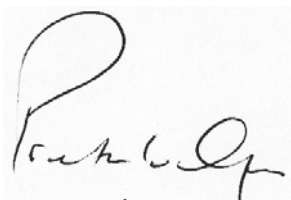


Report of Independent Auditors to the Asian Development Bank

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 2007 and 2006, 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
5 March 2008

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF FINANCIAL POSITION

31 December 2007 and 2006

Expressed in Thousands of United States Dollars (Note B)

	2007			2006		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
ASSETS						
DUE FROM BANKS (Note B)	\$ 564	\$ 185	\$ 749	\$ 1,865	\$ 3,035	\$ 4,900
INVESTMENTS (Notes A, B, C, and G)						
Time deposits	34,958	215,146	250,104	32,208	208,064	240,272
ACCRUED REVENUE	44	247	291	55	1,167	1,222
OTHER ASSETS (Note D) ¹	18	4,497	4,428	50	4,391	4,371
TOTAL¹	\$35,584	\$220,075	\$255,572	\$34,178	\$216,657	\$250,765
LIABILITIES AND UNCOMMITTED BALANCES						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D) ¹	\$ 87	\$ 296	\$ 296	\$ 70	\$ 198	\$ 198
UNDISBURSED COMMITMENTS (Notes B, E, and G)						
Technical assistance	793	82,925	83,718	1,259	85,516	86,775
TOTAL LIABILITIES	880	83,221	84,014	1,329	85,714	86,973
NET ASSETS (JSF-2) (Note B), represented by:						
Uncommitted balances (Notes A and F)						
Unrestricted	–	136,854	136,854	–	130,943	130,943
Temporarily restricted	27,545	–	27,545	27,418	–	27,418
	27,545	136,854	164,399	27,418	130,943	158,361
Net accumulated investment income (Notes A and F)						
Temporarily restricted	7,159	–	7,159	5,431	–	5,431
	34,704	136,854	171,558	32,849	130,943	163,792
TOTAL¹	\$35,584	\$220,075	\$255,572	\$34,178	\$216,657	\$250,765

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

¹ Totals may not add up due to elimination of interfund account of \$87,000 (\$70,000 - 2006).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended 31 December 2007 and 2006

Expressed in Thousands of United States Dollars (Note B)

	2007			2006		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
CHANGES IN UNRESTRICTED NET ASSETS						
CONTRIBUTIONS (Notes B and F)	\$ –	\$ 27,674	\$ 27,674	\$ –	\$ 24,513	\$ 24,513
REVENUE FROM INVESTMENTS (Notes B and C)	–	11,807	11,807	–	10,489	10,489
REVENUE FROM OTHER SOURCES	–	198	198	–	235	235
NET ASSETS REVERTED BACK TO TEMPORARILY RESTRICTED ASSETS (Notes B and F)	(26)	–	(26)	(397)	–	(397)
Total	(26)	39,679	39,653	(397)	35,237	34,840
EXPENSES						
Technical assistance—net (Notes B, E, and F)	(37)	32,521	32,484	(420)	50,035	49,615
Administrative expenses	11	1,235	1,246	23	1,075	1,098
Financial expenses	–	0	0	–	0	0
Total	(26)	33,756	33,730	(397)	51,110	50,713
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	–	5,923	5,923	–	(15,873)	(15,873)
EXCHANGE LOSSES (Note B)	–	(12)	(12)	–	(59)	(59)
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	–	5,911	5,911	–	(15,932)	(15,932)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
REVENUE FROM INVESTMENTS AND OTHER SOURCES (Notes B and C)	1,829	–	1,829	1,666	–	1,666
NET ASSETS REVERTED BACK TO TEMPORARILY RESTRICTED ASSETS (Notes B and F)	26	–	26	397	–	397
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	1,855	–	1,855	2,063	–	2,063
INCREASE (DECREASE) IN NET ASSETS	1,855	5,911	7,766	2,063	(15,932)	(13,869)
NET ASSETS AT BEGINNING OF YEAR	32,849	130,943	163,792	30,786	146,875	177,661
NET ASSETS AT END OF YEAR	\$34,704	\$136,854	\$171,558	\$32,849	\$130,943	\$163,792

0 - Less than \$1,000.

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 2007 and 2006

Expressed in Thousands of United States Dollars (Note B)

	2007			2006		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Contributions received	\$ –	\$ 27,674	\$ 27,674	\$ –	\$ 24,513	\$ 24,513
Interest on investments received	1,750	12,727	14,477	1,656	11,405	13,061
Technical assistance disbursed	(380)	(35,178)	(35,558)	(956)	(34,207)	(35,163)
Administrative expenses paid	(11)	(1,172)	(1,183)	(23)	(1,068)	(1,091)
Financial expenses paid	–	(0)	(0)	–	–	–
Cash received from other sources	90	254	344	102	180	282
Net Cash Provided by Operating Activities	1,449	4,305	5,754	779	823	1,602
CASH FLOWS FROM INVESTING ACTIVITIES						
Maturities of investments	630,096	3,221,747	3,851,843	950,776	2,468,999	3,419,775
Purchases of investments	(632,846)	(3,228,829)	(3,861,675)	(951,432)	(2,470,403)	(3,421,835)
Net (payments for) receipts from securities purchased under resale arrangement	–	(78)	(78)	–	233	233
Net Cash Used in Investing Activities	(2,750)	(7,160)	(9,910)	(656)	(1,171)	(1,827)
Effect of Exchange Rate Changes on Due from Banks	–	5	5	–	(233)	(233)
Net (Decrease) Increase in Due from Banks	(1,301)	(2,850)	(4,151)	123	(581)	(458)
Due from Banks at Beginning of Year	1,865	3,035	4,900	1,742	3,616	5,358
Due from Banks at End of Year	\$ 564	\$ 185	\$ 749	\$ 1,865	\$ 3,035	\$ 4,900
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:						
Increase (decrease) in net assets (JSF-2)	\$ 1,855	\$ 5,911	\$ 7,766	\$ 2,063	\$ (15,932)	\$ (13,869)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:						
Amortization of discounts/premiums	–	–	–	(10)	26	16
Unrealized investment gains	–	–	–	(13)	(44)	(57)
Change in undisbursed commitments	(466)	(2,592)	(3,058)	(1,308)	18,524	17,216
Others-net	60	919	979	47	(1,753)	(1,706)
Translation adjustment	–	67	67	–	2	2
Net Cash Provided by Operating Activities	\$ 1,449	\$ 4,305	\$ 5,754	\$ 779	\$ 823	\$ 1,602

0 - Less than \$1,000.

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 2007 and 2006

NOTE A—NATURE OF OPERATIONS

The Japan Special Fund (JSF) was established in March 1988 when Government of Japan and the Asian Development Bank (ADB) entered into a financial arrangement whereby Government of 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 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, Government of 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

ADB adopts 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, translations 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 sales under FAS 140 when control over the transferred assets has been

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2007 and 2006

relinquished. Otherwise, the transfers are accounted for as repurchase/resale arrangements and collateralized financing arrangements. Securities purchased under resale arrangement are recorded as assets and reported at estimated fair value. Securities received are not re-pledged under securities lending arrangements. ADB monitors the fair value of these securities, and if necessary, requires additional collateral.

There were no outstanding securities purchased under resale arrangements as of 31 December 2007 and 2006.

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 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

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.

All investments held as of 31 December 2007 and 2006 are in time deposits.

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 5.24% and 5.26%, respectively (4.96% and 4.89%, respectively – 2006).

CONTINUED

NOTE D—RELATED PARTY TRANSACTIONS

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:

	2007	2006
Amounts Receivable by:		
JSF from: ACCSF	\$ 87,000	\$ 70,000
Amounts Payable by:		
JSF to: OCR	\$159,000	\$125,000
TASF	2,000	5,000
Agency Trust Funds	24,000	1,000
Total	\$185,000	\$131,000
ACCSF to: JSF	\$ 87,000	\$ 70,000

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 2007, an amount of \$4,749,000 representing completed and partially canceled TA projects (\$5,946,000 – 2006) was written back as a reduction in technical assistance for the year, and the corresponding undisbursed commitments was eliminated. \$37,000 (\$420,000 – 2006) 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 2007 and 2006 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 operations.

Uncommitted balances comprised of amounts which have not been committed by ADB as at 31 December 2007 and 2006. These balances include approved TA projects/programs that are not yet effective.

As of 31 December 2007 and 2006 these balances are as follows:

	2007			2006		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Uncommitted balances	\$27,545,000	\$136,854,000	\$164,399,000	\$27,418,000	\$130,943,000	\$158,361,000
TA projects/programs approved by Japan and ADB but not yet effective	–	(20,135,000)	(20,135,000)	–	(14,930,000)	(14,930,000)
TA projects/programs approved by Japan and not yet effective	–	(12,925,000)	(12,925,000)	–	(12,908,000)	(12,908,000)
Uncommitted balances available for new commitments	\$27,545,000	\$103,794,000	\$131,339,000	\$27,418,000	\$103,105,000	\$130,523,000

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2007 and 2006

The temporarily restricted uncommitted balance remaining available as of 31 December 2007 corresponds to funds under ACCSF of \$27,545,000 (\$27,418,000 – 2006) to cover completion of TA disbursements and the amount of net accumulated investment income of \$7,159,000 (\$5,431,000 – 2006) 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.