable Disease Threats Trust Fund under the Health Financing Partnership Facility;
(iv) $8.0 million from the Government of the Republic of Korea for the e-Asia and Knowledge Partnership Fund;
(v) $5.0 million from the Government of the United States for the Urban Climate Change Resilience Trust Fund under the Urban Financing Partnership Facility; and
(vi) $0.3 million from the Government of Spain for the Spanish Cooperation Fund for Technical Assistance.

Additional allocations from global funding initiatives comprised $55.3 million from the Climate Investment Funds, and $24.5 million from the Global Environment Facility.

[16] Trust funds not related to financing partnership facilities and including the Japan Scholarship Program.
[17] In addition, the Climate Investment Funds allocated $164 million for loans.

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 2014, JFPR funds totaled about $662.4 million. The Government of Japan had approved 168 grant projects (equivalent to $479.0 million) and 186 TA projects (equivalent to $210.5 million) of which ADB had subsequently approved 164 grant projects (equivalent to $472.5 million) and 178 TA projects (equivalent to $199.8 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 2014, Japan has contributed $155.1 million and 3,256 scholarships were awarded to recipients from 37 member countries. Of the total, 2,893 have completed their courses. Women have received 1,172 scholarships. An average of 149 new scholarships per year has been awarded since 2005. As of 2014, JSP has 29 participating institutions in 10 countries.

Table 22: Schedule of Contributions and Net Assets
Grants from External Sources
As of 31 December 2014
($ million)

Item	Contribution	Net Assets[b]
Administered by ADB[a]		
Country		
Australia	715.7	8.1
Austria	19.7	2.8
Belgium	23.7	18.6
Brunei Darussalam	0.3	0.0
Canada	244.6	59.4
China, People's Republic of	40.1	13.7
Denmark	35.3	2.5
European Community	368.6	61.1
Finland	69.5	19.6
France	36.0	3.1
Germany	0.3	0.0
India	0.9	0.0
Ireland	2.3	0.2
Italy	2.2	–
Japan	1,079.3	216.3
Korea, Republic of	77.4	39.7
Luxembourg	9.4	0.9
The Netherlands	388.8	38.7
New Zealand	42.5	(0.2)
Norway	216.9	66.6
Portugal	0.6	–
Spain	31.5	6.6
Sweden	256.4	41.6
Switzerland	45.5	12.6
United Kingdom and Northern Ireland	961.3	481.0
United States	109.5	1.9
Subtotal	4,778.3	1,094.7

Item	Contribution	Net Assets[b]
Others		
Cities Alliance	0.5	0.0
Clean Technology Fund	739.0	525.8
Fourth High Level Forum on Aid Effectiveness Trust Fund	0.1	0.0
Future Carbon Fund	35.0	32.6
Global Agriculture and Food Security Program	41.4	2.0
Global Environment Fund	197.8	22.6
Special Climate Change Fund	6.4	(0.0)
Least Developed Countries Fund	4.6	4.6
International Fund for Agricultural Development	0.5	0.0
Islamic Financial Services Board	0.3	–
Kreditanstalt für Wiederaufbau (KfW)	0.4	(0.0)
Nordic Development Fund	34.7	5.0
Partnership for Market Readiness Multi-Donor Trust Fund	0.4	0.0
Private Sector and Foundations	11.7	0.1
Public Private Infrastructure Advisory Facility	0.6	0.0
Sanitation Financing Partnership Trust Fund	18.5	12.6
Strategic Climate Fund	275.7	56.3
Trust Fund for Forest	13.5	2.1
United Nation Development Programme	–	0.0
Urban Climate Change Resilience Trust Fund	5.0	4.8
Subtotal	1,386.1	668.5
Grand Total	**6,164.4**	**1,763.2**

– = 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 2014 and 2013

($ million)

	2014			2013
Item	Statutory Reporting Basis	Adjustments[a]	Management Reporting Basis	Management Reporting Basis
Due from banks	417		417	316
Investments	23,006		23,006	24,452
Securities transferred under repurchase agreements	30		30	592
Securities purchased under resale arrangements	1,257		1,257	306
Loans outstanding	55,845		55,845	53,051
Unamortized net loan originations costs, less allowance for loan losses	45		45	37
Equity investments	862	(47)	815	784
Accrued interest receivable				
Investments	82		82	93
Loans	150		150	149
Receivable from swaps				
Borrowings	26,830	(1,264)	25,566	26,647
Investments	5,596	(16)	5,580	7,076
Loans	666	(12)	654	617
Other assets	874	1,098	1,972	1,968
TOTAL	**115,660**	**(241)**	**115,419**	**116,088**
Borrowings	62,701	(1,320)	61,381	61,189
Payable for swaps				
Borrowings	28,372	(19)	28,353	27,243
Investments	5,034	(54)	4,980	6,374
Loans	581	(3)	578	561
Payable under securities repurchase agreements	30		30	602
Payable for swap related collateral	478		478	633
Accounts payable and other liabilities	1,526		1,526	1,518
Total Liabilities	**98,722**	**(1,396)**	**97,326**	**98,120**
Paid-in capital	6,131	1,098	7,229	6,843
Net notional maintenance of value receivable	(1,537)		(1,537)	(1,390)
Ordinary reserve	11,559	3	11,562	11,170
Special reserve	303		303	282
Loan loss reserve	230		230	261
Surplus	1,065		1,065	1,065
Cumulative revaluation adjustments account	59	(59)	–	–
Net income[b]	366	183	549	451
Accumulated other comprehensive loss	(1,238)	(70)	(1,308)	(714)
Total Equity	**16,938**	**1,155**	**18,093**	**17,968**
TOTAL	**115,660**	**(241)**	**115,419**	**116,088**

– = 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

[This page is intentionally left blank]

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 2014. 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 2014, 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

12 March 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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

Deloitte.

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, 2014, 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, 2014 and 2013 and the related statements of income and expenses, comprehensive (loss) income, changes in capital and reserves and cash flows, for the years then ended and the related notes to the financial statements. Our report dated March 12, 2015 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, and the related statements of income and expenses, comprehensive (loss) income, changes in capital and reserves, 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.

Deloitte.

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, 2014 and 2013, 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, 2014, 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 12, 2015 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 supplemental schedules listed in the table of contents 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 information 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.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
BALANCE SHEET
31 December 2014 and 2013
Expressed in Millions of US Dollars

A S S E T S

	2014		2013	
DUE FROM BANKS (Note C)		$ 417		$ 316
INVESTMENTS (Notes D, I, N, and Q)				
Government or government-guaranteed obligations	$ 18,177		$ 20,182	
Time deposits	3,971		3,630	
Other securities	858	23,006	640	24,452
SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENTS (Notes D, E, and Q)		30		592
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Notes D and Q)		1,257		306
LOANS OUTSTANDING (OCR-6) (Notes A, F, I, Q and S) (Including net unamortized loan origination costs of $80 – 2014 and $73 – 2013)				
Sovereign	52,351		49,947	
Nonsovereign	3,574		3,177	
	55,925		53,124	
Less—allowance for loan losses	35	55,890	36	53,088
EQUITY INVESTMENTS (Notes A, H, Q, and S)		862		819
ACCRUED INTEREST RECEIVABLE				
Investments	82		93	
Loans	150	232	149	242
RECEIVABLE FROM SWAPS (Notes I, K, and Q)				
Borrowings	26,830		27,322	
Investments	5,596		7,095	
Loans	666	33,092	626	35,043
OTHER ASSETS				
Property, furniture, and equipment (Note J)	173		167	
Investment related receivables	9		3	
Swap related collateral (Notes I and Q)	478		633	
Miscellaneous (Note O)	214	874	207	1,010
TOTAL		**$ 115,660**		**$ 115,868**

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

OCR-1

LIABILITIES, CAPITAL, AND RESERVES

	2014			2013		
BORROWINGS (OCR-7) (Notes I, K, and Q)						
At amortized cost	$ 3,662			$ 4,258		
At fair value	59,039	$	62,701	57,372	$	61,630
PAYABLE FOR SWAPS (Notes I, K, and Q)						
Borrowings	28,372			27,341		
Investments	5,034			6,428		
Loans	581		33,987	578		34,347
PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS (Notes E and Q)			30			602
ACCOUNTS PAYABLE AND OTHER LIABILITIES						
Investment related payables	6			102		
Swap related collateral (Notes I and Q)	478			633		
Accrued pension and postretirement medical benefit costs (Note P)	1,352			1,248		
Miscellaneous (Notes G, J and O)	168		2,004	168		2,151
TOTAL LIABILITIES			98,722			98,730
CAPITAL AND RESERVES (OCR-4)						
Capital stock (OCR-8) (Note L)						
Authorized						
(SDR106,389 – 2014 and 2013)						
Subscribed						
(SDR106,149 – 2014 and 2013, less temporary reduction of SDR475 – 2014 and SDR429 – 2013)	153,056			162,809		
Less—“callable” shares subscribed						
(SDR100,827 – 2014 and 2013, less temporary reduction of SDR456 – 2014 and SDR412 – 2013)	145,376			154,640		
“Paid-in” shares subscribed	7,680			8,169		
(SDR5,322 – 2014 and 2013, less temporary reduction of SDR19 – 2014 and SDR17 – 2013)						
Less—subscription installments not due	367			1,238		
Subscription installments matured	7,313			6,931		
Less—capital transferred to the Asian Development Fund and discount	84			88		
	7,229			6,843		
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital (Note L)	(1,098)			(958)		
	6,131			5,885		
Net notional amounts required to maintain value of currency holdings (Note L)	(1,537)			(1,390)		
Ordinary reserve (Note M)	11,559			11,166		
Special reserve (Note M)	303			282		
Loan loss reserve (Note M)	230			261		
Surplus (Note M)	1,065			1,065		
Cumulative revaluation adjustments account (Note M)	59			(38)		
Net income after appropriation (OCR-4) (Note M)	366			548		
Accumulated other comprehensive loss (Note M)	(1,238)		16,938	(641)		17,138
TOTAL		**$**	**115,660**		**$**	**115,868**

OCR-2

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF INCOME AND EXPENSES
For the Years Ended 31 December 2014 and 2013
Expressed in Millions of US Dollars

	2014			2013		
REVENUE (Note N)						
From loans (Note F)						
Interest	$ 596			$ 637		
Commitment charge	50			46		
Other, net	(41)	$ 605		(37)	$ 646	
From investments (Note D)						
Interest		305			339	
From guarantees		21			18	
From equity investments		17			10	
From other sources—net (Notes F and R)		25			22	
TOTAL REVENUE			$ 973			$ 1,035
EXPENSES (Note N)						
Borrowings and related expenses (Note K)		317			400	
Administrative expenses (Note M)		352			411	
Write-back for loan losses (Note F)		(1)			(6)	
Other expenses		13			8	
TOTAL EXPENSES			681			813
NET REALIZED GAINS						
From investments (Notes D, M and N)		47			12	
From equity investments (Notes M and N)		241			176	
From borrowings		–			6	
NET REALIZED GAINS			288			194
NET UNREALIZED (LOSSES) GAINS (Note N)			(193)			150
NET INCOME			**$ 387**			**$ 566**

0 = less than $0.5 million.

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

OCR-3

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended 31 December 2014 and 2013
Expressed in Millions of US Dollars

	2014		2013	
NET INCOME (OCR-2)		$ 387		$ 566
Other comprehensive (loss) income (Note M)				
Currency translation adjustments	$ (100)		$ (162)	
Unrealized investment holding losses	(57)		(412)	
Pension/postretirement liability adjustments	(440)	(597)	731	157
COMPREHENSIVE (LOSS) INCOME		**$ (210)**		**$ 723**

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

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF CHANGES IN CAPITAL AND RESERVES
For the Years Ended 31 December 2014 and 2013
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 2013	**$ 6,010**	**$ (791)**	**$ (888)**	**$ 10,889**	**$ 264**	**$ 194**	**$ 1,132**	**$ 284**	**$ 124**	**$ (798)**	**$ 16,420**
Comprehensive income for the year 2013 (OCR-3) (Note M)									566	157	723
Appropriation of guarantee fees to Special Reserve (Note M)					18				(18)		–
Change in SDR value of paid-in shares subscribed	190										190
Change in subscription installments not due	643										643
Additional paid-in shares subscribed during the year	0										0
Change in SDR value of capital transferred to Asian Development Fund	(0)										(0)
Change in notional maintenance of value (Note L)			(502)								(502)
Demand obligations on account of subscription received during the year		(263)									(263)
Encashment of demand obligations during the year		42									42
Change in US Dollar value of demand obligations		54									54
Allocation of prior year income to ordinary reserve, loan loss reserve and transfer from cumulative revaluation account, surplus (Note M)				278		67	(67)	(322)	44		–
Allocation of prior year income to ADF, TASF, CCF, RCIF, and FSDPSF (Note M)									(168)		(168)
Charge to ordinary reserve for change in SDR value of capital stock (Note M)				(1)							(1)
Balance, 31 December 2013	**$ 6,843**	**$ (958)**	**$ (1,390)**	**$ 11,166**	**$ 282**	**$ 261**	**$ 1,065**	**$ (38)**	**$ 548**	**$ (641)**	**$ 17,138**
Comprehensive loss for the year 2014 (OCR-3) (Note M)									387	(597)	(210)
Appropriation of guarantee fees to Special Reserve (Note M)					21				(21)		–
Change in SDR value of paid-in shares subscribed	(280)										(280)
Change in subscription installments not due	677										677
Additional paid-in shares subscribed during the year	(15)										(15)
Change in SDR value of capital transferred to Asian Development Fund	4										4
Change in notional maintenance of value (Note L)			(147)								(147)
Demand obligations on account of subscription received during the year		(264)									(264)
Encashment of demand obligations during the year		41									41
Change in US Dollar value of demand obligations		83									83
Allocation of prior year income to ordinary reserve, cumulative revaluation account and transfer from loan loss reserve (Note M)				332		(31)		97	(398)		–
Allocation of prior year income to ADF and TASF (Note M)									(150)		(150)
Charge to ordinary reserve for change in SDR value of capital stock (Note M)				58							58
Transfer of unutilized PEF funds to ordinary reserve (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**

Note: 0 = less than $0.5 million.

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

OCR-5

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2014 and 2013
Expressed in Millions of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and other charges on loans received	$ 554	$ 642
Interest on investments received	346	374
Interest paid for securities purchased under resale/repurchase arrangements	(0)	(1)
Interest and other financial expenses paid	(233)	(445)
Administrative expenses paid	(665)	(281)
Others—net	38	36
Net Cash Provided by Operating Activities	40	325
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	8,858	1,394
Maturities of investments	179,009	177,691
Purchases of investments	(187,506)	(180,135)
Receipts from securities purchased under resale arrangements	155,519	97,944
Payments for securities purchased under resale arrangements	(156,523)	(97,937)
Principal collected on loans	4,306	5,126
Loans disbursed	(7,327)	(5,939)
Receipts from swaps	947	891
Payments for swaps	(69)	–
Property, furniture, and equipment acquired	(30)	(27)
Change in swap related collateral	(108)	(1,510)
Purchases of equity investments	(184)	(164)
Sales of equity investments	348	301
Net Cash Used in Investing Activities	(2,760)	(2,365)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new borrowings	16,733	14,328
Borrowings redeemed	(14,389)	(13,282)
Capital subscriptions collected [1]	399	373
Issuance expenses paid	(21)	(18)
Demand obligations of members encashed	41	42
Receipts from swaps	261	816
Resources transferred from PEF	3	–
Resources transferred to ADF	(120)	(120)
Resources transferred to TASF	(30)	(30)
Resources transferred to CCF	–	(9)
Resources transferred to RCIF	–	(6)
Resources transferred to FSDPSF	–	(3)
Net Cash Provided by Financing Activities	2,877	2,091
Effect of Exchange Rate Changes on Due from Banks	(56)	2
Net Increase in Due from Banks	101	53
Due from Banks at Beginning of Year	316	263
Due from Banks at End of Year	$ 417	$ 316
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (OCR-2)	$ 387	$ 566
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	125	121
Write-back of loan losses	(1)	(6)
Net realized gains from investments, equity investments and other borrowings	(288)	(194)
Proportionate share in (earnings) losses on equity investments	(3)	6
Net unrealized lossses (gains)	193	(150)
Change in accrued revenue from loans, investments and other swaps	(47)	5
Change in receivable from ADF—allocation of administrative expenses	(6)	3
Change in accrued interest on borrowings and swaps, and other expenses	120	(750)
Change in pension and postretirement benefit liability	(440)	731
Others—net	(0)	(7)
Net Cash Provided by Operating Activities	$ 40	$ 325

0 = less than $0.5 million.

Supplementary disclosure of noncash financing activities:

[1] Nonnegotiable, noninterest-bearing demand promissory notes amounting to $266 million ($263 million – 2013) 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 2014 and 2013

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	$ 138	$ 231	$ –	$ 369	0.41
Azerbaijan	724	617	420	1,761	1.96
Bangladesh	1,515	1,294	499	3,308	3.67
Bhutan	51	–	70	121	0.13
Cambodia	75	–	–	75	0.08
China, People's Republic	14,968	6,062	1,282	22,312	24.77
Cook Islands	25	–	10	35	0.04
Fiji	138	2	100	240	0.27
Georgia	158	348	108	614	0.68
India	13,142	6,793	2,278	22,213	24.66
Indonesia	7,723	1,492	195	9,410	10.45
Kazakhstan	1,305	507	130	1,942	2.16
Kyrgyz Republic	9	–	–	9	0.01
Lao People's Democratic Republic	112	82	–	194	0.22
Malaysia	75	–	–	75	0.08
Maldives	2	–	–	2	0.00
Marshall Islands	1	–	–	1	0.00
Micronesia, Federated States of	5	5	–	10	0.01
Mongolia	76	157	59	292	0.33
Myanmar	–	–	150	150	0.17
Pakistan	4,666	2,230	620	7,516	8.35
Palau	12	27	–	39	0.04
Papua New Guinea	305	319	–	624	0.69
Philippines	4,445	1,127	725	6,297	6.99
Sri Lanka	1,259	691	294	2,244	2.49
Tajikistan	–	–	5	5	0.01
Thailand	850	79	55	984	1.09
Timor-Leste	13	57	12	82	0.09
Turkmenistan	89	28	–	117	0.13
Uzbekistan	1,381	1,304	300	2,985	3.31
Viet Nam	2,547	2,672	740	5,959	6.62
	55,809	26,124	8,052	89,985	99.91
Regional	36	16	26	78	0.09
TOTAL – 31 December 2014	55,845	26,140	8,078	90,063	**100.00**
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	
TOTAL – 31 December 2013	$ 53,051	$ 21,907	$ 10,227	$ 85,185	
Allowance for loan losses	(36)	–	–	(36)	
Unamortized loan origination cost—net	73	–	–	73	
NET BALANCE – 31 December 2013	**$ 53,088**	**$ 21,907**	**$ 10,227**	**$ 85,222**	
Made up of:					
Sovereign Loans	$ 49,947	$ 20,472	$ 8,645	$ 79,064	
Nonsovereign Loans					
Private Sector	2,782	897	1,526	5,205	
Public Sector	359	538	56	953	
Net Balance – 31 December 2013	$ 53,088	$ 21,907	$ 10,227	$ 85,222	

[1] Amounts outstanding on the pool-based loans totaled $3,404 million ($4,196 million – 2013) and on LIBOR-based loans, market-based and local currency loans totaled $52,441 million ($48,855 million – 2013). The average yield on loans was 1.15% (1.31% – 2013).

[2] Refer to the unwithdrawn portions of effective loans as of 31 December 2014. Of the undisbursed balances, ADB has made irrevocable commitments to disburse various amounts totaling $385 million ($282 million – 2013).

[3] Loans totaling $6,531 ($7,120 million – 2013) have been approved by ADB, but the related agreements have not been signed. Agreements for loans totaling $1,547 ($3,107 – 2013) 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.

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

OCR-6

continued

MATURITY OF EFFECTIVE LOANS AS OF 31 DECEMBER 2014

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2015	$ 3,562	2024	22,344
2016	4,305	2029	18,647
2017	4,202	2034	14,196
2018	4,377	2039	4,964
2019	4,801	over 2039	587
		Total	**$ 81,985**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2014	2013
Yuan	$ 425	$ 337
Euro	40	47
Yen	1,657	2,323
Indian rupee	89	112
Rupiah	25	31
Tenge	121	144
New Zealand dollar	26	28
Philippine peso	5	3
Baht	283	240
US dollar	53,174	49,786
Total	**$ 55,845**	**$ 53,051**

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
SUMMARY STATEMENT OF BORROWINGS
31 December 2014 and 2013
Expressed in Millions of US Dollars

	Borrowings Principal Outstanding[1] 2014	Borrowings Principal Outstanding[1] 2013	Swap Arrangements[2] Payable (Receivable)[3] 2014	Swap Arrangements[2] Payable (Receivable)[3] 2013	Net Currency Obligation[3] 2014	Net Currency Obligation[3] 2013	Average Cost After Swaps (%)
Australian dollar	$ 9,643	$ 9,418	$ (9,587)	$ (9,396)	$ 56	$ 22	
Brazilian real	1,127	1,248	(1,124)	(1,246)	3	2	
Canadian dollar	1,264	884	(1,266)	(899)	(2)	(15)	
Yuan	694	570	27	51	692	583	
			(29)	(38)			
Euro	1,850	–	(1,849)	–	1	–	
Hong Kong dollar	10	–	(10)	–	0	–	
Indian rupee	47	82	–	1	47	83	
Yen	1,694	2,383	1,560	3,166	1,617	3,268	
			(1,637)	(2,281)			
Ringgit	148	158	(148)	(159)	0	(1)	
Mexican peso	310	333	(344)	(374)	(34)	(41)	
New Zealand dollar	1,721	1,148	(1,714)	(1,146)	7	2	
Norwegian krone	141	419	(140)	(418)	1	1	
Pound sterling	2,665	2,648	(2,658)	(2,637)	7	11	
Singapore dollar	371	387	(370)	(387)	1	–	
South African rand	930	1,017	(928)	(1,015)	2	2	
Swiss franc	739	1,038	(281)	(550)	458	488	
Baht	33	33	(33)	(33)	(0)	–	
Turkish lira	2,292	2,527	(2,288)	(2,526)	4	1	
US dollar	37,009	37,322	26,785	24,123	61,370	57,228	
			(2,424)	(4,217)			
Subtotal	62,688	61,615	**$ 1,542**	**$ 19**	**$ 64,230**	**$ 61,634**	0.50
Unamortized discounts/ premiums	13	15					
ASC 815 Adjustments							0.32
Total	**$ 62,701**	**$ 61,630**					**0.82**

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 2014	Aggregate Face Amount 2013	Discounted Value 2014	Discounted Value 2013
Australian dollar	$ 377	$ 410	$ 294	$ 305
Brazilian real	231	320	184	266
South African rand	735	816	701	728
Swiss franc	494	551	467	495
Turkish lira	949	1,526	866	1,360
Mexican peso	200	226	150	164
US dollar	3,516	3,920	2,175	2,432

continued

MATURITY STRUCTURE OF BORROWINGS OUTSTANDING AS OF 31 DECEMBER 2014[4]

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2015	$ 14,053	2024	5,486
2016	12,783	2029	2,652
2017	12,796	2034	316
2018	8,479	over 2034	–
2019	6,136	**Total**	**$ 62,701**

INTEREST RATE SWAP ARRANGEMENTS AS OF 31 DECEMBER 2014

	Notional Amount	Average Rate (%) Receive	Average Rate (%) Pay Floating[5]	Maturing Through[6]
Receive Fixed Swaps:				
Australian dollar[7]	$ 42	2.64	(0.20)	2027-2032
Yuan	294	3.55	3.58	2015-2020
US dollar	31,326	1.81	0.23	2015-2021
US dollar[8]	42	2.14	(0.22)	2016-2027
Receive Floating Swaps:				
Yen	42	3.26	(0.23)	2016-2032
US dollar	6,770	0.22	0.20	2015-2021
Total	**$ 38,516**			

2 Include currency and interest rate swaps. At 31 December 2014, the remaining maturity of swap agreements range from less than one year to 20 years. Approximately 78.25% of the swap receivables and 81.18% of the payables are due before 1 January 2020.
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 2014
Expressed in Millions of US Dollars

	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of	Percent	Par Value Of Shares[1]			Number of	Percent
MEMBERS	Shares	of Total	Total	Callable	Paid-in	Votes	of Total
REGIONAL							
Afghanistan	3,585	0.034	$ 51.9	$ 45.0	$ 6.9	43,015	0.326
Armenia	31,671	0.300	458.7	435.7	23.0	71,101	0.538
Australia	614,220	5.812	8,896.2	8,451.3	444.9	653,650	4.948
Azerbaijan	47,208	0.447	683.8	649.5	34.3	86,638	0.656
Bangladesh	108,384	1.026	1,569.8	1,491.3	78.5	147,814	1.119
Bhutan	660	0.006	9.6	9.0	0.6	40,090	0.304
Brunei Darussalam	37,386	0.354	541.5	514.4	27.1	76,816	0.582
Cambodia	5,250	0.050	76.0	69.7	6.3	44,680	0.338
China, People's Republic of	684,000	6.473	9,906.9	9,411.4	495.5	723,430	5.477
Cook Islands	282	0.003	4.1	3.9	0.2	39,712	0.301
Fiji	7,218	0.068	104.5	99.3	5.2	46,648	0.353
Georgia	36,243	0.343	524.9	498.6	26.3	75,673	0.573
Hong Kong, China	57,810	0.547	837.3	795.4	41.9	97,240	0.736
India	672,030	6.359	9,733.5	9,246.8	486.8	711,460	5.386
Indonesia	542,264	5.131	7,854.0	7,456.1	398.0	581,694	4.404
Japan	1,656,630	15.677	23,994.3	22,794.3	1,200.0	1,696,060	12.840
Kazakhstan	85,608	0.810	1,239.9	1,177.9	62.0	125,038	0.947
Kiribati	426	0.004	6.2	5.9	0.3	39,856	0.302
Korea, Republic of	534,738	5.060	7,745.0	7,357.7	387.3	574,168	4.347
Kyrgyz Republic	31,746	0.300	459.8	436.8	23.0	71,176	0.539
Lao People's Democratic Republic	1,476	0.014	21.4	20.0	1.3	40,906	0.310
Malaysia	289,050	2.735	4,186.5	3,977.2	209.4	328,480	2.487
Maldives	426	0.004	6.2	5.9	0.3	39,856	0.302
Marshall Islands	282	0.003	4.1	3.9	0.2	39,712	0.301
Micronesia, Federated States of	426	0.004	6.2	5.9	0.3	39,856	0.302
Mongolia	1,596	0.015	23.1	22.0	1.2	41,026	0.311
Myanmar	57,810	0.547	837.3	795.4	41.9	97,240	0.736
Nauru	426	0.004	6.2	5.9	0.3	39,856	0.302
Nepal	15,606	0.148	226.0	214.7	11.3	55,036	0.417
New Zealand	163,020	1.543	2,361.1	2,243.1	118.1	202,450	1.533
Pakistan	231,240	2.188	3,349.2	3,181.7	167.5	270,670	2.049
Palau	342	0.003	5.0	4.7	0.2	39,772	0.301
Papua New Guinea	9,960	0.094	144.3	137.1	7.2	49,390	0.374
Philippines	252,912	2.393	3,663.1	3,480.0	183.2	292,342	2.213
Samoa	348	0.003	5.0	4.7	0.3	39,778	0.301
Singapore	36,120	0.342	523.2	497.0	26.2	75,550	0.572
Solomon Islands	708	0.007	10.3	9.7	0.5	40,138	0.304
Sri Lanka	61,560	0.583	891.6	847.0	44.6	100,990	0.765
Taipei,China	115,620	1.094	1,674.6	1,590.9	83.7	155,050	1.174
Tajikistan	30,402	0.288	440.3	418.3	22.1	69,832	0.529
Thailand	144,522	1.368	2,093.2	1,988.5	104.7	183,952	1.393
Timor-Leste	1,050	0.010	15.2	14.4	0.8	40,480	0.306
Tonga	426	0.004	6.2	5.9	0.3	39,856	0.302
Turkmenistan	26,874	0.254	389.2	369.7	19.5	66,304	0.502
Tuvalu	150	0.001	2.2	2.1	0.1	39,580	0.300
Uzbekistan	71,502	0.677	1,035.6	983.8	51.8	110,932	0.840
Vanuatu	708	0.007	10.3	9.7	0.5	40,138	0.304
Viet Nam	36,228	0.343	524.7	490.7	34.1	75,658	0.573
Total Regional (Forward)	**6,708,149**	**63.480**	**97,159.5**	**92,279.9**	**4,879.6**	**8,600,789**	**65.112**

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)	**6,708,149**	**63.480**	**97,159.5**	**92,279.9**	**4,879.6**	**8,600,789**	**65.112**
NONREGIONAL							
Austria	36,120	0.342	523.2	497.0	26.2	75,550	0.572
Belgium	36,120	0.342	523.2	497.0	26.2	75,550	0.572
Canada	555,258	5.254	8,042.2	7,640.1	402.2	594,688	4.502
Denmark	36,120	0.342	523.2	497.0	26.2	75,550	0.572
Finland	36,120	0.342	523.2	497.0	26.2	75,550	0.572
France	247,068	2.338	3,578.5	3,399.5	179.0	286,498	2.169
Germany	459,204	4.345	6,651.0	6,318.4	332.6	498,634	3.775
Ireland	36,120	0.342	523.2	496.9	26.2	75,550	0.572
Italy	191,850	1.815	2,778.7	2,639.7	139.0	231,280	1.751
Luxembourg	36,120	0.342	523.2	496.9	26.2	75,550	0.572
The Netherlands	108,882	1.030	1,577.0	1,498.2	78.9	148,312	1.123
Norway	36,120	0.342	523.2	497.0	26.2	75,550	0.572
Portugal	12,040	0.114	174.4	162.1	12.3	51,470	0.390
Spain	36,120	0.342	523.2	497.0	26.2	75,550	0.572
Sweden	36,120	0.342	523.2	497.0	26.2	75,550	0.572
Switzerland	61,950	0.586	897.3	852.4	44.9	101,380	0.767
Turkey	36,120	0.342	523.2	497.0	26.2	75,550	0.572
United Kingdom	216,786	2.051	3,139.9	2,982.9	157.0	256,216	1.940
United States	1,645,007	15.567	23,825.9	22,632.7	1,193.2	1,684,437	12.752
Total Nonregional	**3,859,245**	**36.520**	**55,896.5**	**53,095.8**	**2,800.7**	**4,608,415**	**34.888**
TOTAL	**10,567,394**	**100.000**	**153,056.0**	**145,375.7**	**7,680.3**	**13,209,204**	**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 2014 was $1.44838. (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 2014 and 2013

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.

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, approved equity investments, 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 2014, the total of such loans, equity investments, and guarantees aggregated approximately 34.6% (31.1% – 2013) 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 2014, such equity investments represented approximately 7.6% (8.1% – 2013) of the paid-in capital, reserves, and surplus, as defined.

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).

continued

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 CAPITAL AND RESERVES 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 2014, the value of the SDR in terms of the US dollar was $1.44838 ($1.54000– 2013) giving a value for each share of ADB's capital equivalent to $14,483.80 ($15,400.00 – 2013).

Derivative Financial Instruments

ADB reports all derivative transactions in accordance with Accounting Standards Codification (ASC) 815, "Derivatives and Hedging." In applying ASC 815, ADB has elected not to define any qualifying hedging relationships. Rather, all derivative instruments, as defined by ASC 815, have been marked to fair value, and all changes in fair value have been recognized in net income. 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. ADB records derivatives in the Balance Sheet as either assets or liabilities measured at fair value, 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.

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 fair value. Unrealized gains and losses are reported in CAPITAL AND RESERVES 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 and are reported in the Statement of Income and Expenses under NET REALIZED GAINS From investments.

continued

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 fair value and cash collateral received is recorded as liabilities and restricted cash. ADB monitors the fair value 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, and have loan terms ranging between 5 and 32 years. 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 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 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 loss reserve in the CAPITAL AND RESERVES of the balance sheet. Any adjustment to loan loss reserve following this methodology is subject to the approval of the Board of Governors.

continued

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 fair value, with unrealized gains and losses reported in CAPITAL AND RESERVES as part of Accumulated other comprehensive loss. ADB reports equity investments with associated derivatives at fair value, with changes in fair value reported in net income as part of 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 purview of ASC 323, “Investments—Equity Method and Joint Ventures.”

Investments in equity securities without readily determinable fair values are reported at cost or at written down value. ADB has determined that it is not practicable to estimate the fair value 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.

continued

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 benefits that could potentially be significant to the VIE. Variable interests can arise from equity investments, loans, and guarantees. 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 fair value (FV). Changes in FV are reported in net income. 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 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.

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 fair value on an instrument-by-instrument basis, that are not otherwise permitted to be accounted for at fair value under other accounting standards. The election to use the Fair Value Option is available when an entity first recognizes a financial asset or liability or upon entering into a firm commitment.

In adopting ASC 825, ADB elected to fair value all derivatives and selected 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 fair value.

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 the financial statements in conformity with US GAAP 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 February 2013, the FASB issued ASU 2013-04, *"Liabilities (Topic 405) – Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date,"* to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this Update is fixed at the reporting date. The amendments are effective for fiscal years beginning after 15 December 2013. This ASU currently does not have an impact on OCR's financial statements.

In March 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-05, *"Foreign Currency Matters (Topic 830) – Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity,"* to provide guidance on whether to release cumulative translation adjustments on certain derecognition events. An entity is required to apply the amendments prospectively for fiscal years beginning after 15 December 2013, and interim periods within those annual periods. This ASU currently does not have an impact on OCR's financial statements.

continued

In April 2013, the FASB issued ASU 2013-07, *“Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,”* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on OCR’s financial statements.

In December 2013, the FASB issued ASU 2013-12 *“Definition of a Public Business Entity – An Addition to the Master Glossary”* to define *public business entity* in the Master Glossary of the FASB Accounting Standards Codification. The amendment does not affect existing requirements. There is no actual effective date for the amendment. However, the new definition will be applied to all new Accounting Standards Updates issued in 2014 and onwards that will use the term *public business entity.* This ASU does not have an impact on OCR’s financial statements.

In May 2014, the FASB issued ASU 2014-09 *“Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification”* 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. ADB is currently assessing the impact of this ASU 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 for annual reporting periods beginning after December 15, 2015, and interim periods therein. ADB is currently assessing the impact of this ASU on OCR’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. ADB is currently assessing the impact of this ASU on OCR’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 OCR’s financial statements.

continued

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”* to determine the nature of a host contract in a hybrid financial instrument issued in the form of a share. 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. An entity is required to apply the amendments for annual periods beginning after 15 December 2015 and interim periods thereafter. Early adoption is permitted. 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 41 DMCs for 2014 (42 – 2013), cash in banks (due from banks) totaling $107 million ($97 million – 2013) may be, but are not currently so restricted.

In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, no member (nil – 2013) 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 2014 consisted of corporate obligations and debt securities totaling $858 million ($640 million – 2013).

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 2014 were securities transferred under securities lending arrangements of government or government-guaranteed obligations totaling $32 million ($45 million – 2013).

OCR-9

continued

The currency composition of the investment portfolio as of 31 December 2014 and 2013 expressed in US dollars was as follows:

($ million)

Currency	2014	2013
US dollar	$ 14,682	$ 13,039
Yen	3,877	7,073
Won	1,002	854
Euro	517	789
Australian dollar	633	645
Canadian dollar	408	402
Ringgit	348	386
New Zealand dollar	300	301
Swiss franc	287	341
Others	952	622
Total	**$ 23,006**	**$ 24,452**

The estimated fair value and amortized cost of the investments by contractual maturity at 31 December 2014 and 2013 were as follows:

($ million)

	2014		2013	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	$ 8,462	$ 8,443	$ 12,954	$ 12,934
Due after one year through five years	13,983	13,922	10,523	10,406
Due after five years through ten years	542	523	962	968
Due after ten years through fifteen years	19	14	13	9
Total	**$ 23,006**	**$ 22,902**	**$ 24,452**	**$ 24,317**

OCR-9

continued

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

($ million)	2014	2013
As of 31 December		
Amortized cost	$ 18,932	$ 20,687
Estimated fair value	19,036	20,822
Gross unrealized gains	141	206
Gross unrealized losses	(37)	(71)
For the years ended 31 December:		
Change in net unrealized gains from prior year	(31)	(240)
Proceeds from sales	8,858	1,399
Gross gain on sales	48	13
Gross loss on sales	(1)	(1)

The table below provides a listing of investments that sustained unrealized losses as of 31 December 2014. 34 government or government-guaranteed obligations (three – 2013), and 66 corporate obligations (16 – 2013) sustained unrealized losses for over one year, representing 9.74% (0.44% – 2013) of the total investments. Comparative details for 2014 and 2013 are as follows:

($ million)

For the year 2014	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
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**

($ million)

For the year 2013	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government or government-guaranteed obligations	$ 6,632	$ 63	$ 94	$ 5	$ 6,726	$ 67
Other securities						
Corporate obligations	255	4	13	0	268	4
Total	**$ 6,887**	**$ 67**	**$ 107**	**$ 5**	**$ 6,994**	**$ 71**

0 = less than $0.5 million

OCR-9

continued

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2014 and 2013 was as follows:

($ million)

		Fair Value Measurements		
	31 December 2014	Level 1	Level 2	Level 3
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**

($ million)

		Fair Value Measurements		
	31 December 2013	Level 1	Level 2	Level 3
Investments				
Government or government-guaranteed obligations	$ 20,182	$ 17,877	$ 2,305	$ –
Time deposits	3,630	–	3,630	–
Other securities	640	630	10	–
Securities transferred under repurchase agreements	592	592	–	–
Securities purchased under resale arrangements	306	–	306	–
Total at fair value	**$ 25,350**	**$ 19,099**	**$ 6,251**	**$ –**

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 fair value.

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.

OCR-9

continued

The significant unobservable inputs used in valuing the other securities classified as Level 3 include the fluctuation in the foreign exchange rate between the US dollar and the Indian rupee. The following table provides quantitative information regarding significant unobservable inputs used as of 31 December 2014. There were no investments categorized as Level 3 as of 31 December 2013.

31 December 2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Investments			
Other securities	Other techniques	INR/USD foreign exchange rate	INR61.025 - INR63.818 to $1

The table below provides the details of transfers between Levels 1 and 2 for the years ended 31 December 2014 and 2013:

($ million)

	2014		2013	
	Level 1	Level 2	Level 1	Level 2
Investments				
Government or government-guaranteed obligations				
Transfers into (out of)	$ 68	$ (68)	$ 44	$ (44)
Transfers (out of) into	(20)	20	–	–
Corporate obligations				
Transfers into (out of)	10	(10)	12	(12)
Transfers (out of) into	(2)	2	–	–
	$ 56	**$ (56)**	**$ 56**	**$ (56)**

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

The following table presents the changes in the carrying amounts of ADB's Level 3 investments for the years ended 31 December 2014 and 2013:

($ million)

	Investments		
	Government or gov't.-guaranteed obligations	Corporate obligations	Debt Security
Balance, 1 January 2014	$ –	$ –	$ –
Total gains (losses) - (realized/unrealized)			
Included in earnings[a]	–	–	–
Included in other comprehensive income (OCR-3)			
Currency translation adjustments	–	–	–
Unrealized investment holding gains	–	–	0
Purchases	–	–	6
Sales/Maturities	–	–	–
Settlement and others	–	–	–
Transfers into Level 3	–	–	–
Transfers out of Level 3	–	–	(0)
Balance, 31 December 2014	$ –	$ –	$ 6
The amount of total gains (losses) for the period recognized in other comprehensive income attributable to the change in net unrealized gains or losses[b] relating to assets/liabilities still held at the reporting date	$ –	$ –	$ (0)

[a] Included in income from Investments (OCR-2).

[b] Included in unrealized investment holding gains (losses) for the period (Note M).

0 = less than $0.5 million

OCR-9

continued

($ million)

	Investments		
	Government or gov't.-guaranteed obligations	Corporate obligations	Debt Security
Balance, 1 January 2013	$ 101	$ 4	$ –
Total gains (losses) - (realized/unrealized)			
Included in earnings[a]	–	–	–
Included in other comprehensive income (OCR-3)			
Currency translation adjustments	–	–	–
Unrealized investment holding losses	(1)	–	–
Purchases	–	–	–
Sales/Maturities	(100)	–	–
Settlement and others	–	–	–
Transfers into Level 3	–	–	–
Transfers out of Level 3	–	(4)	–
Balance, 31 December 2013	$ –	$ –	$ –
The amount of total gains (losses) for the period recognized in other comprehensive income attributable to the change in net unrealized gains or losses[b] relating to assets/liabilities still held at the reporting date	$ –	$ –	$ –

[a] Included in income from Investments (OCR-2).

[b] Included in unrealized investment holding gains (losses) for the period (Note M).

Transfers out of Level 3 in 2013 were attributed to the availability of observable inputs.

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.

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 and 2013 are summarized below. (See Note I for Derivative Instruments.)

($ million)

	As of 31 December 2014				As of 31 December 2013			
	(a)	(b)		(c) = (a) - (b)	(a)	(b)		(c) = (a) - (b)
	Gross amount of liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet			Gross amount of liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet		
		Financial instruments	Collateral pledged	Net amount		Financial instruments	Collateral pledged	Net amount
Payable under securities repurchase agreements	$ 30	$ 30	$ –	$ (0)	$ 602	$ 592	$ –	$ 10
Total	$ 30	$ 30	$ –	$ (0)	$ 602	$ 592	$ –	$ 10

0 = less than $0.5 million

continued

NOTE F—LOANS

Loans

The carrying amount and estimated fair value of loans outstanding at 31 December 2014 and 2013 were as follows:

($ million)

	2014		2013	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Pool-based single currency loans (yen)	$ 391	$ 391	$ 743	$ 744
Pool-based single currency loans (US$)	3,013	3,524	3,453	4,009
LIBOR-based loans	51,546 [a]	51,748	48,031 [b]	48,259
Local currency loans	940	1,394	861	858
Total	**$ 55,890**	**$ 57,057**	**$ 53,088**	**$ 53,870**

[a] This includes market-based loans.
[b] This includes market-based and Countercyclical Support Facility 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 2014, all CSF loans were fully repaid (four loans outstanding totaling $875 million – 2013).

During 2014, ADB received prepayments for six loans (35 loans – 2013) amounting to $317 million ($665 million – 2013), of which $5 million was for sovereign loans ($470 million – 2013) and $312 million was for nonsovereign loans ($195 million – 2013).

OCR-9

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 2014 and 2013 is summarized below:

($ million)

	2014	2013
Interest waiver	$ 20	$ 59
Commitment charge waiver	0	1
Total	$ 20	$ 60

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.

There were no sovereign and nonsovereign loans in non-accrual status in 2014 and 2013.

An analysis of the age of the recorded loans outstanding including receivable arising from guarantee call, that are past due as of 31 December 2014 and 2013 is as follows:

($ million)

	Overdue Loan Service Payments				
	1–90 Days	**> 90 Days**	**Total**	**Current**	**Total Loans**
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 direct loan origination fees—net					80
Loans Outstanding					**$ 55,890**
2013					
Sovereign Loans	$ –	$ –	$ –	49,849	$ 49,849
Nonsovereign Loans	–	–	–	3,202	3,202
Total	$ –	$ –	$ –	$ 53,051	53,051
Allowance for loan losses					(36)
Unamortized direct loan origination fees—net					73
Loans Outstanding					**$ 53,088**

0 = less than $0.5 million

OCR-9

continued

Undisbursed loan commitments and an analysis of loans by borrower as of 31 December 2014 are shown in OCR-6. The carrying amounts of loan outstanding by loan products at 31 December 2014 and 2013 were as follows:

($ million)	2014	2013
Sovereign Loans		
Pool-based single currency loans (yen)	$ 391	$ 743
Pool-based single currency loans (US$	3,013	3,453
LIBOR-based loans	48,714	45,509
Local currency loans	121	144
	52,239	49,849
Allowance for loan losses	–	–
Unamortized direct loan origination cost—net	112	98
	112	98
Subtotal	52,351	49,947
Nonsovereign Loans		
LIBOR-based loans	2,779	2,479
Local currency loans	827	723
Others	–	–
	3,606	3,202
Allowance for loan losses	(35)	(36)
Unamortized front-end fee—net	(32)	(25)
	(67)	(61)
Subtotal	3,539	3,141
Total	**$ 55,890**	**$ 53,088**

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 – 2013). There was no accumulated loan loss provision for sovereign loans as of 31 December 2014 and 2013.

A net write-back of $1 million was made for nonsovereign loans ($7 million– 2013) consisting of $3 million provision ($4 million – 2013), $4 million write-back ($10 million write-back – 2013), and no translation adjustment recorded ($1 million favorable – 2013).

continued

The changes in the allowance for loan losses during 2014 and 2013 as well as information pertaining to loans which were subject to specific allowance for loan losses were as follows:

($ million)

	2014			2013		
	Sovereign Loans	Nonsovereign Loans	Total	Sovereign Loans	Nonsovereign Loans	Total
Allowance for Credit Losses:						
Beginning balance	$ –	$ 36	$ 36	$ –	$ 43	$ 43
Provision during the year	–	3	3	–	4	4
Written back/off	–	(4)	(4)	–	(10)	(10)
Translation adjustment	–	–	–	–	(1)	(1)
Ending Balance	$ –	$ 35	$ 35	$ –	$ 36	$ 36
Ending balance individually evaluated for impairment	$ –	$ 7	$ 7	$ –	$ 7	$ 7
Ending balance collectively evaluated for impairment	$ –	$ 28	$ 28	$ –	$ 29	$ 29
Loans:						
Ending Balance	$ 52,239	$ 3,606	$ 55,845	$ 49,849	$ 3,202	$ 53,051
Ending balance individually evaluated for impairment	$ –	$ 21	$ 21	$ –	$ 26	$ 26
Ending balance collectively evaluated for impairment	$ –	$ 3,585	$ 3,585	$ –	$ 3,176	$ 3,176

Loans subject to provisioning with related allowance for loan losses during 2014 and 2013 were as follows:

($ million)

	2014			2013		
	Recorded Loan Receivable	Unpaid Principal balance	Related allowance	Recorded Loan Receivable	Unpaid Principal balance	Related allowance
Sovereign Loans	$ –	$ –	$ –	$ –	$ –	$ –
Nonsovereign Loans	21	–	7	26	–	7

No loans were modified or restructured for the years ended 31 December 2014 and 2013.

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 risk represents 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 generally uses the average sovereign ratings assigned by external rating agencies which are mapped to ADB's internal scale. 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 risk in the portfolio.

OCR-9

continued

The following table summarizes the credit quality of sovereign and nonsovereign loans. High credit risk includes $21 million in nonsovereign loans that were considered impaired ($26 million in nonsovereign loans – 2013).

($ million)

		Sovereign Loans		Nonsovereign Loans	
Risk Class	**Risk Rating**	**2014**	**2013**	**2014**	**2013**
Low credit risk	1–5 (AAA to BBB–)	$ 40,458	$ 38,672	$ 1,576	$ 1,103
Medium credit risk	6–11 (BB+ to B–)	7,335	6,485	1,741	1,787
High credit risk	12–14 (CCC+ to D)	4,446	4,692	289	312
Total		**$ 52,239**	**$ 49,849**	**$ 3,606**	**$ 3,202**

As of 31 December 2014, 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 fair value amounted to $58,797 million ($55,650 million – 2013).

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 2014 and 2013, 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 fair value 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 fair value of the loan.

The fair value hierarchy of all ADB loans as of 31 December 2014 and 2013 was as follows:

($ million)

	2014	**2013**
Level 1	$ –	$ –
Level 2	50,362	46,691
Level 3	6,695	7,179
Total loans at fair value	**$ 57,057**	**$ 53,870**

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 ending 31 December 2014 and 2013 were as follows:

($ million)

	2014		2013	
	Amount	**No.of Loans**	**Amount**	**No.of Loans**
Sovereign loans	$ 1,443	57	$ 1,263	49
Nonsovereign loans	874	12	640	12
Total	**$ 2,317**	**69**	**$ 1,903**	**61**

NOTE G—GUARANTEES

ADB provides guarantees under its sovereign and nonsovereign operations. Such guarantees include (i) partial 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 payments 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.
.

OCR-9

continued

The committed and outstanding amounts of these guarantee obligations as of 31 December 2014 and 2013 covered:

($ million)

	2014		2013	
	Committed Amount	**Outstanding Amount**	**Committed Amount**	**Outstanding Amount**
Partial Credit Guarantees				
Trade Related				
with counter-guarantee	$ 280	$ 280	$ 142	$ 142
without counter-guarantee	689	443	694	453
	969	723	836	595
Non-Trade Related				
with counter-guarantee	922	847	1,031	962
without counter-guarantee	105	56	171	41
	1,027	903	1,202	1,003
Subtotal	1,996	1,626	2,038	1,598
Political Risk Guarantees				
with counter-guarantee	130	89	203	144
without counter-guarantee	60	25	61	38
Subtotal	190	114	264	182
Total	**$ 2,186**	**$ 1,740**	**$ 2,302**	**$ 1,780**

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 2014, a total liability of $25 million ($32 million – 2013) relating to stand-by ready obligation for six partial credit risk guarantees (six – 2013) and three political risk guarantees (three – 2013) has been included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous on the Balance Sheet for all guarantees issued after 31 December 2002.

Fair Value Disclosure

As of 31 December 2014 and 2013, all of ADB's future guarantee receivables and guarantee liabilities are classified as Level 3 within the fair value hierarchy.

The accounting division is responsible for determining and reporting the fair value 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 as Level 3. An increase in discount rates generally results in a decrease in the fair value of the guarantees.

OCR-9

continued

The valuation technique and quantitative information regarding significant unobservable inputs for guarantee receivable/guarantee liability classified as Level 3 as of 31 December 2014 and 2013 are presented below:

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

31 December 2013	Valuation Technique	Unobservable Inputs	Average Range
Guarantee receivable/ Guarantee liability	Discounted cash flows	Discount rates	3.04% to 5.37% (3.7%)

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 2014 and 2013:

($ million)	Guarantee Receivable/Liability	
	2014	2013
Balance, 1 January	$ 32	$ 22
Issuances	12	25
Amortization	(19)	(15)
Balance, 31 December	$ 25	$ 32

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

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)	2014	2013
Equity method	$ 577	$ 523
Cost method	213	176
Fair value method	72	120
Total	**$ 862**	**$ 819**

Equity investments with readily determinable fair values that are not accounted for under the equity method are reported at fair value. As of 31 December 2014, these included two (three – 2013) equity investments which were classified as available for sale totaling $63 million ($114 million – 2013) and equity investments with associated derivative amounting to $9 million ($6 million – 2013).

There were no equity investments classified as available for sale that sustained unrealized losses in 2014 (one – 2013).

continued

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

($ million)

	2014	2013
As of 31 December		
Amortized cost	$ 24	$ 30
Estimated fair value	63	114
Gross unrealized gains	39	84
Gross unrealized losses	–	(0)
For the years ended 31 December:		
Change in net unrealized gains from prior year	(45)	(130)
Proceeds from sales	116	130
Gross gain on sales	109	106
Gross loss on sales	–	–

0 = less than $0.5 million

Approved equity investment facility that has not been disbursed was $433 million at 31 December 2014 ($587 million – 2013).

Fair Value Disclosure

ADB's equity investments reported at fair value as of 31 December 2014 were $72 million ($120 million – 2013). 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 fair value 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 fair value of the equity investments.

The fair value hierarchy of ADB's equity investments at fair value as of 31 December 2014 and 2013 was as follows:

($ million)

	2014	2013
Level 1	$ 63	$ 114
Level 2	–	–
Level 3	9	6
Total equity investments at fair value	**$ 72**	**$ 120**

OCR-9

continued

The valuation technique and quantitative information regarding significant unobservable inputs for equity investment assets (banking and other financial institutions) classified as Level 3 as of 31 December 2014 and 2013 are presented below.

31 December 2014	Valuation Technique	Unobservable Inputs	Average Range
Equity investment	Discounted cash flows	Discount rate	20.00% to 25.00% (23.35%)
		Asset growth rate	20.00% to 25.00% (25.00%)

31 December 2013	Valuation Technique	Unobservable Inputs	Average Range
Equity investment	Discounted cash flows	Discount rate	18.00% to 22.00% (20.00%)
		Asset growth rate	19.00% to 62.00% (27.00%)

The following table presents the changes in the carrying amounts of ADB's Level 3 equity investments for the years ended 31 December 2014 and 2013:

($ million)

	Equity Investments under Fair Value Method	
	31 December 2014	31 December 2013
Balance, 1 January	$ 6	$ –
Equity investment	–	3
Total gains (losses) - (realized/unrealized)		
Included in earnings[a]	3	3
Balance, 31 December	$ 9	$ 6

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

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

NOTE I—DERIVATIVE INSTRUMENTS

ADB uses derivative instruments for asset and liability management of individual positions and portfolios. The fair value 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.

Interest rate swaps: Under a typical interest rate swap agreement, one party agrees to make periodic payments based on a notional principal amount and an interest rate that is fixed at the outset of the agreement. The counterparty agrees to make floating rate payments based on the same notional principal amount.

Currency swaps: Under a typical currency swap agreement, one party agrees to make periodic payments in one currency while the counterparty agrees to make periodic payments in another currency. The payments may be fixed at the outset of the agreement or vary based on interest rates. A receivable is created for the currency swapped out, and a payable is created for the currency swapped in.

FX swaps: Under a typical foreign exchange swap, ADB agrees to make payment in one currency while the counterparty agrees to make payment in another currency, on the basis of agreed spot and forward rates. The terms of ADB's FX swaps agreements usually match the terms of particular investments.

continued

Included in RECEIVABLE FROM/PAYABLE FOR SWAPS – 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 RECEIVABLE FROM/PAYABLE FOR SWAPS – Investments are interest rate, currency and foreign exchange swaps that ADB has entered into for the purpose of hedging specific investments. Included in RECEIVABLE FROM/PAYABLE FOR SWAPS – 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 2014 amounted to $9 million for swaps receivable ($10 million – 2013) and $0.2 million for swaps payable ($0.1 million – 2013).

Fair Value Disclosure

The fair value hierarchy of ADB's derivatives and the balance sheet location as of 31 December 2014 and 2013 were as follows:

($ million)

	Balance Sheet	Fair Value Measurements			
	Location	**31 December 2014**	**Level 1**	**Level 2**	**Level 3**
Assets					
Borrowings related swaps	Receivable from Swaps - Borrowings				
Currency swaps		$ 26,149	$ –	$ 20,173	$ 5,976
Interest rate swaps		681	–	653	28
Investments related swaps	Receivable from Swaps - Investments				
Currency swaps		5,099	–	5,099	–
Interest rate swaps		–	–	–	–
FX swaps		497	–	497	–
Loans related swaps	Receivable from Swaps - Loans				
Currency swaps		664	–	664	0
Interest rate swaps		2	–	1	1
Total assets at fair value		**$ 33,092**	**$ –**	**$ 27,087**	**$ 6,005**
Liabilities					
Borrowings related swaps	Payable for Swaps - Borrowings				
Currency swaps		$ 28,295	$ –	$ 28,295	$ –
Interest rate swaps		77	–	50	27
Investments related swaps	Payable for Swaps - Investments				
Currency swaps		4,495	–	4,495	–
Interest rate swaps		53	–	53	–
FX swaps		486	–	486	–
Loans related swaps	Payable for Swaps - Loans				
Currency swaps		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

OCR-9

continued

($ million)

	Balance Sheet Location	Fair Value Measurements 31 December 2013	Level 1	Level 2	Level 3
Assets					
Borrowings related swaps	Receivable from Swaps - Borrowings				
Currency swaps		$ 26,361	$ –	$ 20,303	$ 6,058
Interest rate swaps		961	–	923	38
Investments related swaps	Receivable from Swaps - Investments				
Currency swaps		4,997	–	4,997	–
Interest rate swaps		4	–	4	–
FX Swaps		2,094	–	2,094	–
Loans related swaps	Receivable from Swaps - Loans				
Currency swaps		623	–	623	–
Interest rate swaps		3	–	1	2
Total assets at fair value		**$ 35,043**	**$ –**	**$ 28,945**	**$ 6,098**
Liabilities					
Borrowings related swaps	Payable for Swaps - Borrowings				
Currency swaps		$ 27,121	$ –	$ 27,121	$ –
Interest rate swaps		220		168	52
Investments related swaps	Payable for Swaps - Investments				
Currency swaps		4,401	–	4,401	–
Interest rate swaps		51	–	51	–
FX Swaps		1,976	–	1,976	–
Loans related swaps	Payable for Swaps - Loans				
Currency swaps		544	–	26	518
Interest rate swaps		34	–	31	3
Total liabilities at fair value		**$ 34,347**	**$ –**	**$ 33,774**	**$ 573**

The office of risk management is primarily responsible for determining the fair value 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 fair value of derivatives.

During the year ended 31 December 2014 and 2013, there were no inter-level transfers in the derivatives portfolio.

OCR-9

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 2014 and 2013 are presented below:

31 December 2014	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Borrowings related swaps			
Loans related swaps	Discounted cash flows	Basis swap spread	-1.17% to 8.10% (-0.58%)

31 December 2013	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Borrowings related swaps			
Loans related swaps	Discounted cash flows	Basis swap spread	-0.98% to 8.80% (0.19%)

The following tables present the changes in the carrying amounts of ADB's Level 3 swaps receivable and swaps payable for the years ended 31 December 2014 and 2013:

($ million)

	Borrowings related swaps		**Loans related swaps**	
	Swaps receivable	**Swaps payable**	**Swaps receivable**	**Swaps payable**
Balance, 1 January 2014	$ 6,096	$ (52)	$ 2	$ (521)
Total gains (losses) - (realized/unrealized)				
Included in earnings[a]	107	13	(0)	4
Included in other comprehensive income[b]	(389)	1	(0)	26
Issuances	1,171	–	–	(88)
Maturities/Redemptions	(981)	11	(1)	43
Balance, 31 December 2014	$ 6,004	$ (27)	$ 1	$ (536)
The amount of total gains (losses) for the period 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

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

[b] Included in accumulated translation adjustments (Note M).

0 = less than $0.5 million

OCR-9

continued

($ million)

	Borrowings related swaps		Loans related swaps	
	Swaps receivable	Swaps payable	Swaps receivable	Swaps payable
Balance, 1 January 2013	$ 6,680	$ (46)	$ 2	$ (557)
Total gains (losses) - (realized/unrealized)				
Included in earnings[a]	(543)	0	1	22
Included in other comprehensive income[b]	(564)	(0)	(2)	44
Issuances	1,614	(6)	1	(123) [c]
Maturities/Redemptions	(1,091)	–	–	93
Balance, 31 December 2013	$ 6,096	$ (52)	$ 2	$ (521)
The amount of total gains (losses) for the period included in earnings attributable to the change in net unrealized gains or losses[a] relating to assets/liabilities still held at the reporting date	$ (386)	$ 0	$ 1	$ 20

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

[b] Included in accumulated translation adjustments (Note M).

[c] Includes accretion of $41 million.

0 = less than $0.5 million

OCR-9

continued

Effect of Derivative Instruments on the Statement of Income and Expenses

ADB reports changes in the fair value 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)

	Location of Gain (Loss) recognized in Income (Expenses) on Derivatives	Amount of Gain (Loss) recognized in Income (Expenses) on Derivatives 2014	2013
Borrowings related swaps			
Currency swaps	Net Unrealized (Losses) Gains	$ 828	$ (437)
	Borrowing and related expenses	999	989
Interest rate swaps	Net Unrealized (Losses) Gains	(108)	(824)
	Borrowing and related expenses	576	612
FX swaps	Net Unrealized (Losses) Gains	(0)	(0)
	Borrowing and related expenses	1	0
		$ 2,296	$ 340
Investments related swaps			
Currency swaps	Net Unrealized (Losses) Gains	$ (1)	$ (0)
	Revenue from Investments	2	(4)
Interest rate swaps	Net Unrealized (Losses) Gains	(3)	16
	Revenue from Investments	(10)	(5)
FX swaps	Net Unrealized (Losses) Gains	(0)	(0)
	Revenue from Investments	4	9
		$ (8)	$ 16
Loans related swaps			
Currency swaps	Net Unrealized (Losses) Gains	$ 8	$ 20
	Revenue from Loans	(20)	(23)
Interest rate swaps	Net Unrealized (Losses) Gains	8	22
	Revenue from Loans	(13)	(22)
		$ (17)	$ (3)

0 = less than $0.5 million.

OCR-9

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 swap counterparty fails to perform its obligations.

In order to reduce such credit risk, ADB transacts with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have 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 2014, ADB had received collateral of $1,116 million ($1,651 million – 2013) in connection with the swap agreements. Of this amount, $478 million ($633 million – 2013) 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 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 fair value of all derivative instruments that ADB has under enforceable ISDA Master Agreement that are in a net liability (negative marked-to-market) position as of 31 December 2014 was $1,983 million ($981 million – 2013). The gross liability position in the aggregate fair value of all derivative instruments that ADB has without enforceable netting agreement amounted to $26 million as of 31 December 2014 ($702 million – 2013).

ADB has elected not to offset any derivative instruments by counterparty in the balance sheet. Gross amounts of RECEIVABLE FROM SWAPS and PAYABLE FOR SWAPS not offset in the balance sheet that are subject to enforceable master netting arrangements as of 31 December 2014 and 2013 were as follows: (See Note E for PAYABLE UNDER SECURITIES REPURCHASE ARRANGEMENTS.)

($ million)

	As of 31 December 2014				As of 31 December 2013			
	(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			Gross amount of assets presented in the balance sheet [a]	Gross amounts not offset in the balance sheet		
		Financial instruments	Collateral received [b]	Net amount		Financial instruments	Collateral received [b]	Net amount
Receivable from swaps	$ 33,063	$ 31,978	$ 913	$ 172	$ 34,328	$ 32,664	$ 1,461	$ 203
Total	$ 33,063	$ 31,978	$ 913	$ 172	$ 34,328	$ 32,664	$ 1,461	$ 203

continued

($ million)

	As of 31 December 2014				As of 31 December 2013			
	(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
Payable for swaps	$ 33,961	$ 31,978	$ –	$ 1,983	$ 33,645	$ 32,664	$ –	$ 981
Total	$ 33,961	$ 31,978	$ –	$ 1,983	$ 33,645	$ 32,664	$ –	$ 981

[a] This excludes gross amount of RECEIVABLE FROM SWAPS presented in the balance sheet not subject to enforceable master netting agreements amounting to $29 million ($715 million - 31 December 2013).

[b] Collateral received includes both cash and securities collateral.

[c] This excludes gross amount of PAYABLE FOR SWAPS presented in the balance sheet not subject to enforceable master netting agreements amounting to $26 million ($702 million - 31 December 2013).

NOTE J—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters 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 headquarters building as a reduction of occupancy expense. The depreciation for the year ended 31 December 2014 amounted to $4 million ($4 million – 2013), net of amortization for the headquarters (HQ) building. At 31 December 2014, the unamortized deferred compensation balance (included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous) was $6 million ($7 million – 2013). In 2014, the expansion of the HQ building was completed and $25 million was transferred from Work in Progress and capitalized. At 31 December 2014, accumulated depreciation for property, furniture, and equipment was $257 million ($241 million – 2013).

The changes in the property, furniture, and equipment during 2014 and 2013, 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 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.

OCR-9

continued

($ million)

	Property, Furniture and Equipment				
	Land	Buildings and Improvements	Office Furniture and Equipment	Work in Progress	Total
Cost:					
Balance, 1 January 2013	$ 10	$ 212	$ 149	$ 11	$ 382
Additions during the year	–	6	9	13	28
Transfers during the year	–	0	7	(7)	–
Disposals during the year	–	–	(2)	–	(2)
Balance, 31 December 2013	10	218	163	17	408
Accumulated Depreciation:					
Balance, 1 January 2013	–	(108)	(114)	–	(222)
Depreciation during the year	–	(6)	(15)	–	(21)
Disposals during the year	–	–	2	–	2
Balance, 31 December 2013	–	(114)	(127)	–	(241)
Net Book Value, 31 December 2013	**$ 10**	**$ 104**	**$ 36**	**$ 17**	**$ 167**

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 fair value of the borrowings. Parameters and models used for determining the fair value 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.

The fair value hierarchy of ADB’s borrowings carried at fair value as of 31 December 2014 and 2013 was as follows:

($ million)

	2014	2013
Level 1	$ –	$ –
Level 2	52,551	50,698
Level 3	6,488	6,674
Total borrowings at fair value	**$ 59,039**	**$ 57,372**

continued

As of 31 December 2014, the fair value of ADB's borrowings reported at amortized cost was $4,426 million ($4,888 million – 2013) which was classified as Level 2 within the fair value hierarchy.

During the years ended 31 December 2014 and 2013, there were no inter-level transfers in ADB's borrowings.

The valuation techniques and quantitative information on significant unobservable inputs used in valuing ADB's borrowings classified as Level 3 as of 31 December 2014 and 2013 are presented below:

31 December 2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Borrowings	Discounted cash flows	Derived credit spread	-1.67% to 0.92% (-0.65%)

31 December 2013	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Borrowings	Discounted cash flows	Derived credit spread	-3.70% to 0.97% (-0.54%)

The derived credit spread adjusts the discount rate in valuing the borrowings. A significant increase (decrease) in credit spreads generally decreases (increases) the fair value of the borrowings.

The following tables present the changes in the carrying amounts of ADB's Level 3 borrowings for the years ended 31 December 2014 and 2013:

($ million)

	2014	2013
Balance, 1 January	$ 6,674	$ 7,293
Total (gains) losses - (realized/unrealized)		
Included in earnings[a]	83	(576)
Included in other comprehensive income[b]	(405)	(562)
Issuances	1,187	1,610
Maturities/Redemptions	(1,051)	(1,091)
Balance, 31 December	$ 6,488	$ 6,674
The amount of total losses (gains) for the period included in earnings attributable to the change in net unrealized gains or losses[a] relating to assets/liabilities still held at the reporting date	$ 104	$ (413)

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

[b] Included in accumulated translation adjustments (Note M).

Refer to OCR-7 for Summary Statement of Borrowings.

continued

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 2014 consists of 10,638,933 shares (10,638,933 – 2013), of which 10,567,394 shares (10,572,003 – 2013) have been subscribed by members. Of the subscribed shares, 10,037,127 (10,041,552 – 2013) are “callable” and 530,267 (530,451 – 2013) 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 $420 million ($377 million – 2013), while those notes received with fixed encashment schedules totaled $678 million ($581 million – 2013).

On 29 April 2009, the Board of Governors of ADB adopted Resolution No. 336 on the fifth general capital increase (GCI V) of ADB to increase the authorized capital stock by 7,092,622 shares (200%), and the corresponding subscriptions for such increase by its members. Each member was entitled to subscribe for that number of additional shares equivalent to 200% of its allocated shares immediately prior to the effective date of the Resolution. The GCI V subscription period was concluded in January 2012 with 66 members (48 from regional and 18 from non-regional) out of 67 members subscribing to the additional 7,067,706 shares (282,708 paid-in shares and 6,784,998 callable shares).

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.

As of 31 December 2014, all matured installments amounting to $7,313 million ($6,931 million – 2013) had been received. Installments not due that will mature in 2015 amounted to $367 million (aggregating to $1,238 million – 2013)

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 $69 million as of 31 December 2014 ($73 million – 2013) expressed in terms of the SDR on the basis of $1.44838 ($1.54000 – 2013) 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.

OCR-9

continued

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 CAPITAL AND RESERVES portion of the Balance Sheet. The carrying book value for such receivables and payables approximates its fair value.

The net notional amounts as of 31 December 2014 consisted of (i) the net increase of $1,188 million ($1,407 million – 2013) 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 2014 and (ii) the net increase of $349 million (net decrease of $17 million – 2013) 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)

	2014	2013
Notional MOV Receivables	$ 1,542	$ 1,461
Notional MOV Payables	5	71
Total	**$ 1,537**	**$ 1,390**

Membership

As of 31 December 2014 and 2013, ADB's shareholders consist of 67 members, 48 from the region and 19 from outside the region *(OCR-8)*.

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 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 Asian Development Fund (ADF); and (v) $30 million to the Technical Assistance Special Fund (TASF).

In May 2013, the Board of Governors approved the allocation of 2012 net income of $124 million, after appropriation of guarantee fees to special reserve, as follows: (i) $322 million representing the ASC 815/825 adjustments and the unrealized portion of net income from equity investments accounted for under the equity method, be added from the Cumulative Revaluation Adjustments account; (ii) $67 million be transferred to the Loan Loss Reserve; (iii) $211 million to the Ordinary Reserve; (iv) $120 million to the ADF; (v) $30 million to the TASF; (vi) $9 million to the Climate Change Fund (CCF); (vii) $6 million to the Regional Cooperation and Integration Fund (RCIF); and $3 million to the Financial Sector Development Partnership Special Fund (FSDPSF). The Board of Governors also approved in May 2013 the transfer of $67 million from Surplus to Ordinary Reserve.

OCR-9

continued

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 $58 million to the Ordinary Reserve during the year ended 31 December 2014 (net charge of $1 million – 2013). 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. The unutilized funds of the Pakistan Earthquake Fund amounting to $3 million were also returned during the year.

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 2014, the 2013 net unrealized gains on derivatives of $150 million (net unrealized losses of $331 million – 2013) and net unrealized losses from equity investments accounted for under the equity method of $53 million (net unrealized gains of $9 million – 2013) resulted in a credit balance in the Cumulative Revaluation Adjustments account at 31 December 2014 of $59 million (debit balance of $38 million – 2013).

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 2014, guarantee fees amounting to $21 million ($18 million – 2013) were appropriated to Special Reserve.

Loan Loss Reserve

ADB sets aside Loan Loss Reserve as part of Capital and Reserves 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.

For 2014, the loan loss reserve requirement was $230 million ($261 million – 2013).

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.

continued

The changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2014 and 2013 were as follows:

($ million)

	Accumulated Translation Adjustments		Unrealized Holding Gains Investments		Unrealized Holding Gains Equity Investments		Pension/Postretirement Liability Adjustments		Accumulated Other Comprehensive Loss	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Balance, 1 January	$ (56)	$ 106	$ 123	$ 395	$ 74	$ 214	$ (782)	$ (1,513)	$ (641)	$ (798)
Other comprehensive (loss) income before reclassifications	(100)	(162)	13	(261)	71	(34)	(497)	630	(513)	173
Amounts reclassified from accumulated other comprehensive loss	–	–	(32)	(11)	(109)	(106)	57	101	(84)	(16)
Net current-period other comprehensive (loss) income	(100)	(162)	$ (19)	$ (272)	$ (38)	$ (140)	$ (440)	$ 731	$ (597)	$ 157
Balance, 31 December	**$ (156)**	**$ (56)**	**$ 104**	**$ 123**	**$ 36**	**$ 74**	**$ (1,222)**	**$ (782)**	**$ (1,238)**	**$ (641)**

The reclassifications of Accumulated Other Comprehensive Income (Loss) to Net Income for the year ended 31 December 2014 and 2013 are presented below:

($ million)

Accumulated Other Comprehensive Income (Loss) Components	Amounts Reclassified from Accumulated Other Comprehensive Income (Loss)[a] 2014	2013	Affected Line Item in the Condensed Statement of Income and Expenses
Unrealized Holding Gains (Losses)			
Investments	$ 32	$ 11	NET REALIZED GAINS From investments
Equity investments	109	106	NET REALIZED GAINS From equity investments
	$ 141	$ 117	
Pension/Postretirement Liability Adjustments			
Actuarial losses	$ (57)	$ (101)	Administrative expenses
	$ (57)	$ (101)	
Total reclassifications for the period	$ 84	$ 16	

[a] Amounts in parentheses indicate debits to net income.

NOTE N—INCOME AND EXPENSES

Total income from loans for the year ended 31 December 2014 was $605 million ($646 million – 2013). The average yield on the loan portfolio during the year was 1.15% (1.31% – 2013), including premium received on prepayment and other loan income.

Total income from investments including net realized gains on sales, net unrealized gains on derivatives, and interest earned for securities transferred under repurchase agreements and resale arrangements for the year ended 31 December 2014 was $348 million ($367 million – 2013). 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 1.30% (1.43% – 2013) excluding unrealized gains and losses on investments and 1.23% (0.37% – 2013) including unrealized gains and losses on investments.

Total income from equity investment operations, including net realized gains, resulted in a net income of $256 million ($186 million – 2013) for the year ended 31 December 2014. This included a total of $3 million (net loss of $6 million – 2013) share in the net gain of investee companies accounted for under the equity method, dividend income of $13 million ($7 million – 2013), and gains from divestments of $250 million ($178 million – 2013). These were offset by $9 million ($2 million – 2013) other than temporary impairment losses, and $1 million (miscellaneous income of $9 million – 2013) miscellaneous fees.

Income from other sources primarily included income received as executing agency amounting to $15 million ($11 million – 2013), and other miscellaneous income amounting to $8 million ($8 million – 2013).

OCR-9

continued

Total borrowing expense of $317 million ($394 million – 2013) 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 0.82% (0.51% – 2013).

Total depreciation expense incurred for the year ended 31 December 2014 amounted to $22 million ($21 million – 2013).

ADB leases office spaces and other assets. Rental expenses under operating leases for the years ended 31 December 2014 and 2013 were $11 million and $11 million, respectively. The minimum rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of 31 December 2014 are as follows:

($ million)

Year ending 31 December	Minimum future rentals
2015	4
2016	3
2017	1
2018	1
Later years	1

Administrative expenses (other than those pertaining directly to ordinary operations and special operations) for the year ended 31 December 2014 were apportioned between OCR and ADF in proportion to the relative volume of operational activities. Of the total administrative expenses of $666 million ($730 million – 2013), $289 million ($305 million – 2013) 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 $25 million ($14 million – 2013) related to new loans made effective in 2014 *(Note B)*.

For the year ended 31 December 2014, net write-back for loan losses of $1 million ($6 million – 2013) consisted of $3 million additional loan loss provision ($4 million – 2013) and $4 million ($10 million – 2013) write-backs.

The following table provides information on the unrealized gains or losses included in income for the years ended 31 December 2014 and 2013:

($ million)

	2014	2013
Unrealized gains (losses) on:		
Borrowings and related swaps	$ (205)	$ 83
Investments related swaps	(3)	16
Loans related swaps	16	42
Equity investments	3	3
Translation adjustments of non-functional currencies	(4)	6
Total	**$ (193)**	**$ 150**

continued

NOTE O—RELATED PARTY TRANSACTIONS

At 31 December 2014 and 2013, 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)

	2014		2013	
Amounts receivable from:				
Asian Development Fund	$	41	$	35
Special Funds		0		1
Agency Trust Funds—net		–		0
Staff Retirement Plan		13		–
Total	**$**	**54**	**$**	**36**
Amounts payable to:				
Agency Trust Funds—net	$	2	$	–
Special Funds		0	$	–
Staff Retirement Plan		–		0
Total	**$**	**2**	**$**	**0**

0 = less than $0.5 million

As of 31 December 2014 and 2013, the related parties include other special funds consisting of TASF, Japan Special Fund, ADB Institute, RCIF, CCF, Asian Pacific Disaster Response Fund, and FSDPSF.

NOTE P—STAFF RETIREMENT PLAN AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

ADB has a contributory defined benefit Staff Retirement Plan (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 SRP applies also to members of the Board of Directors who elect to join the SRP. Retirement benefits are based on an annual accrual rate, length of service and the highest average two years remuneration during 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 to the SRP. 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 SRP. ADB is expected to contribute $49 million to the SRP for 2015 based on a budgeted contribution of 21% of salary.

OCR-9

continued

ADB's staff members are expected to contribute $58 million representing participants' mandatory contribution of $10 million and discretionary contributions of $48 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 seven 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 the SRP's 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. The current policy, adopted in January 2011, specifies an asset-mix structure of 70% of assets in equities and 30% in fixed income securities. At present, investments of the SRP's assets are divided into three categories: US equity, Non-US equity, and Global fixed income. The SRP's long-term target asset-mix is 40% US equity, 30% non-US equity and 30% global fixed income.

For the year ended 31 December 2014, the net return on the SRP assets was 6.3% (16.7% – 2013). ADB expects the long-term rate of return on the assets to be 7.5% (7.5% – 2013).

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 7.5% on the SRP's assets is expected to remain on average broadly the same, year to year.

Actuarial assumptions based on the 2005-2009 experience were used as the basis for the actuarial valuation as of 31 December 2014 and 2013. These include rates of withdrawal, incapacity retirement rates, mortality rates, proportion of international staff who commute, currency reserve, and pattern of discretionary benefits withdrawal.

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 RMPF assets are segregated in a separate fund and the employer share of the insurance premium for the PRGMIP will be paid from the RMPF. The costs of administering the RMPF are absorbed by ADB, except for fees expected to be paid to the investment managers.

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

OCR-9

continued

Expected Contribution

Subsequent to the establishment of the RMPF, ADB transferred $315 million into the RMPF. ADB's expected contribution to the RMPF will be determined based on the recommendation of the SRP Pension Committee.

Investment Strategy

The SRP Investment Committee will set the investment policy and guidelines for the RMPF in 2015. Until such time, the SRP Investment Committee used the SRP investment guidelines. The initial contribution to the RMPF is placed in short term deposits pending the selection of external asset managers by the SRP Investment Committee.

Assumptions

The overall long-term rate of return is expected to be similar to the SRP once the investment policy and guidelines as well as the selection of asset managers are completed since the investment policy and guidelines are expected to be similar to the SRP's.

Actuarial assumptions based on the 2005-2009 experience were used as the basis for the actuarial valuation as of 31 December 2014 and 2013.

The following table sets forth the pension and postretirement medical benefits at 31 December 2014 and 2013:

($ million)

	Pension Benefits		Postretirement Medical Benefits	
	2014	2013	2014	2013
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$ 2,935	$ 3,096	$ 334	$ 421
Service cost	73	89	19	25
Interest cost	149	136	17	19
Plan participants' contributions	71	70	–	–
Actuarial loss (gain)	427	(345)	63	(126)
Benefits paid	(113)	(111)	(3)	(5)
Projected benefit obligation at end of year	$ 3,542	$ 2,935	$ 430	$ 334
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 2,021	$ 1,641	$ –	$ –
Actual return on plan assets	129	280	–	–
Employer's contribution	197	141	318	5
Plan participants' contributions	71	70	–	–
Benefits paid	(113)	(111)	(3)	(5)
Fair value of plan assets at end of year	$ 2,305	$ 2,021	$ 315	$ –
Funded status	$ (1,237)	$ (914)	$ (115)	$ (334)

OCR-9

continued

($ million)

	Pension Benefits		Postretirement Medical Benefits	
	2014	**2013**	**2014**	**2013**
Amounts recognized in the Balance sheet consist of:				
Current liabilities	–	–	–	(6)
Noncurrent liabilities	(1,237)	(914)	(115)	(328)
Net amount recognized	$ (1,237)	$ (914)	$ (115)	$ (334)
Amounts recognized in the Accumulated other comprehensive income consist of:				
Net actuarial loss	$ 1,139	$ 762	$ 83	$ 20
Total amount recognized	$ 1,139	$ 762	$ 83	$ 20
Weighted-average assumptions as of 31 December				
Discount rate	4.15%	5.00%	4.15%	5.00%
Expected return on plan assets	7.50%	7.50%	7.50%	N/A
Rate of compensation increase varies with age and averages	4.00%	4.00%	N/A	N/A

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as of 31 December 2014 and 2013. The rate was assumed to decrease gradually to 5.0% through 2022 (5.0% through 2021 – 2013) 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 2014 and 2013:

($ million)

	Pension Benefits		Postretirement Medical Benefits	
	2014	**2013**	**2014**	**2013**
Components of net periodic benefit cost:				
Service cost	$ 73	$ 89	$ 19	$ 26
Interest cost	149	136	17	19
Expected return on plan assets	(135)	(120)	–	–
Recognized actuarial loss	56	92	–	8
Net periodic benefit cost	**$ 143**	**$ 197**	**$ 36**	**$ 53**

The accumulated benefit obligation of the pension plan as of 31 December 2014 was $3,312 million ($2,754 million – 2013).

The estimated net loss for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year amounted to $79 million. The estimated net loss for the other postretirement benefits plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year amounted to $3 million.

continued

A one-percentage-point change in assumed health care trend rates would have the following effects:

($ million)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	$ 10	$ (8)
Effect on postretirement benefit obligation	99	(76)

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 2014:

($ million)	Pension Benefits	Postretirement Medical Benefits
2015	$ 123	$ 7
2016	129	8
2017	135	9
2018	145	10
2019	154	11
2020–2024	937	71

Fair Value Disclosure

The fair value of the SRP asset's financial instruments measured at fair value on a recurring basis as of 31 December 2014 and 2013 were reported based on the following:

($ million)		Fair Value Measurements		
	31 December 2014	Level 1	Level 2	Level 3
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 plan assets	$ 2,305	$ 2,237	$ 62	$ 6

[a] Incudes receivables and liabilities carried at amounts that approximate fair value.
0 = less than $0.5 million.

OCR-9

continued

($ million)

	31 December 2013	Fair Value Measurements Level 1	Level 2	Level 3
Cash and cash equivalents	$ 31	$ –	$ 31	$ –
Common/preferred stocks	479	479	–	0
Investment funds	986	986	–	–
Government or government-guaranteed securities	253	251	0	2
Corporate debt securities	206	202	3	1
Mortgage/Asset-backed securities:				
Mortgage-backed securities	35	12	23	0
Collateralized mortgage obligations	10	–	5	5
Asset-backed securities	1	–	1	0
Short term investments	32	9	23	–
Derivatives	0	0	0	–
Other asset/liabilities[a]—net	(12)	–	(12)	–
Total fair value of plan assets	$ 2,021	$ 1,939	$ 74	$ 8

[a] Incudes receivables and liabilities carried at amounts that approximate fair value.
0 = less than $0.5 million.

The fair value of the RMPF asset's financial instruments measured at fair value on a recurring basis as of 31 December 2014 was reported based on the following:

($ million)

	31 December 2014	Fair Value Measurements Level 1	Level 2	Level 3
Short term investments	$ 315	$ –	$ 315	$ –
Total fair value of plan assets	$ 315	$ –	$ 315	$ –

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. The 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.

OCR-9

continued

The table below provides details of transfers between Levels 1 and 2 for the years ended 31 December 2014 and 2013:

($ million)

	2014		2013	
	Level 1	Level 2	Level 1	Level 2
Investments				
Government or government-guaranteed securities				
Transfers into (out of)	$ 0	$ (0)	$ 4	$ (4)
Corporate debt securities				
Transfers into (out of)	2	(2)	4	(4)
Mortgaged/asset-backed securities				
Transfers (out of) into	–	–	(1)	1
	$ 2	**$ (2)**	**$ 7**	**$ (7)**

0 = less than $0.5 million.

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

The following tables present the changes in the carrying amounts of ADB's SRP Level 3 financial assets and financial liabilities for the years ended 31 December 2014 and 2013:

($ million)

	Investments				
	Common / preferred stocks	Government or gov't.-guaranteed securities	Corporate debt securities	Mortgage / Asset-backed securities	Derivatives
Balance, 31 December 2013	$ 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, 31 December 2014	$ 0	$ –	$ 1	$ 5	$ –
Total unrealized gains (losses) included in income related to financial assets liabilities still held at the reporting date	$ 0	$ –	$ 0	$ (0)	$ –

0 = less than $0.5 million.

OCR-9

continued

($ million)

	Investments				
	Common / preferred stocks	**Government or gov't.-guaranteed securities**	**Corporate debt securities**	**Mortgage / Asset-backed securities**	**Derivatives**
Balance, 31 December 2012	$ 0	$ –	$ 10	$ 2	$ 0
Total realized/unrealized (losses)/gains in:					
Net decrease in net assets available for benefits	(0)	(0)	(0)	(0)	(0)
Purchases	–	2	1	6	–
Sales/Maturities	(0)	–	(9)	(1)	–
Settlement and others	–	–	(0)	(1)	–
Transfers into Level 3	–	–	–	0	–
Balance, 31 December 2013	$ 0	2	$ 1	$ 5	$ –
Total unrealized gains included in income related to financial assets liabilities still held at the reporting date	$ 0	$ (0)	$ (0)	$ (0)	$ –

0 = less than $0.5 million.

Transfers into and out of Level 3 in 2014 and 2013 are due to the availability or absence of market observable inputs.

continued

NOTE Q—OTHER FAIR VALUE DISCLOSURES

The carrying amounts and estimated fair values of ADB's financial instruments as of 31 December 2014 and 2013 are summarized below:

($ million)

	2014		2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
On-balance sheet financial instruments:				
ASSETS:				
Due from banks	$ 417	$ 417	$ 316	$ 316
Investments (Note D)	23,006	23,006	24,452	24,452
Securities transferred under repurchase agreements (Note E)	30	30	592	592
Securities purchased under resale arrangements	1,257	1,257	306	306
Loans outstanding (Note F)	55,890	57,057	53,088	53,870
Equity investments carried at fair value (Note H)	72	72	120	120
Receivable from swaps - borrowings (Note I)	26,830	26,830	27,322	27,322
Receivable from swaps - investments (Note I)	5,596	5,596	7,095	7,095
Receivable from swaps - loans (Note I)	666	666	626	626
Swap related collateral (Note I)	478	478	633	633
Future guarantee receivable (Note G)	25	25	32	32
LIABILITIES:				
Borrowings (Note K)	62,701	63,465	61,630	62,260
Payable for swaps - borrowings (Note I)	28,372	28,372	27,341	27,341
Payable for swaps - investments (Note I)	5,034	5,034	6,428	6,428
Payable for swaps - loans (Note I)	581	581	578	578
Payable under securities repurchase agreements (Note E)	30	30	602	602
Swap related collateral (Note I)	478	478	633	633
Guarantee liability (Note G)	25	25	32	32

As of 31 December 2014 and 2013, ADB has no material assets or liabilities measured at fair value on a non-recurring basis.

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 between the OCR and the special funds.

OCR-9

continued

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 breakdown as of 31 December 2014 and 2013 is as follows:

($ million)

	2014		2013	
	Total Net Assets	**No.**	**Total Net Assets**	**No.**
Special Funds				
Asian Development Fund	$ 31,478	1	$ 33,359	1
Technical Assistance Special Fund	221	1	330	1
Japan Special Fund	102	1	100	1
Asian Development Bank Institute	8	1	9	1
Pakistan Earthquake Fund	–	0	18	1
Regional Cooperation and Integration Fund	8	1	5	1
Climate Change Fund	10	1	14	1
Asia Pacific Disaster Response Fund	4	1	5	1
Financial Sector Development Partnership Special Fund	7	1	7	1
Subtotal	31,838	8	33,847	9
Trust Funds (including project specific cofinancing)	1,763	115	2,179	100
Total	**$ 33,601**	**123**	**$ 36,026**	**109**

During the year ended 31 December 2014, a total of $12 million ($9 million – 2013) 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 variable interest entity (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 expected 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 2014, 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 31 (20 – 2013) 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. These VIEs are in the finance, telecommunication, and energy sectors.

ADB's involvement with these non-consolidated VIEs includes loans, guarantees and equity investments. Based on the most recent available data from these VIEs at 31 December 2014, the assets of these non-consolidated VIEs totaled $13,076 million ($4,194 million – 2013).

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.

($ million)

	2014	2013
Carrying value of the ADB's Variable Interests		
Assets	$ 1,295	$ 870
Liabilities	4	5
Maximum Exposure to Loss in Nonconsolidated VIEs		
Loans	$ 1,166	$ 737
Equity Investments	153	159
Guarantees	68	100
Total	**$ 1,387**	**$ 996**
No. of VIEs	**31**	**20**
Total Assets of the Entities	**$ 13,076**	**$ 4,194**

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 2014 and 2013:

($ million)

	2014		2013	
Country	Outstanding Balance	Revenue	Outstanding Balance	Revenue
People's Republic of China	$ 15,031	$ 212	$ 13,996	$ 215
Indonesia	7,800	115	8,741	140
India	13,343	96	12,311	90
Pakistan	4,984	46	5,192	48
Philippines	5,201	32	4,977	50
Others	12,134	142	10,470	131
Total	**$ 58,493**	**$ 643**	**$ 55,687**	**$ 674**

Revenue comprises income from loan charges, earnings from equity investments, and guarantee fees.

For the year ended 31 December 2014, sovereign loans to three members (three – 2013) generated in excess of 10 percent of revenue; this amounted to $176 million, $109 million, and $80 million ($172 million, $133 million, and $79 million – 2013).

NOTE U—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2014 through 12 March 2015, the date these Financial Statements are available for issuance. During this period, ADB has raised additional borrowings of approximately $8,367 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 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 2014. 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 2014, 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

12 March 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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 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

Deloitte.

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, 2014, 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, 2014 and 2013, and the related special purpose statements of revenue and expenses, comprehensive (loss) income, 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 12, 2015 expressed an unqualified opinion on those special purpose financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, and the related special purpose statements of revenue and expenses, comprehensive (loss) income, 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.

Deloitte.

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, 2014 and 2013, 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, 2014, 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 12, 2015 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 supplemental schedules listed in the table of contents 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.

Deloitte.

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 information 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.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

ADF-1

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
31 December 2014 and 2013
Expressed in Millions of US Dollars

	2014		2013	
ASSETS				
DUE FROM BANKS		$ 60		$ 3
INVESTMENTS (Notes C and K)				
Government or government-guaranteed obligations	$ 5,363		$ 5,561	
Time deposits	835	6,198	1,159	6,720
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Note C)		361		246
LOANS OUTSTANDING (ADF-6) (Notes D and K)				
Sovereign	27,604		28,680	
Less—allowance for HIPC Debt Relief	70	27,534	74	28,606
ACCRUED REVENUE				
On investments	28		42	
On loans	58	86	72	114
OTHER ASSETS (Note F)		200		289
TOTAL		**$ 34,439**		**$ 35,978**
LIABILITIES AND FUND BALANCES				
PAYABLE TO RELATED FUNDS (Note E)		$ 41		$ 35
ADVANCE PAYMENTS ON CONTRIBUTIONS (Note F)		185		272
UNDISBURSED COMMITMENTS (Notes J and K)		2,735		2,312
TOTAL LIABILITIES		2,961		2,619
FUND BALANCES (ADF-4)				
Contributions received (ADF-7)				
Contributed resources (Note F)	$ 31,830		$ 33,568	
Unamortized discount	(36)		(69)	
	31,794		33,499	
Set-aside resources (Note H)	69		73	
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund	1,463		1,344	
	33,326		34,916	
Nonnegotiable, noninterest-bearing demand obligations on account of contributions (Note F)	(1,841)		(2,106)	
Accumulated surplus	206		1,049	
Accumulated other comprehensive loss (Note I)	(213)	31,478	(500)	33,359
TOTAL		**$ 34,439**		**$ 35,978**

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 2014 and 2013
Expressed in Millions of US Dollars

	2014		2013	
REVENUE				
From loans (Note D)	$ 321		$ 402	
From investments (Note C)	53	374	59	461
EXPENSES				
Grants (Note J)	848		448	
Administrative expenses (Note G)	289		305	
Amortization of discounts on contributions	19	1,156	16	769
NET REALIZED GAINS FROM INVESTMENTS (Notes C and I)		11		0
NET UNREALIZED LOSSES		(72)		(28)
REVENUE LESS THAN EXPENSES		**$ (843)**		**$ (336)**

0 = less than $0.5 million.

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

ADF-3

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended 31 December 2014 and 2013
Expressed in Millions of US dollars

	2014		2013	
REVENUE LESS THAN EXPENSES (ADF-2)		$ (843)		$ (336)
Other comprehensive income (Note I)				
Currency translation adjustments	$ 294		$ 2,090	
Unrealized investment holding losses	(7)	287	(45)	2,045
COMPREHENSIVE (LOSS) INCOME		**$ (556)**		**$ 1,709**

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

ADF-4

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF CHANGES IN FUND BALANCES
For the Years Ended 31 December 2014 and 2013

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 2013	**$ 35,538**	**$ 73**	**$ 1,224**	**$ (2,329)**	**$ 1,385**	**$ (2,545)**	**$ 33,346**
Comprehensive (loss) income for the year 2013 (ADF-3) (Note I)					(336)	2,045	1,709
Change in amounts available for operational commitments							
Contributed resources	(2,024)						(2,024)
Unamortized discount	(15)						(15)
Change in nonnegotiable, noninterest-bearing demand obligations				223			223
Transfer from ordinary capital resources			120				120
Balance, 31 December 2013	**$ 33,499**	**$ 73**	**$ 1,344**	**$ (2,106)**	**$ 1,049**	**$ (500)**	**$ 33,359**
Comprehensive (loss) income for the year 2014 (ADF-3) (Note I)					(843)	287	(556)
Change in amounts available for operational commitments							
Contributed resources	(1,738)						(1,738)
Unamortized discount	33						33
Change in nonnegotiable, noninterest-bearing demand obligations				265			265
Transfer from ordinary capital resources			120				120
Change in SDR value of set-aside resources		(4)					(4)
Change in value of transfers from Technical Assistance Special Fund			(1)				(1)
Balance, 31 December 2014	**$ 31,794**	**$ 69**	**$ 1,463**	**$ (1,841)**	**$ 206**	**$ (213)**	**$ 31,478**

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 2014 and 2013
Expressed in Millions of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest charges on loans received	$ 307	$ 375
Interest received from investments	99	106
Administrative expenses paid	(282)	(308)
Grants disbursed	(429)	(577)
Net Cash Used in Operating Activities	(305)	(404)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	2,586	99
Maturities of investments	109,958	124,637
Purchases of investments	(112,424)	(125,299)
Receipts from securities purchased under resale arrangements	92,936	84,711
Payments for securities purchased under resale arrangements	(93,109)	(84,664)
Principal collected on loans	1,291	1,677
Loans disbursed	(2,180)	(1,953)
Net Cash Used in Investing Activities	(942)	(792)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received and encashed[1]	1,192	1,000
Cash received from ordinary capital resources	120	120
Net Cash Provided by Financing Activities	1,312	1,120
Effect of Exchange Rate Changes on Due from Banks	(8)	(6)
Net Increase (Decrease) in Due from Banks	57	(82)
Due from Banks at Beginning of Year	3	85
Due from Banks at End of Year	$ 60	$ 3
RECONCILIATION OF REVENUE LESS THAN EXPENSES TO NET CASH USED IN OPERATING ACTIVITIES:		
Revenue less than expenses (ADF-2)	$ (843)	$ (336)
Adjustments to reconcile revenue less than expenses to net cash used in operating activities:		
Amortization of discounts/premiums on investments	35	39
Amortization of discount on donor’s contributions	19	16
Grants approved and effective	848	448
Capitalized charges on loans	(24)	(22)
Net gain on sale of investments	(11)	(0)
Change in accrued revenue on investments and loans	20	4
Change in other assets	(3)	7
Change in payable to related funds	6	(3)
Change in undisbursed commitments	(425)	(585)
Exchange losses—net	73	28
Net Cash Used in Operating Activities	$ (305)	$ (404)

0 = less than $0.5 million.

Supplementary disclosure on noncash financing activities:

[1] Nonnegotiable, noninterest-bearing demand promissory notes amounting to $809 million ($991 million – 2013) were received from contributing members.

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

ADF-6

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE SUMMARY STATEMENT OF LOANS
31 December 2014 and 2013
Expressed in Millions of US dollars

Borrowers/Guarantors[1]	Loans Outstanding	Undisbursed Balances of Effective Loans[2,3]	Loans Not Yet Effective[4]	Total Loans	Percent of Total Loans
Afghanistan	$ 645	$ 20	$ –	$ 665	1.85
Armenia	272	103	35	410	1.14
Azerbaijan	43	2	–	45	0.13
Bangladesh	6,022	1,285	338	7,645	21.31
Bhutan	214	52	25	291	0.81
Cambodia	1,035	421	93	1,549	4.32
Cook Islands	27	–	–	27	0.08
Georgia	459	262	–	721	2.01
Indonesia	1,044	21	–	1,065	2.97
Kazakhstan	5	–	–	5	0.01
Kiribati	19	10	–	29	0.08
Kyrgyz Republic	584	148	74	806	2.25
Lao People's Democratic Republic	893	167	58	1,118	3.12
Maldives	105	2	–	107	0.30
Marshall Islands	60	–	–	60	0.17
Micronesia, Federated States of	48	7	–	55	0.15
Mongolia	591	161	62	814	2.27
Myanmar	547	56	76	679	1.89
Nepal	1,456	748	225	2,429	6.77
Pakistan	5,422	657	156	6,235	17.38
Palau	3	2	–	5	0.01
Papua New Guinea	403	227	–	630	1.76
Philippines	494	–	–	494	1.38
Samoa	116	3	–	119	0.33
Solomon Islands	38	6	16	60	0.17
Sri Lanka	2,433	395	130	2,958	8.25
Tajikistan	302	1	–	303	0.85
Timor-Leste	3	15	–	18	0.05
Tonga	31	–	–	31	0.09
Tuvalu	5	–	–	5	0.01
Uzbekistan	337	403	–	740	2.06
Vanuatu	39	14	–	53	0.15
Viet Nam	3,907	1,395	392	5,694	15.87
Regional	2	3	–	5	0.01
TOTAL – 31 December 2014	$ 27,604	$ 6,586	$ 1,680	$ 35,870	100.00
Allowance for HIPC Debt Relief	(70)	–	–	(70)	
NET BALANCE – 31 December 2014	**$ 27,534**	**$ 6,586**	**$ 1,680**	**$ 35,800**	
NET BALANCE – 31 December 2013	**$ 28,606**	**$ 6,283**	**$ 2,161**	**$ 37,050**	

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 $34 million ($44 million - 2013).

ADF-6

continued

MATURITY OF EFFECTIVE LOANS AS OF 31 DECEMBER 2014

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2015	$ 1,276	2024	8,732
2016	1,389	2029	7,378
2017	1,492	2034	5,762
2018	1,571	2039	3,326
2019	1,667	2044	1,408
		2049	165
		2054	24
		Total	**$ 34,190**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2014	2013	Currency	2014	2013
Australian dollar	$ 50	$ 58	Norwegian krone	81	104
Canadian dollar	205	238	Pound sterling	216	233
Danish krone	23	28	Singapore dollar	0	0
Euro	1,714	2,040	Swedish krona	74	93
Yen	3,075	3,750	Swiss franc	99	115
Won	23	24	Baht	1	1
Ringgit	1	1	US dollar	1,861	1,944
New Zealand dollar	1	1	Special Drawing Rights[5]	20,180	20,050
			Total	**$ 27,604**	**$ 28,680**

0 = less than $0.5 million.

[3] Refer to the unwithdrawn portions of effective loans as of 31 December 2014.

[4] Refer to approved loans that have not become effective as of 31 December 2014, 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).

ADF-7

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF RESOURCES
31 December 2014
Expressed in Millions of US dollars

	Effective Amounts Committed[1]	Contributions Received
CONTRIBUTED RESOURCES		
Australia	$ 2,393	$ 1,936
Austria	275	283
Belgium	244	241
Brunei Darussalam	21	18
Canada	1,951	1,904
China, People's Republic of	102	81
Denmark	254	296
Finland	190	165
France	1,363	1,335
Germany	1,862	1,940
Hong Kong, China	109	94
India	30	15
Indonesia	15	15
Ireland	95	72
Italy	1,153	938
Japan	11,959	13,877
Kazakhstan	5	2
Korea, Republic of	570	437
Luxembourg	53	50
Malaysia	29	23
Nauru	0	0
The Netherlands	761	806
New Zealand	174	153
Norway	283	246
Portugal	92	102
Singapore	21	18
Spain	414	403
Sweden	470	378
Switzerland	382	524
Taipei,China	106	92
Thailand	17	15
Turkey	122	115
United Kingdom	1,557	1,248
United States	4,191	3,972
Total	31,263	31,794
SET-ASIDE RESOURCES		69
TRANSFERS FROM ORDINARY CAPITAL RESOURCES		1,460
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND		3
TOTAL	**$ 31,263**	**$ 33,326**

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 2014 and 2013**

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 achieving 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 SDR8,084 million, of which SDR3,086 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 2014, ADB had received instruments of contribution from 30 donors with a total amount equivalent to SDR2,814 million, including qualified contributions amounting to SDR138 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

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) 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

[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

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 2014, 18 out of 28 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.

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.

continued

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, respectively.

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.

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 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 February 2013, the FASB issued Accounting Standard Update (ASU) 2013-04, *"Liabilities (Topic 405) – Obligations Resulting from Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date,"* to provide guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this Update is fixed at the reporting date. The amendments are effective for fiscal years beginning after 15 December 2013. This ASU currently does not have an impact on ADF's financial statements.

In April 2013, the FASB issued ASU 2013-07, *"Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,"* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on ADF's financial statements.

In April 2014, the FASB issued 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 for a not-for-profit entity. ADB is currently assessing the impact of this ASU on ADF's financial statements.

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification,"* 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. This ASU is not expected to impact ADF's financial statements.

continued

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. ADB is currently assessing the impact of this ASU on ADF'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 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 2014 were government or government-guaranteed obligations transferred under securities lending arrangements amounting to $4 million ($26 million – 2013).

The currency composition of the investment portfolio as of 31 December 2014 and 2013 expressed in US dollars was as follows:

($ million)

Currency	2014	2013
US dollar	$ 2,798	$ 2,992
Euro	2,401	2,545
Pound sterling	812	804
Yen	187	379
Total	**$ 6,198**	**$ 6,720**

continued

The estimated fair value and amortized cost of the investments as of 31 December 2014 and 2013 were as follows:

($ million)

	2014		2013	
	Estimated Fair Value	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**
Due in one year or less	$ 2,327	$ 2,323	$ 4,434	$ 4,430
Due after one year through five years	3,713	3,700	2,247	2,222
Due after five years through ten years	158	153	39	39
Total	**$ 6,198**	**$ 6,176**	**$ 6,720**	**$ 6,691**

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

($ million)

	2014	2013
As of 31 December:		
Amortized cost	$ 5,341	$ 5,532
Estimated fair value	5,363	5,561
Gross unrealized gains	26	32
Gross unrealized losses	(4)	(3)
For the years ended 31 December:		
Change in net unrealized losses from prior year	(7)	(45)
Proceeds from sales	2,586	99
Gross gain on sales	11	1
Gross loss on sales	(0)	(1)

0 = less than $0.5 million.

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 0.90% (0.86% – 2013) excluding unrealized gains and losses on investment securities, and 0.80% (0.20% – 2013) including unrealized gains and losses on investments.

ADF-8

continued

There were no government or government-guaranteed obligations (two – 31 December 2013) that sustained losses for over one year. Comparative details for 2014 and 2013 are as follows:

($ million)

For the year 2014	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government or government-guaranteed obligations	$ 1,420	$ 4	$ –	$ –	$ 1,420	$ 4

($ million)

For the year 2013	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Government or government-guaranteed obligations	$ 1,416	$ 3	$ 103	$ 0	$ 1,519	$ 3

0 = less than $0.5 million.

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2014 and 2013 was as follows:

($ million)

		Fair Value Measurements		
	31 December 2014	Level 1	Level 2	Level 3
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**	**$ –**

($ million)

		Fair Value Measurements		
	31 December 2013	Level 1	Level 2	Level 3
Investments				
Government or government-guaranteed obligations	$ 5,561	$ 4,316	$ 1,245	$ –
Time deposits	1,159	–	1,159	–
Securities purchased under resale arrangements	246	–	246	–
Total at fair value	**$ 6,966**	**$ 4,316**	**$ 2,650**	**$ –**

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.

ADF-8

continued

The table below provides details of transfers between Level 1 and Level 2 for the years ended 31 December 2014 and 2013:

($ million)

	2014		2013	
	Level 1	Level 2	Level 1	Level 2
Investments				
Government or government-guaranteed obligations				
Transfers into (out of)	$ 16	$ (16)	$ –	$ –

The inter-level transfers are attributed to the 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 2014 and 2013.

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 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 2014, the interest rate was set at (i) 1.77% fixed for the life of the loans (1.0% during the grace period and 1.5% thereafter – 2013) for ADF-only countries; and (ii) 2.0% fixed for the life of the loans for blend countries.

ADF-8

continued

In April 2008, the Board of Governors adopted the resolution on providing Heavily Indebted Poor Countries (HIPC) Relief from Asian Development Fund 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, fair value approximates the carrying amount. The estimated fair value of loans is not affected by credit risks because the amount of any such adjustment 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 2014 are shown in ADF-6.

As of 31 December 2014 and 2013, loans to borrowers that exceeded 5% of total loans were as follows:

($ million)

	2014	2013
Bangladesh	$ 6,022	$ 6,202
Pakistan	5,422	5,695
Viet Nam	3,907	3,883
Sri Lanka	2,433	2,583
Nepal	1,456	1,545
Others (individually less than 5% of total loans)	8,364	8,772
Total Outstanding Loans	27,604	28,680
Allowance for HIPC Debt Relief	(70)	(74)
Net Outstanding Loans	**$ 27,534**	**$ 28,606**

There were no outstanding loans in non-accrual status as of 31 December 2014 and 2013.

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.

The credit quality of ADF loans was as follows:

($ million)

Risk Class	Risk Rating	2014	2013
Low credit risk	1–5 (AAA to BBB–)	$ 1,585	$ 1,908
Medium credit risk	6–11 (BB+ to B–)	17,419	16,072
High credit risk	12–14 (CCC+ to D)	8,600	10,700
Total		**$ 27,604**	**$ 28,680**

continued

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 $12 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 2014 to $70 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 $41 million ($35 million – 2013) 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.

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 2014 and 2013, ADF has transferred all allocated contributions to TASF.

NOTE F—CONTRIBUTED RESOURCES AND ADVANCED CONTRIBUTIONS

In May 2014, the Board of Governors approved the transfer of $120 million to the ADF as part of OCR's 2013 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 2014 is reported as a reduction in the Fund Balances, which ADB currently expects will 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 2014, contributions from 30 donors totaling $3,306 million were committed for ADF XI. Of these, $1,631 million including amortized discount of $1 million were received and recorded in Contributed Resources.

Advance contributions received from donors outstanding as of 31 December 2014 total $185 million ($272 million – 2013). Of this, contributions totaling $117 million ($220 million – 2013) were received in demand obligations, and are included in OTHER ASSETS. The remaining $68 million ($52 million – 2013) was received in cash.

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.

ADF-8

continued

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 2014, the value of the SDR in terms of the current US dollar was $1.44838 ($1.54000 – 2013). On this basis, Set-Aside Resources amounted to $69 million ($73 million – 2013). If the capital stock of ADB as of 31 December 2014 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 2014 and 2013 were as follows:

($ million)

	Accumulated Translation Adjustments		Unrealized Holding Gains (Losses) Investments		Accumulated Other Comprehensive Loss	
	2014	2013	2014	2013	2014	2013
Balance, 1 January	$ (529)	$ (2,619)	$ 29	$ 74	$ (500)	$ (2,545)
Other comprehensive income (loss) before reclassification	294	2,090	(2)	(45)	292	2,045
Amounts reclassified from accumulated other comprehensive loss	–	–	(5)	(0)	(5)	(0)
Net current-period other comprehensive income (loss)	294	2,090	(7)	(45)	287	2,045
Balance, 31 December	**$ (235)**	**$ (529)**	**$ 22**	**$ 29**	**$ (213)**	**$ (500)**

0 = less than $0.5 million.

The reclassifications of Accumulated Other Comprehensive Loss to Revenue and Expenses for the year ended 31 December 2014 and 2013 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
	2014	2013	
Unrealized Holding Gains (Losses) on Investments	$ 5	$ 0	NET REALIZED GAINS FROM INVESTMENTS

0 = less than $0.5 million.

continued

NOTE J—GRANTS AND UNDISBURSED COMMITMENTS

ADF IX introduced financing in the form of grants for the first time. During 2014, 17 grants (20 – 2013) totaling $405 million ($843 million – 2013) were approved, while $848 million ($448 million – 2013), net of $7 million ($100 million – 2013) 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 2014 and 2013, 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 2014 through 12 March 2015, the date these Special Purpose Financial Statements are available for issuance. In February 2015, ADB's Board of Directors approved the acceptance of Norway's Instrument of Contribution as an additional contribution to ADF XI in the amount of NKr30 million ($5 million equivalent), of which an installment of NKr7 million ($1 million equivalent) was received. In March 2015, ADB's Board of Directors approved the acceptance of the United States' Instrument of Contribution for ADF XI in the amount of $360 million, of which an installment of $105 million was received.

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 2014. 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 2014, 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

Chai S. Kim
Controller

12 March 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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

Deloitte.

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, 2014, 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, 2014 and 2013 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 12, 2015 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, 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.

Deloitte.

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, 2014 and 2013, 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, 2014, 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 12, 2015 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 supplemental schedules listed in the table of contents 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 information 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.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

TASF-1

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
ASSETS		
DUE FROM BANKS	$ 1,228	$ 2,582
INVESTMENTS (Notes C and G)		
Time deposits	390,457	413,873
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Note C)	84	95
ACCRUED REVENUE	85	50
DUE FROM CONTRIBUTORS (Note F)	164,839	256,166
ADVANCES FOR GRANTS AND OTHER ASSETS (Note D)	5,024	4,106
TOTAL	**$ 561,717**	**$ 676,872**
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ 471	$ 530
UNDISBURSED COMMITMENTS (Notes E and G)	340,378	346,748
TOTAL LIABILITIES	340,849	347,278
UNCOMMITTED BALANCES (TASF-2 and TASF-4) (Note F), represented by:		
Unrestricted net assets	220,868	329,594
TOTAL	**$ 561,717**	**$ 676,872**

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 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (TASF-4) (Note F)	$ 32,013	$ 378,103
REVENUE		
From investments (Note C)	2,595	2,501
From other sources	9	255
Total	34,617	380,859
EXPENSES		
Technical assistance—net (TASF-5) (Note E)	113,316	133,343
Financial expenses	10	11
Other expenses	297	–
Total	113,623	133,354
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(79,006)	247,505
EXCHANGE LOSSES—net	(29,720)	(59,077)
(DECREASE) INCREASE IN NET ASSETS	(108,726)	188,428
NET ASSETS AT BEGINNING OF YEAR	329,594	141,166
NET ASSETS AT END OF YEAR	**$ 220,868**	**$ 329,594**

The accompanying notes are an integral part of these financial statements (TASF-6).

TASF-3

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 105,743	$ 116,169
Interest on investments received	2,559	2,486
Net cash received from other activities	9	255
Technical assistance disbursed	(120,783)	(111,134)
Financial expenses paid	(10)	(11)
Other expenses paid	(297)	–
Net Cash (Used In) Provided by Operating Activities	(12,779)	7,765
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	16,542,793	18,076,728
Purchases of investments	(16,529,407)	(18,123,456)
Receipts from securities purchased under resale arrangements	734,977	4,522,508
Payments for securities purchased under resale arrangements	(736,759)	(4,486,407)
Net Cash Provided by (Used in) Investing Activities	11,604	(10,627)
Effect of Exchange Rate Changes on Due from Banks	(179)	72
Net Decrease in Due from Banks	(1,354)	(2,790)
Due from Banks at Beginning of Year	2,582	5,372
Due from Banks at End of Year	$ 1,228	$ 2,582
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (TASF-2)	$ (108,726)	$ 188,428
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Change in accrued revenue	(36)	(16)
Change in due from contributors	86,946	(250,490)
Change in advances for grants and other assets	(4,140)	2,535
Change in accounts payable and other liabilities	(53)	335
Change in undisbursed commitments	(6,370)	19,641
Exchange losses—net	19,600	47,332
Net Cash (Used in) Provided by Operating Activities	$ (12,779)	$ 7,765

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 2014
Expressed in Thousands of US Dollars

Contributor	Contributions Committed During 2014[1]	Direct Voluntary Contributions	Regularized Replenishment[2]	Total Contributions
Australia	$ 801	$ 2,484	$ 103,809	$ 106,294
Austria	(8)	159	10,582	10,741
Bangladesh	–	47	–	47
Belgium	(7)	1,394	8,535	9,929
Brunei Darussalam	(1)	–	917	917
Canada	(36)	3,346	58,087	61,433
China, People's Republic of	(9)	1,600	8,358	9,958
Denmark	1,905	1,963	7,656	9,618
Finland	(5)	237	6,979	7,216
France	(24)	1,697	43,704	45,402
Germany	(38)	3,315	59,811	63,126
Hong Kong, China	(6)	100	6,120	6,220
India	161	4,494	–	4,494
Indonesia	–	250	40	290
Ireland	(5)	–	5,771	5,771
Italy	(196)	774	36,458	37,232
Japan	(394)	47,710	447,634	495,345
Kazakhstan	(1)	–	410	410
Korea, Republic of	(32)	1,900	33,347	35,247
Luxembourg	(2)	–	1,502	1,502
Malaysia	(2)	909	1,572	2,481
Nauru	–	–	67	67
The Netherlands	(16)	1,337	26,869	28,206
New Zealand	(6)	1,096	7,400	8,496
Norway	(9)	3,279	11,430	14,709
Pakistan	–	2,016	–	2,016
Portugal	39	–	3,635	3,635
Singapore	(2)	1,100	1,398	2,498
Spain	–	190	16,564	16,754
Sri Lanka	–	6	–	6
Sweden	(15)	861	18,209	19,071
Switzerland	(10)	1,035	13,498	14,533
Taipei,China	(7)	200	5,215	5,415
Thailand	(1)	–	875	875
Turkey	(1)	–	3,694	3,694
United Kingdom	(61)	5,617	64,238	69,855
United States	–	1,500	102,120	103,620
Total	2,013	90,618	1,116,504	1,207,122
Transfer to Asian Development Fund				(3,472)
Allocation from OCR Net Income	30,000			909,000
Other Resources[3]				194,943
TOTAL	**$ 32,013**			**$ 2,307,594**

Note: Numbers may not sum precisely because of rounding.

1 Includes adjustments due to change in donor contribution encashment schedule.

2 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.

3 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 2014
Expressed in Thousands of US Dollars

Recipient	Project Preparation	Advisory	Research and Development	Policy and Advisory	Capacity Development	Total
Afghanistan	$ –	$ (92)	$ –	$ 1,000	$ (250)	$ 658
Armenia	–	–	–	–	1,650	1,650
Azerbaijan	800	–	–	1,100	–	1,900
Bangladesh	2,153	(820)	–	(37)	272	1,569
Bhutan	2,025	–	–	–	377	2,402
Cambodia	1,627	–	–	(69)	189	1,747
China, People's Republic of	4,107	–	–	8,387	2,054	14,548
Cook Islands	–	–	–	–	–	–
Fiji	–	–	–	800	184	984
Georgia	–	–	–	1,183	–	1,183
India	2,397	–	–	439	1,295	4,132
Indonesia	–	(46)	–	–	1,826	1,780
Kazakhstan	225	–	–	300	174	699
Kiribati	(7)	–	–	–	222	215
Kyrgyz Republic	523	–	–	(55)	431	899
Lao People's Democratic Republic	800	100	–	1,000	435	2,335
Malaysia	–	–	–	225	(142)	83
Maldives	–	–	–	–	40	40
Marshall Islands	–	–	–	(66)	–	(66)
Micronesia, Federated States of	–	–	–	(16)	536	520
Mongolia	(706)	–	–	479	840	613
Myanmar	1,900	–	–	183	2,940	5,022
Nauru	500	–	–	225	225	950
Nepal	(137)	–	–	(96)	2,221	1,988
Pakistan	848	(282)	1,000	450	1,725	3,741
Palau	–	–	–	–	–	–
Papua New Guinea	70	–	–	–	–	70
Philippines	2,141	–	–	–	33	2,174
Samoa	(13)	–	–	–	(18)	(31)
Solomon Islands	545	–	–	–	634	1,179
Sri Lanka	779	–	–	–	1,850	2,629
Tajikistan	1,645	–	–	–	–	1,645
Thailand	–	–	–	646	1,000	1,646
Timor-Leste	800	–	–	–	750	1,550
Tonga	–	–	–	–	675	675
Turkmenistan	–	–	–	500	–	500
Tuvalu	–	–	–	–	600	600
Uzbekistan	(514)	–	1,000	–	(340)	146
Vanuatu	–	–	–	–	400	400
Viet Nam	653	–	–	600	1,164	2,417
Regional	2,857	–	8,903	8,110	27,852	47,723
Total	$ 26,020	$ (1,139)	$ 10,903	$ 25,288	$ 51,844	112,915
Regional Activities						401
TOTAL						**$ 113,316**

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).

TASF-6

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2014 and 2013

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 achieving 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 SDR8,084 million, of which SDR3,086 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 2014, ADB had received instruments of contribution from 30 donors with the total amount equivalent to SDR2,814 million including qualified contributions amounting to SDR138 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.

TASF-6

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 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. ADB is currently assessing the impact of this ASU on TASF's financial statements.

In April 2013, the FASB issued ASU 2013-07, *"Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,"* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on TASF's financial statements.

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification"* 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. This ASU is not expected to impact TASF's financial statements.

continued

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. ADB is currently assessing the impact of this ASU on TASF'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 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 2014 and 2013 were in time deposits.

The currency composition of the investment portfolio as of 31 December 2014 and 2013 expressed in US dollars was as follows:

($ thousand)

Currency	2014	2013
US dollar	$ 262,033	$ 296,044
Australian dollar	66,054	60,478
Pound sterling	34,855	30,717
Canadian dollar	27,515	26,634
Total	**$ 390,457**	**$ 413,873**

The annualized 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 0.65% (0.61% – 2013).

TASF-6

continued

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2014 and 2013 was as follows:

($ thousand)

	31 December 2014	Fair Value Measurements Level 1	Level 2	Level 3
Investments				
Time deposits	$ 390,457	$ –	$ 390,457	$ –
Securities purchased under resale arrangements	84	–	84	–
Total at fair value	**$ 390,541**	**$ –**	**$ 390,541**	**$ –**

($ thousand)

	31 December 2013	Fair Value Measurements Level 1	Level 2	Level 3
Investments				
Time deposits	$ 413,873	$ –	$ 413,873	$ –
Securities purchased under resale arrangements	95	–	95	–
Total at fair value	**$ 413,968**	**$ –**	**$ 413,968**	**$ –**

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.

continued

The interfund account balances included in ADVANCES FOR GRANTS AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

($ thousand)

	2014	2013
Receivable from:		
Japan Special Fund	$ 10	$ –
Regional Cooperation and Integration Fund	33	9
Climate Change Fund	–	9
Financial Sector Development Partnership Special Fund	28	–
Agency Trust Funds—net	903	–
Total	$ 974	$ 18
Payable to:		
Ordinary capital resources	$ 92	$ 91
Climate Change Fund	37	–
Agency Trust Funds—net	–	392
Total	$ 129	$ 483

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 2014, $25,243,000 ($15,490,000 – 2013) representing completed and canceled TA projects was written back as a reduction in technical assistance of 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.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

Since inception in 1967, direct contributions have been made by 29 member countries. In 2014, TASF received direct and voluntary contributions from India amounting to Rs10,000,000 ($161,000 equivalent).

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 $343,000,000, respectively, to be used for technical assistance to ADF borrowing DMCs and for regional technical assistance. During the year, the fund received $88,269,000 ($2,077,000 – ADF X; $86,192,000 – ADF XI) in cash and promissory notes, leaving a total of $164,839,000 ($7,353,000 – ADF IX; $23,886,000 – ADF X; $133,600,000 – ADF XI) as DUE FROM CONTRIBUTORS.

In 2014, $30,000,000 was allocated from OCR net income to TASF bringing the accumulated allocation from OCR net income to $909,000,000.

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 2014 and 2013 were without any restrictions.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2014 and 2013. These balances include approved TA projects/programs that are not yet effective.

continued

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2014 and 2013, 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 2014 through 12 March 2015, 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 2014.

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 2014. 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 2014, 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

12 March 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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

Deloitte.

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, 2014, 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, 2014 and 2013 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 12, 2015 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, 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.

Deloitte.

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, 2014 and 2013, 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, 2014, 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 12, 2015 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

JSF-1

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014			2013		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
ASSETS						
DUE FROM BANKS	$ 181	$ 287	$ 468	$ 181	$ 631	$ 812
INVESTMENTS (Notes C and G)						
Time deposits	36,765	72,549	109,314	36,687	75,846	112,533
ACCRUED REVENUE	4	5	9	2	3	5
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	–	15	15	–	85	85
TOTAL	**$ 36,950**	**$ 72,856**	**$ 109,806**	**$ 36,870**	**$ 76,565**	**$ 113,435**
LIABILITIES AND NET ASSETS						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ 0	$ 43	$ 43	$ 0	$ 52	$ 52
UNDISBURSED COMMITMENTS (Notes E and G)	–	7,357	7,357	–	13,879	13,879
TOTAL LIABILITIES	–	7,400	7,400	–	13,931	13,931
NET ASSETS (JSF-2), represented by:						
Uncommitted balances (Note F)						
Unrestricted	–	65,456	65,456	–	62,634	62,634
Temporarily restricted	28,199	–	28,199	28,199	–	28,199
	28,199	65,456	93,655	28,199	62,634	90,833
Net accumulated investment income (Note F)						
Temporarily restricted	8,751	–	8,751	8,671	–	8,671
	36,950	65,456	102,406	36,870	62,634	99,504
TOTAL	**$ 36,950**	**$ 72,856**	**$ 109,806**	**$ 36,870**	**$ 76,565**	**$ 113,435**

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 2014 and 2013
Expressed in Thousands of US Dollars

	2014			2013		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS (Note C)	$ –	$ 124	$ 124	$ –	$ 147	$ 147
REVENUE FROM OTHER SOURCES	–	–	–	–	0	–
NET ASSETS REVERTED FROM TEMPORARILY RESTRICTED ASSETS	0	–	0	0	–	0
Total	0	124	124	0	147	147
EXPENSES						
Technical assistance—net (Note E)	–	(2,978)	(2,978)	–	(1,484)	(1,484)
Administrative and financial expenses	0	280	280	0	277	277
Total	0	(2,698)	(2,698)	0	(1,207)	(1,207)
REVENUE IN EXCESS OF EXPENSES	–	2,822	2,822	–	1,354	1,354
EXCHANGE (LOSSES) GAINS—net	–	(0)	(0)	–	11	11
INCREASE IN UNRESTRICTED NET ASSETS	–	2,822	2,822	–	1,365	1,365
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS AND OTHER SOURCES	80	–	80	67	–	67
NET ASSETS REVERTED TO TEMPORARILY RESTRICTED ASSETS	(0)	–	(0)	(0)	–	(0)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	80	–	80	67	–	67
INCREASE IN NET ASSETS	80	2,822	2,902	67	1,365	1,432
NET ASSETS AT BEGINNING OF YEAR	36,870	62,634	99,504	36,803	61,269	98,072
NET ASSETS AT END OF YEAR	**$ 36,950**	**$ 65,456**	**$ 102,406**	**$ 36,870**	**$ 62,634**	**$ 99,504**

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 2014 and 2013
Expressed in Thousands of US Dollars

	2014			2013		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Interest on investments received	$ 78	$ 122	$ 200	$ 67	$ 142	$ 209
Net cash received from other sources	–	0	0	0	0	0
Technical assistance disbursed	–	(3,481)	(3,481)	–	(5,699)	(5,699)
Administrative and financial expenses paid	0	(282)	(282)	(0)	(275)	(275)
Net Cash Provided by (Used in) Operating Activities	78	(3,641)	(3,563)	67	(5,832)	(5,765)
CASH FLOWS FROM INVESTING ACTIVITIES						
Maturities of investments	1,652,454	3,637,311	5,289,765	1,848,372	3,606,522	5,454,894
Purchases of investments	(1,652,532)	(3,634,014)	(5,286,546)	(1,848,443)	(3,600,443)	(5,448,886)
Net Cash (Used in) Provided by Investing Activities	(78)	3,297	3,219	(71)	6,079	6,008
Net (Decrease) Increase in Due from Banks	0	(344)	(344)	(4)	247	243
Due from Banks at Beginning of Year	181	631	812	185	384	569
Due from Banks at End of Year	$ 181	$ 287	$ 468	$ 181	$ 631	$ 812
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Increase in net assets (JSF-2)	$ 80	$ 2,822	$ 2,902	$ 67	$ 1,365	$ 1,432
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:						
Unrealized investment losses (gains)	–	–	–	0	(6)	(6)
Change in accrued revenue	(2)	(2)	(4)	0	2	2
Change in advances for technical assistance and other assets	–	70	70	–	1,338	1,338
Change in accounts payable and other liabilities	–	(9)	(9)	(0)	4	4
Change in undisbursed commitments	–	(6,522)	(6,522)	–	(8,529)	(8,529)
Exchange gains—net	–	(0)	(0)	–	(6)	(6)
Net Cash Provided by (Used in) Operating Activities	$ 78	$ (3,641)	$ (3,563)	$ 67	$ (5,832)	$ (5,765)

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 2014 and 2013

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 achieving 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).

JSF-4

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 April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. This ASU is not expected to have an impact on JSF's financial statements.

In April 2013, the FASB issued ASU 2013-07, *"Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,"* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on JSF's financial statements.

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification"* 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. This ASU is not expected to impact 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.

continued

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.

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 2014 and 2013 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 0.17%, respectively (0.18% and 0.19%, respectively – 2013).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2014 and 2013 was as follows:

($ thousand)

		Fair Value Measurements		
	31 December 2014	Level 1	Level 2	Level 3
Investments				
Time deposits	$ 109,314		$ 109,314	

($ thousand)

		Fair Value Measurements		
	31 December 2013	Level 1	Level 2	Level 3
Investments				
Time deposits	$ 112,533	$ –	$ 112,533	$ –

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 and trust funds.

continued

The interfund balances between other funds, which are included in ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES were as follows:

($ thousand)

		2014	2013
Amounts Receivable by:			
JSF from:	Regional Cooperation Integration Fund	$ –	$ 2
Amounts Payable by:			
JSF to:	Ordinary Capital Resources	$ 17	$ 17
	Technical Assistance Special Fund	10	–
	Agency Trust Funds—net	–	9
	Total	$ 27	$ 26

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA projects/programs not yet disbursed and unliquidated. During 2014, $2,978,000 ($1,484,000 – 2013) representing completed but partially cancelled TA projects were written back as a reduction in technical assistance of the period, and the corresponding undisbursed commitments were eliminated. None of this amount corresponds to ACCSF (nil – 2013). 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, in order 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 2014 and 2013. These balances include approved TA projects/programs that are not yet effective. As of 31 December 2014 and 2013 these balances were as follows:

($ thousand)

	2014			2013		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Uncommitted balances	$ 28,199	$ 65,456	$ 93,655	$ 28,199	$ 62,634	$ 90,833
TA projects/programs approved by Japan and not yet effective	–	–	–	–	(470)	(470)
Uncommitted balances available for new commitments	$ 28,199	$ 65,456	$ 93,655	$ 28,199	$ 62,164	$ 90,363

continued

The temporarily restricted uncommitted balance remaining available as of 31 December 2014 corresponds to funds under ACCSF of $28,199,000 ($28,199,000 – 2013) and the amount of net accumulated investment income of $8,751,000 ($8,671,000 – 2013) 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 2014 and 2013, 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 2014 through 12 March 2015, 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 2014.

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, 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.

Deloitte.

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, 2014 and 2013, 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.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

ADBI-1

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
STATEMENT OF FINANCIAL POSITION
31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014		2013	
ASSETS				
DUE FROM BANKS		$ 1,231		$ 3,077
INVESTMENTS (Notes C and L)		1,000		–
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Notes C and L)		6,194		5,421
PROPERTY, FURNITURE, AND EQUIPMENT (Note D)				
Property, Furniture, and Equipment	$ 2,915		$ 3,312	
Less—allowance for depreciation	2,846	69	3,179	133
DUE FROM CONTRIBUTORS (Note G)		5,625		6,392
LONG-TERM GUARANTEE DEPOSITS (Note E)		1,340		1,522
OTHER ASSETS (Note J)		365		316
TOTAL		**$ 15,824**		**$ 16,861**
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Accrued pension and postretirement medical benefit costs (Note K)	$ 6,653		$ 5,787	
Asset reinstatement obligations (Note F)	905		1,029	
Others (Note J)	673	$ 8,231	853	$ 7,669
UNCOMMITTED BALANCES (ADBI-2)				
Unrestricted net assets		7,593		9,192
TOTAL		**$ 15,824**		**$ 16,861**

The accompanying notes are an integral part of these financial statements (ADBI-4).

ADBI-2

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note G)	$ 12,254	$ 13,110
REVENUE		
From rental (Note H)	366	398
From investments (Note C)	2	4
From other sources—net	23	57
Total	12,645	13,569
EXPENSES		
Administrative expenses (Note I)	9,333	10,883
Program expenses	3,309	4,057
Total	12,642	14,940
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	3	(1,371)
EXCHANGE LOSSES—net	(808)	(905)
TRANSLATION ADJUSTMENTS	(448)	(1,226)
PENSION/POST RETIREMENT LIABILITY ADJUSTMENTS	(346)	2,357
DECREASE IN NET ASSETS	(1,599)	(1,145)
NET ASSETS AT BEGINNING OF YEAR	9,192	10,337
NET ASSETS AT END OF YEAR	**$ 7,593**	**$ 9,192**

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 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 13,045	$ 14,289
Interest on investments received	2	4
Expenses paid	(12,238)	(14,146)
Others—net	(419)	(451)
Net Cash Provided by (Used in) Operating Activities	390	(304)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from securities purchased under resale arrangements	2,170,718	2,195,411
Payments for securities purchased under resale arrangements	(2,172,477)	(2,196,041)
Purchases of investments	(1,000)	–
Acquisition of equipment	–	(135)
Net Cash Used in Investing Activities	(2,759)	(765)
Effect of Exchange Rate Changes on Due from Banks	523	756
Net Decrease in Due from Banks	(1,846)	(313)
Due from Banks at Beginning of Year	3,077	3,390
Due from Banks at End of Year	$ 1,231	$ 3,077
RECONCILIATION OF DECREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Decrease in unrestricted net assets (ADBI-2)	$ (1,599)	$ (1,145)
Adjustments to reconcile decrease in unrestricted net assets to net cash provided by (used in) operating activities:		
Depreciation	54	70
Change in due from contributors	792	1,179
Change in long-term guarantee deposits	182	340
Change in other assets	(49)	395
Change in accrued pension and postretirement medical benefit costs	866	(1,618)
Change in asset reinstatement obligations	(124)	(230)
Change in other liabilities	(180)	(521)
Translation adjustments	448	1,226
Net Cash Provided by (Used in) Operating Activities	$ 390	$ (304)

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 2014 and 2013

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 achieving 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 member countries, 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 the identification of 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 respective dates of commitment. Revenue and expense amounts are translated for each semi-monthly period generally at the applicable rates of exchange at the beginning of each period; 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 net 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 net 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 re-pledged.

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.

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.

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 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 Financial Accounting Standards (FASB) issued Accounting Standards 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. The Institute is currently assessing the impact of this ASU on the Institute's financial statements.

In April 2013, the FASB issued ASU 2013-07, *"Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,"* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on the Institute's financial statements.

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification"* 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. This ASU is not expected to impact Institute's financial statements.

continued

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. The Institute is currently assessing the impact of this ASU on the Institute’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 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.

NOTE C—INVESTMENTS

All investments held as of 31 December 2014 are in time deposits.

The annualized 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 0.03% (0.04% – 2013).

Fair Value Disclosure

The fair value of INVESTMENTS and related financial assets as of 31 December 2014 and 2013 was as follows:

($ thousand)

		Fair Value Measurements		
	31 December 2014	**Level 1**	**Level 2**	**Level 3**
Investments				
Time deposits	$ 1,000	$ –	$ 1,000	$ –
Securities purchased under resale arrangements	6,194	–	6,194	–
Total at fair value	$ 7,194	$ –	$ 7,194	$ –

ADBI-4

continued

($ thousand)

	31 December 2013	Fair Value Measurements Level 1	Level 2	Level 3
Securities purchased under resale arrangements	$ 5,421	$ –	$ 5,421	$ –

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), subsequently purchased furniture and equipment.

The changes in the property, furniture, and equipment during 2014 and 2013, 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 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**

continued

($ thousand)

	Property, Furniture and Equipment				
	One-time establishment cost	Furniture	Equipment	Leased Property	**Grand Total**
Cost:					
Balance, 1 January 2013	$ 3,314	$ 70	$ 247	$ 255	$ 3,886
Additions during the year	–	–	135	–	135
Disposals during the year	–	–	–	–	–
Translation adjustments	(605)	(13)	(45)	(46)	(709)
Balance, 31 December 2013	2,709	57	337	209	3,312
Accumulated Depreciation:					
Balance, 1 January 2013	3,314	70	170	255	3,809
Depreciation during the year	–	–	70	–	70
Disposals during the year	–	–	–	–	–
Translation adjustments	(605)	(13)	(36)	(46)	(700)
Balance, 31 December 2013	2,709	57	204	209	3,179
Net Book Value, 31 December 2013	**$ –**	**$ –**	**$ 133**	**$ –**	**$ 133**

Total depreciation expense incurred for the year ended 31 December 2014 amounted to $54,000 ($70,000 – 2013).

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

In December 2014, the Government of Japan committed its 24th contribution to the Institute amounting to ¥672,069,000 ($5,625,000 equivalent). As of 31 December 2014, the amount committed was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS.

In June 2014, the Government of Japan committed its 23rd contribution to the Institute amounting to ¥672,070,000 ($6,629,000 equivalent).

In December 2013, the Government of Japan committed its 22nd contribution to the Institute amounting to ¥672,070,000 ($6,392,000 equivalent).

In June 2013, the Government of Japan committed its 21st contribution to the Institute amounting to ¥672,070,000 ($6,779,000 equivalent).

ADBI-4

continued

NOTE H—REVENUE FROM RENTAL

REVENUE From rental in 2014 consists of sublease rental income of $366,000 ($398,000 – 2013), 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 2014 and 2013 were $3,087,000 and $3,356,000, respectively. As of 31 December 2014, the Institute has the following operating lease commitments:

($ thousand)

Year ending 31 December	Minimum future rentals
2015	$ 2,760
2016	2,760
2017	690

NOTE J—RELATED PARTY TRANSACTIONS

As of 31 December 2014, $31,000 was net receivable from OCR ($101,000 net payable – 2013) which is included in OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES. The receivable results from transactions in the normal course of business.

NOTE K—STAFF RETIREMENT PLAN 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 Staff Retirement Plan (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 to the SRP. 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 $248,000 to the SRP for 2015 based on the budgeted contribution of 21% of salary of Institute participants. The Institute's staff members are expected to contribute $121,000 representing participants' mandatory contribution of $35,000, assuming full year service and discretionary contributions of $86,000.

continued

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 seven external asset managers and one global custodian who are required to operate within the guidelines established by SRP 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 the SRP's 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. The current policy, adopted in January 2011, specifies an asset-mix structure of 70% of assets in equities and 30% in fixed income securities. At present, investments of the SRP's assets are divided into three categories: US equity, Non-US equity, and Global fixed income. The SRP's long-term target asset-mix is 40% US equity, 30% non-US equity and 30% global fixed income.

For the year ended 31 December 2014, the net return on the SRP assets was 6.3% (16.7% – 2013). ADB expects the long-term rate of return on the assets to be 7.5% (7.5% – 2013).

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 7.5% on the SRP's assets is expected to remain on average broadly the same, year to year.

Actuarial assumptions based on the 2005-2009 experience for the SRP as a whole were used as the basis for the actuarial valuation as of 31 December 2014 and 2013. These include rates of withdrawal, incapacity retirement rates, mortality rates, proportion of international staff who commute, currency reserve, and pattern of the discretionary benefits withdrawal.

Post-Retirement Group Medical Insurance Plan

The Institute participates in the cost-sharing arrangement of ADB's Post-Retirement Group Medical Insurance Plan (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.

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 RMPF assets are segregated in a separate fund and the employer share of the insurance premium for the PRGMIP will be paid from the RMPF. The costs of administering the RMPF are absorbed by ADB, except for fees expected to be paid to the investment managers.

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

continued

Expected Contribution

Subsequent to the establishment of the RMPF, ADB transferred $315 million into the RMPF. The Institute's expected contribution to the RMPF will be determined based on the recommendation of the SRP Pension Committee.

Investment Strategy

The SRP Investment Committee will set the investment policy and guidelines for the RMPF in 2015. Until such time, the SRP Investment Committee used the SRP investment guidelines. The initial contribution to the RMPF is placed in short term deposits pending the selection of external asset managers by the SRP Investment Committee.

Assumptions

The overall long-term rate of return is expected to be similar to the SRP once the investment policy and guidelines as well as the selection of asset managers are completed since the investment policy and guidelines are expected to be similar to the SRP's.

Actuarial assumptions based on the 2005-2009 experience for the PRGMIP as a whole were used as the basis for the actuarial valuation as of 31 December 2014 and 2013.

The following table sets forth the Institute's participants' pension and postretirement medical benefits at 31 December 2014 and 2013:

($ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2014	2013	2014	2013
Change in benefit obligation:				
Projected benefit obligation at beginning of year	$ 10,324	$ 10,924	$ 402	$ 438
Service cost	433	440	131	146
Interest cost	532	483	27	25
Plan participants' contributions	118	153	–	–
Actuarial (gain) loss	453	(1,464)	(82)	(182)
Benefits paid	(433)	(212)	(21)	(25)
Projected benefit obligation at end of year	$ 11,427	$ 10,324	$ 457	$ 402
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 4,939	$ 3,958	$ –	$ –
Actual return on plan assets	303	680	–	–
Employer's contribution	304	360	21	25
Plan participants' contributions	118	153	–	–
Benefits paid	(433)	(212)	(21)	(25)
Fair value of plan assets at end of year	$ 5,231	$ 4,939	$ –	$ –
Funded Status	$ (6,196)	$ (5,385)	$ (457)	$ (402)

continued

table continued

($ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2014	**2013**	**2014**	**2013**
Amounts recognized in the Balance sheet consist of:				
Current liabilities	$ –	$ –	$ –	$ –
Noncurrent liabilities	(6,196)	(5,385)	(457)	(402)
Net amount recognized	$ (6,196)	$ (5,385)	$ (457)	$ (402)
Amounts recognized in the Unrestricted net assets consist of:				
Net actuarial loss (gain)	$ 2,270	$ 1,875	$ (435)	$ (386)
Net amount recognized	$ 2,270	$ 1,875	$ (435)	$ (386)
Weighted-average assumptions as of 31 December				
Discount rate	4.15%	5.00%	4.15%	5.00%
Expected return on plan assets	7.50%	7.50%	7.50%	N/A
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 health care benefits was assumed for the valuation as of 31 December 2014 and 2013. The rate was assumed to decrease gradually to 5.0% through 2022 (5.0% through 2021 – 2013) and remain at that level thereafter.

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the years ended 31 December 2014 and 2013:

($ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2014	**2013**	**2014**	**2013**
Components of net periodic benefit cost:				
Service cost	$ 433	$ 440	$ 131	$ 146
Interest cost	532	483	27	25
Expected return on plan assets	(356)	(292)	–	–
Recognized actuarial loss (gain)	111	342	(33)	(19)
Net periodic benefit cost	$ 720	$ 973	$ 125	$ 152

The Institute's accumulated benefit obligation of the pension plan as of 31 December 2014 was $11,097,000 ($10,091,000 – 2013).

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 $115,000. 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 $38,000.

continued

A one-percentage-point change in assumed health care cost trend rates would have the following effects:

($ thousand)	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	40	(31)
Effect on postretirement benefit obligation	115	(87)

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 2014:

($ thousand)	Pension Benefits	Postretirement Medical Benefits
2015	$ 327	$ 0
2016	363	1
2017	411	2
2018	541	8
2019	644	15
2020–2024	3,205	94

0 = less than $500.

Fair Value Disclosure

The fair value of the SRP asset's financial instruments measured at fair value on a recurring basis as of 31 December 2014 and 2013 were reported based on the following:

($ thousand)		Fair Value Measurements		
	31 December 2014	Level 1	Level 2	Level 3
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 plan assets	$ 5,231	$ 5,076	$ 141	$ 14

0 = Less than $500.

[a] Incudes receivables and liabilities carried at amounts that approximate fair value.

continued

($ thousand)

	31 December 2013	Fair Value Measurements Level 1	Level 2	Level 3
Cash and cash equivalents	$ 75	$ –	$ 75	$ –
Common/preferred stocks	1,171	1,171	–	0
Investment funds	2,409	2,409	–	–
Government or government-guaranteed securities	618	613	1	4
Corporate debt securities	503	493	7	3
Mortgage/asset-backed securities:				
Mortgage-backed securities	84	29	55	0
Collateralized mortgage obligations	25	–	13	12
Asset-backed securities	4	–	3	1
Short-term investments	79	22	57	–
Derivatives	1	1	0	–
Other asset/liabilities[a]—net	(30)	–	(30)	–
Total fair value of plan assets	$ 4,939	$ 4,738	$ 181	$ 20

0 = Less than $500.

[a] Incudes receivables and liabilities carried at amounts that approximate fair value.

The SRP's Investment Committee and ADB's 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. The ADB's Controller's Department in coordination with data management unit of ADB's 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 between Levels 1 and 2 for the years ended 31 December 2014 and 2013:

($ thousand)

	2014 Level 1	2014 Level 2	2013 Level 1	2013 Level 2
Investments				
Government or government-guaranteed securities				
Transfers into (out of)	$ 0	$ (0)	$ 11	$ (11)
Corporate debt securities				
Transfers into (out of)	5	(5)	9	(9)
Mortgaged/asset-backed securities				
Transfers (out of) into	–	–	(2)	2
	$ 5	$ (5)	$ 18	$ (18)

0 = Less than $500.

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

ADBI-4

continued

The following tables present the changes in the carrying amounts of the Institute's SRP Level 3 financial assets and financial liabilities for the years ended 31 December 2014 and 2013:

($ thousand)

	Investments				
	Common/ preferred stocks	Government or gov't.- guaranteed securities	Corporate debt securities	Mortgage/ Asset- backed securities	Derivatives
Balance, 31 December 2013	$ 0	$ 4	$ 3	$ 13	$ –
Total realized/unrealized (losses)/gains in:					
Net increase (decrease) in net assets available for benefits	0	–	0	(1)	
Purchases	–	–	6	5	–
Sales/Maturities	(0)	–	(3)	(1)	–
Settlement and others	–	–	–	(4)	–
Transfers out of Level 3	–	(4)	(3)	(1)	–
Balance, 31 December 2014	$ 0	$ –	$ 3	$ 11	$ –
Total unrealized gains (losses) included in income related to financial assets and liabilities still held at the reporting date	$ 0	$ –	$ 0	$ (1)	$ –

0 = Less than $500.

($ thousand)

	Investments				
	Common/ preferred stocks	Government or gov't.- guaranteed securities	Corporate debt securities	Mortgage/ Asset- backed securities	Derivatives
Balance, 31 December 2012	$ 0	$ –	$ 24	$ 7	$ 0
Total realized/unrealized (losses)/gains in:					
Net decrease in net assets available for benefits	(0)	(0)	(0)	(0)	(0)
Purchases	–	4	2	11	–
Sales/Maturities	(0)	–	(23)	(2)	–
Settlement and others	–	–	(0)	(3)	–
Transfers into Level 3	–	–	–	0	–
Balance, 31 December 2013	$ 0	$ 4	$ 3	$ 13	$ –
Total unrealized gains (losses) included in income related to financial assets and liabilities still held at the reporting date	$ 0	$ (0)	$ (0)	$ (0)	$ –

0 = Less than $500.

Transfers into and out of Level 3 in 2014 and 2013 are due to the availability or absence of market observable inputs.

NOTE L—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2014 and 2013, 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 2014 through 12 March 2015, the date these Financial Statements are available for issuance. On 7 January 2015, the Institute received the 24th contribution from the Government of Japan.

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 2014. 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 2014, 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

12 March 2015

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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

Deloitte.

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, 2014, 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, 2014 and 2013 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 12, 2015 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, 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.

Deloitte.

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, 2014 and 2013, 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, 2014, 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 12, 2015 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

RCIF-1

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND
STATEMENT OF FINANCIAL POSITION
31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
ASSETS		
DUE FROM BANKS	$ 333	$ 266
INVESTMENTS (Notes C and G)		
Time deposits	17,268	17,546
ACCRUED REVENUE	0	1
DUE FROM CONTRIBUTORS (Note F)	1,218	–
ADVANCES FOR GRANTS AND OTHER ASSETS (Note D)	352	815
TOTAL	**$ 19,171**	**$ 18,628**
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ 75	$ 135
UNDISBURSED COMMITMENTS (Notes E and G)	11,048	13,373
TOTAL LIABILITIES	11,123	13,508
UNCOMMITTED BALANCES (RCIF-2) (Note F), represented by:		
Unrestricted net assets	8,048	5,120
TOTAL	**$ 19,171**	**$ 18,628**

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 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	$ 3,631	$ 6,000
REVENUE		
From investments (Note C)	22	26
From other sources	4	2
Total	3,657	6,028
EXPENSES		
Technical assistance—net (Note E)	538	2,201
Administrative and financial expenses (Note D)	158	355
Total	696	2,556
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES	2,961	3,472
EXCHANGE LOSSES—net	(33)	(3)
INCREASE IN NET ASSETS	2,928	3,469
NET ASSETS AT BEGINNING OF YEAR	5,120	1,651
NET ASSETS AT END OF YEAR	**$ 8,048**	**$ 5,120**

The accompanying notes are an integral part of these financial statements (RCIF-4).

RCIF-3

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 2,380	$ 6,000
Interest on investments received	23	27
Cash received from other sources	4	2
Technical assistance disbursed	(2,440)	(5,726)
Administrative and financial expenses paid	(177)	(361)
Net Cash Used in Operating Activities	(210)	(58)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	788,319	824,161
Purchases of investments	(788,042)	(824,088)
Net Cash Provided by Investing Activities	277	73
Net Increase in Due From Banks	67	15
Due from Banks at Beginning of Year	266	251
Due from Banks at End of Year	$ 333	$ 266
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase in net assets (RCIF-2)	$ 2,928	$ 3,469
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Change in due from contributors	(1,226)	-
Change in advances for grants and other assets	465	979
Change in accounts payable and other liabilities	(60)	75
Change in undisbursed commitments	(2,325)	(4,584)
Exchange losses—net	8	3
Net Cash Used in Operating Activities	$ (210)	$ (58)

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 2014 and 2013

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 achieving 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 member countries 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 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 April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. This ASU is not expected to have an impact on RCIF's financial statements.

In April 2013, the FASB issued ASU 2013-07, *"Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,"* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on RCIF's financial statements.

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification"* 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. This ASU is not expected to impact 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.

continued

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.

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 2014 and 2013 were in time deposits.

The annualized rate of return on the average investments held during the period ended 31 December 2014, based on the portfolio held at the beginning and end of each month, was 0.14% (0.16% – 2013).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2014 and 2013 was as follows:

($ thousand)

		Fair Value Measurements		
	31 December 2014	**Level 1**	**Level 2**	**Level 3**
Investments				
Time deposits	$ 17,268	$ –	$ 17,268	$ –

($ thousand)

		Fair Value Measurements		
	31 December 2013	**Level 1**	**Level 2**	**Level 3**
Investments				
Time deposits	$ 17,546	$ –	$ 17,546	$ –

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 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 ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

($ thousand)	2014		2013	
Payable to:				
Ordinary capital resources	$	26	$	29
Technical Assistance Special Fund		33		9
Japan Special Fund		–		2
Agency Trust Funds—net		9		24
Total	$	68	$	64

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA and grants not yet disbursed and unliquidated. During 2014, $1,662,000 ($819,000 – 2013) representing completed and canceled TA projects and grants were written back as a reduction in technical assistance of 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 amounting to ¥145,500,000 ($1,226,000 equivalent). As of 31 December 2014, the amount committed was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS.

In March 2014, the Government of Japan committed its 1st contribution amounting to ¥246,000,000 ($2,405,000 equivalent).

In May 2013, the Board of Governors approved the transfer of $6,000,000 to the RCIF as part of OCR's 2012 net income allocation.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2014 and 2013.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2014 and 2013, 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 2014 through 12 March 2015, the date these Financial Statements are available for issuance. On 9 January 2015, RCIF received its 2nd contribution from the Government of Japan.

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 2014. 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 2014, 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

12 March 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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

Deloitte.

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, 2014, 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, 2014 and 2013 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 12, 2015 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, 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.

Deloitte.

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, 2014 and 2013, 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, 2014, 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 12, 2015 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

CCF-1

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
STATEMENT OF FINANCIAL POSITION
31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014		2013	
ASSETS				
DUE FROM BANKS	$	514	$	1,676
INVESTMENTS (Notes C and G)				
Time deposits		26,290		36,943
ACCRUED REVENUE		0		2
ADVANCES FOR GRANTS AND OTHER ASSETS (Note D)		1,105		1,091
TOTAL	**$**	**27,909**	**$**	**39,712**
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$	97	$	49
UNDISBURSED COMMITMENTS (Notes E and G)		17,348		26,090
TOTAL LIABILITIES		17,445		26,139
UNCOMMITTED BALANCES (CCF-2) (Note F), represented by:				
Unrestricted net assets		10,464		13,573
TOTAL	**$**	**27,909**	**$**	**39,712**

0 = less than $500.
The accompanying notes are an integral part of these financial statements (CCF-4).

CCF-2

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	$ –	$ 9,000
REVENUE FROM INVESTMENTS (Note C)	45	58
Total	45	9,058
EXPENSES		
Technical assistance and grants—net (Note E)	2,767	2,945
Administrative and financial expenses (Note D)	379	429
Total	3,146	3,374
CONTRIBUTION AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(3,101)	5,684
EXCHANGE (LOSSES) GAINS—net	(8)	5
(DECREASE) INCREASE IN NET ASSETS	(3,109)	5,689
NET ASSETS AT BEGINNING OF YEAR	13,573	7,884
NET ASSETS AT END OF YEAR	**$ 10,464**	**$ 13,573**

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 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Contribution received	$ –	$ 9,000
Interest on investments received	47	59
Technical assistance and grants disbursed	(11,573)	(2,953)
Administrative and financial expenses paid	(289)	(447)
Net Cash (Used in) Provided by Operating Activities	(11,815)	5,659
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	1,643,580	1,747,101
Purchases of investments	(1,632,927)	(1,751,360)
Net Cash Provided by (Used in) by Investing Activities	10,653	(4,259)
Net (Decrease) Increase in Due From Banks	(1,162)	1,400
Due from Banks at Beginning of Year	1,676	276
Due from Banks at End of Year	$ 514	$ 1,676
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (CCF-2)	$ (3,109)	$ 5,689
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Change in accrued revenue	2	–
Change in advances for grants and other assets	(14)	405
Change in accounts payable and other liabilities	48	(20)
Change in undisbursed commitments	(8,742)	(416)
Exchange gains—net	0	1
Net Cash (Used in) Provided by Operating Activities	$ (11,815)	$ 5,659

0 = less than $500.

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 2014 and 2013

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 achieving 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 will be 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 partners and ADB may agree upon for a defined program of activities.

Financial assistance will be 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 April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. This ASU is not expected have an impact on CCF's financial statements.

In April 2013, the FASB issued ASU 2013-07, *"Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,"* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on CCF's financial statements.

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification"* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the Internal Financial Reporting Standards. An entity is required to apply the amendments prospectively for annual reporting periods beginning after 15 December 2016. This ASU is not expected to impact 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.

CCF-4

continued

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 2014 and 2013 were in time deposits.

The annualized rate of return on the average investments held during the period ended 31 December 2014, based on the portfolio held at the beginning and end of each month, was 0.14% (0.17% – 2013).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2014 and 2013 was as follows:

($ thousand)

		Fair Value Measurements		
	31 December 2014	**Level 1**	**Level 2**	**Level 3**
Investments				
Time deposits	$ 26,290	$ –	$ 26,290	$ –

($ thousand)

		Fair Value Measurements		
	31 December 2013	**Level 1**	**Level 2**	**Level 3**
Investments				
Time deposits	$ 36,943	$ –	$ 36,943	$ –

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 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.

continued

The interfund account balances included in ADVANCES FOR GRANTS AND OTHERS ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

($ thousand)

	2014	2013
Receivable from:		
Technical Assistance Special Fund	$ 37	$ –
Agency Trust Funds—net	6	–
Total	$ 43	$ –
Payable to:		
Ordinary capital resources	$ 83	$ 25
Technical Assistance Special Fund	–	9
Total	$ 83	$ 34

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA not yet disbursed and unliquidated. During 2014, $556,000 ($377,000 – 2013) representing completed and canceled TA projects were written back as a reduction in technical assistance of 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 2014.

In May 2013, the Board of Governors approved the transfer of $9,000,000 to the CCF as part of OCR's 2012 net income allocation.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2014 and 2013. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2014 and 2013, 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 2014 through 12 March 2015, 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 2014.

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 2014. 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 2014, 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

12 March 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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

Deloitte.

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, 2014, 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, 2014 and 2013 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 12, 2015 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, 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.

Deloitte.

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, 2014 and 2013, 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, 2014, 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 12, 2015 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

APDRF-1

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND
STATEMENT OF FINANCIAL POSITION
31 December 2014 and 2013
Expressed in Thousands of US Dollars

		2014		2013
ASSETS				
DUE FROM BANKS	$	4,344	$	4,671
ADVANCES FOR GRANTS		3,729		9,500
TOTAL	**$**	**8,073**	**$**	**14,171**
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$	14	$	14
UNDISBURSED COMMITMENTS (Notes E and G)		3,729		9,500
TOTAL LIABILITIES		3,743		9,514
UNCOMMITTED BALANCES (APDRF-2) (Note F), represented by:				
Unrestricted net assets		4,330		4,657
TOTAL	**$**	**8,073**	**$**	**14,171**

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 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
From investments (Note C)	$ –	$ 12
From other sources	6	3
Total	6	15
EXPENSES		
Grants—net (Note E)	200	5,457
Administrative and financial expenses (Note D)	133	155
Total	333	5,612
REVENUE LESS THAN EXPENSES	(327)	(5,597)
DECREASE IN NET ASSETS	(327)	(5,597)
NET ASSETS AT BEGINNING OF YEAR	4,657	10,254
NET ASSETS AT END OF YEAR	**$ 4,330**	**$ 4,657**

The accompanying notes are an integral part of these financial statements (APDRF-4).

APDRF-3

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest on investments received	$ –	$ 12
Cash received from other sources	6	3
Refund of advances under grants	–	1,350
Grants disbursed	(200)	(6,830)
Administrative and financial expenses paid	(133)	(215)
Net Cash Used in Operating Activities	(327)	(5,680)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	–	376,542
Purchases of investments	–	(369,371)
Net Cash Provided by Investing Activities	–	7,171
Net (Decrease) Increase in Due From Banks	(327)	1,491
Due from Banks at Beginning of Year	4,671	3,180
Due from Banks at End of Year	$ 4,344	$ 4,671
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Decrease in net assets (APDRF-2)	$ (327)	$ (5,597)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Change in advances for grants	5,771	1,601
Change in accounts payable and other liabilities	0	(60)
Change in undisbursed commitments	(5,771)	(1,624)
Net Cash Used in Operating Activities	$ (327)	$ (5,680)

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 2014 and 2013

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 achieving this purpose. These are financed through ordinary capital resources (OCR) and Special Funds.[1]

The APDRF was established on 1 April 2009, to provide, in a timely fashion, 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 in augmenting 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 April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. This ASU is not expected to have an impact on APDRF’s financial statements.

In April 2013, the FASB issued ASU 2013-07, *“Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,”* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on APDRF’s financial statements.

In May 2014, the FASB issued ASU 2014-09 *“Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification”* 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. This ASU is not expected to impact 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.

APDRF-4

continued

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.

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.

As of 31 December 2013, all time deposit placements have matured.

The annualized rate of return on the average investments held during the period ended 31 December 2013, based on the portfolio held at the beginning and end of each month, was 0.17%.

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 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 2014, $7,000 (nil – 2013) was payable to OCR which is included in ACCOUNTS PAYABLE AND OTHER LIABILITIES.

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA and grants not yet disbursed and unliquidated. During 2014, there were no undisbursed amounts written back from financially completed and/or cancelled grant ($1,500,000 – 2013). 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 2014 and 2013.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2014 and 2013. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2014 and 2013, 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 2014 through 12 March 2015, 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 2014.

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 2014. 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 2014, 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

Chai S. Kim
Controller

12 March 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014, 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

Deloitte.

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, 2014, 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, 2014 and 2013 and the related statements of activities and changes in net assets, and cash flows for the year ended December 31, 2014 and the period from January 31, 2013 (establishment of the Fund) to December 31, 2013 and the related notes to the financial statements. Our report dated March 12, 2015 expressed an unqualified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

Deloitte.

Deloitte & Touche LLP
Unique Entity No. T08LL0721A
6 Shenton Way, OUE Downtown 2
#33-00
Singapore 068809

Tel: +65 6224 8288
Fax: +65 6538 6166
www.deloitte.com/sg

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, 2014 and 2013, and the related statements of activities and changes in net assets, and cash flows for the year ended December 31, 2014 and the period from January 31, 2013 (establishment of the Fund) to December 31, 2013, 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.

Deloitte.

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, 2014 and 2013, and the results of its operations and its cash flows for the year ended December 31, 2014 and the period from January 31, 2013 (establishment of the Fund) to December 31, 2013 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, 2014, 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 12, 2015 expressed an unqualified opinion on management's assertion that ADB maintained effective internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 12, 2015

FSDPSF-1

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2014 and 2013
Expressed in Thousands of US Dollars

	2014	2013
ASSETS		
DUE FROM BANKS	$ 435	$ 302
INVESTMENTS (Notes C and G)		
Time deposits	6,608	4,800
DUE FROM CONTRIBUTORS (Note F)	1,823	2,070
ADVANCES FOR GRANTS	5	–
TOTAL	**$ 8,871**	**$ 7,172**
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ 52	$ 9
UNDISBURSED COMMITMENTS (Note E)	1,833	–
TOTAL LIABILITIES	1,885	9
UNCOMMITTED BALANCES (FSDPSF-2) (Note F), represented by: Unrestricted net assets	6,986	7,163
TOTAL	**$ 8,871**	**$ 7,172**

The accompanying notes are an integral part of these financial statements (FSDPSF-4).

FSDPSF-2

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended 31 December 2014 and the Period from 31 January to 31 December 2013
Expressed in Thousands of US Dollars

	2014	2013
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	$ 1,856	$ 7,137
REVENUE		
From investments	8	–
From other sources	2	2
Total	1,866	7,139
EXPENSES		
Technical assistance (Note E)	1,970	–
Administrative and financial expenses (Note D)	21	9
Total	1,991	9
CONTRIBUTION AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(125)	7,130
EXCHANGE (LOSSES) GAINS—net	(52)	33
(DECREASE) INCREASE IN NET ASSETS	(177)	7,163
NET ASSETS AT BEGINNING OF YEAR	7,163	–
NET ASSETS AT END OF YEAR	**$ 6,986**	**$ 7,163**

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 Year Ended 31 December 2014 and the Period from 31 January to 31 December 2013
Expressed in Thousands of US Dollars

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 2,052	$ 5,100
Interest on investments received	8	–
Cash received from other sources	3	2
Technical assistance and grants disbursed	(108)	–
Administrative and financial expenses paid	(14)	–
Net Cash Provided by Operating Activities	1,941	5,102
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	272,593	–
Purchases of investments	(274,401)	(4,800)
Net Cash Used in Investing Activities	(1,808)	(4,800)
Net Increase in Due From Banks	133	302
Due from Banks at Beginning of Year	302	–
Due from Banks at End of Year	$ 435	$ 302
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (FSDPSF-2)	$ (177)	$ 7,163
Adjustments to reconcile (decrease) increase in net assets to net cash provided by operating activities:		
Change in due from contributors	247	(2,070)
Change in advances for grants and other assets	(5)	–
Change in accounts payable and other liabilities	43	9
Change in undisbursed commitments	1,833	–
Net Cash Provided by Operating Activities	$ 1,941	$ 5,102

The accompanying notes are an integral part of these financial statements (FSDPSF-4).

FSDPSF-4

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2014 and 2013

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 achieving 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. The financial statements are for the first period of FSDPSF's activities and consequently do not include prior year comparative amounts.

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 investment.

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).

FSDPSF-4

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 April 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards 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. Those services should be measured at the cost recognized by the affiliate for the personnel providing those services. The amendments in this Update are effective prospectively for fiscal years beginning after 15 June 2014, and interim and annual periods thereafter. This ASU is not expected to have on impact FSDPSF's financial statements.

In April 2013, the FASB issued ASU 2013-07, *"Presentation of Financial Statements (Topic 205) – Liquidation Basis of Accounting,"* to require an entity to prepare its financial statements using the liquidation basis of accounting when liquidation is imminent. The amendments are effective for entities that determine liquidation is imminent during annual reporting periods beginning after 15 December 2013, and interim reporting periods therein. This ASU currently does not have an impact on FSDPSF's financial statements.

In May 2014, the FASB issued ASU 2014-09 *"Revenue from Contracts with Customers (Topic 660) – An Amendment of the FASB Accounting Standards Codification"* 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. This ASU is not expected to impact 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.

continued

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 2014 and 2013 were in time deposits.

The annualized rate of return on the average investments held during the period ended 31 December 2014, based on the portfolio held at the beginning and end of each month, was 0.14% (0.002% – 2013).

Fair Value Disclosure

The fair value of INVESTMENTS as of 31 December 2014 and 2013 was as follows:

($ thousand)

		Fair Value Measurements		
	31 December 2014	Level 1	Level 2	Level 3
Investments				
Time deposits	$ 6,608	$ –	$ 6,608	$ –

($ thousand)

		Fair Value Measurements		
	31 December 2013	Level 1	Level 2	Level 3
Investments				
Time deposits	$ 4,800	$ –	$ 4,800	$ –

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 will be settled regularly with OCR and the other funds. Grant programs may be combined activities financed by special and trust funds. ADB will charge 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.

continued

The interfund account balances included in ACCOUNTS PAYABLE AND OTHER LIABILITIES are as follows:

($ thousand)	2014	2013
Payable to:		
Ordinary capital resources	$ 17	$ –
Technical Assistance Special Fund	28	–
Total	$ 45	$ –

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in US dollars and represent effective TA and grants not yet disbursed and unliquidated. During 2014 and 2013, there were no undisbursed amounts written back from financially completed and/or cancelled TA or 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 December 2014, the Government of Luxembourg committed its 3rd contribution amounting to €1,500,000 ($1,856,000 equivalent). As of 31 December 2014, the amount committed was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS.

In November 2013, the Government of Luxembourg committed its 2nd contribution amounting to €1,500,000 ($2,037,000 equivalent).

In October 2013, the Government of Luxembourg committed its 1st contribution amounting to $2,400,000.

In May 2013, the Board of Governors approved the transfer of $2,700,000 to the FSDPSF as part of OCR's 2012 net income allocation.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2014 and 2013. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2014 and 2013, 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 2014 through 12 March 2015, the date these Financial Statements are available for issuance. On 22 January 2015, FSDPSF received its 3rd contribution from the Government of Luxembourg.