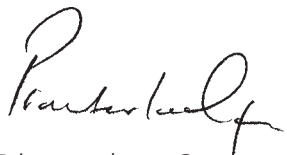


**PricewaterhouseCoopers**  
8 Cross Street #17-00  
PWC Building  
Singapore 048424  
Telephone (65) 6236 3388  
Facsimile (65) 6236 3300  
[www.pwc.com/sg](http://www.pwc.com/sg)

GST No: 52-871777-D  
Co. Reg. No.: 52871777D

**Report of Independent Auditors to the Asian Development Bank**

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of the Asian Development Bank—Japan Special Fund at 31 December 2006 and 2005, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the management of the Asian Development Bank. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.



PricewaterhouseCoopers  
Certified Public Accountants

Singapore  
7 March 2007

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

### STATEMENT OF FINANCIAL POSITION

31 December 2006 and 2005

Expressed in Thousands of United States Dollars (Note B)

	2006			2005		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
<b>ASSETS</b>						
DUE FROM BANKS (Note B)	\$ 1,865	\$ 3,035	\$ 4,900	\$ 1,742	\$ 3,616	\$ 5,358
INVESTMENTS (Notes A, B, C, and G)						
Time deposits	32,208	208,064	240,272	25,645	182,047	207,692
Other securities	—	—	—	5,884	24,595	30,479
	<u>32,208</u>	<u>208,064</u>	<u>240,272</u>	<u>31,529</u>	<u>206,642</u>	<u>238,171</u>
ACCRUED REVENUE	55	1,167	1,222	170	2,101	2,271
OTHER ASSETS (Note D)	50	4,391	4,441	60	1,706	1,766
<b>TOTAL</b>	<b>\$34,178</b>	<b>\$216,657</b>	<b>\$250,835</b>	<b>\$33,501</b>	<b>\$214,065</b>	<b>\$247,566</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 70	\$ 198	\$ 268	\$ 149	\$ 197	\$ 346
UNDISBURSED COMMITMENTS (Notes B, E, and G)						
Technical assistance	1,259	85,516	86,775	2,566	66,993	69,559
<b>TOTAL LIABILITIES</b>	<u>1,329</u>	<u>85,714</u>	<u>87,043</u>	<u>2,715</u>	<u>67,190</u>	<u>69,905</u>
NET ASSETS (JSF-2) (Note B), represented by:						
Uncommitted balances (Notes A and F)						
Unrestricted	—	130,943	130,943	—	146,875	146,875
Temporarily restricted	27,418	—	27,418	26,895	—	26,895
	<u>27,418</u>	<u>130,943</u>	<u>158,361</u>	<u>26,895</u>	<u>146,875</u>	<u>173,770</u>
Net accumulated investment income (Notes A and F)						
Temporarily restricted	5,431	—	5,431	3,891	—	3,891
	<u>32,849</u>	<u>130,943</u>	<u>163,792</u>	<u>30,786</u>	<u>146,875</u>	<u>177,661</u>
<b>TOTAL</b>	<b>\$34,178</b>	<b>\$216,657</b>	<b>\$250,835</b>	<b>\$33,501</b>	<b>\$214,065</b>	<b>\$247,566</b>

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

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

### STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended 31 December 2006 and 2005

Expressed in Thousands of United States Dollars (Note B)

	2006			2005		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>						
CONTRIBUTIONS (Notes B and F)	\$ –	\$ 24,513	\$ 24,513	\$ –	\$ 27,237	\$ 27,237
REVENUE FROM INVESTMENTS (Notes B and C)	–	10,489	10,489	–	6,975	6,975
REVENUE FROM OTHER SOURCES	–	235	235	–	129	129
NET ASSETS REVERTED BACK TO TEMPORARILY RESTRICTED ASSETS (Notes B and F)	(397)	–	(397)	(826)	–	(826)
Total	(397)	35,237	34,840	(826)	34,341	33,515
<b>EXPENSES</b>						
Technical assistance—net (Notes B, E, and F)	(420)	50,035	49,615	(847)	34,923	34,076
Administrative expenses	23	1,075	1,098	21	1,014	1,035
Financial expenses	–	0	0	–	0	0
Total	(397)	51,110	50,713	(826)	35,937	35,111
CONTRIBUTIONS AND REVENUE LESS THAN EXPENSES	–	(15,873)	(15,873)	–	(1,596)	(1,596)
EXCHANGE LOSSES (Note B)	–	(59)	(59)	–	(758)	(758)
DECREASE IN UNRESTRICTED NET ASSETS	–	(15,932)	(15,932)	–	(2,354)	(2,354)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>						
REVENUE FROM INVESTMENTS AND OTHER SOURCES (Notes B and C)	1,666	–	1,666	1,073	–	1,073
NET ASSETS REVERTED BACK TO TEMPORARILY RESTRICTED ASSETS (Notes B and F)	397	–	397	826	–	826
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	2,063	–	2,063	1,899	–	1,899
INCREASE (DECREASE) IN NET ASSETS	2,063	(15,932)	(13,869)	1,899	(2,354)	(455)
NET ASSETS AT BEGINNING OF YEAR	30,786	146,875	177,661	28,887	149,229	178,116
<b>NET ASSETS AT END OF YEAR</b>	<b>\$32,849</b>	<b>\$130,943</b>	<b>\$163,792</b>	<b>\$30,786</b>	<b>\$146,875</b>	<b>\$177,661</b>

0 - Less than 1 thousand.

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

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

### STATEMENT OF CASH FLOWS

For the Years Ended 31 December 2006 and 2005

Expressed in Thousands of United States Dollars (Note B)

	2006			2005		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Contributions received	\$ –	\$ 24,513	\$ 24,513	\$ –	\$ 27,237	\$ 27,237
Interest on investments received	1,656	11,405	13,061	1,376	7,258	8,634
Technical assistance disbursed	(956)	(34,207)	(35,163)	(2,000)	(33,589)	(35,589)
Administrative expenses paid	(23)	(1,068)	(1,091)	(21)	(941)	(962)
Financial expenses paid	–	0	0	–	0	0
Others—net	102	180	282	27	(642)	(615)
Net Cash Provided by (Used in) Operating Activities	779	823	1,602	(618)	(677)	(1,295)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Maturities of investments	950,776	2,468,999	3,419,775	3,494,396	9,224,295	12,718,691
Purchases of investments	(951,432)	(2,470,403)	(3,421,835)	(3,492,363)	(9,221,018)	(12,713,381)
Net receipts from (payments for) securities purchased under resale arrangement	–	233	233	–	(469)	(469)
Net Cash (Used in) Provided by Investing Activities	(656)	(1,171)	(1,827)	2,033	2,808	4,841
Effect of Exchange Rate Changes on Due from Banks	–	(233)	(233)	–	468	468
Net Increase (Decrease) in Due from Banks	123	(581)	(458)	1,415	2,599	4,014
Due from Banks at Beginning of Year	1,742	3,616	5,358	327	1,017	1,344
Due from Banks at End of Year	\$ 1,865	\$ 3,035	\$ 4,900	\$ 1,742	\$ 3,616	\$ 5,358
<b>RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>						
Increase (decrease) in net assets (JSF-2)	\$ 2,063	\$ (15,932)	\$ (13,869)	\$ 1,899	\$ (2,354)	\$ (455)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:						
Amortization of discounts/premiums	(10)	26	16	124	852	976
Unrealized investment gains	(13)	(44)	(57)	(20)	(151)	(171)
Change in undisbursed commitments	(1,308)	18,524	17,216	(2,404)	445	(1,959)
Translation adjustment	–	2	2	–	(1)	(1)
Others—net	47	(1,753)	(1,706)	(217)	532	315
Net Cash Provided by (Used in) Operating Activities	\$ 779	\$ 823	\$ 1,602	\$ (618)	\$ (677)	\$ (1,295)

0 - Less than 1 thousand.

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

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

### NOTES TO FINANCIAL STATEMENTS

31 December 2006 and 2005

#### NOTE A—NATURE OF OPERATIONS

The Japan Special Fund (JSF) was established in March 1988 when Japan and the Asian Development Bank (ADB) entered into a financial arrangement whereby Japan agreed to make an initial contribution and ADB became the administrator. The purpose of JSF is to help developing member countries (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 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, Japan and ADB agreed to terminate the ACCSF on 22 March 2002. The ACCSF account is to be kept open until the completion of all TA disbursements and the settlement of all administrative expenses.

#### NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Presentation of the Financial Statements*

The financial statements of JSF 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 RELEASED FROM RESTRICTIONS."

##### *Functional and Reporting Currency*

The financial statements are expressed in thousands of current United States dollars. The United States dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of JSF.

##### *Translation of Currencies*

Effective 1 January 2006, ADB adopted the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar to be translated to the reporting currency using exchange rates applicable at the time of 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, translation of assets, liabilities, and uncommitted balances which are denominated in non-US dollar are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

##### *Investments*

All investment securities held by JSF are reported at estimated fair value, which represents their fair market value. Realized and unrealized gains and losses are included in revenue. Time deposits are reported at cost which is a reasonable estimate of fair value.

Interest on investment securities and time deposits are recognized as realized and reported, net of amortizations of premium and discounts.

##### *Securities Purchased Under Resale Arrangements*

JSF accounts for transfer of financial assets in accordance with FAS 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities – a replacement of FAS 125." In general, transfers are accounted for as sale under FAS 140 when control over the transferred assets has been relinquished. Otherwise, the transfers are accounted for as repurchase/resale ar-

rangements and collateralized financing arrangements. Securities received under resale arrangement are not recorded on JSF's balance sheet and are not re-pledged under securities lending arrangements. ADB monitors the fair value of the securities received under resale arrangements, and if necessary, requires additional collateral.

#### *Contributions*

Contributions by Japan are included in the financial statements from the date indicated by Japan that funds are expected to be made available. Contributions which are restricted by the donor for specific TA projects/programs or for IPA grants are classified as temporarily restricted contributions. Those without any stipulation as to specific use are accounted for and reported as unrestricted contributions.

#### *Technical Assistance and Undisbursed Commitments*

Technical assistance is recognized in the financial statements when the related project is approved and becomes effective. Upon completion of a TA project or cancellation of a grant, any undisbursed amount is written back as a reduction in the TA for the year and the corresponding undisbursed commitment is eliminated accordingly.

#### *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 at the end of the year and the reported amounts of income and expenses during the year. The actual results could differ from those estimates.

#### *Accounting and Reporting Developments*

FAS 154, "Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FAS 3," became effective for ADB in 2006. This standard applies to voluntary changes in accounting principles and new accounting pronouncements, which requires, among other things,

reporting the cumulative effect of adopting new accounting principles as an adjustment to the opening balance of retained earnings and adjusting prior year balances for comparative presentation. The standard does not apply to JSF's financial statements as of 31 December 2006.

In September 2006, FASB issued FAS 157, "Fair Value Measurements," which emphasizes the definition of fair value (FV) for financial reporting purposes to mean a market-based measure and not an entity-specific measure. It also prescribes methods for measuring FV including a FV hierarchy that ranks the quality and reliability of information used in FV measurements giving the highest priority to quoted prices in active markets and the lowest to unobservable inputs. This statement expands disclosure requirements to focus on the inputs used to measure FV, especially those using significant unobservable inputs. This statement will be effective for financial statements to be issued after 31 December 2007.

In February 2007, FASB issued FAS 159, "Fair value Option for Financial Assets and Financial Liabilities." This statement expands the scope of financial instruments that may be carried at fair value. It offers an irrevocable option to carry the vast majority of financial assets and liabilities at fair value, with changes in fair value recorded in earnings. This statement will be effective for financial statements to be issued after 31 December 2007.

#### *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."

#### **NOTE C—INVESTMENTS**

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999, and reviewed in 2006. The review endorsed a portfolio strategy that is largely consistent with the 1999 approach. ADB is restricted by its Investment Authority to invest in government and government-related debt instruments and in time deposits.

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

### NOTES TO FINANCIAL STATEMENTS

31 December 2006 and 2005

In the US dollar portfolio only and up to limited amounts, investments may be made in corporate bonds rated A or better, AAA-rated asset-backed securities, and AAA-rated mortgage-backed securities.

The investment portfolios of both JSF and ACCSF as of 31 December 2006 and 2005 are comprised of United States dollars holdings. Other securities consisted of corporate bonds.

The annualized rates of return on the average investments held under ACCSF and JSF funds during the year, based on the portfolio held at the beginning and end of each month were 4.96% and 4.89%, respectively (3.20% and 3.25%, respectively – 2005).

There were no outstanding securities purchased under resale arrangements as of 31 December 2006 and 2005.

#### NOTE D—OTHER ASSETS AND LIABILITIES

The Ordinary Capital Resources (OCR) and special fund resources are at all times used, committed, and invested entirely separate from each other. The administrative and operational expenses pertaining to OCR and special fund resources are charged to the respective funds. The administrative expenses of JSF are settled on a regular basis between OCR and JSF. Regional technical assistance projects and programs may be combined activities between special and trust funds. Interfund accounts are settled on a regular basis between JSF and the other funds.

The interfund balances between other funds, which are included in other assets and liabilities are as follows:

	2006	2005
Amounts Receivable by JSF from ACCSF	\$ 70,000	\$149,000
Amounts Payable by:		
JSF to: OCR	\$125,000	\$109,000
TASF	5,000	9,000
Agency Trust Funds	1,000	1,000
Total	\$131,000	\$119,000
ACCSF to JSF	\$ 70,000	\$149,000

#### NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent TA projects/programs which have become effective but not yet disbursed. During 2006, an amount of \$5,946,000 representing completed and partially canceled TA projects (\$7,145,000 – 2005) have been written back as a reduction in technical assistance for the year, and the corresponding undisbursed commitments have been eliminated. \$420,000 (\$847,000 – 2005) of this amount corresponds to ACCSF. The fair value of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

#### NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

All contributions for the years ended 31 December 2006 and 2005 were received during the respective years.

Effective 31 December 2002, all remaining temporarily restricted net assets under JSF were transferred and integrated into the unrestricted regular net assets, as concurred by Japan, in order to optimize the use of JSF. Similarly, Japan lifted the restriction over the use of net accumulated investment income, which under the original terms of agreement between ADB and Japan, may only be used for defraying JSF's administrative expenses. Japan agreed to use the net accumulated investment income as additional resources for funding future ADB's TA operations.

Uncommitted balances comprised of amounts which have not been committed by ADB as at 31 December 2006 and 2005. These balances include approved TA projects/programs that are not yet effective.

As of 31 December 2006 and 2005 these balances are as follows:

	2006			2005		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Uncommitted balances	\$27,418,000	\$130,943,000	\$158,361,000	\$26,895,000	\$146,875,000	\$173,770,000
TA projects/programs approved by Japan and ADB but not yet effective	–	(14,930,000)	(14,930,000)	–	(15,050,000)	(15,050,000)
TA projects/programs approved by Japan and not yet effective	–	(12,908,000)	(12,908,000)	–	(5,400,000)	(5,400,000)
Uncommitted balances available for new commitments	<u>\$27,418,000</u>	<u>\$103,105,000</u>	<u>\$130,523,000</u>	<u>\$26,895,000</u>	<u>\$126,425,000</u>	<u>\$153,320,000</u>

The temporarily restricted uncommitted balance remaining available as of 31 December 2006 corresponds to funds under ACCSF of \$27,418,000 (\$26,895,000 – 2005) to cover completion of TA disbursements and the amount of net accumulated investment income of \$5,431,000 (\$3,891,000 – 2005) for settlement of all administrative expenses.

Net assets reverted back to temporarily restricted assets under ACCSF relate to savings on financially completed technical assistance net of amount from accumulated investment income, released from restrictions to defray the administrative expenses of ACCSF.

#### NOTE G—FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value of a financial instrument is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

See Notes C and E for discussions relating to investments and undisbursed commitments. In all other cases, the carrying amounts of JSF's assets, liabilities, and uncommitted balances are considered to approximate fair values for all significant financial instruments.