

These financial statements will be submitted to the Board of Governors for approval at its Annual Meeting, to be held on 4–7 May 2017.

50 YEARS OF ADB: IMPROVING LIVES FOR A BETTER FUTURE

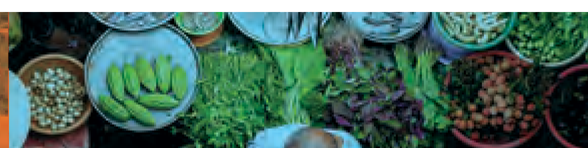

ASIAN DEVELOPMENT BANK

2016 FINANCIAL REPORT

50 YEARS

ADB






Management's Discussion and Analysis and Annual Financial Statements

31 December 2016

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Asian Development Bank

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MANAGEMENT'S DISCUSSION AND ANALYSIS

I. OVERVIEW

The Asian Development Bank (ADB), a multilateral development bank, was established in 1966 under the Agreement Establishing the Asian Development Bank (the Charter).[1] ADB is owned by 67 members, 48 of which are regional members, including Japan, Australia and New Zealand, providing 63.5% of its capital and 19 non-regional members, including the United States, Canada and 17 European countries, providing 36.5% of its capital.

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

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

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

II. COMBINATION OF OCR AND ADF RESOURCES

On 1 January 2017, ADB transferred loans and other assets totaling $30,812 million from Asian Development Fund (ADF), the concessional lending window of ADB to OCR in accordance with the Board of Governors resolution authorizing the termination of ADF's lending operations. The resolution stemmed from a proposal introduced in 2014 to enhance ADB's financial capacity in a sustainable manner through more efficient and effective management of its capital resources. The proposal entailed combining ADF lending operations with the OCR and retaining the ADF as a grant-only operation. ADB would continue concessional lending on the same terms and conditions as currently provided to ADF countries through the OCR window, while the ADF would continue to provide grant assistance. The initiative will expand ADB's lending capacity—particularly to poor countries and the private sector, enhance its risk-bearing capacity, and strengthen its readiness to respond to future economic crises and natural disasters.

The transfer of these assets was treated as a contribution from ADF to OCR and a return of the set-aside resources from ADF to OCR.[2] This resulted in the recognition of a one-time income of $30,748 million in OCR and a return of the set-aside resources of $64 million. On 15 March 2017, the Board of Governors approved the allocation of the one-time income from the transfer of ADF assets to OCR Ordinary Reserve effective 1 January 2017.

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

[2] The undisbursed ADF loan balance of SDR6,281 million ($8,444 million equivalent) was also assumed by OCR on 1 January 2017.

The transferred ADF assets are composed of loans, including accrued interest totaling $27,088 million and liquid assets totaling $3,724 million. Table 1 shows the balance sheet of OCR after the transfer of certain ADF assets. The sources of funding for the transferred ADF assets came from donor contributions, OCR net income transfers and set-aside resources. For further details on the composition of the sources, refer to disclosure on subsequent events in Note V of OCR financial statements and Note L of ADF financial statements.

Table 1: Asian Development Bank—Ordinary Capital Resources
Summary Statement of Effect of Asset Transfer from ADF
($ million)

	Balance as of 31 December 2016	**Asset Transfer from ADF 1 January 2017**	**Balance as of 1 January 2017**
Due from banks	661	0	661
Investments for liquidity purpose	26,025	3,696	29,721
Securities purchased under resale arrangements	102	12	114
Loans outstanding — Operations[a]			
Sovereign			
Regular	62,413	–	62,413
Concessional	–	27,025	27,025
	62,413	27,025	89,438
Nonsovereign	5,186	–	5,186
	67,599	27,025	94,624
Equity investments — Operations	814	–	814
Other debt securities — Operations	150	–	150
Accrued interest receivable	387	79	466
Derivative assets	29,143	–	29,143
Other assets	973	–	973
TOTAL ASSETS	**125,854**	**30,812**	**156,666**
TOTAL LIABILITIES	**108,640**	**–**	**108,640**
EQUITY			
Capital Stock			
Subscription installments matured	7,154	–	7,154
Less – capital transferred to ADF and discounts	79	(64)	15
	7,075	64	7,139
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital	(676)	–	(676)
	6,399	64	6,463
Net notional maintenance of value receivable	(1,474)	–	(1,474)
Ordinary reserve			
From ADF assets transfer	–	30,748	30,748
From retained earnings	12,211	–	12,211
Subtotal	12,211	30,748	42,959
Special reserve	340	–	340
Loan loss reserve	172	–	172
Surplus	1,065	–	1,065
Cumulative revaluation adjustments account	88	–	88
Net income after appropriation – 2016	(11)	–	(11)
Accumulated other comprehensive loss	(1,576)	–	(1,576)
TOTAL EQUITY	**17,214**	**30,812**	**48,026**
TOTAL LIABILITIES AND EQUITY	**125,854**	**30,812**	**156,666**

– = nil, ( ) = negative, ADF = Asian Development Fund.
Notes:
1. The undisbursed ADF loan balance as of 31 December 2016 of $8,444 million was assumed by OCR on 1 January 2017.
2. 0 = amount less than $0.5 million.
[a] Including net unamortized loan origination cost, allowance for loan losses and Heavily Indebted Poor Countries debt relief, and fair value adjustment.

III. ORDINARY CAPITAL RESOURCES

This section describes the OCR operations prior to the transfer of ADF lending operations effective 1 January 2017.

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

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

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

A. Basis of Financial Reporting

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

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

ADB reports all derivative instruments on the balance sheet at fair value and recognizes the changes in fair value for the period as part of net income. ADB also elects to measure financial instruments at fair value on a selective basis and opts to measure at fair value borrowings that are swapped or have floating interest rates, to 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 and other debt securities 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.

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

The management reporting basis balance sheet reconciled from the statutory reporting basis balance sheet as of 31 December 2016 is provided in the Appendix.

B. Selected Financial Data

Selected financial data are presented on a statutory reporting basis and management reporting basis (Table 2). Rates of return on equity and earning assets under the management reporting basis improved in 2016 compared with 2015, mainly as a result of higher capital gains on equity investment sales. Conversely, under statutory reporting basis, rates of return on equity and earning assets were close to nil in 2016 because the unfavorable fair value adjustments on borrowings and related derivatives almost matched the operating income. Return on loans, return on investments and cost of borrowings, under both the statutory and management reporting bases increased due primarily to the rising trend in US dollar interest rates (Table 3). Under management reporting basis, the margin between return on loans and cost of borrowings was stable at 0.64% in 2016 and 2015. Income and expenses are discussed in the next section.

Table 2: Selected Financial Data for the Year Ended 31 December

($ million)

Item	2016	2015	2014	2013	2012
Statutory Reporting Basis					
Revenue					
From Loans — Operations	1,054	678	605	646	770
From Investments for Liquidity Purpose	399	322	305	339	390
From Guarantees — Operations	18	19	21	18	18
From Equity Investments — Operations	18	(19)	17	10	38
From Other Debt Securities — Operations	0	–	–	0	1
From Other Sources	43	29	25	22	21
Total Revenue	**1,532**	**1,029**	**973**	**1,035**	**1,238**
Borrowings and Related Expenses	751	374	317	400	520
Administrative Expenses[a]	390	383	352	411	351
Provision for (Write-back of) Loan Losses	11	(1)	(1)	(6)	7
Other Expenses	11	12	13	8	9
Total Expenses	**1,163**	**768**	**681**	**813**	**887**
Net Realized Gains	158	56	288	194	122
Net Unrealized (Losses) Gains	(520)	239	(193)	150	(331)
Net Income	**7**	**556**	**387**	**566**	**142**
Average Earning Assets[b]	92,456	85,227	80,633	78,828	76,361
Annual Return on Average Earning Assets (%)	0.01	0.65	0.48	0.72	0.19
Return on Equity (%)	0.04	3.23	2.24	3.43	0.87
Return on Loans — Operations (%)	1.65	1.16	1.15	1.31	1.56
Return on Investments for Liquidity Purpose (%)	1.58	1.33	1.30	1.43	1.69
Cost of Borrowings (%)	1.68	0.19	0.82	0.51	0.91
Management Reporting Basis					
Operating Income[c]	521	343	571	469	465
Average Earning Assets[b]	92,499	85,227	80,639	78,839	76,386
Annual Return on Average Earning Assets[d] (%)	0.56	0.40	0.71	0.60	0.61
Return on Equity (%)	2.80	1.89	3.12	2.71	2.72
Return on Loans — Operations (%)	1.63	1.18	1.12	1.23	1.51
Return on Investments for Liquidity Purpose (%)	1.57	1.30	1.31	1.36	1.58
Cost of Borrowings (%)	0.99	0.54	0.50	0.64	0.84

– = nil, ( ) = negative.

Note: 0 = amount less than $0.5 million.

[a] Net of administrative expenses allocated to the Asian Development Fund and 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, equity investments and other debt securities.

[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 3: Selected US Dollar Interest Rates at 31 December

(%)

Item	2016	2015	2014	2013	2012
6-Month US Dollar LIBOR	1.32	0.85	0.36	0.35	0.51
3-Year US Dollar Swap Rate	1.69	1.42	1.30	0.88	0.50

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

Source: Bloomberg Finance L.P.

C. Overall Financial Results

Net income. Table 4 presents the overall financial results for 2016 and 2015. Net income was $7 million, compared with $556 million for 2015. The decreased net income from 2015 is mainly attributed to the unrealized losses from ADB's borrowings and associated derivatives.

Table 4: Overall Financial Results for the Year Ended 31 December
($ million)

Item	2016	2015	Change
Income from loans — operations	**1,043**	**678**	**365**
Interest income	1,051	673	378
(Provision for) Write-back of loan losses	(11)	1	(12)
Others	3	4	(1)
Income from investments for liquidity purpose	**452**	**365**	**87**
Interest income	399	322	77
Realized gains	53	43	10
Income from equity investments — operations	**116**	**19**	**97**
Profit on sale—net of impairment losses	107	12	95
Proportionate share of income (loss) from EI accounted for under the equity method—realized	9	(1)	10
Others	(0)	8	(8)
(Loss) income from other debt securities — operations—net	**(2)**	**0**	**(2)**
Other income—net[a]	**53**	**37**	**16**
Borrowings and related expenses	**751**	**373**	**378**
Interest and other expenses	751	374	377
Realized gains	(0)	(1)	1
Administrative expenses—OCR	**390**	**383**	**7**
Operating income	**521**	**343**	**178**
Net unrealized (losses) gains	**(520)**	**239**	**(759)**
Proportionate share of income (loss) from EI accounted for under the equity method—unrealized	**6**	**(26)**	**32**
Net income	**7**	**556**	**(549)**

( ) = negative, EI = equity investments, OCR = ordinary capital resources.
Note: 0 = amount less than $0.5 million.
[a] Includes income and related expenses from guarantees and income from trust funds administration.

Operating income. Operating income in 2016 increased to $521 million, from $343 million in 2015.[3] The change in operating income was primarily driven by:

(i) $365 million increase in income from loans, due to increase in average outstanding loans and higher interest rates;
(ii) $87 million increase in income from investments due to higher average return and slight growth in average investments;
(iii) $97 million increase in income from equity investments mainly due to divestment gains;

These were partially offset by:

(iv) $378 million increase in borrowings and related expenses resulting from rising trend in short-term interest rates and larger average outstanding borrowings; and
(v) $7 million increase in administrative expenses.

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

Net unrealized gains and losses. During 2016, ADB reported net unrealized losses of $520 million (2015: $239 million net unrealized gains), which primarily consisted of fair value adjustments on certain borrowings and derivatives used for hedging borrowings, investments and loans. A large portion of the net unrealized losses was the result of changes in the fair value of borrowings and related derivatives amounting to $523 million (2015: net unrealized gains of $244 million) due to movements in ADB's credit spreads, interest rates and yield basis spreads.

D. Operating Activities

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

1. Loans

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

ADB's lending limitation policy limits the total amount of disbursed loans, disbursed equity investments and related prudential buffer, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. As of 31 December 2016, the total of such loans (including other debt securities), equity investments and related prudential buffer, and guarantees was $68,786 million (2015: $63,042 million), compared with the maximum lending ceiling of $154,938 million (2015: $159,136 million), which resulted in a headroom of $86,152 million (2015: $96,094 million).

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

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

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

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

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

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

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

Loan approvals, disbursements, repayments, and prepayments. In 2016, approved loans totaled $13,572 million, representing a $934 million increase from 2015 ($12,638 million).[4] ADB approved 68 sovereign loans totaling $11,387 million, including three PDA loans for $25 million and 32 nonsovereign loans totaling $2,185 million, compared with 2015 approvals of 58 sovereign loans totaling $10,488 million, including one PDA loan for $3 million and 24 nonsovereign loans totaling $2,150 million.

In 2016, MFFs totaling $4,393 million (2015: $1,224 million) were approved under OCR while $283 million were reallocated from ADF (2015: $130 million were reallocated to ADF and a cofinancier).[5] Under the MFFs, PFRs totaling $2,319 million were approved in 2016 (2015: $2,609 million); a total of $2,582 million was disbursed in 2016 (2015: $2,149 million). In 2016, ADB approved two OCR loans totaling $375 million under RBL (2015: three loans totaling $1,025 million); and disbursed a total of $398 million (2015: $193 million).

Disbursements in 2016 totaled $9,763 million ($8,247 million for sovereign loans and $1,516 million for nonsovereign loans), a slight increase from the $9,667 million disbursed in 2015 ($8,223 million for sovereign loans and $1,444 million for nonsovereign loans). Regular principal repayments in 2016 were $3,818 million (2015: $3,325 million), while prepayments totaled $311 million (2015: $154 million). In 2016, 10 loans were fully prepaid for $275 million, and three loans were partially prepaid for $36 million. As of 31 December 2016, loans outstanding after allowance for loan losses and net unamortized loan origination cost totaled $67,599 million, of which sovereign loans represented $62,413 million and nonsovereign loans $5,186 million.

A summary of the OCR total loan portfolio by member country as of 31 December 2016 is set forth in OCR-6 of the Financial Statements. A breakdown by sector of loans as of 31 December

[4] These are net of adjustments and terminations prior to signing.
[5] These amounts may be adjusted based on flexibility in the use of OCR and ADF funding.

2016 is shown in Table 5.

Table 5: Sectoral Breakdown of Total OCR Loan Portfolio[a]
As of 31 December 2016

Sector	$ million	%
Transport	36,954	34.9
Energy	25,372	24.0
Public Sector Management	10,904	10.3
Water and Other Urban Infrastructure and Services	10,196	9.6
Finance	8,560	8.1
Agriculture, Natural Resources and Rural Development	5,972	5.6
Education	2,854	2.7
Multi-Sector	2,561	2.4
Industry and Trade	1,517	1.4
Health	734	0.7
Information and Communication Technology	217	0.2
Total	**105,841**	**100.0**

OCR = ordinary capital resources.

Note: Percentages may not sum precisely because of rounding.

[a] Includes outstanding loans of $67,547 million, effective but undisbursed loans of $26,898 million and approved loans that are not yet effective of $11,396 million. Of the approved loans that are not yet effective, only $2,890 million 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 majority of outstanding loans (92.2%) have been made to the public sector (member countries and, with the guarantee of the concerned member, government agencies or other public entities) (Table 6). The rest have been made to private sector enterprises, financial institutions, and selected nonsovereign public sector entities.

Table 6: Loan Status at 31 December 2016 and 2015

	Outstanding				Effective but Undisbursed			
	2016		2015		2016		2015	
Item	**$ million**	**%**	**$ million**	**%**	**$ million**	**%**	**$ million**	**%**
Sovereign	62,278	92.2	57,432	92.8	25,575	95.1	24,334	93.9
Nonsovereign	5,269	7.8	4,457	7.2	1,323	4.9	1,577	6.1
Total Loans	**67,547**	**100.0**	**61,889**	**100.0**	**26,898**	**100.0**	**25,911**	**100.0**

Note: Excludes approved loans that are not yet effective totalling $11,396 million in 2016 (2015: $10,099 million).

Status of loans. One nonsovereign loan was in nonaccrual status with outstanding principal of $20 million and no overdue principal as of 31 December 2016 (nil – 31 December 2015).

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

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

A breakdown of ADB's loan portfolio by loan product as of 31 December 2016 and 2015 is presented in Table 7.

Table 7: Loan Portfolio by Lending Windows
as of 31 December 2016 and 2015
($ million)

	Sovereign		Nonsovereign	
Item	**2016**	**2015**	**2016**	**2015**
LIBOR-based loans				
Outstanding	60,103	54,586	4,296	3,534
Undisbursed	25,575	24,334	1,232	1,334
Local currency loans				
Outstanding	–	65	973	923
Undisbursed	–	–	91	243
Others				
Outstanding	2,175	2,781	–	–
Undisbursed	–	–	–	–
Total				
Outstanding	**62,278**	**57,432**	**5,269**	**4,457**
Effective but Undisbursed	**25,575**	**24,334**	**1,323**	**1,577**

– = nil, LIBOR = London interbank offered rate.
Note: Excludes approved loans that are not yet effective totalling $11,396 million in 2016 (2015: $10,099 million).

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

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

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

Starting in 2004, ADB provided a 20 basis points waiver on the lending spread for borrowers or guarantors that have no OCR loans in arrears under ADB sovereign operations.[6] The waiver for

[6] Applicable for sovereign loans negotiated before 1 October 2007.

the applicable loans is reviewed annually. In December 2014, the Board of Directors approved the continuation of this waiver[7] for borrowers of US dollar PSCL covering interest periods commencing from 1 January 2015 to 31 December 2015. Subsequently, the Board approved extending this waiver, the most recent extension being for interest periods commencing 1 January 2017 to 31 December 2017. In 2016, the total waiver provided on the lending spread was $5 million (2015: $6 million).

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

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

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

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

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

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

ADB also introduced a limit on the average loan maturity for new loans to not exceed 19 years. As of 31 December 2016, 179 approved loans totaling $27,141 million were subject to maturity premium (2015: 140 approved loans totaling $20,643 million [footnote 4]).

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 8). 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 $62 million to its borrowers in 2016 (2015: $75 million).

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

Table 8: Funding Cost Margin on LIBOR-based Loans[a]

(% per year)

	(Rebate) or Surcharge			
Type	1 July 2016	1 January 2016	1 July 2015	1 January 2015
LIBOR-based Loans				
US dollar	(0.07)	(0.11)	(0.12)	(0.15)
Yen	(0.48)	(0.47)	(0.46)	(0.42)
Euro	(0.35)	(0.39)	n/a	n/a
New Zealand dollar	0.29	0.29	0.29	0.29
CSF Loans				
US dollar	(0.04)	(0.04)	n/a[b]	n/a[b]

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

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

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

Lending rates for PSCLs are based on the previous semester's average cost of borrowing (Table 9) and carry a lending spread of 60 basis points.

Table 9: PSCL Lending Rates[a]

(% per year)

	2016	2015	Currency
1 January	5.66	5.51	US dollar[b]
	0.36	0.48	Yen
1 July	6.01	5.59	US dollar[b]
	0.27	0.40	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 10).

Table 10: Commitment Fees

(% per year)

	Project	Policy-based loans		Results-based
Negotiation Date	loans	CSF	Others	lending loans
On or before 1 January 2007, with undisbursed balance as of 1 January 2007	0.75[a]	n/a	–	n/a
After 1 January 2007 and before 1 October 2007	0.35	n/a	–	n/a
On or after 1 October 2007	0.15	0.75	0.15	0.15

– = nil, n/a = not applicable, CSF = Countercyclical Support Facility.

[a] Progressive.

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

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 2016, $7,362 million from official sources was mobilized for loan cofinancing for 43 loan projects, of which $784 million is under ADB administration and $6,578 million is under collaborative arrangements. (Refer to Note F of OCR Financial Statements for loans administered by ADB as of 31 December 2016).

2. Guarantees

Guarantees are typically designed to facilitate cofinancing by mitigating the risk exposure of commercial lenders and capital market investors. Guarantees can be provided when ADB has a direct or indirect participation in a project or a related sector, through a loan, equity investment or technical assistance, ADB provides two primary guarantee products – a credit guarantee and a political risk guarantee. ADB's credit guarantee is designed as credit enhancements for eligible projects to cover risks that the project and its commercial cofinancing partners cannot easily absorb or manage on their own. ADB also provides political risk guarantees to cover specifically defined political risks. Reducing these risks can make a significant difference in mobilizing debt funding for projects. ADB has used its guarantee instruments successfully for infrastructure projects, financial institutions, capital markets, and trade finance. These instruments generally are not recognized in the balance sheet and have off-balance-sheet risks. For guarantees issued and modified after 31 December 2002, ADB recognizes at the inception of a guarantee the noncontingent aspect of its obligations. In 2016, ADB approved one new guarantee facility and an additional approval to one existing facility totaling $515 million (2015: two new guarantee facilities and an additional approval to one existing facility totaling $341 million).

ADB's exposure on guarantees as of 31 December 2016 and 2015 are shown in Table 11.

Table 11: Outstanding Guarantee Exposure

As of 31 December 2016 and 2015

($ million)

Item	2016	2015
Credit guarantee		
Trade related	1,088	525
Non-Trade related	996	809
Political risk guarantee	21	73
Total	2,105	1,407

Note: Trade related guarantees are gross of risk distribution amounting to $476 million in 2016 (2015: $135 million)

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

In 2016, TFP supported $3,090 million (2015: $2,548 million) in trade through 62 DMC banks in 14 different countries. Of the trade supported, $1,325 million was financed by ADB (2015: $1,133 million) and $1,765 million was cofinanced (2015: $1,415 million).

TFP transactions have average maturities of less than 180 days which enabled the TFP to revolve its $1 billion limit in 2016 to finance a total of $1,325 million of guarantees and loans. As of 31 December 2016, TFP unused risk participation amounted to $125 million (2015: $275 million), TFP guarantees outstanding totaled $1,088 million (2015: $525 million) and loans outstanding totaled $43 million (2015: $16 million). Of the outstanding TFP guarantees and loans, $481 million were with risk distribution (2015: $140 million), resulting in a net exposure of $650 million (2015: $402 million).

Supply Chain Finance Program. In 2012, ADB established the Supply Chain Finance Program totaling $200 million to provide guarantees and loans (both without government guarantee) through partner financial institutions to support payments to suppliers and distributors of goods in DMCs. In 2016, the program provided guarantees of $101 million (2015: $46 million) and the outstanding guarantee amount as of 31 December 2016 was $29 million (2015: $22 million).

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.[8] 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 2016, $203 million of B-loans were approved for five projects (2015: $1,085 million for eight projects).[9]

4. Equity Investments

The Charter allows the use of OCR for equity investments up to 10% of ADB's unimpaired paid-in capital actually paid up at any given time together with reserves and surplus, excluding special reserves. At the end of 2016, the total equity investment portfolio for OCR, including prudential buffers[10], was $1,133 million (2015: $1,187 million), or about 63% (2015: 67%) of the ceiling defined by the Charter.

In 2016, ADB approved four equity investments totaling $77 million (2015: four equity investments totaling $130 million [footnote 4]). Equity investments disbursements in 2016 totaled $79 million, a 36% decrease from the $123 million in 2015, and received a total of $261 million from capital distributions and divestments, whether in full or in part, in 30 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.

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

[9] 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 2016 and 2015 include US dollar and local currency complementary loans.

[10] Represents 80% and 100% of the signed and undisbursed amounts for private equity funds and direct equity investments, respectively.

5. Debt Management Products

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

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

E. Financing Resources

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

1. Equity

As of 31 December 2016, ADB had 67 members with Japan and the United States as the two largest shareholders. Out of the 67 members, 27 members are non-borrowing members holding 66.8% of total shareholdings with a total voting power of 61.5%. The capital subscription of all ADB members is shown in OCR-8 of the Financial Statements.

The total authorized capital of ADB was 10,638,933 shares valued at $143,022 million as of 31 December 2016. The details of ADB's equity as of 31 December 2016 and 2015 are shown in Table 12.

Table 12: Details of Equity
($ million)

	2016	2015
Subscribed	142,699	147,052
Less: Callable capital subscribed	135,545	139,678
Paid-in capital subscribed	7,154	7,374
Less: Other adjustments[a]	79	81
	7,075	7,293
Add: Reserves[b], Surplus, Accumulated Net Income and Other Comprehensive Loss less nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital and net notional amounts required to maintain value of currency holdings	10,139	10,153
Total Equity	17,214	17,446

[a] Comprises capital transferred to the Asian Development Fund and discount. (See OCR-9 of the Financial Statements, Note M).

[b] For a description of reserves, see OCR-9 of the Financial Statements, Note N.

Total shareholders' equity decreased from $17,446 million as of 31 December 2015 to $17,214 million as of 31 December 2016. This mainly resulted from (i) $203 million comprehensive loss in 2016 mainly from unfavorable fair value changes in available for sale investments and adjustments to the postretirement benefit liabilities, (ii) $160 million transfers to Special Funds, and (iii) $64 million drop in the USD value of paid-in capital brought by the depreciation of special drawing rights (SDR) against the US dollar, net of members' maintenance of value obligations; offset by the (iv) demand notes encashment totaling $189 million.

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

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

The Charter authorizes the Board of Governors, by a vote of two-thirds of the total number of Governors representing at least three-quarters of the total voting power of the members, to set aside to Special Funds up to 10% of ADB's unimpaired capital paid-in by members. (See IV Special Funds). As of December 31, 2016, a total of $64 million (0.9% of unimpaired paid-in capital) had been set aside and transferred to the ADF, one of ADB's Special Funds. This was subsequently returned to OCR on 1 January 2017 following the termination of ADF's lending operations.

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

In May 2016, the Board of Governors approved the following with respect to ADB's 2015 net income of $537 million, after appropriation of guarantee fees to special reserve: (i) $43 million representing the adjustment to the Loan Loss Reserve as of 31 December 2015, be added from the loan loss reserve to the net income; (ii) $213 million representing the Accounting Standards Codification (ASC) 815/825 adjustments and the unrealized portion of net income from equity investments accounted for under the equity method for the year ended 31 December 2015, be added to the Cumulative Revaluation Adjustments account; (iii) $208 million be allocated to the Ordinary Reserve; (iv) $120 million be allocated to ADF; and (v) $40 million be allocated to Technical Assistance Special Fund (TASF).

2. Borrowings

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

ADB's borrowing policy limits ADB's gross outstanding borrowings to no more than the sum of callable capital of non-borrowing members, paid-in capital, and reserves (including surplus). Based on such policy, the sum of such capital and reserves as of 31 December 2016 was $110,043 million ($112,755 million in 2015). The aggregate of ADB's gross outstanding borrowings after swaps of $77,232 million as of 31 December 2016 (2015: $68,965 million) was equivalent to 70% (61% in 2015) of such ceiling.

Funding Operations. ADB raises funds for its ordinary operations through the issue and sale of debt obligations in the international capital markets. 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 2016, 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.

2016 funding operations. In 2016, ADB raised the equivalent of $20,602 million (2015: $18,948 million) in medium- and long-term funds with 74 borrowing transactions. The new borrowings were raised in 14 currencies: Australian dollar, Brazilian real, yuan, euro, Georgian lari, Hong Kong dollar, Indian rupee, yen, New Zealand dollar, pound sterling, Singapore dollar, South African rand, Turkish lira, and US dollar. The average maturity to first call date of these borrowings is 4.1 years (2015: 4.7 years). Of the 2016 borrowings, $18,190 million was raised through 28 public offerings and the remaining $2,412 million was raised through 46 private placements.

Following the launch of the Green Bond program in 2015, ADB issued a dual tranche green bond offering in 2016 raising a total of $1.3 billion. Total green bonds outstanding as of end 2016 was $1.8 billion.

ADB also raised $8,341 million ($4,082 million in 2015) of short-term funds under its Euro-Commercial Paper Program (ECP). Of the ECPs issued in 2016, $2,330 million were outstanding as of 31 December 2016. Table 13 shows details of 2016 borrowings as compared with 2015.

Table 13: Borrowings

($ million)

Item	2016	2015
Long Term		
Total Principal Amount	20,602	18,948
Average Maturity to First Call (years)	4.1	4.7
Average Final Maturity (years)	5.1	4.9
Number of Transactions		
Public Offerings	28	26
Private Placements	46	30
Number of Currencies (before swaps)		
Public Offerings	5	5
Private Placements	10	9
Short Term[a]		
Total Principal Amount[b]	8,341	4,082
Number of Transactions	62	29
Number of Currencies	1	1

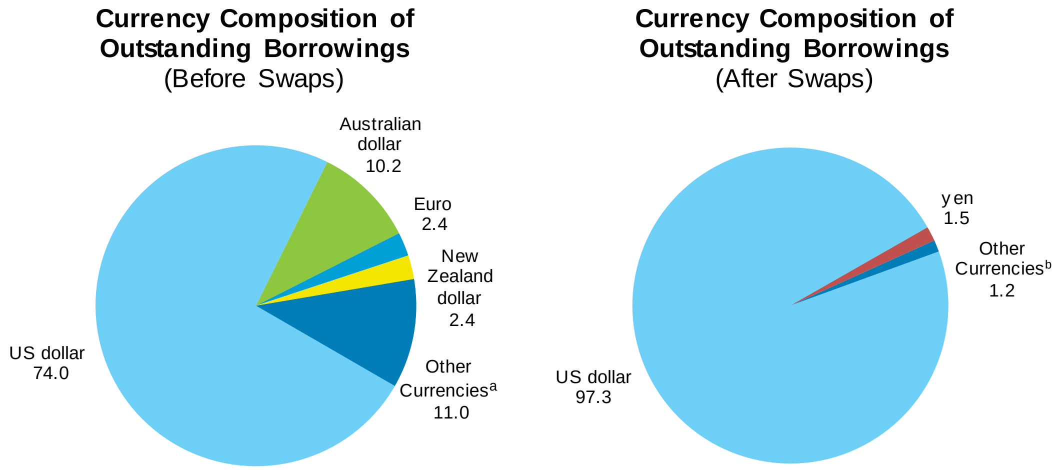
[a] All euro commercial papers.

[b] At year-end, the outstanding principal amount w as $2,330 million in 2016 ($1,317 million in 2015).

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

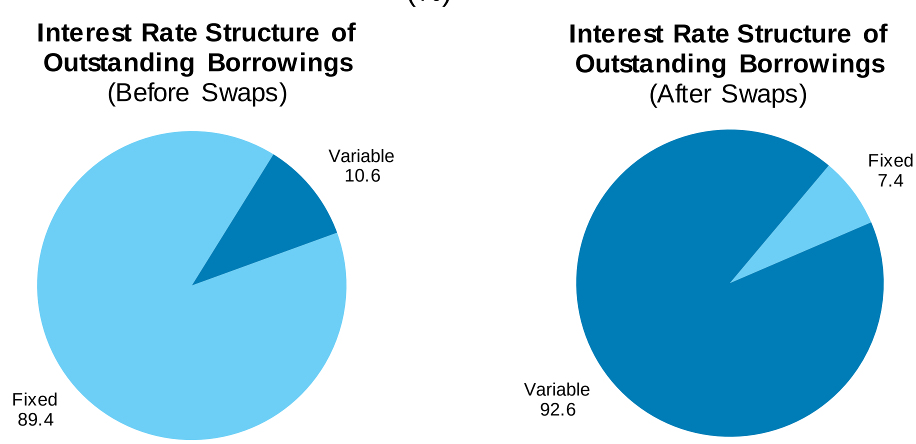
December 2016. Interest rate swaps are also used for asset and liability management purposes to match the liabilities with the interest rate characteristics of loans.

Figure 1: Effect of Swaps on Currency Composition of Borrowings
As of 31 December 2016
(%)



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

Figure 2: Effect of Swaps on Interest Rate Structure of Borrowings
As of 31 December 2016
(%)



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 2016, ADB held liquid investments in 23 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 2016 and 2015 is presented in Table 14. The amortized cost and fair value returns of the portfolios are presented in Table 15.

Table 14: Year-End Balance of Investment Portfolio[a]

($ million)

Item	2016	2015
Core Liquidity Portfolio	16,367	15,308
Cash Cushion Portfolio	1,538	550
Operational Cash Portfolio	98	113
Discretionary Liquidity Portfolio	8,437	7,771
Ad hoc Portfolio	120	127
Total	**26,560**	**23,869**

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

Table 15: Return on Investment Portfolio

(%)

	Annualized Return			
	Amortized Cost		Fair Value	
Item	2016	2015	2016	2015
Core Liquidity Portfolio	1.9	1.8	1.0	1.3
Operational Cash Portfolio	0.7	0.3	0.7	0.3
Cash Cushion Portfolio	0.9	0.6	0.9	0.6
Discretionary Liquidity Portfolio[a]	0.5	0.3	0.5	0.3
Ad hoc Portfolio	3.4	3.1	5.0	0.9

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 3.1 years (2015: 2.6 years) as of 31 December 2016.

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 16 summarizes ADB’s significant contractual cash obligations as of 31 December 2016 and 2015. 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 16: Contractual Cash Obligations
($ million)

Item	2016	2015
Long-Term Debt	55,928	51,820
Undisbursed Loan Commitments	29,787	29,801
Guarantee Commitments	2,462	1,975
Undisbursed Equity Investment Commitments	422	432
Undisbursed Commitment for Other Debt Securities	75	4
Other Long-Term Liabilities	1,445	1,358
Total	**90,119**	**85,390**

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

Table 17: 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.

Table 18: Exposure to Credit Risk

As of 31 December 2016 and 2015

	2016		2015	
Item	Exposure ($ million)	Rating (1–14)	Exposure ($ million)	Rating (1–14)
Sovereign operations	62,983		58,106	
a. Loan and guarantee[a]	62,832	4.9 / BBB–	57,956	4.9 / BBB–
b. Equity Investments[b]	150	n/a	150	n/a
Nonsovereign operations	7,175		5,837	
a. Loan and guarantee[a]	6,483	6.0 / BB+	5,041	6.2 / BB+
b. Equity Investments[b]	692	n/a	797	n/a
Treasury	27,397	1.1 / AA	24,656	1.1 / AA
a. Fixed income	22,251	1.1 / AA	20,710	1.1 / AA
b. Cash instruments	5,052	1.1 / A+	3,903	1.0 / AA
c. Derivatives	93	1.0 / AA–	43	1.0 / AA–
Aggregate Exposure	**97,554**	**3.9 / BBB**	**88,599**	**3.9/BBB**

n/a = not applicable.

Note: Numbers may not sum precisely because of rounding.

[a] The sum of disbursed and outstanding loan balances (including investments in nonconvertible debentures reported as other debt securities) and the present value of guaranteed obligations.

[b] At fair value. Inclusive of investments in compulsorily convertible debentures reported as other debt securities.

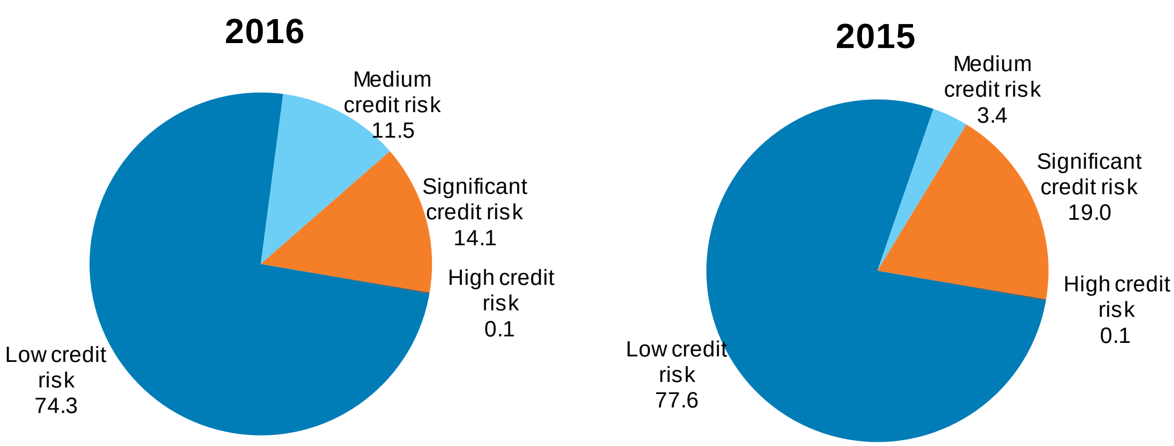
ADB is exposed to credit risk in its sovereign, nonsovereign, and treasury operations. The sovereign portfolio includes sovereign loan and guarantees as well as one equity investment, while the nonsovereign portfolio includes nonsovereign loan and guarantees, equity investments (direct and private equity funds), and other debt securities. The treasury portfolio includes fixed-income securities, cash and cash equivalents, and derivatives. Table 18 details the credit risk exposure and weighted average risk rating for each asset class. Aggregate credit risk has remained at 3.9 (BBB) in 2016 as the growth of the nonsovereign portfolio with relatively weaker credit rating (BB+ on average) was offset by the growth of the highly-rated Treasury portfolio (AA) and sovereign portfolio (BBB-). In terms of volume, ADB's nonsovereign loan and guarantee exposure increased by 29% while the annual growth in sovereign and Treasury operations were limited to 8% and 11%, respectively.

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 2016 results are discussed below.

Sovereign loan and guarantee exposure. The weighted average risk rating of the sovereign loan and guarantee portfolio remained at 4.9 (BBB–) in 2016 as improving sovereign credit conditions in some ADB DMCs were offset by rating downgrades of other ADB DMCs and higher disbursements to countries with weaker ratings (Figure 3). Refer to Note F of OCR Financial Statements for additional information.

Figure 3: Sovereign Loan and Guarantee Exposure by Credit Quality
As of 31 December 2016 and 2015
(%)



Notes: Low credit risk = exposures with risk rating 1–5, medium credit risk = exposures with risk rating 6–8, significant credit risk = exposures with risk rating 9–11, 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 59.8% of the portfolio in 2016 (Table 19).

Table 19: Sovereign Country Exposure[a]

As of 31 December 2016 and 2015

	2016		2015	
Country	**$ million**	**%**	**$ million**	**%**
People's Republic of China	15,615	24.8	14,646	25.2
India	13,331	21.2	12,916	22.2
Indonesia	8,700	13.8	8,214	14.1
Philippines	5,935	9.4	5,525	9.5
Pakistan	4,570	7.3	4,319	7.4
Others	14,831	23.5	12,486	21.6
Total	**62,983**	**100.0**	**58,106**	**100.0**

Note: Numbers may not sum precisely because of rounding.

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

Expected loss. In 2016, ADB experienced an improvement in the credit quality of some countries in the sovereign portfolio. Because of an increase to the ADB's sovereign exposure, the expected loss increased from $136 million in 2015 to $151 million in 2016 (Table 20).

Table 20: Sovereign Portfolio Expected Loss

As of 31 December 2016 and 2015

	2016		2015	
Item	**$ million**	**% of SO portfolio**	**$ million**	**% of SO portfolio**
Provision for Loan Losses	–	–	–	–
Loan Loss Reserve Requirement	151 [a]	0.2	136	0.2
Expected Loss	**151**	**0.2**	**136**	**0.2**

– = nil, SO = sovereign operations.

[a] Allocation to the loan loss reserve is subject to the Board of Governors' approval in May 2017.

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

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

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

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

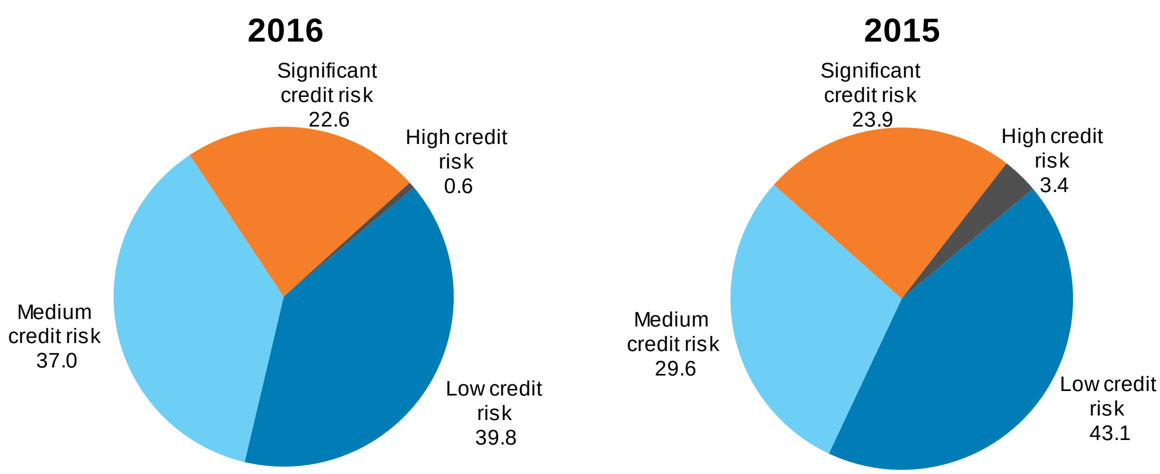
ADB uses limits for countries, industry sectors, corporate groups, obligors, products and individual transactions to manage concentration risk in the nonsovereign portfolio. The 2016 results are discussed below.

Nonsovereign loan and guarantee exposure. ADB assigns a risk rating to each nonsovereign loan and guarantee. ADB's weighted average risk rating improved slightly to 6.0 (BB+) in 2016 from 6.2 (BB+) in 2015 as transactions with high credit risk declined mainly due to (i) upgrades of some nonsovereign transactions following a high-risk sovereign's rating upgrade (Figure 4) and (ii) the full repayment of an impaired account. 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 2016 and 2015

(%)



Notes: Low credit risk = exposures with risk rating 1–5, medium credit risk = exposures with risk rating 6–8, significant credit risk = exposures with risk rating 9–11, high credit risk = exposures with risk rating 12–14.

Nonsovereign equity exposure. The nonsovereign private equity portfolio has two components: (i) direct equity investments, where ADB owns shares in investee companies; and (ii) private equity funds, where ADB has partial ownership of a private equity fund, managed by a fund manager, which acquires equity stakes in investee companies. ADB's nonsovereign private equity portfolio decreased to $692 million in 2016 from $797 million in 2015. The decrease was mainly due to exits and write-offs of some investments during the year. Refer to Note H of OCR Financial Statements for additional information.

Nonsovereign concentrations. The three largest nonsovereign country exposures as of 31 December 2016 were India (22.1%), the People's Republic of China (17.0%), and Thailand (7.2%). The exposure of the top three countries decreased from 50.7% in 2015 to 46.3% in 2016 (Table 21). All country exposures complied with ADB exposure limits.

Table 21: Nonsovereign Country Exposure[a]

As of 31 December 2016 and 2015

	2016		2015	
Country	**$ million**	**%**	**$ million**	**%**
India	1,585	22.1	1,274	21.8
People's Republic of China	1,216	17.0	1,174	20.1
Thailand	515	7.2	515	8.8
Pakistan	377	5.3	343	5.9
Indonesia	304	4.2	263	4.5
Others	3,177	44.3	2,268	38.9
Total	**7,175**	**100.0**	**5,837**	**100.0**

Note: Numbers may not sum precisely because of rounding.

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

ADB employs the Global Industry Classification Standard for its nonsovereign exposures. Under this standard, utilities represent the largest sectoral share of ADB's nonsovereign exposures (Table 22). ADB maintains higher exposures to this sector because of the importance of infrastructure to economic development. In addition, the high level of exposure to the utilities sector is deemed acceptable because of the systemic importance of utilities to the national economies in which they operate, and the lack of correlation between the utilities sector in one country and another. The utilities sector is also fragmented with seven major sub-industries. To mitigate sector concentration, ADB conducts additional monitoring of and reporting on this sector and employs specialists in these areas.

Table 22: Nonsovereign Sector Exposure

As of 31 December 2016 and 2015

	2016		2015	
Sector	**$ million**	**%**	**$ million**	**%**
Utilities	2,656	37.0	2,626	45.0
Banks	1,511	21.1	1,246	21.3
Diversified Financials	916	12.8	710	12.2
Insurance	832	11.6	469	8.0
Administration	502	7.0	297	5.1
Energy	209	2.9	209	3.6
Others	550	7.7	280	4.8
Total	**7,175**	**100.0**	**5,837**	**100.0**

Note: Numbers may not sum precisely because of rounding.

Expected loss. Expected loss in the nonsovereign portfolio increased in 2016 because of the increase in loan and guarantee exposures (Table 23).

Table 23: Nonsovereign Portfolio Expected Loss
As of 31 December 2016 and 2015

	2016		2015	
Item	**$ million**	**% of NSO portfolio**[a]	**$ million**	**% of NSO portfolio**[a]
Specific Provision for Loan Losses	14	0.2	6	0.1
Collective Provision for Loan Losses	31	0.5	28	0.6
Loan Loss Reserve Requirement	36 [b]	0.6	37	0.7
Expected Loss	**82**	**1.3**	**71**	**1.4**

NSO = nonsovereign operations.
Note: Numbers may not sum precisely because of rounding.
[a] Percentage only applies to the loan and guarantee operations of the nonsovereign portfolio.
[b] Allocation to the loan loss reserve is subject to the Board of Governors' approval in May 2017.

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

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

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

The weighted average credit rating for the liquidity portfolio was AA in 2016. About 98% of the portfolio was rated A– or better.

As of 31 December 2016 and 2015, no fixed-income instruments, derivatives, or other treasury exposures were past due or impaired.

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

Fixed income. Sovereign and sovereign-guaranteed securities, and those issued by government-related enterprises, including supranationals, represent 93% of ADB's fixed income assets. The remainder is in corporate bonds that are rated at least A– (Table 24). ADB has monitored market developments closely and adjusted its risk exposures accordingly.

Table 24: Fixed Income Portfolio by Asset Class
As of 31 December 2016 and 2015

	2016		2015	
Item	**$ million**	**%**	**$ million**	**%**
Government	10,955	49.2	11,906	57.5
Government Guaranteed	3,726	16.8	2,640	12.7
Government-Sponsored Enterprises and Supranationals	6,018	27.0	4,672	22.6
Corporates	1,552	7.0	1,492	7.2
Total	**22,251**	**100.0**	**20,710**	**100.0**

Derivatives. All eligible swap counterparties are rated at least A–. Current exposure to counterparties rated below A+ is generally fully collateralized, while the uncollateralized exposure to those rated AA– and above are subject to specified thresholds. ADB maintains and periodically reevaluates a watch list of institutions that it perceives as potentially riskier based on regular internal credit risk assessments. At the end of 2016, all counterparty marked-to-market exposures were fully collateralized, except for three counterparties whose uncollateralized exposures are within their established thresholds.

Country exposure. At the end of 2016, treasury credit risk exposure was allocated across 30 countries with the largest exposure in Japan (Table 25).

Table 25: Treasury Country Exposure
As of 31 December 2016 and 2015

	2016		2015	
Country	**$ million**	**%**	**$ million**	**%**
Japan	8,130	29.7	6,715	27.2
United States	6,862	25.0	6,579	26.7
Supranational	2,251	8.2	1,608	6.5
Korea	2,245	8.2	2,007	8.1
Germany	2,133	7.8	1,861	7.5
Others	5,776	21.1	5,886	24.0
Total	**27,397**	**100.0**	**24,656**	**100.0**

2. Market Risk

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

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

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

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

Foreign exchange. ADB endeavors to minimize exposure to exchange rate risk in its operations. ADB is required to match the currencies of its assets with the currencies of its liabilities, thereby avoiding any transaction-related currency risk. 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 57% of ADB's OCR liquid asset portfolio. Major currencies include the US dollar, yen, euro, pound sterling, Australian dollar, and Canadian dollar and represented 93% of the CLP.

Value-at-risk. The interest rate 1-year value-at-risk of the major CLP, increased from 1.5% of ADB's equity in 2015 to 2.7% in 2016. This means that there is a 5.0% probability that the portfolio will lose more than 2.7% ($497 million) of its value due to interest rate volatility over the next year assuming normal market conditions.

Duration. The major CLP's interest rate sensitivity, as reflected in its weighted portfolio duration, increased from 2.6 years as of the end of 2015 to 3.1 years as of the end of 2016.

Stress testing. ADB measures how sensitive the major CLP is to interest rate changes. If interest rates were to rise 2%, the major CLP would be expected to lose 6.0% ($916 million). ADB also uses scenario analysis to assess how the major CLP would respond to significant changes in market factors, such as those that have occurred in the past. Because of the high quality of ADB's investments, scenario analysis suggests that the liquidity portfolio would appreciate during many stressed scenarios, as demand for highly rated securities increases (flight to quality).

3. Liquidity Risk

Liquidity risk can arise if ADB is unable to raise funds to meet its financial and operational commitments. ADB maintains core liquidity to safeguard against a liquidity shortfall in case its access to the capital market is temporarily denied. The overriding objective of the liquidity policy is to enable ADB to obtain the most cost-efficient funding under both normal and stressed situations and manage liquidity optimally to achieve its development mission. The Board of Directors approved a revised liquidity policy framework in November 2016. The revised policy redefined the prudential minimum liquidity as 100% of the 1-year net cash requirements. This represents the minimum amount of eligible 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 net cash requirements for 12 months without borrowing. The liquidity levels and cash requirements are monitored on an ongoing basis, with quarterly review by the Board of Directors.

4. Operational Risk

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

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

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

5. Capital Adequacy

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

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

Second, the framework evaluates ADB's ability to generate sufficient income to support loan growth after a credit shock. As a development institution, ADB's mandate becomes more important during a financial crisis when some DMCs may find their access to capital markets limited. Demand for ADB assistance may rise under such adverse conditions. For the stress test, ADB generates thousands of potential portfolio scenarios and imposes credit shocks that are large enough to account for 99% of those scenarios. ADB then assesses the impact of these shocks on its capital by modeling the ratio of equity to loans over the next 10 years. Throughout 2016, the stress test indicated that ADB had adequate capital to absorb the losses of a severe credit shock and to continue its development lending. ADB is currently reviewing its capital adequacy framework following the combination of the OCR and ADF lending operation.

During 2016, 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, and equity management. 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.

I. Internal Control over Financial Reporting

ADB Management has been assessing the effectiveness of its internal controls over financial reporting since 2008. ADB uses the revised *Internal Control—Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission since its effectivity in 2014. The 2013 Framework includes (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 the risk assessment process, and (iii) considerations on outsourcing and increased relevance of information technology as a result of changes in the business and operating environment. For an effective system of internal control, the 2013 Framework requires that (i) each of the 5 components and the 17 principles is present and functioning, and (ii) the 5 components are operating together in an integrated manner.

ADB assessed the effectiveness of its internal control over financial reporting for its 2016 financial statements. ADB applied a risk-based evaluation framework for the assertion of the effectiveness of internal control over financial reporting for OCR and Special Funds, except for the ADB Institute (ADBI). The scope included a review of 53 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. The effectiveness of ADB's internal control over financial reporting has been audited by its external auditor, as stated in their respective reports, which expressed an unmodified opinion on the effectiveness of ADB's internal control over financial reporting for OCR and Special Funds (except for ADBI) as of 31 December 2016.

J. Critical Accounting Policies and Estimates

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

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

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

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

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

Pension and other postretirement benefits. ADB provides staff pension and postretirement medical benefits 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 Q—Staff Pension and Postretirement Medical Benefits.

IV. SPECIAL FUNDS

ADB is authorized by its Charter to establish and administer Special Funds. These are the ADF, the TASF, the Japan Special Fund (JSF), ADBI, the Regional Cooperation and Integration Fund (RCIF), the Climate Change Fund (CCF), 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

Until 31 December 2016, the ADF was ADB's concessional financing window for DMCs with per capita gross national income below the ADB operational cutoff and limited or low creditworthiness. It provided a multilateral source of concessional assistance dedicated exclusively to reducing poverty and improving the quality of life in Asia and the Pacific. The ADF had received contributions from 34 donors (regional and nonregional). Cofinancing with bilateral and multilateral development partners complements ADF resources.

Starting 1 January 2017, concessional lending on the same terms and conditions continues under the expanded OCR while ADF remains as a grant-only operation. Table 26 shows the balance sheet of ADF after the transfer of certain assets to OCR.

Table 26: Asian Development Bank—Asian Development Fund
Summary Statement of Effect of Asset Transfer to OCR
($ million)

	Balance as of 31 December 2016	Asset Transfer to OCR 1 January 2017	Balance as of 1 January 2017
Due from banks	281	(0)	281
Investments for liquidity purpose	5,726	(3,696)	2,030
Securities purchased under resale arrangements	13	(12)	1
Loans outstanding — Operations[a]	27,306	(27,306)	–
Accrued interest receivable	87	(79)	8
Other Assets	172		172
TOTAL ASSETS	**33,585**	**(31,093)**	**2,492**
TOTAL LIABILITIES	**2,637**	**–**	**2,637**
FUND BALANCES			
Contributions received			
Contributed resources – net of unamortized discount	32,667	–	32,667
Set-aside resources	64	(64)	–
Transfers from OCR and TASF	1,703	–	1,703
	34,434	(64)	34,370
Nonnegotiable, noninterest-bearing demand obligations on account of contributions	(1,633)	–	(1,633)
Accumulated deficit			
From operations	(361)		(361)
From asset transfer to OCR		(31,029)	(31,029)
Subtotal	(361)	(31,029)	(31,390)
Accumulated other comprehensive loss	(1,492)	–	(1,492)
TOTAL FUND BALANCES	**30,948**	**(31,093)**	**(145)**
TOTAL LIABILITIES AND FUND BALANCES	**33,585**	**(31,093)**	**2,492**

– = nil, ( ) = negative, OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.
Note: 0 = amount less than $0.5 million.
[a] Net of allowance for Heavily Indebted Poor Countries debt relief.

Contributed 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 provided for a substantial replenishment of the ADF to finance ADB's concessional program for 4 years from January 2013, and for replenishment of the TASF in conjunction with the ADF replenishment to finance TA operations under the TASF. The total replenishment of SDR8,415 million ($13,155 million equivalent at the exchange rates provided in the resolution) comprised SDR5,018 million ($7,844 million equivalent) financed from internal resources, SDR3,090 million ($4,831 million equivalent) from new donor contributions, and SDR307 million ($480 million equivalent) from net income transfers from OCR. The replenishment became effective on 4 June 2013. As of 31 December 2016, ADB had received instruments of contributions from all 32 donors. The remaining unpaid contributions under ADF IX, ADF X and ADF XI as of 31 December 2016 totaled $385 million.

ADF 12 Replenishment. The eleventh replenishment of the ADF (ADF 12) is the first replenishment in which the ADF will operate as a grant-only facility. In July 2016, the Board of Governors adopted Resolution No. 382 providing for ADF 12 and the sixth regularized replenishment of the TASF for 4 years from January 2017. The total replenishment of $3,798 million consists of $3,337 million for ADF 12 and $461 million for the TASF. The replenishment will be financed from donor contributions ($2,580 million equivalent at the exchange rates provided in the resolution), OCR net income transfer ($1,038 million), and income from liquidity investments ($180 million).

Currency management. Based on ADF's currency management framework, its resources are managed using the SDR basket of currencies (US dollar, euro, pound sterling, yen and yuan) as the basis. ADF donor contributions and loan reflows received in currencies that are not part of the SDR basket are converted into one of the currencies in the basket to maintain the SDR-based liquidity portfolio. In addition, since 2006, 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 2016, 21 of 29 borrowing members agreed to the conversion. The outstanding balance of their SDR-converted loans amounted to $12,197 million. The SDR conversion option was discontinued on 1 January 2017. As of 31 December 2016, the eligible loans of eight borrowers totaled $2,684 million, or 9.8% of total disbursed and outstanding loans.

In anticipation of the termination of ADF lending operations and transfer of ADF loans and other assets to the OCR effective on 1 January 2017, a comprehensive review of ADF financial management and policies was undertaken and approved by the Board of Directors in February 2016. Since the US dollar has been adopted for ADF grant operations, starting in January 2017, ADF commitment authority and liquidity will be determined and managed in US dollars to mitigate commitment and disbursement risks.

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 had 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 was higher. Other terms were similar to those of regular ADF loans.

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

For hard-term ADF loans approved in 2016 and 2015, the interest rate is set at (i) 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. During 2016 and 2015, no loans were approved under this facility. The hard-term ADF facility has been discontinued effective January 2017.

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. Launched in 1996 by the International Development Association (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 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.

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 2016, the ADF had delivered $28 million under this arrangement, bringing the balance to $78 million. In line with the HIPC framework, the write-off of the loan principal and interest of the HIPC-related loans will continue to be undertaken when loan service payments fall due from 1 January 2017 to February 2028. This write-off will be borne by OCR.

Accelerated repayment of loans to Armenia, Azerbaijan, and Georgia. ADF loan agreements include a provision allowing ADB, subject to the approval of the Board of Directors, to modify the lending terms of the outstanding loans of a DMC when its per capita gross national income has exceeded ADB's operational cutoff for five consecutive years and the DMC has graduated from ADF assistance. This provision allows ADB to modify the loan repayment terms by increasing the principal due on each loan service payment date by 100% until the principal amount of the loan is fully repaid. Alternatively, ADB may—at the request of the borrower—increase the interest rate to the extent that it would yield the same grant element[11] as would be obtained under the principal option. In February 2016, the Board of Directors approved the application of this provision to the loans of Armenia, Azerbaijan, and Georgia starting 1 January 2017.

Additional currency choices for concessional OCR loans. In November 2016, the Board of Directors approved the provision of additional currency choices for eligible concessional OCR loans effective 1 January 2017, when the ADF lending operations are to be terminated and transferred to OCR. In addition to SDR as a liability currency, concessional OCR loan borrowers may also choose a loan liability currency in a currency that is available under ADB's London interbank offered rate-based product and is a currency that is available in the SDR basket, subject to ADB's confirmation of the availability of such currency. The eligible loans are (i) all concessional OCR loans for which formal loan negotiations are completed on or after 1 January 2017 (i.e., new loans) and (ii) all concessional loans for which formal loan negotiations are completed before 1 January 2017 that are not effective until 30 June 2017 (i.e., other eligible loans). At the end of 2016, there were 36 other eligible loans totaling $1,902 million (at 31 December 2016 exchange rate).

[11] The grant element is the level of concessionality of a loan measured by the difference between the sum of the present values of loan disbursements and loan service payments, expressed as a percentage of the present value of loan disbursements.

Commitment authority. 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 2016 was $243 million, compared with $436 million as of 31 December 2015 (Table 27). As the ADF lending operations will be terminated and transferred to OCR on 1 January 2017, the available commitment authority of $243 million is allocated between concessional loans ($228 million) and grants ($15 million) based on the unutilized allocation for concessional loans and grants.

Table 27: Asian Development Fund Commitment Authority[a]

31 December 2016 and 2015

($ million)

Item	**2016**	**2015**
Carryover of ADF X Commitment Authority[b]	743	766
ADF XI Contributions	3,150	2,345
ADF X Contributions[c]	176	174
ADF VIII and IX Contributions[d]	188	155
Internal Resources[e]	6,746	5,219
Savings and Cancellations	750	671
OCR Net Income Transfer	480	360
Credits from ANE Program	17	–
Total ADF Commitment Authority	12,248	9,691
Loans and Grants Committed	12,006	9,255
ADF Commitment Authority Available for Future Commitments	**243**[f]	**436**

– = nil, ADF = Asian Development Fund, ANE = accelerated note encashment, 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 2016 and 2015 exchange rates.

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

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

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

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

[f] The carry-over amount will be allocated as follows: (i) $228 million for concessional loans and (ii) $15 million for grants.

In May 2016, the Board of Governors approved the transfer of $120 million to the ADF as part of the net income allocation for OCR (2015: $120 million). In addition, $750 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 2016, deposited installments under ADF XI amounted to $893 million, and ADF XI promissory notes encashed totaled $705 million. About $71 million was transferred to the TASF.

Loan approvals, disbursements, and repayments. In 2016, 53 ADF loans totaling $2,556 million were approved compared with 43 ADF loans totaling $2,514 million in 2015. Disbursements during 2016 totaled $2,027 million, a decrease of 1.0% from $2,048 million in

2015. At the end of 2016, cumulative disbursements from ADF resources were $41,813 million. Loan repayments during 2016 totaled $1,363 million (2015: $1,242 million). At the end of 2016, outstanding ADF loans amounted to $27,367 million (2015: $27,270 million).

In 2016, MFFs for $100 million (2015: $211 million) were approved under the ADF and $283 million were reallocated to OCR (2015: $8 million were reallocated from OCR).[12] PFRs under the MFFs totaling $344 million were approved in 2016 (2015: $341 million). A total of $348 million was disbursed under the MFFs in 2016 (2015: $412 million).

Results-based lending. In 2016, two ADF loans for $141 million were approved under RBL (2015: one loan amounting to $88 million); disbursements totaled $45 million (2015: $47 million).

Project design facility. In April 2011, ADB established the PDF on a pilot basis to support project preparation, particularly detailed engineering designs, through PDA. ADF loans approved under the facility carry standard ADF interest rates. Payment of interest is deferred until the PDA is refinanced out of the loans proceeds, or other repayment terms take effect. In 2016, two loans totaling $7 million were approved under this facility (2015: nil).

Investment portfolio position. The ADF investment portfolio totaled $5,739 million at the end of 2016 compared with $6,030 million at the end of 2015.[13] About 21% of the portfolio was invested in bank deposits, and 79% in fixed-income securities. The annualized rate of return on ADF investments, including unrealized gains and losses, was 1.1% (2015: 0.7%).

Grants. In 2016, ADB approved 27 grants (2015: 15) totaling $518 million (2015: $358 million), of which $188 million were PFRs under MFFs (2015: $200 million) (footnote 12), while 18 grants (2015: 16) totaling $380 million (2015: $360 million) became effective, and $4 million (2015: $12 million) of undisbursed grants were written-back as savings on financially closed and/or cancelled projects.

Direct value-added official and other concessional cofinancing for ADF loans and grants. In 2016, $1,390 million (2015: $2,088 million) was mobilized in official loan and grant cofinancing for 41 ADF-financed projects (2015: 39) totaling $2,180 million (2015: $1,373 million).

B. Technical Assistance Special Fund

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

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

TASF Sixth Regularized Replenishment. In July 2016, as part of the ADF 12 replenishment, the donors agreed to allocate $461 million of the total replenishment size as the sixth replenishment of the TASF. The replenishment will cover 2017-2020.

Contributed resources. As of 31 December 2016, 31 donors had committed a total of $376 million to the TASF as part of the ADF XI and the fifth regularized replenishment of the TASF. Of the total committed contributions, $358 million had been received.

[12] These amounts are adjusted based on flexibility in the use of OCR and ADF funding.
[13] Includes securities purchased under resale arrangements.

As part of the ADF X and fourth regularized replenishment of TASF, $319 million of the total commitment of $339 million had been received as of 31 December 2016.

During the period, Pakistan made a direct voluntary contribution of $0.14 million. In addition, $40 million was allocated to the TASF as part of the OCR’s 2015 net income allocation, and $5 million was committed for the fifth regularized replenishment of the TASF. At the end of 2016, TASF resources totaled $2,440 million, of which $2,399 million was committed, leaving an uncommitted balance of $41 million ($147 million as of 31 December 2015) (Table 28).

Table 28: Technical Assistance Special Fund

Cumulative Resources

($ million)

Item	2016	2015
Regularized Replenishment Contributions	1,150	1,145
Allocations from OCR Net Income	989	949
Direct Voluntary Contributions	91	91
Income from Investment and Other Sources	213	204
Transfers from the TASF to the ADF	(3)	(3)
Total	**2,440**	**2,386**

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

Operations. Net TA commitments (approved and effective) increased from $124 million in 2015 to $145 million in 2016 for 180 TA projects and 48 supplementary approvals that were made effective during the year, net of $28 million (2015: $24 million) in write-backs of undisbursed TA for completed and canceled TA projects. Undisbursed TA, net of advances for TA increased to $354 million as of 31 December 2016 ($339 million as of 31 December 2015). The TASF financed 51% of all TA activities approved in 2016 (2015: 57%).

Investment position. As of 31 December 2016, the total investment portfolio, which was in time deposits, amounted to $302 million, compared with $367 million at the end of 2015. Revenue from investments for 2016 and 2015 amounted to $2 million.

C. Japan Special Fund

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

Contributed resources. As of 31 December 2016, Japan’s cumulative contribution to the fund since inception amounted to ¥113 billion ($974 million equivalent), comprising regular contributions of ¥95 billion ($823 million equivalent) and supplementary contributions of ¥18 billion ($151 million equivalent). The uncommitted balance was $69 million as of 31 December 2016 ($68 million as of 31 December 2015).

Operations. In 2016 and 2015, no new TA projects or grants were approved or made effective. However, $1 million was written back for financially completed and cancelled projects in 2016 (2015: $3 million). Undisbursed TA, net of advances for TA as of 31 December 2016 were $1 million, compared with $3 million as of the end of 2015.

Investment position. As of 31 December 2016 and 2015, the total investment portfolio, which was in time deposits, remained at $69 million.

D. ADB Institute

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

In July 2016, the Government of Japan committed its 27th contribution for ¥672 million ($7 million equivalent) and in December 2016, committed its 28th contribution for ¥672 million ($6 million equivalent). In November 2016, the Government of Republic of Korea committed the second installment of its 2nd contribution for $0.7 million.

As of 31 December 2016, cumulative contributions committed to ADBI amounted to ¥27 billion, A$2 million, and $3 million (about $253 million equivalent). Of the total contributions received, $234 million had been used by the end of 2016 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 $10 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. There were no new contributions to RCIF in 2016 and 2015. As of 31 December 2016, RCIF resources totaled $63 million, of which $57 million had been used, leaving an uncommitted balance of $6 million ($8 million as of 31 December 2015).

Operations. In 2016, net TA expenses totaled $1.9 million (2015: $0.1 million), comprising three TA projects and two supplementary approvals totaling $2.8 million that became effective, and a $0.9 million write-back on financially completed and/or cancelled projects (2015: two TA projects and one supplementary approval totaling $1.4 million, and a $1.3 million write-back). The balance of undisbursed grants, net of grant advances as of 31 December 2016 amounted to $8 million (2015: $9 million).

Investment position. As of 31 December 2016, the total investment portfolio, which was in time deposits, amounted to $12 million ($15 million as of end of 2015).

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. There were no new contributions to CCF in 2016 and 2015. As of 31 December 2016, CCF resources totaled $60 million, of which $52 million had been used, leaving an uncommitted balance of $8 million ($11 million as of 31 December 2015).

Operations. In 2016, two TA projects and two supplementary approvals totaling $2.2 million (2015: nil) became effective, and $0.7 million of financially completed and/or cancelled projects was written-back (2015: $0.8 million write-back only). The balance of undisbursed grants and TA, net of advances as of 31 December 2016 amounted to $10 million (2015: $11 million).

Investment position. As of 31 December 2016, the total investment portfolio, which was in time deposits, amounted to $17 million ($21 million as of 31 December 2015).

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. There were no new contributions to APDRF in 2016 (2015: $20 million). As of 31 December 2016, fund resources totaled $60 million, of which $52 million had been used, leaving an uncommitted balance of $8 million ($17 million as of 31 December 2015).

Operations. In 2016, five grants amounting to $9.2 million became effective (2015: three grants totaling $7 million). All undisbursed grants as of 31 December 2016 and 2015 have been advanced.

Investment position. As of 31 December 2016, the total investment portfolio, which was in time deposits amounted to $7 million (2015: $11 million).

H. Financial Sector Development Partnership Special Fund

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

Contributed resources. In 2016, the Government of Luxembourg committed $3 million equivalent (2015: $2 million equivalent) of contributions to the fund. As of 31 December 2016, fund resources totaled $14 million, of which $7 million had been used, leaving an uncommitted balance of $7 million (2015: $7 million as of 31 December 2015).

Operations. In 2016, seven TA projects totaling $3 million (2015: two TA projects and three supplementary approvals totaling $2 million) became effective, and $0.2 million (2015: $0.1 million) of financially completed and/or cancelled projects were written-back. The balance of undisbursed grants, net of advances as of 31 December 2016 amounted to $4 million ($2 million as of 31 December 2015).

Investment position. As of 31 December 2016, the total investment portfolio amounted to $8 million ($5 million as of 31 December 2015).

V. GRANT COFINANCING

Trust funds and project-specific grants are key instruments to mobilize and channel financial resources from external sources to finance TA and components of investment projects. They play an important role in complementing ADB's own resources. Multilateral, bilateral, and private sector partners have contributed about $7,428 million in grants and loans to ADB operations (Table 29). In 2016, grant cofinancing for ADB-approved projects totaled $952 million, comprising $148 million for 102 TA projects and $804 million for components of 40 investment projects. By the end of 2016, ADB was administering 42 trust funds, comprising 31 stand-alone trust funds,[14] and 11 trust funds established under financing partnership facilities. Of these, 27 have balances totaling $611 million in grants. Additional grant resources from external partners totaled $362 million in 2016, comprising $15 million in new commitments, $221 million in replenishments to existing trust funds, and $126 million in additional allocation from global funding initiatives.

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

(i) $105 million from ANA Trust Fund for the Afghanistan Infrastructure Trust Fund;
(ii) $58.8 million from the Government of Japan for the Afghanistan Infrastructure Trust Fund, Japan Fund for Poverty Reduction, Japan Fund for the Joint Crediting Mechanism, and Japan Scholarship Program;
(iii) $40 million from the Government of the United States for the Afghanistan Infrastructure Trust Fund;
(iv) $14.5 million form the Government of the Republic of Korea for the e-Asia and Knowledge Partnership Fund;
(v) $7.8 million from the Nordic Development Fund for the Project Readiness Improvement Trust Fund;
(vi) $7.1 million from the Government of Australia as new contribution for the Asia Pacific Project Preparation Facility;
(vii) $2.5 million from the Government of Norway for the Clean Energy Fund under the Clean Energy Financing Partnership Facility; and
(viii) $0.5 million from the Government of France for the Cooperation Fund Project Preparation in the Greater Mekong Subregion and in Other Specific Asian Countries.

Additional allocations from global funding initiatives comprised $76 million from the Climate Investment Funds, $31 million from the Green Climate Fund, $18 million from the Global Environment Facility, and $0.5 million from the Global Partnership for Education.

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 add value to projects financed by ADB. In 2010, the JFPR expanded its scope of grant assistance to provide TA grants in addition to project grants. At the end of 2016, the JFPR received a total of $742 million in contributions from the Government of Japan, and funded 174 grant projects and 224 technical assistance projects.

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

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 2016, Japan has contributed $172 million and 3,526 scholarships were awarded to recipients from 37 member countries. Of the total, 3,180 have completed their courses. Women have received 1,317 scholarships. An average of 144 new scholarships per year has been awarded since 2007. As of 2016, JSP has 29 participating institutions in 10 countries.

Table 29: Schedule of Cumulative Contributions from External Sources
As of 31 December 2016
($ million)

Item	Contribution	Item	Contribution
Administered by ADB[a]			
Country		**Nonsovereign entities and**	
Australia	782.5	**external trust funds**	
Austria	19.6	Bill and Melinda Gates Foundation	15.0
Belgium	19.8	Clean Technology Fund	1,028.1
Brunei Darussalam	0.3	Eneco Energy Trade B.V.	13.6
Canada	258.7	Global Agriculture and Food	
China, People's Republic of	40.1	Security Program	41.8
Denmark	34.7	Global Environment Fund	215.4
European Community	444.6	Global Partnership for Education Fund	0.4
Finland	64.6	Special Climate Change Fund	11.2
France	37.2	Least Developed Countries Fund	14.3
Germany	0.5	International Fund for Agricultural	
India	0.9	Development	0.5
Ireland	2.3	Nordic Development Fund	47.7
Italy	2.2	POSCO	20.0
Japan	1,226.9	Public Private Infrastructure	
Korea, Republic of	93.2	Advisory Facility	1.4
Luxembourg	8.3	Strategic Climate Fund	381.0
The Netherlands	395.9	Trust Fund for Forest	15.1
New Zealand	52.5	The Rockefeller Foundation	5.0
Norway	196.6	Other	14.9
Portugal	0.6	Subtotal	1,825.2
Spain	31.5		
Sweden	250.0	**Grand Total**	**7,427.6**
Switzerland	60.5		
United Kingdom and			
Northern Ireland	1,278.6		
United States	299.6		
Subtotal	5,602.3		

ADB = Asian Development Bank.
Note: Numbers may not sum precisely because of rounding.
[a] Excludes capital contributions to Credit Guarantee and Investment Facility.

ORDINARY CAPITAL RESOURCES
CONDENSED MANAGEMENT REPORTING BALANCE SHEETS

As of 31 December 2016 and 2015

($ million)

	2016			2015
Item	**Statutory Reporting Basis**	**Adjustments[a]**	**Management Reporting Basis**	**Management Reporting Basis**
Due from banks	661	–	661	753
Investments for liquidity purpose	26,025	–	26,025	23,309
Securities purchased under resale arrangements	102	–	102	126
Loans outstanding — operations	67,547	–	67,547	61,889
Unamortized net loan origination costs, less allowance for loan losses	52	–	52	52
Equity investments — operations	814	(27)	787	839
Other debt securities — operations	150	–	150	6
Accrued interest receivable	387	–	387	261
Derivative Assets				
Borrowings	19,942	(760)	19,182	20,599
Investments for liquidity purpose	8,542	(36)	8,506	7,091
Loans — operations	659	(20)	639	748
Other assets	973	676	1,649	1,761
TOTAL	**125,854**	**(167)**	**125,687**	**117,434**
Borrowings and accrued interest	74,476	(536)	73,940	65,240
Derivative Liabilities				
Borrowings	23,385	(575)	22,810	24,906
Investments for liquidity purpose	8,109	(61)	8,048	6,631
Loans — operations	585	(24)	561	582
Payable for swap related collateral	605	–	605	494
Accounts payable and other liabilities	1,480	–	1,480	1,431
Total Liabilities	**108,640**	**(1,196)**	**107,444**	**99,284**
Paid-in capital	6,399	676	7,075	7,293
Net notional maintenance of value receivable	(1,474)	–	(1,474)	(1,616)
Ordinary reserve	12,211	2	12,213	11,984
Special reserve	340	–	340	322
Loan loss reserve	172	–	172	215
Surplus	1,065	–	1,065	1,065
Cumulative revaluation adjustments account	88	(88)	–	–
Net (loss) income[b]	(11)	513	502	324
Accumulated other comprehensive loss	(1,576)	(74)	(1,650)	(1,437)
Total Equity	**17,214**	**1,029**	**18,243**	**18,150**
TOTAL	**125,854**	**(167)**	**125,687**	**117,434**

– = 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 from equity investment with associated derivative, and nonnegotiable, and noninterest-bearing demand obligations on account of subscribed capital.

[b] Net (loss) income after appropriation of guarantee fees to the Special Reserve.

Financial Statements

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ORDINARY CAPITAL RESOURCES
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements 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 and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

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Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have 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, 2016 and 2015 and the related statements of income and expenses, comprehensive (loss) income, changes in equity and cash flows, for the years then ended and the related notes to the financial statements. Our report dated March 17, 2017 expressed an unmodified opinion on those financial statements.

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

Deloitte.

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INDEPENDENT AUDITOR'S 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, 2016 and 2015, and the related statements of income and expenses, comprehensive (loss) income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's 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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's 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 of summary statements of loans and summary statements of borrowings as of December 31, 2016 and 2015, and statement of subscriptions to capital stock and voting power as of December 31, 2016 are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

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

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
BALANCE SHEET
31 December 2016 and 2015
Expressed in Millions of US Dollars

A S S E T S

	2016		2015	
DUE FROM BANKS (Note C)		$ 661		$ 753
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes D, J, O, and R)				
Government or government-guaranteed obligations	$ 23,730		$ 20,635	
Time deposits	863		1,308	
Other securities	1,432	26,025	1,366	23,309
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Notes D and R)		102		126
LOANS OUTSTANDING — OPERATIONS (OCR-6) (Notes A, F, J, R, T, and U) (Including net unamortized loan origination costs of $97 – 2016 and $86 – 2015)				
Sovereign	62,413		57,555	
Nonsovereign	5,231		4,420	
	67,644		61,975	
Less—allowance for loan losses	45	67,599	34	61,941
EQUITY INVESTMENTS — OPERATIONS (Notes A, H, R, T, and U)		814		862
OTHER DEBT SECURITIES — OPERATIONS (Notes I, R, T, and U)		150		6
ACCRUED INTEREST RECEIVABLE				
Investments for liquidity purpose	101		77	
Loans — Operations	286	387	184	261
DERIVATIVE ASSETS (Notes J, L, and R)				
Borrowings	19,942		21,664	
Investments for liquidity purpose	8,542		7,112	
Loans — Operations	659	29,143	762	29,538
OTHER ASSETS				
Property, furniture, and equipment (Note K)	163		168	
Investment related receivables	11		10	
Swap related collateral (Notes J and R)	605		494	
Miscellaneous (Notes G, P, and R)	194	973	229	901
TOTAL		**$ 125,854**		**$ 117,697**

Note: Certain reclassifications have been made to conform to current year's presentation.
The accompanying notes are an integral part of these financial statements (OCR-9).

LIABILITIES AND EQUITY

	2016		2015	
BORROWINGS (OCR-7) (Notes J, L, and R)				
At amortized cost	$ 5,177		$ 4,259	
At fair value	69,299	$ 74,476	61,795	$ 66,054
DERIVATIVE LIABILITIES (Notes J, L, and R)				
Borrowings	23,385		24,985	
Investments for liquidity purpose	8,109		6,679	
Loans — Operations	585	32,079	608	32,272
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Investment related payables	11		10	
Swap related collateral (Notes J and R)	605		494	
Accrued pension and postretirement medical benefit costs (Note Q)	1,297		1,258	
Miscellaneous (Notes G, K, P, and R)	172	2,085	163	1,925
TOTAL LIABILITIES		108,640		100,251
EQUITY (OCR-4)				
Capital stock (OCR-8) (Note M)				
Authorized (SDR106,389)				
Subscribed (SDR106,149, less temporary reduction of nil ─ 2016 and SDR117 ─ 2015)	142,699		147,052	
Less—“callable” shares subscribed (SDR100,827, less temporary reduction of nil ─ 2016 and SDR112 ─ 2015)	135,545		139,678	
“Paid-in” shares subscribed (SDR5,322, less temporary reduction of nil ─ 2016 and SDR5 ─ 2015)	7,154		7,374	
Less—capital transferred to the Asian Development Fund and discount	79		81	
	7,075		7,293	
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital (Note M)	(676)		(860)	
	6,399		6,433	
Net notional amounts required to maintain value of currency holdings (Note M)	(1,474)		(1,616)	
Ordinary reserve (Note N)	12,211		11,981	
Special reserve (Note N)	340		322	
Loan loss reserve (Note N)	172		215	
Surplus (Note N)	1,065		1,065	
Cumulative revaluation adjustments account (Note N)	88		(125)	
Net (loss) income after appropriation (OCR-4) (Note N)	(11)		537	
Accumulated other comprehensive loss (Note N)	(1,576)	17,214	(1,366)	17,446
TOTAL		**$ 125,854**		**$ 117,697**

OCR-2

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF INCOME AND EXPENSES
For the Years Ended 31 December 2016 and 2015
Expressed in Millions of US Dollars

	2016		2015	
REVENUE (Note O)				
From loans — operations (Notes F and J)				
Interest	$ 1,051		$ 673	
Commitment charge	46		49	
Other, net	(43)	$ 1,054	(44)	$ 678
From investments for liquidity purpose (Notes D and J)				
Interest		399		322
From guarantees — operations		18		19
From equity investments — operations		18		(19)
From other debt securities — operations		0		–
From other sources—net (Notes F and S)		43		29
TOTAL REVENUE		$ 1,532		$ 1,029
EXPENSES (Note O)				
Borrowings and related expenses (Notes J and L)		(751)		(374)
Administrative expenses (Notes K, N, and Q)		(390)		(383)
(Provision for) Write-back of loan losses (Note F)		(11)		1
Other expenses		(11)		(12)
TOTAL EXPENSES		(1,163)		(768)
NET REALIZED GAINS				
From investments for liquidity purpose (Notes D, J, N, and O)		53		43
From equity investments — operations (Notes N and O)		107		12
From other debt securities — operations		(2)		–
From borrowings (Note J)		0		1
NET REALIZED GAINS		158		56
NET UNREALIZED (LOSSES) GAINS (Notes H, J, L, and O)		(520)		239
NET INCOME		**$ 7**		**$ 556**

Note: 0 = less than $0.5 million. Certain reclassifications have been made to conform to current year's presentation.
The accompanying notes are an integral part of these financial statements (OCR-9).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF COMPREHENSIVE (LOSS) INCOME
For the Years Ended 31 December 2016 and 2015
Expressed in Millions of US Dollars

	2016			2015		
NET INCOME (OCR-2)			$ 7			$ 556
Other comprehensive loss (Note N)						
Unrealized holding losses:						
From investments for liquidity purpose	$ (153)			$ (100)		
From equity investments — operations	20			(26)		
From debt securities — operations	(1)	(134)		1	$ (125)	
Postretirement benefit liability adjustments		(58)			133	
Currency translation adjustments		(18)	(210)		(136)	(128)
COMPREHENSIVE (LOSS) INCOME			**$ (203)**			**$ 428**

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

OCR-4

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF CHANGES IN EQUITY
For the Years Ended 31 December 2016 and 2015
Expressed in Millions of US Dollars (Note M)

	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 Appro-priations	Accumulated Other Compre-hensive Loss	Total
Balance, 1 January 2015	**$ 7,229**	**$ (1,098)**	**$ (1,537)**	**$ 11,559**	**$ 303**	**$ 230**	**$ 1,065**	**$ 59**	**$ 366**	**$ (1,238)**	**$ 16,938**
Comprehensive income (OCR-3, Note N)									556	(128)	428
Appropriation of guarantee fees (Note N)					19				(19)		–
Change in subscription installments not due and paid-in shares	321	(74)									247
Effect of change in SDR/USD rate on capital transferred to ADF	3			(3)							–
Effect of change in SDR/USD rate on paid-in capital	(262)		221	41							–
Encashment of demand obligations		257									257
Change in US dollar value (Note M)	2	55	(300)								(243)
Allocation of prior year income (Note N)				384		(15)		(183)	(186)		–
Allocation of prior year income to ADF, TASF, and APDRF (Note N)									(180)		(180)
Balance, 31 December 2015	**$ 7,293**	**$ (860)**	**$ (1,616)**	**$ 11,981**	**$ 322**	**$ 215**	**$ 1,065**	**$ (125)**	**$ 537**	**$ (1,366)**	**$ 17,446**
Comprehensive loss (OCR-3, Note N)									7	(210)	(203)
Appropriation of guarantee fees (Note N)					18				(18)		–
Change in subscription installments not due and paid-in shares	6										6
Effect of change in SDR/USD rate on capital transferred to ADF	2			(2)							–
Effect of change in SDR/USD rate on paid-in capital	(226)		201	25							–
Encashment of demand obligations		189									189
Change in US dollar value (Note M)	(0)	(5)	(59)								(64)
Allocation of prior year income (Note N)				208		(43)		213	(377)		–
Allocation of prior year income to ADF and TASF (Note N)									(160)		(160)
Balance, 31 December 2016	**$ 7,075**	**$ (676)**	**$ (1,474)**	**$ 12,211**	**$ 340**	**$ 172**	**$ 1,065**	**$ 88**	**$ (11)**	**$ (1,576)**	**$ 17,214**

ADF = Asian Development Fund, APDRF = Asia Pacific Disaster Response Fund, SDR = Special Drawing Rights, TASF = Technical Assistance Special Fund, US = United States.
Notes: Numbers may not sum precisely because of rounding. 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 2016 and 2015
Expressed in Millions of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and other charges on loans — operations received	$ 892	$ 613
Interest on investments for liquidity purpose received	376	341
Interest received from securities purchased under resale/ repurchase agreement	0	0
Interest and other charges on other debt securities — operations received	1	–
Interest and other financial expenses paid	(577)	(281)
Administrative expenses paid	(342)	(346)
Others—net	23	27
Net Cash Provided by Operating Activities	373	354
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments for liquidity purpose	13,549	12,377
Maturities of investments for liquidity purpose	154,893	161,404
Purchases of investments for liquidity purpose	(171,269)	(174,752)
Receipts from securities purchased under resale arrangements	27,484	125,837
Payments for securities purchased under resale arrangements	(27,468)	(124,743)
Principal collected on loans — operations	4,129	3,479
Loans — operations disbursed	(9,693)	(9,623)
Receipts from derivatives	11	438
Payments for derivatives	(41)	–
Property, furniture, and equipment acquired	(15)	(17)
Purchases of equity investments — operations	(79)	(124)
Purchases of other debt securities — operations	(148)	–
Sales of equity investments — operations	261	74
Net Cash Used in Investing Activities	(8,386)	(5,650)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from new borrowings	28,963	23,175
Borrowings redeemed	(19,945)	(16,583)
Capital subscriptions collected[1]	6	243
Issuance expenses paid	(26)	(25)
Demand obligations of members encashed	189	257
Receipts from derivatives	48	95
Payments for derivatives	(1,115)	(1,315)
Resources transferred to ADF	(120)	(120)
Resources transferred to TASF	(40)	(40)
Resources transferred to APDRF	–	(20)
Net Cash Provided by Financing Activities	7,960	5,667
Effect of Exchange Rate Changes on Due from Banks	(39)	(35)
Net (Decrease) Increase in Due from Banks	(92)	336
Due from Banks at Beginning of Year	753	417
Due from Banks at End of Year	$ 661	$ 753
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (OCR-2)	$ 7	$ 556
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	47	86
Provision for losses charged (written back)—net	11	(1)
Net realized gains	(158)	(56)
Proportionate share in (earnings) losses on equity investments — operations	(15)	28
Net unrealized losses (gains)	520	(239)
Change in accrued revenue from loans — operations, investments for liquidty purpose, other debt securities — operations, and other swaps	(219)	(85)
Change in receivable from ADF— allocation of administrative expenses	47	(10)
Change in accrued interest on borrowings and swaps, and other expenses	212	(34)
Change in pension and postretirement benefit liability	(57)	132
Others—net	(22)	(23)
Net Cash Provided by Operating Activities	$ 373	$ 354

ADF = Asian Development Fund, APDRF = Asia Pacific Disaster Response Fund, TASF = Technical Assistance Special Fund.
Note: 0 = less than $0.5 million.
Certain reclassifications have been made to conform to current year's presentation.
Supplementary disclosure of noncash financing activities:
[1] There were no nonnegotiable, noninterest-bearing demand promissory notes received from members in 2016 ($74 million – 2015).
The accompanying notes are an integral part of these financial statements (OCR-9).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
SUMMARY STATEMENT OF LOANS — OPERATIONS
31 December 2016 and 2015
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	$ 189	$ 311	$ 52	$ 552	0.52
Azerbaijan	1,867	875	595	3,337	3.15
Bangladesh	2,221	1,844	545	4,610	4.36
Bhutan	59	61	–	120	0.11
Cambodia	54	–	4	58	0.05
China, People's Republic of	16,721	5,762	2,044	24,527	23.17
Cook Islands	21	8	10	39	0.04
Fiji	123	152	39	314	0.30
Georgia	506	325	99	930	0.88
India	15,223	5,779	3,618	24,620	23.26
Indonesia	8,932	1,632	70	10,634	10.05
Kazakhstan	2,525	203	456	3,184	3.01
Kyrgyz Republic	–	10	–	10	0.01
Lao People's Democratic Republic	104	73	–	177	0.17
Malaysia	34	–	–	34	0.03
Micronesia, Federated States of	7	2	–	9	0.01
Mongolia	253	306	–	559	0.53
Myanmar	203	47	177	427	0.40
Pakistan	4,823	2,566	1,308	8,697	8.22
Palau	18	36	–	54	0.05
Papua New Guinea	418	179	284	881	0.83
Philippines	5,530	1,272	310	7,112	6.72
Sri Lanka	1,647	1,013	460	3,120	2.95
Tajikistan	–	–	5	5	0.00
Thailand	799	0	249	1,048	0.99
Timor-Leste	40	95	–	135	0.13
Turkmenistan	113	0	–	113	0.11
Uzbekistan	1,792	1,672	298	3,762	3.55
Viet Nam	3,276	2,663	733	6,672	6.30
	67,498	26,886	11,356	105,740	99.90
Regional	49	12	40	101	0.10
TOTAL – 31 December 2016	67,547	26,898	11,396	105,841	**100.00**
Allowance for loan losses	(45)	–	–	(45)	
Unamortized loan origination cost—net	97	–	–	97	
NET BALANCE – 31 December 2016	**$ 67,599**	**$ 26,898**	**$ 11,396**	**$ 105,893**	
Made up of:					
Sovereign Loans	$ 62,413	$ 25,575	$ 8,953	$ 96,941	
Nonsovereign Loans					
Private Sector	4,775	1,140	1,443	7,358	
Public Sector	411	183	1,000	1,594	
NET BALANCE – 31 December 2016	$ 67,599	$ 26,898	$ 11,396	$ 105,893	
TOTAL – 31 December 2015	$ 61,889	$ 25,911	$ 10,099	$ 97,899	
Allowance for loan losses	(34)	–	–	(34)	
Unamortized loan origination cost—net	86	–	–	86	
NET BALANCE – 31 December 2015	**$ 61,941**	**$ 25,911**	**$ 10,099**	**$ 97,951**	
Made up of:					
Sovereign Loans	$ 57,555	$ 24,334	$ 8,235	$ 90,124	
Nonsovereign Loans					
Private Sector	3,968	1,483	1,344	6,795	
Public Sector	418	94	520	1,032	
Net Balance – 31 December 2015	$ 61,941	$ 25,911	$ 10,099	$ 97,951	

1 Amounts outstanding on the pool-based loans totaled $2,175 million ($2,781 million – 2015) and on LIBOR-based and local currency loans totaled $65,372 million ($59,108 million – 2015). The average yield on loans was 1.65% (1.16% – 2015).

2 Refer to the unwithdrawn portions of effective loans as of 31 December 2016. Of the undisbursed balances, ADB has made irrevocable commitments to disburse various amounts totaling $401 million ($575 million – 2015).

3 Loans totaling $8,506 million ($6,209 million – 2015) have been approved by ADB, but the related agreements have not been signed. Agreements for loans totaling $2,890 million ($3,890 million – 2015) 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).

MATURITY OF EFFECTIVE LOANS AS OF 31 DECEMBER 2016

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2017	$ 4,030	2026	25,962
2018	4,593	2031	22,817
2019	6,022	2036	14,004
2020	6,807	2041	3,841
2021	6,085	over 2041	284
		Total	**$ 94,445**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING — OPERATIONS

Currency	2016	2015
Yuan	$ 459	$ 479
Euro	51	56
Lari	62	42
Yen	927	1,259
Indian rupee	122	105
Rupiah	12	17
Tenge	–	65
New Zealand dollar	21	22
Philippine peso	38	7
Baht	280	273
US dollar	65,575	59,564
Total	**$ 67,547**	**$ 61,889**

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
SUMMARY STATEMENT OF BORROWINGS
31 December 2016 and 2015
Expressed in Millions of US Dollars

	Borrowings		Swap Arrangements[2]			
	Principal Outstanding[1]		Payable (Receivable)[3]		Net Currency Obligation[3]	
	2016	2015	2016	2015	2016	2015
Australian dollar	$ 7,618	$ 8,750	$ (7,617)	$ (8,773)	$ 1	$ (23)
Brazilian real	1,297	874	(1,292)	(874)	5	(0)
Canadian dollar	1,409	1,391	(1,435)	(1,412)	(26)	(21)
Yuan	576	552	(116)	12	473	484
			13	(80)		
Euro	1,822	1,819	(1,826)	(1,827)	(4)	(8)
Hong Kong dollar	239	10	(239)	(10)	0	0
Indian rupee	427	45	–	–	427	45
Yen	1,024	1,026	1,155	1,317	1,201	1,401
			(978)	(942)		
Ringgit	114	120	(114)	(120)	0	(0)
Mexican peso	220	264	(232)	(294)	(12)	(30)
New Zealand dollar	1,778	1,730	(1,784)	(1,736)	(6)	(6)
Norwegian krone	118	118	(117)	(118)	1	(0)
Pound sterling	846	1,675	(845)	(1,675)	1	0
Singapore dollar	759	343	(757)	(343)	2	(0)
South African rand	193	319	(192)	(319)	1	(0)
Swiss franc	271	769	(283)	(291)	(12)	478
Baht	–	29	–	(29)	–	(0)
Turkish lira	627	855	(625)	(856)	2	(1)
Lari	62	42	–	–	62	42
US dollar	55,076	45,323	22,217	23,656	75,803	67,014
			(1,490)	(1,965)		
Total	**$ 74,476**	**$ 66,054**	**$ 3,443**	**$ 3,321**	**$ 77,919**	**$ 69,375**

Note: 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:

	Aggregate Face Amount		Discounted Value	
Currency	2016	2015	2016	2015
Australian dollar	$ 331	$ 335	$ 284	$ 274
Brazilian real	188	154	165	120
Euro	26	–	26	–
South African rand	15	149	13	144
Swiss franc	–	495	–	492
Turkish lira	286	415	265	376
Mexican peso	142	170	114	132
US dollar	1,610	1,848	1,690	1,348

The average cost of borrowings after swaps was 1.68% (0.19% - 2015).

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MATURITY STRUCTURE OF BORROWINGS OUTSTANDING AS OF 31 DECEMBER 2016[4]

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2017	$ 18,548	2026	$ 8,254
2018	16,963	2031	2,547
2019	11,706	2036	46
2020	9,541	over 2036	–
2021	6,871	**Total**	**$ 74,476**

INTEREST RATE SWAP ARRANGEMENTS AS OF 31 DECEMBER 2016

	Notional Amount	Average Rate (%) Receive	Average Rate (%) Pay Floating[5]	Maturing Through[6]
Receive Fixed Swaps:				
Australian dollar[7]	$ 43	2.64	(0.32)	2027-2032
Yuan	143	3.88	2.39	2019-2020
US dollar	51,545	1.47	0.89	2017-2046
US dollar[8]	17	2.45	(0.31)	2027
Receive Floating Swaps:				
Yen	34	4.22	(0.35)	2032
US dollar	9,819	0.79	0.90	2017-2021
Total	**$ 61,601**			

[2] Include currency and interest rate swaps. At 31 December 2016, the remaining maturity of swap agreements range from less than one year to 20 years. Approximately 82% of the swap receivables and 83% of the payables are due before 1 January 2022.
[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 2016
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	$ 48.2	$ 41.8	$ 6.4	43,192	0.326
Armenia	31,671	0.298	425.8	404.4	21.3	71,278	0.537
Australia	614,220	5.786	8,257.1	7,844.2	412.9	653,827	4.928
Azerbaijan	47,208	0.445	634.6	602.8	31.8	86,815	0.654
Bangladesh	108,384	1.021	1,457.0	1,384.2	72.9	147,991	1.115
Bhutan	660	0.006	8.9	8.3	0.6	40,267	0.303
Brunei Darussalam	37,386	0.352	502.6	477.4	25.2	76,993	0.580
Cambodia	5,250	0.049	70.6	64.7	5.9	44,857	0.338
China, People’s Republic of	684,000	6.444	9,195.2	8,735.3	459.9	723,607	5.454
Cook Islands	282	0.003	3.8	3.6	0.2	39,889	0.301
Fiji	7,218	0.068	97.0	92.2	4.9	46,825	0.353
Georgia	36,243	0.341	487.2	462.8	24.4	75,850	0.572
Hong Kong, China	57,810	0.545	777.2	738.3	38.9	97,417	0.734
India	672,030	6.331	9,034.3	8,582.5	451.8	711,637	5.363
Indonesia	578,100	5.446	7,771.6	7,382.9	388.6	617,707	4.655
Japan	1,656,630	15.607	22,270.6	21,156.8	1,113.8	1,696,237	12.784
Kazakhstan	85,608	0.806	1,150.9	1,093.3	57.6	125,215	0.944
Kiribati	426	0.004	5.7	5.4	0.3	40,033	0.302
Korea, Republic of	534,738	5.038	7,188.6	6,829.2	359.5	574,345	4.329
Kyrgyz Republic	31,746	0.299	426.8	405.4	21.3	71,353	0.538
Lao People’s Democratic Republic	1,476	0.014	19.8	18.6	1.2	41,083	0.310
Malaysia	289,050	2.723	3,885.8	3,691.5	194.3	328,657	2.477
Maldives	426	0.004	5.7	5.4	0.3	40,033	0.302
Marshall Islands	282	0.003	3.8	3.6	0.2	39,889	0.301
Micronesia, Federated States of	426	0.004	5.7	5.4	0.3	40,033	0.302
Mongolia	1,596	0.015	21.5	20.4	1.1	41,203	0.311
Myanmar	57,810	0.545	777.2	738.3	38.9	97,417	0.734
Nauru	426	0.004	5.7	5.4	0.3	40,033	0.302
Nepal	15,606	0.147	209.8	199.3	10.5	55,213	0.416
New Zealand	163,020	1.536	2,191.5	2,081.9	109.6	202,627	1.527
Pakistan	231,240	2.178	3,108.6	2,953.2	155.5	270,847	2.041
Palau	342	0.003	4.6	4.4	0.2	39,949	0.301
Papua New Guinea	9,960	0.094	133.9	127.2	6.7	49,567	0.374
Philippines	252,912	2.383	3,400.0	3,230.0	170.0	292,519	2.205
Samoa	348	0.003	4.7	4.4	0.3	39,955	0.301
Singapore	36,120	0.340	485.6	461.3	24.3	75,727	0.571
Solomon Islands	708	0.007	9.5	9.0	0.5	40,315	0.304
Sri Lanka	61,560	0.580	827.6	786.2	41.4	101,167	0.762
Taipei,China	115,620	1.089	1,554.3	1,476.6	77.7	155,227	1.170
Tajikistan	30,402	0.286	408.7	388.2	20.5	70,009	0.528
Thailand	144,522	1.362	1,942.9	1,845.7	97.2	184,129	1.388
Timor-Leste	1,050	0.010	14.1	13.4	0.7	40,657	0.306
Tonga	426	0.004	5.7	5.4	0.3	40,033	0.302
Turkmenistan	26,874	0.253	361.3	343.2	18.1	66,481	0.501
Tuvalu	150	0.001	2.0	1.9	0.1	39,757	0.300
Uzbekistan	71,502	0.674	961.2	913.2	48.1	111,109	0.837
Vanuatu	708	0.007	9.5	9.0	0.5	40,315	0.304
Viet Nam	36,228	0.341	487.0	455.4	31.6	75,835	0.572
Total Regional (Forward)	**6,743,985**	**63.533**	**$ 90,661.4**	**$ 86,113.1**	**$ 4,548.3**	**8,645,121**	**65.155**

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MEMBERS	SUBSCRIBED CAPITAL Number of Shares	Percent of Total	Par Value Of Shares[1] Total	Callable	Paid-in	VOTING POWER Number of Votes	Percent of Total
Total Regional (Forward)	**6,743,985**	**63.533**	**$ 90,661.4**	**$ 86,113.1**	**$ 4,548.3**	**8,645,121**	**65.155**
NONREGIONAL							
Austria	36,120	0.340	485.6	461.3	24.3	75,727	0.571
Belgium	36,120	0.340	485.6	461.3	24.3	75,727	0.571
Canada	555,258	5.231	7,464.5	7,091.2	373.3	594,865	4.483
Denmark	36,120	0.340	485.6	461.3	24.3	75,727	0.571
Finland	36,120	0.340	485.6	461.3	24.3	75,727	0.571
France	247,068	2.328	3,321.4	3,155.3	166.1	286,675	2.161
Germany	459,204	4.326	6,173.2	5,864.5	308.7	498,811	3.759
Ireland	36,120	0.340	485.6	461.2	24.3	75,727	0.571
Italy	191,850	1.807	2,579.1	2,450.1	129.0	231,457	1.744
Luxembourg	36,120	0.340	485.6	461.2	24.3	75,727	0.571
The Netherlands	108,882	1.026	1,463.7	1,390.5	73.2	148,489	1.119
Norway	36,120	0.340	485.6	461.3	24.3	75,727	0.571
Portugal	12,040	0.113	161.9	150.5	11.4	51,647	0.389
Spain	36,120	0.340	485.6	461.3	24.3	75,727	0.571
Sweden	36,120	0.340	485.6	461.3	24.3	75,727	0.571
Switzerland	61,950	0.584	832.8	791.2	41.7	101,557	0.765
Turkey	36,120	0.340	485.6	461.3	24.3	75,727	0.571
United Kingdom	216,786	2.042	2,914.3	2,768.6	145.7	256,393	1.932
United States	1,656,630	15.607	22,270.6	21,156.8	1,113.8	1,696,237	12.784
Total Nonregional	**3,870,868**	**36.467**	**52,037.2**	**49,431.5**	**2,605.8**	**4,623,401**	**34.845**
TOTAL	**10,614,853**	**100.000**	**$142,698.7**	**$135,544.6**	**$ 7,154.1**	**13,268,522**	**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 2016 was $1.34433. (Notes B and M)

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 2016 and 2015

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 S). 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, investment in debt securities, and guarantees. ADB finances its ordinary operations through borrowings, paid-in capital, and reserves.

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

Combined ADF-OCR Lending Operations

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

Limitations on Loans, Guarantees, and Equity Investments

Article 12, paragraph 1 of the Charter provides that the total amount outstanding of loans, equity investments, and guarantees made by ADB shall not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. ADB's policy on lending limitations limits the total amount of disbursed loans, disbursed equity investments and related prudential buffer, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves and surplus exclusive of the special reserve. At 31 December 2016, the total of such loans (including other debt securities), equity investments and related prudential buffers, and guarantees aggregated approximately 44.4% (39.6% – 2015) 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 2016, such equity investments represented approximately 6.3% (6.7% – 2015) of the paid-in capital, reserves, and surplus, as defined.

continued

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

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

Certain reclassifications were made in 2015 to conform to current year's presentation.

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 O) and to the maintenance of special drawing right (SDR) capital values (Notes M and N), are charged or credited to Accumulated translation adjustments and reported in EQUITY as part of Accumulated other comprehensive loss.

Valuation of Capital Stock

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

As of 31 December 2016, the value of the SDR in terms of the US dollar was $1.34433 ($1.38686 – 2015) giving a value for each share of ADB's capital equivalent to $13,443.30 ($13,868.60 – 2015).

Derivative Financial Instruments

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

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continued

Investments for Liquidity Purpose

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

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

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

Securities Transferred Under Repurchase Agreements and Securities Purchased Under Resale Arrangements

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

Loans — Operations

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

It is the policy of ADB to place loans in non-accrual status for which principal, interest, or other charges are overdue by six months or in the case of loans that are not yet overdue, when there is expectation that interest and other charges will not be collected when they become due, at the point when such information is known. 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 collected. 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

continued

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 loan loss reserve in the EQUITY section of the balance sheet. Any adjustment to loan loss reserve following this methodology is subject to the approval of the Board of Governors.

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

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

Guarantees

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

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

Collateral

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

Equity Investments — Operations

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

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,

continued

Joint Ventures, and Limited Liability Entities" and direct equity investment that fall under the purview of ASC 323, "Investments—Equity Method and Joint Ventures."

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

Variable Interest Entities

ADB complies with ASC 810, "Consolidated Financial Statements." ASC 810 requires an entity to consolidate and provide disclosures for any Variable Interest Entity (VIE) for which it is the primary beneficiary. An entity is subject to the ASC 810 VIE Subsections and is considered a VIE if it (i) lacks equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) if holders of the equity investment at risk lack decision-making rights about the entity's activities that most significantly impact the entity's economic performance; or (iii) do not have the obligation to absorb the expected losses or the right to receive the residual returns of the entity proportionally to their voting rights. ASC 810 defines the primary beneficiary as the entity that both has the (i) power to direct the activities that most significantly impact the economic performance of the VIE and the (ii) obligation to absorb losses or the right to receive residual returns of the entity. As of 31 December 2016 and 2015, ADB did not identify any VIE in which ADB is the primary beneficiary, requiring consolidation in OCR financial statements.

ADB's variable interests can arise from equity investments, loans, guarantees, and other contractual agreements that change with the changes in the FV of the VIE's net assets exclusive of variable interests. ADB is required to disclose information about its involvement in VIEs where ADB holds significant variable interest (see Note T).

Other Debt Securities — Operations

Investments in other debt securities may be classified as held-to-maturity (HTM) or AFS based on the intent and ability of ADB to hold these securities to maturity. HTM securities are reported at amortized cost while AFS are reported at fair value.

Interest income on other debt securities is recognized as earned and reported, net of amortization of premiums and discounts, if any. In cases where front-end fees are collected, the fees are deferred and amortized over the life of the security after offsetting deferred direct origination costs.

Unrealized losses on other debt securities are assessed to determine whether the impairment is deemed to be other than temporary. If deemed to be other than temporary, the impairment is treated based on the classification. For HTM, the impairment related to credit loss is charged against income while the impairment related to other factors is recognized in other comprehensive income, which is accreted over the remaining life of the debt security. The accretion increases the carrying value of the security until it matures or is sold. For AFS, the impairment is charged against income and not reversed for subsequent recoveries in the value of the investment, until it is sold.

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.

continued

Borrowings

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

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

Fair Value of Financial Instruments

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

The Fair Value Option

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

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

Fair Value Hierarchy

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

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

continued

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

Accounting Estimates

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

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *“Revenue from Contracts with Customers (Topic 606)”* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12 and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on assessing collectability, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have material impact on OCR’s financial statements on effectivity.

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.”* This update eliminated diversity in practice by requiring to consider all of a hybrid instrument’s stated and implied substantive terms and features, including any embedded derivative features evaluated for bifurcation, in evaluating the nature of a host contract in a hybrid financial instrument. This update became effective on 1 January 2016 but had no impact to ADB's current practice, which has been consistent with the method prescribed in this update.

In February 2015, the FASB issued ASU 2015-02 *“Consolidation (Topic 810) – Amendments to the Consolidation Analysis,”* which amended the consolidation requirements and significantly changed the consolidation analysis required. The amendments reduced the number of consolidation models and placed more emphasis on risk of loss when determining a controlling financial interest. This update became effective on 1 January 2016 but did not have a material impact on OCR’s financial statements.

In April 2015, the FASB issued ASU 2015-03 *“Interest – Imputation of Interest (Subtopic 835-30) – Simplifying the Presentation of Debt Issuance Costs,”* and ASU 2015-05 *“Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) – Customer’s Accounting for Fees Paid in a Cloud Computing Arrangement,”* which became effective for OCR financial statements from 1 January 2016, with no material impact on OCR’s financial position, results of operations or cash flows. ASU 2015-03 required that debt issuance costs related to a recognized debt liability, currently reported as deferred charges, be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. It did not change the recognition and measurement guidance for debt issuance costs. ASU 2015-05 provided guidance to customers on accounting for cloud computing arrangement, giving consideration on whether the arrangement includes software license or not.

In January 2016, the FASB issued ASU 2016-01, “*Financial Instruments—Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities.*” This update enhances the

continued

reporting requirements for financial instruments. Specifically, this update (i) requires that investments in equity securities measured at FV recognize FV changes through net income, (ii) simplifies the impairment assessment of equity investments without readily determinable FV by requiring entities to perform a qualitative assessment to identify impairment, (iii) amends certain disclosure requirements associated with the FV of financial instruments, and (iv) requires to present separately in other comprehensive income the portion of the total change in the FV resulting from a change in the instrument-specific credit risk of liabilities that an entity has elected to measure at FV in accordance with the FV option. This update is effective for fiscal years beginning after 15 December 2017 and interim periods thereafter. Early adoption is permitted. ADB is currently assessing the impact of this ASU on OCR's financial statements.

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842).*" This amendment requires the recognition by lessees of lease assets and lease liabilities for the rights and obligations arising from operating leases with terms of more than 12 months. It also requires qualitative disclosures along with specific quantitative disclosures. This update is effective for fiscal years beginning after 15 December 2018 and interim periods thereafter. This ASU is not expected to have material impact on OCR's financial statements on effectivity.

In March 2016, the FASB issued the following ASUs which are effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after 15 December 2016. ASU 2016-06, "*Derivatives and Hedging (Topic 815) – Contingent Put and Call Options in Debt Instruments,*" requires the sole use of the four-step decision sequence in assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. ADB is currently assessing the impact of this ASU on OCR's financial statements. ASU 2016-07, "*Investments - Equity Method and Joint Ventures (Topic 323) – Simplifying the Transition to the Equity Method of Accounting,*" eliminates the requirement to retroactively adopt the equity method of accounting as a result of an increase in the level of ownership interest or degree of influence. This update will become effective for OCR financial statements from 1 January 2017.

In June 2016, the FASB issued ASU 2016-13, *"Financial Instruments – Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments,"* replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses on financial instruments and other commitments to extend credit. This update is effective for public business entities for fiscal years, and for interim periods within those fiscal years, beginning after 15 December 2019. Amendments in this update will be applied through a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective. ADB is currently assessing the impact of this ASU on OCR's financial statements and anticipates that the initial application will result in changes to the accounting policies and additional disclosures relating to loans, guarantees, AFS and HTM securities. It is currently impracticable to disclose any further information on the known or reasonably estimable impact to OCR's financial statements in the period of initial application as its detailed assessment has not been completed yet. ADB does not plan to early adopt this update.

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, *"Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments,"* provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, "*Statement of Cash Flows (Topic 230) – Restricted Cash*," requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on OCR's financial statements.

In January 2017, FASB issued ASU 2017-01, *"Business Combinations (Topic 805) – Clarifying the Definition of a Business,"* which clarifies the definition of a business to assist entities in evaluating whether transactions should be accounted for as acquisitions (or disposal) of assets or business. Amendments in

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this update should be applied prospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. No disclosures are required at transition. Early adoption is permitted. ADB is currently assessing the impact of this ASU on OCR's financial statements.

Also in January 2017, FASB issued ASU 2017-03, *"Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323) – Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings,"* which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13 will have on the entity's financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity's progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

In February 2017, the FASB issued ASU 2017-05 *"Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) – Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,"* which clarifies the scope of recognizing gains and losses from the transfer of nonfinancial assets and adds guidance for partial sales of nonfinancial assets. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. 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 current accounts in banks used for (i) operational disbursements, (ii) receipt of funds from encashment of members' promissory notes, and (iii) clearing accounts.

NOTE C—RESTRICTIONS ON USE OF CURRENCIES OF MEMBERS

In accordance with Article 24, paragraph 2(i) of the Charter, the use by ADB or by any recipient from ADB of certain currencies may be restricted by members to payments for goods or services produced and intended for use in their territories. With respect to the currencies of 40 DMCs for 2016 and 2015, cash in banks (due from banks) totaling $76 million ($88 million – 2015) may be, but are not currently so restricted.

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

NOTE D—INVESTMENTS FOR LIQUIDITY PURPOSE

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.

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

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continued

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 2016 were securities transferred under securities lending arrangements of government or government-guaranteed obligations totaling $42 million ($24 million – 2015).

The currency composition of the investment portfolio as of 31 December 2016 and 2015 expressed in US dollars was as follows:

($ million)

Currency	2016	2015
US dollar	$ 13,651	$ 12,677
Yen	7,096	5,779
Won	1,987	2,005
Euro	624	614
Australian dollar	622	598
Indian Rupee	450	180
Yuan	418	283
Canadian dollar	390	377
New Zealand dollar	286	274
Others	501	522
Total	**$ 26,025**	**$ 23,309**

The estimated FV and amortized cost of the investments by contractual maturity at 31 December 2016 and 2015 were as follows:

($ million)

	2016		2015	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	$ 8,481	$ 8,473	$ 7,279	$ 7,274
Due after one year through five years	15,735	15,870	15,735	15,758
Due after five years through ten years	1,809	1,831	282	265
Due after ten years through fifteen years	–	–	13	7
Total	**$ 26,025**	**$ 26,174**	**$ 23,309**	**$ 23,304**

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continued

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

($ million)	2016	2015
As of 31 December		
Amortized cost	$ 25,311	$ 21,997
Estimated fair value	25,162	22,001
Gross unrealized gains	67	85
Gross unrealized losses	(216)	(81)
For the year ended 31 December		
Change in net unrealized gains from prior year	(153)	(100)
Proceeds from sales	13,549	12,377
Gross gain on sales	56	43
Gross loss on sales	(3)	(1)

The table below provides a listing of investments that sustained unrealized losses as of 31 December 2016. Five government or government-guaranteed obligations (five – 2015), and two corporate obligations (31 – 2015) sustained unrealized losses for over one year, representing 1.86% (2.93% – 2015) of the total investments. Comparative details for 2016 and 2015 are as follows:

($ million)	One year or less		Over one year		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
2016						
Government or government-guaranteed obligations	$ 14,639	$ 208	$ 205	$ 3	$ 14,844	$ 211
Other securities						
Corporate obligations	383	5	280	0	663	5
Total	**$ 15,022**	**$ 213**	**$ 485**	**$ 3**	**$ 15,507**	**$ 216**
2015						
Government or government-guaranteed obligations	$ 10,142	$ 69	$ 164	$ 6	$ 10,306	$ 75
Other securities						
Corporate obligations	645	4	518	2	1,163	6
Total	**$ 10,787**	**$ 73**	**$ 682**	**$ 8**	**$ 11,469**	**$ 81**

0 = less than $0.5 million.

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continued

Fair Value Disclosure

The fair value of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2016 and 2015 was as follows:

($ million)

		Fair Value Measurements		
2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments for liquidity purpose				
Government or government-guaranteed obligations	$ 23,730	$ 22,251	$ 1,479	$ –
Time deposits	863	–	863	–
Other securities	1,432	1,179	253	–
Securities purchased under resale arrangements	102	–	102	–
Total at fair value	**$ 26,127**	**$ 23,430**	**$ 2,697**	**$ –**
2015				
Investments for liquidity purpose				
Government or government-guaranteed obligations	$ 20,635	$ 19,303	$ 1,332	$ –
Time deposits	1,308	–	1,308	–
Other securities	1,366	1,353	13	–
Securities purchased under resale arrangements	126	–	126	–
Total at fair value	**$ 23,435**	**$ 20,656**	**$ 2,779**	**$ –**

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

OCR’s INVESTMENTS FOR LIQUIDITY PURPOSE 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.

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continued

The table below provides the details of transfers between Levels 1 and 2, which are attributed to the availability or absence of market quotes for the years ended 31 December 2016 and 2015:

($ million)

	2016		2015	
	Level 1	Level 2	Level 1	Level 2
Investments for liquidity purpose				
Government or government-guaranteed obligations				
Transfers into (out of)	$ 242	$ (242)	$ 20	$ (20)
Transfers (out of) into	(25)	25	(35)	35
Corporate obligations				
Transfers into (out of)	10	(10)	249	(249)
Transfers (out of) into	(251)	251	(11)	11
	$ (24)	**$ 24**	**$ 223**	**$ (223)**

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 specified default and termination events occur and includes provisions to offset the sum due from one party against the sum due from the other. ADB monitors daily the FV of margin securities for compliance with the repurchase agreement.

There are no repurchase agreements accounted for as secured borrowings as of 31 December 2016 and 2015.

NOTE F—LOANS — OPERATIONS

Loans

The carrying amount and estimated FV of loans outstanding by lending window at 31 December 2016 and 2015 were as follows:

($ million)

	2016		2015	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
LIBOR-based loans [a]	$ 64,461	$ 64,800	$ 58,181	$ 58,385
Local currency loans	963	995	979	1,019
Pool-based single currency loans (US$)	2,134	2,443	2,600	3,019
Pool-based single currency loans (yen)	41	41	181	181
Total	**$ 67,599**	**$ 68,279**	**$ 61,941**	**$ 62,604**

[a] This includes market-based loans.

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.

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

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continued

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 2016, outstanding CSF loans amounted to $2,000 million ($1,500 million – 2015).

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

During 2016, ADB received prepayments for 13 loans (eight loans – 2015) amounting to $311 million ($154 million – 2015), of which $157 million ($39 million – 2015) was for sovereign loans and $154 million was for nonsovereign loans ($115 million – 2015).

Loans in Non-accrual Status

ADB places loans in non-accrual status when they are past due by six months or in the case of loans that are not yet overdue, when there is expectation that interest and other charges will not be collected when they become due, at the point when such information is known. As of 31 December 2016, one (nil – 2015) nonsovereign loan was in non-accrual status with principal outstanding of $20 million, but without overdue principal.

An analysis of the age of the recorded loans outstanding that are past due as of 31 December 2016 and 2015 is as follows:

($ million)

	Overdue Loan Service Payments				
	1–90 Days	**> 90 Days**	**Total**	**Current**	**Total Loans**
2016					
Sovereign Loans	$ –	$ –	$ –	$ 62,278	$ 62,278
Nonsovereign Loans	–	–	–	5,269	5,269
Total	$ –	$ –	$ –	$ 67,547	67,547
Allowance for loan losses					(45)
Unamortized loan origination costs—net					97
Net Loans Outstanding					**$ 67,599**

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continued

($ million)

	Overdue Loan Service Payments				
	1–90 Days	> 90 Days	Total	Current	Total Loans
2015					
Sovereign Loans	$ 0	$ –	$ 0	$ 57,432	$ 57,432
Nonsovereign Loans	2	1	3	4,454	4,457
Total	$ 2	$ 1	$ 3	$ 61,886	61,889
Allowance for loan losses					(34)
Unamortized loan origination costs—net					86
Net Loans Outstanding					**$ 61,941**

0 = less than $0.5 million

Undisbursed loan commitments and an analysis of loans by borrower as of 31 December 2016 are shown in OCR-6. The carrying amounts of loan outstanding by loan products at 31 December 2016 and 2015 were as follows:

($ million)

	2016	2015
Sovereign Loans		
LIBOR-based loans	$ 60,103	$ 54,586
Local currency loans	–	65
Pool-based single currency loans (US$)	2,134	2,600
Pool-based single currency loans (yen)	41	181
	62,278	57,432
Allowance for loan losses	–	–
Unamortized direct loan origination cost—net	135	123
	135	123
Subtotal	62,413	57,555
Nonsovereign Loans		
LIBOR-based loans	4,296	3,534
Local currency loans	973	923
	5,269	4,457
Allowance for loan losses	(45)	(34)
Unamortized front-end fee—net	(38)	(37)
	(83)	(71)
Subtotal	5,186	4,386
Total	**$ 67,599**	**$ 61,941**

continued

Allowance for Loan Losses

ADB has not suffered any losses of principal on sovereign loans to date. During 2016 and 2015, no loan loss provision has been made against outstanding sovereign loans. There was no accumulated loan loss provision for sovereign loans as of 31 December 2016 and 2015.

A net provision of $11 million was made for nonsovereign loans ($1 million net write-back – 2015) consisting of $21 million provision ($2 million – 2015), and $10 million write-back ($3 million write-back – 2015).

The changes in the allowance for loan losses during 2016 and 2015 as well as information pertaining to loans which were subject to specific allowance for loan losses were as follows:

($ million)

	2016			2015		
	Sovereign Loans	Nonsovereign Loans	Total	Sovereign Loans	Nonsovereign Loans	Total
Allowance for Credit Losses:						
Beginning balance	$ –	$ 34	$ 34	$ –	$ 35	$ 35
Provision during the year	–	21	21	–	2	2
Written back/off	–	(10)	(10)	–	(3)	(3)
Ending Balance	$ –	$ 45	$ 45	$ –	$ 34	$ 34
Outstanding Allowance on:						
Individually evaluated for loan losses	$ –	$ 14	$ 14	$ –	$ 6	$ 6
Collectively evaluated for loan losses	$ –	$ 31	$ 31	$ –	$ 28	$ 28
Outstanding Loans	$ 62,278	$ 5,269	$ 67,547	$ 57,432	$ 4,457	$ 61,889
Individually evaluated for loan losses	$ –	$ 20	$ 20	$ –	$ 18	$ 18
Collectively evaluated for loan losses	$ –	$ 5,249	$ 5,249	$ –	$ 4,439	$ 4,439

Loans subject to provisioning with related allowance for loan losses during 2016 and 2015 were as follows:

($ million)

	2016			2015		
	Recorded Loan Receivable	Unpaid Principal balance	Related allowance	Recorded Loan Receivable	Unpaid Principal balance	Related allowance
Sovereign Loans	$ –	$ –	$ –	$ –	$ –	$ –
Nonsovereign Loans	20	–	14	18	3	6

No loans were modified or restructured for the years ended 31 December 2016 and 2015.

Credit Risks and Quality of Loans

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

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

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continued

broadly aligned with the rating approach of international rating agencies. The risk ratings are used to monitor the credit risks in the portfolio.

The following table summarizes the credit quality of sovereign and nonsovereign loans after the effect of risk transfers. High credit risk includes $20 million in nonsovereign loans that were considered impaired ($18 million in nonsovereign loans – 2015).

		Sovereign Loans		Nonsovereign Loans	
Risk Class	**Risk Rating**	**2016**	**2015**	**2016**	**2015**
Low credit risk	1–5 (AAA to BBB–)	$ 46,121	$ 44,447	$ 2,040	$ 2,001
Medium credit risk	6–11 (BB+ to B–)	16,121	12,955	3,194	2,368
High credit risk	12–14 (CCC+ to D)	36	30	35	88
Total		**$ 62,278**	**$ 57,432**	**$ 5,269**	**$ 4,457**

As of 31 December 2016, ADB's loan and guarantee portfolios had a significant concentration of credit risk to Asia and the Pacific region. The credit exposure determined based on FV amounted to $70,383 million ($64,011 million – 2015).

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 2016 and 2015, all loans are carried at amortized cost.

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

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

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

The hierarchy of estimated FV of ADB loans as of 31 December 2016 and 2015 was as follows:

($ million)	**2016**	**2015**
Level 1	$ –	$ –
Level 2	62,166	56,815
Level 3	6,113	5,789
Total at fair value	**$ 68,279**	**$ 62,604**

continued

Cofinancing

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

Loans administered by ADB on behalf of participating institutions during the year ended 31 December 2016 and 2015 were as follows:

($ million)

	2016		2015	
	Amount	**No.of Loans**	**Amount**	**No.of Loans**
Sovereign loans	$ 2,177	69	$ 1,755	59
Nonsovereign loans	1,378	19	1,200	16
Total	**$ 3,555**	**88**	**$ 2,955**	**75**

NOTE G—GUARANTEES — OPERATIONS

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

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

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continued

The committed and outstanding amounts of these guarantee obligations as of 31 December 2016 and 2015 covered:

($ million)

	2016		2015	
	Committed Amount	**Outstanding Amount**	**Committed Amount**	**Outstanding Amount**
Credit Guarantees				
Trade Related				
with counterguarantee	$ 476	$ 476	$ 135	$ 135
without counterguarantee	737	612	666	390
	1,213	1,088	801	525
Non-Trade Related				
with counterguarantee	1,013	872	814	712
without counterguarantee	198	124	174	97
	1,211	996	988	809
Subtotal	2,424	2,084	1,789	1,334
Political Risk Guarantees				
Non-Trade Related				
with counterguarantee	38	21	127	59
without counterguarantee	–	–	59	14
Subtotal	38	21	186	73
Total	**$ 2,462**	**$ 2,105**	**$ 1,975**	**$ 1,407**

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 2016, a total liability of $24 million ($21 million – 2015) relating to standby ready obligations for nine credit risk guarantees (eight – 2015) and one political risk guarantees (three – 2015) has been included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous on the Balance Sheet for all guarantees issued after 31 December 2002.

As of 31 December 2016 and 2015, one credit guarantee with nonsovereign counter-guarantee had collateral from a counter-guarantor.

Fair Value Disclosure

As of 31 December 2016 and 2015, all of ADB's future guarantee receivables and guarantee liabilities are classified as Level 3 within the FV hierarchy.

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

continued

The valuation technique and significant unobservable quantitative inputs for guarantee receivables/ guarantee liabilities classified as Level 3 as of 31 December 2016 and 2015 were summarized below:

Portfolio	Valuation Technique	Unobservable Inputs	Range (Average) 2016	Range (Average) 2015
Guarantee receivable/ Guarantee liability	Discounted cash flows	Discount rates	2.22% to 4.43% (2.99%)	3.04% to 5.37% (3.5%)

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 2016 and 2015:

($ million)

	Guarantee Receivable/Liability	
	2016	2015
Balance, 1 January	$ 21	$ 25
Issuances	21	13
Amortization	(18)	(17)
Balance, 31 December	$ 24	$ 21

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

NOTE H—EQUITY INVESTMENTS — OPERATIONS

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)

	2016	2015
Equity method	$ 614	$ 578
Cost method	122	250
Fair value method	78	34
Total	**$ 814**	**$ 862**

Equity investments with readily determinable FVs that are not accounted for under the equity method are reported at FV. As of 31 December 2016, these included an equity investment which was classified as AFS amounting to $71 million ($23 million – 2015) and equity investments with associated derivative amounting to $7 million ($11 million – 2015).

There were no equity investments classified as AFS that sustained unrealized losses in 2016 and 2015.

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continued

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

($ million)	2016	2015
As of 31 December		
Amortized cost	$ 41	$ 11
Estimated fair value	71	23
Gross unrealized gains	30	12
For the years ended 31 December:		
Change in unrealized gains from prior year	18	(27)
Proceeds from sales	25	29
Gross gain on sales	14	17

Approved equity investments that have not been disbursed totaled $422 million at 31 December 2016 ($432 million – 2015).

Fair Value Disclosure

ADB's equity investments reported at FV as of 31 December 2016 were $78 million ($34 million – 2015). 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 FV hierarchy of ADB's equity investments at FV as of 31 December 2016 and 2015 was as follows:

($ million)	2016	2015
Level 1	$ 71	$ 23
Level 2	–	–
Level 3	7	11
Total equity investments at fair value	**$ 78**	**$ 34**

The office of risk management is primarily responsible for determining the FV of equity investments with associated derivatives. An increase (decrease) in these unobservable inputs, independently, will generally decrease (increase) the FV of equity investments. The valuation methodology used for the Level 3 securities was changed in 2016. The new methodology considers the proposed amendments to the put option agreement. The valuation technique and significant unobservable inputs for equity investment classified as Level 3 as of 31 December 2016 and 2015 were as presented below.

Year	Valuation Technique	Unobservable Inputs	Range (Average)
2016	Expected book value method	Discount rate Internal rate of return	23.35% 21%
2015	Discounted cash flow	Discount rate Asset growth rates	23.35% 20.00% to 30.00% (23.33%)

continued

The following table presents the changes in the carrying amounts of ADB's Level 3 equity investments for the years ended 31 December 2016 and 2015:

($ million)

	2016	2015
Balance, beginning of year	$ 11	$ 9
Total (losses) gains - (realized/unrealized)		
Included in earnings[a]	(2)	2
Included in other comprehensive loss [b]	(2)	(2)
Purchases	–	2
Balance, end of year	$ 7	$ 11
The amount of total (losses) gains for the year included in earnings attributable to the change in unrealized gains relating to assets still held at reporting date	$ (2) [a]	$ 2

[a] Included in net unrealized (losses) gains (OCR-2).
[b] Included in accumulated translation adjustments (Note N).

NOTE I—OTHER DEBT SECURITIES — OPERATIONS

ADB's financial assistance to DMCs may be made by way of subscription to an entity's debt instruments such as bonds and debentures issued for the purpose of financing development projects and programs. The amortized cost and estimated FV of the outstanding other debt securities by contractual maturity as of 31 December 2016 and 2015 are presented below:

($ million)

	2016		2015	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due after one year through five years	$ 147	$ 150	$ –	$ –
Due after five years through ten years	–	–	–	–
Due after ten years through fifteen	3	3	6	6
Total	**$ 150**	**$ 153**	**$ 6**	**$ 6**

Fair Value Disclosure

Fair valuation is based on internal discounted cash flow models in which expected cash flows are discounted at applicable market yield curves. Inputs for the models are based on available market data such as foreign exchange rates and yield curves specified to index fixed rates, deposit and swap interest rates. Parameters and models used for valuation are subject to internal review and periodic external validation. The accounting division is responsible for determining and reporting the FV of the other debt securities portfolio.

Significant increase (decrease) in the inputs, independently, will generally decrease (increase) the FV of the debt securities.

continued

The hierarchy of estimated FV of ADB's other debt securities as of 31 December 2016 and 2015 was as follows:

($ million)

	2016	2015
Level 1	$ –	$ –
Level 2	150	–
Level 3	3	6
Total at fair value	**$ 153**	**$ 6**

Historically, the value of the Level 3 securities was based on return on the put option. However, due to unfavorable developments with the issuer during the year, ADB deemed it more appropriate to use the enterprise value of the issuer to estimate the fair value of the underlying business. The valuation techniques and significant unobservable inputs used in valuing the other securities classified as Level 3 as of 31 December 2016 and 2015 are presented below:

Valuation Date	Valuation Technique	Unobservable Inputs
31 December 2016	Enterprise Value Method	Median EV / EBITDA multiples of peer companies Median EV / Sales multiples of peer companies
31 December 2015	Return on Put Option	INR/USD foreign exchange rate Internal rate of return (10% – 15%)

EBITDA = Earnings before interest, tax, depreciation and amortization; EV = Enterprise value; INR = Indian rupee; USD = United States dollar.

The following table presents the changes in the carrying amounts of ADB's Level 3 other debt securities for the years ended 31 December 2016 and 2015:

($ million)

	2016	2015
Balance, beginning of year	$ 6	$ 6
Total gains (losses) - (realized/unrealized)		
Included in other comprehensive loss (Note N)		
Accumulated translation adjustments	(0)	(0)
Unrealized investment holding (loss) gains	(1)	0
Write-down [a]	(2)	–
Balance, end of year	$ 3	$ 6
The amount of total (loss) gains for the year recognized in other comprehensive loss attributable to the change in net unrealized gains or losses relating to assets still held at the reporting date	$ (1)	$ 0[b]

0 = less than $0.5 million

Note: There were no transfers in and out of Level 3.

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

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

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continued

NOTE J—DERIVATIVE INSTRUMENTS

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

Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Borrowings are interest rate and currency swaps that ADB has entered into for the purpose of hedging specific borrowings. The terms of ADB's interest rate swap and currency swap agreements usually match the terms of particular borrowings. Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Investments for liquidity purpose are interest rate, currency and foreign exchange swaps and forwards that ADB has entered into for the purpose of hedging specific investments. Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Loans – Operations 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 2016 amounted to $1 million for derivative assets ($9 million – 2015) and nil for derivative liabilities ($0.04 million – 2015).

Fair Value Disclosure

The FV hierarchy of ADB's derivatives and the balance sheet location as of 31 December 2016 and 2015 were as follows:

($ million)

	Balance Sheet	Fair Value Measurements			
2016	**Location**	**Total**	**Level 1**	**Level 2**	**Level 3**
Assets					
Borrowings related derivatives	Derivative Assets				
Currency swaps	- Borrowings	$ 19,720	$ –	$ 18,557	$ 1,163
Interest rate swaps		222	–	222	–
Investments related derivatives	Derivative Assets				
Currency swaps	- Investments for liquidity purpose	5,517	–	5,517	–
Interest rate swaps		1	–	1	–
Foreign exchange swaps		3,024	–	3,024	–
Loans related derivatives	Derivative Assets				
Currency swaps	- Loans – Operations	655	–	655	–
Interest rate swaps		4	–	4	0
Total assets at fair value		**$ 29,143**	**$ –**	**$ 27,980**	**$ 1,163**
Liabilities					
Borrowings related derivatives	Derivative Liabilities				
Currency swaps	- Borrowings	$ 22,841	–	22,841	–
Interest rate swaps		544	–	544	–
Investments related derivatives	Derivative Liabilities				
Currency swaps	- Investments for liquidity purpose	5,287	–	5,287	–
Interest rate swaps		38	–	38	–
Foreign exchange swaps		2,784	–	2,784	–
Loans related derivatives	Derivative Liabilities				
Currency swaps	- Loans – Operations	580	–	103	477
Interest rate swaps		5	–	5	0
Total liabilities at fair value		**$ 32,079**	**$ –**	**$ 31,602**	**$ 477**

0 = less than $0.5 million.

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continued

($ million)

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

0 = less than $0.5 million.

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

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

There were no transfers between Levels 1 and 2 in the derivatives portfolio during 2016 and 2015.

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 2016 and 2015 are presented in the next table:

Portfolio	Valuation Technique	Unobservable Inputs	Range (Weighted Average) 2016	2015
Borrowings related swaps/ Loans related swaps	Discounted cash flows	Basis swap spreads	-0.87% to 8.05% (-1.85%)	-1.06% to 10% (-1.53%)

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continued

The following tables present the changes in the carrying amounts of ADB's Level 3 derivative assets and derivative liabilities for the years ended 31 December 2016 and 2015:

($ million)

	Borrowings related derivatives		Loans related derivatives	
2016	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Balance, beginning of year	$ 1,618	$ –	$ 0	$ (485)
Total gains (losses) - (realized/unrealized)				
Included in earnings[a]	22	–	(0)	(6)
Included in other comprehensive loss[b]	(139)	–	0	3
Issuances	96	–	–	(104) [c]
Maturities/Redemptions	(434)	–	–	115
Balance, end of year	$ 1,163	$ –	$ 0	$ (477)
The amount of total gains (losses) for the year included in earnings attributable to the change in net unrealized gains or losses[a] relating to assets/liabilities still held at the reporting date	$ 16	$ –	$ (0)	$ (6)

0 = less than $0.5 million

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

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

[c] Including accretion of $18 million.

($ million)

	Borrowings related derivatives		Loans related derivatives	
2015	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Balance, beginning of year	$ 6,004	$ (27)	$ 1	$ (536)
Total (losses) gains - (realized/unrealized)				
Included in earnings[a]	(177)	–	(0)	(28)
Included in other comprehensive loss[b]	(386)	–	(0)	86
Issuances	239	–	–	(82) [c]
Maturities/Redemptions	(1,799)	–	–	50
Transfer out of Level 3[d]	(2,263)	27	(0)	25
Balance, end of year	$ 1,618	$ –	$ 0	$ (485)
The amount of total (losses) gains for the year included in earnings attributable to the change in net unrealized gains or losses[a] relating to assets/liabilities still held at the reporting date	$ (33)	$ –	$ (0)	$ 27

0 = less than $0.5 million

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

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

[c] Including accretion of $24 million.

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

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continued

Effect of Derivative Instruments on the Statement of Income and Expenses

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

($ million)

	Location of Gain (Loss) recognized in Income (Expenses) on Derivatives	Amount of Gain (Loss) recognized in Income (Expenses) on Derivatives 2016	2015
Borrowings related derivatives			
Currency swaps	Borrowing and related expenses	$ 530	$ 734
	Net Realized Gains	0	–
	Net Unrealized (Losses) Gains	(218)	(16)
Interest rate swaps	Borrowing and related expenses	323	534
	Net Realized Gains	–	9
	Net Unrealized (Losses) Gains	(605)	231
		$ 30	$ 1,492
Investments related derivatives			
Currency swaps	Revenue from investments for liquidity purpose	$ 44	$ 8
	Net Unrealized (Losses) Gains	(11)	4
Interest rate swaps	Revenue from investments for liquidity purpose	(10)	(12)
	Net Unrealized (Losses) Gains	11	6
Foreign exchange swaps	Revenue from investments for liquidity purpose	40	14
	Net Unrealized (Losses) Gains	2	(0)
Foreign exchange forwards	Net Realized Gains	0	0
	Net Unrealized (Losses) Gains	0	(0)
		$ 76	$ 20
Loans related derivatives			
Currency swaps	Revenue from Loans – Operations	$ (14)	$ (20)
	Net Unrealized (Losses) Gains	(3)	(22)
Interest rate swaps	Revenue from Loans – Operations	(12)	(15)
	Net Unrealized (Losses) Gains	10	9
		$ (19)	$ (48)

0 = less than $0.5 million.

Counterparty Credit Risks

ADB undertakes derivative transactions with its eligible counterparties and transacts in various financial instruments as part of liquidity and asset/liability management purposes that may involve credit risks. For all investment securities and their derivatives, ADB manages credit risks by following the policies set forth in the Investment Authority and other risk management guidelines. ADB has a potential risk of loss if the derivative counterparty fails to perform its obligations. In order to reduce credit risk, ADB transacts with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have at least a credit rating of A– or higher and generally requires entering into master swap agreements which contain legally enforceable close-out netting provisions for all counterparties with outstanding swap transactions. The reduction in exposure as a result of these netting provisions can vary as additional

continued

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 2016, ADB had received collateral of $943 million ($912 million – 2015) in connection with the swap agreements. Of this amount, $605 million ($494 million – 2015) was recorded as swap related collateral in the balance sheet.

ADB has entered into several agreements with its derivative counterparties under the ISDA Master Agreement and the Master Agreement of the National Association of Financial Market Institutional Investors (NAFMII). The agreements provide for the right of a party to terminate the derivative transaction if any of the various events of default and termination events specified occur. Events of default include failure to pay and cross default. Termination events include the situation where the long term unsecured and unsubordinated indebtedness of ADB or the counterparty ceases to be rated at least Baa3 by Moody’s Investor Service, Inc. or BBB– by Standard and Poor’s Ratings Group, or such indebtedness ceases to be rated by Moody’s or S&P. If ADB’s counterparties are entitled under the agreements to terminate their derivative transactions with ADB, ADB will be required to pay an amount equal to its net liability position with each counterparty (in the case of counterparties who have entered into the ISDA Master Agreement absent of local market constraints) and an amount equal to its gross liability position with each counterparty (in the case of counterparties without enforceable netting agreement). The aggregate FV of all derivative instruments that ADB has under the enforceable ISDA Master Agreement that are in a net liability (negative marked-to-market) position as of 31 December 2016 was $3,810 million ($3,559 million – 2015). The gross liability position in the aggregate FV of all derivative instruments that ADB has no enforceable netting agreement amounted to $12 million as of 31 December 2016 ($12 million – 2015).

ADB has elected not to offset any derivative instruments by counterparty in the balance sheet. Gross amounts of DERIVATIVE ASSETS and DERIVATIVE LIABILITIES not offset in the balance sheet that are subject to enforceable master netting arrangements as of 31 December 2016 and 2015 were as follows: (See Note E for PAYABLE UNDER SECURITIES REPURCHASE ARRANGEMENTS.)

($ million)

	2016		2015	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Gross amount presented in the balance sheet	$ 29,129[a]	$ (32,067)[b]	$ 29,518[a]	$ (32,260)[b]
Gross amounts not offset in the balance sheet				
Financial instruments	(28,257)	28,257	(28,701)	28,701
Collateral received[c]	(772)	–	(761)	–
Net amount	$ 100	$ (3,810)	$ 56	$ (3,559)

[a] This excludes gross amount of DERIVATIVE ASSETS presented in the balance sheet not subject to enforceable master netting agreements amounting to $14 million ($20 million – 2015).

[b] This excludes gross amount of DERIVATIVE LIABILITIES presented in the balance sheet not subject to enforceable master netting agreements amounting to $12 million ($12 million – 2015).

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

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continued

NOTE K—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters (HQ) premises, which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, ADB was compensated $22,657,000 for the return of these premises. The compensation is in lieu of being provided premises under the agreement and accordingly, is deferred and amortized over the estimated life of the current HQ building as a reduction of occupancy expense. HQ depreciation for the years ended 31 December 2016 and 2015 amounted to $4 million, net of amortization of the compensation for the former HQ building. At 31 December 2016, the unamortized deferred compensation balance (included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous) was $5 million ($6 million – 2015).

The changes in the property, furniture, and equipment during 2016 and 2015, as well as information pertaining to accumulated depreciation, were as follows:

($ million)

	Property, Furniture and Equipment			
	Land	Buildings and Improvements	Office Furniture and Equipment	Total
Cost:				
Balance, 1 January 2016	$ 10	$ 257	$ 179	$ 446
Additions during the year	–	4	11	15
Disposals during the year	–	–	(3)	(3)
Balance, 31 December 2016	10	261	187	458
Accumulated Depreciation:				
Balance, 1 January 2016	–	(130)	(148)	(278)
Depreciation during the year	–	(8)	(12)	(20)
Disposals during the year	–	–	3	3
Balance, 31 December 2016	–	(138)	(157)	(295)
Net Book Value, 31 December 2016	**$ 10**	**$ 123**	**$ 30**	**$ 163**

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continued

($ million)

	Property, Furniture and Equipment			
	Land	Buildings and Improvements	Office Furniture and Equipment	Total
Cost:				
Balance, 1 January 2015	$ 10	$ 252	$ 168	$ 430
Additions during the year	–	5	14	19
Disposals during the year	–	–	(3)	(3)
Balance, 31 December 2015	10	257	179	446
Accumulated Depreciation:				
Balance, 1 January 2015	–	(122)	(135)	(257)
Depreciation during the year	–	(8)	(15)	(23)
Disposals during the year	–	–	2	2
Balance, 31 December 2015	–	(130)	(148)	(278)
Net Book Value, 31 December 2015	**$ 10**	**$ 127**	**$ 31**	**$ 168**

NOTE L—BORROWINGS

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

Fair Value Disclosure

The office of risk management is primarily responsible for determining the FV of the borrowings. Parameters and models used for determining the FV of borrowings are subject to internal review and periodic external validation. Plain vanilla borrowings are valued using discounted cash flow methods with market-based observable inputs such as yield curves, foreign exchange rates, and credit 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.

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continued

The FV hierarchy of ADB's outstanding borrowing as of 31 December 2016 and 2015 were as follows:

($ million)	2016	2015
at Amortized cost		
Level 1	$ –	$ –
Level 2	5,530	4,685
Level 3	200	202
Sub-total	$ 5,730	$ 4,887
at Fair value		
Level 1	$ –	$ –
Level 2	66,598	59,341
Level 3	2,701	2,454
Sub-total	$ 69,299	$ 61,795
Total borrowings at fair value	**$ 75,029**	**$ 66,682**

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

There were no transfers between Levels 1 and 2 in the borrowings portfolio during 2016 and 2015.

For borrowings carried at FV, the quantitative information on significant unobservable inputs used for valuation as of 31 December 2016 and 2015 are presented below:

Portfolio	Valuation Technique	Unobservable Inputs	Range (Weighted Average) 2016	Range (Weighted Average) 2015
Borrowings	Discounted cash flows	Derived credit spreads	-1.52% to 0.4% (-0.65%)	-0.96% to 0.93% (-0.15%)

The following table presents the changes in the carrying amounts of ADB's Level 3 borrowings reported at FV for the years ended 31 December 2016 and 2015:

($ million)	2016	2015
Balance, beginning of year	$ 2,454	$ 6,488
Total losses (gains) - (realized/unrealized)		
Included in earnings[a]	70	(203)
Included in other comprehensive loss[b]	(203)	(455)
Issuances	814	302
Maturities/Redemptions	(434)	(1,957)
Transfer out of Level 3[c]	–	(1,721)
Balance, end of year	$ 2,701	$ 2,454
The amount of total losses (gains) for the year included in earnings attributable to the change in net unrealized gains or losses[a] relating to liabilities still held at the reporting date.	$ 57	$ (62)

[a] Included in net unrealized (losses) gains (OCR-2).
[b] Included in accumulated translation adjustments (Note N).
[c] Transferred to Level 2 due to availability of observable market data.

Refer to OCR-7 for Summary Statement of Borrowings.

continued

NOTE M—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 2016 and 2015 consists of 10,638,933 shares, of which 10,614,853 shares (10,603,211 – 2015) have been subscribed by members. Of the subscribed shares, 10,082,688 (10,071,512 – 2015) are "callable" and 532,165 (531,699 – 2015) 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 received, 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 $210 million ($257 million – 2015), while those notes received with fixed encashment schedules totaled $466 million ($603 million – 2015).

In January 2011, the Board of Directors approved the temporary reduction of shares and voting power of members in proportion to the delayed amount of paid-in shares if ADB does not receive confirmation of subscription payments within 45 days of the respective due dates thereof. The affected shares and voting power will be automatically restored upon receipt of the installment to the extent that the installment payments are made by 1 April 2015. In March 2015, the Board of Directors deferred this deadline to 18 May 2015. Payments received beyond this date will be referred to the Board of Directors for approval of the restoration of affected shares and voting power. As of 31 December 2016, there was no (11,642 shares – 2015) temporary reduction in subscribed shares.

As of 31 December 2016, all matured installments amounting to $7,154 million ($7,374 million – 2015) had been received.

Capital Transferred to Asian Development Fund

Pursuant to the provisions of Article 19, paragraph 1(i) of the Charter, the Board of Governors has authorized the setting aside of 10% of the unimpaired "paid-in" capital paid by members pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by members pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973 to be used as a part of the Special Funds of ADB. The resources so set aside amounting to $64 million as of 31 December 2016 ($66 million – 2015) expressed in terms of the SDR on the basis of $1.34433 ($1.38686 – 2015) per SDR ($57 million in terms of $1.20635 per 1966 dollar—*Note B*), were allocated and transferred to the ADF.

As stated in Note A, these set-aside resources were returned to OCR effective 1 January 2017.

Maintenance of Value of Currency Holdings

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

In as much as the valuation of ADB's capital stock and the basis of determining possible MOV obligations are still under consideration, notional amounts have been calculated provisionally in terms of the SDR as receivable from or payable to members in order to maintain the value of members' currency holdings. The notional MOV amounts of receivables and payables are offset against one another and shown as net notional

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continued

amounts required to maintain value of currency holdings in the EQUITY portion of the Balance Sheet. The carrying book value for such receivables and payables approximates its FV.

The net notional amounts as of 31 December 2016 consisted of (i) the net increase of $754 million ($954 million – 2015) 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 2016 and (ii) the net increase of $720 million ($662 million – 2015) 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)

	2016		2015	
Notional MOV Receivables	$	1,524	$	1,621
Notional MOV Payables		(50)		(5)
Total	**$**	**1,474**	**$**	**1,616**

Membership

As of 31 December 2016 and 2015, ADB’s shareholders consist of 67 members, 48 from the region and 19 from outside the region *(OCR-8)*.

NOTE N—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 2016, the Board of Governors approved the following with respect to ADB's 2015 net income of $537 million, after appropriation of guarantee fees to special reserve: (i) $43 million representing the adjustment to the Loan Loss Reserve as of 31 December 2015, be added from the loan loss reserve to the net income; (ii) $213 million representing the ASC 815/825 adjustments and the unrealized portion of net income from equity investments accounted for under the equity method for the year ended 31 December 2015, be added to the Cumulative Revaluation Adjustments (CRA) account; (iii) $208 million be allocated to the Ordinary Reserve; (iv) $120 million be allocated to ADF; and (v) $40 million be allocated to Technical Assistance Special Fund (TASF).

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

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 $23 million to the Ordinary Reserve during the year ended 31 December 2016 (net credit of $38 million – 2015). 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

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continued

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.

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 2016, the 2015 net unrealized gains on derivatives of $239 million (net unrealized losses of $193 million – 2015) and net unrealized losses from equity investments accounted for under the equity method of $26 million (net unrealized gains of $9 million – 2015) resulted in a credit balance in the CRA account at 31 December 2016 of $88 million (debit balance of $125 million – 2015).

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 2016, guarantee fees amounting to $18 million ($19 million – 2015) were appropriated to Special Reserve.

Loan Loss Reserve

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

As of 31 December 2016, the loan loss reserve was $172 million ($215 million – 2015).

Surplus

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

Accumulated Other Comprehensive 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 AFS, translation adjustments, and pension and post-retirement liability adjustment.

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continued

The changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2016 and 2015 were as follows:

($ million)

	Accumulated Translation Adjustments	Unrealized Holding (losses) Gains: Investments for liquidity purpose	Unrealized Holding (losses) Gains: Equity Investments — Operations	Unrealized Holding (losses) Gains: Other debt securities — Operations	Pension/ Postretirement Liability Adjustments	Accumulated Other Comprehensive Loss
Balance, 1 January 2015	$ (156)	$ 104	$ 36	$ 0	$ (1,222)	$ (1,238)
Other comprehensive loss before reclassifications	(136)	(77)	(12)	1	51	(173)
Amounts reclassified from accumulated other comprehensive loss	–	(23)	(14)	–	82	45
Net current-period other comprehensive (loss) income	(136)	(100)	(26)	1	133	(128)
Balance, 31 December 2015	**$ (292)**	**$ 4**	**$ 10**	**$ 1**	**$ (1,089)**	**$ (1,366)**
Other comprehensive income loss before reclassifications	(18)	(125)	32	–	(109)	(220)
Amounts reclassified from accumulated other comprehensive loss	–	(28)	(12)	(1)	51	10
Net current-period other comprehensive (loss) income	(18)	(153)	20	(1)	(58)	(210)
Balance, 31 December 2016	**$ (310)**	**$ (149)**	**$ 30**	**$ –**	**$ (1,147)**	**$ (1,576)**

0 = less than $0.5 million.

The reclassifications of Accumulated Other Comprehensive Loss to Net Income for the year ended 31 December 2016 and 2015 are presented below:

($ million)

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss[a] 2016	2015	Affected Line Item in the Statement of Income and Expenses
Unrealized Holding Gains			
Investments for liquidity purpose	$ 28	$ 23	NET REALIZED GAINS From investments for liquidity purpose
Equity investments — operations	12	14	NET REALIZED GAINS From EI — operations
Other debt securities — operations	1	–	NET REALIZED GAINS From Other debt securities — operations
	$ 41	$ 37	
Pension/Postretirement Liability Adjustments			
Actuarial losses	$ (51)	$ (82)	Administrative expenses
Total reclassifications for the period	$ (10)	$ (45)	

EI = equity investments.

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

NOTE O—INCOME AND EXPENSES

Revenue from loan operations for the year ended 31 December 2016 totaled $1,054 million ($678 million – 2015). The average yield on the loan portfolio during the year was 1.65% (1.16% – 2015), including risk transfer costs.

Total income from investment for liquidity purpose including net realized gains on sales, interest earned for securities transferred under repurchase agreements and resale arrangements for the year ended 31 December 2016 was $452 million ($365 million – 2015). 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 1.58% (1.33% – 2015) excluding unrealized gains and losses on investments and 1.04% (0.98% – 2015) including unrealized gains and losses on investments.

continued

Net income from equity investment operations resulted in net income of $125 million (net loss of $7 million – 2015) for the year ended 31 December 2016. This included divestment gains of $142 million ($19 million – 2015), net equity income of $15 million (net equity losses of $28 million – 2015), and dividend income of $3 million ($8 million – 2015). These were offset by $35 million ($7 million – 2015) other than temporary impairment losses.

Net loss from other debt securities amounted to $2 million (nil – 2015), representing other than temporary impairment losses.

Income from other sources primarily included income received as executing agency amounting to $17 million ($16 million – 2015), transaction advisory service fees of $15 million ($3 million – 2015) and other miscellaneous income amounting to $11 million ($10 million – 2015).

Total borrowing expense of $751 million ($374 million – 2015) 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 1.68% (0.19% – 2015).

Total depreciation expense incurred for the year ended 31 December 2016 amounted to $20 million ($23 million – 2015).

ADB leases office spaces and other assets. Annual rental expenses under operating leases for the years ended 31 December 2016 and 2015 were about $11 million. The minimum rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of 31 December 2016 are as follows:

Year ending 31 December	**Minimum amount of future rentals ($ million)**
2017	5
2018	5
2019	5
2020	4
Later years	4

Administrative expenses (other than those pertaining directly to ordinary operations and special operations) for the year ended 31 December 2016 were apportioned between OCR and ADF in proportion to the relative volume of operational activities. Of the total administrative expenses of $682 million ($682 million – 2015), $268 million ($278 million – 2015) 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 $24 million ($21 million – 2015) related to new loans made effective during the year *(Note B)*.

For the year ended 31 December 2016, net provision for loan losses of $11 million ($1 million net write-back– 2015) consisted of $21 million additional loan loss provision ($2 million – 2015) and $10 million write-backs ($3 million – 2015).

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continued

The following table provides information on the unrealized gains or losses included in income for the years ended 31 December 2016 and 2015:

($ million)	2016	2015
Unrealized (losses) gains on:		
Borrowings and related swaps	$ (523)	$ 244
Investments related swaps	2	10
Loans related swaps	7	(13)
Equity investments – Operations	(2)	2
Translation adjustments of non-functional currencies	(4)	(4)
Total	**$ (520)**	**$ 239**

NOTE P—RELATED PARTY TRANSACTIONS

At 31 December 2016 and 2015, 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)	2016	2015
Amounts receivable from:		
Asian Development Fund	$ 5	$ 51
Employee Benefit Plans	–	2
Total	**$ 5**	**$ 53**
Amounts payable to:		
Agency Trust Funds—net	$ 1	$ 1
Employee Benefit Plans	7	–
Total	**$ 8**	**$ 1**

As of 31 December 2016 and 2015, the related parties include employee benefit plans consisting of the Staff Retirement Plan (SRP) and the Retiree Medical Plan Fund (RMPF).

NOTE Q—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

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

Participants hired prior to 1 October 2006 are required to contribute 9 1/3% of their salary to the plan while those hired on or after 1 October 2006 are not required to contribute. The annual accrual rate is 2.95% for

continued

staff hired prior to 1 October 2006 and 1.5% for those hired on or after 1 October 2006. Participants may also make discretionary contributions. ADB's contribution is determined at a rate sufficient to cover that part of the costs of the SRP not covered by the participants' contributions.

Expected Contributions

ADB's contribution to the SRP varies from year to year, as determined by the Pension Committee, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the plan. ADB is expected to contribute $53 million for 2017 based on a budgeted contribution of 23% of salary.

ADB's staff members are expected to contribute $32 million representing participants' mandatory contribution of $9 million and discretionary contributions of $23 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 13 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 returns higher than short-term investments. The investment policy incorporates the plan's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The SRP's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

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

For the year ended 31 December 2016, the net return on the SRP assets was 6.36% (-0.47% – 2015). ADB expects the long-term rate of return on the assets to be 7.0% (7.0% – 2015).

Assumptions

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

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

Post-Retirement Group Medical Insurance Plan

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

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continued

The Retiree Medical Plan Fund (RMPF) was established in 2014 to hold the assets in trust that will fund the accumulated obligations of the PRGMIP. The income of RMPF consists of ADB's contributions and investment earnings; it does not have any component attributable to participants' share of PRGMIP costs. In 2016 and 2015, insurance premium paid by ADB for the PRGMIP is considered ADB's contribution to the fund. The costs of administering the RMPF are absorbed by ADB, while investment management and custodian fees are paid from the RMPF.

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

Expected Contribution

ADB's expected contribution to the RMPF is based on the recommendation of the SRP Pension Committee. For 2017, ADB is expected to contribute $6 million, which is equivalent to 2% of salary.

Investment Strategy

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

In October 2015, the Pension Committee approved the RMPF's investment policy. Based on the approved policy, the RMPF's long-term target asset-mix is 40% US equity, 30% non-US equity, and 30% global fixed income. For the year ended 31 December 2016, the net return on the RMPF assets was 5.89% (-2.06% — 2015).

Assumptions

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

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

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continued

The following table sets forth the funded status of pension and postretirement medical benefits at 31 December 2016 and 2015:

($ million)

	Pension Benefits		Postretirement Medical Benefits	
	2016	**2015**	**2016**	**2015**
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 2,409	$ 2,305	$ 308	$ 315
Actual return on plan assets	159	(9)	18	(7)
Employer's contribution	168	145	5	4
Plan participants' contributions	143	84	–	–
Benefits paid	(127)	(116)	(5)	(4)
Fair value of plan assets at end of year	$ 2,752	$ 2,409	$ 326	$ 308
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	$ 3,557	$ 3,542	$ 418	$ 430
Service cost	89	95	23	24
Interest cost	164	149	20	19
Plan participants' contributions	143	84	–	–
Actuarial loss (gains)	152	(197)	(59)	(50)
Benefits paid	(127)	(116)	(5)	(5)
Projected benefit obligation at end of year	$ 3,978	$ 3,557	$ 397	$ 418
Funded status	**$ (1,226)**	**$ (1,148)**	**$ (71)**	**$ (110)**
Amounts recognized in the Balance sheet as Accrued pension and postretirement medical benefit costs	$ (1,226)	$ (1,148)	$ (71)	$ (110)
Amounts recognized in the Accumulated other comprehensive loss as Pension/Postretirement liability adjustments (Note N)	$ 1,146	$ 1,034	$ 0	$ 55
Weighted-average assumptions as of 31 December (%)				
Discount rate	4.40	4.55	4.70	4.55
Expected return on plan assets	7.00	7.00	7.00	7.00
Rate of compensation increase varies with age and averages	4.00	4.00	N/A	N/A

0 = less than $0.5 million

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered postretirement medical benefits was assumed for the valuation as of 31 December 2016 and 2015. The rate was assumed to decrease gradually to 5.0% by 2022 and remain at the level thereafter.

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continued

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the year ended 31 December 2016 and 2015:

($ million)

	Pension Benefits		Postretirement Medical Benefits	
	2016	**2015**	**2016**	**2015**
Components of net periodic benefit cost:				
Service cost	$ 89	$ 95	$ 23	$ 24
Interest cost	164	149	20	19
Expected return on plan assets	(170)	(162)	(23)	(19)
Recognized actuarial loss (Note N)	51	79	0	3
Net periodic benefit cost	**$ 134**	**$ 161**	**$ 20**	**$ 27**

0 = less than $0.5 million

The accumulated benefit obligation of the pension plan as of 31 December 2016 was $3,760 million ($3,346 million – 2015).

The estimated net loss for the defined benefit pension plans and postretirement medical benefits plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year amounted to $57 million and $0 million, respectively.

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

($ million)

	1-Percentage-Point Increase	**1-Percentage-Point Decrease**
Effect on total service and interest cost components	13	(9)
Effect on postretirement medical benefit obligation	90	(69)

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 2016:

($ million)

Year	**Pension Benefits**	**Postretirement Medical Benefits**
2017	$ 144	$ 7
2018	153	8
2019	164	9
2020	172	10
2021	183	11
2022–2026	1,089	72

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continued

Fair Value Disclosure

The FV of the SRP and RMPF's assets measured on a recurring basis as of 31 December 2016 and 2015 was shown below:

($ million)

		Fair Value Measurements		
2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Staff Retirement Plan				
Cash and cash equivalents	$ 254	$ –	$ 254	$ –
Common/preferred stocks	473	473	–	–
Investment funds	1,268	1,268	–	–
Government or government-guaranteed securities	256	254	2	–
Corporate debt securities	425	404	20	1
Mortgage/Asset-backed securities:		–	–	–
Mortgage-backed securities	57	24	33	–
Collateralized mortgage obligations	5	–	3	2
Asset-backed securities	1	–	0	1
Short term investments	35	34	1	–
Derivatives	7	0	7	–
Other asset/liabilities[a]—net	(29)	–	(29)	–
Total fair value of SRP assets	$ 2,752	$ 2,457	$ 291	$ 4
Retiree Medical Plan Fund				
Cash and cash equivalents	$ 20	$ –	$ 20	$ –
Common/preferred stocks	90	90	–	–
Investment funds	131	131	–	–
Government or government-guaranteed securities	43	43	0	–
Corporate debt securities	39	39	0	–
Mortgage/Asset-backed securities:		–		
Mortgage-backed securities	12	9	3	–
Collateralized mortgage obligations	–	–	–	–
Asset-backed securities	0	0	–	0
Short term investments	0	0	0	–
Derivatives	1	–	1	–
Other asset/liabilities[a]—net	(10)	–	(10)	–
Total fair value of RMPF assets	$ 326	$ 312	$ 14	$ 0

0 = less than $0.5 million.

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

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continued

($ million)

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

0 = less than $0.5 million.

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

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

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continued

The table below provides details of transfers of SRP and RMPF's assets between Levels 1 and 2, which are attributed to the availability or absence of market quotes, for the years ended 31 December 2016 and 2015.

($ million)

	2016		2015	
	Level 1	Level 2	Level 1	Level 2
Investments - Staff Retirement Plan				
Government or government-guaranteed securities				
Transfers into (out of)	$ –	$ –	$ –	$ –
Transfers (out of) into	(0)	0	(4)	4
Corporate debt securities				
Transfers into (out of)	3	(3)	2	(2)
Transfers (out of) into	(1)	1	(2)	2
	$ 2	**$ (2)**	**$ (4)**	**$ 4**
Investments - Retirement medical Plan Fund				
Government or government-guaranteed securities				
Transfers into (out of)	$ –	$ –	$ –	$ –
Transfers (out of) into	(0)	0	–	–
Corporate debt securities				
Transfers into (out of)	1	(1)	–	–
Transfers (out of) into	(0)	0	–	–
	$ 1	**$ (1)**	**$ –**	**$ –**

0 = less than $0.5 million.

The following tables present the changes in the carrying amounts of SRP and RMPF's Level 3 investments for the years ended 31 December 2016 and 2015:

($ million)

	Staff Retirement Plan			Retiree Medical Plan Fund
2016	**Common / preferred stocks**	**Corporate debt securities**	**Mortgage / Asset-backed securities/ Collateralized Mortgage Obligations**	**Mortgage / Asset-backed securities**
Balance, beginning of the year	$ –	$ 6	$ 3	$ 0
Total realized/unrealized gains/(losses) in:				
Net increase (decrease) in net assets available for benefits	–	0	(0)	(0)
Purchases	–	1	1	–
Sales/Maturities	–	(2)	(1)	–
Settlement and others	–	–	(1)	(0)
Transfers out of Level 3	–	(3)	0	–
Balance, end of the year	$ –	$ 2	$ 2	$ 0
Total unrealized gains (losses) included in income related to financial assets still held at the reporting date	$ –	$ 0	$ (0)	$ (0)

0 = less than $0.5 million.

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continued

($ million)

2015	Staff Retirement Plan: Common / preferred stocks	Staff Retirement Plan: Corporate debt securities	Staff Retirement Plan: Mortgage / Asset-backed securities/ Collateralized Mortgage Obligations	Retiree Medical Plan Fund: Mortgage / Asset-backed securities
Balance, beginning of the year	$ 0	$ 1	$ 5	$ –
Total realized/unrealized (losses)/gains in:				
Net decrease in net assets available for benefits	(0)	(0)	(0)	(0)
Purchases	–	20	1	0
Sales/Maturities	–	(15)	(1)	–
Settlement and others	–	0	(1)	–
Transfers out of Level 3	–	–	(1)	–
Balance, end of the year	$ –	$ 6	$ 3	$ 0
Total unrealized gains included in income related to financial assets still held at the reporting date	$ –	$ 0	$ 0	$ –

0 = less than $0.5 million.

Transfers out of Level 3 in 2016 and 2015 are due to the availability of market observable inputs.

OCR-9

continued

NOTE R—OTHER FAIR VALUE DISCLOSURES

The carrying amounts and estimated FVs of ADB's financial instruments as of 31 December 2016 and 2015 are summarized below:

($ million)

	2016		2015	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
On-balance sheet financial instruments:				
ASSETS:				
Due from banks	$ 661	$ 661	$ 753	$ 753
Investments for liquidity purpose (Note D)	26,025	26,025	23,309	23,309
Securities purchased under resale arrangements (Note D)	102	102	126	126
Loans outstanding — operations (Note F)	67,599	68,279	61,941	62,604
Equity investments — operations carried at fair value (Note H)	78	78	34	34
Other debt securities — operations (Note I)	150	153	6	6
Derivative assets - borrowings (Note J)	19,942	19,942	21,664	21,664
Derivative assets - investments for liquidity purpose (Note J)	8,542	8,542	7,112	7,112
Derivative assets - loans — operations (Note J)	659	659	762	762
Swap related collateral (Note J)	605	605	494	494
Future guarantee receivable (Note G)	24	24	21	21
LIABILITIES:				
Borrowings (Note L)	74,476	75,029	66,054	66,682
Derivative liabilities - borrowings (Note J)	23,385	23,385	24,985	24,985
Derivative liabilities - investments for liquidity purpose (Note J)	8,109	8,109	6,679	6,679
Derivative liabilities - loans — operations (Note J)	585	585	608	608
Swap related collateral (Note J)	605	605	494	494
Guarantee liability (Note G)	24	24	21	21
Off-balance sheet financial instruments:				
ASSETS:				
Future guarantee receivable	n/a	6	n/a	$ 7
LIABILITIES:				
Guarantee liability	n/a	6	n/a	7

As of 31 December 2016 and 2015, ADB has no material assets or liabilities measured at FV on a non-recurring basis.

continued

NOTE S—SPECIAL AND OTHER FUNDS

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

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

Special Funds and trust funds are not included in the assets of OCR. The net assets as of 31 December 2016 and 2015 are summarized below:

($ million)

	2016		2015	
	Total Net Assets	**No.**	**Total Net Assets**	**No.**
Special Funds				
Asian Development Fund	$ 30,948	1	$ 30,784	1
Technical Assistance Special Fund	41	1	147	1
Japan Special Fund	106	1	105	1
Asian Development Bank Institute	10	1	9	1
Regional Cooperation and Integration Fund	6	1	8	1
Climate Change Fund	8	1	11	1
Asia Pacific Disaster Response Fund	8	1	17	1
Financial Sector Development Partnership Special Fund	7	1	7	1
Subtotal	31,134	8	31,088	8
Trust Funds (including project specific cofinancing)	2,253	123	2,258	117
Total	**$ 33,387**	**131**	**$ 33,346**	**125**

During the year ended 31 December 2016, a total of $15 million ($12 million – 2015) was recorded as compensation for administering projects/programs. The amount has been included in REVENUE From other sources—net.

continued

NOTE T—VARIABLE INTEREST ENTITIES

In 2016, ASU 2015-02 became effective for ADB. It modified the evaluation of whether limited partnerships and similar entities are VIEs, eliminated the presumption that a general partner should consolidate a limited partnership, modified the consolidation assessment of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships, and provided a scope exception for reporting entities with interest in money market funds. Based on the result of the re-evaluation, ADB has identified investments in 34 (33 – 2015) VIEs which are not consolidated by ADB but in which it is deemed to hold significant variable interests at 31 December 2016. These non-consolidated VIEs are mainly (i) operating entities where the total equity invested is considered insufficient to finance its activities without additional subordinated financial support and (ii) investment funds, where the general partner or fund manager does not have substantive equity at risk and the equity holders lack decision making rights. These VIEs are in the finance and energy sectors.

ADB's involvement in these non-consolidated VIEs includes loans, guarantees, and investments in debt securities and equity interests. Based on the most recent available data from these VIEs at 31 December 2016, the assets of these non-consolidated VIEs totaled $11,941 million ($13,765 million – 2015).

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

($ million)

	Carrying value of ADB's Variable Interests	Committed but Undisbursed	Maximum Exposure to Loss
2016			
Loans — Operations	$ 161	$ –	$ 161
Equity Investments — Operations	327	182	509
Guarantees	52	–	52
Total	**$ 540**	**$ 182**	**$ 722**
2015			
Loans — Operations	$ 918	$ 74	$ 992
Equity Investments — Operations	127	71	198
Guarantees	60	–	60
Total	**$ 1,105**	**$ 145**	**$ 1,250**

continued

NOTE U—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 the outstanding issuances and associated revenue of OCR's loan, guarantees, other debt securities, and equity investments by geographic region, as of and for the years ended 31 December 2016 and 2015:

($ million)

	2016		2015	
Country	**Outstanding Balance**	**Revenue**	**Outstanding Balance**	**Revenue**
People's Republic of China	$ 16,796	$ 294	$ 15,795	$ 231
India	15,592	211	14,557	124
Indonesia	8,972	152	8,456	109
Philippines	6,370	75	5,711	40
Pakistan	5,136	67	4,744	43
Viet Nam	3,926	40	2,925	20
Others	13,876	251	12,022	111
Total	**$ 70,668**	**$ 1,090**	**$ 64,210**	**$ 678**

Revenue comprises income from loans, guarantees, other debt securities, and equity investments, and excludes net realized gains and unrealized gains and losses.

For the years ended 31 December 2016 and 2015, sovereign loans to three members individually generated more than 10 percent of loan revenue which amounted to $252 million, $171 million, and $143 million ($186 million, $103 million, and $97 million – 2015).

NOTE V—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, the date these Financial Statements are available for issuance. During this period, ADB has raised additional borrowings of approximately $12,567 million in various currencies.

Transfer of ADF loans and other assets to OCR

In 2014, ADB introduced a proposal to enhance ADB's financial capacity in a sustainable manner through more efficient and effective management of its capital resources. The proposal entailed combining ADF lending operations with the OCR and retaining the ADF as a grant-only operation. ADB would continue concessional lending on the same terms and conditions as currently provided to ADF countries through the OCR window, while the ADF would continue to provide grant assistance.

In April 2015, the Board of Governors adopted a resolution authorizing the termination of ADF's loan operations and the transfer of ADF's loans and other assets to OCR effective 1 January 2017 (the 2015 Resolution). This resolution was further amended in June 2016. Accordingly, on 1 January 2017, ADB transferred ADF loans and other assets totaling $30,812 million from ADF to OCR. The transferred ADF assets composed of loans including accrued interest totaling $27,088 million and liquid assets totaling $3,724 million. The source of funding for ADF came from donor contributions, OCR net income transfer, and set-aside resources.

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continued

The transfer of these assets was treated as a contribution from ADF to OCR and a return of the set-aside resources from ADF to OCR. This resulted in the recognition of one-time income of $30,748 million in OCR and a return of the set-aside resources of $64 million. The corresponding income recognized in OCR has been allocated to ordinary reserves as from 1 January 2017 following the adoption of Board of Governors Resolution No. 387.

The proportionate interest of ADF donors in the transferred assets as of 1 January 2017, taking into account the value of paid-in donor contributions that have been made available for operational commitments which are deemed by ADB to be applied for the transferred assets, was determined in accordance with Article V of the Regulations of the Asian Development Fund. The value of each donor’s paid-in contributions was fixed in US dollars based on the SDR value of each donor contribution as of 1 January 2017. This was then used to determine the sources of funds in the transferred assets on 1 January 2017, the date of the termination of the ADF loan operations and transfer of assets to OCR. Under the 2015 Resolution, the proportionate interest of an ADF donor will be taken into account in the event of the withdrawal of that donor from ADB and ADB's repurchase of its shares, and in the theoretical termination of ADB operations and liquidation of its assets. The following table shows the funding sources of the transferred assets:

Source of Funds in ADF	**$ million**	**%**	**Source of Funds in ADF**	**$ million**	**%**
Donor Contributions					
Australia	$ 2,213	7.18	Malaysia	24	0.08
Austria	257	0.83	Nauru	0	0.00
Belgium	231	0.75	The Netherlands	716	2.32
Brunei Darussalam	17	0.06	New Zealand	157	0.51
Canada	1,889	6.13	Norway	266	0.86
China, People's Republic of	84	0.27	Portugal	79	0.26
Denmark	242	0.79	Singapore	18	0.06
Finland	180	0.58	Spain	432	1.40
France	1,270	4.12	Sweden	436	1.42
Germany	1,679	5.45	Switzerland	359	1.17
Hong Kong, China	93	0.30	Taipei,China	90	0.29
India	24	0.08	Thailand	15	0.05
Indonesia	14	0.05	Turkey	114	0.37
Ireland	79	0.26	United Kingdom	1,440	4.67
Italy	1,099	3.57	United States	4,060	13.18
Japan	11,197	36.34	**Subtotal**	**29,309**	**95.13**
Kazakhstan	4	0.01	**OCR Net Income Transfers**	1,439	4.67
Korea, Republic of	484	1.57	**Set-Aside Resources**	64	0.20
Luxembourg	47	0.15	**Total**	**$ 30,812**	**100.00**

0 = about $0.3 million, 0.00 = 0.001%.

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

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

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Deloitte.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Special Purpose Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying special purpose statements of assets, liabilities, and fund balances of Asian Development Bank ("ADB") – Asian Development Fund as of December 31, 2016 and 2015, and the related special purpose statements of revenue and expenses, comprehensive loss, changes in fund balances and cash flows for the years then ended and the related notes to the special purpose financial statements. Our report dated March 17, 2017 expressed an unmodified opinion on those special purpose financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

Deloitte.

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INDEPENDENT AUDITOR'S 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, 2016 and 2015, and the related special purpose statements of revenue and expenses, comprehensive loss, changes in fund balances and cash flows for the years then ended, and the related notes to the special purpose financial statements.

Management's Responsibility for the Special Purpose Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte.

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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's 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 of special purpose summary statements of loans as of December 31, 2016 and 2015 and special purpose statement of resources as of December 31, 2016, are presented for the purpose of additional analysis and are not a required part of the special purpose financial statements. These schedules are the responsibility of the ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the special purpose financial statements.

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

Deloitte.

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 17, 2017

ADF-1

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES
31 December 2016 and 2015
Expressed in Millions of US Dollars

	2016		2015	
ASSETS				
DUE FROM BANKS		$ 281		$ 63
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and K)				
Government or government-guaranteed obligations	$ 4,546		$ 5,591	
Time deposits	1,180	5,726	402	5,993
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Note C)		13		37
LOANS OUTSTANDING — OPERATIONS (ADF-6) (Notes D and K)				
Sovereign	27,367		27,270	
Less—allowance for HIPC Debt Relief	61	27,306	65	27,205
ACCRUED REVENUE				
Investments for liquidity purpose	24		26	
Loans outstanding — operations	63	87	66	92
OTHER ASSETS (Note F)		172		193
TOTAL		**$ 33,585**		**$ 33,583**
LIABILITIES AND FUND BALANCES				
PAYABLE TO RELATED FUNDS (Note E)		$ 5		$ 51
ADVANCE PAYMENTS ON CONTRIBUTIONS (Note F)		149		167
UNDISBURSED GRANTS (Notes J and K)		2,483		2,581
TOTAL LIABILITIES		2,637		2,799
FUND BALANCES (ADF-4)				
Contributions received (ADF-7)				
Contributed resources (Note F)	$ 32,686		$ 31,830	
Unamortized discount	(19)		(28)	
	32,667		31,802	
Set-aside resources (Note H)	64		66	
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund	1,703		1,583	
	34,434		33,451	
Nonnegotiable, noninterest-bearing demand obligations on account of contributions (Note F)	(1,633)		(1,738)	
Accumulated deficit	(361)		(111)	
Accumulated other comprehensive loss (Note I)	(1,492)	30,948	(818)	30,784
TOTAL		**$ 33,585**		**$ 33,583**

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 2016 and 2015
Expressed in Millions of US Dollars

	2016		2015	
REVENUE				
From loans — operations (Note D)	$ 330		$ 308	
From investments for liquidity purpose (Note C)	60	390	56	364
EXPENSES				
Grants (Note J)	(376)		(348)	
Administrative expenses (Note G)	(268)		(278)	
Amortization of discounts on contributions	(7)	(651)	(7)	(633)
NET REALIZED GAINS FROM INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and I)		7		8
NET UNREALIZED GAINS (LOSSES)		4		(56)
REVENUE LESS THAN EXPENSES		**$ (250)**		**$ (317)**

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

ADF-3

SPECIAL PURPOSE STATEMENT OF COMPREHENSIVE LOSS
For the Years Ended 31 December 2016 and 2015
Expressed in Millions of US Dollars

	2016		2015	
REVENUE LESS THAN EXPENSES (ADF-2)		$ (250)		$ (317)
Other comprehensive loss (Note I)				
Currency translation adjustments	$ (679)		$ (586)	
Unrealized holding gains (losses) on investments for liquidity purpose	5	(674)	(19)	(605)
COMPREHENSIVE LOSS		**$ (924)**		**$ (922)**

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 2016 and 2015
Expressed in Millions of US Dollars

	Contributed Resources	Set-Aside Resources	Transfers from OCR & TASF	Nonnegotiable, Noninterest-bearing Demand Obligations	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Loss	Total
Balance, 1 January 2015	**$ 31,794**	**$ 69**	**$ 1,463**	**$ (1,841)**	**$ 206**	**$ (213)**	**$ 31,478**
Comprehensive loss (ADF-3) (Note I)					(317)	(605)	(922)
Contributions made available for operational commitment	838						838
Amortization of discount on donor's contribution	7						7
Demand obligations received				(568)			(568)
Encashment of demand obligations				615			615
Transfer from OCR			120				120
Translation adjustments	(837)	(3)		56			(784)
Balance, 31 December 2015	**$ 31,802**	**$ 66**	**$ 1,583**	**$ (1,738)**	**$ (111)**	**$ (818)**	**$ 30,784**
Comprehensive loss (ADF-3) (Note I)					(250)	(674)	(924)
Contributions made available for operational commitment	960						960
Amortization of discount on donor's contribution	7						7
Demand obligations received				(665)			(665)
Encashment of demand obligations				712			712
Transfer from OCR (Note F)			120				120
Translation adjustments	(102)	(2)	(0)	58			(46)
Balance, 31 December 2016	**$ 32,667**	**$ 64**	**$ 1,703**	**$ (1,633)**	**$ (361)**	**$ (1,492)**	**$ 30,948**

OCR = ordinary capital resources, TASF = Technical Assistance Special Fund.
Note: 0 = less than $0.5 million.
The accompanying notes are an integral part of these special purpose financial statements (ADF-8).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
SPECIAL PURPOSE STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2016 and 2015
Expressed in Millions of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest charges on loans — operations received	$ 304	$ 273
Interest received from investments for liquidity purpose	81	85
Administrative expenses paid	(315)	(267)
Grants disbursed	(463)	(503)
Net Cash Used in Operating Activities	(393)	(412)
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments for liquidity purpose	1,908	2,422
Maturities of investments for liquidity purpose	61,138	62,015
Purchases of investments for liquidity purpose	(62,928)	(64,558)
Receipts from securities purchased under resale arrangements	12,517	41,941
Payments for securities purchased under resale arrangements	(12,495)	(41,624)
Principal collected on loans — operations	1,363	1,242
Loans — operations disbursed	(2,000)	(2,024)
Net Cash Used in Investing Activities	(497)	(586)
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received and encashed[1]	993	880
Cash received from ordinary capital resources	120	120
Cash Provided by Financing Activities	1,113	1,000
Effect of Exchange Rate Changes on Due from Banks	(5)	1
Net Increase in Due from Banks	218	3
Due from Banks at Beginning of Year	63	60
Due from Banks at End of Year	$ 281	$ 63
RECONCILIATION OF REVENUE LESS THAN EXPENSES TO NET CASH USED IN OPERATING ACTIVITIES:		
Revenue less than expenses (ADF-2)	$ (250)	$ (317)
Adjustments to reconcile revenue less than expenses to net cash used in operating activities:		
Amortization of discounts/premiums on investments for liquidity purpose	20	27
Amortization of discount on donor's contributions	7	8
Grants approved and effective	376	348
Capitalized charges on loans — operations	(27)	(24)
Net gain on sale of investments for liquidity purpose	(7)	(8)
Change in accrued revenue on investments for liquidity purpose and loans — operations	2	(10)
Change in other assets	11	(1)
Change in payable to related funds	(47)	11
Change in undisbursed grants	(474)	(502)
Exchange (gains) losses—net	(4)	56
Net Cash Used in Operating Activities	$ (393)	$ (412)

Supplementary disclosure on noncash financing activities:

[1] Nonnegotiable, noninterest-bearing demand promissory notes amounting to $735 million ($668 million – 2015) 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 — OPERATIONS
31 December 2016 and 2015

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	$ 597	$ 4	$ –	$ 601	1.68
Armenia	355	107	–	462	1.29
Azerbaijan	39	0	–	39	0.11
Bangladesh	5,783	1,325	253	7,361	20.56
Bhutan	189	98	–	287	0.80
Cambodia	1,122	486	62	1,670	4.66
Cook Islands	23	–	–	23	0.06
Georgia	654	144	–	798	2.23
Indonesia	720	5	–	725	2.03
Kazakhstan	4	–	–	4	0.01
Kiribati	22	4	–	26	0.07
Kyrgyz Republic	569	151	115	835	2.33
Lao People’s Democratic Republic	789	284	20	1,093	3.05
Maldives	91	1	–	92	0.26
Marshall Islands	54	–	–	54	0.15
Micronesia, Federated States of	46	2	–	48	0.13
Mongolia	546	237	–	783	2.19
Myanmar	514	255	236	1,005	2.81
Nepal	1,466	1,001	180	2,647	7.39
Pakistan	5,530	539	29	6,098	17.03
Palau	7	6	–	13	0.04
Papua New Guinea	442	106	72	620	1.73
Philippines	277	–	–	277	0.77
Samoa	99	1	–	100	0.28
Solomon Islands	40	23	–	63	0.18
Sri Lanka	2,311	324	112	2,747	7.67
Tajikistan	263	14	96	373	1.04
Timor-Leste	12	27	48	87	0.24
Tonga	27	–	2	29	0.08
Tuvalu	4	–	–	4	0.01
Uzbekistan	481	270	266	1,017	2.84
Vanuatu	42	28	–	70	0.20
Viet Nam	4,245	1,100	396	5,741	16.03
Regional	4	0	15	19	0.05
TOTAL – 31 December 2016	$ 27,367	$ 6,542	$ 1,902	$ 35,811	100.00
Allowance for HIPC Debt Relief	(61)	–	–	(61)	
NET BALANCE – 31 December 2016	**$ 27,306**	**$ 6,542**	**$ 1,902**	**$ 35,750**	
NET BALANCE – 31 December 2015	**$ 27,205**	**$ 6,854**	**$ 1,436**	**$ 35,495**	

Note: 0 = less than $0.5 million.

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

2 Loans negotiated before 1 January 1983 were denominated in current US dollars. Loans negotiated after that date are denominated in special drawing rights (SDR) for the purpose of commitment. The undisbursed portions of such SDR loans are translated into US dollars at the applicable exchange rates as of the end of a reporting period. Of the undisbursed balances, ADB has entered into irrevocable commitments to disburse various amounts totaling $56 million ($45 million – 2015).

3 Refer to the unwithdrawn portions of effective loans as of 31 December 2016.

4 Refer to approved loans that have not become effective as of 31 December 2016, pending borrowers' compliance with effectiveness conditions specified in the loan regulations and the loan agreements.

continued

MATURITY OF EFFECTIVE LOANS AS OF 31 DECEMBER 2016

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2017	$ 1,394	2026	8,953
2018	1,497	2031	7,435
2019	1,609	2036	5,338
2020	1,698	2041	2,968
2021	1,863	2046	996
		2051	122
		2056	36
		Total	**$ 33,909**

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING — OPERATIONS

Currency	2016	2015	Currency	2016	2015
Australian dollar	$ 21	$ 30	Norwegian krone	48	60
Canadian dollar	47	147	Pound sterling	81	169
Danish krone	10	18	Singapore dollar	–	0
Euro	613	1,293	Swedish krona	20	50
Yen	867	2,504	Swiss franc	39	73
Won	12	16	Baht	0	0
Ringgit	0	0	US dollar	924	1,581
New Zealand dollar	1	1	Special Drawing Rights[5]	24,684	21,328
			Total	**$ 27,367**	**$ 27,270**

[5] Basket of currencies defined by the International Monetary Fund consisting of the US dollar, euro, pound sterling, yen, and yuan.

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 2016
Expressed in Millions of US Dollars

	Effective Amounts Committed[1]	Contributions Received
CONTRIBUTED RESOURCES		
Australia	$ 2,393	$ 2,093
Austria	275	261
Belgium	244	221
Brunei Darussalam	20	20
Canada	1,951	1,976
China, People's Republic of	102	102
Denmark	254	305
Finland	190	153
France	1,363	1,219
Germany	1,862	1,723
Hong Kong, China	109	109
India	30	30
Indonesia	15	15
Ireland	95	73
Italy	1,153	862
Japan	11,959	14,788
Kazakhstan	5	5
Korea, Republic of	570	512
Luxembourg	53	47
Malaysia	29	26
Nauru	0	0
The Netherlands	761	726
New Zealand	174	163
Norway	288	258
Portugal	92	89
Singapore	21	23
Spain	536	418
Sweden	470	399
Switzerland	382	545
Taipei,China	105	102
Thailand	17	17
Turkey	122	116
United Kingdom	1,557	1,104
United States	4,522	4,166
Total	31,720	32,667
SET-ASIDE RESOURCES		64
TRANSFERS FROM ORDINARY CAPITAL RESOURCES		1,700
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND		3
TOTAL	**$ 31,720**	**$ 34,434**

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

[1] At exchange rates per Resolutions.

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

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND
NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS
31 December 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

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

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

Combined ADF-OCR Lending Operations

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

Replenishments

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 Technical Assistance Special Fund (TASF). The replenishment provides resources to the ADF to finance ADB's concessional program, and to the TASF to finance technical assistance operations. Total replenishment size was SDR8,415 million, of which SDR3,090 million came 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 2016, ADB had received instruments of contributions from all 32 donors including qualified contributions amounting to SDR410 million.

In July 2016, the Board of Governors adopted a resolution providing for the 11th replenishment of the ADF (ADF 12) and the 6th regularized replenishment of the TASF. The replenishment provides resources to finance the ADF grant program and the TASF operations during 2017-2020. As of 31 December 2016, total replenishment size is $3,798 million, of which $2,580 million will come from new donor contributions. Donors agreed to allocate $461 million out of the total donor contributions to TASF.

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[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).

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continued

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 September 2016, the Board of Directors approved the change in the financial reporting of ADF from special purpose to general purpose financial statements, effective from 1 January 2017, in anticipation of the transfer of ADF loans and certain assets to OCR (See Note L).

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

In July 2007 ADB offered ADF borrowers the option to convert their existing liability (i.e., disbursed and outstanding loan balance) in various currencies into SDR, while the undisbursed portions would be treated as new loans. The conversion was made available beginning 1 January 2008, and as of 31 December 2016, 21 out of 29 ADF borrowing countries had opted to convert their loans, which were carried out on the nearest loan service payment dates at least one month from their concurrence. In 2016, 130 loans from one borrower totaling $2,946 million were converted to SDR. The SDR conversion option was discontinued on 1 January 2017.

In anticipation of the termination of ADF lending operations and transfer of ADF loans and other assets to the OCR effective on 1 January 2017, a comprehensive review of ADF financial management and policies was undertaken and approved by the Board of Directors in February 2016. Since the US dollar has been adopted for ADF grant operations, starting in January 2017, ADF commitment authority and liquidity will be determined and managed in US dollars to mitigate commitment and disbursement risks.

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. Effective 1 October 2016, the yuan was added to the SDR basket as one of its component currencies. Consequently, the yuan was considered a functional currency of ADF beginning 1 October 2016.

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

continued

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 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 GAINS (LOSSES) in the Special Purpose Statement of Revenue and Expenses.

Investments for Liquidity Purpose

Investment securities and negotiable certificates of deposit are classified as available for sale and are reported at fair value (FV). 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.

Loans — Operations

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

Contributed Resources

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

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

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

Advanced Payments on Contributions

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

continued

Grants and Undisbursed Grants

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 grant is eliminated accordingly.

Fair Value of Financial Instruments

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

Fair Value Hierarchy

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

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

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

Accounting Estimates

The preparation of 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *“Revenue from Contracts with Customers (Topic 606)”* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12, and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, and on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and to correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have material impact on ADF's financial statements on effectivity.

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

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*," provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, "*Statement of Cash Flows (Topic 230) – Restricted Cash*," requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on ADF's financial statements.

In January 2017, FASB issued ASU 2017-01, "*Business Combinations (Topic 805) – Clarifying the Definition of a Business*," which clarifies the definition of a business to assist entities in evaluating whether transactions should be accounted for as acquisitions (or disposal) of assets or business. Amendments in this update should be applied prospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. No disclosures are required at transition. Early adoption is permitted. ADB is currently assessing the impact of this ASU on ADF's financial statements.

Also in January 2017, FASB issued ASU 2017-03, "*Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323) – Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*," which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13 will have on the entity's financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity's progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

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.

continued

NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE

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 2016 were government or government-guaranteed obligations transferred under securities lending arrangements amounting to $48 million ($17 million – 2015).

The currency composition of the investment for liquidity purpose portfolio as of 31 December 2016 and 2015 expressed in US dollars was as follows:

($ million)

Currency	2016	2015
US dollar	$ 3,457	$ 2,983
Euro	1,236	1,891
Pound sterling	386	752
Yuan	376	–
Yen	262	367
SDR	9	–
Total	**$ 5,726**	**$ 5,993**

The estimated FV and amortized cost of the investments for liquidity purpose as of 31 December 2016 and 2015 were as follows:

($ million)

	2016		2015	
	Estimated Fair Value	Amortized Cost	Estimated Fair Value	Amortized Cost
Due in one year or less	$ 1,552	$ 1,551	$ 1,443	$ 1,440
Due after one year through five years	3,723	3,710	4,133	4,136
Due after five years through ten years	444	450	403	400
Due after ten years through fifteen years	7	7	14	14
Total	**$ 5,726**	**$ 5,718**	**$ 5,993**	**$ 5,990**

continued

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

($ million)

	2016	2015
As of 31 December		
Amortized cost	$ 4,538	$ 5,588
Estimated fair value	4,546	5,591
Gross unrealized gains	33	16
Gross unrealized losses	(25)	(13)
For the years ended 31 December		
Change in net unrealized gains (losses) from prior year	5	(19)
Proceeds from sales	1,908	2,422
Gross gain on sales	7	8
Gross loss on sales	(0)	(0)

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 1.08% (0.95% – 2015) excluding unrealized gains and losses on investment securities, and 1.15% (0.67% – 2015) including unrealized gains and losses on investments.

There were no government or government-guaranteed obligations (nil – 31 December 2015) that sustained losses for over one year. Comparative details for 2016 and 2015 are as follows:

($ million)

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
As of 31 December 2016						
Government or government-guaranteed obligations	$ 1,590	$ 25	$ –	$ –	$ 1,590	$ 25
As of 31 December 2015						
Government or government-guaranteed obligations	$ 2,639	$ 13	$ –	$ –	$ 2,639	$ 13

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continued

Fair Value Disclosure

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2016 and 2015 was as follows:

($ million)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
31 December 2016				
Investments for liquidity purpose				
Government or government-guaranteed obligations	$ 4,546	$ 4,537	$ 9	$ –
Time deposits	1,180	–	1,180	–
Securities purchased under resale arrangements	13	–	13	–
Total at fair value	**$ 5,739**	**$ 4,537**	**$ 1,202**	**$ –**
31 December 2015				
Investments for liquidity purpose				
Government or government-guaranteed obligations	$ 5,591	$ 5,586	$ 5	$ –
Time deposits	402	–	402	–
Securities purchased under resale arrangements	37	–	37	–
Total at fair value	**$ 6,030**	**$ 5,586**	**$ 444**	**$ –**

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. Investments and related financial assets where active market quotes are not available are categorized as Level 2 or Level 3, and valuation is provided by independent valuation services, custodians, and asset managers, or based on discounted cash flow model using market observable inputs, such as interest rates, foreign exchange rates, basis spreads, cross currency rates, and volatilities, and unobservable inputs, such as option adjusted spreads, and other techniques. Time deposits are reported at cost, which approximates FV.

The table below provides details of transfers between Level 1 and Level 2 for the years ended 31 December 2016 and 2015:

($ million)

	2016		2015	
	Level 1	Level 2	Level 1	Level 2
Investments for liquidity purpose				
Government or government-guaranteed obligations				
Transfers into (out of)	$ 5	$ (5)	$ –	$ –
Transfers (out of) into	–	–	(5)	5

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

ADB maintains documented processes and internal controls to value the investment securities and financial assets. The data management unit in the treasury department is responsible for providing the valuation in accordance with the business process. In instances where ADB relies primarily on prices from third party pricing information, there are procedures in place to validate the appropriateness of those values in determining the hierarchy levels. This involves evaluating the nature of prices provided by third

continued

party pricing sources to determine if they are indicative or binding prices. There were no investments categorized as Level 3 as of 31 December 2016 and 2015.

NOTE D—LOANS — OPERATIONS 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 had a fixed interest rate of 150 basis points below the weighted average of the ten-year fixed swap rates of the SDR component currencies plus the OCR lending spread, or the current ADF rate, whichever was higher. Other terms were similar to those of regular ADF loans. The interest rate was reset every January and applied to all hard-term loans approved that year and 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 2016 and 2015, the interest rate was set at (i) 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. The hard-term ADF lending facility will be discontinued starting January 2017.

In April 2008, the Board of Governors adopted the resolution on providing HIPC Relief from ADF Debt which allowed ADB to participate in the HIPC Initiative. Subsequently, the Board of Directors approved the provision of debt relief under HIPC to Afghanistan.

ADB believes that because there is no comparable market for ADF loans and because they do not intend to sell these loans, using market data to calculate the FV of the loans is not meaningful. As such, the FV of loans is determined based on the terms at which a similar loan would currently be made by ADB to a similar borrower. For such loans, carrying amount approximates the FV. Any credit risks adjustment on the FV of loans is considered not to have a material effect based on ADB's experience with its borrowers.

Undisbursed loan commitments and an analysis of loans by country as of 31 December 2016 are shown in ADF-6.

continued

As of 31 December 2016 and 2015, outstanding loans to borrowers that exceeded 5% of total outstanding loans were as follows:

($ million)

	2016	2015
Bangladesh	$ 5,783	$ 5,864
Pakistan	5,530	5,346
Viet Nam	4,245	4,068
Sri Lanka	2,311	2,363
Nepal	1,466	1,437
Others (individually less than 5% of total loans)	8,032	8,192
Total Outstanding Loans — Operations	27,367	27,270
Allowance for HIPC Debt Relief	(61)	(65)
Net Outstanding Loans — Operations	**$ 27,306**	**$ 27,205**

There were no outstanding loans in non-accrual status as of 31 December 2016 and 2015.

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	2016	2015
Low credit risk	1–5 (AAA to BBB–)	$ 1,001	$ 1,310
Medium credit risk	6–11 (BB+ to B–)	24,142	23,614
High credit risk	12–14 (CCC+ to D)	2,224	2,346
Total		**$ 27,367**	**$ 27,270**

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 $21 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 2016 to $61 million.

continued

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 $5 million ($51 million – 2015) is an amount due to OCR, representing the unpaid balance of ADF's share in the administrative and operational expenses of ADB. The allocation of expenses is based on operational activities and are settled regularly. See Note G—ADMINISTRATIVE EXPENSES.

Under ADF XI and the fifth regularized replenishment of TASF, a specific portion of the total contributions is to be allocated to TASF. ADF receives contributions from members and subsequently transfers the specified portion to TASF. As of 31 December 2016, $95 thousand was payable to TASF (nil – 2015).

NOTE F—CONTRIBUTED RESOURCES AND ADVANCED CONTRIBUTIONS

In May 2016, the Board of Governors approved the transfer of $120 million to the ADF as part of OCR's 2015 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 2016 is reported as a reduction in the Fund Balances, which ADB currently expects to be encashed in varying amounts over the standard encashment period ending 31 December 2017 for ADF X, and 31 December 2021 for ADF XI.

As of 31 December 2016, contributions from 32 donors totaling $3,583 million were committed for ADF XI. Of these, $3,201 million including amortized discount of $4 million were received and recorded in Contributed Resources.

Advance contributions received from donors outstanding as of 31 December 2016 total $149 million ($167 million – 2015). Of this, contributions totaling $111 million ($120 million – 2015) were received in demand obligations, and are included in OTHER ASSETS. The remaining $38 million ($47 million – 2015) 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.

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.

ADF-8

continued

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 2016, the value of the SDR in terms of the current US dollar was $1.34433 ($1.38686 – 2015). On this basis, Set-Aside Resources amounted to $64 million ($66 million – 2015). If the capital stock of ADB as of 31 December 2016 had been valued in terms of $12,063.50 per share, Set-Aside Resources would have been $57 million.

These Set-Aside Resources were returned to OCR effective 1 January 2017 (See Note L).

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 2016 and 2015 were as follows:

($ million)

	Accumulated Translation Adjustments		Unrealized Holding Gains (Losses) on Investments for Liquidity Purpose		Accumulated Other Comprehensive Loss	
	2016	2015	2016	2015	2016	2015
Balance, 1 January	$ (821)	$ (235)	$ 3	$ 22	$ (818)	$ (213)
Other comprehensive (loss) income before reclassification	(679)	(586)	11	(12)	(668)	(598)
Amounts reclassified from accumulated other comprehensive loss	–	–	(6)	(7)	(6)	(7)
Net current-period other comprehensive (loss) income	(679)	(586)	5	(19)	(674)	(605)
Balance, 31 December	**$ (1,500)**	**$ (821)**	**$ 8**	**$ 3**	**$ (1,492)**	**$ (818)**

The reclassifications of Accumulated Other Comprehensive Loss to Revenue and Expenses for the year ended 31 December 2016 and 2015 were as follows:

($ million)

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss 2016	Amounts Reclassified from Accumulated Other Comprehensive Loss 2015	Affected Line Item in the Special Purpose Statement of Revenue and Expenses
Unrealized Holding Gains on Investments for Liquidity Purpose	$ 6	$ 7	NET REALIZED GAINS FROM INVESTMENTS FOR LIQUIDITY PURPOSE

continued

NOTE J—GRANTS AND UNDISBURSED GRANTS

ADF IX introduced financing in the form of grants for the first time. During 2016, 27 grants (15 – 2015) totaling $518 million ($358 million – 2015) were approved, while $376 million ($348 million – 2015), net of $4 million ($12 million – 2015) write-back of undisbursed grants for financially closed and/or cancelled grants, became effective.

The FV of undisbursed grants 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 2016 and 2015, ADF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C, D, and J for discussions relating to investments for liquidity purpose, loans, and undisbursed grants, respectively. In all other cases, the carrying amounts of ADF's assets and liabilities are considered to approximate FVs.

NOTE L—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, the date these Special Purpose Financial Statements are available for issuance. As a result of this evaluation, only the transfer of ADF assets to OCR as discussed below require disclosure.

Transfer of ADF loans and other assets to OCR

In 2014, ADB introduced a proposal to enhance ADB's financial capacity in a sustainable manner through more efficient and effective management of its capital resources. The proposal entailed combining ADF lending operations with the OCR and retaining the ADF as a grant-only operation. ADB would continue concessional lending on the same terms and conditions as currently provided to ADF countries through the OCR window, while the ADF would continue to provide grant assistance.

In April 2015, the Board of Governors adopted a resolution authorizing the termination of ADF's loan operations and the transfer of ADF's loans and other assets to OCR effective 1 January 2017 (the 2015 Resolution). This resolution was further amended in June 2016. Accordingly, on 1 January 2017, ADB transferred ADF loans and other assets totaling $30,812 million from ADF to OCR. The transferred ADF assets composed of loans totaling $27,088 million and liquid assets totaling $3,724 million. The source of funding for ADF came from donor contributions, OCR net income transfer and set-aside resources.

The transfer of these assets was treated as a contribution from ADF to OCR and a return of the set-aside resources from ADF to OCR. This resulted in the recognition of one-time loss of $31,029 million in ADF and a return of the set-aside resources of $64 million.

The proportionate interest of ADF donors in the transferred assets as of 1 January 2017, taking into account the value of paid-in donor contributions that have been made available for operational commitments, which are deemed by ADB to be applied for the transferred assets, was determined in accordance with Article V of the Regulations of the Asian Development Fund. The value of each donor's paid-in contributions was fixed in US dollar based on the SDR value of each donor contribution as of 1 January 2017. This was then used to determine the sources of funds in the transferred assets on 1 January 2017, the date of the termination of the ADF loan operations and transfer of assets to OCR. Under the 2015 Resolution, the proportionate interest of an ADF donor will be taken into account in the event of the withdrawal of that donor from ADB and ADB's repurchase of its shares, and in the theoretical termination of ADB operations and liquidation of its assets.

ADF-8

continued

The following table shows the funding sources of the transferred assets:

Source of Funds in ADF	$ million	%	Source of Funds in ADF	$ million	%
Donor Contributions					
Australia	$ 2,213	7.18	Malaysia	24	0.08
Austria	257	0.83	Nauru	0	0.00
Belgium	231	0.75	The Netherlands	716	2.32
Brunei Darussalam	17	0.06	New Zealand	157	0.51
Canada	1,889	6.13	Norway	266	0.86
China, People's Republic of	84	0.27	Portugal	79	0.26
Denmark	242	0.79	Singapore	18	0.06
Finland	180	0.58	Spain	432	1.40
France	1,270	4.12	Sweden	436	1.42
Germany	1,679	5.45	Switzerland	359	1.17
Hong Kong, China	93	0.30	Taipei,China	90	0.29
India	24	0.08	Thailand	15	0.05
Indonesia	14	0.05	Turkey	114	0.37
Ireland	79	0.26	United Kingdom	1,440	4.67
Italy	1,099	3.57	United States	4,060	13.18
Japan	11,197	36.34	**Subtotal**	**29,309**	**95.13**
Kazakhstan	4	0.01	**OCR Net Income Transfers**	**1,439**	**4.67**
Korea, Republic of	484	1.57	**Set Aside Resources**	**64**	**0.20**
Luxembourg	47	0.15	**Total**	**$ 30,812**	**100.00**

0 = about $0.3 million, 0.00 = 0.001%.

TECHNICAL ASSISTANCE SPECIAL FUND
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements 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 and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Deloitte.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of financial position of Asian Development Bank ("ADB") - Technical Assistance Special Fund as of December 31, 2016 and 2015 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 17, 2017 expressed an unmodified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

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INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's 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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's 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 of statement of resources as of December 31, 2016 and summary statement of technical assistance approved and effective for the year ended December 31, 2016, are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of the ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

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

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

TASF-1

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
ASSETS		
DUE FROM BANKS	$ 52,752	$ 6,972
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and G)		
Time deposits	302,020	366,555
ACCRUED REVENUE	59	50
DUE FROM CONTRIBUTORS (Note F)	40,946	112,809
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	2,985	2,550
TOTAL	**$ 398,762**	**$ 488,936**
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Notes D and E)	$ 1,374	$ 1,443
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and G)	356,442	340,594
TOTAL LIABILITIES	357,816	342,037
UNCOMMITTED BALANCES (TASF-2 and TASF-4) (Note F), represented by:		
Unrestricted net assets	40,946	146,899
TOTAL	**$ 398,762**	**$ 488,936**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (TASF-4) (Note F)	$ 45,248	$ 68,407
REVENUE		
From investments for liquidity purpose (Note C)	2,461	2,214
From other sources (Notes D and E)	6,480	7,570
Total	54,189	78,191
EXPENSES		
Technical assistance—net (TASF-5) (Note E)	(145,157)	(123,601)
Administrative expenses (Note D)	(6,465)	(6,169)
Financial expenses	(25)	(13)
Total	(151,647)	(129,783)
CONTRIBUTIONS AND REVENUE LESS THAN EXPENSES	(97,458)	(51,592)
EXCHANGE LOSSES—net	(8,495)	(22,377)
DECREASE IN NET ASSETS	(105,953)	(73,969)
NET ASSETS AT BEGINNING OF YEAR	146,899	220,868
NET ASSETS AT END OF YEAR	**$ 40,946**	**$ 146,899**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 118,738	$ 113,489
Interest received on investments for liquidity purpose	2,452	2,245
Net cash received from other activities	14	6
Other income received	1	1,395
Technical assistance disbursed	(129,679)	(121,187)
Financial expenses paid	(25)	(13)
Net Cash Used In Operating Activities	(8,499)	(4,065)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	12,607,426	14,514,359
Purchases of investments for liquidity purpose	(12,549,314)	(14,504,112)
Receipts from securities purchased under resale arrangements	8,448	5,620
Payments for securities purchased under resale arrangements	(8,478)	(5,537)
Net Cash Provided by Investing Activities	58,082	10,330
Effect of Exchange Rate Changes on Due from Banks	(3,803)	(521)
Net Increase in Due from Banks	45,780	5,744
Due from Banks at Beginning of Year	6,972	1,228
Due from Banks at End of Year	$ 52,752	$ 6,972
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Decrease in net assets (TASF-2)	$ (105,953)	$ (73,969)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Change in accrued revenue	(9)	30
Change in due from contributors	94,570	66,469
Change in advances for technical assistance and other assets	(2,548)	3,623
Change in accounts payable and other liabilities	(50)	980
Change in undisbursed technical assistance	15,847	217
Exchange gains—net	(10,356)	(1,415)
Net Cash Used in Operating Activities	$ (8,499)	$ (4,065)

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 2016
Expressed in Thousands of US Dollars

Contributor	Contributions Committed During 2016	Direct Voluntary Contributions	Regularized Replenishment[1]	Total Contributions
Australia	$ –	$ 2,484	$ 103,809	$ 106,294
Austria	–	159	10,582	10,741
Bangladesh	–	47	–	47
Belgium	–	1,394	8,535	9,929
Brunei Darussalam	–	–	917	917
Canada	–	3,346	58,087	61,433
China, People's Republic of	–	1,600	8,358	9,958
Denmark	–	1,963	7,656	9,618
Finland	–	237	6,979	7,216
France	–	1,697	43,704	45,402
Germany	–	3,315	59,811	63,126
Hong Kong, China	–	100	6,120	6,220
India	–	4,494	–	4,494
Indonesia	–	250	40	290
Ireland	–	–	5,771	5,771
Italy	–	774	36,458	37,232
Japan	–	47,710	447,634	495,345
Kazakhstan	–	–	410	410
Korea, Republic of	–	1,900	33,347	35,247
Luxembourg	–	–	1,502	1,502
Malaysia	–	909	1,572	2,481
Nauru	–	–	67	67
The Netherlands	–	1,337	26,869	28,206
New Zealand	–	1,096	7,400	8,496
Norway	–	3,279	11,430	14,709
Pakistan	140	2,226	–	2,226
Portugal	–	–	3,635	3,635
Singapore	–	1,100	1,398	2,498
Spain	5,108	190	21,672	21,861
Sri Lanka	–	6	–	6
Sweden	–	861	18,209	19,071
Switzerland	–	1,035	13,498	14,533
Taipei,China	–	200	5,215	5,415
Thailand	–	–	875	875
Turkey	–	–	3,694	3,694
United Kingdom	–	5,617	64,238	69,855
United States	–	1,500	130,457	131,957
Total	5,248	90,828	1,149,948	1,240,776
Transfer to Asian Development Fund				(3,472)
Allocation from OCR Net Income	40,000			989,000
Other Resources[2]				213,669
TOTAL	**$ 45,248**			**$ 2,439,974**

Note: Numbers may not sum precisely because of rounding.

1 Represents TASF portion of contributions to the replenishment of the Asian Development Fund and the Technical Assistance Special Fund authorized by Governors' Resolution Nos. 182, 214, 300, 333 and 357 at historical values.

2 Represents income, repayments, and reimbursements accruing to TASF since 1980.

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

TASF-5

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
SUMMARY STATEMENT OF TECHNICAL ASSISTANCE APPROVED AND EFFECTIVE
For the Year Ended 31 December 2016
Expressed in Thousands of US Dollars

Recipient	Project Preparation	Advisory	Research and Development	Policy and Advisory	Capacity Development	Total
Afghanistan	$ 400	$ (183)	$ –	$ –	$ –	$ 217
Armenia	384	–	–	1,000	(36)	1,348
Azerbaijan	420	–	–	1,200	750	2,370
Bangladesh	884	–	–	–	553	1,437
Bhutan	619	–	–	–	110	729
Cambodia	2,270	–	–	1,000	(480)	2,790
China, People's Republic of	4,633	–	–	7,227	628	12,488
Fiji	–	–	–	200	1,000	1,200
Georgia	1,000	–	–	1,413	1,017	3,431
India	5,901	–	–	(41)	2,271	8,131
Indonesia	225	(85)	–	1,500	52	1,692
Kazakhstan	955	–	–	–	(25)	930
Kiribati	800	–	–	–	30	830
Kyrgyz Republic	1,803	–	–	–	(144)	1,660
Lao People’s Democratic Republic	(324)	(82)	–	(31)	925	488
Malaysia	–	–	–	(225)	(36)	(261)
Maldives	(636)	–	–	–	500	(136)
Marshall Islands	–	–	–	–	(3)	(3)
Micronesia, Federated States of	–	–	–	500	(10)	490
Mongolia	–	–	–	3,685	2,626	6,311
Myanmar	1,479	–	–	634	2,250	4,363
Nauru	900	–	–	–	(42)	858
Nepal	1,845	–	–	1,000	1,111	3,957
Pakistan	6,128	–	–	581	(72)	6,637
Palau	–	–	–	–	500	500
Papua New Guinea	1,500	–	–	(173)	699	2,025
Philippines	1,882	–	–	3,000	703	5,585
Samoa	–	–	–	750	100	850
Solomon Islands	–	–	–	–	783	783
Sri Lanka	2,322	–	–	–	599	2,921
Tajikistan	379	–	–	600	223	1,202
Thailand	–	–	–	(114)	(184)	(298)
Timor-Leste	1,000	–	–	975	1,497	3,472
Tonga	–	–	–	–	(41)	(41)
Turkmenistan	225	–	–	(275)	–	(50)
Uzbekistan	3,663	–	–	(35)	(293)	3,336
Vanuatu	–	–	–	–	340	340
Viet Nam	2,126	–	–	(74)	206	2,258
Regional	6,230	–	11,779	4,643	38,335	60,986
Total	$ 49,014	$ (351)	$ 11,779	$ 28,940	$ 56,441	145,824
Regional Activities						(667)
TOTAL						**$ 145,157**

Notes:
1. Numbers may not sum precisely because of rounding.
2. Negative amounts represent net undisbursed technical assistance written back to balances available for future commitments (Note E).
The accompanying notes are an integral part of these financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

The TASF was established to provide technical assistance on a grant basis to DMCs of the ADB and for regional technical assistance. TASF resources consist of regularized replenishments and direct voluntary contributions by members, allocations from the net income of OCR, and revenue from investments and other sources.

In July 2012, the Board of Governors adopted the resolution providing for the tenth replenishment of the Asian Development Fund (ADF XI) and the fifth regularized replenishment of the TASF. The replenishment provides substantial resources to the ADF to finance ADB's concessional program, and to the TASF to finance technical assistance operations. Total replenishment size was SDR8,415 million, of which SDR3,090 million will come from new donor contributions. The donors agreed to allocate 3% of the total replenishment size (equivalent to about 8% of total donor contributions) to TASF. The replenishment became effective on 4 June 2013. As of 31 December 2016, ADB had received instruments of contribution from all 32 donors including qualified contributions amounting to SDR410 million.

In July 2016, the Board of Governors adopted a resolution providing for the eleventh replenishment of the ADF and the sixth regularized replenishment of the TASF. The replenishment provides resources to finance the ADF grant program and the TASF operations during 2017-2020. As of 31 December 2016, total replenishment size is $3,798 million, of which $2,580 million will come from new donor contributions. Donors agreed to allocate $461 million out of the total donor contributions to TASF.

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.

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

continued

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of TASF.

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 and liabilities 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 for Liquidity Purpose

All investment securities held by TASF are reported at fair value (FV). Realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

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 Related Undisbursed Amounts

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 amount 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 FV as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity’s principal market, or in the absence of principal

continued

market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The FV measurement is not adjusted for transaction costs.

Fair Value Hierarchy

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

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

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

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *"Revenue from Contracts with Customers (Topic 606)"* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12 and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and to correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have a material impact on TASF's financial statements on effectivity.

In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,"* to improve the usefulness of information provided to donors and other users of not-for-profit entity (NFP) financial statements and reduce complexities or costs in preparing the financial statements. The update significantly changes how NFPs present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. Amendments in this update should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted. ADB is currently assessing the impact of this ASU on TASF's financial statements.

continued

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*," provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, "*Statement of Cash Flows (Topic 230) – Restricted Cash*," requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on TASF's financial statements.

In January 2017, FASB issued ASU 2017-03, "*Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323) – Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*," which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13, will have on the entity's financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity's progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

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 FOR LIQUIDITY PURPOSE

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 for liquidity purpose held as of 31 December 2016 and 2015 were in time deposits.

The currency composition of the investment for liquidity purpose portfolio as of 31 December 2016 and 2015 expressed in US dollars was as follows:

($ thousand)

Currency	2016	2015
US dollar	$ 170,647	$ 235,246
Australian dollar	71,473	67,763
Pound sterling	30,445	38,078
Canadian dollar	29,455	25,468
Total	**$ 302,020**	**$ 366,555**

The annualized rate of return on the average investments held during the period ended 31 December 2016, including securities purchased under resale arrangements, based on the portfolio held at the beginning and end of each month, was 0.72% (0.60% – 2015).

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continued

Fair Value Disclosure

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2016 and 2015 was as follows:

($ thousand)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
31 December 2016				
Investments for liquidity purpose				
Time deposits	$ 302,020	$ –	$ 302,020	$ –
31 December 2015				
Investments for liquidity purpose				
Time deposits	$ 366,555	$ –	$ 366,555	$ –

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 FV.

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. Under ADF IX, ADF X, and ADF XI, a specific portion of the total contributions under each is to be allocated to the TASF as third, fourth and fifth regularized replenishments, respectively. ADF receives the contributions from members and subsequently transfers the specified portion to the TASF. Regional technical assistance projects and programs activities may be cofinanced by ADB's other Special Funds and trust funds administered by ADB (Agency Trust Funds). Interfund accounts are settled regularly between the TASF and the other funds.

ADB does not allocate any service fees to TASF for administering TA which involves a range of personnel services. Effective 1 January 2015, TASF has estimated the FV of personnel services involved in administering TAs to be 5% of amounts disbursed for TA projects. For the year ended 31 December 2016, the calculated service fee was $6,465,000 and recorded as EXPENSES Administrative expenses and REVENUE From other sources ($6,169,000 – 2015). The transaction has no impact on the net assets of TASF.

TASF-6

continued

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

($ thousand)	2016	2015
Receivable from:		
Asian Development Fund	$ 95	$ –
Regional Cooperation and Integration Fund	15	162
Climate Change Fund	0	–
Agency Trust Funds—net	311	335
Total	$ 421	$ 497
Payable to:		
Ordinary capital resources	$ 109	$ 91
Climate Change Fund	–	0
Total	$ 109	$ 91

0 = Less than $500.

The receivable from ADF mainly represents TASF allocations from 2 donors in relation to their ADF X and XI contributions.

NOTE E—UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed technical assistance 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 2016, $27,709,000 ($23,975,000 – 2015) representing completed and canceled TA projects was written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The FV of undisbursed commitments approximates the amounts undisbursed, because ADB expects that disbursements will be made for all projects/programs covered by the commitments.

ADB normally finances all TA on a grant basis. However, some TA operations are subject to arrangements for recovery of the full cost of the TA or provided on a reimbursable basis. During 2016, there was no reimbursement for the TA ($1,395,000 – 2015) that was included in REVENUE From other sources.

As of 31 December 2016, $1,240,000 ($1,240,000 – 2015) was included in ACCOUNTS PAYABLE AND OTHER LIABILITIES as reimbursement for the TA, received in advance of the TA approval.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

Since inception in 1967, direct contributions have been made by 29 member countries. In 2016, TASF received direct and voluntary contribution commitments from Pakistan amounting to $140,000, of which $130,000 was received to date.

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 $376,000,000, respectively, to be used for technical assistance to ADF borrowing DMCs and for regional technical assistance. During the year, the fund received $99,671,000 ($2,831,000 – ADF IX; $767,000 – ADF X; $96,073,000 – ADF XI) in cash and promissory notes, leaving

continued

a total of $40,946,000 ($4,320,000 – ADF IX; $19,416,000 – ADF X; $17,200,000 – ADF XI; $10,000 – direct voluntary contribution) as DUE FROM CONTRIBUTORS.

In 2016, $40,000,000 was allocated from OCR net income to TASF bringing the accumulated allocation from OCR net income to $989,000,000.

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 2016 and 2015 were without any restrictions.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2016 and 2015. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2016 and 2015, TASF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and E for discussions relating to investments for liquidity purpose and undisbursed technical assistance, respectively. In all other cases, the carrying amount of TASF's assets and liabilities is considered to approximate FV.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, 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 2016.

JAPAN SPECIAL FUND
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements 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 and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Deloitte.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of financial position of Asian Development Bank ("ADB") – Japan Special Fund as of December 31, 2016 and 2015 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 17, 2017 expressed an unmodified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

Deloitte.

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INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's 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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

JSF-1

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016			2015		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
ASSETS						
DUE FROM BANKS	$ 182	$ 1,091	$ 1,273	$ 181	$ 2,010	$ 2,191
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and G)						
Time deposits	37,011	69,021	106,032	36,845	68,708	105,553
ACCRUED REVENUE	6	7	13	3	4	7
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	–	–	–	–	0	0
TOTAL	**$ 37,199**	**$ 70,119**	**$ 107,318**	**$ 37,029**	**$ 70,722**	**$ 107,751**
LIABILITIES AND NET ASSETS						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ –	$ 39	$ 39	$ –	$ 39	$ 39
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and G)	–	1,412	1,412	–	2,744	2,744
TOTAL LIABILITIES	–	1,451	1,451	–	2,783	2,783
NET ASSETS (JSF-2), represented by:						
Uncommitted balances (Note F)						
Unrestricted	–	68,668	68,668	–	67,939	67,939
Temporarily restricted	28,199	–	28,199	28,199	–	28,199
	28,199	68,668	96,867	28,199	67,939	96,138
Net accumulated investment income (Note F)						
Temporarily restricted	9,000	–	9,000	8,830	–	8,830
	37,199	68,668	105,867	37,029	67,939	104,968
TOTAL	**$ 37,199**	**$ 70,119**	**$ 107,318**	**$ 37,029**	**$ 70,722**	**$ 107,751**

0 = Less than $500.

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

JSF-2

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended 31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016			2015		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
CHANGES IN UNRESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS FOR LIQUIDITY PUROSE (Note C)	$ –	$ 317	$ 317	$ –	$ 138	$ 138
REVENUE FROM OTHER SOURCES	–	3	3	–	9	9
NET ASSETS REVERTED FROM TEMPORARILY RESTRICTED ASSETS	0	–	0	0	–	0
Total	0	320	320	0	147	147
EXPENSES						
Technical assistance—net (Note E)	–	655	655	–	2,631	2,631
Administrative and financial expenses	(0)	(246)	(246)	(0)	(295)	(295)
Total	(0)	409	409	(0)	2,336	2,336
REVENUE IN EXCESS OF EXPENSES	0	729	729	–	2,483	2,483
EXCHANGE GAINS—net	–	–	–	–	0	0
INCREASE IN UNRESTRICTED NET ASSETS	0	729	729	–	2,483	2,483
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE AND OTHER SOURCES	170	–	170	79	–	79
NET ASSETS TRANSFERRED TO UNRESTRICTED ASSETS	(0)	–	(0)	(0)	–	(0)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	170	–	170	79	–	79
INCREASE IN NET ASSETS	170	729	899	79	2,483	2,562
NET ASSETS AT BEGINNING OF YEAR	37,029	67,939	104,968	36,950	65,456	102,406
NET ASSETS AT END OF YEAR	**$ 37,199**	**$ 68,668**	**$ 105,867**	**$ 37,029**	**$ 67,939**	**$ 104,968**

0 = Less than $500.

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

JSF-3

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016			2015		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Interest received on investments for liquidity purpose	$ 166	$ 313	$ 479	$ 79	$ 139	$ 218
Net cash received from other sources	1	3	4	0	9	9
Technical assistance disbursed	–	(677)	(677)	–	(1,964)	(1,964)
Administrative and financial expenses paid	(0)	(245)	(245)	(0)	(302)	(302)
Net Cash Provided by (Used in) Operating Activities	167	(606)	(439)	79	(2,118)	(2,039)
CASH FLOWS FROM INVESTING ACTIVITIES						
Maturities of investments for liquidity purpose	1,809,127	3,058,075	4,867,202	1,656,361	3,470,529	5,126,890
Purchases of investments for liquidity purpose	(1,809,293)	(3,058,388)	(4,867,681)	(1,656,440)	(3,466,688)	(5,123,128)
Net Cash (Used in) Provided by Investing Activities	(166)	(313)	(479)	(79)	3,841	3,762
Net Increase (Decrease) in Due from Banks	1	(919)	(918)	(0)	1,723	1,723
Due from Banks at Beginning of Year	181	2,010	2,191	181	287	468
Due from Banks at End of Year	$ 182	$ 1,091	$ 1,273	$ 181	$ 2,010	$ 2,191
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Increase in net assets (JSF-2)	$ 170	$ 729	$ 899	$ 79	$ 2,483	$ 2,562
Adjustments to reconcile increase in net assets to net cash provided by (used in) operating activities:						
Change in accrued revenue	(3)	(3)	(6)	(0)	1	1
Change in advances for technical assistance and other assets	–	0	0	–	15	15
Change in accounts payable and other liabilities	–	(0)	(0)	–	(4)	(4)
Change in undisbursed technical assistance	–	(1,332)	(1,332)	–	(4,613)	(4,613)
Exchange gains—net	–	0	0	–	(0)	(0)
Net Cash Provided by (Used in) Operating Activities	$ 167	$ (606)	$ (439)	$ 79	$ (2,118)	$ (2,039)

0 = Less than $500.

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

JSF-4

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

The JSF was established in March 1988 when the Government of Japan and ADB entered into a financial arrangement whereby the Government of Japan agreed to make an initial contribution and ADB became the administrator. The purpose of JSF is to help DMCs of ADB restructure their economies and broaden the scope of opportunities for new investments, thereby assisting the recycling of funds to DMCs of ADB. While JSF resources are used mainly to finance technical assistance (TA) operations, these resources may also be used for equity investment operations in ADB's DMCs. Under the agreement between ADB and Japan, ADB may invest the proceeds of JSF pending disbursement.

In March 1999, the Board approved the acceptance and administration by ADB of the Asian Currency Crisis Support Facility (ACCSF) to assist Asian currency crisis-affected member countries (CAMCs). Funded by the Government of Japan, ACCSF was established within JSF to assist in the economic recovery of CAMCs through interest payment assistance (IPA) grants, TA grants, and guarantees. With the general fulfillment of the purpose of the facility, the Government of Japan and ADB agreed to terminate the ACCSF on 22 March 2002 and all projects were financially completed as of 31 December 2011. Subject to the Government of Japan's instruction, the remaining funds will be retained in ACCSF.

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of JSF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations and as unrestricted and temporarily restricted net assets. ACCSF funds are separately reported in the financial statements.

JSF reports the contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When the donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as NET ASSETS TRANSFERRED TO UNRESTRICTED ASSETS.

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[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).

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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 and liabilities 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 for Liquidity Purpose

All investment securities held by JSF are reported at fair value (FV). Realized and unrealized gains and losses are included in REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE.

Interest income on time deposits is recognized as earned and reported, as REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE.

Technical Assistance, Grants and Related Undisbursed Amounts

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

Fair Value Hierarchy

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

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continued

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

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

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *"Revenue from Contracts with Customers (Topic 606)"* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12 and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and to correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have a material impact on JSF's financial statements on effectivity.

In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,"* to improve the usefulness of information provided to donors and other users of not-for-profit entity (NFP) financial statements and reduce complexities or costs in preparing the financial statements. The update significantly changes how NFPs present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. Amendments in this update should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted. ADB is currently assessing the impact of this ASU on JSF's financial statements.

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*," provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, "*Statement of Cash Flows (Topic 230) – Restricted Cash*," requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on JSF's financial statements.

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continued

In January 2017, FASB issued ASU 2017-03, "*Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323) – Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*," which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13, will have on the entity's financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity's progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

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 FOR LIQUIDITY PURPOSE

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 for liquidity purpose held as of 31 December 2016 and 2015 were in US dollar time deposits.

The annualized rates of return on the average investments for liquidity purpose held under ACCSF and JSF during the year, based on the portfolio held at the beginning and end of each month, were 0.46% and 0.46%, respectively (0.22% and 0.20%, respectively – 2015).

Fair Value Disclosure

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2016 and 2015 was as follows:

($ thousand)

		Fair Value Measurements		
31 December 2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments for liquidity purpose				
Time deposits	$ 106,032	$ –	$ 106,032	$ –
31 December 2015				
Investments for liquidity purpose				
Time deposits	$ 105,553	$ –	$ 105,553	$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates FV.

continued

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to JSF are settled regularly with OCR and other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds.

The interfund account balances included in ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES were as follows:

($ thousand)

		2016	2015
Amounts Receivable by:			
JSF from:	Regional Cooperation Integration Fund	$ –	$ 0
Amounts Payable by:			
JSF to:	Ordinary Capital Resources	$ 31	$ 23

0 = less than $500.

NOTE E—UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed technical assistance are denominated in US dollars and represent effective TA projects/programs not yet disbursed and unliquidated. During 2016, $655,000 ($2,631,000 – 2015) representing completed but partially cancelled TA projects were written back as a reduction in technical assistance for the period, and the corresponding undisbursed commitments were eliminated. None of this amount corresponds to ACCSF in both years. The FV of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—UNCOMMITTED BALANCES

Effective 31 December 2002, all remaining temporarily restricted net assets under JSF were transferred and integrated into the unrestricted regular net assets, as concurred by Japan, to optimize the use of JSF. Similarly, Japan lifted the restriction over the use of net accumulated investment income, which under the original terms of agreement between ADB and Japan, may only be used for defraying JSF's administrative expenses. Japan agreed to use the net accumulated investment income as additional resources for funding future JSF operations.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2016 and 2015. These balances include approved TA projects/programs that are not yet effective. As of 31 December 2016 and 2015 these balances were as follows:

($ thousand)

	2016			2015		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Uncommitted balances available for new commitments	$ 28,199	$ 68,668	$ 96,867	$ 28,199	$ 67,939	$ 96,138

continued

The temporarily restricted uncommitted balance remaining available as of 31 December 2016 corresponds to funds under ACCSF of $28,199,000 ($28,199,000 – 2015) and the amount of net accumulated income from investment for liquidity purpose of $9,000,000 ($8,830,000 – 2015) for settlement of all administrative expenses.

Net assets transferred to unrestricted assets under ACCSF relate to savings on financially completed technical assistance net of amounts from accumulated income from investment for liquidity purpose, released from restrictions to defray the administrative expenses of ACCSF.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2016 and 2015, JSF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and E for discussions relating to investments for liquidity purpose and undisbursed technical assistance, respectively. In all other cases, the carrying amount of JSF's assets and liabilities is considered to approximate FV.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, 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 2016.

Deloitte.

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INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Institute's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Institute's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Deloitte.

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, 2016 and 2015, 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 17, 2017

ADBI-1

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
STATEMENT OF FINANCIAL POSITION
31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016		2015	
ASSETS				
DUE FROM BANKS		$ 11,473		$ 10,396
PROPERTY, FURNITURE, AND EQUIPMENT (Note C)				
Property, Furniture, and Equipment	$ 2,653		$ 2,889	
Less—allowance for depreciation	2,643	10	2,850	39
DUE FROM CONTRIBUTORS (Note F)		5,744		6,076
LONG-TERM GUARANTEE DEPOSITS (Note D)		1,368		1,328
OTHER ASSETS (Note I)		326		279
TOTAL		**$ 18,921**		**$ 18,118**
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Accrued pension and postretirement medical benefit costs (Note J)	$ 7,037		$ 6,716	
Asset reinstatement obligations (Note E)	924		897	
Others (Note I)	952	$ 8,913	1,116	$ 8,729
UNCOMMITTED BALANCES (ADBI-2)				
Unrestricted net assets		10,008		9,389
TOTAL		**$ 18,921**		**$ 18,118**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	$ 13,084	$ 12,260
REVENUE		
From rental (Note G)	361	324
From securities purchased under resale arrangements	0	1
From other sources—net (Note I)	36	54
Total	13,481	12,639
EXPENSES		
Administrative expenses (Notes H and I)	(9,064)	(8,183)
Program expenses	(4,090)	(3,002)
Total	(13,154)	(11,185)
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES	327	1,454
EXCHANGE GAINS (LOSSES)—net	115	(60)
TRANSLATION ADJUSTMENTS	190	(28)
POST RETIREMENT BENEFIT LIABILITY ADJUSTMENTS	(13)	430
INCREASE IN NET ASSETS	619	1,796
NET ASSETS AT BEGINNING OF YEAR	9,389	7,593
NET ASSETS AT END OF YEAR	**$ 10,008**	**$ 9,389**

0 = less than $500.

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

ADBI-3

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 13,532	$ 11,863
Interest on securities purchased under resale arrangements	0	1
Expenses paid	(13,038)	(10,131)
Others—net	512	317
Net Cash Provided by Operating Activities	1,006	2,050
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from securities purchased under resale arrangements	128,001	1,404,045
Payments for securities purchased under resale arrangements	(128,447)	(1,398,303)
Maturities of investments	–	1,000
Net Cash (Used in) Provided by Investing Activities	(446)	6,742
Effect of Exchange Rate Changes on Due from Banks	517	373
Net Increase in Due from Banks	1,077	9,165
Due from Banks at Beginning of Year	10,396	1,231
Due from Banks at End of Year	$ 11,473	$ 10,396
RECONCILIATION OF INCREASE IN UNRESTRICTED NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase in unrestricted net assets (ADBI-2)	$ 619	$ 1,796
Adjustments to reconcile increase in unrestricted net assets to net cash provided by operating activities:		
Depreciation	33	29
Change in due from contributors	447	(399)
Change in long-term guarantee deposits	(40)	12
Change in other assets	(47)	86
Change in accrued pension and postretirement medical benefit costs	321	63
Change in asset reinstatement obligations	27	(8)
Change in other liabilities	(164)	443
Translation adjustments	(190)	28
Net Cash Provided by Operating Activities	$ 1,006	$ 2,050

0 = less than $500.

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 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

In 1996, ADB approved the establishment of the Asian Development Bank Institute (the Institute) in Tokyo, Japan as a subsidiary body of ADB. The Institute commenced its operations upon the receipt of the first funds from Japan on 24 March 1997, and it was inaugurated on 10 December 1997. The Institute's funds may consist of voluntary contributions, donations, and grants from ADB members, non-government organizations, and foundations. The Special Fund for the Institute is administered by ADB. The objectives of the Institute, as defined under its Statute, are to identify effective development strategies and capacity improvement for sound development management in developing member countries.

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the Institute are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

The Institute reports donor's contributed cash and other assets as unrestricted support as these are made available to the Institute without conditions other than for the purposes of pursuing the objectives of the Institute.

Functional Currency and Reporting Currency

The functional currency of the Institute is yen, representing the currency of primary economic operating environment of the Institute. The reporting currency is the US dollar.

Translation of Currencies

Assets and liabilities 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

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[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).

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continued

the year are recognized at the applicable exchange rates as of the end of the month of commitment. Revenue and expense amounts are translated at the applicable rates of exchange at the end of each month; such practice approximates the application of average rates in effect during the period. Translation adjustments are recorded as TRANSLATION ADJUSTMENTS and included in CHANGES IN UNRESTRICTED ASSETS.

Monetary assets and liabilities denominated in currency other than yen are translated into yen at year-end exchange rates. Exchange gains and losses are recorded as EXCHANGE GAINS (LOSSES)–net and included in the CHANGES IN UNRESTRICTED ASSETS.

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

Fair Value Hierarchy

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

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

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

continued

Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

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

Accounting Estimates

The preparation of the financial statements 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 May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *"Revenue from Contracts with Customers (Topic 606)"* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10 and 2016-12 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, and on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, respectively. A public entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have a material impact on the Institute's financial statements.

In January 2016, the FASB issued ASU 2016-01, *"Financial Instruments—Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities."* This Update enhances the reporting requirements for financial instruments. Specifically, this Update (i) requires that investments in equity securities measured at FV, recognize changes in FV in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable FV by requiring entities to perform a qualitative assessment to identify impairment, (iii) amends certain disclosure requirements associated with the FV of financial instruments, and (iv) requires to present separately in other comprehensive income the portion of the total change in the FV resulting from a change in the instrument-specific credit risk of liabilities that an entity has elected to measure at FV in accordance with the FV option. This Update is effective for fiscal years beginning after 15 December 2017 and interim periods thereafter. Early adoption is permitted. ADB is currently assessing the impact of this ASU on the Institute's financial statements.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842).*" This amendment requires the recognition by lessees of lease assets and lease liabilities for the rights and obligations arising from operating leases with terms of more than 12 months. It also requires qualitative disclosures along with specific quantitative disclosures. This Update is effective for fiscal years beginning after 15 December 2018 and interim periods thereafter. The ASU is not expected to have a material impact on the Institute's financial statements.

In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,"* to improve the usefulness of information provided to donors and other users of not-for-profit entity (NFP) financial statements and reduce complexities or costs

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continued

in preparing the financial statements. The Update significantly changes how NFPs present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. Amendments in this Update should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted. ADB is currently assessing the impact of this ASU on the Institute's financial statements.

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*," provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, "*Statement of Cash Flows (Topic 230) – Restricted Cash*," requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these Updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on the Institute's financial statements.

In January 2017, FASB issued ASU 2017-03, "*Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323) – Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*," which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13, will have on the entity's financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity's progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

In February 2017, the FASB issued ASU 2017-05 *"Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20) – Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets,"* which clarifies the scope of recognizing gains and losses from the transfer of nonfinancial assets and adds guidance for partial sales of nonfinancial assets. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. ADB is currently assessing the impact of this ASU on the Institute's financial statements.

Statement of Cash Flows

For the purposes of the Statement of Cash Flows, the Institute considers that its cash and cash equivalents are limited to Due from Banks, which consists of cash on hand and current accounts in banks used for operational disbursements.

continued

NOTE C—PROPERTY, FURNITURE, AND EQUIPMENT

Property, furniture and equipment consist of one-time establishment cost (comprising the office furniture, fixtures and equipment purchased at inception for use in the operations of the Institute), and subsequently purchased furniture and equipment.

The changes in the property, furniture, and equipment during 2016 and 2015, 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**
2016					
Cost:					
Balance, 1 January 2016	$ 2,363	$ 50	$ 294	$ 182	$ 2,889
Additions during the year	–	–	–	–	–
Disposals during the year	(136)	–	–	(188)	(324)
Translation adjustments	72	1	9	6	88
Balance, 31 December 2016	2,299	51	303	–	2,653
Accumulated Depreciation:					
Balance, 1 January 2016	(2,363)	(50)	(255)	(182)	(2,850)
Depreciation during the year	–	–	(33)	–	(33)
Disposals during the year	136	–	–	188	324
Translation adjustments	(72)	(1)	(5)	(6)	(84)
Balance, 31 December 2016	(2,299)	(51)	(293)	–	(2,643)
Net Book Value, 31 December 2016	**$ –**	**$ –**	**$ 10**	**$ –**	**$ 10**
2015					
Cost:					
Balance, 1 January 2015	$ 2,385	$ 50	$ 296	$ 184	$ 2,915
Additions during the year	–	–	–	–	–
Disposals during the year	–	–	–	–	–
Translation adjustments	(22)	–	(2)	(2)	(26)
Balance, 31 December 2015	2,363	50	294	182	2,889
Accumulated Depreciation:					
Balance, 1 January 2015	(2,385)	(50)	(227)	(184)	(2,846)
Depreciation during the year	–	–	(29)	–	(29)
Disposals during the year	–	–	–	–	–
Translation adjustments	22	–	1	2	25
Balance, 31 December 2015	(2,363)	(50)	(255)	(182)	(2,850)
Net Book Value, 31 December 2015	**$ –**	**$ –**	**$ 39**	**$ –**	**$ 39**

In 2016, the Institute returned the IT equipment under leased property to the lessor.

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continued

NOTE D—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 E—ASSET REINSTATEMENT OBLIGATIONS

The Institute has recorded the estimated asset reinstatement obligations related to leased office space.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In December 2016, the Government of Japan committed its 28th contribution to the Institute amounting to ¥672,069,000 ($5,744,000 equivalent). This was received on 6 January 2017.

In November 2016, the Government of Republic of Korea committed its second installment of the 2nd contribution to the Institute amounting to $700,000. This was received on 14 November 2016

In July 2016, the Government of Japan committed its 27th contribution to the Institute amounting to ¥672,070,000 ($6,640,000 equivalent). This was received on 5 August 2016.

In December 2015, the Government of Japan committed its 26th contribution to the Institute amounting to ¥672,069,000 ($5,576,000). This was received on 15 January 2016.

In December 2015, the Government of Republic of Korea committed its first installment of its 2nd contribution to the Institute amounting to $700,000. This was received on 15 December 2015.

In September 2015, the Government of Indonesia committed its 1st contribution to the Institute amounting to $500,000. This was received on 5 January 2016.

In June 2015, the Government of Japan committed its 25th contribution to the Institute amounting to ¥672,070,000 ($5,484,000 equivalent). This was received on 1 July 2015.

Uncommitted balances comprise amounts which have not been committed by the Institute as of 31 December 2016 and 2015.

NOTE G—REVENUE FROM RENTAL

REVENUE From rental in 2016 consists of sublease rental income of $361,000 ($324,000 – 2015), 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.

continued

NOTE H—LEASES

The Institute leases office space and other assets. Rental expenses under operating leases for the years ended 31 December 2016 and 2015 were $3,044,000 and $2,731,000, respectively. As of 31 December 2016, the Institute has the following operating lease commitments:

Year ending 31 December	Minimum future rentals ($ thousand)
2017	2,591
2018	2,516
2019	2,516
2020	629

NOTE I—RELATED PARTY TRANSACTIONS

ADB has not allocated service fees to the Institute for a range of administrative and financial services such as managing the investments or administering the Staff Retirement Plan (SRP) and Post-Retirement Group Medical Insurance Plan (PRGMIP). Effective 1 January 2015, the fair value of those personnel services has been estimated to be 10 basis points of the average balance of the Institute's liquid assets. For the year ended 31 December 2016, the calculated service fee was $13,000 ($11,000 – 2015) and recorded as Administrative expenses and REVENUE From other sources—net. The transaction has no impact on the net assets of the Institute.

Included in ACCOUNTS PAYABLE AND OTHER LIABILITIES were the amounts net payable to OCR of $111,000 at 31 December 2016 ($237,000 – 31 December 2015). The payable resulted from transactions in the normal course of business.

NOTE J—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS

Staff Retirement Plan

Eligible employees of the Institute are entitled by its Statute to be participants of ADB's defined benefit SRP. An eligible employee, as defined under SRP, shall, as a condition of service, become a participant from the first day of service, provided the employee has not reached the normal retirement age of 60 at that time. Retirement benefits are based on an annual accrual rate, length of service and the highest average remuneration during two years of eligible service. The SRP assets are segregated in a separate fund. The costs of administering the SRP are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the SRP.

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

Expected Contributions

The Institute is expected to contribute $296,000 to the SRP for 2017 based on the budgeted contribution of 23% of salary of Institute participants. The Institute's staff members are expected to contribute $204,000 representing participants' mandatory contribution of $16,000 assuming full year service and discretionary contributions of $188,000.

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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 13 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 returns higher than short-term investments. The investment policy incorporates the SRP's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The SRP's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

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

For the year ended 31 December 2016, the net return on the SRP assets was 6.36% (-0.47% – 2015). ADB expects the long-term rate of return on the assets to be 7.0% (7.0% – 2015).

Assumptions

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

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

Post-Retirement Group Medical Insurance Plan

The Institute participates in the cost-sharing arrangement of ADB's PRGMIP. Under this plan, the Institute is obligated to pay 75% of the PRGMIP premiums for its retirees, which includes retired members and their eligible dependents who elected to participate. Currently, no Institute retiree has elected to participate.

The Retiree Medical Plan Fund (RMPF) was established in 2014 to hold the assets in trust that will fund the accumulated obligations of the PRGMIP. The income of RMPF consists of ADB's contributions and investment earnings; it does not have any component attributable to participants' share of PRGMIP costs. In 2016 and 2015, insurance premium paid by ADB for the PRGMIP is considered ADB's contribution to the fund. The costs of administering the RMPF are absorbed by ADB, while investment management and custodian fees are paid from the RMPF.

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

continued

Expected Contribution

Subsequent to the establishment of the RMPF, ADB transferred $315 million into the RMPF, none of which relates to the Institute’s contribution. The Institute’s expected contribution to the RMPF will be determined based on the recommendation of the SRP Pension Committee. For 2016, the Institute is not expected to contribute to the RMPF.

Investment Strategy

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

In October 2015, the Pension Committee approved the RMPF’s investment policy. Based on the approved policy, the RMPF’s long-term target asset-mix is 40% US equity, 30% non-US equity, and 30% global fixed income. For the year ended 31 December 2016, the net return on the RMPF assets was 5.89% (-2.06% – 2015).

Assumptions

The overall long-term rate of return is 7.0% per annum, similar to the SRP.

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

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continued

The following table sets forth the Institute's participants' pension and postretirement medical benefits at 31 December 2016 and 2015:

($ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2016	**2015**	**2016**	**2015**
Change in benefit obligation:				
Projected benefit obligation at beginning of year	$ 11,552	$ 11,427	$ 332	$ 457
Service cost	331	468	53	107
Interest cost	536	492	18	23
Plan participants' contributions	292	182	–	–
Actuarial loss (gain)	71	(536)	(50)	(233)
Benefits paid	(430)	(481)	–	(22)
Projected benefit obligation at end of year	$ 12,352	$ 11,552	$ 353	$ 332
Change in plan assets:				
Fair value of plan assets at beginning of year	$ 5,168	$ 5,231	$ –	$ –
Actual return on plan assets	334	(17)	–	–
Employer's contribution	304	253	–	22
Plan participants' contributions	292	182	–	–
Benefits paid	(430)	(481)	–	(22)
Fair value of plan assets at end of year	$ 5,668	$ 5,168	$ –	$ –
Funded Status	**$ (6,684)**	**$ (6,384)**	**$ (353)**	**$ (332)**
Amounts recognized in the Balance sheet consist of:				
Noncurrent liabilities	$ (6,684)	$ (6,384)	$ (353)	$ (332)
Amounts recognized in the Unrestricted net assets consist of:				
Net actuarial loss (gain)	$ 2,048	$ 2,034	$ (630)	$ (629)
Weighted-average assumptions as of 31 December				
Discount rate	4.40%	4.55%	4.70%	4.55%
Expected return on plan assets	7.00%	7.00%	7.00%	7.00%
Rate of compensation increase varies with age and averages	3.25%	3.25%	N/A	N/A

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered postretirement medical care benefits was assumed for the valuation as of 31 December 2016 and 2015. The rate was assumed to decrease gradually to 5.0% by 2022 and remain at the level thereafter.

continued

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the years ended 31 December 2016 and 2015:

($ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2016	2015	2016	2015
Components of net periodic benefit cost:				
Service cost	$ 331	$ 468	$ 53	$ 107
Interest cost	536	492	18	23
Expected return on plan assets	(372)	(398)	(1)	(1)
Recognized actuarial loss (gain)	95	115	(48)	(38)
Net periodic benefit cost	**$ 590**	**$ 677**	**$ 22**	**$ 91**

The Institute's accumulated benefit obligation of the pension plan as of 31 December 2016 was $12,221,000 ($11,392,000 – 2015).

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 $112,000. 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 $50,000.

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

($ thousand)

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	$ 23	$ (16)
Effect on postretirement medical benefit obligation	88	(68)

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 2016:

($ thousand)

	Pension Benefits	Postretirement Medical Benefits
2017	$ 452	$ 0
2018	570	1
2019	830	4
2020	525	4
2021	535	5
2022–2026	3,579	59

0 = less than $500.

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continued

Fair Value Disclosure

The FV of the Institute's SRP asset's measured on a recurring basis as of 31 December 2016 and 2015 was shown below:

($ thousand)

		Fair Value Measurements		
	Total	**Level 1**	**Level 2**	**Level 3**
31 December 2016				
Cash and cash equivalents	$ 523	$ –	$ 523	$ –
Common/preferred stocks	974	974	–	–
Investment funds	2,611	2,611	–	–
Government or government-guaranteed securities	528	524	4	–
Corporate debt securities	876	831	41	4
Mortgage/asset-backed securities:				
Mortgage-backed securities	118	49	69	0
Collateralized mortgage obligations	9	–	5	4
Asset-backed securities	2	–	1	1
Short-term investments	73	72	1	–
Derivatives	14	0	14	–
Other asset/liabilities[a]—net	(60)	–	(60)	–
Total fair value of SRP assets	$ 5,668	$ 5,061	$ 598	$ 9
31 December 2015				
Cash and cash equivalents	$ 128	$ –	$ 128	$ –
Common/preferred stocks	997	997	–	–
Investment funds	2,309	2,309	–	–
Government or government-guaranteed securities	768	756	12	–
Corporate debt securities	655	632	10	13
Mortgage/asset-backed securities:				
Mortgage-backed securities	152	96	56	–
Collateralized mortgage obligations	24	–	19	5
Asset-backed securities	3	–	2	1
Short-term investments	225	14	211	–
Derivatives	(10)	(0)	(10)	–
Other asset/liabilities[a]—net	(83)	–	(83)	–
Total fair value of SRP assets	$ 5,168	$ 4,804	$ 345	$ 19

0 = Less than $500.

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

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

continued

The table below provides details of transfers of the Institute's SRP's assets between Levels 1 and 2, which are attributed to the availability or absence of market quotes, for the years ended 31 December 2016 and 2015:

($ thousand)

	2016		2015	
	Level 1	**Level 2**	**Level 1**	**Level 2**
Investments				
Government or government-guaranteed securities				
Transfers into (out of)	$ –	$ –	$ –	$ –
Transfers (out of) into	(1)	1	(9)	9
Corporate debt securities				
Transfers into (out of)	5	(5)	4	(4)
Transfers (out of) into	(1)	1	(4)	4
	$ 3	$ (3)	$ (9)	$ 9

The following tables present the changes in the carrying amounts of the Institute's SRP Level 3 investments for the years ended 31 December 2016 and 2015:

($ thousand)

	Investments	
	Corporate debt securities	**Mortgage/ Asset-backed securities / Collaterized Mortgage Obligations**
Balance, 31 December 2015	$ 12	$ 7
Total realized/unrealized (losses)/gains in:		
Net increase in net assets available for benefits	0	0
Purchases	3	3
Sales/Maturities	(4)	(3)
Settlement and others	–	(2)
Transfers out of Level 3	(7)	
Balance, 31 December 2016	$ 4	$ 5
Total unrealized gains (losses) included in income related to financial assets and liabilities still held at the reporting date	$ 0	$ (0)

0 = Less than $500.

continued

($ thousand)

	Investments	
	Corporate debt securities	Mortgage/ Asset-backed securities / Collaterized Mortgage Obligations
Balance, 31 December 2014	$ 3	$ 11
Total realized/unrealized (losses)/gains in:		
Net (decrease) increase in net assets available for benefits	(1)	(0)
Purchases	43	2
Sales/Maturities	(32)	(2)
Settlement and others	(1)	(2)
Transfers out of Level 3	–	(2)
Balance, 31 December 2015	$ 12	$ 7
Total unrealized (losses) gains included in income related to financial assets and liabilities still held at the reporting date	$ (0)	$ 0

0 = Less than $500.

Transfers out of Level 3 in 2016 and 2015 are due to the availability of market observable inputs.

NOTE K—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2016 and 2015, the Institute has no assets or liabilities measured at FV on a non-recurring basis. In all other cases, the carrying amounts of the Institute's assets and liabilities are considered to approximate FVs.

NOTE L—SUBSEQUENT EVENTS

The Institute has evaluated subsequent events after 31 December 2016 through 17 March 2017, 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 Institute's Financial Statements as of 31 December 2016.

REGIONAL COOPERATION AND INTEGRATION FUND
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements 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 and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Deloitte.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of financial position of Asian Development Bank ("ADB") – Regional Cooperation and Integration Fund as of December 31, 2016 and 2015 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 17, 2017 expressed an unmodified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

Deloitte.

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INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's 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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

RCIF-1

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND
STATEMENT OF FINANCIAL POSITION
31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
ASSETS		
DUE FROM BANKS	$ 2,053	$ 2,503
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and G)		
Time deposits	11,851	14,692
ACCRUED REVENUE	2	1
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	99	64
TOTAL	**$ 14,005**	**$ 17,260**
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ 63	$ 241
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and G)	8,092	9,177
TOTAL LIABILITIES	8,155	9,418
UNCOMMITTED BALANCES (RCIF-2) (Note F), represented by:		
Unrestricted net assets	5,850	7,842
TOTAL	**$ 14,005**	**$ 17,260**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
From investments for liquidity purpose (Note C)	$ 59	$ 24
From other sources	3	5
Total	62	29
EXPENSES		
Technical assistance—net (Note E)	(1,890)	(115)
Administrative and financial expenses (Note D)	(165)	(115)
Total	(2,055)	(230)
REVENUE LESS THAN EXPENSES	(1,993)	(201)
EXCHANGE GAINS (LOSSES)—net	1	(5)
DECREASE IN NET ASSETS	(1,992)	(206)
NET ASSETS AT BEGINNING OF YEAR	7,842	8,048
NET ASSETS AT END OF YEAR	**$ 5,850**	**$ 7,842**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ –	$ 1,215
Interest received on investments for liquidity purpose	58	24
Cash received from other sources	3	5
Technical assistance disbursed	(3,161)	(1,608)
Administrative and financial expenses paid	(192)	(42)
Net Cash Used in Operating Activities	(3,292)	(406)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	689,950	756,696
Purchases of investments for liquidity purpose	(687,108)	(754,120)
Net Cash Provided by Investing Activities	2,842	2,576
Net (Decrease) Increase in Due From Banks	(450)	2,170
Due from Banks at Beginning of Year	2,503	333
Due from Banks at End of Year	$ 2,053	$ 2,503
RECONCILIATION OF DECREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Decrease in net assets (RCIF-2)	$ (1,992)	$ (206)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:		
Change in due from contributors	–	1,226
Change in accrued revenue	(1)	(1)
Change in advances for technical assistance and other assets	(35)	288
Change in accounts payable and other liabilities	(178)	166
Change in undisbursed technical assistance	(1,085)	(1,871)
Exchange gains—net	(1)	(8)
Net Cash Used in Operating Activities	$ (3,292)	$ (406)

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 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

The RCIF, together with the Regional Cooperation and Integration (RCI) Trust Funds, was established on 26 February 2007 under the umbrella of the Regional Cooperation and Integration Financing Partnership Facility (RCIFPF), in response to the increasing demand for regional cooperation and integration activities among ADB's members in Asia and the Pacific. Its main objective is to enhance regional cooperation and integration in Asia and the Pacific by facilitating the pooling and provision of additional financial and knowledge resources to support RCI activities.

Financial assistance will be provided in the form of untied grants for technical assistance (TA), including advisory, project preparatory, and regional TA.

RCIF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the RCIF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

RCIF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to RCIF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of RCIF.

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[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).

RCIF-4

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 and liabilities 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 for Liquidity Purpose

All investment securities held by RCIF are reported at fair value (FV). Realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

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 Related Undisbursed Amounts

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 TECHNICAL ASSISTANCE AND OTHER ASSETS.

Fair Value of Financial Instruments

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

Fair Value Hierarchy

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

continued

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

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

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *“Revenue from Contracts with Customers (Topic 606)”* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12 and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and to correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have a material impact on RCIF’s financial statements on effectivity.

In August 2016, the FASB issued ASU 2016-14, “*Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,”* to improve the usefulness of information provided to donors and other users of not-for-profit entity (NFP) financial statements and reduce complexities or costs in preparing the financial statements. The update significantly changes how NFPs present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. Amendments in this update should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted. ADB is currently assessing the impact of this ASU on RCIF’s financial statements.

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, “*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*,” provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, “*Statement of Cash Flows (Topic 230) – Restricted Cash*,” requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on RCIF’s financial statements.

RCIF-4

continued

In January 2017, FASB issued ASU 2017-03, "*Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323) – Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*," which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13, will have on the entity's financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity's progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

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 FOR LIQUIDITY PURPOSE

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 for liquidity purpose held as of 31 December 2016 and 2015 were in US dollar time deposits.

The annualized rate of return on the average investments for liquidity purpose held during the period ended 31 December 2016, based on the portfolio held at the beginning and end of each month, was 0.45% (0.17% – 2015).

Fair Value Disclosure

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2016 and 2015 was as follows:

($ thousand)

		Fair Value Measurements		
31 December 2016	**Total**	**Level 1**	**Level 2**	**Level 3**
Investments for liquidity purpose				
Time deposits	$ 11,851	$ –	$ 11,851	$ –
31 December 2015				
Investments for liquidity purpose				
Time deposits	$ 14,692	$ –	$ 14,692	$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates FV.

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to RCIF are settled regularly with OCR and the other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's incremental cost for the administration, management, supervision and operation of the RCIF and RCI Trust Fund, a trust fund

continued

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.

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

($ thousand)

	2016	2015
Receivable from:		
Agency Trust Funds—net	$ –	$ 37
Payable to:		
Ordinary capital resources	$ 15	$ 39
Technical Assistance Special Fund	15	162
Japan Special Fund	–	0
Financial Sector Development Partnership Special Fund	–	24
Agency Trust Funds—net	24	–
Total	$ 54	$ 225

0 = Less than $500.

NOTE E—UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed technical assistance are denominated in US dollars and represent effective TA not yet disbursed and unliquidated. During 2016, $860,000 ($1,334,000 – 2015) representing completed and canceled TA projects and grants were written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The FV 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 2016. The second contribution of the Government of Japan amounting to ¥145,500,000 ($1,226,000 equivalent) was received on 9 January 2015.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2016 and 2015.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2016 and 2015, RCIF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and E for discussions relating to investments for liquidity purpose and undisbursed technical assistance, respectively. In all other cases, the carrying amount of RCIF's assets and liabilities is considered to approximate FV.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events, as defined, that require recognition or disclosure in the RCIF's Financial Statements as of 31 December 2016.

CLIMATE CHANGE FUND
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements 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 and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Deloitte.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of financial position of Asian Development Bank ("ADB") – Climate Change Fund as of December 31, 2016 and 2015 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 17, 2017 expressed an unmodified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

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INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's 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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's internal control over financial reporting.

Deloitte & Touche

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

CCF-1

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
STATEMENT OF FINANCIAL POSITION
31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
ASSETS		
DUE FROM BANKS	$ 1,539	$ 1,562
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and G)		
Time deposits	16,607	20,725
ACCRUED REVENUE	2	2
ADVANCES FOR TECHNICAL ASSISTANCE AND GRANTS AND OTHER ASSETS (Note D)	681	669
TOTAL	**$ 18,829**	**$ 22,958**
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ 139	$ 133
UNDISBURSED TECHNICAL ASSISTANCE AND GRANTS (Notes E and G)	10,473	12,114
TOTAL LIABILITIES	10,612	12,247
UNCOMMITTED BALANCES (CCF-2) (Note F), represented by:		
Unrestricted net assets	8,217	10,711
TOTAL	**$ 18,829**	**$ 22,958**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
REVENUE		
From investments for liquidity purpose (Note C)	$ 83	$ 37
From other sources	4	–
Total	87	37
EXPENSES		
Technical assistance and grants—net (Note E)	(1,485)	830
Administrative and financial expenses (Note D)	(1,096)	(617)
Total	(2,581)	213
REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(2,494)	250
EXCHANGE LOSSES—net	(0)	(3)
(DECREASE) INCREASE IN NET ASSETS	(2,494)	247
NET ASSETS AT BEGINNING OF YEAR	10,711	10,464
NET ASSETS AT END OF YEAR	**$ 8,217**	**$ 10,711**

0 = Less than $500.
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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest received on investments for liquidity purpose	$ 82	$ 36
Cash received from other activities	4	–
Technical assistance and grants disbursed	(3,911)	(4,276)
Administrative and financial expenses paid	(316)	(276)
Net Cash Used in Operating Activities	(4,141)	(4,516)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	960,066	1,129,661
Purchases of investments for liquidity purpose	(955,948)	(1,124,097)
Net Cash Provided by Investing Activities	4,118	5,564
Net (Decrease) Increase in Due From Banks	(23)	1,048
Due from Banks at Beginning of Year	1,562	514
Due from Banks at End of Year	$ 1,539	$ 1,562
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (CCF-2)	$ (2,494)	$ 247
Adjustments to reconcile (decrease) increase in net assets to net cash used in by operating activities:		
Change in accrued revenue	(0)	(1)
Change in advances for technical assistance and grants and other assets	(12)	436
Change in accounts payable and other liabilities	6	36
Change in undisbursed technical assistance and grants	(1,641)	(5,234)
Exchange gains—net	(0)	–
Net Cash Used in Operating Activities	$ (4,141)	$ (4,516)

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

CCF-4

ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

The CCF was established on 7 April 2008 to facilitate greater investments in DMCs to address the causes and consequences of climate change alongside ADB's own assistance in various related sectors. The CCF is a key mechanism to pool resources within ADB to address climate change through (i) technical assistance (TA), (ii) investment components for both private and public sector projects, and (iii) any other form of cooperation that ADB and its partners may agree upon for a defined program of activities.

Financial assistance is provided in the form of untied grants for components of investment projects, for advisory, project preparatory, and regional TA; as well as for any other activities that may be agreed between external contributors and ADB.

CCF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the CCF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

CCF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to CCF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of CCF.

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[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).

CCF-4

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 and liabilities 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 for Liquidity Purpose

All investment securities held by CCF are reported at fair value (FV). Realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

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 Related Undisbursed Amounts

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 TECHNICAL ASSISTANCE AND GRANTS AND OTHER ASSETS.

Fair Value of Financial Instruments

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

Fair Value Hierarchy

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

CCF-4

continued

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

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

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *"Revenue from Contracts with Customers (Topic 606)"* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12 and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and to correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have a material impact on CCF's financial statements on effectivity.

In August 2016, the FASB issued ASU 2016-14, *"Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,"* to improve the usefulness of information provided to donors and other users of not-for-profit entity (NFP) financial statements and reduce complexities or costs in preparing the financial statements. The update significantly changes how NFPs present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. Amendments in this update should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted. ADB is currently assessing the impact of this ASU on CCF's financial statements.

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*," provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, "*Statement of Cash Flows (Topic 230) – Restricted Cash*," requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on CCF's financial statements.

In January 2017, FASB issued ASU 2017-03, “*Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323) - Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*,” which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13, will have on the entity’s financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity’s progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

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 FOR LIQUIDITY PURPOSE

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 for liquidity purpose held as of 31 December 2016 and 2015 were in US dollar time deposits.

The annualized rate of return on the average investments for liquidity purpose held during the period ended 31 December 2016, based on the portfolio held at the beginning and end of each month, was 0.45% (0.17% – 2015).

Fair Value Disclosure

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2016 and 2015 was as follows:

($ thousand)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
31 December 2016				
Investments for liquidity purpose				
Time deposits	$ 16,607	$ –	$ 16,607	$ –
31 December 2015				
Investments for liquidity purpose				
Time deposits	$ 20,725	$ –	$ 20,725	$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates FV.

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to CCF are settled regularly with OCR and the other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB’s incremental cost for

continued

the administration, management, supervision and operation of the CCF. The service fee is currently 5% of the amount disbursed for technical assistance and 2% of the amount disbursed for grant components of investment projects.

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

($ thousand)	2016	2015
Receivable from:		
Technical Assistance Special Fund	$ –	$ 0
Agency Trust Funds	–	0
Total	$ –	$ 0
Payable to:		
Ordinary capital resources	$ 74	$ 118
Technical Assistance Special Fund	0	–
Agency Trust Funds	57	–
Total	$ 131	$ 118

0 = Less than $500.

NOTE E—UNDISBURSED TECHNICAL ASSISTANCE AND GRANTS

Undisbursed technical assistance and grants are denominated in US dollars and represent effective TA and grants not yet disbursed and unliquidated. During 2016, $672,000 ($830,000 – 2015) representing completed and canceled TA projects were written back as a reduction in technical assistance and grants for the period and the corresponding undisbursed commitment was eliminated. The FV 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 2016 and 2015.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2016 and 2015. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2016 and 2015, CCF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and E for discussions relating to investments for liquidity purpose and undisbursed technical assistance and grants, respectively. In all other cases, the carrying amount of CCF's assets and liabilities is considered to approximate FV.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, 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 2016.

ASIA PACIFIC DISASTER RESPONSE FUND
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements 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 and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Deloitte.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of financial position of Asian Development Bank ("ADB") – Asia Pacific Disaster Response Fund as of December 31, 2016 and 2015 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 17, 2017 expressed an unmodified opinion on those financial statements.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

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INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's 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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's internal control over financial reporting.

Deloitte & Touche LLP

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

APDRF-1

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND
STATEMENT OF FINANCIAL POSITION
31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
ASSETS		
DUE FROM BANKS	$ 1,234	$ 6,345
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and G)		
Time deposits	6,742	11,018
ACCRUED REVENUE	1	1
ADVANCES FOR GRANTS	7,200	10,008
TOTAL	**$ 15,177**	**$ 27,372**
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$ 16	$ 15
UNDISBURSED GRANTS (Notes E and G)	7,200	10,008
TOTAL LIABILITIES	7,216	10,023
UNCOMMITTED BALANCES (APDRF-2) (Note F), represented by:		
Unrestricted net assets	7,961	17,349
TOTAL	**$ 15,177**	**$ 27,372**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	$ –	$ 20,000
REVENUE		
From investments for liquidity purpose (Note C)	24	19
From other sources	10	4
Total	34	20,023
EXPENSES		
Grants—net (Note E)	(9,166)	(6,975)
Administrative and financial expenses (Note D)	(256)	(29)
Total	(9,422)	(7,004)
(DECREASE) INCREASE IN NET ASSETS	(9,388)	13,019
NET ASSETS AT BEGINNING OF YEAR	17,349	4,330
NET ASSETS AT END OF YEAR	**$ 7,961**	**$ 17,349**

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 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ –	$ 20,000
Interest received on investments for liquidity purpose	24	18
Cash received from other sources	10	4
Grants disbursed	(9,166)	(6,975)
Administrative and financial expenses paid	(255)	(28)
Net Cash (Used in) Provided by Operating Activities	(9,387)	13,019
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	295,927	682,322
Purchases of investments for liquidity purpose	(291,651)	(693,340)
Net Cash Provided by (Used in) Investing Activities	4,276	(11,018)
Net (Decrease) Increase in Due From Banks	(5,111)	2,001
Due from Banks at Beginning of Year	6,345	4,344
Due from Banks at End of Year	$ 1,234	$ 6,345

	2016	2015
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (APDRF-2)	$ (9,388)	$ 13,019
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Change in accrued revenue	0	(1)
Change in advances for grants	2,808	6,279
Change in accounts payable and other liabilities	1	1
Change in undisbursed grants	(2,808)	(6,279)
Net Cash (Used in) Provided by Operating Activities	$ (9,387)	$ 13,019

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

APDRF-4

ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

The APDRF was established on 1 April 2009, to provide timely incremental grant resources to DMCs affected by a natural disaster. The APDRF will help bridge the gap between existing ADB arrangements that assist DMCs to reduce disaster risk through hazard mitigation loans and grants, and longer-term post-disaster reconstruction lending. The APDRF will provide quick-disbursing grants to assist DMCs in meeting immediate expenses to restore life-saving services to affected populations following a declared disaster and to augment aid provided by other donors in times of national crisis.

Financial assistance will be provided in the form of grants in an amount totaling up to $3,000,000 per event.

APDRF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the APDRF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

APDRF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to APDRF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of APDRF.

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[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).

APDRF-4

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 and liabilities 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 for Liquidity Purpose

All investment securities held by APDRF are reported at fair value (FV). Realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

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 Related Undisbursed Amounts

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

Fair Value Hierarchy

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

continued

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

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

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *"Revenue from Contracts with Customers (Topic 606)"* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12 and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and to correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have a material impact on APDRF's financial statements on effectivity.

In August 2016, the FASB issued ASU 2016-14, "*Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,"* to improve the usefulness of information provided to donors and other users of not-for-profit entity (NFP) financial statements and reduce complexities or costs in preparing the financial statements. The update significantly changes how NFPs present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. Amendments in this update should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted. ADB is currently assessing the impact of this ASU on APDRF's financial statements.

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*," provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, "*Statement of Cash Flows (Topic 230) – Restricted Cash*," requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on APDRF's financial statements.

continued

In January 2017, FASB issued ASU 2017-03, "*Accounting Changes and Error Corrections (Topic 250) and Investments - Equity Method and Joint Ventures (Topic 323) - Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*," which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13, will have on the entity's financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity's progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

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 FOR LIQUIDITY PURPOSE

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 for liquidity purpose held as of 31 December 2016 and 2015 were in US dollar time deposits.

The annualized rate of return on the average investments for liquidity purpose held during the period ended 31 December 2016, based on the portfolio held at the beginning and end of each month, was 0.42% (0.20% – 2015).

Fair Value Disclosure

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2016 and 2015 was as follows:

($ thousand)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
31 December 2016				
Investments for liquidity purpose				
Time deposits	$ 6,742	$ –	$ 6,742	$ –
31 December 2015				
Investments for liquidity purpose				
Time deposits	$ 11,018	$ –	$ 11,018	$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates FV.

continued

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to APDRF are settled regularly with OCR and the other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's cost for the administration, management, supervision and operation of the APDRF. The service fee is currently 2% of the amount disbursed for investment projects. As of 31 December 2016, $8,000 (nil – 2015) was payable to OCR which is included in ACCOUNTS PAYABLE AND OTHER LIABILITIES.

NOTE E—UNDISBURSED GRANTS

Undisbursed grants are denominated in US dollars and represent grants not yet disbursed and unliquidated. During 2016, $34,000 ($25,000 – 2015) undisbursed amounts were written back from financially completed and/or cancelled grant. The FV of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In May 2015, $20,000,000 was allocated from OCR's 2014 net income to APDRF.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2016 and 2015.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2016 and 2015, APDRF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and E for discussions relating to investments for liquidity purpose and undisbursed grants, respectively. In all other cases, the carrying amount of APDRF's assets and liabilities is considered to approximate FV.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, 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 2016.

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 designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements 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 and correct, misstatements. Also, projections of any assessment 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 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2016, ADB's internal control over financial reporting is effective based on the criteria established in Internal Control – *Integrated Framework (2013).*

Takehiko Nakao
President

Ingrid van Wees
Vice-President (Finance and Risk Management)

Chai S. Kim
Controller

17 March 2017

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Management's Responsibility for Internal Control over Financial Reporting

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

Auditor's Responsibility

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Deloitte.

Definition and Inherent Limitations of Internal Control over Financial Reporting

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

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness 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.

Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the criteria established in Internal Control — *Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying statements of financial position of Asian Development Bank ("ADB") – Financial Sector Development Partnership Special Fund as of December 31, 2016 and 2015 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 17, 2017 expressed an unmodified opinion on those financial statements.

Deloitte & Touche

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

Deloitte.

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INDEPENDENT AUDITOR'S 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 statements of financial position as of December 31, 2016 and 2015, 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.

Auditor's 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, 2016 and 2015, 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 Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2016, 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 17, 2017 expressed an unmodified opinion on ADB's internal control over financial reporting.

Public Accountants and
Chartered Accountants
Singapore

March 17, 2017

FSDPSF-1

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
STATEMENT OF FINANCIAL POSITION
31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016		2015	
ASSETS				
DUE FROM BANKS	$	1,445	$	2,097
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and G)				
Time deposits		7,635		5,417
DUE FROM CONTRIBUTORS (Note F)		1,578		1,640
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)		2		59
TOTAL	**$**	**10,660**	**$**	**9,213**
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	$	22	$	21
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and G)		3,638		2,266
TOTAL LIABILITIES		3,660		2,287
UNCOMMITTED BALANCES (FSDPSF-2) (Note F), represented by:				
Unrestricted net assets		7,000		6,926
TOTAL	**$**	**10,660**	**$**	**9,213**

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 Years Ended 31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (Note F)	$ 2,818	$ 1,650
REVENUE		
From investments for liquidity purpose (Note C)	18	9
From other sources	13	4
Total	2,849	1,663
EXPENSES		
Technical assistance (Note E)	(2,650)	(1,556)
Administrative and financial expenses (Note D)	(80)	(72)
Total	(2,730)	(1,628)
CONTRIBUTION AND REVENUE IN EXCESS OF EXPENSES	119	35
EXCHANGE LOSSES—net	(45)	(95)
INCREASE (DECREASE) IN NET ASSETS	74	(60)
NET ASSETS AT BEGINNING OF YEAR	6,926	6,986
NET ASSETS AT END OF YEAR	**$ 7,000**	**$ 6,926**

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

FSDPSF-3

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 2016 and 2015
Expressed in Thousands of US Dollars

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	$ 2,836	$ 1,736
Interest received on investments for liquidity purpose	18	9
Cash received from other sources	13	4
Technical assistance disbursed	(1,214)	(1,210)
Administrative and financial expenses paid	(87)	(68)
Net Cash Provided by Operating Activities	1,566	471
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	213,816	296,828
Purchases of investments for liquidity purpose	(216,034)	(295,637)
Net Cash (Used in) Provided by Investing Activities	(2,218)	1,191
Net (Decrease) Increase in Due From Banks	(652)	1,662
Due from Banks at Beginning of Year	2,097	435
Due from Banks at End of Year	$ 1,445	$ 2,097
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Increase (Decrease) in net assets (FSDPSF-2)	$ 74	$ (60)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:		
Change in due from contributors	58	183
Change in advances for technical assistance and other assets	31	(54)
Change in accounts payable and other liabilities	26	(31)
Change in undisbursed technical assistance	1,372	433
Exchange losses—net	5	–
Net Cash Provided by Operating Activities	$ 1,566	$ 471

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

ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS
31 December 2016 and 2015

NOTE A—NATURE OF OPERATIONS

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

The Financial Sector Development Partnership Special Fund (FSDPSF) was approved by the Board of Directors and established on 31 January 2013 to strengthen regional, subregional, and national financial systems in Asia and the Pacific. The FSDPSF will provide financial assistance through grants for components of investments projects and technical assistance (TA) projects.

FSDPSF's resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

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

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the FSDPSF are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP), and are presented on the basis of those for not-for-profit organizations.

FSDPSF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to FSDPSF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of FSDPSF.

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 and liabilities which are denominated in non-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

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 for Liquidity Purpose

All investment securities held by FSDPSF are reported at fair value (FV). Realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

Interest income on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

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 Related Undisbursed Amounts

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

Fair Value Hierarchy

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

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.
Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.
Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

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

continued

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

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2014-09 *“Revenue from Contracts with Customers (Topic 606)”* to improve financial reporting by creating common revenue recognition guidance for US GAAP and the International Financial Reporting Standards. In 2016, ASUs 2016-08, 2016-10, 2016-12 and 2016-20 were issued to clarify the implementation guidance on principal versus agent considerations, on identifying performance obligations and licensing, on assessing collectibility, noncash consideration, and completed contracts and contract modifications at transition, and to clarify the Codification and to correct unintended application of the guidance, respectively. A public business entity is required to apply the amendments retrospectively for annual reporting periods beginning after 15 December 2017. These ASUs are not expected to have a material impact on FSDPSF’s financial statements on effectivity.

In August 2016, the FASB issued ASU 2016-14, “*Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,”* to improve the usefulness of information provided to donors and other users of not-for-profit entity (NFP) financial statements and reduce complexities or costs in preparing the financial statements. The update significantly changes how NFPs present net assets on the face of the financial statements, as well as requires additional disclosures for expenses by nature and function and for the liquidity and availability of resources. Amendments in this update should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within fiscal years beginning after 15 December 2018. Early adoption is permitted. ADB is currently assessing the impact of this ASU on FSDPSF’s financial statements.

In August and November 2016, FASB issued two ASUs related to statement of cash flows. ASU 2016-15, “*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*,” provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. ASU 2016-18, “*Statement of Cash Flows (Topic 230) – Restricted Cash*,” requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash and restricted cash equivalents. Amendments in these updates should be applied retrospectively for annual financial statements issued for fiscal years beginning after 15 December 2017, and for interim periods within those fiscal years. Early adoption is permitted. ADB is currently assessing the impact of this ASU on FSDPSF’s financial statements.

In January 2017, FASB issued ASU 2017-03, “*Accounting Changes and Error Corrections (Topic 250) and Investments – Equity Method and Joint Ventures (Topic 323) – Amendments to SEC Paragraphs Pursuant to Staff Announcements at the 22 September 2016 and 17 November 2016 EITF Meetings*,” which adds the Securities and Exchange Commission (SEC) Staff Announcement regarding disclosure of the impact that recently issued accounting standards, particularly ASU 2014-09, ASU 2016-02 and ASU 2016-13, will have on the entity’s financial statements when adopted in future period. Such disclosure should include (i) a description of the effect of the accounting policies that the entity expects to apply, if determined; (ii) a comparison with current accounting policies; and (iii) the entity’s progress in implementing the new standards and any significant implementation matters yet to be addressed. Appropriate disclosures were provided in the affected ASUs.

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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 FOR LIQUIDITY PURPOSE

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 for liquidity purpose held as of 31 December 2016 and 2015 were in US dollar time deposits.

The annualized rate of return on the average investments for liquidity purpose held during the period ended 31 December 2016, based on the portfolio held at the beginning and end of each month, was 0.43% (0.16% – 2015).

Fair Value Disclosure

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2016 and 2015 was as follows:

($ thousand)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
31 December 2016				
Investments for liquidity purpose				
Time deposits	$ 7,635	$ –	$ 7,635	$ –
31 December 2015				
Investments for liquidity purpose				
Time deposits	$ 5,417	$ –	$ 5,417	$ –

ADB maintains documented processes and internal controls to value investment securities. Time deposits are reported at cost, which approximates FV.

NOTE D—RELATED PARTY TRANSACTIONS

The ordinary capital resources (OCR) and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to FSDPSF are settled regularly with OCR and the other funds. Grant programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's incremental cost for the administration, management, supervision, and operation of the FSDPSF. The service fees are set at (i) 5% of amounts disbursed for TA projects; and (ii) 5% of amounts disbursed for grant components of investment projects up to $5,000,000, or 2% of amounts disbursed for grant components of investment projects above $5,000,000 with a minimum of $250,000, whichever is greater.

continued

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

($ thousand)	2016	2015
Receivable from:		
Regional Cooperation and Integration Fund	$ –	$ 24
Agency Trust Funds—net	–	1
	$ –	$ 25
Payable to:		
Ordinary capital resources	$ 14	$ 6

NOTE E—UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed technical assistance are denominated in US dollars and represent effective TA not yet disbursed and unliquidated. During 2016, $175,000 ($64,000 – 2015) representing completed and cancelled TA projects were written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment was eliminated. The FV of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

The committed contributions in 2016 and 2015 were from the Government of Luxembourg. As of 31 December 2016, the amount committed in 2016 was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2016 and 2015. These balances include approved TA projects/programs that are not yet effective.

NOTE G—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2016 and 2015, FSDPSF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and E for discussions relating to investments for liquidity purpose and undisbursed technical assistance, respectively. In all other cases, the carrying amount of FSDPSF's assets and liabilities is considered to approximate FV.

NOTE H—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2016 through 17 March 2017, 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 FSDPSF's Financial Statements as of 31 December 2016.