

ADB

# ASIAN DEVELOPMENT BANK 2018 **FINANCIAL REPORT**

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND ANNUAL FINANCIAL STATEMENTS





# **Management's Discussion and Analysis and Annual Financial Statements**

31 December 2018

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Asian Development Bank



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EXECUTIVE SUMMARY

#### Growth of Lending Operations and Strategy 2030

In January 2017, the Asian Development Bank (ADB) transferred loans and other assets totaling \$30,812 million from the Asian Development Fund (ADF) to the ordinary capital resources (OCR). This allowed ADB to increase lending capacity and use ADB's existing resources more efficiently and effectively. In the two years following the transfer, ADB's annual OCR lending commitments increased by 28% on average, including 48% (70% in 2018 and 26% in 2017) average increase in OCR concessional loans' commitments. OCR annual disbursements also followed and increased by \$2,748 million in 2018 from 2017. The following table<sup>1</sup> shows the growth of OCR lending operations for the last 5 years.

#### OCR Lending Operations

(\$ billion)

Item	2018	2017	2016	2015	2014
<b>Commitments</b>	<b>20.2</b>	<b>19.5</b>	<b>12.8</b>	<b>15.6</b>	<b>13.7</b>
Regular	13.2	14.9	9.2	11.4	9.1
Concessional	3.9	2.3	1.8	2.6	2.6
Nonsovereign	3.1	2.3	1.8	1.6	1.9
<b>Disbursements</b>	<b>13.7</b>	<b>11.0</b>	<b>12.0</b>	<b>11.8</b>	<b>9.8</b>
Regular	10.1	7.7	8.2	8.2	6.3
Concessional	1.6	1.9	2.0	2.0	2.2
Nonsovereign	2.0	1.4	1.7	1.6	1.2

In July 2018, ADB launched its new long-term corporate strategy, Strategy 2030, which sets the course for ADB's efforts to respond effectively to the region's changing needs. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. To achieve Strategy 2030's vision, ADB will focus on seven operational priorities and in addition, focus on expanding private sector operations, catalyzing and mobilizing financial resources, and strengthening knowledge services.

#### 2018 Financial Results

OCR's operating income increased by \$164 million from \$725 million in 2017 to \$889 million in 2018. Growth of lending operations and the increase in liquidity investment operations increased the net revenue from loans and liquidity investment after borrowings and related expenses by \$171 million in 2018. In addition, the realized revenue from equity investments increased by \$123 million, which was mainly attributed to disposal gain of \$95 million. These were offset by the increase of provision for loan losses and impairment on other debt securities from the nonsovereign operations of \$135 million.

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<sup>1</sup> OCR lending operations includes loans, equity investments, and guarantees. Commitments and disbursements prior to 2017 include those from ADF concessional loan operations before its transfer to OCR in 2017.



On the other hand, net income, excluding a one-time income of \$30,748 million from ADF assets transfer, decreased by \$24 million from \$774 million in 2017 to \$750 million in 2018. Increase of net unrealized losses, including proportionate share in unrealized gains or losses from equity investments under the equity method, of \$188 million offset the increase of operating income. Net unrealized losses included the unfavorable fair value changes of borrowing and derivatives. As ADB does not actively trade these financial instruments, unrealized gains or losses from borrowings and derivatives are generally not realized.

Key results from the lending operations, investments for liquidity purpose and borrowings, capital subscription, and net income allocation are as follow.

**Loan operations:** OCR's loan commitments for sovereign and nonsovereign operations in 2018 totaled \$19,434 million, which was \$793 million, or 4%, increase from 2017 commitments. Total disbursements in 2018 was \$13,120 million, compared to \$10,643 million in 2017, where the increase was primarily due to higher disbursements of policy-based loans. The higher disbursement increased the total outstanding loan balance to \$106,405 million, compared with \$101,008 million as of 31 December 2017. The allowance for loan losses also increased in 2018 to \$236 million (\$118 million – 2017) primarily due to the \$120 million specific loan loss provision recorded for nonsovereign loans.

**Investments for liquidity purpose and borrowings:** In line with the ADF assets transfer and increase of lending operations, liquidity investments and borrowings increased significantly in 2017. Table below shows the growth of outstanding balances of investments for liquidity purpose and borrowings after swaps for the last 5 years.

(\$ billion)

Item	2018	2017	2016	2015	2014
Investments for liquidity purpose	35.5	36.5	26.6	23.9	24.8
Borrowings	93.8	88.8	77.9	69.4	64.2

OCR liquidity investments after swaps slightly decreased by 3% to \$35,526 million compared with \$36,461 million at 31 December 2017. OCR borrowings after swaps amounted to \$93,750 million, a 6% increase from the balance of \$88,766 million as of 31 December 2017. Due to the rising trend of market interest rates, both the return on investments and cost of borrowings increased. (Return on investments: 2.24% – 2018; 1.73% – 2017; Cost of borrowings: 2.35% – 2018; 1.45% – 2017)

**Capital subscription:** In October 2018, the Board of Governors approved the special increase in capital subscription of Portugal and the application for membership of Niue. Portugal's capital subscription became effective in December 2018, and Niue's membership and capital subscription became effective in March 2019.

**Net income allocation:** In May 2018, the Board of Governors approved the allocation of OCR's allocable net income for 2017 amounting to \$690 million. This has been allocated to ordinary reserve (\$351 million), ADF (\$259 million) and Technical Assistance Special Fund (\$80 million).

## **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).<sup>2</sup> ADB is owned by 67 members, 48 of which are regional members providing 63.4% of its capital and 19 non-regional members providing 36.6% of its capital.

In July 2018, ADB launched its new long-term corporate strategy, Strategy 2030, which sets the course for ADB's efforts to respond effectively to the region's changing needs. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. To achieve Strategy 2030's vision, ADB will focus on seven operational priorities: (i) addressing remaining poverty and reducing inequalities; (ii) accelerating progress in gender equality; (iii) tackling climate change, building climate and disaster resilience, and enhancing environmental sustainability; (iv) making cities more livable; (v) promoting rural development and food security; (vi) strengthening governance and institutional capacity; and (vii) fostering regional cooperation and integration. In addition to such operational priorities, ADB will also focus on expanding private sector operations, catalyzing and mobilizing financial resources, and strengthening knowledge services.

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. In addition, ADB provides policy dialogue and advisory services, and mobilizes financial resources through its cofinancing operations, which access official and other concessional, commercial, and export credit sources to maximize the development impact of its assistance. Cofinancing for ADB projects can be in the form of external loans, grants for TA and components of loan projects, equity, and credit enhancement products such as guarantees and syndications.

## **II. ORDINARY CAPITAL RESOURCES**

Funding of OCR lending, investment and other general operations comes from three distinct sources: borrowings from capital markets and private placements; paid-in capital provided by shareholders; and accumulated retained income (reserves). Borrowed funds and equity are used to fund OCR.

On 1 January 2017, ADB transferred loans and other assets totaling \$30,812 million from the Asian Development Fund (ADF), the concessional lending window of ADB, to OCR in accordance with the Board of Governors' resolution authorizing the termination of the ADF's lending operations and retaining the ADF as a grant-only operation. Concessional lending continues on the same terms and conditions previously provided to ADF countries through the OCR window, while the ADF continues to provide grant assistance. The initiative expanded ADB's lending capacity—particularly to poor countries and the private sector, enhanced its risk-bearing capacity, and strengthened its readiness to respond to future economic crises and natural disasters.

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<sup>2</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

The transfer of assets was treated as a contribution from the ADF which was recognized as a one-time income of \$30,748 million in OCR and a return of the set-aside resources of \$64 million from the ADF to OCR.<sup>3</sup> On 15 March 2017, the Board of Governors approved the allocation of this one-time income to OCR Ordinary Reserve effective 1 January 2017.

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 the disclosure on Transfer of ADF Loans and Other Assets to OCR in OCR-9 and ADF-7 of the financial statements.

## **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 at fair value all borrowings that are swapped or are intended to be swapped in the future to apply a consistent accounting treatment between the borrowings and their related swaps. All equity investments, except for those under equity method, and investments for liquidity purpose are reported at fair value. ADB continues to report its loans and the remaining borrowings at amortized cost.

**Management reporting.** ADB reports operating income, which excludes the impact of the unrealized gains or losses from fair value adjustments associated with financial instruments and unrealized proportionate share of income or loss from equity investments accounted for under equity method. ADB uses operating income as the key measure to manage its financial position, make financial management decisions, and monitor financial ratios and parameters.

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 generally converge with the net realized income and expenses that ADB recognizes over the life of these financial instruments.

For equity investments, ADB generally hold its investments until ADB’s development role has been fulfilled. Any gains or losses from equity investments recorded at fair value will be realized and included in the operating income when ADB exits the investments. Therefore, the periodic net unrealized gains or losses are excluded from the operating income until the exit date.

The management reporting basis balance sheet reconciled from the statutory reporting basis balance sheet as of 31 December 2018 is provided in the Appendix.

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<sup>3</sup> The undisbursed ADF loan balance of SDR6,281 million (\$8,444 million equivalent) was also assumed by OCR on 1 January 2017.

## B. Selected Financial Data

Selected financial data are presented on statutory reporting and management reporting bases (Table 1). Annual return on average earning assets and return on equity increased under management reporting basis because of the higher operating income but decreased under statutory reporting basis mainly due to accounting adjustments for net unrealized losses. Return on loans, return on investments for liquidity purposes and cost of borrowings have been in increasing trend in the past 5 years, under statutory and management reporting bases, due to the rising US interest rates. Income and expenses are discussed in the Overall Financial Results section. Figure 1 shows the rising interest rate trends.

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

Item	2018	2017	2016	2015	2014
<b>Statutory Reporting Basis</b>					
Net Income	750	31,522	7	556	387
Allocation of one-time income from ADF assets transfer to ordinary reserve	–	(30,748)	–	–	–
Net Income after allocation	750	774	7	556	387
Average Earning Assets <sup>a</sup>	144,156	127,381	92,456	85,227	80,633
Annual Return on Average Earning Assets (%)	0.52	0.61	0.01	0.65	0.48
Return on Equity (%)	1.49	1.80	0.04	3.23	2.24
Return on Loans — Operations (%)	2.62	1.92	1.65	1.16	1.15
Return on Investments for Liquidity Purpose (%)	2.24	1.73	1.58	1.33	1.30
Cost of Borrowings (%)	2.35	1.45	1.68	0.19	0.82
<b>Management Reporting Basis</b>					
Operating Income <sup>b</sup>	889	725	521	343	571
Average Earning Assets <sup>a</sup>	144,025	127,358	92,499	85,227	80,639
Annual Return on Average Earning Assets <sup>c</sup> (%)	0.62	0.57	0.56	0.40	0.71
Return on Equity (%)	1.74	1.64	2.80	1.89	3.12
Return on Loans — Operations (%)	2.61	1.96	1.63	1.18	1.12
Return on Investments for Liquidity Purpose (%)	2.26	1.65	1.57	1.30	1.31
Cost of Borrowings (%)	2.28	1.48	0.99	0.54	0.50

– = nil, ( ) = negative, ADF = Asian Development Fund.

<sup>a</sup> 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. Average assets used for management reporting excludes fair value adjustments associated with certain financial instruments and unrealized gains and losses on equity investments under the equity method.

<sup>b</sup> Operating income is defined as net income before unrealized gains or losses, ADB's proportionate share in unrealized gains or losses from equity investment accounted for under the equity method and one-time income from the ADF assets transfer.

<sup>c</sup> Represents operating income over average earning assets.

### C. Overall Financial Results

**Net income.** Table 2 presents the overall financial results for 2018 and 2017. OCR reported lower net income of \$750 million compared with \$774 million, after allocation of the one-time income from ADF assets transfer to ordinary reserve, reported in 2017. While the operating income increased by \$164 million, net unrealized losses from fair value changes offset the operating income and resulted in decrease of net income.

**Table 2: Overall Financial Results for the Years Ended 31 December**  
(\$ million)

Item	2018	2017	Change
<b>Revenue from loans – operations, net<sup>a</sup></b>	<b>2,712</b>	<b>1,917</b>	<b>795</b>
Sovereign – Regular	1,900	1,251	649
Sovereign – Concessional	537	433	104
Nonsovereign	275	233	42
<b>Revenue from investments for liquidity purpose, net</b>	<b>899</b>	<b>610</b>	<b>289</b>
Interest	919	597	322
Realized (losses) gains on sale of investments	(20)	13	(33)
<b>Revenue (Loss) from equity investments – operations, net</b>	<b>111</b>	<b>(12)</b>	<b>123</b>
Realized gains (losses) <sup>b</sup>	90	(5)	95
Dividends and others <sup>c</sup>	21	(7)	28
<b>Revenue from guarantees – operations</b>	<b>24</b>	<b>21</b>	<b>3</b>
<b>Revenue from other debt securities – operations, net</b>	<b>27</b>	<b>22</b>	<b>5</b>
<b>Revenue from other sources</b>	<b>47</b>	<b>35</b>	<b>12</b>
<b>Borrowings and related expenses</b>	<b>(2,159)</b>	<b>(1,246)</b>	<b>(913)</b>
<b>Provision for loan losses and impairment on other debt securities</b>	<b>(170)</b>	<b>(35)</b>	<b>(135)</b>
Provision for loan losses	(122)	(35)	(87)
Impairment on other debt securities	(48)	–	(48)
<b>Administrative expenses – OCR</b>	<b>(591)</b>	<b>(578)</b>	<b>(13)</b>
<b>Other expenses</b>	<b>(11)</b>	<b>(9)</b>	<b>(2)</b>
<b>Operating income</b>	<b>889</b>	<b>725</b>	<b>164</b>
<b>Net unrealized (losses) gains</b>	<b>(130)</b>	<b>9</b>	<b>(139)</b>
Fair value changes	(53)	8	(61)
Reclassification of unrealized gains on divested EI <sup>b</sup>	(76)	–	(76)
Translation adjustments of nonfunctional currencies	(1)	1	(2)
<b>Proportionate share of (losses) gains from EI accounted for under the equity method – unrealized</b>	<b>(9)</b>	<b>40</b>	<b>(49)</b>
<b>One-time income from ADF assets transfer</b>	<b>–</b>	<b>30,748</b>	<b>(30,748)</b>
<b>Net income</b>	<b>750</b>	<b>31,522</b>	<b>(30,772)</b>
<b>Allocation of one-time income from ADF assets transfer to ordinary reserve</b>	<b>–</b>	<b>(30,748)</b>	<b>30,748</b>
<b>Net income after allocation</b>	<b>750</b>	<b>774</b>	<b>(24)</b>

( ) = negative, – = nil, ADF = Asian Development Fund, EI = equity investments, OCR = ordinary capital resources.

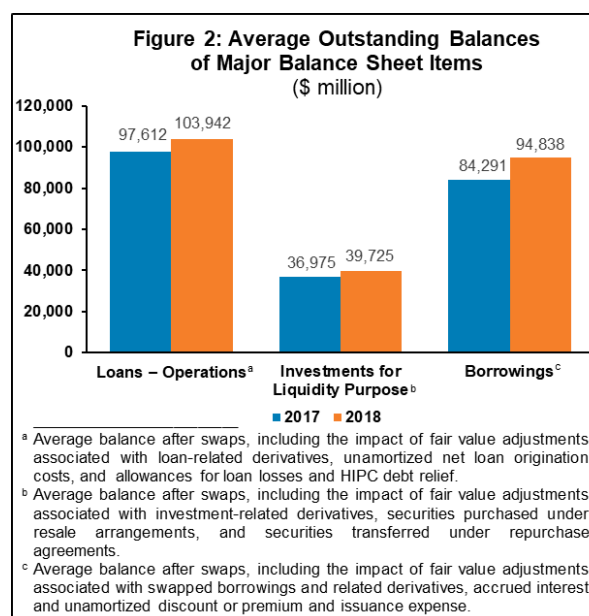
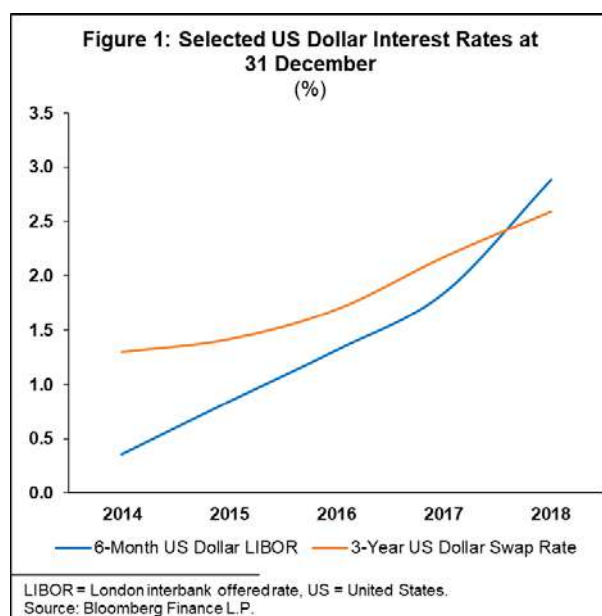
<sup>a</sup> Includes interest revenue, commitment charges, amortization of front-end fees and loan origination cost and interest on asset swap. Excludes funding costs.

<sup>b</sup> Disposal of equity investments in 2018 resulted in recognizing \$95 million realized gains, which included unrealized gains up to 31 December 2017 of \$76 million. The corresponding unrealized gains were reclassified to realized gains. Amount of realized gains in 2018 is net of \$5 million impairment loss on equity investments under equity method.

<sup>c</sup> Includes dividends and proportionate share in realized gains or losses from equity investments under the equity method.

**Operating income.** Operating income in 2018 increased to \$889 million, from \$725 million reported in 2017.<sup>4</sup> The change in operating income was primarily driven by rising interest rate trends (Figure 1) and increase in average outstanding asset balances (Figure 2) as detailed below:

- Revenue from loans – operations increased by \$795 million due to the: (i) 6% increase in the average loan outstanding balance, (ii) rising interest rate trend and (iii) higher interest revenue generated from swap transactions entered into for currency management of concessional loans;
- Revenue from investments for liquidity purpose increased by \$289 million mainly due to the increase in short-term liquidity investments and higher return on those investments as a result of rising interest rates;
- Revenue from equity investments – operations increased by \$123 million mainly due to the large gains on disposal and higher proportionate share in realized income for those accounted under the equity method;
- Borrowings and related expenses increased by \$913 million largely because of the 13% increase in average outstanding borrowings as well as higher market interest rates; and
- Provision for loan losses and impairment on other debt securities increased by \$135 million due to the deteriorated financial position and operating performance of certain nonsovereign loans and debt securities.



<sup>4</sup> Operating income is defined as net income before unrealized gains (losses) and ADB's proportionate share in unrealized gains or losses from equity investment accounted for under the equity method. For 2017, operating income also excludes one-time income from ADF assets transfer.

**Net unrealized (losses) gains.** For the year ended 31 December 2018, ADB reported net unrealized losses of \$130 million (\$9 million gains – 2017). Fair value changes of borrowings and related derivatives (\$93 million increase in loss) and loans-related derivatives (\$54 million increase in gain) are mainly affected by the increasing US dollar interest rates. Decreasing interest rates in selected markets resulted in the unrealized loss of investment-related derivatives. In addition, there was a \$76 million reclassification of unrealized gains to realized gains for equity investment divested in 2018. Table 3 shows details of unrealized (losses) gains for the years ended 31 December 2018 and 2017.

**Table 3: Details of Unrealized (Losses) Gains**  
**For the Years Ended 31 December**  
(\$ million)

Item	2018	2017	Change
Fair value changes from:	(53)	8	(61)
Borrowings and related swaps	(69)	24	(93)
Loans – related swaps	9	(45)	54
Investments – related swaps	(11)	28	(39)
Equity investments	18	1	17
Reclassification of unrealized gains			
on divested equity investment	(76)	–	(76)
Translation adjustments of nonfunctional currencies	(1)	1	(2)
<b>Total</b>	<b>(130)</b>	<b>9</b>	<b>(139)</b>

( ) = negative, – = nil.

## D. Operating Activities

ADB provides financial assistance under its ordinary operations to its DMCs through loans, guarantees, equity investments and other debt securities to help DMCs 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 uses commitments as the basis for corporate targets to measure operational performance for both sovereign and nonsovereign operations. Table 4 shows the 5-year trend in operational highlights.

**Table 4: Operational Highlights<sup>a</sup>**  
**For the Years Ended 31 December**  
(\$ million)

Item	2018	2017	2016	2015	2014
Commitments <sup>b</sup>	20,158	19,502	12,779	15,630	13,657
Disbursements	13,708	10,960	12,016	11,838	9,762
Loan Principal Repayments and Prepayments	6,940	5,981	5,492	4,721	5,597

Note: This table includes commitments and disbursements for loans, equity investments and other debt securities under OCR.

<sup>a</sup> 2014-2016 amounts include concessional loans under Asian Development Fund for comparability.

<sup>b</sup> Based on US\$ equivalent at the time of loan signing. Excludes revolving credit facility of nonsovereign loans and revolving credit program of guarantees.



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

ADB generally 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 the 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.

**Lending Headroom.** 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 2018, the total of such loans (including other debt securities), equity investments and related prudential buffer, and guarantees was \$108,375 million (\$102,476 million – 2017), compared with the maximum lending ceiling of \$192,960 million (\$195,963 million – 2017), which resulted in a headroom of \$84,585 million (\$93,487 million – 2017).

**Loans – operations.** ADB's OCR lending falls into two categories: sovereign and nonsovereign. Sovereign lending consists of regular OCR loans and concessional OCR loans. OCR offers lending products broadly in three modalities:

- **Project** – Also known as investment lending, it finances expenditures incurred for discrete investment projects such as works, goods, and services. This modality focuses on transactions and disburses funds incrementally based on evidence of expenditures for inputs.
- **Policy-based** – It supports reforms and improve policies. It provides budget support to governments to address development financing needs. ADB disburses funds based on evidence of the fulfillment of policy actions such as enacting new regulations or adopting new policy frameworks which aim to create an enabling environment for public and private sector operations, leading to improved growth prospects and economy efficiency. 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).
- **Results-based** – It supports government-owned sector program and disburses ADB funds based on the achievement of program results.

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 focus on the following key sectors: infrastructure and natural resources, finance and capital markets, agribusiness, health and education. 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.

As of 31 December 2018, OCR's outstanding loan balance was \$106,405 million (\$101,008 million – 2017), after fair value adjustment for concessional loans, allowance for loan losses and heavily indebted poor countries (HIPC) debt relief, and net unamortized loan origination costs, of which \$72,569 million were regular OCR loans (\$66,625 million – 2017), \$28,579 million were concessional OCR loans (\$29,129 million – 2017) and \$5,257 million were nonsovereign loans (\$5,254 million – 2017). Table 5 shows OCR's outstanding loans by modality.

**Table 5: OCR Outstanding Loans by Modality**  
(\$ million)

(\$ million)

	Sovereign			
	Regular	Concessional	NSO	Total
<b>31 December 2018</b>				
Project Loan	52,807	21,487	5,493	79,787
Policy-based Loan	17,597	7,103	–	24,700
Result-based Loan	1,999	283	–	2,282
Adjustments <sup>a</sup>	167	(241)	(54)	(128)
	72,569	28,633	5,439	106,641
Allowance for loan losses and HIPC debt relief	–	(54)	(183)	(236)
<b>Loans Outstanding</b>	<b>72,569</b>	<b>28,579</b>	<b>5,257</b>	<b>106,405</b>
<b>31 December 2017</b>				
Project Loan	49,110	21,806	5,360	76,276
Policy-based Loan	16,153	7,446	–	23,599
Result-based Loan	1,209	195	–	1,404
Adjustments <sup>a</sup>	153	(261)	(45)	(153)
	66,625	29,186	5,315	101,126
Allowance for loan losses and HIPC debt relief	–	(57)	(60)	(118)
<b>Loans Outstanding</b>	<b>66,625</b>	<b>29,129</b>	<b>5,254</b>	<b>101,008</b>

HIPC = heavily indebted poor countries, NSO = Nonsovereign, OCR = ordinary capital resources.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Includes fair value adjustment on concessional loans, unamortized loan origination cost, and unamortized front-end fee.

A summary of the OCR total loan portfolio by member country as of 31 December 2018 is set forth in OCR-6 of the Financial Statements. A breakdown by sector of total OCR loans as of 31 December 2018 and 2017 is shown in Table 6.

**Table 6: Sectoral Breakdown of Total OCR Loans<sup>a</sup>**  
As of 31 December

<b>Sector</b>	<b>2018</b>		<b>2017</b>	
	<b>\$ million</b>	<b>%</b>	<b>\$ million</b>	<b>%</b>
Transport	49,019	30.6	47,751	31.2
Energy	33,601	21.0	33,010	21.5
Water Urban Infrastructure and Services	16,813	10.5	15,923	10.4
Public Sector Management	15,440	9.6	14,728	9.6
Agriculture, Natural Resource and Rural Development	14,363	9.0	13,321	8.7
Finance	12,850	8.0	12,152	7.9
Education	8,288	5.2	7,045	4.6
Multi-Sector	4,168	2.6	4,582	3.0
Health	2,758	1.7	2,283	1.5
Industry and Trade	2,806	1.7	2,233	1.5
Information and Communication Technology	169	0.1	212	0.1
<b>Total</b>	<b>160,275</b>	<b>100.0</b>	<b>153,240</b>	<b>100.0</b>

OCR = ordinary capital resources.

<sup>a</sup> Includes outstanding loans, undisbursed committed loans and loans approved but not yet committed.

The majority of outstanding loans (94.9%) have been made to sovereign borrowers (member countries and, with the guarantee of the concerned member, government agencies or other public entities). The rest have been made to privately held, state-owned, or subsovereign entities. Table 7 shows the summary of loan activities in 2018 and 2017.

**Table 7: Summary of Loan Activities**  
**For the Years Ended 31 December 2018 and 2017**  
(\$ million)

	<b>Commitments<sup>a</sup></b>		<b>Disbursements</b>	<b>Repayments<sup>b</sup></b>
	<b>No.</b>	<b>Amount</b>		
<b>2018</b>				
<u>Sovereign</u>	114	17,022	11,756	5,756
Regular	71	13,150	10,111	4,180
Project loans	58	10,600	5,996	2,295
Policy-based loans	11	2,460	3,323	1,883
Result-based loans	2	90	792	2
Concessional	43	3,872	1,645	1,576
Project loans	40	3,297	1,381	1,221
Policy-based loans	1	15	169	353
Result-based loans	2	560	95	2
<u>Nonsovereign</u>	28	2,412	1,364	1,184
<b>Total</b>	<b>142</b>	<b>19,434</b>	<b>13,120</b>	<b>6,940</b>
<b>2017</b>				
<u>Sovereign</u>	109	16,717	9,589	4,959
Regular	72	14,445	7,663	3,511
Project loans	55	9,522	5,712	2,148
Policy-based loans	12	2,748	1,410	1,363
Result-based loans	5	2,175	541	-
Concessional	37	2,272	1,926	1,448
Project loans	29	1,744	1,468	1,148
Policy-based loans	8	528	412	300
Result-based loans	-	-	46	-
<u>Nonsovereign</u>	21	1,924	1,054	1,022
<b>Total</b>	<b>130</b>	<b>18,641</b>	<b>10,643</b>	<b>5,981</b>

<sup>a</sup> Based on exchange rate at loan signing date.

<sup>b</sup> Includes prepayments of \$925 million for 2018 (\$598 million — 2017).

**Sovereign loans.** For the year ended 31 December 2018, 114 sovereign loans were committed totaling \$17,022 million, an increase by \$305 million from the commitments made in 2017. This increase was due to \$1,600 million increase in concessional OCR loans offset by \$1,295 million decrease in regular OCR loans. Sovereign loan disbursements during the period increased by \$2,167 million compared with 2017, mainly due to the increase in the disbursements of policy-based loans (\$3,492 million – 2018; \$1,822 million – 2017). Total repayments of \$5,756 million (\$4,959 million – 2017) included prepayments of \$637 million from 4 borrowers (\$212 million from 3 borrowers – 2017).

**Nonsovereign loans.** 28 nonsovereign loans amounting to \$2,412 million were committed in 2018, an increase by \$488 million from commitments made in 2017. Disbursements for the year totaled \$1,364 million, an increase of 29% from \$1,054 million last year. Total repayments of \$1,184 million (\$1,022 million – 2017) included prepayment of \$288 million from 7 borrowers (\$386 million from 12 borrowers – 2017).

**Status of loans.** ADB places loans in non-accrual status when the principal, interest or other charges are overdue by six months or when there is expectation that loan service payment will not be collected when they become due, at the point when such information is known. As of 31 December 2018, there were two nonsovereign loans in non-accrual status with outstanding amount of \$95 million, of which \$7 million was overdue (nil – 2017). Total overdue principal amounted to \$14 million as of 31 December 2018 (nil- 2017).

**Lending windows.** ADB's available lending windows are the LIBOR-based loan (LBL) and the local currency loan (LCL). 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. In addition to LBL and LCL, effective 1 January 2017, the concessional lending window was transferred from ADF to OCR and continued on the same terms and conditions as previously provided to ADF countries.

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

A breakdown of ADB's loan portfolio by lending windows as of 31 December 2018 and 2017 is presented in Table 8.

**Table 8: Loan Portfolio by Lending Windows**  
As of 31 December 2018 and 2017  
(\$ million)

Item	Sovereign				Nonsovereign	
	Regular		Concessional			
	2018	2017	2018	2017	2018	2017
LIBOR-based loans <sup>a</sup>						
Outstanding	71,001	64,755	n/a	n/a	4,428	4,168
Undisbursed	35,318	33,812	n/a	n/a	2,755	2,176
Local currency loans						
Outstanding	84	24	n/a	n/a	1,065	1,192
Undisbursed	105	193	n/a	n/a	446	66
Concessional loans						
Outstanding	n/a	n/a	28,873	29,447	n/a	n/a
Undisbursed	n/a	n/a	9,425	7,647	n/a	n/a
Pool-based single currency loans						
Outstanding	1,318	1,693	n/a	n/a	n/a	n/a
Undisbursed	–	–	n/a	n/a	n/a	n/a
<b>Total</b>	<b>72,403</b>	<b>66,472</b>	<b>28,873</b>	<b>29,447</b>	<b>5,493</b>	<b>5,360</b>
Adjustments <sup>b</sup>	167	153	(241)	(261)	(54)	(45)
Allowance for loan losses and HIPC debt relief	–	–	(54)	(57)	(183)	(60)
<b>Loans Outstanding</b>	<b>72,569</b>	<b>66,625</b>	<b>28,579</b>	<b>29,129</b>	<b>5,257</b>	<b>5,254</b>
<b>Undisbursed Committed</b>	<b>35,423</b>	<b>34,005</b>	<b>9,425</b>	<b>7,647</b>	<b>3,202</b>	<b>2,242</b>

– = nil, n/a = not applicable, LIBOR = London interbank offered rate.

Notes: Numbers may not sum precisely because of rounding.

<sup>a</sup> Includes market-based loans.

<sup>b</sup> Includes fair value adjustment on concessional loans, unamortized loan origination cost, and unamortized front-end fee.

**Regular OCR loan terms.** LBLs carry a floating lending rate that comprises a funding cost margin over or under the 6-month LIBOR and an effective contractual spread. 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. LCLs may be made on a floating rate basis with an effective contractual spread, and typically reset every 6 months. The cost-base rate of an LCL is determined by its financing mode. The lending rates for PSCL 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.

*Effective contractual spread.* The current LBL and LCL effective contractual spread is 50 basis points for loans negotiated on or after 1 January 2014. Different spreads apply to loans negotiated prior to 2014. Loans under CSF are subject to an effective contractual spread of 200 basis points.

*Maturity premium.* Maturity premium is charged for LBLs and LCLs for which formal loan negotiations were completed on or after 1 April 2012 depending on the average loan maturity. The maturity premium is 10 basis points for loans with an average loan maturity of greater than 13 years and up to 16 years, and 20 basis points for loans with an average loan maturity of greater than 16 years and up to 19 years. A limit of 19 years applies to the average loan maturity of LBLs and LCLs. As of 31 December 2018, 239 committed loans totaling \$37,899 million (196 committed loans totaling \$30,211 million – 2017) were subject to maturity premium.

*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 9). 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 \$20 million to its borrowers in 2018 (\$43 million – 2017).

**Table 9: Funding Cost Margin on LIBOR-based Loans<sup>a</sup>**  
(% per year)

Type	(Rebate) or Surcharge			
	1 July 2018	1 January 2018	1 July 2017	1 January 2017
LIBOR-based Loans				
US dollar	(0.01)	(0.02)	(0.05)	(0.07)
Yen	(0.58)	(0.57)	(0.56)	(0.52)
Euro	(0.04)	(0.17)	(0.33)	(0.35)
New Zealand dollar	0.29	0.29	0.29	0.29
CSF Loans				
US dollar	0.01	0.01	0.01	(0.04)

( ) = negative, CSF = Countercyclical Support Facility, LIBOR = London interbank offered rate, US = United States.

<sup>a</sup> Funding cost margins are announced on 1 January and 1 July and are valid for 6 months.

*Commitment charge.* The current commitment charge for LBLs and LCLs is 15 basis points, except for loans under the CSF which are subject to a commitment charge of 75 basis points. The commitment charge is levied on undisbursed loan balances beginning 60 days after signing of the applicable loan agreement; charges begin to accrue when the loan becomes effective.

Table 10 shows the summary of charges on regular OCR loans.

**Table 10: Summary of Charges on Regular OCR Loans**  
(basis point)

Item	LBL <sup>a</sup>	LBL (Old) <sup>b</sup>	LBL (CSF)	PSCL (\$)	PSCL (¥)
<b>A. Cost Base Rate</b>	6-month LIBOR			Weighted average cost of allocated debt for previous 6 months	
<b>B. Lending Spread</b>					
1. Contractual spread		60	200	60	60
a. Negotiated 1 October 2007–30 June 2010	20				
b. Negotiated 1 July 2010–30 June 2011	30				
c. Negotiated 1 July 2011–31 December 2013	40				
d. Negotiated on or after 1 January 2014	50				
2. Waiver <sup>c</sup>				(20)	
<b>C. Maturity Premium<sup>d</sup></b>					
1. Average loan maturity of >13 years up to 16 years	10				
2. Average loan maturity of >16 years up to 19 years	20				
<b>D. (Rebate) or Surcharge<sup>e</sup></b>					
1. US dollar	(1)	(1)	1		
2. Yen	(58)	(58)			
3. Euro	(4)				
4. New Zealand dollar	29				
<b>E. Commitment Charges</b>	15		75		

( ) = negative, CSF = Countercyclical Support Facility, LBL = LIBOR-based loan, LIBOR = London interbank offered rate, OCR = ordinary capital resources, PSCL = pool-based single currency loan, US = United States.

<sup>a</sup> Applicable to loans negotiated on or after 1 October 2007.

<sup>b</sup> Applicable to loans negotiated before 1 October 2007.

<sup>c</sup> In July 2018, the Board of Directors approved, for borrowers of US dollar PSCLs that do not have arrears with ADB, the continuation of the waiver of 20 basis points (bps) of the lending spread for all interest periods commencing from 1 July 2018 up to and including 31 December 2018.

<sup>d</sup> For LBLs and local currency loans (LCLs) for which formal loan negotiations were completed on or after 1 April 2012, a maturity premium is added to the contractual spread and applied for the entire life of the loan.

<sup>e</sup> Rebates or surcharges for all LBLs are determined in January and July every year on the basis of the actual average funding cost under or over LIBOR for the preceding 6 months. Information presented is applicable for the period 1 July – 31 December 2018.

Source: Asian Development Bank Treasury Department.

**Concessional OCR loan terms.** ADB offers concessional loans to help reduce poverty in ADB's poorest member countries. Table 11 shows the summary of lending terms on currently available concessional OCR loans.

**Table 11: Concessional OCR Loan Terms**

Terms	Concessional Assistance-only Countries <sup>a</sup>	OCR Blend Countries <sup>b</sup>	Emergency Assistance
A. Maturity (years) <sup>c</sup>	24 - 32	25	40
B. Grace period (years) <sup>c</sup>	8	5	10
C. Interest rate during the grace period	1.0%	2.0% <sup>c</sup>	1.0%
D. Interest rate during the amortization period <sup>c</sup>	1.5%	2.0%	1.0%
E. Principal repayment			
1. First 10 years after the grace period	Equal	Equal	2.0% <sup>d</sup>
2. Year thereafter	Equal	Equal	4.0% <sup>d</sup>

OCR = ordinary capital resources.

<sup>a</sup> Countries that are eligible for concessional OCR loans and/or ADF grants.

<sup>b</sup> Countries that are eligible for both regular and concessional OCR loans.

<sup>c</sup> Applicable for projects which loan negotiations were completed on or after 1 January 2013.

<sup>d</sup> Principal repayment will be calculated based on the approved loan amount multiplied by the annual rate of 2.0% for the first 10 years after the grace period and 4.0% thereafter.

Source: Asian Development Bank Controller's Department.



*Additional currency choices.* In addition to special drawing rights (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 LIBOR-based product and is a currency that is available in the SDR basket, subject to ADB's confirmation of the availability of such currency.

**Nonsovereign loan terms.** 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 credit spread.

**Direct value-added official loan cofinancing.** In 2018, a total of \$6,290 million loan cofinancing from official and other concessional resources was committed for 26 loan projects, of which \$415 million is under ADB administration and \$5,875 million is under collaborative arrangements (Refer to Note F of OCR Financial Statements for loans administered by ADB as of 31 December 2018).

## 2. 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 2018, the total equity investment portfolio for OCR, including prudential buffers<sup>5</sup>, was \$1,474 million (\$1,345 million – 2017), or about 29% (26% – 2017) of the ceiling defined by the Charter.

In 2018, 10 equity investments were committed by ADB totaling to \$274 million (8 equity investments totaling \$287 million – 2017). In 2018, ADB disbursed a total of \$143 million (\$242 million – 2017) and received a total of \$170 million from capital distributions and divestments, whether in full or in part, in 21 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. As of 31 December 2018, outstanding equity investments totaled to \$1,280 million (\$1,185 million – 2017).

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<sup>5</sup> Represents 80% and 100% of the signed and undisbursed amounts for private equity funds and direct equity investments, respectively.

### 3. 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 2018, ADB approved one new guarantee facility and additional approval to two existing facilities totaling \$528 million (three new guarantee facilities and an additional approval to one existing facility totaling \$526 million – 2017).

ADB's outstanding exposure on guarantees as of 31 December 2018 and 2017 are shown in Table 12.

**Table 12: Outstanding Guarantee Exposure**  
As of 31 December 2018 and 2017  
(\$ million)

Item	2018	2017
Credit guarantee		
Trade related	1,277	1,272
Non-Trade related	1,340	883
Political risk guarantee	14	18
Gross outstanding exposure	2,631	2,173
Risk transferred	1,337	1,343
<b>Net outstanding exposure</b>	<b>1,294</b>	<b>830</b>

**Trade Finance Program.** The Trade Finance Program (TFP) 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 revolving credit facility are unfunded and funded products, respectively, while the risk participation agreement covers both funded and unfunded products.

In 2018, TFP supported \$6,199 million (\$4,484 million – 2017) in trade through 65 DMC banks in 14 different countries. Of the trade supported, \$2,453 million was financed by ADB (\$1,672 million – 2017) and \$3,746 million was cofinanced (\$2,812 million – 2017).

TFP transactions have average maturities of less than 180 days which enabled the TFP to revolve its \$1,350 million limit in 2018 to finance a total of \$2,453 million of guarantees and loans. As of 31 December 2018, TFP unused risk participation amounted to \$142 million (\$127 million – 2017), TFP guarantees outstanding totaled \$1,277 million (\$1,272 million – 2017) and loans outstanding totaled \$107 million (\$77 million – 2017). Of the outstanding TFP guarantees and loans, \$637 million were with risk distribution (\$592 million – 2017), resulting in a net exposure of \$747 million (\$757 million – 2017).

**Supply Chain Finance Program.** In 2012, ADB established the Supply Chain Finance Program (SCFP) 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. SCFP was increased to \$300 million in 2018. In 2018, the program provided guarantees of \$97 million (\$118 million – 2017) and the outstanding guarantee amount as of 31 December 2018 was \$29 million (\$50 million – 2017).

**Microfinance Risk Participation and Guarantee Program.** Established in 2010, Microfinance Risk Participation and Guarantee Program supports partial risk participation on an unfunded basis, in the default risk of loans made by commercial financial institutions to microfinance institutions in selected DMCs. The program, which was initially approved for \$250 million, was subsequently increased to \$340 million in 2017, to support the expansion of products to be risk participated. The program issued guarantees of \$134 million on a revolving basis in 2018 (\$107 million – 2017), and the outstanding guarantee as of 31 December 2018 amounted to \$43 million (\$57 million – 2017).

#### 4. 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 the risks associated with its loans and guarantees to other financing partners.<sup>6</sup> 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 2018, 2 projects totaling to \$135 million were signed (4 projects totaling to \$240 million – 2017).<sup>7</sup>

#### 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.

<sup>6</sup> Depending on whether ADB retains risk or not, ADB may or may not have a contingent liability.

<sup>7</sup> 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 2018 and 2017 include US dollar and local currency complementary loans.

## 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 2018, 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 \$147,965 million as of 31 December 2018. Subscribed capital was 10,638,933 shares valued at \$147,965 million which consisted of \$7,415 million paid-in and \$140,550 million callable capital. The details of ADB's equity as of 31 December 2018 and 2017 are shown in Table 13.

**Table 13: Details of Equity**  
(\$ million)

	2018	2017
Authorized (SDR106,389 <sup>a</sup> )		
Subscribed (SDR 106,389 – 2018, SDR 106,149 – 2017)	147,965	151,169
Less: Callable capital subscribed	140,550	143,591
Paid-in capital subscribed	7,415	7,578
Less: Other adjustments <sup>b</sup>	386	576
	7,029	7,002
Add: (1) One-time income from ADF assets transfer	30,748	30,748
(2) Other reserves <sup>c</sup>	13,207	12,519
<b>Total Equity</b>	<b>50,984</b>	<b>50,269</b>

ADF = Asian Development Fund, SDR = special draw ing rights.

<sup>a</sup> Equivalent to \$147,965 million as of 31 December 2018.

<sup>b</sup> Comprises discount and nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital. (See OCR-1 of the Financial Statements).

<sup>c</sup> Includes ordinary reserve, special reserve, loan loss reserve, surplus, and net income after appropriation less net notional amounts required to maintain value of currency holdings, cumulative revaluation adjustments and accumulated other comprehensive loss. (See OCR-1 of the Financial Statements).

**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 Note C of the OCR Financial Statements).

The Board of Governors approved the special increase in capital subscription of Portugal in October 2018.<sup>8</sup> Subsequently, Portugal's subscription to 24,080 shares, of which 963 are paid-in shares and 23,117 are callable shares, was declared effective in December 2018. As a result of Portugal's subscription, the shareholding percentage and voting power of all members were updated as of 31 December 2018. In October 2018, the Board of Governors also approved the

<sup>8</sup> Board of Governors' Resolution No. 395. ADB. 2018. *Special Increase in Capital Subscription of Portugal*. Manila.

application for membership of Niue and its subscription to capital stock.<sup>9</sup> Niue's membership and its subscription was not yet effective as of 31 December 2018, and subsequently became effective in March 2019.

In March 2017, the Board of Governors approved the allocation of the one-time income of \$30,748 million from the ADF assets transferred to OCR to ordinary reserve effective 1 January 2017, pursuant to Resolution No. 387.

Total equity increased from \$50,269 million as of 31 December 2017 to \$50,984 million as of 31 December 2018. This resulted from: (i) \$99 million beginning balance adjustment from adoption of new accounting standard (ASU 2016-01) effective 1 January 2018; (ii) \$750 million net income in 2018; (iii) \$154 million increase in accumulated other comprehensive income mainly from the fair value changes of borrowing related to ADB's own credit spread; (iv) \$185 million encashment of demand obligation; offset by (v) \$339 million allocation of 2017 net income to Special Funds; and (vi) \$132 million net decrease in the US dollar value of paid-in capital mainly due to the depreciation of SDR against US dollar.

**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 2018 and 2017, the Board of Governors approved the allocation of OCR's net income for 2017 and 2016, respectively, as shown in Table 14.

**Table 14: Allocation of OCR Net Income**  
(\$ million)

	2017	2016
Net Income	774	7
Appropriation of guarantee fee to special reserve	(21)	(18)
Adjustment to loan loss reserve	(14)	(15)
Adjustment (to) from cumulative revaluation adjustments	(49)	514
Allocable net income	690	488
Allocation to ordinary reserve	351	124
Allocation to special funds		
Asian Development Fund	259	259
Technical Assistance Special Fund	80	60
Asia Pacific Disaster Response Fund	–	20
Climate Change Fund	–	15
Regional Cooperation and Integration Fund	–	10
Total Allocated Net Income	690	488

OCR = ordinary capital resources.

<sup>9</sup> Board of Governors' Resolution No. 394. ADB. 2018. *Membership of Niue and Increase in Authorized Capital Stock*. Manila.

## 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 2018 was \$146,511 million (\$148,400 million – 2017). The aggregate of ADB's gross outstanding borrowings after swaps of \$93,060 million as of 31 December 2018 (\$88,429 million – 2017) was equivalent to 64% (60% – 2017) 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 2018, ADB continued to employ a strategy of issuing liquid benchmark bonds to maintain its 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. ADB continues to offer thematic bonds (Table 15), as well as borrowings in new currencies such as Armenian dram and Ghanaian cedi.

**Table 15: Overview of Outstanding Thematic Bonds**

<b>Themes</b>	<b>Amount (\$ million)</b>	<b>Maturity range of bonds issued</b>
Green	5,032	3 to 10 years
Water	196	3 to 5 years
Health	97	10 years
Gender	137	10 years
<b>Total Outstanding Thematic Bonds</b>	<b>5,462</b>	

**2018 funding operations.** In 2018, ADB raised the equivalent of \$23,538 million (\$28,593 million – 2017) in medium- and long-term funds with 130 borrowing transactions. The new borrowings were raised in 17 currencies: Armenian dram, Australian dollar, Brazilian real, Canadian dollar, Chinese yuan, Euro, Ghanaian cedi, Hong Kong dollar, Japanese yen, Mexican peso, New Zealand dollar, Norwegian krone, Pound sterling, Swedish krona, South African rand, Turkish lira, and US dollar. The average maturity to first call date of these borrowings was 5.3 years (5.4 years – 2017) at the time of issue. Of the 2018 borrowings, \$19,499 million was raised through 49 public offerings and the remaining \$4,038 million was raised through 81 private placements.

ADB also raised \$6,923 million (\$7,540 million – 2017) of short-term funds under its Euro-Commercial Paper Program (ECP). Of the ECPs issued in 2018, \$925 million were outstanding as of 31 December 2018. Table 16 shows details of 2018 borrowings as compared with 2017.

**Table 16: Borrowings**  
(\$ million)

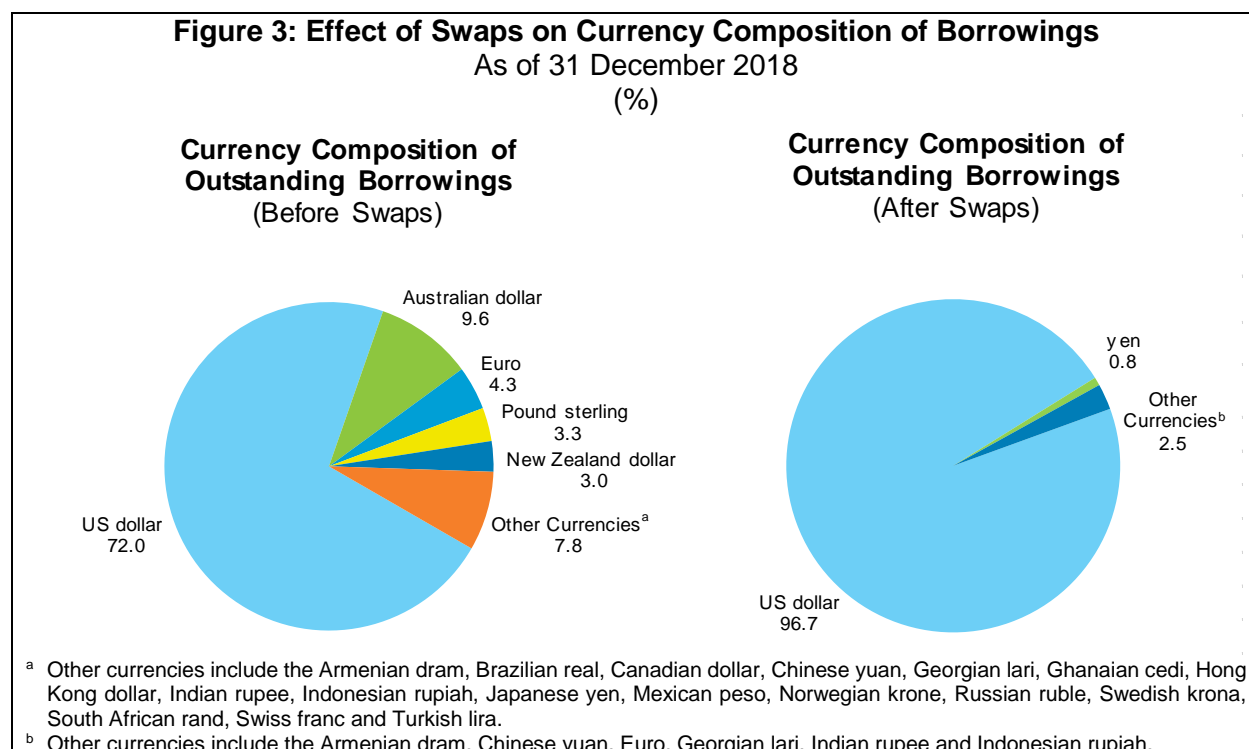
Item	2018	2017
<b>Medium and Long Term</b>		
Total Principal Amount	23,538	28,593
Average Maturity to First Call (years)	5.3	5.4
Average Final Maturity (years)	5.6	5.7
Number of Transactions		
Public Offerings	49	43
Private Placements	81	48
Number of Currencies (before swaps)		
Public Offerings	7	8
Private Placements	14	12
<b>Short Term<sup>a</sup></b>		
Total Principal Amount <sup>b</sup>	6,923	7,540
Number of Transactions	61	26
Number of Currencies	1	1

<sup>a</sup> All euro commercial papers.

<sup>b</sup> At year-end, the outstanding principal amount was \$925 million in 2018 (\$1,595 million in 2017).

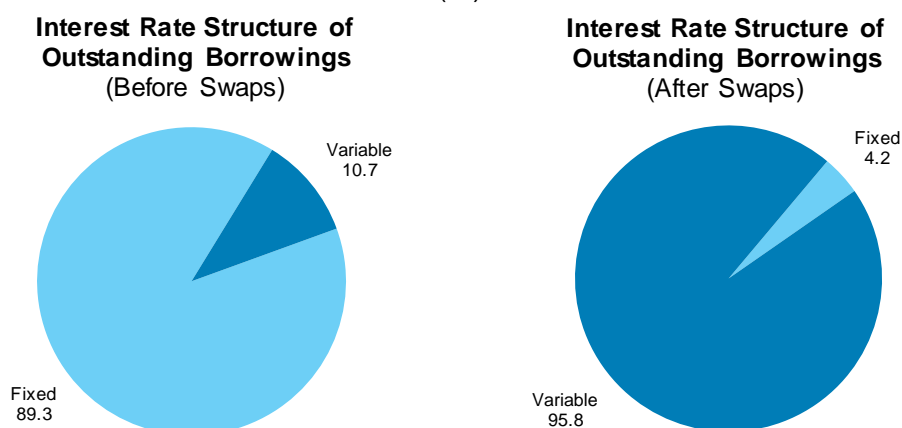
**Use of derivatives.** ADB undertakes currency and interest rate swaps to cost-efficiently and on a fully hedged basis raise the currencies needed for its operations, while maintaining its borrowing presence in major capital markets. Figures 3 and 4 show the effects of swaps on the currency composition and interest rate structure of ADB's outstanding borrowings as of 31 December 2018. Interest rate swaps are also used for asset and liability management purposes to match the liabilities with the interest rate characteristics of assets such as loans and liquidity investments.

**Figure 3: Effect of Swaps on Currency Composition of Borrowings**  
As of 31 December 2018  
(%)





**Figure 4: Effect of Swaps on Interest Rate Structure of Borrowings**  
As of 31 December 2018  
(%)



## 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 2018, ADB held liquid investments in 17 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 2018 and 2017 is presented in Table 17. The amortized cost and fair value returns of the portfolios are presented in Table 18.

**Table 17: Year-End Balance of Investment Portfolio<sup>a</sup>**  
(\$ million)

Item	2018	2017
Core Liquidity Portfolio	19,674	19,746
Cash Cushion Portfolio	5,590	2,651
Operational Cash Portfolio	197	168
Discretionary Liquidity Portfolio	9,778	13,277
Ad hoc Portfolio	287	619
<b>Total</b>	<b>35,526</b>	<b>36,461</b>

<sup>a</sup> 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 18: Return on Investment Portfolio**  
(%)

Item	Annualized Return			
	Amortized Cost		Fair Value	
	2018	2017	2018	2017
Core Liquidity Portfolio	1.8	1.6	1.6	1.3
Cash Cushion Portfolio	2.5	1.4	2.5	1.4
Operational Cash Portfolio – USD	2.0	0.6	2.0	0.6
Discretionary Liquidity Portfolio <sup>a</sup>	0.4	0.4	0.4	0.4
Ad hoc Portfolio	2.6	2.2	3.3	2.2

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 reported in other comprehensive income and loss and movements are dependent on prevailing market environment.

<sup>a</sup> 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 mostly by equity, and the average duration of the major currencies in the portfolio was about 2.3 years (3.0 years – 2017) as of 31 December 2018.

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 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 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 permit opportunistic 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 19 summarizes ADB's significant contractual cash obligations as of 31 December 2018 and 2017. 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 future lease payments and accrued liabilities, including pension and postretirement medical benefits.

**Table 19: Contractual Cash Obligations**  
(\$ million)

Item	2018	2017
Long-Term Debt	77,578	67,966
Undisbursed Loan Commitments	48,050	43,894
Guarantee Commitments	3,168	2,500
Undisbursed Equity Investment Commitments	422	354
Undisbursed Commitments for Other Debt Securities	0	–
Other Long-Term Liabilities	1,178	1,324
<b>Total</b>	<b>130,396</b>	<b>116,038</b>

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

## H. Risk Management

ADB faces various kinds of risks in carrying out its mandate, 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.

Risks 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.

The combination of ADF and OCR on 1 January 2017 roughly tripled ADB's risk-bearing capacity and has and will continue to enable a substantial increase in lending. ADB has reviewed its entire financial and risk management framework to implement this combination.

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

**Table 20: 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 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 loans 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 21 details the credit risk exposure and average credit rating<sup>10</sup> for each asset class.

**Table 21: Exposure to Credit Risk**  
As of 31 December 2018 and 2017

Item	2018		2017	
	Exposure <sup>a</sup> (\$ million)	Rating (1–14)	Exposure (\$ million)	Rating (1–14)
Sovereign operations	102,470		96,577	
a. Regular OCR Loan and guarantee <sup>b</sup>	73,498	6.5 / BB	66,978	6.5 / BB
b. Concessional OCR Loan	28,819	10.2 / B	29,447	10.2 / B
c. Equity Investments	153	n/a	152	n/a
Nonsovereign operations	8,185		7,962	
a. Loan and guarantee <sup>b</sup>	7,058	9.2 / B+	6,824	7.7 / BB–
b. Equity Investments <sup>c</sup>	1,127	n/a	1,138	n/a
Treasury	36,929	AA–	38,322	AA–
a. Fixed income	27,247	AA	26,335	AA
b. Cash instruments	9,669	A+	11,953	A+
c. Derivatives	13	AA–	34	AA–
<b>Aggregate Exposure</b>	<b>147,584</b>		<b>142,862</b>	

n/a = not applicable.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> For 2018, loan exposure is net of specific allowance for loan losses.

<sup>b</sup> Sum of outstanding loan balances, present value of guaranteed obligations, and securities classified as debt.

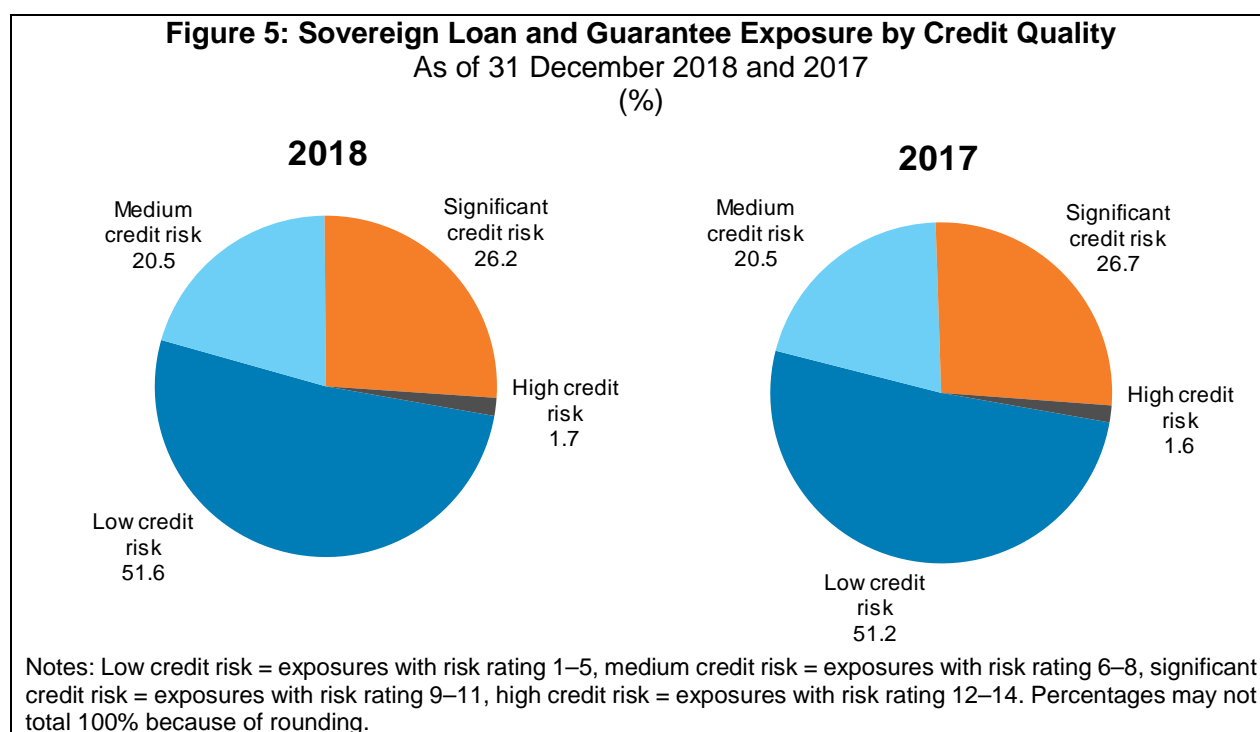
<sup>c</sup> At fair value. 2017 includes one hybrid instrument classified as other debt security.

<sup>10</sup> The average credit rating of a portfolio is calculated by (i) determining the probability of default for each borrower and transaction based on its rating, (ii) calculating the weighted average probability of default weighted by the projected exposure at default, and (iii) mapping the weighted average probability of default to a rating on ADB's 14-point scale. 2017 ratings have been updated to conform with the current definition of average credit rating.

**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 provisions and reserves as well as by maintaining conservative equity levels. ADB's regular OCR loan operations have experienced no loss of principal.<sup>11</sup> Countries that previously had delayed payments eventually repaid and returned their loans to accrual status.

ADB charges provisions for loan losses for a specific transaction (footnote 11). In addition, ADB also appropriates loan loss reserves within equity for the average loss that ADB could incur on performing loans and guarantees. The provisions are based on projections of future repayment capacity. The loan loss reserve calculation is informed by the historical default experience of sovereign borrowers to multilateral development banks. The sum of the provisions and loan loss reserves represents ADB's expected loss for sovereign operations.

**Sovereign loan and guarantee exposure.** The average credit rating of the sovereign loan and guarantee portfolio remained at 7.2 (BB) in 2018 from 2017 given the minimal change in the portfolio mix (Figure 5). Refer to Note F of OCR Financial Statements for additional information.



<sup>11</sup> Specific provision under the sovereign portfolio is associated with the debt relief provided to concessional loans to Afghanistan under the Heavily Indebted Poor Countries Relief Policy. The amount of debt relief including principal and interest was \$106 million and has been provided through a reduction of Afghanistan's debt service from July 2008 to February 2028.

**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 Pakistan—represented 42.9% of the portfolio in 2018 (Table 22).

**Table 22: Sovereign Country Exposure<sup>a</sup>**

As of 31 December 2018 and 2017

Country	2018		2017	
	\$ million	%	\$ million	%
People's Republic of China	17,015	16.6	16,284	16.9
India	16,115	15.7	14,720	15.2
Pakistan	10,818	10.6	10,975	11.4
Indonesia	10,356	10.1	9,393	9.7
Bangladesh	9,169	8.9	8,685	9.0
Others	38,998	38.1	36,519	37.8
<b>Total</b>	<b>102,470</b>	<b>100.0</b>	<b>96,577</b>	<b>100.0</b>

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> The sum of disbursed and outstanding loan balances, present value of guaranteed obligations and fair values of equities.

**Expected loss.** The expected loss of sovereign lending and guarantee operations remained at \$509 million in 2018 from 2017. Expected loss is managed through allowance for HIPC debt relief, fair value adjustment of concessional OCR loans, and loan loss reserves, which represent 0.1%, 0.2% and 0.2% of the sovereign portfolio, respectively.

**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 accordingly considered more significant than in the sovereign operations. In addition, ADB’s exposure is concentrated in the utilities and finance sectors. ADB employs various policy-based measures to manage these risks.

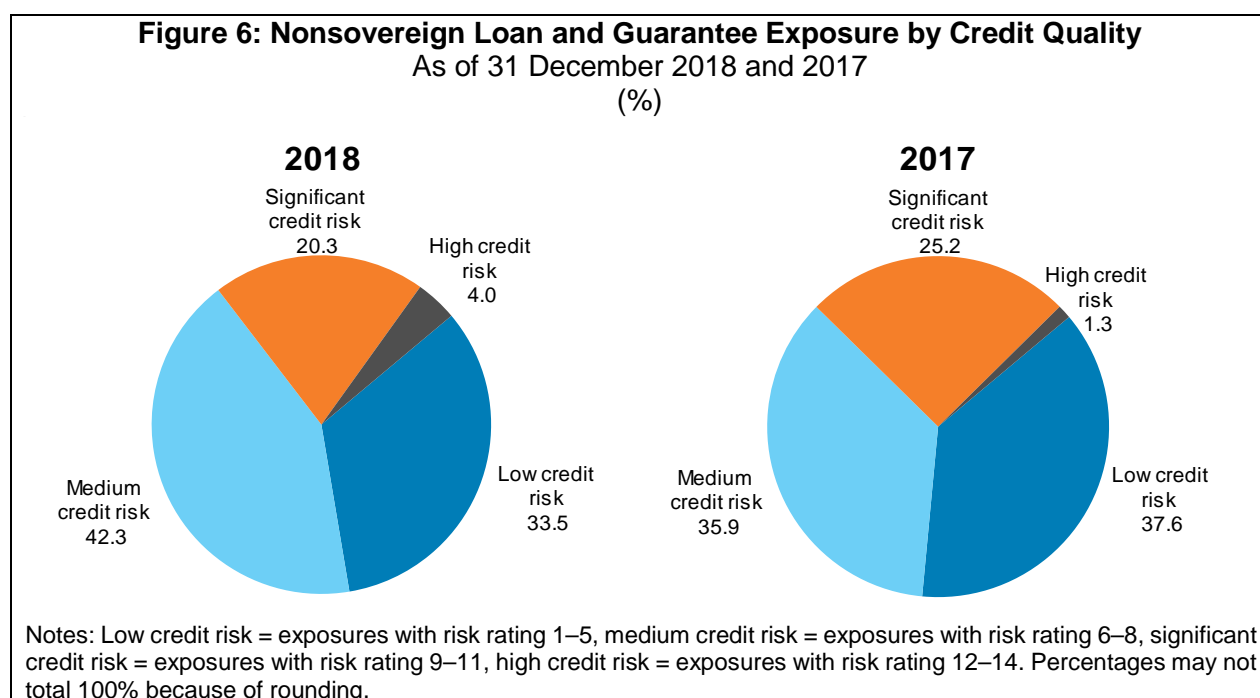
The Investment Committee and the Risk Committee oversee risks in the nonsovereign portfolio. The Investment Committee reviews all new nonsovereign transactions for creditworthiness and pricing. The Risk Committee monitors aggregate portfolio risks and individual transactions with deteriorating creditworthiness. The Risk Committee also endorses changes in portfolio risks and management policy, and expected loss of the aggregate portfolio together with loan loss provisions and reserves.

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 permanent.

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 and performing 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. 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 2018 results are discussed below.

**Nonsovereign loan and guarantee exposure.** ADB assigns a risk rating to each nonsovereign loan and guarantee. The average credit rating of the nonsovereign portfolio weakened to 9.2 (B+) in 2018 from 7.7 (BB-) in 2017 because of downgrades and impairments to some nonsovereign transactions (Figure 6). Refer to Note F of OCR Financial Statements for additional information.



**Nonsovereign equity exposure.** The nonsovereign equity investment 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 equity investment portfolio decreased by \$11 million in 2018 compared to 2017. Refer to Note H of OCR Financial Statements for additional information.



**Nonsovereign concentrations.** The three largest nonsovereign country exposures as of 31 December 2018 were India (19.7%), the People's Republic of China (16.7%), and Thailand (10.7%). The exposure of the top three countries increased to 47.1% in 2018 from 45.3% in 2017 (Table 23). All country exposures complied with ADB exposure limits.

**Table 23: Nonsovereign Country Exposure<sup>a</sup>**  
As of 31 December 2018 and 2017

Country	2018		2017	
	\$ million	%	\$ million	%
India	1,609	19.7	1,819	22.8
People's Republic of China	1,364	16.7	1,186	14.9
Thailand	875	10.7	605	7.6
Indonesia	458	5.6	379	4.8
Viet Nam	398	4.9	300	3.8
Pakistan	382	4.7	391	4.9
Others	3,098	37.9	3,283	41.2
<b>Total</b>	<b>8,185</b>	<b>100.0</b>	<b>7,962</b>	<b>100.0</b>

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> 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 24). ADB maintains higher exposures to this sector because of the importance of utilities to economic development. In addition, the high level of exposure to the utilities sector is deemed acceptable from a risk perspective because of 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 risk, ADB conducts additional monitoring of and reporting on this sector and employs specialists in these areas.

**Table 24: Nonsovereign Sector Exposure**  
As of 31 December 2018 and 2017

Sector	2018		2017	
	\$ million	%	\$ million	%
Utilities	2,701	33.0	2,908	36.5
Banks	1,651	20.2	1,531	19.2
Diversified Financials	1,456	17.8	1,190	14.9
Insurance	902	11.0	998	12.5
Energy	414	5.1	329	4.1
Others	1,061	13.0	1,007	12.7
<b>Total</b>	<b>8,185</b>	<b>100.0</b>	<b>7,962</b>	<b>100.0</b>

Note: Numbers may not sum precisely because of rounding.

**Expected loss.** The expected loss of nonsovereign lending and guarantee operations increased to \$252 million in 2018 from \$77 million in 2017 because of an increase in impaired transactions. Expected loss is managed through specific allowance and collective allowance for loan losses and loan loss reserves, which represent 2.8%, 0.5% and 0.3% of the nonsovereign loan and guarantee portfolio, respectively.

**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. The liquidity portfolio is also 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 sets exposure limits for individual swap counterparties and monitors these limits against current and potential future exposures. ADB enforces daily collateral calls as needed to ensure that counterparties meet their collateral obligations.

The average credit rating for the liquidity portfolio was AA– in 2018 with 97% of the portfolio rated A– or better .

As of 31 December 2018 and 2017, no fixed-income instruments, derivatives, or other treasury exposures were past due or impaired.

**Deposits.** Credit risk from investment deposits is considered low. ADB invests with depository institutions that have a minimum long-term average credit rating of A. ADB maintains a watch list of institutions that it perceives as potentially riskier than its credit rating represents based on an internal credit risk assessment. The size of the investment deposit is limited by the counterparty's tier one common equity and external credit rating.

**Fixed income.** Sovereign and sovereign-guaranteed securities, and those issued by government-related enterprises, including supranationals, represent 95% of ADB's fixed income assets. The remainder is in corporate bonds that are rated at least A– (Table 25). ADB will continue to monitor market developments closely and adjust its risk exposure accordingly.

**Table 25: Fixed Income Portfolio by Asset Class**

As of 31 December 2018 and 2017

Item	2018		2017	
	\$ million	%	\$ million	%
Government	11,204	41.1	12,398	47.0
Government Guaranteed	6,928	25.4	5,524	21.0
Government-Sponsored Enterprises and Supranationals	7,641	28.0	7,373	28.0
Corporates	1,474	5.4	1,041	4.0
<b>Total</b>	<b>27,247</b>	<b>100.0</b>	<b>26,335</b>	<b>100.0</b>

Note: Numbers may not sum precisely because of rounding.

**Derivatives.** All eligible swap counterparties are rated at least A–. Current exposure to counterparties rated below AA– is generally fully collateralized, while the uncollateralized exposure to those rated AA– and above are subject to specified thresholds. At the end of 2018, all counterparty marked-to-market exposures were fully collateralized, except for three counterparties whose uncollateralized exposures are within their established thresholds and minimum transfer amounts.

**Country exposure.** At the end of 2018, treasury credit risk exposure was allocated across 34 countries with the largest five exposures presented in Table 26.

**Table 26: Treasury Country Exposure**  
As of 31 December 2018 and 2017

Country	2018		2017	
	\$ million	%	\$ million	%
Japan	10,257	27.8	11,457	29.9
United States	9,006	24.4	8,942	23.3
Korea	3,730	10.1	3,071	8.0
Germany	2,696	7.3	2,777	7.3
Supranational	2,580	7.0	2,743	7.2
Others	8,661	23.5	9,332	24.4
<b>Total</b>	<b>36,929</b>	<b>100.0</b>	<b>38,322</b>	<b>100.0</b>

Note: Numbers may not sum precisely because of rounding.

## 2. Market Risk

Market risk is the risk of loss on financial instruments because of changes in market prices. ADB principally faces two forms of market risk: (i) interest rate risk; and (ii) foreign exchange risk.

**Interest rate.** Interest rate risk in the operations portfolio is hedged on the basis that borrowers' interest and principal 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.

ADB uses duration and interest rate value-at-risk (VaR) to measure interest rate risk in the liquidity portfolio. Duration measures the sensitivity of the portfolio's value to a parallel change in interest rates. Interest rate VaR provides an estimate of the portfolio value at a certain confidence level within a defined timeframe. ADB reports VaR with a 95% confidence level at a 1-year time horizon. Duration and VaR are ADB's primary monitoring tools for interest rate risk across the liquidity portfolio.

**Foreign exchange.** ADB minimizes exposure to exchange rate risk in its operations by matching where possible the currencies of its assets with the currencies of its liabilities. 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 due to currency translation adjustments.

**Value-at-risk.** The interest rate 1-year value-at-risk of the total OCR, decreased from 0.62% of ADB's equity on 31 December 2017 to 0.50% on 31 December 2018. This means there is a 5.0% probability that the portfolio will lose more than \$249 million due to interest rate volatility over the next year assuming current market conditions.

**Duration.** Interest rate sensitivity of total OCR, as reflected in its weighted portfolio duration, decreased from 1.63 years as of the end of 2017 to 1.32 years as of the end of 2018.

**Stress testing.** ADB measures how sensitive the total OCR is to parallel shifts in interest rates. If interest rates were to rise 2%, the total OCR would be expected to lose 2.6% of NAV (\$941 million). ADB also uses historical and hypothetical scenario analysis to assess how the total OCR

would respond to significant changes in asset values. Due to the high quality of ADB's investments, scenario analysis suggests the liquidity portfolio would appreciate during many historical stress scenarios, as demand for highly rated liquid securities increases (flight to quality). 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 risk and account for 44% of ADB's OCR liquid asset portfolio by NAV. Major currencies include the US dollar, yen, euro, and pound sterling, and represented 82% of the CLP NAV.

### **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. The framework enables ADB to implement an approach that focuses on identifying, assessing, 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; (iii) conducting selected Scenario Analysis programs to quantify potential exposures; and (iv) promoting risk awareness, including through the issuance of a periodic e-Newsletter and presentations to internal and external stakeholders on the application of the methodologies. Within ADB, risk management and other independent control functions work together to embed a strong operational risk management culture and framework.

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**

The Board of Directors approved a revised Capital Adequacy Framework in 2017 to enable the implementation of the combination of OCR and certain ADF assets. This framework establishes both institutional risk appetite and capital requirements. Its primary objective is to ensure that large risk events will not lead to a downgrade of ADB's AAA credit rating.

ADB's most significant risk is the 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.

For credit risk, ADB principally uses stress testing to assess the capacity of its capital to absorb unexpected losses. In addition, ADB includes a countercyclical buffer to enable ADB to meet its AAA objective under all phases of the credit cycle. Aside from credit risks, ADB also computes capital requirements for risks related to equity investment, operations, interest rate, counterparty, currency and pension. As of 31 December 2018, ADB's capitalization remains robust.

Throughout 2018, ADB was adequately capitalized to continue development lending even in case of a severe credit shock. During 2018, ADB's AAA credit rating was also 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 assesses the effectiveness of its internal controls over financial reporting based on the *Internal Control—Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The 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 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 2018 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 business processes for financial reporting and 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 2018.

## 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. For equity investments at fair value, pricing models include weighted average of book value, price-to-book, and price-to-earnings; probability weighted scenario; discounted cash flow models; and excess return valuation. 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.

In 2017, ADB reviewed the loss reserve and provision policies and concluded that the existing framework and guiding principles of ADB's loss reserve and provision practices remain valid and should be maintained, but would benefit from technical updates to some of the risk parameters. The Board of Directors approved that the three parameters - probability of default (PD), loss given default (LGD), and exposure at default (EAD) – be determined based on the following principles: (i) PD: based on credit risk rating and the historical default frequencies of external providers; (ii) LGD: for sovereign loans, the LGD will vary depending on the classification of borrowers as regular OCR-only, OCR blend, or concessional assistance-only; for nonsovereign loans, LGD will be set based on borrowers and facility rating; and (iii) EAD: will be set depending on conditionality and likelihood of full drawdown at the time of a potential default.

**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, which is 60 for staff on board before 1 October 2017 and 62 for staff who joined on or after 1 October 2017. 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 Note Q of OCR Financial Statements.

### III. SPECIAL FUNDS

ADB is authorized by its Charter to establish and administer Special Funds. These are the 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). Financial statements for each Special Fund are prepared in accordance with US GAAP.

#### A. Asian Development Fund

The ADF was established as 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 has received contributions from 34 donors (regional and nonregional). Cofinancing with bilateral and multilateral development partners complements ADF resources. With the termination of the ADF lending operations and its transfer to OCR on 1 January 2017, the ADF became a grant-only operation.

**ADF 12 Replenishment.** In July 2016, the Board of Governors adopted a resolution to provide for the 11<sup>th</sup> replenishment of the ADF (ADF 12) and the sixth regularized replenishment of the TASF. The ADF 12 became effective on 30 May 2017. The replenishment will provide grant financing to eligible recipients from 2017 to 2020. As of 31 December 2018, the total replenishment size was \$3,812 million, of which \$2,594 million comes from the donor contributions.<sup>12</sup> Of the donor contributions, ADB received all instruments of contributions from 32 donors totaling \$2,594 million.

**Contributed resources.** During 2018, a total of \$569 million of donor contributions (net of TASF allocation), including the amortized discount due to accelerated note encashment, was made available for operational commitments. Of this amount, \$565 million was attributed to ADF 12. As of end of 2018, a total of \$2,239 million was committed for ADF 12, of which \$1,072 million was made available for operational commitment.

<sup>12</sup> Includes funds of \$461 million which are allocated to the Technical Assistance Special Fund during ADF 12 period. US dollar equivalent based on the Board of Governors' Resolution No. 382 exchange rates.

As of 31 December 2018, the contributions not yet available for operational commitments totaling \$1,521 million comprise: (i) unpaid qualified contributions; (ii) received contributions from donors who exercised pro-rata rights based on unpaid qualified contributions; (iii) contributions received in advance; and (iv) unamortized discounts on ANE.

**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 liquidity for future commitments. This approach ensures that liquidity is managed transparently and efficiently.

**Commitment authority.** The commitment authority available for future commitments comprises the resources available to the ADF for its future activities in the form of grants. These resources are derived principally from donor contributions, and internal resources. The balance of the commitment authority available for commitment as of 31 December 2018 was \$466 million (\$517 million – 2017) equivalent (Table 27).<sup>13</sup>

**Table 27: Asian Development Fund Commitment Authority<sup>a</sup>**

31 December 2018

(\$ million)

Item	Amount
Carryover of ADF XI Commitment Authority	63
ADF 12 contribution	1,012
ADF XI contribution <sup>b</sup>	96
ADF IX contribution <sup>c</sup>	2
Grant savings and cancellations	368
Income from liquidity investment	90
OCR net income transfer	519
Regular ADF grants committed	(1,578)
<b>Resources available for regular ADF</b>	<b>571</b>
RHS contributions released for operational commitments	58
RHS grants committed	(30)
<b>Resources available for RHS</b>	<b>28</b>
<b>Administrative expense<sup>d</sup></b>	<b>(134)</b>
<b>ADF Commitment Authority Available for Future Commitments</b>	<b>466</b>

ADF = Asian Development Fund, OCR = ordinary capital resources, RHS = Regional Health Security.

Notes: Amounts may not sum precisely because of rounding.

<sup>a</sup> Valued at exchange rates as of 31 December 2018.

<sup>b</sup> Represents payments from Spain and the United States, including the corresponding pro rated amounts released by Germany and Turkey.

<sup>c</sup> Represents the accelerated note encashment credit of the United States including the corresponding pro rated amounts released by Germany and Turkey.

<sup>d</sup> Represent ADF's allocated administrative expenses for 2017 and 2018.

<sup>13</sup> Includes funds for regional health security and based on grant signing.



In May 2018, the Board of Governors approved the transfer of \$259 million to the ADF as part of the net income allocation of OCR (\$259 million – 2017). In addition, \$368 million from 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 grant balances.

During 2018, deposited installments under ADF 12 amounted to \$645 million, ADF 12 encashment totaled \$417 million,<sup>14</sup> and about \$121 million was transferred to the TASF.<sup>15</sup>

**Investment portfolio position.** The ADF investment portfolio totaled \$3,432 million at the end of 2018 compared with \$2,945 million at the end of 2017.<sup>16</sup> About 26% of the portfolio was invested in bank deposits and 74% in fixed-income securities. The annualized rate of return on ADF investments, including unrealized gains and losses, was 1.7% (1.1% - 2017).

**Grants.** Grants are recognized in the financial statements upon effectivity, i.e. when the agreements are signed and all conditions to effectiveness of the grant are satisfied. During 2018, 44 grants totaling \$1,418 million were committed (24 grants totaling \$191 million – 2017) while 31 grants totaling \$899 million (30 grants totaling \$323 million – 2017) became effective, net of \$175 million (\$193 million – 2017) undisbursed grants that were written-back as savings on financially closed and/or cancelled projects.

**Direct value-added official and other concessional cofinancing for ADF grants.** In 2018, \$1,064 million in official loan and grant cofinancing was approved for 11 ADF-financed projects totaling \$722 million. Also in 2018, a total of \$1,079 million in official loan and grant cofinancing was committed for 13 ADF-financed projects totaling \$1,271 million.

## **B. Technical Assistance Special Fund**

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

**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 regularized replenishment of the TASF. The replenishment, which became effective on 30 May 2017, covers TA financing for 2017-2020.

**Contributed resources.** As of 31 December 2018, a total of \$216 million of donor contributions have been received out of the \$461 million allocation set-aside for TASF. In addition, OCR transferred \$80 million from its 2017 allocable net income to the TASF.

At the end of 2018, cumulative TASF resources totaled \$3,068 million, of which \$2,764 million was committed, leaving an uncommitted balance of \$304 million (\$399 million – 2017) (Table 28).

<sup>14</sup> Includes encashment of promissory notes and cash payments.

<sup>15</sup> US dollar equivalent based on exchange rates as of 31 December 2018.

<sup>16</sup> Includes securities purchased under resale arrangements.

**Table 28: Technical Assistance Special Fund**  
Cumulative Resources as of 31 December 2018 and 2017  
(\$ million)

Item	2018	2017
Regularized Replenishment		
Contributions	1,611	1,574
Allocations from OCR Net Income	1,129	1,049
Direct Voluntary Contributions	91	91
Income from Investment and		
Other Sources	240	225
Transfers from the TASF to the ADF	(3)	(3)
<b>Total</b>	<b>3,068</b>	<b>2,935</b>

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

Note: Numbers may not sum precisely because of rounding.

**Operations.** In 2018, TA expensed net of write-back amounted to \$207 million (\$171 million – 2017), consisting of 193 TA projects and 79 supplementary TAs that became effective totaling \$229 million, and \$22 million write-back of undisbursed balance for completed and cancelled TA projects (157 TA projects and 87 supplementary TAs totaling \$192 million and \$21 million write-back – 2017). The undisbursed TAs net of TA advances increased to \$446 million as of 31 December 2018 (\$389 million – 2017).

**Investment position.** As of 31 December 2018, the total investment portfolio amounted to \$398 million, (\$312 million - 31 December 2017), all of which were in time deposits. Total revenue from investments for 2018 amounted to \$7 million (\$3 million – 2017).

### 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 2018, 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 without donor restriction was \$71 million as of 31 December 2018 (\$70 million – 2017).

**Operations.** In 2018 and 2017, no new TA projects or grants were made effective. However, \$0.20 million was written back for financially completed and cancelled projects in 2018 (\$0.2 million – 2017). There was no undisbursed TA as of 31 December 2018 (\$0.4 million – 2017).

**Investment position.** As of 31 December 2018 and 2017, 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.

During 2018, committed contributions to ADBI totaled to \$15 million (\$14 million – 2017). As of 31 December 2018, cumulative contributions committed to ADBI amounted to ¥29 billion, A\$2 million, and \$8 million (about \$276 million equivalent). Of the total contributions received, \$243 million had been used by the end of 2018 (\$238 million – 2017) 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 \$16 million.

**Investment position.** As of 31 December 2018, the total investment portfolio, which was in time deposits, amounted to \$4 million (nil – 2017).

## **E. Regional Cooperation and Integration Fund**

The RCIF was established on 26 February 2007 in response to the increasing demand for regional cooperation and integration activities among ADB's member countries in Asia and the Pacific. Its main objective is to improve regional cooperation and integration by facilitating the pooling and provision of additional financial and knowledge resources.

**Contributed resources.** In May 2017, \$10 million was transferred to the RCIF from OCR allocable net income. As of 31 December 2018, cumulative RCIF resources totaled \$74 million, of which \$64 million had been used, leaving an uncommitted balance of \$10 million (\$14 million – 2017).

**Operations.** In 2018, net TA expenses totaled \$4.7 million (\$1.7 million – 2017), comprising five TA projects and two supplementary TAs totaling \$5.3 million that became effective, and a \$0.6 million write-back on financially completed and/or cancelled projects (three TA projects and two supplementary TAs totaling \$2.8 million, and a \$1.1 million write-back – 2017). The balance of undisbursed TAs, net of TA advances as of 31 December 2018 amounted to \$8 million (\$7 million – 2017).

**Investment position.** As of 31 December 2018, the total investment portfolio, which was in time deposits, amounted to \$15 million (\$20 million – 2017).

## **F. Climate Change Fund**

The CCF was established on 7 April 2008 to facilitate greater investments in DMCs to address the causes and consequences of climate change in combination with ADB assistance in related sectors.

**Contributed resources.** In May 2017, \$15 million was transferred to the CCF from OCR allocable net income. As of 31 December 2018, cumulative CCF resources totaled \$76 million, of which \$58 million had been used, leaving an uncommitted balance of \$18 million (\$20 million – 2017).

**Operations.** In 2018, eight TA projects totaling \$4.1 million (four TA projects totaling \$2.4 million – 2017) became effective, and \$1.7 million of financially completed and/or cancelled projects was written-back (\$0.6 million write-back – 2017). The balance of undisbursed grants and TA, net of advances as of 31 December 2018 amounted to \$8 million (\$8 million – 2017).

**Investment position.** As of 31 December 2018, the total investment portfolio, which was in time deposits, amounted to \$24 million (\$26 million – 2017).

## G. Asia Pacific Disaster Response Fund

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

**Contributed resources.** In May 2017, \$20 million was transferred to the APDRF from OCR allocable net income. As of 31 December 2018, cumulative fund resources totaled \$81 million, of which \$60 million had been used, leaving an uncommitted balance of \$21 million (\$26 million – 2017).

**Operations.** In 2018, four grants amounting to \$5.5 million became effective (two grants amounting to \$2.2 million – 2017) and \$0.1 million of financially completed grant was written-back (nil – 2017). The balance of undisbursed grants, net of grant advances as of 31 December 2018 amounted to \$3.1 million (\$0.1 million – 2017).

**Investment position.** As of 31 December 2018, the total investment portfolio, which was in time deposits amounted to \$23 million (\$22 million – 2017).

## 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 December 2018, contributions equivalent to \$1.7 million was received from the Government of Luxembourg. As of 31 December 2018, cumulative fund resources totaled \$17 million, of which \$13 million had been used, leaving an uncommitted balance of \$4 million (\$5 million – 2017).

**Operations.** In 2018, six TA projects and one supplementary totaling \$3.1 million (four TA projects and two supplementary totaling \$3.4 million – 2017) became effective, and \$0.1 million (\$0.6 million – 2017) of financially completed and/or cancelled projects were written-back. The balance of undisbursed TAs, net of TA advances as of 31 December 2018 amounted to \$7 million (\$5 million – 2017).

**Investment position.** As of 31 December 2018, the total investment portfolio amounted to \$6 million (\$7 million – 2017).

## IV. OFFICIAL COFINANCING UNDER ADMINISTRATION

Trust funds and project-specific loans and 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, public and private sector partners have contributed about \$8,698.6 million in grants and loans to ADB operations. In 2018, ADB-approved projects for official and other concessional cofinancing under administration totaled \$807.6 million, comprising \$688.8 million for 35 investment projects and \$118.8 million for 97 TA projects. Administered commitments from official and other concessional cofinancing amounted to \$803.7 million, composed of \$673.8 million for 37 investment projects and \$129.9 million for 99 TA projects. By the end of 2018, ADB was administering 48 trust funds, comprising 35 stand-alone trust funds,<sup>17</sup> and 13 trust funds established under financing partnership facilities. Of these, 35 have balances totaling \$458 million. Additional contributions from external partners totaled \$486.6 million in 2018, comprising \$33.4 million in new

<sup>17</sup> Trust funds not related to financing partnership facilities and including the Japan Scholarship Program.

commitments, \$160.4 million in replenishments to existing trust funds, and \$292.8 million in additional allocation from global funding initiatives.

Financing partners provided the following commitments and replenishments to existing trust funds in 2018:

- (i) \$140.5 million from the Government of Japan for the Japan Fund for Poverty Reduction, Japan Fund for the Joint Crediting Mechanism, High Level Technology Fund, Domestic Resource Mobilization Trust Fund, Leading Asia's Private Infrastructure Fund, and Japan Scholarship Program;
- (ii) \$27.1 million from the Government of the United Kingdom and Northern Ireland for the Asian Regional Trade and Connectivity Fund;
- (iii) \$15.0 million from the Government of the Republic of Korea for the e-Asia and Knowledge Partnership Fund;
- (iv) \$4.0 million from the Government of Switzerland for the Cities Development Initiative for Asia Trust Fund;
- (v) \$2.3 million from the Government of Norway for the Clean Energy Fund under the Clean Energy Financing Partnership Facility;
- (vi) \$2.3 million from the Government of Austria for the Cities Development Initiative for Asia Trust Fund;
- (vii) \$1.2 million from the Government of France for the Cooperation Fund for Project Preparation in the Greater Mekong Subregion and in Other Specific Asian Countries;
- (viii) \$1.0 million from the Bill & Melinda Gates Foundation for the Sanitation Trust Fund under the Water Financing Partnership Facility; and
- (ix) \$0.4 million from the Government of Spain for the Spanish Cooperation Fund for Technical Assistance.

Additional allocations from global funding initiatives comprised \$220 million from the Green Climate Fund, \$41.4 million from the Climate Investment Funds, \$23 million from Global Agriculture and Food Security Program, \$12.6 million from Women Entrepreneurs Finance Initiative, and \$0.5 million Global Partnership for Education Fund as well as cancellations amounting to \$4.7 million from Global Environment Facility on savings from closed projects.

**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 2018, the JFPR received a total of \$814.3 million in contributions from the Government of Japan, and funded 185 grant projects and 257 technical assistance projects since 2000.

**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 2018, the Government of Japan has contributed \$182 million to the JSP, and 3,798 scholarships were awarded to recipients from 37 member countries. Of the total, 3,441 have completed their courses. Women have received 1,460 scholarships. An average of 139 new scholarships per year has been awarded since 2009. At the end of 2018, JSP has 29 participating institutions in 10 countries.

**Table 29: Schedule of Cumulative Contributions from External Sources  
Administered by Asian Development Bank**  
As of 31 December 2018  
(\$ million)

Item	Amount	Item	Amount
Bilateral Partners		Multilateral Partners	
Australia	885.1	Asian Infrastructure Investment Bank	63.3
Austria	22.9	Association of Southeast Asian Nations	0.6
Belgium	17.1	Cities Alliance	0.5
Brunei Darussalam	0.3	Clean Technology Fund	952.9
Canada	381.8	Commonwealth Secretariat	0.1
China, People's Republic of	90.0	GEF/Least Developed Countries Fund	14.4
Denmark	34.8	GEF/Special Climate Change Fund	11.1
European Community	441.8	Global Agriculture and Food Security Program	63.2
Finland	59.7	Global Environment Fund	239.3
France	39.2	Global Partnership for Education Fund	1.1
Germany	120.3	Global Road Safety Partnership	0.2
India	0.9	Green Climate Fund	125.2
Ireland	2.3	International Federation of Red Cross and Red Crescent Societies	1.5
Italy	2.2	International Fund for Agricultural Development	0.9
Japan	1,690.8	Islamic Financial Services Board	0.5
Korea, Republic of	124.3	Nordic Development Fund	46.9
Luxembourg	8.3	Partnership for Market Readiness Multi-Donor Trust Fund	0.3
The Netherlands	405.4	Public Private Infrastructure Advisory Facility	1.3
New Zealand	53.3	Strategic Climate Fund	432.3
Norway	205.6	Trust Fund for Forest	15.5
Portugal	0.6	Other	0.5
Singapore	4.5	Sub-Total	1,971.6
Spain	34.5		
Sweden	247.0		
Switzerland	66.0		
Taipei, China	0.5	Bill and Melinda Gates Foundation	17.0
United Kingdom and Northern Ireland	1,361.4	Credit Suisse	0.1
United States	370.6	ENECO Energy Trade B.V.	12.0
Sub-Total	6,671.2	Hewlett Foundation	0.3
		Korea Energy Agency	0.1
		Korean Energy Management Corporation	0.2
		POSCO	20.0
		The Rockefeller Foundation	5.0
		Other	1.1
		Sub-Total	55.8
		<b>Grand Total</b>	<b>8,698.6</b>

Note: Numbers may not sum precisely because of rounding.

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

**ORDINARY CAPITAL RESOURCES  
MANAGEMENT REPORTING BALANCE SHEETS**

As of 31 December 2018 and 2017

(\$ million)

Item	2018		2017	
	Statutory Reporting Basis	Adjustments <sup>a</sup>	Management Reporting Basis	Management Reporting Basis
Due from banks	1,148	—	1,148	964
Investments for liquidity purpose	35,215	—	35,215	36,478
Securities transferred under repurchase agreements	87	—	87	393
Securities purchased under resale arrangements	343	—	343	170
Loans outstanding — operations	106,405	—	106,405	101,008
Equity investments — operations	1,280	(251)	1,029	1,118
Other debt securities — operations	618	—	618	236
Derivative Assets				
Borrowings	25,185	(556)	24,629	18,666
Investments for liquidity purpose	11,704	(63)	11,641	12,730
Loans — operations	8,611	(435)	8,176	8,184
Accrued interest receivable	757	—	757	579
Other assets	507	358	865	1,168
<b>TOTAL</b>	<b>191,860</b>	<b>(947)</b>	<b>190,913</b>	<b>181,694</b>
Borrowings and accrued interest	90,423	484	90,907	87,128
Derivative Liabilities				
Borrowings	28,428	(1,113)	27,315	19,977
Investments for liquidity purpose	11,823	(71)	11,752	12,918
Loans — operations	8,745	(489)	8,256	8,538
Payable under securities repurchase agreements	84	—	84	393
Payable for swap related collateral	118	—	118	240
Accounts payable and other liabilities	1,255	—	1,255	1,346
<b>Total Liabilities</b>	<b>140,876</b>	<b>(1,190)</b>	<b>139,686</b>	<b>130,540</b>
Paid-in capital	7,029	358	7,387	7,563
Net notional maintenance of value receivable	(1,538)	—	(1,538)	(1,564)
Ordinary reserve	43,440	2	43,442	43,092
Special reserve	384	—	384	361
Loan loss reserve	201	—	201	187
Surplus	1,065	—	1,065	1,065
Cumulative revaluation adjustments account	(132)	132	—	—
Net income <sup>b</sup>	726	139	865	704
Accumulated other comprehensive loss	(191)	(388)	(579)	(254)
<b>Total Equity</b>	<b>50,984</b>	<b>243</b>	<b>51,227</b>	<b>51,154</b>
<b>TOTAL</b>	<b>191,860</b>	<b>(947)</b>	<b>190,913</b>	<b>181,694</b>

— = nil, ( ) = negative.

<sup>a</sup> Includes reversal of unrealized gains or losses from fair value adjustments associated with certain financial instruments, unrealized proportionate share of income or loss from equity investments accounted for under equity method, and nonnegotiable and noninterest-bearing demand obligations on account of subscribed capital.

<sup>b</sup> After appropriation of guarantee fees to the Special Reserve.

# **Financial Statements**



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## ORDINARY CAPITAL RESOURCES

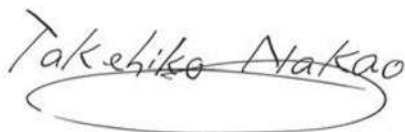
### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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 2018, 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 2018, 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

15 March 2019



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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, 2018, 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.



### **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, 2018, 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, 2018 and 2017 and the related statements of income and expenses, comprehensive income, changes in equity and cash flows, for the years then ended and the related notes to the financial statements. Our report dated March 15, 2019 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019



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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, 2018 and 2017, and the related statements of income and expenses, comprehensive 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.



## 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, 2018 and 2017, 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, 2018, 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 15, 2019 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 statement of loans – operations and summary statement of borrowings as of December 31, 2018 and 2017, statement of subscriptions to capital stock and voting power as of December 31, 2018, and the supplementary information on the transfer of ADF loans and other assets to OCR on January 1, 2017, are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

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

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized name, possibly "J. M. Murphy".

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES  
BALANCE SHEET**

**31 December 2018 and 2017**

Expressed in Millions of US Dollars

<b>A S S E T S</b>				
	<b>2018</b>		<b>2017</b>	
DUE FROM BANKS (Note C)		\$ 1,148		\$ 964
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes D, J, O, and R)				
Government or government-guaranteed obligations	\$28,554		\$30,028	
Time deposits	5,195		5,415	
Other securities	<u>1,466</u>	35,215	<u>1,035</u>	36,478
SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENTS (Notes D, E, and R)		87		393
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Notes D and R)		343		170
LOANS OUTSTANDING — OPERATIONS (OCR-6, Notes A, F, J, R, T, and U) (Including net unamortized loan origination costs of \$124 – 2018 and \$114 – 2017)				
Sovereign				
Regular	72,569		66,625	
Concessional	<u>28,633</u>		<u>29,186</u>	
	101,202		95,811	
Nonsovereign	<u>5,439</u>		<u>5,315</u>	
	106,641		101,126	
Less—allowance for loan losses	<u>236</u>	106,405	<u>118</u>	101,008
EQUITY INVESTMENTS — OPERATIONS (Notes A, H, R, T, and U)		1,280		1,185
OTHER DEBT SECURITIES — OPERATIONS (Notes I, R, T, and U)		618		236
ACCRUED INTEREST RECEIVABLE				
Investments for liquidity purpose	126		131	
Loans — Operations	624		446	
Other debt securities — Operations	<u>7</u>	757	<u>2</u>	579
DERIVATIVE ASSETS (Notes J, L, and R)				
Borrowings	25,185		19,278	
Investments for liquidity purpose	11,704		12,777	
Loans — Operations	<u>8,611</u>	45,500	<u>8,706</u>	40,761
OTHER ASSETS				
Property, furniture, and equipment (Note K)	179		168	
Swap related collateral (Notes J and R)	118		240	
Miscellaneous (Notes G, P, and R)	<u>210</u>	507	<u>199</u>	607
<b>TOTAL</b>		<b>\$191,860</b>		<b>\$182,381</b>

The accompanying notes are an integral part of these financial statements (OCR-10).

LIABILITIES AND EQUITY				
	2018		2017	
BORROWINGS (OCR-7, Notes J, L, and R)				
At amortized cost	\$ 3,010		\$ 4,481	
At fair value	<u>87,413</u>	\$ 90,423	<u>82,800</u>	\$ 87,281
DERIVATIVE LIABILITIES (Notes J, L, and R)				
Borrowings	28,428		20,763	
Investments for liquidity purpose	11,823		12,964	
Loans — Operations	<u>8,745</u>	48,996	<u>9,125</u>	42,852
PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS (Notes E and R)		84		393
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Investment related payables	106		4	
Swap related collateral (Notes J and R)	118		240	
Accrued pension and postretirement medical benefit costs (Note Q)	977		1,189	
Miscellaneous (Notes G, K, P, and R)	<u>172</u>	1,373	<u>153</u>	1,586
TOTAL LIABILITIES		<u>140,876</u>		<u>132,112</u>
EQUITY (OCR-4)				
Capital stock (OCR-8, Note M)				
Authorized (SDR106,389)				
Subscribed (SDR106,389 – 2018 and SDR106,149 – 2017)	147,965		151,169	
Less—"callable" shares subscribed (SDR101,058 – 2018 and SDR100,827 – 2017)	<u>140,550</u>		<u>143,591</u>	
"Paid-in" shares subscribed (SDR5,331 – 2018 and SDR5,322 – 2017)	7,415		7,578	
Less—discount	<u>15</u>		<u>15</u>	
	7,400		7,563	
Nonnegotiable, noninterest-bearing demand obligations and receivables on account of subscribed capital	<u>(371)</u>	7,029	<u>(561)</u>	7,002
Net notional amounts required to maintain value of currency holdings (Note M)	(1,538)		(1,564)	
Ordinary reserve (Note N)				
From ADF assets transfer (OCR-9, Notes A and N)	\$30,748		\$30,748	
From retained earnings	<u>12,692</u>	43,440	<u>12,342</u>	43,090
Special reserve (Note N)	384		361	
Loan loss reserve (Note N)	201		187	
Surplus (Note N)	1,065		1,065	
Cumulative revaluation adjustments account (Note N)	(132)		(426)	
Net income after appropriation (OCR-4, Note N)	726		753	
Accumulated other comprehensive loss (Note N)	<u>(191)</u>	43,955	<u>(199)</u>	43,267
TOTAL EQUITY		50,984		50,269
<b>TOTAL</b>		<b>\$191,860</b>		<b>\$182,381</b>



**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Millions of US Dollars

	<u>2018</u>	<u>2017</u>
REVENUE (Note O)		
From loans — operations (Notes F and J)		
Sovereign — Regular	\$ 1,900	\$ 1,251
Sovereign — Concessional	537	433
Nonsovereign	<u>275</u>	<u>233</u>
	\$ 2,712	\$ 1,917
From investments for liquidity purpose (Notes D and J)		
Interest	919	597
From equity investments — operations	12	33
From guarantees — operations	24	21
From other debt securities — operations	27	22
From other sources—net (Note S)	<u>47</u>	<u>35</u>
TOTAL REVENUE	\$ 3,741	\$ 2,625
EXPENSES (Note O)		
Borrowings and related expenses (Notes J and L)	(2,159)	(1,247)
Administrative expenses (Notes K, N, and Q)	(591)	(578)
Provision for loan losses (Note F)	(122)	(35)
Other expenses	<u>(11)</u>	<u>(9)</u>
TOTAL EXPENSES	(2,883)	(1,869)
NET REALIZED (LOSSES) GAINS		
From investments for liquidity purpose (Notes D, J, N, and O)	(20)	13
From equity investments — operations (Notes N and O)	90	(5)
From other debt securities — operations	(48)	—
From borrowings (Note J)	<u>0</u>	<u>1</u>
NET REALIZED GAINS	22	9
NET UNREALIZED (LOSSES) GAINS (Notes H, J, L, and O)	(130)	9
ONE-TIME INCOME FROM ADF ASSETS TRANSFER (OCR-9, Note A)	—	30,748
<b>NET INCOME</b>	<b>\$ 750</b>	<b>\$ 31,522</b>

Note: 0 = less than \$0.5 million.

The accompanying notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Millions of US Dollars

	<b>2018</b>		<b>2017</b>	
NET INCOME (OCR-2)		\$ 750		\$ 31,522
Other comprehensive income (Note N)				
Unrealized holding gains (losses):				
From investments for liquidity purpose	\$ (37)		\$ (105)	
From equity investments — operations	(8)		122	
From borrowings	319	\$ 274	—	\$ 17
Postretirement benefit liability adjustments		282		120
Currency translation adjustments		(402)	154	1,240
				1,377
<b>COMPREHENSIVE INCOME</b>		<b>\$ 904</b>		<b>\$ 32,899</b>

The accompanying notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF CHANGES IN EQUITY**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Millions of US Dollars

	Capital Stock	Nonnegotiable, Noninterest- bearing Demand Obligations and Receivables	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Loan Loss Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Loss	Total
<b>Balance, 1 January 2017</b>	\$ 7,075	\$ (676)	\$ (1,474)	\$ 12,211	\$ 340	\$ 172	\$ 1,065	\$ 88	\$ (11)	\$ (1,576)	\$ 17,214
Comprehensive income (OCR-3, Note N)									31,522	1,377	32,899
Appropriation of guarantee fees (Note N)					21				(21)		—
Return of set-aside resources	64		(7)	7							64
Encashment of demand obligations		157									157
Change in USD value	424	(41)	(84)								299
Allocation of one-time income from ADF assets transfer (OCR-9, Notes A and N)				30,748					(30,748)		—
Allocation of prior year income (Note N)				124		15		(514)	375		—
Allocation of prior year income to ADF, TASF, APDRF, CCF, and RCIF (Note N)									(364)		(364)
<b>Balance, 31 December 2017</b>	\$ 7,563	\$ (561)	\$ (1,564)	\$ 43,090	\$ 361	\$ 187	\$ 1,065	\$ (426)	\$ 753	\$ (199)	\$ 50,269
Cumulative effect adjustment of ASU 2016-01								245		(146)	99
<b>Balance, 1 January 2018</b>	7,563	(561)	(1,564)	43,090	361	187	1,065	(181)	753	(345)	50,368
Comprehensive income (OCR-3, Note N)									750	154	904
Appropriation of guarantee fees (Note N)					24				(24)		—
Capital subscriptions	13	(13)									—
Encashment of demand obligations		185									185
Change in USD value	(176)	18	26								(132)
Allocation of prior year income (Note N)				351		14		49	(414)		—
Allocation of prior year income to ADF and TASF (Note N)									(339)		(339)
<b>Balance, 31 December 2018</b>	\$ 7,400	\$ (371)	\$ (1,538)	\$ 43,440	\$ 384	\$ 201	\$ 1,065	\$ (132)	\$ 726	\$ (191)	\$ 50,984

Note: Numbers may not sum precisely because of rounding.

ADF = Asian Development Fund, APDRF = Asia Pacific Disaster Response Fund, ASU = Accounting Standard Update, CCF = Climate Change Fund, RCIF = Regional Cooperation and Integration Fund, TASF = Technical Assistance Special Fund, USD = United States dollar.

The accompanying notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****STATEMENT OF CASH FLOWS****For the Years Ended 31 December 2018 and 2017**

Expressed in Millions of US Dollars

	2018	2017 (Restated)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and other charges received on loans — operations	\$ 2,376	\$ 1,703
Interest received on investments for liquidity purpose	768	548
Interest received (paid for) from securities purchased under resale/ repurchase agreement	3	(2)
Interest and other charges received on other debt securities — operations	23	20
Dividends received on equity investments — operations	29	28
Interest and other financial expenses paid	(1,854)	(1,025)
Administrative expenses paid	(518)	(603)
Others—net	48	43
<b>Net Cash Provided by Operating Activities</b>	<b>875</b>	<b>712</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments for liquidity purpose	1,415	12,500
Maturities of investments for liquidity purpose	245,572	259,640
Purchases of investments for liquidity purpose	(245,905)	(278,051)
Receipts from securities purchased under resale arrangements	48,391	28,298
Payments for securities purchased under resale arrangements	(48,564)	(28,355)
Principal collected on loans — operations	6,940	5,981
Loans — operations disbursed	(12,956)	(10,521)
Receipts from derivatives	105	176
Payments for derivatives	—	(35)
Property, furniture, and equipment acquired	(34)	(26)
Purchases of equity investments — operations	(143)	(242)
Purchases of other debt securities — operations	(446)	(75)
Sales of equity investments — operations	145	2
<b>Net Cash Used in Investing Activities</b>	<b>(5,480)</b>	<b>(10,708)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from new borrowings	30,390	36,089
Borrowings redeemed	(24,840)	(24,308)
Issuance expenses paid	0	(46)
Demand obligations of members encashed	185	157
Receipts from derivatives	91	83
Payments for derivatives	(691)	(1,310)
Change in swap related collateral	(123)	(367)
Resources transferred to Special Funds	(339)	(364)
<b>Net Cash Provided by Financing Activities</b>	<b>4,673</b>	<b>9,934</b>
<b>Effect of Exchange Rate Changes on Due from Banks</b>	<b>(6)</b>	<b>(0)</b>
<b>Net Increase (Decrease) in Due from Banks</b>	<b>62</b>	<b>(62)</b>
<b>Cash at Beginning of Period</b>		
Due from Banks	964	661
Swap Related Collateral	240	605
<b>Total</b>	<b>\$ 1,204</b>	<b>\$ 1,266</b>
<b>Cash at End of Period</b>		
Due from Banks	1,148	964
Swap Related Collateral	118	240
<b>Total</b>	<b>\$ 1,266</b>	<b>\$ 1,204</b>
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net Income (OCR-2)	\$ 750	\$ 31,522
Adjustments to reconcile net income to net cash provided by operating activities:		
One-time income from ADF assets transfer	—	(30,748)
Depreciation and amortization	(80)	75
Provision for losses charged—net	122	35
Net realized gains	(75)	(14)
Proportionate share in earnings on equity investments — operations	(8)	(31)
Net unrealized losses (gains)	130	(10)
Change in accrued revenue from loans — operations, investments for liquidity purpose, other debt securities — operations, and other swaps	(368)	(251)
Change in accrued interest on borrowings and swaps, and other expenses	41	(7)
Change in pension and postretirement benefit liability	282	120
Others—net	81	21
<b>Net Cash Provided by Operating Activities</b>	<b>\$ 875</b>	<b>\$ 712</b>

Notes: 0 = less than \$0.5 million. Certain reclassifications have been made to conform to current year's presentation.

ADF = Asian Development Fund.

The accompanying notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**SUMMARY STATEMENT OF LOANS — OPERATIONS**
**31 December 2018 and 2017**

Expressed in Millions of US Dollars

Borrowers/Guarantors	Loans Outstanding	Undisbursed Committed Loans		Loans Approved		Total Loans	Percent of Total Loans
		Effective <sup>1</sup>	Not Yet Effective <sup>2</sup>	Not Yet Committed <sup>3</sup>			
Afghanistan	\$ 590	\$ —	\$ —	\$ —	\$ 590		0.37
Armenia	814	380	—	98	1,292		0.81
Azerbaijan	2,221	949	—	—	3,170		1.98
Bangladesh	9,271	5,445	—	530	15,246		9.51
Bhutan	284	126	—	—	410		0.25
Cambodia	1,319	941	—	—	2,260		1.41
China, People's Republic of	18,239	6,462	790	1,551	27,042		16.87
Cook Islands	43	27	—	—	70		0.04
Fiji	179	136	—	—	315		0.20
Georgia	1,334	832	—	125	2,291		1.43
India	17,438	7,102	730	1,070	26,340		16.43
Indonesia	10,931	1,804	700	70	13,505		8.43
Kazakhstan	2,326	514	—	12	2,852		1.78
Kiribati	26	—	—	—	26		0.02
Kyrgyz Republic	583	169	114	—	866		0.54
Lao People's Democratic Republic	961	258	—	—	1,219		0.76
Malaysia	12	—	—	—	12		0.01
Maldives	86	—	—	—	86		0.05
Marshall Islands	51	—	—	—	51		0.03
Micronesia, Federated States of	52	1	—	—	53		0.03
Mongolia	1,253	611	140	9	2,013		1.26
Myanmar	769	577	534	—	1,880		1.17
Nepal	1,809	1,497	150	—	3,456		2.16
Pakistan	11,119	3,819	280	195	15,413		9.62
Palau	47	18	15	—	80		0.05
Papua New Guinea	1,137	860	—	—	1,997		1.25
Philippines	6,167	2,074	—	30	8,271		5.16
Samoa	93	3	—	—	96		0.06
Solomon Islands	46	8	—	—	54		0.03
Sri Lanka	4,543	2,018	38	470	7,069		4.41
Tajikistan	280	78	—	3	361		0.22
Thailand	791	219	—	350	1,360		0.85
Timor-Leste	98	127	44	—	269		0.17
Tonga	31	1	—	—	32		0.02
Turkmenistan	102	—	500	—	602		0.37
Tuvalu	4	—	—	—	4		0.00
Uzbekistan	3,192	2,187	595	197	6,171		3.85
Vanuatu	47	26	—	2	75		0.05
Viet Nam	8,272	3,941	100	697	13,010		8.12
Regional	209	110	—	47	366		0.23
	<u>106,769</u>	<u>43,320</u>	<u>4,730</u>	<u>5,456</u>	<u>160,275</u>		<u>100.00</u>
Fair value adjustment on concessional loans	(252)	—	—	—	(252)		
Allowance for loan losses	(236)	—	—	—	(236)		
Unamortized loan origination cost—net	124	—	—	—	124		
	<u>(364)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(364)</u>		
<b>TOTAL – 31 December 2018</b>	<b>\$ 106,405</b>	<b>\$ 43,320</b>	<b>\$ 4,730</b>	<b>\$ 5,456</b>	<b>\$ 159,911</b>		

<sup>1</sup> Refer to the unwithdrawn portions of effective loans as of 31 December 2018 and 2017. Of the undisbursed balances, ADB has made irrevocable commitments to disburse regular and concessional sovereign amounts totaling \$635 million (\$502 million – 2017).

<sup>2</sup> Refer to approved loans which loan agreements have been signed but conditions to effectiveness specified in loan regulations and loan agreements are not yet completed as of 31 December 2018 and 2017.

<sup>3</sup> Refer to loans approved which loan agreements have not been signed as of 31 December 2018 and 2017.

	Loans Outstanding	Undisbursed Committed Loans		Loans Approved	
		Effective <sup>1</sup>	Not Yet Effective <sup>2</sup>	Not Yet Committed <sup>3</sup>	Total Loans
Sovereign Loans					
Regular	\$ 72,569	\$ 31,819	\$ 3,604	\$ 2,058	\$ 110,050
Concessional	28,633	8,299	1,126	1,046	39,104
Nonsovereign Loans	5,439	3,202	–	2,352	10,993
	106,641	43,320	4,730	5,456	160,147
Allowance for loan losses	(236)	–	–	–	(236)
<b>TOTAL – 31 December 2018</b>	<b>\$ 106,405</b>	<b>\$ 43,320</b>	<b>\$ 4,730</b>	<b>\$ 5,456</b>	<b>\$ 159,911</b>
Sovereign Loans					
Regular	\$ 66,625	\$ 30,526	\$ 3,479	\$ 5,049	\$ 105,679
Concessional	29,186	7,288	359	754	37,587
Nonsovereign Loans	5,315	2,242	–	2,264	9,821
	101,126	40,056	3,838	8,067	153,087
Allowance for loan losses	(118)	–	–	–	(118)
<b>TOTAL – 31 December 2017</b>	<b>\$ 101,008</b>	<b>\$ 40,056</b>	<b>\$ 3,838</b>	<b>\$ 8,067</b>	<b>\$ 152,969</b>

MATURITY OF LOANS OUTSTANDING AS OF 31 DECEMBER 2018 <sup>4</sup>					
Twelve Months			Five Years		
Ending 31 December	Amount		Ending 31 December	Amount	
2019	\$ 7,256		2028	31,585	
2020	7,629		2033	24,739	
2021	7,277		2038	10,854	
2022	7,149		2043	2,948	
2023	6,892		over 2043	440	
			<b>Total</b>	<b>\$ 106,769</b>	

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING — OPERATIONS <sup>4</sup>					
Currency	2018	2017	Currency	2018	2017
Australian dollar	\$ 17	\$ 21	New Zealand dollar	24	25
Baht	303	310	Norwegian krone	42	48
Canadian dollar	41	47	Philippine peso	20	29
Chinese yuan	538	573	Pound sterling	75	84
Danish krone	10	11	Ringgit	1	0
Euro	1,008	820	Special drawing rights	25,827	26,436
Indian rupee	181	218	Swedish krona	18	21
Kazakhstan tenge	84	24	Swiss franc	36	39
Korean won	12	13	US dollar	77,051	70,876
Lari	24	63	Yen	1,457	1,621
			<b>Total</b>	<b>\$ 106,769</b>	<b>\$ 101,279</b>

<sup>4</sup> Excluding fair value adjustment on concessional loans, allowance for loan losses, and net unamortized loan origination cost.

The accompanying notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**SUMMARY STATEMENT OF BORROWINGS**
**31 December 2018 and 2017**

Expressed in Millions of US Dollars

	<b>Borrowings</b>		<b>Swap Arrangements<sup>2</sup></b>		<b>Net Currency Obligation</b>	
	<b>Principal Outstanding<sup>1</sup></b>		<b>Payable (Receivable)</b>			
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
Armenian dram	\$ 5	\$ —	\$ —	\$ —	\$ 5	\$ —
Australian dollar	8,666	9,261	(8,665)	(9,250)	1	10
Brazilian real	414	866	(413)	(866)	1	1
Canadian dollar	1,178	1,236	(1,186)	(1,247)	(8)	(10)
Chinese yuan	729	605	(266)	(124)	468	494
			5	12		
Euro	3,926	875	(3,313)	(222)	985	753
			372	99		
Hong Kong dollar	477	206	(478)	(207)	(1)	(1)
Indian rupee	854	943	—	—	854	943
Indonesian rupiah	62	78	—	—	62	78
Japanese yen	1,310	1,106	1,020	1,281	693	1,350
			(1,637)	(1,036)		
Mexican peso	216	292	(221)	(294)	(5)	(3)
New Zealand dollar	2,764	1,780	(2,775)	(1,786)	(11)	(6)
Norwegian krone	174	—	(174)	—	(0)	—
Pound sterling	2,949	915	(2,941)	(916)	8	(1)
Russian ruble	212	285	(211)	(285)	1	1
Singapore dollar	—	450	—	(449)	—	0
South African rand	139	198	(139)	(198)	(0)	0
Swedish krona	348	29	(352)	(30)	(4)	(1)
Swiss franc	265	276	(271)	(283)	(6)	(7)
Turkish lira	620	656	(626)	(655)	(6)	0
Ghana cedi	20	—	(20)	—	0	—
Georgian lari	24	64	—	—	24	64
United States dollar	65,071	67,159	27,030	19,370	90,605	85,099
			(1,496)	(1,430)		
<b>Total</b>	<b>\$ 90,423</b>	<b>\$ 87,281</b>	<b>\$ 3,243</b>	<b>\$ 1,485</b>	<b>\$ 93,666</b>	<b>\$ 88,766</b>

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

<sup>1</sup> Includes accrued interest and commission. Reported at fair value except for unswapped borrowings which are reported at principal amount net of unamortized discount/premium.

<sup>2</sup> Include currency and interest rate swaps. At 31 December 2018, the remaining maturity of swap agreements range from less than one year to 22 years (less than one year to 20 years – as of 31 December 2017). Approximately 70.65% of the swap receivables and 72.86% of the payables are due before 1 January 2024 (73.42% of the swap receivables and 76.00% of the payables are due before 1 January 2023 – as of 31 December 2017).

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**MATURITY STRUCTURE OF BORROWINGS OUTSTANDING AS OF 31 DECEMBER 2018 <sup>3</sup>**


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<b>Twelve Months</b>		<b>Five Years</b>	
<b>Ending</b>		<b>Ending</b>	
<b>31 December</b>	<b>Amount</b>	<b>31 December</b>	<b>Amount</b>
2019	\$ 12,845	2028	\$ 17,179
2020	18,704	2033	707
2021	16,917	2038	766
2022	14,085	over 2038	101
2023	9,119	<b>Total</b>	<b>\$ 90,423</b>

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**INTEREST RATE SWAP ARRANGEMENTS AS OF 31 DECEMBER 2018**


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	<b>Notional Amount</b>	<b>Average Rate (%)</b>	
		<b>Receive</b>	<b>Pay Floating<sup>4</sup></b>
<b>Receive Fixed Swaps:</b>			
Australian dollar <sup>5</sup>	\$ 46	2.64	(0.35)
Chinese yuan	168	3.92	3.50
Euro	595	1.40	(0.60)
United States dollar	68,388	2.00	2.28
United States dollar <sup>6</sup>	18	2.45	(0.34)
<b>Receive Floating Swaps:</b>			
Japanese yen	36	4.52	(0.38)
United States dollar	11,575	2.41	2.29
<b>Total</b>	<b>\$ 80,826</b>		

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<sup>3</sup> Bonds with put and call options were considered maturing on the first put or call date.

<sup>4</sup> Represents average current floating rates, net of spread.

<sup>5</sup> Consists of dual currency swaps with interest receivable in Australian dollar and interest payable in Japanese yen.

<sup>6</sup> Consists of dual currency swaps with interest receivable in US dollar and interest payable in Japanese yen.

The accompanying notes are an integral part of these financial statements (OCR-10).



**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER**  
**31 December 2018**

Expressed in Millions of US Dollars

MEMBERS	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value Of Shares <sup>1</sup>			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
REGIONAL							
Afghanistan	3,585	0.034	\$ 49.9	\$ 43.2	\$ 6.6	43,282	0.325
Armenia	31,671	0.298	440.5	418.4	22.1	71,368	0.537
Australia	614,220	5.773	8,542.5	8,115.3	427.2	653,917	4.917
Azerbaijan	47,208	0.444	656.6	623.7	32.9	86,905	0.653
Bangladesh	108,384	1.019	1,507.4	1,432.0	75.4	148,081	1.114
Bhutan	660	0.006	9.2	8.6	0.6	40,357	0.303
Brunei Darussalam	37,386	0.351	520.0	493.9	26.0	77,083	0.580
Cambodia	5,250	0.049	73.0	66.9	6.1	44,947	0.338
China, People's Republic of	684,000	6.429	9,513.0	9,037.2	475.8	723,697	5.442
Cook Islands	282	0.003	3.9	3.7	0.2	39,979	0.301
Fiji	7,218	0.068	100.4	95.4	5.0	46,915	0.353
Georgia	36,243	0.341	504.1	478.8	25.2	75,940	0.571
Hong Kong, China	57,810	0.543	804.0	763.8	40.2	97,507	0.733
India	672,030	6.317	9,346.5	8,879.1	467.4	711,727	5.352
Indonesia	578,100	5.434	8,040.2	7,638.1	402.1	617,797	4.646
Japan	1,656,630	15.571	23,040.2	21,888.0	1,152.3	1,696,327	12.756
Kazakhstan	85,608	0.805	1,190.6	1,131.1	59.6	125,305	0.942
Kiribati	426	0.004	5.9	5.6	0.3	40,123	0.302
Korea, Republic of	534,738	5.026	7,437.1	7,065.2	371.9	574,435	4.320
Kyrgyz Republic	31,746	0.298	441.5	419.4	22.1	71,443	0.537
Lao People's Democratic Republic	1,476	0.014	20.5	19.2	1.3	41,173	0.310
Malaysia	289,050	2.717	4,020.1	3,819.0	201.1	328,747	2.472
Maldives	426	0.004	5.9	5.6	0.3	40,123	0.302
Marshall Islands	282	0.003	3.9	3.7	0.2	39,979	0.301
Micronesia, Federated States of	426	0.004	5.9	5.6	0.3	40,123	0.302
Mongolia	1,596	0.015	22.2	21.1	1.1	41,293	0.311
Myanmar	57,810	0.543	804.0	763.8	40.2	97,507	0.733
Nauru	426	0.004	5.9	5.6	0.3	40,123	0.302
Nepal	15,606	0.147	217.0	206.2	10.9	55,303	0.416
New Zealand	163,020	1.532	2,267.3	2,153.9	113.4	202,717	1.524
Pakistan	231,240	2.174	3,216.1	3,055.2	160.8	270,937	2.037
Palau	342	0.003	4.8	4.5	0.2	40,039	0.301
Papua New Guinea	9,960	0.094	138.5	131.6	6.9	49,657	0.373
Philippines	252,912	2.377	3,517.5	3,341.6	175.9	292,609	2.200
Samoa	348	0.003	4.8	4.5	0.3	40,045	0.301
Singapore	36,120	0.340	502.4	477.2	25.1	75,817	0.570
Solomon Islands	708	0.007	9.8	9.4	0.5	40,405	0.304
Sri Lanka	61,560	0.579	856.2	813.3	42.8	101,257	0.761
Taipei, China	115,620	1.087	1,608.0	1,527.6	80.4	155,317	1.168
Tajikistan	30,402	0.286	422.8	401.6	21.2	70,099	0.527
Thailand	144,522	1.358	2,010.0	1,909.5	100.5	184,219	1.385
Timor-Leste	1,050	0.010	14.6	13.9	0.7	40,747	0.306
Tonga	426	0.004	5.9	5.6	0.3	40,123	0.302
Turkmenistan	26,874	0.253	373.8	355.0	18.7	66,571	0.501
Tuvalu	150	0.001	2.1	2.0	0.1	39,847	0.300
Uzbekistan	71,502	0.672	994.4	944.7	49.7	111,199	0.836
Vanuatu	708	0.007	9.8	9.4	0.5	40,405	0.304
Viet Nam	36,228	0.341	503.9	471.2	32.7	75,925	0.571
Total Regional (Forward)	6,743,985	63.390	\$ 93,794.7	\$ 89,089.2	\$4,705.5	8,649,441	65.040

MEMBERS	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value Of Shares <sup>1</sup>			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
<b>Total Regional (Forward)</b>	<b>6,743,985</b>	<b>63.390</b>	<b>\$ 93,794.7</b>	<b>\$ 89,089.2</b>	<b>\$4,705.5</b>	<b>8,649,441</b>	<b>65.040</b>
<b>NONREGIONAL</b>							
Austria	36,120	0.340	502.4	477.2	25.1	75,817	0.570
Belgium	36,120	0.340	502.4	477.2	25.1	75,817	0.570
Canada	555,258	5.219	7,722.5	7,336.3	386.2	594,955	4.474
Denmark	36,120	0.340	502.4	477.2	25.1	75,817	0.570
Finland	36,120	0.340	502.4	477.2	25.1	75,817	0.570
France	247,068	2.322	3,436.2	3,264.4	171.8	286,765	2.156
Germany	459,204	4.316	6,386.6	6,067.2	319.4	498,901	3.752
Ireland	36,120	0.340	502.4	477.2	25.2	75,817	0.570
Italy	191,850	1.803	2,668.2	2,534.8	133.4	231,547	1.741
Luxembourg	36,120	0.340	502.4	477.2	25.2	75,817	0.570
The Netherlands	108,882	1.023	1,514.3	1,438.6	75.7	148,579	1.117
Norway	36,120	0.340	502.4	477.2	25.1	75,817	0.570
Portugal	36,120	0.340	502.4	477.2	25.2	75,817	0.570
Spain	36,120	0.340	502.4	477.2	25.1	75,817	0.570
Sweden	36,120	0.340	502.4	477.2	25.1	75,817	0.570
Switzerland	61,950	0.582	861.6	818.5	43.1	101,647	0.764
Turkey	36,120	0.340	502.4	477.2	25.1	75,817	0.570
United Kingdom	216,786	2.038	3,015.0	2,864.3	150.8	256,483	1.929
United States	1,656,630	15.571	23,040.2	21,888.0	1,152.3	1,696,327	12.756
<b>Total Nonregional</b>	<b>3,894,948</b>	<b>36.610</b>	<b>54,170.5</b>	<b>51,461.3</b>	<b>2,709.2</b>	<b>4,649,191</b>	<b>34.960</b>
<b>TOTAL</b>	<b>10,638,933</b>	<b>100.000</b>	<b>\$147,965.2</b>	<b>\$140,550.5</b>	<b>\$7,414.7</b>	<b>13,298,632</b>	<b>100.000</b>

Note: Numbers may not sum precisely because of rounding.

<sup>1</sup> 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 2018 was \$1.39079. (Notes B and M)

The accompanying notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES  
SUPPLEMENTARY INFORMATION ON THE TRANSFER OF ADF LOANS AND OTHER ASSETS TO  
OCR ON 1 JANUARY 2017**

On 1 January 2017, ADB transferred loans and other assets totaling \$30,812 million from the Asian Development Fund (ADF) to ordinary capital resources (OCR) in accordance with the Board of Governors' Resolution No. 372 authorizing the termination of ADF's lending operations. From then on, concessional lending to lower-income countries continued from the OCR.

The transferred ADF assets comprised loans including accrued interest totaling \$27,088 million and liquid assets totaling \$3,724 million. Except for the \$64 million return of set-aside resources, the rest of the transferred assets was treated as a contribution from ADF to OCR and recognized as a one-time income of \$30,748 million in OCR, which has been allocated to ordinary reserves on 1 January 2017, following the adoption of the Board of Governors' Resolution No. 387 dated 15 March 2017. The contribution part amounting to \$30,748 million and the fair value adjustment on the loans amounting to \$281 million were recognized as one-time loss of \$31,029 million in ADF.

The proportionate share 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. Under Board of Governors' Resolution No. 372, the proportionate share 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 value of each donor's paid-in contributions was fixed in US dollars based on the special drawing right value of each donor contribution as of 1 January 2017. This was then used to determine the sources of funds in the transferred assets, as summarized in the following table.

**Proportionate Share of Funding Sources of the ADF Assets Transferred to OCR**

Expressed in Millions of US Dollars

	Proportionate Share	
	Amount	%
<b>DONOR CONTRIBUTIONS</b>		
Australia	\$ 2,213	7.18
Austria	257	0.83
Belgium	231	0.75
Brunei Darussalam	17	0.06
Canada	1,889	6.13
China, People's Republic of	84	0.27
Denmark	242	0.79
Finland	180	0.58
France	1,270	4.12
Germany	1,679	5.45
Hong Kong, China	93	0.30
India	24	0.08
Indonesia	14	0.05
Ireland	79	0.26
Italy	1,099	3.57
Japan	11,197	36.34
Kazakhstan	4	0.01
Korea, Republic of	484	1.57
Luxembourg	47	0.15
Malaysia	24	0.08
Nauru	0	0.00
The Netherlands	716	2.32
New Zealand	157	0.51
Norway	266	0.86
Portugal	79	0.26
Singapore	18	0.06
Spain	432	1.40
Sweden	436	1.42
Switzerland	359	1.17
Taipei, China	90	0.29
Thailand	15	0.05
Turkey	114	0.37
United Kingdom	1,440	4.67
United States	4,060	13.18
<b>TOTAL DONOR CONTRIBUTIONS</b>	<b>29,309</b>	<b>95.13</b>
<b>OCR NET INCOME TRANSFERS</b>	<b>1,439</b>	<b>4.67</b>
<b>SET-ASIDE RESOURCES</b>	<b>64</b>	<b>0.20</b>
<b>TOTAL (Note A)</b>	<b>\$ 30,812</b>	<b>100.00</b>

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

Note: 0 = about \$0.3 million and 0.00 = 0.001%.

The accompanying notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES  
NOTES TO FINANCIAL STATEMENTS  
31 December 2018 and 2017**

**NOTE A—NATURE OF OPERATIONS, TRANSFER OF ADF LOANS AND OTHER ASSETS TO OCR,  
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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries.

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 other 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.

*Transfer of ADF Loans and Other Assets to OCR*

Effective 1 January 2017, ADB transferred loans and other assets totaling \$30,812 million from the Asian Development Fund (ADF) to OCR in accordance with the Board of Governors' Resolution No. 372. The transferred ADF assets comprised loans including accrued interest totaling \$27,088 million and liquid assets totaling \$3,724 million. Except for the \$64 million return of set-aside resources, the rest of the transferred assets was treated as a contribution from ADF to OCR and was recognized as one-time income of \$30,748 million in OCR, which has been allocated to ordinary reserves effective 1 January 2017, following the adoption of the Board of Governors' Resolution No. 387 dated 15 March 2017 (See Note N).

The proportionate share of funding sources of the ADF assets transferred to OCR is shown in OCR-9.

*Limitations on Loans, Guarantees, and Equity Investments*

Article 12, paragraph 1 of the Charter provides that the total amount of outstanding 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. As of 31 December 2018, the total of such loans (including other debt securities), equity investments and related prudential buffers, and guarantees aggregated approximately 56.2% (52.3% – 2017) 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

continued

reserve. As of 31 December 2018, such equity investments represented approximately 2.9% (2.6% – 2017) of the paid-in capital, reserves, and surplus, as defined.

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

### *Presentation of the Financial Statements*

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

Certain reclassifications were made in 2017 to conform to current year's presentation.

### *Functional Currencies and Reporting Currency*

The currencies of all members and special drawing right (SDR) comprise the functional currencies of OCR as these are the currencies of the primary economic environments in which ADB operates. The reporting currency is the US dollar, and the financial statements are reported in US dollars.

### *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, assets, liabilities, and capital are translated to US dollar using the applicable exchange rates. The translation adjustments, other than those relating to the non-functional currencies (Note O), 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 2018, the value of the SDR in terms of the US dollar was \$1.39079 (\$1.42413 – 2017) giving a value for each share of ADB's capital equivalent to \$13,907.90 (\$14,241.30 – 2017).

### *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, are reported at fair value (FV) and changes in FV have been recognized in net income. ADB records derivatives in the Balance Sheet as either assets or liabilities, consistent with the legal rights and way the instruments are settled. Individual interest rate swaps under the Master Agreement of the International Swaps and Derivatives Association (ISDA), absent of local market constraints, are recorded on a net basis, while all other swaps, including cross currency and foreign exchange swaps, are recorded on a gross basis.

continued

ADB classifies the cash flows related to nonhedging derivatives in the Statement of Cash Flows in accordance with the nature of the derivative instrument and how it is used in the context of ADB's operations. Payment for and receipts from derivatives could either be Cash Flows for Investing Activities or Cash Flows from Financing Activities.

#### *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 (LOSSES) GAINS From investments for liquidity purpose 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 FV and cash received is recorded as a liability. ADB monitors the FV of the securities transferred under repurchase agreements and the received 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 in regular sovereign loan, the funding cost margin is passed on to London interbank offered rate (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.

continued

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

ADB establishes loan loss reserves for both sovereign and nonsovereign credit exposures to be used as a basis for capital adequacy against expected losses in loans and guarantees. The amount of expected loss pertaining to credit exposures that is not impaired or subject to collective provision is recorded as 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.

ADB levies a commitment charge on the undisbursed balance of effective regular sovereign and nonsovereign 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.

ADB charges front-end fees for nonsovereign loans, which are deferred and amortized over the life of the loans after offsetting deferred direct loan origination costs.

ADB offers loans to its concessional sovereign borrowers at fixed (1.0%, 1.5% or 2.0%) interest rates with repayment over periods ranging from 24 to 40 years. Concessional sovereign loans are not subject to commitment charges.

### *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*

Effective 1 January 2018, all investments in equity securities (except those accounted for under equity method) are reported at FV, with changes in FV reported in the Statement of Income and Expenses under NET UNREALIZED (LOSSES) GAINS.



continued

Realized gains and losses are reported in the Statement of Income and Expenses under NET REALIZED (LOSSES) GAINS from equity investments – operation and are measured by the difference between cost and sales proceeds. Previously recognized unrealized gains and losses are reversed upon sale of investments.

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

Prior to 1 January 2018, 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 GAINS (LOSSES).

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 investment 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 2018 and 2017, ADB did not identify any VIE where ADB was 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 FV.

Interest income on other debt securities is recognized as earned and reported, net of amortization of applicable premiums and discounts. 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

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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.

#### *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 elected to record and report at FV all borrowings that are swapped or are intended to be swapped in the future and selected floating-rate borrowings. This election allows ADB to apply a consistent accounting treatment between borrowings and their related swaps.

Changes in FV are reported in the Statement of Income and Expenses under NET UNREALIZED (LOSSES) GAINS. Effective 1 January 2018, ADB measures the portion of the FV change due to instrument-specific credit risk and presents the amount separately in Accumulated other comprehensive loss. Remaining borrowings continue to be reported at amortized cost. Discounts, 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.

#### *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. These updates became effective on 1 January 2018 but did not have a material impact on OCR's financial statements.

In January 2016 and February 2018, the FASB issued ASUs 2016-01 and 2018-03, *"Financial Instruments— Overall (Subtopic 825-10) – Recognition and Measurement of Financial Assets and Financial Liabilities."* Specifically, these updates (i) require that equity investments be measured at FV and recognize FV changes through net income, (ii) amend certain disclosure requirements associated with the FV of financial instruments, and (iii) require entities 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. These updates became effective on 1 January 2018. The cumulative effects of adopting the new ASUs are: \$99 million increase in Equity Investment, \$245 million increase in Cumulative revaluation adjustments account, and \$146 million decrease in the Accumulated other comprehensive loss account. Changes in the disclosure requirements have been incorporated in OCR-4 and in Notes H, L, and N.

In February 2016, the FASB issued ASU 2016-02, *"Leases (Topic 842),"* which established that all leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*. This ASU requires the recognition of lease assets and lease liabilities for the rights and obligations arising from leases with terms of more than 12 months. This also requires qualitative and specific quantitative disclosures. In August 2018, ASUs 2018-10 and 2018-11 were issued to make targeted improvements to Topic 842. These updates are effective for ADB on 1 January 2019 where requirements of the new leases standard will only be applied at the adoption date and a cumulative-effect adjustment to the opening balance of retained earnings will be recognized in the period of adoption. As a result, \$57 million in Right-of-use Asset as part of Property, Furniture, and Equipment under OTHER ASSETS and \$55 million in Lease Liability as part of Miscellaneous under ACCOUNTS PAYABLE AND OTHER LIABILITIES will be recognized as beginning balances in OCR's balance sheet on 1 January 2019. Since ADB only has operating leases, there will be no cumulative-effect adjustment to the opening balance of retained earnings on adoption date. In addition, there will be no material impact to the amount of monthly lease expense recognized in OCR's statement of income and expenses.

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

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commitments to extend credit. In November 2018, ASU 2018-19 *“Codification Improvements to Topic 326, Financial Instruments—Credit Losses”* was issued to clarify that receivables (and related impairment) arising from operating leases are not within the scope of Topic 326 and should be accounted for in accordance with Topic 842, Leases. These updates will be effective for ADB on 1 January 2020. Amendments in these updates 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, available for sale and held-to-maturity 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.

In August and November 2016, FASB issued two ASUs related to statement of cash flows: (i) ASU 2016-15, *“Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments,”* which provides guidance for eight specific cash flow issues, where current standards are unclear or lack specific guidance, and (ii) ASU 2016-18, *“Statement of Cash Flows (Topic 230) – Restricted Cash,”* which 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. These updates became effective on 1 January 2018 and are reflected in OCR-5.

In March 2017, the FASB ASU 2017-07 *“Compensation—Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”* which requires employers to report the service cost component of net periodic pension cost (NPPC) as compensation cost and the other NPPC components (e.g. interest cost, expected return on plan assets and recognized actuarial gain/loss) outside of income from operations on the income statement or be disclosed in the notes to the financial statements. The amendment also allows only the service cost component of NPPC to be eligible for capitalization when applicable. This update became effective on 1 January 2018 but did not have a material impact on OCR's financial statements. In addition, ASU 2017-08 *“Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities”* which require the premium on callable debt securities to be amortized at the earliest call date was issued to align more closely the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. The amendments are effective for ADB on 1 January 2019 and is not expected to have a material impact on OCR's financial statements on effectivity.

In August 2018, the FASB issued the following ASUs as part of its disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 *“Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements”*: (i) ASU 2018-13 *“Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”* which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective for ADB on 1 January 2020; and (ii) ASU 2018-14 *“Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”* which remove disclosures that no longer are considered cost-beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. This amendment is effective for ADB on 1 January 2021. ADB is currently assessing the impact of these ASUs on OCR's financial statements.

In August 2018, the FASB issued ASU 2018-15, *“Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”* which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This amendment is effective for ADB on 1 January 2020 where requirements should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. ADB is currently assessing the impact of this ASU on OCR's financial statements.

continued

In October 2018, the FASB issued ASU 2018-17, “*Consolidation (Topic 810)—Targeted Improvements to Related Party Guidance for Variable Interest Entities*” which determine whether reporting entities should consolidate a legal entity under the guidance within the Variable Interest Entities (VIE). Under the amendments in this update, a private company (reporting entity) may elect not to apply VIE guidance to legal entities under common control (including common control leasing arrangements) if both the parent and the legal entity being evaluated for consolidation are not public business entities. In addition, indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The amendments in this update are effective for ADB on 1 January 2020 where requirements should be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. ADB is currently assessing the impact of this ASU on OCR’s financial statements.

In November 2018, the FASB issued ASU 2018-18, “*Collaborative Arrangements (Topic 808)—Clarifying the Interaction between Topic 808 and Topic 606*” which clarify the interaction between Topic 808, Collaborative Arrangements and Topic 606, Revenue from Contracts with Customers by (1) clarifying that certain transactions between collaborative arrangement participants should be accounted for as revenue, (2) adding unit-of-account guidance in Topic 808, to align with the guidance in Topic 606, and (3) clarifying presentation guidance for transactions with a collaborative arrangement participant that are not accounted for as revenue. The amendments in this update is effective for ADB on 1 January 2020. 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 (i) DUE FROM BANKS, which consist of current accounts in banks used for operational disbursements, receipt of funds from encashment of members’ promissory notes, and clearing accounts; and (ii) SWAP RELATED COLLATERAL, which are cash collateral received by ADB from swap counterparties to mitigate ADB’s credit exposure to these counterparties.

On the face of the cash flow statement, SWAP RELATED COLLATERAL is presented as a separate line item from DUE FROM BANKS as part of beginning and ending balances of total cash. The movements in the cash collateral account during the period is classified as cash flow from financing activities.

#### **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 39 DMCs (39 – 2017), cash in banks (due from banks) totaling \$26 million (\$37 million – 2017) 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.

continued

ADB may engage in securities lending of government or government-guaranteed obligations and corporate obligations, for which ADB receives a guarantee from the securities custodian and a fee. Transfers of securities by ADB to counterparties are not accounted for as sales as the accounting criteria for the treatment of a sale have not been met. These securities are available to meet ADB's obligation to counterparties. Included in investments as of 31 December 2018 were securities transferred under securities lending arrangements of government or government-guaranteed obligations totaling \$528 million (\$474 million – 2017).

On 1 January 2017, liquid assets totaling \$3,724 million were transferred from ADF to OCR as part of the termination and transfer of ADF concessional lending operations to OCR (See OCR-9).

The currency composition of the investment portfolio as of 31 December 2018 and 2017 expressed in US dollars is as follows:

(\$ million)

<b>Currency</b>	<b>2018</b>	<b>2017</b>
US dollar	\$ 20,569	\$ 20,436
Yen	7,307	9,279
Won	3,704	3,048
Yuan	1,033	894
Euro	999	1,102
Indian rupee	812	861
Others	791	858
<b>Total</b>	<b>\$ 35,215</b>	<b>\$ 36,478</b>

The FV and amortized cost of the investments by contractual maturity at 31 December 2018 and 2017 are as follows:

(\$ million)

	<b>2018</b>		<b>2017</b>	
	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>
Due in one year or less	\$ 13,489	\$ 13,496	\$ 15,066	\$ 15,066
Due after one year through five years	20,846	21,118	20,210	20,458
Due after five years through ten years	819	824	1,129	1,130
Due after ten years through fifteen years	61	67	73	72
<b>Total</b>	<b>\$ 35,215</b>	<b>\$ 35,505</b>	<b>\$ 36,478</b>	<b>\$ 36,726</b>

continued

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

(\$ million)

	<b>2018</b>		<b>2017</b>	
<b>As of 31 December</b>				
Amortized cost	\$	30,310	\$	31,311
Fair value		30,020		31,063
Gross unrealized gains		33		31
Gross unrealized losses		(323)		(279)
<b>For the year ended 31 December</b>				
Change in net unrealized losses				
from prior year		(42)		(99)
Proceeds from sales		1,415		12,500
Gross gain on sales		0		34
Gross loss on sales		(20)		(21)

The table below shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporary impairment, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of 31 December 2018 and 2017. There were 208 government or government-guaranteed obligations (82 – 2017), and 258 corporate obligations (75 – 2017) that have been in continuous losses for over one year representing 48.98% (20.76% – 2017) of the total investments.

(\$ million)

	<b>One year or less</b>		<b>Over one year</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>2018</b>						
Government or government-guaranteed obligations	\$ 5,554	\$ 10	\$ 16,853	\$ 301	\$ 22,407	\$ 311
Other securities						
Corporate obligations	698	3	396	9	1,094	12
<b>Total</b>	<b>\$ 6,252</b>	<b>\$ 13</b>	<b>\$ 17,249</b>	<b>\$ 310</b>	<b>\$ 23,501</b>	<b>\$ 323</b>
<b>2017</b>						
Government or government-guaranteed obligations	\$ 20,284	\$ 112	\$ 7,478	\$ 162	\$ 27,762	\$ 274
Other securities						
Corporate obligations	520	3	94	2	614	5
<b>Total</b>	<b>\$ 20,804</b>	<b>\$ 115</b>	<b>\$ 7,572</b>	<b>\$ 164</b>	<b>\$ 28,376</b>	<b>\$ 279</b>

continued

### *Fair Value Disclosure*

The fair value of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2018 and 2017 are as follows:

(\$ million)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>2018</b>				
Investments for liquidity purpose				
Government or government-guaranteed obligations	\$ 28,554	\$ 25,834	\$ 2,720	\$ –
Time deposits	5,195	–	5,195	–
Other securities	1,466	1,189	277	–
Securities transferred under repurchase agreements	87	87	–	–
Securities purchased under resale arrangements	343	–	343	–
<b>Total at fair value</b>	<b>\$ 35,645</b>	<b>\$ 27,110</b>	<b>\$ 8,535</b>	<b>\$ –</b>
<b>2017</b>				
Investments for liquidity purpose				
Government or government-guaranteed obligations	\$ 30,028	\$ 27,520	\$ 2,508	\$ –
Time deposits	5,415	–	5,415	–
Other securities	1,035	1,009	26	–
Securities transferred under repurchase agreements	393	393	–	–
Securities purchased under resale arrangements	170	–	170	–
<b>Total at fair value</b>	<b>\$ 37,041</b>	<b>\$ 28,922</b>	<b>\$ 8,119</b>	<b>\$ –</b>

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 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.



continued

The table below provides the details of transfers between Levels 1 and 2, resulting from the availability or absence of market quotes for the years ended 31 December 2018 and 2017:

(\$ million)

	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Investments for liquidity purpose				
Government or government-guaranteed obligations				
Transfers into (out of)	\$ 165	\$ (165)	\$ 35	\$ (35)
Transfers (out of) into	(34)	34	(327)	327
Corporate obligations				
Transfers into (out of)	25	(25)	1	(1)
Transfers (out of) into	–	–	(1)	1
	<u>\$ 156</u>	<u>\$ (156)</u>	<u>\$ (292)</u>	<u>\$ 292</u>

#### NOTE E—SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENTS

ADB has entered into Global Master Repurchase Agreements 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. All securities transferred under repurchase agreements are investment grade government or government-guaranteed securities. ADB monitors daily the FV of margin securities in compliance with the repurchase agreement.

The gross amounts of PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS subject to enforceable master netting agreements as of 31 December 2018 and 2017 are summarized below.

(\$ million)

	(a)	(b)		(c) = (a) - (b)
	Gross amount of liabilities presented in the balance sheet	Gross amounts not offset in the balance sheet		Net amount
		Financial instruments	Collateral pledged	
<b>2018</b>				
Payable under securities repurchase agreement	\$ 84	\$ 87	\$ –	\$ (3)
<b>Total</b>	<u>\$ 84</u>	<u>\$ 87</u>	<u>\$ –</u>	<u>\$ (3)</u>
<b>2017</b>				
Payable under securities repurchase agreement	\$ 393	\$ 392	\$ –	\$ 1
<b>Total</b>	<u>\$ 393</u>	<u>\$ 392</u>	<u>\$ –</u>	<u>\$ 1</u>

continued

The contractual maturity of payable under securities repurchase agreements as of 31 December 2018 and 2017 are summarized below:

(\$ million)

	Remaining contractual maturity of the agreements			
	1-30 Days	31-90 Days	> 90 Days	Total
<b>2018</b>				
<b>Payable under securities repurchase agreement</b>				
Government or government-guaranteed obligations	\$ —	\$ 84	\$ —	\$ 84
<b>Total</b>	<b>\$ —</b>	<b>\$ 84</b>	<b>\$ —</b>	<b>\$ 84</b>
<b>Gross amount of recognized liabilities for repurchase agreements disclosed above</b>				<b>84</b>
<b>Amounts related to agreements not included in offsetting disclosure</b>				<b>—</b>
<b>2017</b>				
<b>Payable under securities repurchase agreement</b>				
Government or government-guaranteed obligations	\$ 369	\$ 24	\$ —	\$ 393
<b>Total</b>	<b>\$ 369</b>	<b>\$ 24</b>	<b>\$ —</b>	<b>\$ 393</b>
<b>Gross amount of recognized liabilities for repurchase agreements disclosed above</b>				<b>393</b>
<b>Amounts related to agreements not included in offsetting disclosure</b>				<b>—</b>

## NOTE F—LOANS — OPERATIONS

ADB offers sovereign and nonsovereign loans. Sovereign loans consist of regular loans and concessional loans.

### Sovereign Loans

#### Regular Loans

LIBOR-based loans (LBLs), the primary lending facility of sovereign regular loans, 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. LBL is offered in different currencies including US dollar, Japanese yen, euro and New Zealand dollar, which currently have effective contractual spread of 50 basis points.

ADB also offers local currency loans (LCL) to sovereign borrowers to continue meeting borrowers' evolving financial needs. LCLs may be made on a floating rate basis with current effective contractual spread of 50 basis points. The cost-base rate of an LCL is determined by its financing mode.

Regular loans include the discontinued loans under US dollar and Japanese yen pool-based variable lending rate system available to sovereign borrowers.

continued

### Concessional Loans

On 1 January 2017, ADF loans totaling \$27,088 million were transferred from ADF to OCR. The concessional financing to DMCs with (i) per capita gross national income below the ADB operational cutoff and (ii) limited or low creditworthiness, continues in OCR on the same terms and conditions prior to the transfer. ADB offers loans to its concessional sovereign borrowers at fixed (1.0%, 1.5% or 2.0%) interest rates with repayment over periods ranging from 24 to 40 years.

### Nonsovereign Loans

LBL is also offered to nonsovereign borrowers where ADB applies market-based pricing to determine the lending spread and other fees for each loan. The lending spread is intended to cover ADB's risk exposure to specific borrowers and projects, while the front-end fee covers the administrative costs incurred during loan origination. LCL to nonsovereign borrowers are priced based on relevant local funding benchmarks or ADB's funding costs plus a credit spread.

Undisbursed loan commitments and an analysis of loans by borrower as of 31 December 2018 are shown in OCR-6. The carrying amounts of loan outstanding by loan products at 31 December 2018 and 2017 are as follows:

(\$ million)

	<b>Sovereign Loans</b>	<b>Nonsovereign Loans</b>	<b>Total</b>
<b>2018</b>			
LIBOR-based loans	\$ 71,001	\$ 4,428	\$ 75,429
Local currency loans	84	1,065	1,149
Pool-based single currency loans (US\$)	1,312	–	1,312
Pool-based single currency loans (yen)	6	–	6
Concessional loans <sup>a</sup>	28,621	–	28,621
	<b>101,024</b>	<b>5,493</b>	<b>106,517</b>
Allowance for loan losses	(54)	(183)	(236)
Unamortized direct loan origination cost (front-end fee)—net	178	(54)	124
	<b>124</b>	<b>(237)</b>	<b>(112)</b>
<b>Loans Outstanding</b>	<b>101,148</b>	<b>5,257</b>	<b>106,405</b>
<b>2017</b>			
LIBOR-based loans	\$ 64,755	\$ 4,168	\$ 68,923
Local currency loans	24	1,192	1,216
Pool-based single currency loans (US\$)	1,675	–	1,675
Pool-based single currency loans (yen)	18	–	18
Concessional loans <sup>a</sup>	29,180	–	29,180
	<b>95,652</b>	<b>5,360</b>	<b>101,012</b>
Allowance for loan losses	(57)	(60)	(118)
Unamortized direct loan origination cost (front-end fee)—net	159	(45)	114
	<b>102</b>	<b>(106)</b>	<b>(4)</b>
<b>Loans Outstanding</b>	<b>95,754</b>	<b>5,254</b>	<b>101,008</b>

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Net of \$252 million fair value adjustment as of 31 December 2018 (\$267 million – 2017).

continued

### Prepayments

During 2018, ADB received prepayments for 15 loans (17 loans – 2017) amounting to \$925 million (\$598 million – 2017), of which \$632 million (\$211 million – 2017) was for regular sovereign loans, \$5 million was for concessional sovereign loans (\$1 million – 2017) and \$288 million was for nonsovereign loans (\$386 million – 2017).

### Loans in Non-Accrual Status

ADB places loans in non-accrual status for which principal, interest or other charges are overdue by six months. As of 31 December 2018, there were two nonsovereign loans in non-accrual status with principal outstanding of \$95 million, of which \$7 million is overdue (nil – 2017).

There were no outstanding sovereign loans, both regular and concessional, in non-accrual status as of 31 December 2018 and 2017.

An analysis of the age of the recorded loans outstanding that are past due as of 31 December 2018 and 2017 is as follows:

(\$ million)

	Overdue Loan Service Payments			Current	Total
	1-90 Days	> 90 Days	Total		
<b>2018</b>					
Sovereign loans					
Regular	\$ –	\$ –	\$ –	\$ 72,403	\$ 72,403
Concessional	0	–	0	28,873	28,873
Subtotal	0	–	0	101,276	101,276
Nonsovereign loans	3	11	14	5,479	5,493
Total	\$ 3	\$ 11	\$ 14	\$ 106,755	106,769
Fair value adjustment on concessional loans					(252)
Allowance for loan losses					(236)
Unamortized loan origination cost—net					124
<b>Loans Outstanding</b>					<b>\$ 106,405</b>
<b>2017</b>					
Sovereign loans					
Regular	\$ –	\$ –	\$ –	\$ 66,472	\$ 66,472
Concessional	–	–	–	29,447	29,447
Subtotal	–	–	–	95,919	95,919
Nonsovereign loans	–	–	–	5,360	5,360
Total	\$ –	\$ –	\$ –	\$ 101,279	101,279
Fair value adjustment on concessional loans					(267)
Allowance for loan losses					(118)
Unamortized loan origination cost—net					114
<b>Loans Outstanding</b>					<b>\$ 101,008</b>

0 = less than \$0.5 million

continued

*Allowance for Loan Losses*

The changes in the allowance for loan losses during 2018 and 2017 as well as information pertaining to loans which were subject to specific allowance for loan losses are as follows:

(\$ million)

	2018			2017		
	Sovereign Loans	Nonsovereign Loans	Total	Sovereign Loans	Nonsovereign Loans	Total
<b>Allowance for Loan Losses:</b>						
Beginning balance	\$ 57	\$ 60	\$ 118	\$ –	\$ 45	\$ 45
Transferred provision on concessional loans	–	–	–	61	–	61
Provision	–	144	144	–	38	38
Write back	–	(22)	(22)	–	(3)	(3)
Write off	(4)	–	(4)	(4)	(20)	(24)
Ending Balance	<u>\$ 54<sup>a</sup></u>	<u>\$ 183</u>	<u>\$ 236</u>	<u>\$ 57<sup>a</sup></u>	<u>\$ 60</u>	<u>\$ 118</u>
Outstanding Allowance on:						
Individually evaluated for loan losses	\$ 54	\$ 148	\$ 202	\$ 57	\$ 28	\$ 86
Collectively evaluated for loan losses	\$ –	\$ 35	\$ 35	\$ –	\$ 32	\$ 32
<b>Loans Outstanding<sup>b</sup></b>	<u>\$ 101,024</u>	<u>\$ 5,493</u>	<u>\$ 106,517</u>	<u>\$ 95,652</u>	<u>\$ 5,360</u>	<u>\$ 101,012</u>
Individually evaluated for loan losses	\$ 310	\$ 230	\$ 540	\$ 322	\$ 75	\$ 397
Collectively evaluated for loan losses	\$ –	\$ 5,263	\$ 5,263	\$ –	\$ 5,285	\$ 5,285

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Represents provision for HIPC debt relief to Afghanistan.

<sup>b</sup> Excluding allowance for loan losses and net unamortized loan origination cost.

Loans subject to provisioning with related allowance for loan losses during 2018 and 2017 are as follows:

(\$ million)

	2018			2017		
	Recorded Loan Receivable	Unpaid Principal balance	Related allowance	Recorded Loan Receivable	Unpaid Principal balance	Related allowance
Sovereign Loans	\$ 310	\$ –	\$ 54	\$ 322	\$ –	\$ 57
Nonsovereign Loans	230	14	148	75	–	28

The allowance for loan losses for sovereign loans relate to the Heavily Indebted Poor Countries (HIPC) Initiative for the concessional OCR loans. Launched in 1996 by the International Development Association and the IMF, the HIPC Initiative provides partial debt relief to poor countries with external debt that severely burdens export earnings or public finance. The ADB Board of Governors adopted a resolution on 7 April 2008 for ADB to participate in the HIPC Initiative and to provide Afghanistan with debt relief. The principal amount of Afghanistan's debt to be forgiven was \$82 million. Of this amount, a total of \$28 million has been written-off as the loan service payments of affected loans fell due. This brought the balance of the Allowance for HIPC debt relief as of 31 December 2018 to \$54 million.

continued

No loans were modified or restructured for the years ended 31 December 2018 and 2017 and no modified or restructured loans were outstanding as of 31 December 2018 and 2017.

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.

#### *Fair Value Adjustment on Concessional Loans*

On 1 January 2017, concessional loans from ADF were transferred to OCR at FV. The FV of the ADF loan was approximated by the nominal value of the loan outstanding amount adjusted for credit risk, which was measured by the expected loss of the ADF loan portfolio based on ADB credit risk management framework.

The FV adjustment of concessional loans transferred was \$281 million. The FV adjustment is recognized as income over the life of the loans based on the maturity structure of the transferred loans and as the loan service payments are received.

#### *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 borrowers under the terms of the contract. ADB manages credit risk for lending operations by monitoring creditworthiness of the borrowers and the capital adequacy framework.

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

The following table summarizes the credit quality of sovereign and nonsovereign loans after the effect of risk transfers. Risk transfer and risk participation charges are paid by ADB to a third party which shares in the risk, returns and any associated recovery rights with respect to a loan provided by ADB. High credit risk includes \$217 million in nonsovereign loans that were considered impaired (\$75 million – 2017).

(\$ million)

Risk Class	Risk Rating	Sovereign Loans		Nonsovereign Loans	
		2018	2017	2018	2017
Low credit risk	1–5 (AAA to BBB–)	\$ 52,255	\$ 48,873	\$ 1,814	\$ 1,918
Medium credit risk	6–8 (BB+ to BB–)	20,461	19,781	2,243	2,113
Significant credit risk	9–11 (B+ to B–)	26,818	25,722	1,073	1,242
High credit risk	12–14 (CCC+ to D)	1,742	1,543	363	87
<b>Total</b>		<b>\$ 101,276</b>	<b>\$ 95,919</b>	<b>\$ 5,493</b>	<b>\$ 5,360</b>

As of 31 December 2018, 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 \$109,498 million (\$103,522 million – 2017).

continued

### *Fair Value Disclosure*

ADB does not sell its sovereign loans. As of 31 December 2018 and 2017, all loans are carried at amortized cost.

The carrying amount and FV of loans outstanding at 31 December 2018 and 2017 are as follows:

(\$ million)

	2018		2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Sovereign – Regular	\$ 72,569	\$ 72,973	\$ 66,625	\$ 66,920
Sovereign – Concessional	28,579	28,557	29,129	29,115
Nonsovereign	5,257	5,337	5,254	5,314
<b>Total</b>	<b>\$ 106,405</b>	<b>\$ 106,867</b>	<b>\$ 101,008</b>	<b>\$ 101,349</b>

The FV hierarchy of ADB loans as of 31 December 2018 and 2017 is as follows:

(\$ million)

	2018	2017
Level 1	\$ –	\$ –
Level 2	73,110	66,659
Level 3	33,757	34,690
<b>Total fair value</b>	<b>\$ 106,867</b>	<b>\$ 101,349</b>

### *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 in OCR's Balance Sheet.

Loans administered by ADB on behalf of participating institutions during the years ended 31 December 2018 and 2017 are as follows:

(\$ million)

	2018		2017	
	Amount	No. of Loans	Amount	No. of Loans
Sovereign loans	\$ 2,127	61	\$ 2,500	65
Nonsovereign loans	1,725	42	1,493	30
<b>Total</b>	<b>\$ 3,852</b>	<b>103</b>	<b>\$ 3,993</b>	<b>95</b>

## **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,

continued

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.

The maximum potential exposure and outstanding amounts of these guarantee obligations as of 31 December 2018 and 2017 covered:

(\$ million)

	2018		2017	
	Maximum Potential Exposure	Outstanding Amount	Maximum Potential Exposure	Outstanding Amount
Credit Guarantees				
Trade Related				
with counterguarantee	\$ 599	\$ 599	\$ 592	\$ 592
without counterguarantee	820	678	808	680
	<u>1,419</u>	<u>1,277</u>	<u>1,400</u>	<u>1,272</u>
Non-Trade Related				
with counterguarantee	805	723	840	733
without counterguarantee	930	617	242	150
	<u>1,735</u>	<u>1,340</u>	<u>1,082</u>	<u>883</u>
Subtotal	<u>3,154</u>	<u>2,617</u>	<u>2,482</u>	<u>2,155</u>
Political Risk Guarantees				
Non-Trade Related				
with counterguarantee	14	14	18	18
<b>Total</b>	<b><u>\$ 3,168</u></b>	<b><u>\$ 2,631</u></b>	<b><u>\$ 2,500</u></b>	<b><u>\$ 2,173</u></b>

The maximum potential exposure represents the 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 and outstanding as of the end of the year, exclusive of the standby portion.

As of 31 December 2018 and 2017, one credit guarantee with nonsovereign counter-guarantee had collateral from a counter-guarantor.

As of 31 December 2018, a total liability of \$35 million (\$17 million – 2017) relating to standby ready obligations for eight credit risk guarantees (seven – 2017) and one political risk guarantees (one – 2017) has been included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous on the Balance Sheet for all guarantees issued after 31 December 2002.



continued

*Fair Value Disclosure*

As of 31 December 2018 and 2017, 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.

The valuation technique and significant unobservable quantitative input for guarantee receivables/guarantee liabilities classified as Level 3 as of 31 December 2018 and 2017 are summarized below:

Valuation Technique	Unobservable Inputs	Range (Average)	
		2018	2017
Discounted cash flows	Discount rates	2.22% to 4.43% (2.89%)	2.22% to 4.43% (2.98%)

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 2018 and 2017:

(\$ million)

	2018	2017
Balance, 1 January	\$ 17	\$ 24
Issuances	31	8
Amortization	(13)	(15)
Balance, 31 December	<u>\$ 35</u>	<u>\$ 17</u>

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).

Breakdown of equity investments as of 31 December 2018 and 2017 are as follows:

(\$ million)

	2018	2017
Equity method	\$ 703	\$ 683
Fair value method	577	346
Cost method	—	156
<b>Total</b>	<u><b>\$ 1,280</b></u>	<u><b>\$ 1,185</b></u>

continued

Additional information relating to equity investments reported at FV as of 31 December 2018 is as follows:

(\$ million)

<b>As of 31 December 2018</b>		
Cost	\$	382
Fair value		577
Gross unrealized gains		206
Gross unrealized losses		(11)
<b>For the year ended 31 December 2018</b>		
Net unrealized losses		(58)
Net realized gains		90
Net gains		32

Additional information relating to equity investments classified as available for sale as of 31 December 2017 is as follows:

(\$ million)

<b>As of 31 December 2017</b>		
Cost	\$	191
Fair value		343
Gross unrealized gains		152
<b>For the year ended 31 December 2017</b>		
Changed in unrealized gains from prior year		122

Approved equity investments that have not been disbursed totaled \$470 million at 31 December 2018 (\$503 million – 2017).

#### *Fair Value Disclosure*

ADB's equity investments reported at FV as of 31 December 2018 were \$577 million (\$346 million – 2017). Equity investments with readily determinable market prices are valued using quoted prices in active markets and are classified as Level 1. Inputs other than quoted prices within Level 1 that are observable, such as prices of recent investments, are classified as Level 2. 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 2018 and 2017 is as follows:

(\$ million)

	<b>2018</b>		<b>2017</b>	
Level 1	\$	361	\$	343
Level 2		159		–
Level 3		57		3
<b>Total equity investments at fair value</b>	<b>\$</b>	<b>577</b>	<b>\$</b>	<b>346</b>

The office of risk management is primarily responsible for determining the FV of equity investments without readily determinable FV. The valuation methodology used for the Level 3 securities considers multiple valuation techniques ranging from (i) weighted average of book value, price-to-book, and price-to-earnings, (ii) probability weighted scenario, (iii) discounted cash flow, and (iv) excess return valuation depending on the investment cycle of the equity investment.

continued

The valuation techniques and significant unobservable inputs for equity investments classified as Level 3 as of 31 December 2018 and 2017 are presented below.

Valuation Technique	Unobservable Inputs	Value	
		2018	2017
Weighted average of book value, Price-to-book, Price-to-earnings; Probability	Internal rate of return	21%	21%
weighted scenario; Discounted cash flow;	Derived price-to-book	n/a	0.61
Excess return valuation	Discount rate	10.0% – 16.27% (range)	23.35%
	EV/EBITDA multiple	5x – 6.5x (range)	n/a

EV/EBITDA = enterprise value / earnings before interest, taxes, depreciation, and amortization, n/a = not applicable.

The following table presents the changes in the carrying amounts of ADB's Level 3 equity investments for the years ended 31 December 2018 and 2017:

(\$ million)

	Equity investments under FV Method	
	2018	2017
Balance, beginning of year	\$ 3	\$ 7
Equity Investments previously reported at cost <sup>a</sup>	23	–
New Level 3 equity investment	33	–
Total gains (losses) - (realized/unrealized)		
Included in earnings <sup>b</sup>	0	1
Included in other comprehensive loss <sup>c</sup>	(2)	(5)
Balance, end of year	<u>\$ 57</u>	<u>\$ 3</u>

The amount of total gains for the year included in earnings attributable to the change in unrealized gains relating to assets still held at reporting date<sup>b</sup>

	\$ –	\$ 1
--	------	------

0 = less than \$0.5 million

<sup>a</sup> FV of equity investments previously reported at cost upon adoption of ASU 2016-01 effective 1 January 2018.

<sup>b</sup> Included in net realized (losses) gains and net unrealized (losses) gains (OCR-2).

<sup>c</sup> 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. They are reported: (i) at fair value; and (ii) at amortized cost as follows:

(\$ million)

	2018	2017
Fair value method	\$ –	\$ 3
Amortized cost method	618	233
<b>Total</b>	<u><b>\$ 618</b></u>	<u><b>\$ 236</b></u>

In November 2018, the other debt security at fair value method was converted into equity shares.

continued

The carrying value and FV of the outstanding other debt securities by contractual maturity as of 31 December 2018 and 2017 are presented below:

(\$ million)

	2018		2017	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 22	\$ 24	\$ –	\$ –
Due after one year through five years	489	507	233	239
Due after five years through ten years	107	116	–	–
Due after ten years through fifteen	–	–	3	3
<b>Total</b>	<b>\$ 618</b>	<b>\$ 647</b>	<b>\$ 236</b>	<b>\$ 242</b>

The hierarchy of FV of ADB's other debt securities as of 31 December 2018 and 2017 is as follows:

(\$ million)

	2018	2017
Level 1	\$ –	\$ –
Level 2	–	239
Level 3	647	3
<b>Total at fair value</b>	<b>\$ 647</b>	<b>\$ 242</b>

The following table presents the changes in the carrying amounts of ADB's Level 3 other debt securities at fair value method for the years ended 31 December 2018 and 2017:

(\$ million)

	2018	2017
Balance, beginning of year	\$ 3	\$ 3
Converted into equity shares	(3)	–
<b>Balance, end of year</b>	<b>\$ –</b>	<b>\$ 3</b>

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

## 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, currency and foreign exchange swaps that ADB has entered into for the purpose of hedging specific borrowings. The terms of ADB's interest rate swap, currency and foreign exchange 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 or a portfolio of loans. The loan related swaps were executed to better align the composition of certain outstanding loans with funding sources and future requirements.

continued

Future dated derivatives as of 31 December 2018 amounted to \$2 million for derivative assets (\$1 million – 2017) and \$11 million for derivative liabilities (\$0.1 million – 2017).

### *Fair Value Disclosure*

The FV hierarchy of ADB's derivatives and the balance sheet location as of 31 December 2018 and 2017 are as follows:

(\$ million)

2018	Balance Sheet Location	Fair Value Measurements			
		Total	Level 1	Level 2	Level 3
Assets					
Borrowings related derivatives	Derivative Assets				
Currency swaps	- Borrowings	\$ 24,966	\$ —	\$ 23,416	\$ 1,550
Interest rate swaps		219	—	219	—
Investments related derivatives	Derivative Assets				
Currency swaps	- Investments for liquidity purpose	8,243	—	8,243	—
Interest rate swaps		4	—	4	—
Foreign exchange swaps		3,442	—	3,442	—
Foreign exchange forward		15	—	15	—
Loans related derivatives	Derivative Assets				
Currency swaps	- Loans — Operations	8,564	—	8,564	—
Interest rate swaps		47	—	47	—
<b>Total assets at fair value</b>		<b>\$ 45,500</b>	<b>\$ —</b>	<b>\$ 43,950</b>	<b>\$ 1,550</b>
Liabilities					
Borrowings related derivatives	Derivative Liabilities				
Currency swaps	- Borrowings	\$ 27,220	\$ —	\$ 27,220	\$ —
Interest rate swaps		1,208	—	1,208	—
Investments related derivatives	Derivative Liabilities				
Currency swaps	- Investments for liquidity purpose	8,279	—	8,279	—
Interest rate swaps		20	—	20	—
Foreign exchange swaps		3,509	—	3,509	—
Foreign exchange forward		15	—	15	—
Loans related derivatives	Derivative Liabilities				
Currency swaps	- Loans — Operations	8,734	—	8,048	686
Interest rate swaps		11	—	11	—
<b>Total liabilities at fair value</b>		<b>\$ 48,996</b>	<b>\$ —</b>	<b>\$ 48,310</b>	<b>\$ 686</b>

continued

(\$ million)

		Fair Value Measurements			
2017	Balance Sheet Location	Total	Level 1	Level 2	Level 3
Assets					
Borrowings related derivatives	Derivative Assets				
Currency swaps	- Borrowings	\$ 18,473	\$ —	\$ 17,011	\$ 1,462
Interest rate swaps		182	—	182	—
Foreign exchange swaps		623	—	623	—
Investments related derivatives	Derivative Assets				
Currency swaps	- Investments for liquidity purpose	6,806	—	6,806	—
Interest rate swaps		4	—	4	—
Foreign exchange swaps		5,952	—	5,952	—
Foreign exchange forward		15	—	15	—
Loans related derivatives	Derivative Assets				
Currency swaps	- Loans – Operations	8,703	—	8,703	—
Interest rate swaps		3	—	3	—
Total assets at fair value		\$ 40,761	\$ —	\$ 39,299	\$ 1,462
Liabilities					
Borrowings related derivatives	Derivative Liabilities				
Currency swaps	- Borrowings	\$ 19,337	\$ —	\$ 19,337	\$ —
Interest rate swaps		802	—	802	—
Foreign exchange swaps		624	—	624	—
Investments related derivatives	Derivative Liabilities				
Currency swaps	- Investments for liquidity purpose	6,964	—	6,964	—
Interest rate swaps		30	—	30	—
Foreign exchange swaps		5,955	—	5,955	—
Foreign exchange forward		15	—	15	—
Loans related derivatives	Derivative Liabilities				
Currency swaps	- Loans — Operations	9,124	—	8,588	536
Interest rate swaps		1	—	1	—
Total liabilities at fair value		\$ 42,852	\$ —	\$ 42,316	\$ 536

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 (FX) rates, cross currency basis spreads, yield basis spread, yield and FX volatilities and correlation 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, 2 and 3 in the derivatives portfolio during 2018 and 2017.

The valuation technique and quantitative information on significant unobservable inputs used in valuing ADB's derivative instruments classified as Level 3 as of 31 December 2018 and 2017 are presented below:

Valuation Technique	Unobservable Inputs	Range (Weighted Average)	
		2018	2017
Discounted cash flows	Basis swap spreads	-1.34% to 7.26% (-2.73%)	-1.17% to 6.55% (-2.34%)

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 2018 and 2017:

(\$ million)

<b>2018</b>	<b>Borrowings related derivatives</b>		<b>Loans related derivatives</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Balance, beginning of year	\$ 1,462	\$ –	\$ –	\$ (536)
Total (losses) gains - (realized/unrealized)				
Included in earnings <sup>a</sup>	(92)	–	–	8
Included in other comprehensive loss <sup>b</sup>	(241)	–	–	12
Issuances	648	–	–	(220)
Maturities/Redemptions	(227)	–	–	50
Balance, end of year	<u>\$ 1,550</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (686)</u>
The amount of total (losses) gains for the year included in earnings attributable to the change in net unrealized gains or losses <sup>a</sup> relating to assets/liabilities still held at the reporting date				
	<u>\$ (53)</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 8</u>

<sup>a</sup> Included in net unrealized (losses) gains (OCR-2).

<sup>b</sup> Included in accumulated translation adjustments (Note N).

(\$ million)

<b>2017</b>	<b>Borrowings related derivatives</b>		<b>Loans related derivatives</b>	
	<b>Assets</b>	<b>Liabilities</b>	<b>Assets</b>	<b>Liabilities</b>
Balance, beginning of year	\$ 1,163	\$ –	\$ 0	\$ (477)
Total gains (losses) - (realized/unrealized)				
Included in earnings <sup>a</sup>	26	–	(0)	(5)
Included in other comprehensive loss <sup>b</sup>	(37)	–	0	(42)
Issuances	847	–	–	(79)
Maturities/Redemptions	(537)	–	–	67
Balance, end of year	<u>\$ 1,462</u>	<u>\$ –</u>	<u>\$ –</u>	<u>\$ (536)</u>
The amount of total losses for the year included in earnings attributable to the change in net unrealized gains or losses <sup>a</sup> relating to assets/liabilities still held at the reporting date				
	<u>\$ (18)</u>	<u>\$ –</u>	<u>\$ (0)</u>	<u>\$ (3)</u>

0 = less than \$0.5 million

<sup>a</sup> Included in net unrealized (losses) gains (OCR-2).

<sup>b</sup> Included in accumulated translation adjustments (Note N).

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	
		2018	2017
Borrowings related derivatives			
Currency swaps	Borrowing and related expenses	\$ 198	\$ 421
	Net Realized Gains	1	3
	Net Unrealized (Losses) Gains	(141)	(103)
Interest rate swaps	Borrowing and related expenses	(186)	173
	Net Unrealized (Losses) Gains	(238)	(298)
Foreign exchange swaps	Borrowing and related expenses	2	4
	Net Unrealized (Losses) Gains	(0)	0
		<u>\$ (364)</u>	<u>\$ 200</u>
Investments related derivatives			
Currency swaps	Revenue from investments for liquidity purpose	\$ 141	\$ 76
	Net Unrealized (Losses) Gains	(17)	18
Interest rate swaps	Revenue from investments for liquidity purpose	(5)	(9)
	Net Unrealized (Losses) Gains	8	10
Foreign exchange swaps	Revenue from investments for liquidity purpose	172	94
	Net Unrealized (Losses) Gains	(2)	(0)
Foreign exchange forwards	Net Unrealized (Losses) Gains	0	0
		<u>\$ 297</u>	<u>\$ 189</u>
Loans related derivatives			
Currency swaps	Revenue from Loans – Operations	\$ 125	\$ 47
	Net Unrealized (Losses) Gains	(23)	(45)
Interest rate swaps	Revenue from Loans – Operations	10	(1)
	Net Unrealized (Losses) Gains	32	0
		<u>\$ 144</u>	<u>\$ 1</u>

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 transactions are



continued

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 2018, ADB had received collateral of \$162 million (\$324 million – 2017) in connection with the swap agreements. Of this amount, \$118 million (\$240 million – 2017) 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. 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 (i) the long term unsecured and unsubordinated indebtedness of ADB or the counterparty ceases to be rated at the negotiated minimum credit rating level with the relevant counterparty, or (ii) such indebtedness ceases to be rated by any international credit rating agencies. 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 2018 was \$3,604 million (\$2,408 million – 2017). The gross liability position in the aggregate FV of all derivative instruments that ADB has no enforceable netting agreement amounted to \$147 million as of 31 December 2018 (\$92 million – 2017).

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 2018 and 2017 are as follows: (See Note E for PAYABLE UNDER SECURITIES REPURCHASE ARRANGEMENTS.)

(\$ million)				
	2018		2017	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Gross amount presented in the balance sheet	\$ 45,350 <sup>a</sup>	\$ (48,849) <sup>b</sup>	\$ 40,671 <sup>a</sup>	\$ (42,760) <sup>b</sup>
Gross amounts not offset in the balance sheet				
Financial instruments	(45,245)	45,245	(40,352)	40,352
Collateral received <sup>c</sup>	(83)	–	(278)	–
Net amount <sup>d</sup>	<u>\$ 22</u>	<u>\$ (3,604)</u>	<u>\$ 41</u>	<u>\$ (2,408)</u>

<sup>a</sup> This excludes gross amount of DERIVATIVE ASSETS presented in the balance sheet not subject to enforceable master netting agreements amounting to \$150 million (\$90 million – 2017).

<sup>b</sup> This excludes gross amount of DERIVATIVE LIABILITIES presented in the balance sheet not subject to enforceable master netting agreements amounting to \$147 million (\$92 million – 2017).

<sup>c</sup> Collateral received includes both cash and securities collateral.

<sup>d</sup> ADB is not required to post collateral to counterparties when it is in a net liability position.

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 \$23 million for the return of these premises. The compensation is in lieu of being provided premises under the agreement and accordingly, is deferred and amortized over the estimated life of the current HQ building as a reduction of occupancy expense. HQ depreciation for the year ended 31 December 2018 amounted to \$5 million (\$5 million – 2017), net of amortization of the compensation for the former HQ building. As of 31 December 2018, the unamortized deferred compensation balance (included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous) was \$4 million (\$5 million – 2017).

The changes in the property, furniture, and equipment during 2018 and 2017, as well as information pertaining to accumulated depreciation, are as follows:

(\$ million)

	<b>Property, Furniture and Equipment</b>			
	Land	Buildings and Improvements	Office Furniture and Equipment	Total
<b>Cost:</b>				
Balance, 1 January 2018	\$ 10	\$ 266	\$ 199	\$ 475
Additions during the year	–	6	28	34
Disposals during the year	–	(0)	(5)	(5)
Balance, 31 December 2018	10	272	222	504
<b>Accumulated Depreciation:</b>				
Balance, 1 January 2018	–	(146)	(161)	(307)
Depreciation during the year	–	(8)	(15)	(23)
Disposals during the year	–	0	5	5
Balance, 31 December 2018	–	(154)	(171)	(325)
<b>Net Book Value, 31 December 2018</b>	<b>\$ 10</b>	<b>\$ 118</b>	<b>\$ 51</b>	<b>\$ 179</b>
<b>Cost:</b>				
Balance, 1 January 2017	\$ 10	\$ 261	\$ 187	\$ 458
Additions during the year	–	5	21	26
Disposals during the year	–	(0)	(9)	(9)
Balance, 31 December 2017	10	266	199	475
<b>Accumulated Depreciation:</b>				
Balance, 1 January 2017	–	(138)	(157)	(295)
Depreciation during the year	–	(8)	(12)	(20)
Disposals during the year	–	0	8	8
Balance, 31 December 2017	–	(146)	(161)	(307)
<b>Net Book Value, 31 December 2017</b>	<b>\$ 10</b>	<b>\$ 120</b>	<b>\$ 38</b>	<b>\$ 168</b>

0 = less than \$0.5 million.

continued

## 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, credit spreads, yield and FX volatilities and correlation.

ADB reports borrowings that are swapped or are intended to be swapped in the future and selected floating-rate borrowings at FV. Changes in FV are reported in the Statement of Income and Expenses under NET UNREALIZED (LOSSES) GAINS. With the adoption of ASU 2016-01 effective 1 January 2018, ADB measures the portion of the FV change due to instrument-specific credit risk, and presents the amount separately in Accumulated other comprehensive loss account.

The FV hierarchy of ADB's outstanding borrowings reported at amortized cost and FV as of 31 December 2018 and 2017 are as follows:

(\$ million)	2018	2017
<b>At Amortized cost</b>		
Level 1	\$ —	\$ —
Level 2	3,194	4,737
Level 3	178	215
<b>Sub-total</b>	<b>3,372</b>	<b>4,952</b>
<b>At Fair value</b>		
Level 1	—	—
Level 2	84,644	80,233
Level 3	2,769	2,567
<b>Sub-total</b>	<b>87,413</b>	<b>82,800</b>
<b>Total borrowings at fair value</b>	<b>\$ 90,785</b>	<b>\$ 87,752</b>

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, 2 and 3 in the borrowings portfolio during 2018 and 2017.

continued

For borrowings carried at FV, the quantitative information on significant unobservable input used for valuation as of 31 December 2018 and 2017 are presented below:

Valuation Technique	Unobservable Inputs	Range (Weighted Average)	
		2018	2017
Discounted cash flows	Derived credit spreads	-1.37% to 0.25% (-0.41%)	-1.40% to 0.16% (-0.71%)

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 2018 and 2017:

(\$ million)

	2018	2017
Balance, beginning of year	\$ 2,567	\$ 2,701
Total (gains) losses - (realized/unrealized)		
Included in earnings <sup>a</sup>	(48)	15
Included in other comprehensive (income) loss <sup>b</sup>	(359)	53
Issuances	1,321	1,048
Maturities/Redemptions	(712)	(1,250)
Balance, end of year	<u>\$ 2,769</u>	<u>\$ 2,567</u>

The amount of total gains for the year included in earnings attributable to the change in net unrealized gains or losses<sup>a</sup> relating to liabilities still held at the reporting date.

\$ (15)	\$ (24)
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<sup>a</sup> Included in net unrealized (losses) gains (OCR-2).

<sup>b</sup> Included in unrealized holdings gains from borrowings and accumulated translation adjustments (Note N).

Refer to OCR-7 for Summary Statement of Borrowings.

## NOTE M—CAPITAL STOCK, RETURN OF SET-ASIDE RESOURCES FROM ASIAN DEVELOPMENT FUND, AND MAINTENANCE OF VALUE OF CURRENCY HOLDINGS

### Capital Stock

The authorized capital stock of ADB as of 31 December 2018 and 2017 consists of 10,638,933 shares of which have all (10,614,853 shares – 2017) been subscribed by members. Of the subscribed shares, 10,105,805 (10,082,688 – 2017) are “callable” and 533,128 (532,165 – 2017) 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 \$152 million (\$193 million – 2017), while those notes received with fixed encashment schedules totaled \$206 million (\$368 million – 2017).

As of 31 December 2018 and 2017, ADB's shareholders consist of 67 members, 48 from the region and 19 from outside the region (OCR-8).

continued

In October 2018, the Board of Governors approved the special increase in capital subscription of Portugal. Portugal's subscription to 24,080 shares, of which 963 are paid-in shares and 23,117 are callable shares, was declared effective in December 2018.

#### *Return of Set-Aside Resources from ADF*

In 1973, the Board of Governors authorized the setting aside of 10% of ADB's unimpaired paid-in capital by members as of 28 April 1973 to be used as part of ADB's Special Funds. Pursuant to this, the set-aside capital of SDR48 million (equivalent to \$64 million at 31 December 2016) was allocated and transferred to the Multi-purpose Special Fund and subsequently transferred to the ADF in October 1975. Section 3.01 of the ADF Regulations, as amended in 2013, does not allow the use of the set-aside resources from OCR to finance grant operations or HIPC debt relief. Following the Board of Governors' Resolution No. 372, authorizing the termination of ADF lending operations and combining it with OCR, the set-aside resources of \$64 million was returned to OCR effective 1 January 2017 (See OCR-9).

#### *Maintenance of Value of Currency Holdings*

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

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

The net notional amounts as of 31 December 2018 consisted of (i) the net increase of \$917 million (\$1,005 million – 2017) 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 2018 and (ii) the net increase of \$621 million (\$559 million – 2017) 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)

	2018	2017
Notional MOV Receivables	\$ 1,650	\$ 1,672
Notional MOV Payables	(112)	(108)
<b>Total</b>	<b>\$ 1,538</b>	<b>\$ 1,564</b>

## **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 2018, the Board of Governors approved the following with respect to ADB's 2017 net income of \$753 million, after the allocation of income from the transfer of ADF loans and certain other assets to the ordinary reserve of \$30,748 million, and appropriation of guarantee fees of \$21 million to the special reserve: (i) \$14

continued

million representing the adjustment to the Loan Loss Reserve as of 31 December 2017, be added from the net income to the loan loss reserve; (ii) \$49 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 2017, be added from the net income to the Cumulative revaluation adjustments (CRA) account; (iii) \$351 million be allocated to the Ordinary Reserve; (iv) \$259 million be allocated to the ADF; and (v) \$80 million be allocated to the TASF.

In May 2017, the Board of Governors approved the following with respect to ADB's 2016 net loss of \$11 million, after appropriation of guarantee fees of \$18 million to special reserve: (i) \$15 million representing the adjustment to the Loan Loss Reserve as of 31 December 2016, be added from the net income to the loan loss reserve; (ii) \$514 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 2016, be added from the CRA account to the net income; (iii) \$124 million be allocated to the Ordinary Reserve; (iv) \$259 million be allocated to the ADF; (v) \$60 million be allocated to the Technical Assistance Special Fund (TASF); (vi) \$20 million be allocated to the APDRF; (vii) \$15 million be allocated to the CCF; and (viii) \$10 million be allocated to the RCIF.

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 \$90 million to Other Comprehensive Income during the year ended 31 December 2018 (net debit of \$180 million – 2017). That credit is the decrease in the value of the matured and paid-in capital subscriptions caused by the change during the year in the value of the SDR in relation to the US dollar not allocated to members as notional maintenance of value adjustments in accordance with resolutions of the Board of Directors.

#### *Allocation of One-Time Income from ADF Assets Transfer*

On 15 March 2017, the Board of Governors approved the allocation of the one-time income of \$30,748 million from ADF assets transfer to OCR ordinary reserve effective 1 January 2017, pursuant to Resolution No. 387 (See OCR-9).

#### *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 – CRA account. Beginning 2008, the unrealized portion of net income from equity investments accounted under equity method is also transferred to this account.

Beginning 1 January 2018, ADB measures its equity investments (except those accounted for under the equity method) at FV and recognize all FV changes through net income. As a result, the unrealized gains of \$152 million on the equity investments with readily determinable market price and classified as AFS as of 31 December 2017 was shown as a reduction in the beginning balance of the Accumulated other comprehensive loss account and as an addition to the beginning balance of the CRA account in the 2018 financial statements. The unrealized gains as of 31 December 2017 of \$99 million on the equity investments previously accounted for using cost method was shown as an addition to the CRA account in the 2018 financial statements. Moreover, the impact to the change in instrument-specific credit risk of borrowings amounting to \$6 million as of 31 December 2017, was added to the beginning balance of the Accumulated other comprehensive loss account and reduced the beginning balance of CRA account in the 2018 financial statement.

As part of 2017 net income allocation following the Resolution of the Board of Governors in May 2018, the net unrealized gains on derivatives of \$9 million and the net unrealized gains from equity investments accounted for under the equity method of \$40 million were transferred to the CRA account.

continued

As part of 2016 net income allocation following the Resolution of the Board of Governors in May 2017, the net unrealized losses on derivatives of \$520 million and the net unrealized gains from equity investments accounted for under the equity method of \$6 million were transferred to the CRA account.

#### *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 2018, guarantee fees amounting to \$24 million (\$21 million – 2017) 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 and fair value adjustment on concessional loans recorded in the balance sheet.

As of 31 December 2018, the loan loss reserve was \$201 million (\$187 million – 2017).

#### *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 translation adjustments; pension and post-retirement liability adjustment; and unrealized gains and losses on financial instruments classified as AFS, equity investments under equity method and fair value changes of borrowings related to ADB's own credit spread.

continued

The changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2018 and 2017 are as follows:

(\$ million)

	Accumulated Translation Adjustments	Unrealized Holding (Losses) Gains		Pension/ Postretirement Liability Adjustments	Accumulated Other Comprehensive Loss
		Investments for liquidity purpose <sup>a</sup>	Equity investments — Operations		
<b>Balance, 1 January 2018</b>	\$ 930	\$ (254)	\$ 152	\$ (1,027)	\$ (199)
Adjustment due to ASU 2016-01	—	—	(152)	—	(146)
<b>Adjusted balances</b>	<b>930</b>	<b>(254)</b>	<b>0</b>	<b>(1,027)</b>	<b>(345)</b>
Other comprehensive (loss) income before reclassifications	(402)	(57)	(8)	222	74
Amounts reclassified from accumulated other comprehensive income	—	20	—	60	80
Net current-period other comprehensive (loss) income	(402)	(37)	(8)	282	154
<b>Balance, 31 December 2018</b>	<b>\$ 528</b>	<b>\$ (291)</b>	<b>\$ (8)</b>	<b>\$ (745)</b>	<b>\$ (191)</b>
<b>Balance, 1 January 2017</b>	\$ (310)	\$ (149)	\$ 30	\$ (1,147)	\$ (1,576)
Other comprehensive income (loss) before reclassifications	1,240	(100)	121	63	1,324
Amounts reclassified from accumulated other comprehensive (loss) income	—	(5)	1	57	53
Net current-period other comprehensive income (loss)	1,240	(105)	122	120	1,377
<b>Balance, 31 December 2017</b>	<b>\$ 930</b>	<b>\$ (254)</b>	<b>\$ 152</b>	<b>\$ (1,027)</b>	<b>\$ (199)</b>

<sup>a</sup> Includes securities transferred under repurchase agreements.

The reclassifications of Accumulated Other Comprehensive Loss to Net Income for the years ended 31 December 2018 and 2017 are presented below:

(\$ million)

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss <sup>a</sup>		Affected Line Item in the Statement of Income and Expenses
	2018	2017	
Unrealized Holding Gains (Losses)			
Investments for liquidity purpose	\$ (20)	\$ 5	NET REALIZED (LOSSES) GAINS From investments for liquidity purpose
Equity investments — operations	—	(1)	NET REALIZED (LOSSES) GAINS From equity investments — operations
	(20)	4	
Pension/Postretirement Liability			
Adjustments Actuarial losses	(60)	(57)	Administrative expenses
Total reclassifications for the period	<b>\$ (80)</b>	<b>\$ (53)</b>	

<sup>a</sup> Amounts in parentheses indicate debits to net income.



continued

## NOTE O—INCOME AND EXPENSES

### Revenue

Revenue from loan operations for the years ended 31 December 2018 and 2017 is summarized as follows:

(\$ million)

	2018			
	Interest	Commitment charge	Other, net <sup>a</sup>	Total
Sovereign – Regular	\$ 1,866	\$ 48	\$ (14)	\$ 1,900
Sovereign – Concessional	537	–	(0)	537
Nonsovereign	270	12	(7)	275
<b>Total</b>	<b>\$ 2,673</b>	<b>\$ 60</b>	<b>\$ (21)</b>	<b>\$ 2,712</b>

	2017			
	Interest	Commitment charge	Other, net <sup>a</sup>	Total
Sovereign – Regular	\$ 1,217	\$ 44	\$ (10)	\$ 1,251
Sovereign – Concessional	433	–	(0)	433
Nonsovereign	230	9	(6)	233
<b>Total</b>	<b>\$ 1,880</b>	<b>\$ 53</b>	<b>\$ (16)</b>	<b>\$ 1,917</b>

0 = less than \$0.5 million.

<sup>a</sup> Includes amortized front-end fees and loan origination costs, risk participation charges, and other loan-related income and/or expenses.

The average yield on the loan portfolio during the year was 2.62% (1.92% – 2017), including risk transfer costs.

Revenue 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 2018 was \$899 million (\$610 million – 2017). The annualized rate of return on the average investments held during the year, based on the average of monthly ending portfolio balances, was 2.24% (1.73% – 2017) excluding unrealized gains and losses on investments and 2.14% (1.44% – 2017) including unrealized gains and losses on investments.

Revenue from equity investment operations for the year ended 31 December 2018 amounted to \$102 million (\$28 million – 2017). This comprised of gains realized from divestments totaling \$95 million (nil – 2017), net equity income of \$8 million (\$31 million – 2017), other income of \$4 million (\$2 million – 2017), and offset by \$5 million (\$5 million – 2017) other than temporary impairment losses of investments under equity method.

Loss from other debt securities for the year ended 31 December 2018 was \$21 million (\$22 million net income – 2017) consisting other than temporary impairment loss of \$48 million (nil – 2017), offset by interest income of \$27 million (\$22 million – 2017).

Net revenue from other sources for the year ended 31 December 2018 included income received as executing agency amounting to \$25 million (\$20 million – 2017) and other miscellaneous income amounting to \$22 million (\$15 million – 2017).

continued

### *Expenses*

Borrowings and related expenses of \$2,159 million (\$1,247 million – 2017) for the year ended 31 December 2018 consisted of interest expense and other related expenses such as amortization of issuance costs and derivatives. The average cost of borrowings outstanding after swaps was 2.35% (1.45% – 2017). Total depreciation expense incurred for the year ended 31 December 2018 amounted to \$23 million (\$20 million – 2017).

ADB leases office spaces and other assets. Annual rental expenses under operating leases for the year ended 31 December 2018 was \$14 million (\$12 million – 2017). The minimum rental payments required under operating leases that have initial or noncancelable lease terms in excess of one year as of 31 December 2018 are as follows:

<b>Year ending 31 December</b>	<b>\$ million</b>
2019	10
2020	9
2021	6
2022	4
Later years	19

Administrative expenses for the year ended 31 December 2018 were apportioned between OCR and the ADF in proportion to the relative volume of operational activities. Of the total administrative expenses of \$706 million (\$671 million – 2017), \$77 million (\$56 million – 2017) was accordingly charged to the ADF. The balance of the administrative expense allocated to OCR was reduced by the deferral of direct loan origination costs of \$38 million (\$37 million – 2017) related to new loans made effective during the year.

For the year ended 31 December 2018, net provision for loan losses of \$122 million (\$35 million – 2017) consisted of \$144 million additional loan loss provision (\$38 million – 2017) and \$22 million write-backs (\$3 million – 2017).

### *Net unrealized (losses) gains*

The following table provides information on the unrealized gains or losses included in income for the years ended 31 December 2018 and 2017:

(\$ million)		
	<b>2018</b>	<b>2017</b>
Fair value changes from:		
Borrowings and related swaps	\$ (69)	\$ 24
Loans related swaps	9	(45)
Investments related swaps and forwards	(11)	28
Equity investments	18	1
Reclassification of unrealized gains on divested equity investment	(76)	–
Translation adjustments in non-functional currencies	(1)	1
<b>Total</b>	<b>\$ (130)</b>	<b>\$ 9</b>

continued

**NOTE P—RELATED PARTY TRANSACTIONS**

At 31 December 2018 and 2017, ADB had the following net receivables from and payable to Special Funds, associates and external funded trust funds under ADB administration (Trust Funds) resulting from administrative arrangements and operating activities. These are included in Miscellaneous under OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES:

(\$ million)

	2018	2017
<b>Amounts receivable from:</b>		
Asian Development Fund	\$ 13	\$ 17
Associates	1	0
Trust Funds—net	4	3
Employee Benefit Plans	13	3
<b>Total</b>	<b>\$ 31</b>	<b>\$ 23</b>

0 = less than \$0.5 million

As of 31 December 2018 and 2017, the related parties include employee benefit plans consisting of the Staff Retirement Plan (SRP), the Retiree Medical Plan Fund (RMPF), and the Defined Contribution (DC) plan.

**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 at that time, which is 60 for staff on board before 1 October 2017 and 62 for staff who joined on or after 1 October 2017. 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 remuneration during eligible service which is 2 years for staff on board before 1 October 2017. For staff hired on or after 1 October 2017, the salary basis for a pension is the highest average three years remuneration, initially capped at \$100,000 adjusted each year in line with US dollar salary scales. 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 SRP.

Participants hired prior to 1 October 2006 are required to contribute 9 1/3% of their salary to the plan while those hired on or after 1 October 2006 are not required to contribute. The annual accrual rate is 2.95% for staff hired prior to 1 October 2006 and 1.5% for those hired on or after 1 October 2006. 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. Participants hired before 1 October 2017 may also make contributions for Discretionary Benefit (XB).

In October 2017, ADB introduced a DC plan. Participants hired on or after 1 October 2017 may contribute up to 40% of salary into the DC plan. ADB will make additional contributions to a participant's DC account equal to 20% of the participant's salary above the cap. ADB will match participant's contributions at a ratio of \$1 to each \$8 (1:8), capped at 12% of salary.

From 1 October to 16 December 2018, all eligible staff who joined ADB prior to 1 October 2017 (and are below the age of 60) had the option to voluntarily switch into the 2017 Plan arrangement. Two types of switches were: 1) switch from their current Defined Benefit (DB) plan to the new 2017 DB plan and DC plan

continued

and/or cash; and 2) switch from the XB contracts that earn 8.0% p.a. into the DC plan and/or cash. ADB provided incentives to the staff to switch into the 2017 Plan arrangement.

#### *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 \$67 million for 2019 based on a budgeted contribution of 24% of salary.

ADB's staff members are expected to contribute \$38 million representing participants' mandatory contribution of \$8 million and discretionary contributions of \$30 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 thirteen 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 November 2017, the SRP's new long-term target asset-mix, which has been implemented in 2018, is 30% US equity, 30% non-US equity, 15% global fixed income, 10% global high yield, and 15% diversified asset.

For the year ended 31 December 2018, the net return on the SRP assets was -6.14% (16.22% – 2017). ADB expects the long-term rate of return on the assets to be 6.5% (7.0% – 2017).

#### *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 6.5% 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.

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

continued

investment earnings; it does not have any component attributable to participants' share of PRGMIP costs. The 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 2019, 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 2018, the net return on the RMPF assets was -6.24% (15.73% – 2017).

#### *Assumptions*

The overall long-term rate of return is 6.5% 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.

continued

The following table sets forth the funded status of pension and postretirement medical benefits at 31 December 2018 and 2017:

(\$ million)

	Pension Benefits		Postretirement Medical Benefits	
	2018	2017	2018	2017
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 3,246	\$ 2,752	\$ 378	\$ 326
Actual return on plan assets	(198)	450	(24)	52
Employer's contribution	64	134	5	5
Plan participants' contributions	39	41	—	—
Benefits paid	(138)	(131)	(5)	(5)
Fair value of plan assets at end of year	<u>\$ 3,013</u>	<u>\$ 3,246</u>	<u>\$ 354</u>	<u>\$ 378</u>
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 4,402	\$ 3,978	\$ 411	\$ 397
Service cost	103	96	21	21
Interest cost	178	177	19	19
Plan participants' contributions	39	41	—	—
Actuarial (gain) loss	(575)	307	(111)	(21)
Plan amendment	—	(66)	—	—
Benefits paid	(138)	(131)	(5)	(5)
Projected benefit obligation at end of year	<u>\$ 4,009</u>	<u>\$ 4,402</u>	<u>\$ 335</u>	<u>\$ 411</u>
<b>Funded status</b>	<u><b>\$ (996)</b></u>	<u><b>\$ (1,156)</b></u>	<u><b>\$ 19</b></u>	<u><b>\$ (33)</b></u>
Amounts recognized in the Balance sheet as Accrued pension and postretirement medical benefit costs	<u>\$ (996)</u>	<u>\$ (1,156)</u>	<u>\$ 19</u>	<u>\$ (33)</u>
Amounts recognized in the Accumulated other comprehensive loss as Pension/Postretirement liability adjustments (Note M)	<u>\$ 856</u>	<u>\$ 1,076</u>	<u>\$ (111)</u>	<u>\$ (49)</u>
Weighted-average assumptions as of 31 December (%)				
Discount rate	4.90	4.00	5.70	4.50
Expected return on plan assets	6.50	7.00	6.50	7.00
Rate of compensation increase varies with age and averages	4.75	4.75	N/A	N/A

Included in the \$138 million pension benefits payment is the \$9 million lump sum payments for the switch options comprising of: 1) \$8 million transferred out of the DB plan to the DC plan and/or cash arising from the switch of 237 staff into the 2017 Plan arrangement; and 2) \$1 million transferred out of XB contracts of 99 staff to the DC plan and/or cash.

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered postretirement medical benefits was assumed for the valuation as of 31 December 2018 and 2017. The rate was assumed to decrease gradually to 5% by 2024 and remain at that level thereafter.

continued

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the year ended 31 December 2018 and 2017:

(\$ million)

	Pension Benefits		Postretirement Medical Benefits	
	2018	2017	2018	2017
Components of net periodic benefit cost:				
Service cost	\$ 103	\$ 96	\$ 21	\$ 20
Interest cost	178	177	19	19
Expected return on plan assets	(217)	(195)	(25)	(23)
Recognized actuarial loss (Note N)	60	57	—	—
<b>Net periodic benefit cost</b>	<b>\$ 124</b>	<b>\$ 135</b>	<b>\$ 15</b>	<b>\$ 16</b>

All components of the net periodic benefit cost are included in “administrative expenses” in the statement of income and expenses, based on the allocation methodology described in Note O.

The accumulated benefit obligation of the pension plan as of 31 December 2018 was \$3,780 million (\$4,122 million – 2017).

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$22 million and \$5 million, respectively. The estimated net gain and prior service cost for the other post-retirement benefits plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$7 million and nil, 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	12	(9)
Effect on postretirement medical benefit obligation	69	(54)

#### *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 2018:

(\$ million)

Year	Pension Benefits	Postretirement Medical Benefits
2019	\$ 160	\$ 8
2020	176	8
2021	186	9
2022	203	10
2023	215	11
2024–2028	1,274	72

continued

*Fair Value Disclosure*

The FV of the SRP and RMPF's assets measured on a recurring basis as of 31 December 2018 and 2017 is shown below:

(\$ million)

		Fair Value Measurements		
2018	Total	Level 1	Level 2	Level 3
<b>Staff Retirement Plan</b>				
Cash and cash equivalents	\$ 47	\$ —	\$ 47	\$ —
Common/preferred stocks	477	477	—	—
Investment funds	1,679	1,514	165	—
Government or government-				
guaranteed securities	325	323	2	—
Corporate debt securities	383	376	7	—
Mortgage/Asset-backed securities:				
Mortgage-backed securities	91	37	54	—
Collateralized mortgage obligations	1	—	1	—
Asset-backed securities	0	—	0	—
Short term investments	62	55	7	—
Derivatives	(17)	(4)	(13)	—
Other asset/liabilities <sup>a</sup> —net	(35)	—	(35)	—
<b>Total fair value of SRP assets</b>	<b>\$ 3,013</b>	<b>\$ 2,778</b>	<b>\$ 235</b>	<b>\$ —</b>
<b>Retiree Medical Plan Fund</b>				
Cash and cash equivalents	\$ 5	\$ —	\$ 5	\$ —
Common/preferred stocks	95	95	—	—
Investment funds	150	150	—	—
Government or government-				
guaranteed securities	64	64	—	—
Corporate debt securities	28	28	0	—
Mortgage/Asset-backed securities:				
Mortgage-backed securities	18	5	13	—
Collateralized mortgage obligations	—	—	—	—
Asset-backed securities	—	—	—	—
Short term investments	—	—	—	—
Derivatives	(6)	(2)	(4)	—
Other asset/liabilities <sup>a</sup> —net	(0)	—	(0)	—
<b>Total fair value of RMPF assets</b>	<b>\$ 354</b>	<b>\$ 340</b>	<b>\$ 14</b>	<b>\$ —</b>

0 = less than \$0.5 million.

<sup>a</sup> Includes receivables and liabilities carried at amounts that approximate fair value.



continued

(\$ million)

2017	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>Staff Retirement Plan</b>				
Cash and cash equivalents	\$ 74	\$ —	\$ 74	\$ —
Common/preferred stocks	594	594	—	—
Investment funds	1,725	1,725	—	—
Government or government-guaranteed securities	305	301	4	—
Corporate debt securities	427	414	12	1
Mortgage/Asset-backed securities:				
Mortgage-backed securities	67	20	46	1
Collateralized mortgage obligations	5	—	3	2
Asset-backed securities	0	—	—	0
Short term investments	40	39	1	—
Derivatives	(4)	0	(4)	—
Other asset/liabilities <sup>a</sup> —net	13	—	13	—
<b>Total fair value of SRP assets</b>	<b>\$ 3,246</b>	<b>\$ 3,093</b>	<b>\$ 149</b>	<b>\$ 4</b>
<b>Retiree Medical Plan Fund</b>				
Cash and cash equivalents	\$ 15	\$ —	\$ 15	\$ —
Common/preferred stocks	110	110	—	—
Investment funds	159	159	—	—
Government or government-guaranteed securities	62	62	0	—
Corporate debt securities	31	31	0	—
Mortgage/Asset-backed securities:				
Mortgage-backed securities	11	7	4	0
Collateralized mortgage obligations	—	—	—	—
Asset-backed securities	0	—	—	0
Short term investments	0	—	0	—
Derivatives	(0)	0	(0)	—
Other asset/liabilities <sup>a</sup> —net	(10)	—	(10)	—
<b>Total fair value of RMPF assets</b>	<b>\$ 378</b>	<b>\$ 369</b>	<b>\$ 9</b>	<b>\$ 0</b>

0 = less than \$0.5 million.

<sup>a</sup> Includes receivables and liabilities carried at amounts that approximate fair value.

The SRP's Investment Committee and SRP investment unit meet periodically and are involved in overseeing the activities and performance of the investment portfolios. The 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.

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 2018 and 2017.

(\$ million)

	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Investments - Staff Retirement Plan				
Investment funds				
Transfers into (out of)	\$ -	\$ -	\$ -	\$ -
Transfers (out of) into	(165)	165	-	-
Government or government-guaranteed securities				
Transfers into (out of)	0	(0)	-	-
Transfers (out of) into	-	-	(1)	1
Corporate debt securities				
Transfers into (out of)	6	(6)	11	(11)
Transfers (out of) into	(4)	4	(4)	4
	<u>\$ (163)</u>	<u>\$ 163</u>	<u>\$ 6</u>	<u>\$ (6)</u>
Investments - Retirement Medical Plan Fund				
Government or government-guaranteed securities				
Transfers into (out of)	0	(0)	-	-
Transfers (out of) into	-	-	(0)	0
Corporate debt securities				
Transfers into (out of)	-	-	0	(0)
Transfers (out of) into	(0)	0	-	-
	<u>\$ 0</u>	<u>\$ (0)</u>	<u>\$ 0</u>	<u>\$ 0</u>

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 2018 and 2017:

(\$ million)

	Staff Retirement Plan		Retiree Medical Plan Fund
	Corporate debt securities	MBS/ ABS/ CMO	MBS/ ABS
<b>2018</b>			
Balance, beginning of the year	\$ 1	\$ 3	\$ 0
Total realized/unrealized (losses)/gains in:			
Net (decrease) increase in net assets available for benefits	(0)	0	0
Purchases	-	1	0
Sales/Maturities	(0)	(3)	(0)
Settlement and others	-	(0)	(0)
Transfers out of Level 3	(1)	(1)	-
Balance, end of the year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total unrealized gains (losses) included in income related to financial assets still held at the reporting date	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

0 = less than \$0.5 million.

MBS - Mortgage-backed securities; ABS - Asset-backed securities; CMO - Collateralized Mortgage Obligations

continued

(\$ million)

	Staff Retirement Plan		Retiree Medical Plan Fund
	Corporate debt securities	MBS/ ABS/ CMO	MBS/ ABS
<b>2017</b>			
Balance, beginning of the year	\$ 2	\$ 2	\$ 0
Total realized/unrealized (losses)/gains in:			
Net increase (decrease) in net assets available for benefits	0	0	0
Purchases	1	3	0
Sales/Maturities	(0)	(2)	(0)
Settlement and others	—	(0)	(0)
Transfers out of Level 3	(2)	(0)	—
Balance, end of the year	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ 0</u>
Total unrealized gains (losses) included in income related to financial assets still held at the reporting date	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

0 = less than \$0.5 million.

MBS - Mortgage-backed securities; ABS - Asset-backed securities; CMO - Collateralized Mortgage Obligations

Transfers out of Level 3 in 2018 and 2017 are due to the availability of market observable inputs.

**NOTE R—OTHER FAIR VALUE DISCLOSURES**

The carrying amounts and FVs of ADB's financial instruments as of 31 December 2018 and 2017 are summarized below:

(\$ million)

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>On-balance sheet financial instruments:</b>				
<b>ASSETS:</b>				
Due from banks	\$ 1,148	\$ 1,148	\$ 964	\$ 964
Investments for liquidity purpose (Note D)	35,215	35,215	36,478	36,478
Securities transferred under repurchase agreements (Note E)	87	87	393	393
Securities purchased under resale arrangements (Note D)	343	343	170	170
Loans outstanding — operations (Note F)	106,405	106,867	101,008	101,349
Equity investments — operations carried at fair value (Note H)	577	577	346	346
Other debt securities — operations (Note I)	618	647	236	242
Derivative assets - borrowings (Note J)	25,185	25,185	19,278	19,278
Derivative assets - investments for liquidity purpose (Note J)	11,704	11,704	12,777	12,777
Derivative assets - loans — operations (Note J)	8,611	8,611	8,706	8,706
Swap related collateral (Note J)	118	118	240	240
Future guarantee receivable (Note G)	35	35	17	17

continued

(\$ million)

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>On-balance sheet financial instruments:</b>				
LIABILITIES:				
Borrowings (Note L)	90,423	90,785	87,281	87,752
Derivative liabilities - borrowings (Note J)	28,428	28,428	20,763	20,763
Derivative liabilities - investments for liquidity purpose (Note J)	11,823	11,823	12,964	12,964
Derivative liabilities - loans — operations (Note J)	8,745	8,745	9,125	9,125
Payable under securities repurchase agreements (Note E)	84	84	393	393
Swap related collateral (Note J)	118	118	240	240
Guarantee liability (Note G)	35	35	17	17
<b>Off-balance sheet financial instruments:<sup>a</sup></b>				
ASSETS:				
Future guarantee receivable	n/a	4	n/a	5
LIABILITIES:				
Guarantee liability	n/a	4	n/a	5

n/a = not applicable

<sup>a</sup> Guarantees issued or modified prior to 1 January 2003.

As of 31 December 2018 and 2017, ADB has no assets or liabilities measured at FV on a non-recurring basis.

## 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 of 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 by 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.

continued

Special Funds and trust funds are not included in the assets of OCR. The net assets as of 31 December 2018 and 2017 are summarized below:

(\$ million)

	2018		2017	
	Total Net Assets	No.	Total Net Assets	No.
<b>Special Funds</b>				
Asian Development Fund	\$ 689	1	\$ 652	1
Technical Assistance Special Fund	304	1	400	1
Japan Special Fund	109	1	107	1
Asian Development Bank Institute	16	1	12	1
Regional Cooperation and Integration Fund	10	1	14	1
Climate Change Fund	18	1	20	1
Asia Pacific Disaster Response Fund	21	1	26	1
Financial Sector Development Partnership Special Fund	4	1	5	1
Subtotal	1,171	8	1,236	8
<b>Trust funds and project specific cofinancing</b>	2,479	132	2,475	129
<b>Total</b>	<b>\$ 3,650</b>	<b>140</b>	<b>\$ 3,711</b>	<b>137</b>

During the year ended 31 December 2018, a total of \$18 million (\$16 million – 2017) was recorded as compensation for administering projects/programs. The amount has been included in REVENUE From other sources—net.

#### NOTE T—VARIABLE INTEREST ENTITIES

ADB has identified investments in 35 (30 – 2017) VIEs which are not consolidated by ADB but in which it is deemed to hold significant variable interests at 31 December 2018. 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 equity at risk 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 equity investments. Based on the most recent available data from these VIEs at 31 December 2018, the assets of these non-consolidated VIEs totaled \$16,332 million (\$14,286 million – 2017).

continued

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
<b>2018</b>			
Loans — Operations	\$ 112	\$ —	\$ 112
Equity Investments — Operations	407	188	595
Guarantees — Operations	24	—	24
<b>Total</b>	<b>\$ 543</b>	<b>\$ 188</b>	<b>\$ 731</b>
<b>2017</b>			
Loans — Operations	\$ 139	\$ —	\$ 139
Equity Investments — Operations	376	152	528
Guarantees — Operations	29	—	29
<b>Total</b>	<b>\$ 544</b>	<b>\$ 152</b>	<b>\$ 696</b>

#### 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 balance 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 2018 and 2017:

(\$ million)

Country	2018		2017	
	Outstanding Balance	Revenue	Outstanding Balance	Revenue
People's Republic of China	\$ 18,336	\$ 520	\$ 17,410	\$ 379
India	18,068	503	16,905	337
Pakistan	11,274	230	11,524	175
Indonesia	10,971	301	9,835	212
Bangladesh	9,574	163	8,966	122
Viet Nam	8,862	156	8,763	119
Philippines	6,886	160	6,582	108
Others	26,963	742	24,616	541
<b>Total</b>	<b>\$ 110,934</b>	<b>\$ 2,775</b>	<b>\$ 104,601</b>	<b>\$ 1,993</b>

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

For the year ended 31 December 2018, sovereign loans to three members (two – 2017) individually generated more than 10 percent of loan revenue which amounted to \$467 million, \$410 million, and \$276 million (\$335 million and \$258 million – 2017).

continued

**NOTE V—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. During this period, ADB has raised additional borrowings of approximately \$8,089 million in various currencies.

In January 2019, Portugal made payments for its subscription to 963 paid-in shares (SDR9,630,000) that became effective in December 2018. In March 2019, Niue's membership and subscription to 8 paid-in shares (SDR80,000) became effective.

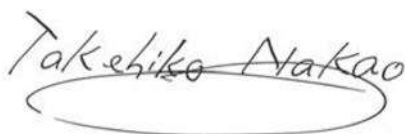
## ASIAN DEVELOPMENT FUND MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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 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 2018, 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 2018, 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  
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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, 2018, 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.



### **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, 2018, 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") – Asian Development Fund as of December 31, 2018 and 2017, and the related statements of income and expenses, comprehensive loss, changes in fund balances and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 15, 2019 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019



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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") – Asian Development Fund, which comprise the balance sheets as of December 31, 2018 and 2017, and the related statements of income and expenses, comprehensive loss, changes in fund balances, 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.



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB – Asian Development Fund as of December 31, 2018 and 2017, 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, 2018, 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 15, 2019 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, 2018, and the supplementary information on the transfer of ADF loans and other assets to OCR on January 1, 2017, 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.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

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**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND****BALANCE SHEET****31 December 2018 and 2017**

Expressed in Millions of US Dollars

	<b>2018</b>		<b>2017</b>	
<b>ASSETS</b>				
DUE FROM BANKS	\$	22	\$	13
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and I)				
Government or government-guaranteed obligations	\$	2,504	\$	2,464
Time deposits		818		400
Corporate obligations		42		20
		3,364		2,884
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS		68		61
ACCRUED REVENUE		14		15
OTHER ASSETS (Note E)		225		292
<b>TOTAL</b>	<b>\$</b>	<b>3,693</b>	<b>\$</b>	<b>3,265</b>
<b>LIABILITIES AND FUND BALANCES</b>				
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Investment related payables	\$	25	\$	—
Payable to related funds (Note D)		14		24
Advance payments on contributions (Note E)		216		258
Undisbursed grants (Notes H and I)		2,749		2,331
Total Liabilities		3,004		2,613
FUND BALANCES (ADF-4)				
Contributions received				
Contributed resources (Note E)	\$	33,920	\$	33,369
Unamortized discount	(23)	33,897	(25)	33,344
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund		2,221		1,962
		36,118		35,306
Nonnegotiable, noninterest-bearing demand obligations on account of contributions (Note E)		(1,267)		(1,415)
Accumulated deficit				
From assets transfer to OCR (ADF-2, ADF-7, Note A)	(31,029)		(31,029)	
From others	(1,606)	(32,635)	(690)	(31,719)
Accumulated other comprehensive loss (Note G)		(1,527)		(1,520)
Total Fund Balance		689		652
<b>TOTAL</b>	<b>\$</b>	<b>3,693</b>	<b>\$</b>	<b>3,265</b>

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Millions of US Dollars

	<u>2018</u>	<u>2017</u>
REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE (Note C)	\$ 67	\$ 44
EXPENSES		
Grants (Note H)	(899)	(323)
Administrative expenses (Notes D and F)	(77)	(56)
Amortization of discounts on contributions	(4)	(12)
Other expenses	(0)	(0)
TOTAL EXPENSES	(980)	(391)
NET REALIZED (LOSSES) GAINS FROM INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and G)	(3)	14
NET UNREALIZED (LOSSES) GAINS	(0)	4
TRANSFER OF LOANS AND CERTAIN OTHER ASSETS TO OCR (ADF-7, Note A)	—	(31,029)
<b>NET LOSS</b>	<b>\$ (916)</b>	<b>\$ (31,358)</b>

Notes: 0 = less than \$0.5 million, OCR = ordinary capital resources.

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**  
**STATEMENT OF COMPREHENSIVE LOSS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Millions of US Dollars

	<b>2018</b>	<b>2017</b>
NET LOSS (ADF-2)	\$ (916)	\$ (31,358)
Other comprehensive loss (Note G)		
Currency translation adjustments	\$ —	\$ 1
Unrealized investment holding losses on investments for liquidity purpose	<u>(7)</u> (7)	<u>(29)</u> (28)
<b>COMPREHENSIVE LOSS</b>	<b>\$ (923)</b>	<b>\$ (31,386)</b>

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

**STATEMENT OF CHANGES IN FUND BALANCES**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Millions of US Dollars

	<b>2018</b>	<b>2017</b>
Balance, 1 January	\$ 652	\$ 30,948
Comprehensive loss (ADF-3, Note G)	(923)	(31,386)
Contributions made available for operational commitment	565	607
Amortization of discount on donor's contribution	4	12
Demand obligations received	(494)	(445)
Encashment of demand obligations	626	721
Transfers from ordinary capital resources	259	259
Return of set-aside resources to ordinary capital resources (ADF-7)	—	(64)
<b>Balance, 31 December</b>	<b>\$ 689</b>	<b>\$ 652</b>

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



**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Millions of US Dollars

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received from investments for liquidity purpose	\$ 67	\$ 40
Interest received for securities purchased under resale arrangement	1	1
Administrative expenses paid	(83)	(39)
Grants disbursed	(476)	(481)
Others—net	1	(1)
<b>Net Cash Used in Operating Activities</b>	<b>(490)</b>	<b>(480)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments for liquidity purpose	200	348
Maturities of investments for liquidity purpose	22,172	41,322
Purchases of investments for liquidity purpose	(22,817)	(42,567)
Receipts from securities purchased under resale arrangements	10,766	13,101
Payments for securities purchased under resale arrangements	(10,773)	(13,161)
<b>Net Cash Used in Investing Activities</b>	<b>(452)</b>	<b>(957)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received and encashed	693	902
Cash received from ordinary capital resources	259	259
<b>Cash Provided by Financing Activities</b>	<b>952</b>	<b>1,161</b>
Effect of Exchange Rate Changes on Due from Banks	(1)	8
<b>Net Increase (Decrease) in Due from Banks</b>	<b>9</b>	<b>(268)</b>
Due from Banks at Beginning of Year	13	281
<b>Due from Banks at End of Year</b>	<b>\$ 22</b>	<b>\$ 13</b>
<b>RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Net Loss (ADF-2)	\$ (916)	\$ (31,358)
Adjustments to reconcile net loss to to net cash used in operating activities:		
Transfer of loans and certain other assets to OCR	—	31,029
Amortization of discounts/premiums on investments for liquidity purpose	1	3
Amortization of discount on donor's contribution	4	12
Grants approved and effective	899	323
Net loss (gain) on sale of investments for liquidity purpose	3	(14)
Change in accrued revenue on investments for liquidity purpose	0	(7)
Change in other assets	5	(6)
Change in payable to related funds	(5)	17
Change in undisbursed grants	(481)	(475)
Exchange gains - net	0	(4)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (490)</b>	<b>\$ (480)</b>

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND****STATEMENT OF RESOURCES****31 December 2018**

Expressed in Millions of US Dollars

	<b>Effective Amounts Committed<sup>1</sup></b>	<b>Contributions Received</b>
<b>CONTRIBUTED RESOURCES</b>		
Australia	\$ 2,668	\$ 2,222
Austria	294	273
Belgium	244	222
Brunei Darussalam	21	21
Canada	2,035	2,021
China, People's Republic of	183	142
Denmark	265	312
Finland	201	159
France	1,410	1,244
Germany	1,933	1,770
Hong Kong, China	123	116
India	64	46
Indonesia	26	21
Ireland	107	81
Italy	1,193	883
Japan	12,888	15,351
Kazakhstan	8	6
Korea, Republic of	643	549
Luxembourg	60	51
Malaysia	33	27
Nauru	0	0
The Netherlands	774	736
New Zealand	187	170
Norway	310	267
Portugal	92	89
Singapore	25	24
Spain	476	420
Sweden	490	405
Switzerland	404	557
Taipei, China	115	107
Thailand	19	18
Turkey	124	116
United Kingdom	1,692	1,171
United States	4,677	4,297
Total	33,786	33,897
TRANSFERS FROM ORDINARY CAPITAL RESOURCES		2,218
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND		3
<b>TOTAL</b>	<b>\$ 33,786</b>	<b>\$ 36,118</b>

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

<sup>1</sup> At exchange rates per Resolutions.

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND  
SUPPLEMENTARY INFORMATION ON THE TRANSFER OF ADF LOANS AND OTHER ASSETS TO  
OCR ON 1 JANUARY 2017**

On 1 January 2017, ADB transferred loans and other assets totaling \$30,812 million from the Asian Development Fund (ADF) to ordinary capital resources (OCR) in accordance with the Board of Governors' Resolution No. 372 authorizing the termination of ADF's lending operations. From then on, concessional lending to lower-income countries continued from the OCR.

The transferred ADF assets comprised loans including accrued interest totaling \$27,088 million and liquid assets totaling \$3,724 million. Except for the \$64 million return of set-aside resources, the rest of the transferred assets was treated as a contribution from ADF to OCR and recognized as a one-time income of \$30,748 million in OCR, which has been allocated to ordinary reserves on 1 January 2017, following the adoption of the Board of Governors' Resolution No. 387 dated 15 March 2017. The contribution part amounting to \$30,748 million and the fair value adjustment on the loans amounting to \$281 million were recognized as one-time loss of \$31,029 million in ADF.

The proportionate share 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. Under Board of Governors' Resolution No. 372, the proportionate share 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 value of each donor's paid-in contributions was fixed in US dollars based on the special drawing right value of each donor contribution as of 1 January 2017. This was then used to determine the sources of funds in the transferred assets, as summarized in the following table.

**Proportionate Share of Funding Sources of the ADF Assets Transferred to OCR**

Expressed in Millions of US Dollars

	Proportionate Share	
	Amount	%
<b>DONOR CONTRIBUTIONS</b>		
Australia	\$ 2,213	7.18
Austria	257	0.83
Belgium	231	0.75
Brunei Darussalam	17	0.06
Canada	1,889	6.13
China, People's Republic of	84	0.27
Denmark	242	0.79
Finland	180	0.58
France	1,270	4.12
Germany	1,679	5.45
Hong Kong, China	93	0.30
India	24	0.08
Indonesia	14	0.05
Ireland	79	0.26
Italy	1,099	3.57
Japan	11,197	36.34
Kazakhstan	4	0.01
Korea, Republic of	484	1.57
Luxembourg	47	0.15
Malaysia	24	0.08
Nauru	0	0.00
The Netherlands	716	2.32
New Zealand	157	0.51
Norway	266	0.86
Portugal	79	0.26
Singapore	18	0.06
Spain	432	1.40
Sweden	436	1.42
Switzerland	359	1.17
Taipei, China	90	0.29
Thailand	15	0.05
Turkey	114	0.37
United Kingdom	1,440	4.67
United States	4,060	13.18
<b>TOTAL DONOR CONTRIBUTIONS</b>	<b>29,309</b>	<b>95.13</b>
<b>OCR NET INCOME TRANSFERS</b>	<b>1,439</b>	<b>4.67</b>
<b>SET-ASIDE RESOURCES<sup>1</sup></b>	<b>64</b>	<b>0.20</b>
<b>TOTAL (Note A)</b>	<b>\$ 30,812</b>	<b>100.00</b>

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

Notes: 0 = about \$0.3 million and 0.00 = 0.001%.

<sup>1</sup> The Board of Governors authorized the setting aside of 10% of ADB's unimpaired paid-in capital paid by members as of 28 April 1973 to be used as part of ADB's Special Funds. The set-aside capital of SDR47.6 million (\$64 million equivalent as of 31 December 2016) was allocated and transferred to the Multi-Purpose Special Fund and subsequently transferred to the ADF in October 1975 as Set-Aside Resources.

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND  
NOTES TO FINANCIAL STATEMENTS  
31 December 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

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.

*Termination of Lending Operations and Transfer of ADF Loans and Other Assets to OCR*

The lending operations of the ADF were terminated on 1 January 2017, pursuant to Board of Governor's Resolution No. 372, and ADF became a grant-only operation. Accordingly, the ADF loans and certain assets totaling \$30,812 million, which comprised loans including accrued interest totaling \$27,088 million and liquid assets totaling \$3,724 million, were transferred to OCR. Except for the \$64 million return of set-aside resources, the rest of the transferred assets amounting to \$30,748 million was treated as a contribution from ADF to OCR. This contribution and the fair value adjustment on the transferred loans amounting to \$281 million were recognized as one-time loss of \$31,029 million in ADF.

The proportionate share of funding sources of the ADF assets transferred to OCR is shown in ADF-7.

*Replenishments*

In July 2016, the Board of Governors adopted a resolution providing for the 11th replenishment of the Asian Development Fund and the sixth regularized replenishment of the Technical Assistance Special Fund (ADF 12). The replenishment which became effective on 30 May 2017, provides resources to finance the Asian Development Fund (ADF) grant program and the TASF operations during 2017-2020. As of 31 December 2018, total replenishment size is \$3,812 million, of which \$2,594 million comes from donor contributions. Donors agreed to allocate \$461 million out of the total donor contributions to TASF. As of 31 December 2018, ADB received all instruments of contributions totaling \$2,594 million equivalent from 32 donors.<sup>2</sup>

<sup>1</sup> 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).

<sup>2</sup> US dollar equivalent based on the Board of Governors' Resolution No. 382 rates.

continued

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

### *Presentation of the Financial Statements*

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

### *Functional and Reporting Currency*

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

### *Translation of Currencies*

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions in currencies other than US Dollars 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. Translation adjustments relating to revaluation of assets and liabilities are reported as NET UNREALIZED (LOSSES) GAINS in the Statement of Income 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.

### *Contributed Resources*

Upon effectivity of replenishment, contributions committed are recorded as Contributed Resources when the Instruments of Contribution are acknowledged and are made available for operational commitment. Contributions are generally paid in the currency of the contributor either in cash or promissory notes, based on agreed payment and encashment schedules.

Donors 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 ADF12, and 9 years for ADF X and ADF XI.

continued

#### *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 ACCOUNTS PAYABLE AND OTHER LIABILITIES.

#### *Grants and Undisbursed Grants*

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

#### *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.

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 statement 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. Judgements have been used in the valuation of certain financial instruments.

continued

### *Statement of Cash Flows*

For the purposes of the 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.

### *Accounting and Reporting Developments*

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. In November 2018, ASU 2018-19 "*Codification Improvements to Topic 326, Financial Instruments—Credit Losses*" was issued to clarify that receivables (and related impairment) arising from operating leases are not within the scope of Financial Instrument – Credit Losses and should be accounted for in accordance with Topic 842, Leases. These updates will be effective on 1 January 2020 but is not expected to have a material impact on ADF's financial statements.

In August 2018, as part of FASB's disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 "*Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*", the FASB issued ASU 2018-13 "*Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*" which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020. ADB is currently assessing the impact of this ASU on ADF's financial statements.

## **NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE**

The main investment management objective is to maintain security and liquidity of funds invested. 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. As of 31 December 2018 and 31 December 2017, there were no government or government-guaranteed obligations that were transferred under securities lending arrangements.

The currency of the investment for liquidity purpose portfolio as of 31 December 2018 and 2017 is US dollar currency only.



continued

The FV and amortized cost of the investments for liquidity purpose as of 31 December 2018 and 2017 are as follows:

(\$ million)

	2018		2017	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Due in one year or less	\$ 1,051	\$ 1,053	\$ 541	\$ 542
Due after one year through five years	2,023	2,047	2,033	2,050
Due after five years through ten years	290	292	310	313
Due after ten years through fifteen years	—	—	—	—
<b>Total</b>	<b>\$ 3,364</b>	<b>\$ 3,392</b>	<b>\$ 2,884</b>	<b>\$ 2,905</b>

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

(\$ million)

	2018	2017
<b>As of 31 December</b>		
Amortized cost	\$ 2,574	\$ 2,505
Fair value	2,546	2,484
Gross unrealized gains	4	1
Gross unrealized losses	(32)	(22)
<b>For the years ended 31 December</b>		
Change in net unrealized losses		
from prior year	(7)	(29)
Proceeds from sales	200	348
Gross gain on sales	—	1
Gross loss on sales	(3)	(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 1.96% (1.61% – 2017) excluding unrealized gains and losses on investment securities, and 1.74% (1.06% – 2017) including unrealized gains and losses on investments.

continued

The table below shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of 31 December 2018 and 2017. There were 123 government or government-guaranteed obligations (27 – 31 December 2017) and 1 corporate obligation (nil – 2017) that have been in a continuous losses for over one year representing 60.89% (10.69% -2017) of the total investments.

(\$ million)

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>As of 31 December 2018</b>						
Government or government-guaranteed obligations	\$ 109	\$ 1	\$ 2,029	\$ 31	\$ 2,138	\$ 32
Corporate Obligations	2	0	20	0	22	0
<b>Total</b>	<b>\$ 111</b>	<b>\$ 1</b>	<b>\$ 2,049</b>	<b>\$ 31</b>	<b>\$ 2,160</b>	<b>\$ 32</b>
<b>As of 31 December 2017</b>						
Government or government-guaranteed obligations	\$ 2,021	\$ 15	\$ 308	\$ 7	\$ 2,329	\$ 22
Corporate Obligations	20	0	–	–	20	0
<b>Total</b>	<b>\$ 2,041</b>	<b>\$ 15</b>	<b>\$ 308</b>	<b>\$ 7</b>	<b>\$ 2,349</b>	<b>\$ 22</b>

0 = less than \$0.5 million.

*Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2018 and 2017 is as follows:

(\$ million)

		Fair Value Measurements			
	Total	Level 1	Level 2	Level 3	
<b>31 December 2018</b>					
Investments for liquidity purpose					
Government or government-guaranteed obligations	\$ 2,504	\$ 2,400	\$ 104	\$ –	
Time deposits	818	–	818	–	
Corporate obligations	42	42	–	–	
Securities purchased under resale arrangements	68	–	68	–	
<b>Total at fair value</b>	<b>\$ 3,432</b>	<b>\$ 2,442</b>	<b>\$ 990</b>	<b>\$ –</b>	
<b>31 December 2017</b>					
Investments for liquidity purpose					
Government or government-guaranteed obligations	\$ 2,464	\$ 2,414	\$ 50	\$ –	
Time deposits	400	–	400	–	
Corporate obligations	20	20	–	–	
Securities purchased under resale arrangements	61	–	61	–	
<b>Total at fair value</b>	<b>\$ 2,945</b>	<b>\$ 2,434</b>	<b>\$ 511</b>	<b>\$ –</b>	

continued

If available, active market quotes are used to measure 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 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. There were no investments categorized as Level 3 as of 31 December 2018 and 2017. 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 2018 and 2017:

	2018				2017			
	Level 1		Level 2		Level 1		Level 2	
Investments for liquidity purpose								
Government or government-guaranteed obligations								
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 approved pricing guidelines. 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.

#### NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separate from each other.

Included in Payable to related funds is the net amount of \$13 million (\$17 million – 2017) payable 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 F—ADMINISTRATIVE EXPENSES.

Under ADF 12 and the sixth 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 2018, \$1 million (\$7 million – 2017) was payable to TASF representing TASF allocation of contributions under ADF 12.

#### NOTE E—CONTRIBUTED RESOURCES AND ADVANCED CONTRIBUTIONS

In June 2018, the ADF received \$259 million following the Board of Governors' approval of OCR's 2017 allocable net income.

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 2018 is reported as a reduction in the Fund Balances, which ADB currently expects to be encashed in varying

continued

amounts over the standard encashment period ending 31 December 2021 for ADF XI, and 31 December 2026 for ADF 12.

As of 31 December 2018, a total of \$2,239 million was committed and acknowledged for ADF12, of which \$1,072 million was made available for operational commitment and recorded in Contributed Resources. As of 31 December 2018, advanced contributions received from donors was \$216 million (\$258 million – 31 December 2017) and are presented as Advance payments on contributions under ACCOUNTS PAYABLE AND OTHER LIABILITIES. Of this, contributions totaling \$161 million (\$199 million – 31 December 2017) were received in demand obligations, and are included in OTHER ASSETS. The remaining \$55 million (\$59 million – 31 December 2017) was received in cash.

#### NOTE F—ADMINISTRATIVE EXPENSES

Administrative expenses represent administration charges allocated to ADF, which is an apportionment of all administrative expenses of ADB in the proportion of the relative volume of operational activities.

#### NOTE G—ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive Loss has two major components: net loss (ADF-2) and other comprehensive loss (ADF-3). Other comprehensive loss includes unrealized gains and losses on Available for Sale securities and translation adjustments on previously recognized functional currencies of assets and liabilities not recognized in the Statement of Income and Expenses.

The following table presents the changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2018 and 2017:

(\$ million)

	Accumulated Translation Adjustments		Unrealized Holding (Losses) Gains on Investments for Liquidity Purpose		Accumulated Other Comprehensive Loss	
	2018	2017	2018	2017	2018	2017
Balance, 1 January	\$ (1,499)	\$ (1,500)	\$ (21)	\$ 8	\$ (1,520)	\$ (1,492)
Other comprehensive loss before reclassification	–	–	(10)	(29)	(10)	(29)
Amounts reclassified from accumulated other comprehensive loss	–	1	3	(0)	3	1
Net current-period other comprehensive income (loss)	–	1	(7)	(29)	(7)	(28)
<b>Balance, 31 December</b>	<b>\$ (1,499)</b>	<b>\$ (1,499)</b>	<b>\$ (28)</b>	<b>\$ (21)</b>	<b>\$ (1,527)</b>	<b>\$ (1,520)</b>

0 = less than \$0.5 million.

continued

The reclassifications of Accumulated Other Comprehensive Loss to Income and Expenses for the years ended 31 December 2018 and 2017 are presented below:

(\$ million)

Accumulated Other Comprehensive Loss Components	Amounts Reclassified from Accumulated Other Comprehensive Loss		Affected Line Item in the Statement of Income and Expenses
	2018	2017	
Currency translation adjustments	\$ –	\$ (1)	NET UNREALIZED GAINS
Unrealized Holding Gains on Investments for Liquidity Purpose	(3)	0	NET REALIZED (LOSSES) GAINS FROM INVESTMENTS FOR LIQUIDITY PURPOSE

0 = less than \$0.5 million.

#### NOTE H—GRANTS AND UNDISBURSED GRANTS

Grant financing was introduced in ADF IX. During 2018, 31 grants totaling \$899 million, net of \$175 million write-back of undisbursed grants for financially closed and/or cancelled grants (30 grants totaling \$323 million, net of \$193 million writeback – 2017), 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 I—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2018 and 2017, ADF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and I for discussions relating to investments for liquidity purpose and undisbursed grants, respectively. In all other cases, the carrying amounts of ADF's assets and liabilities are considered to approximate FVs.

#### NOTE J—SUBSEQUENT EVENTS

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the ADF's Financial Statements as of 31 December 2018.

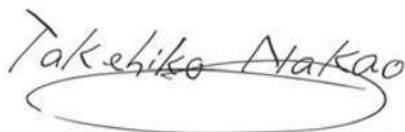
**TECHNICAL ASSISTANCE SPECIAL FUND  
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 2018, 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 2018, ADB's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework (2013)*.



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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, 2018, 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.



## 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, 2018, 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, 2018 and 2017 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 15, 2019 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019





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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, 2018 and 2017, 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.



## 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, 2018 and 2017, and the changes in its net assets 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, 2018, 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 15, 2019 expressed an unmodified opinion on ADB's internal control over financial reporting.

## Report on Supplemental Schedule

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedule of statement of resources as of December 31, 2018, is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of the ADB's management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements.

Such schedule has been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedule 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 schedule is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in black ink, appearing to read "Deloitte &amp; Touche", written over a faint, larger "Deloitte" logo.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 62,986	\$ 89,842
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H and I)		
Time deposits	397,944	312,262
ACCRUED REVENUE	292	141
DUE FROM CONTRIBUTORS (Note F)	287,080	379,714
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	5,831	12,773
<b>TOTAL</b>	<b>\$ 754,133</b>	<b>\$ 794,732</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Notes D and E)	\$ 716	\$ 1,171
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and I)	449,884	394,052
TOTAL LIABILITIES	450,600	395,223
UNCOMMITTED BALANCES (TASF-2 and Note F), represented by:		
Net assets without donor restrictions	303,533	399,509
<b>TOTAL</b>	<b>\$ 754,133</b>	<b>\$ 794,732</b>

The accompanying notes are an integral part of these financial statements (TASF-5).

**ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (TASF-4, Note F)	\$ 117,261	\$ 484,281
REVENUE		
From investments for liquidity purpose (Note C)	7,355	3,456
From other sources (Notes D and E)	8,264	7,757
Total	132,880	495,494
EXPENSES		
Technical assistance—net (Notes E and G)	(207,437)	(171,536)
Administrative expenses (Note D)	(7,580)	(6,696)
Financial expenses	(41)	(37)
Total	(215,058)	(178,269)
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(82,178)	317,225
EXCHANGE (LOSSES) GAINS —net	(13,798)	41,338
(DECREASE) INCREASE IN NET ASSETS	(95,976)	358,563
NET ASSETS AT BEGINNING OF YEAR	399,509	40,946
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 303,533</b>	<b>\$ 399,509</b>

The accompanying notes are an integral part of these financial statements (TASF-5).

**ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ 208,667	\$ 164,047
Interest received on investments for liquidity purpose	7,203	3,377
Net cash received from other activities	683	52
Other income received	—	1,009
Technical assistance disbursed	(151,313)	(136,261)
Financial expenses paid	(41)	(37)
<b>Net Cash Provided by Operating Activities</b>	<b>65,199</b>	<b>32,187</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments for liquidity purpose	12,155,835	11,327,075
Purchases of investments for liquidity purpose	(12,252,998)	(11,326,374)
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(97,163)</b>	<b>701</b>
<b>Effect of Exchange Rate Changes on Due from Banks</b>	<b>5,108</b>	<b>4,202</b>
<b>Net (Decrease) Increase in Due from Banks</b>	<b>(26,856)</b>	<b>37,090</b>
<b>Due from Banks at Beginning of Year</b>	<b>89,842</b>	<b>52,752</b>
<b>Due from Banks at End of Year</b>	<b>\$ 62,986</b>	<b>\$ 89,842</b>

The accompanying notes are an integral part of these financial statements (TASF-5).

## TASF-4

**ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND**  
**STATEMENT OF RESOURCES**  
**31 December 2018**

Expressed in Thousands of US Dollars

Contributor	CONTRIBUTIONS			
	CUMULATIVE BALANCES			Totals
	Committed during 2018	Direct Voluntary	Regularized Replenishment <sup>a</sup>	
Australia	\$ —	\$ 2,484	\$ 165,620	\$ 168,105
Austria	—	159	14,759	14,918
Bangladesh	—	47	—	47
Belgium	—	1,394	8,535	9,929
Brunei Darussalam	—	—	1,002	1,002
Canada	—	3,346	75,999	79,345
China, People's Republic of	—	1,600	26,691	28,291
Denmark	2,269	1,963	9,925	11,887
Finland	—	237	9,191	9,428
France	—	1,697	53,708	55,405
Germany	—	3,315	75,679	78,994
Hong Kong, China	—	100	9,323	9,423
India	—	4,494	7,333	11,827
Indonesia	—	250	2,515	2,765
Ireland	—	—	8,469	8,469
Italy	—	774	44,962	45,736
Japan	—	47,710	644,307	692,017
Kazakhstan	—	—	941	941
Korea, Republic of	—	1,900	48,901	50,801
Luxembourg	—	—	3,168	3,168
Malaysia	—	909	2,498	3,407
Nauru	—	—	67	67
The Netherlands	—	1,337	29,844	31,182
New Zealand	1,475	1,096	10,350	11,446
Norway	—	3,279	16,287	19,566
Pakistan	70	2,296	—	2,296
Portugal	48	—	3,682	3,682
Singapore	—	1,100	2,185	3,285
Spain	—	190	21,672	21,861
Sri Lanka	—	6	—	6
Sweden	—	861	22,479	23,341
Switzerland	—	1,035	18,630	19,665
Taipei, China	—	200	7,349	7,549
Thailand	—	—	1,344	1,344
Turkey	—	—	4,116	4,116
United Kingdom	—	5,617	94,675	100,292
United States	34,756	1,500	165,213	166,713
Reallocation <sup>b</sup>	(1,356)	—	—	—
Total	37,261	90,898	1,611,420	1,702,318
Transfer to Asian Development Fund				(3,472)
Allocation from OCR Net Income	80,000			1,129,000
Other Resources <sup>c</sup>				240,502
<b>TOTAL</b>	<b>\$ 117,261</b>			<b>\$ 3,068,348</b>

TASF = Technical Assistance Special Fund. Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Represents TASF portion of contributions to the replenishment of the Asian Development Fund and the TASF authorized by Governors' Resolution Nos. 182, 214, 300, 333, 357 and 382 at historical values.

<sup>b</sup> Represents reallocation of individual donor's share in proportion to the total amount of contributions for TASF as a result of the additional contribution from New Zealand in 2018.

<sup>c</sup> Represents income, repayments, and reimbursements accruing to TASF since 1980.

The accompanying notes are an integral part of these financial statements (TASF-5).

**ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND  
NOTES TO FINANCIAL STATEMENTS  
31 December 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

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 2016, the Board of Governors adopted a resolution providing for the 11th replenishment of the Asian Development Fund and the sixth regularized replenishment of the Technical Assistance Special Fund (ADF 12). The replenishment which became effective on 30 May 2017, provides resources to finance the Asian Development Fund (ADF) grant program and the TASF operations during 2017-2020. As of 31 December 2018, total replenishment size is \$3,812 million, of which \$2,594 million comes from donor contributions. Donors agreed to allocate \$461 million out of the total donor contributions to the TASF. As of 31 December 2018, ADB received all instruments of contributions totaling \$2,594 million equivalent from 32 donors.<sup>2</sup>

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 assets without donor restrictions as these are made available to TASF without conditions other than for the purpose of pursuing its objectives.

*Functional and Reporting Currency*

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

<sup>1</sup> 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).

<sup>2</sup> US dollar equivalent based on the Board of Governors' Resolution No. 382 rates.

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 exchange rates 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 investments held by TASF are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

#### *Contributions*

The contributions from donors and the allocations from OCR net income are included in the financial statements from the date of the acknowledgement by the President or effectiveness, whichever comes later 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 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 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.



continued

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 accordance 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 2016, the Financial Accounting Standards Board (FASB) issued the following Accounting Standard Update (ASUs): (i) 2016-14, "*Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*," which improves 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 amendments in this update change 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. This ASU impacted presentation and disclosures on TASF's annual financial statements as of 31 December 2018, and are reflected in TASF-1, TASF-2, TASF-3 and Notes G and H; and (ii) ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments*," which provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. This update became effective on 1 January 2018 and are reflected in TASF-3.

In June 2018, FASB issued ASU 2018-08, "*Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*", which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective on 1 January 2019 but is not expected to have a material impact on TASF's financial statements.

In August 2018, as part of the FASB's disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 "*Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*", the FASB issued ASU 2018-13 "*Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*" which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020. ADB is currently assessing the impact of this ASU on TASF's financial statements.

### *Statement of Cash Flows*

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

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.

All investments for liquidity purpose held by TASF are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

The currency composition of the investment for liquidity purpose portfolio as of 31 December 2018 and 2017 expressed in US dollars is as follows:

(\$ thousand)

<b>Currency</b>	<b>2018</b>	<b>2017</b>
US dollar	\$ 257,811	\$ 151,089
Australian dollar	96,926	92,959
Canadian dollar	38,243	36,316
Pound sterling	4,964	31,898
<b>Total</b>	<b>\$ 397,944</b>	<b>\$ 312,262</b>

The rate of return on the average investments held during the period ended 31 December 2018 based on the portfolio held at the beginning and end of each month, was 1.94% (1.11% – 2017).

#### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2018 and 2017 is as follows:

(\$ thousand)

	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>31 December 2018</b>				
Investments for liquidity purpose				
Time deposits	\$ 397,944	\$ –	\$ 397,944	\$ –
<b>31 December 2017</b>				
Investments for liquidity purpose				
Time deposits	\$ 312,262	\$ –	\$ 312,262	\$ –

ADB maintains documented processes and internal controls to value investments. If available, investments 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 the four most recent replenishments, a specific portion of the total contributions is allocated to the TASF as regularized replenishments. 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. Interfund accounts are settled regularly between the TASF and the other funds.

continued

ADB does not allocate any service fees to TASF for administering TA which involves a range of personnel services. The 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 2018, the calculated service fee was \$7,580,000 (\$6,696,000 – 2017) recorded as Administrative expenses under EXPENSES, and REVENUE From other sources. The transaction has no impact on the net assets of TASF.

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

(\$ thousand)

	2018	2017
<b>Receivable from:</b>		
Asian Development Fund	\$ 1,023	\$ 7,459
Climate Change Fund	25	–
Financial Sector Development Partnership Special Fund	4	97
Regional Cooperation and Integration Fund	2	15
Trust Funds—net	708	466
<b>Total</b>	<b>\$ 1,762</b>	<b>\$ 8,037</b>
<b>Payable to:</b>		
Ordinary capital resources—net	\$ 27	\$ 202
Climate Change Fund	0	5
<b>Total</b>	<b>\$ 27</b>	<b>\$ 207</b>

0 = Less than \$500.

The receivable from ADF mainly represents TASF allocations from two donors in relation to their ADF 12 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 2018, \$21,880,000 (\$20,834,000 – 2017) 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 2018, \$500,000 (\$620,000 – 2017) was included in REVENUE From other sources as reimbursement for the TA.

As of 31 December 2018, \$620,000 (\$870,000–2017) 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

Contributions for the year ended 31 December 2018 totaling \$117,261,000 (\$484,281,000–2017) comprise transfer of \$80,000,000 from OCR's 2017 allocable net income (\$60,000,000 from OCR's 2016 allocable net income), net contributions amounting to \$37,191,000 (\$424,281,000–2017) that were allocated from ADF12 and \$70,000 (nil–2017) direct voluntary contribution from Pakistan. During the year, ADB received (in cash and promissory notes) \$117,755,000 from 31 donors of ADF 12 (\$98,583,000 from 27 donors–

continued

2017), nil from ADF XI (\$8,229,000 from three donors–2017) and \$20,000 from two donors of ADF IX (\$53,000 from three donors–2017).

As of 31 December 2018, total contributions not yet received reported as DUE FROM CONTRIBUTORS amounted to \$287,080,000 (\$379,714,000–2017), of which \$253,817,000 (\$346,061,000–2017) came from ADF 12, which are payable throughout the replenishment period of four years in accordance with the installment schedule. The rest are mainly from previous regularized replenishments –\$9,282,000–ADF XI (\$9,437,000–2017), \$19,683,000–ADF X (\$19,864,000–2017), and \$4,296,000–ADF IX (\$4,349,000–2017).

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 2018 and 2017 were without any restrictions.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2018 and 2017. These balances include approved TA projects/programs that are not yet effective.

#### **NOTE G—TECHNICAL ASSISTANCE EXPENSES**

TA expenses are classified according to their nature using the budget allocation specified in the relevant TA agreement for the TAs that became effective during the year. The details of TA expenses for the year ended 31 December 2018 is as follows:

(\$ thousand)

	<b>2018</b>
Consultants	\$ 172,078
Trainings and Seminars	27,911
Studies	6,492
Other expenses–net <sup>a</sup>	956
Total	<u>\$ 207,437</u>

<sup>a</sup> Net of savings and cancellations (See Note E).

#### **NOTE H—LIQUIDITY AND AVAILABILITY OF RESOURCES**

Liquidity risk refers to the risk that the fund has difficulties in meeting its short-term obligations. As part of TASF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations comes due. In addition, as part of its liquidity management, TASF invests cash in excess of daily requirements in short-term investments.

The TASF has liquidity of \$460,930,000 consisting of DUE FROM BANKS of \$62,986,000 and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$397,944,000, available within one year of the balance sheet date to meet cash needs for general expenditure as presented in the Statement of Financial Position. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

DUE FROM CONTRIBUTORS in the amount of \$287,080,000 as of 31 December 2018 comprised mainly of contributions received from the sixth regularized replenishment of the TASF in conjunction with the eleventh replenishment of the Asian Development Fund (ADF 12) which became effective on 30 May 2017. The ADF 12 donors agreed to allocate \$461,472,000 to the TASF which will cover 2017-2020. The TASF replenishment from ADF 12 will form part of the financial assets available when contributions are received from donors and are made available for operational commitment.

continued

**NOTE I—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2018 and 2017, 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 J—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the TASF's Financial Statements as of 31 December 2018.

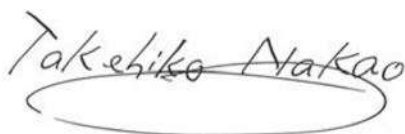
**JAPAN SPECIAL FUND  
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 2018, 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 2018, ADB's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework (2013)*.



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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, 2018, 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.



### **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, 2018, 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, 2018 and 2017 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 15, 2019 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019





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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, 2018 and 2017, 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.

**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, 2018 and 2017, and the changes in its net assets 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, 2018, 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 15, 2019 expressed an unmodified opinion on ADB's internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Deloitte, John W.", written over the printed name of the firm.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	2018			2017		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
<b>ASSETS</b>						
DUE FROM BANKS (Note H)	\$ 187	\$ 1,920	\$ 2,107	\$ 184	\$ 1,206	\$ 1,390
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H and I)						
Time deposits	38,138	69,087	107,225	37,411	68,749	106,160
ACCRUED REVENUE	31	56	87	15	35	50
<b>TOTAL</b>	<b>\$ 38,356</b>	<b>\$ 71,063</b>	<b>\$ 109,419</b>	<b>\$ 37,610</b>	<b>\$ 69,990</b>	<b>\$ 107,600</b>
<b>LIABILITIES AND NET ASSETS</b>						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ —	\$ 39	\$ 39	\$ —	\$ 22	\$ 22
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and I)	—	—	—	—	428	428
<b>TOTAL LIABILITIES</b>	<b>—</b>	<b>39</b>	<b>39</b>	<b>—</b>	<b>450</b>	<b>450</b>
NET ASSETS (JSF-2), represented by:						
Uncommitted balances (Note F)						
Without donor restrictions	—	71,024	71,024	—	69,540	69,540
With donor restrictions	28,199	—	28,199	28,199	—	28,199
	28,199	71,024	99,223	28,199	69,540	97,739
Net accumulated investment income (Note F)						
With donor restrictions	10,157	—	10,157	9,411	—	9,411
	38,356	71,024	109,380	37,610	69,540	107,150
<b>TOTAL</b>	<b>\$ 38,356</b>	<b>\$ 71,063</b>	<b>\$ 109,419</b>	<b>\$ 37,610</b>	<b>\$ 69,990</b>	<b>\$ 107,600</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 2018 and 2017**  
Expressed in Thousands of US Dollars

	2018			2017		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>						
REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE (Note C)	\$ —	\$ 1,359	\$ 1,359	\$ —	\$ 755	\$ 755
REVENUE FROM OTHER SOURCES	—	28	28	—	9	9
NET ASSETS REVERTED FROM ASSETS WITH DONOR RESTRICTIONS	0	—	0	—	—	—
Total	0	1,387	1,387	—	764	764
<b>EXPENSES</b>						
Technical assistance—net (Note E)	—	181	181	—	191	191
Administrative and financial expenses (Note G)	(0)	(84)	(84)	—	(83)	(83)
Total	(0)	97	97	—	108	108
REVENUE IN EXCESS OF EXPENSES	—	1,484	1,484	—	872	872
EXCHANGE GAINS—net	—	0	0	—	0	0
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	—	1,484	1,484	—	872	872
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>						
REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE AND OTHER SOURCES (Note C)	746	—	746	411	—	411
NET ASSETS TRANSFERRED TO ASSETS WITHOUT DONOR RESTRICTIONS	(0)	—	(0)	—	—	—
INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	746	—	746	411	—	411
INCREASE IN NET ASSETS	746	1,484	2,230	411	872	1,283
NET ASSETS AT BEGINNING OF YEAR	37,610	69,540	107,150	37,199	68,668	105,867
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 38,356</b>	<b>\$ 71,024</b>	<b>\$ 109,380</b>	<b>\$ 37,610</b>	<b>\$ 69,540</b>	<b>\$ 107,150</b>

0 = Less than \$500.

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

**ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND**  
**STATEMENT OF CASH FLOWS**

**For the Years Ended 31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	2018			2017		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Interest received on investments for liquidity purpose	\$ 727	\$ 1,338	\$ 2,065	\$ 400	\$ 728	\$ 1,128
Net cash received from other sources	3	28	31	2	8	10
Technical assistance disbursed	—	(248)	(248)	—	(793)	(793)
Administrative and financial expenses paid	(0)	(66)	(66)	—	(100)	(100)
<b>Net Cash Provided by (Used in) Operating Activities</b>	<b>730</b>	<b>1,052</b>	<b>1,782</b>	<b>402</b>	<b>(157)</b>	<b>245</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Maturities of investments for liquidity purpose	1,887,116	3,274,430	5,161,546	1,896,608	2,499,671	4,396,279
Purchases of investments for liquidity purpose	(1,887,843)	(3,274,768)	(5,162,611)	(1,897,008)	(2,499,399)	(4,396,407)
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(727)</b>	<b>(338)</b>	<b>(1,065)</b>	<b>(400)</b>	<b>272</b>	<b>(128)</b>
<b>Net Increase in Due from Banks</b>	<b>3</b>	<b>714</b>	<b>717</b>	<b>2</b>	<b>115</b>	<b>117</b>
<b>Due from Banks at Beginning of Year</b>	<b>184</b>	<b>1,206</b>	<b>1,390</b>	<b>182</b>	<b>1,091</b>	<b>1,273</b>
<b>Due from Banks at End of Year</b>	<b>\$ 187</b>	<b>\$ 1,920</b>	<b>\$ 2,107</b>	<b>\$ 184</b>	<b>\$ 1,206</b>	<b>\$ 1,390</b>

0 = Less than \$500.

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

**ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 December 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

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.

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 net assets with and without donor restrictions. 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets as NET ASSETS TRANSFERRED TO ASSETS WITHOUT DONOR RESTRICTIONS.

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

continued

### *Functional and Reporting Currency*

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

### *Translation of Currencies*

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets and liabilities which are denominated in non-US dollar currencies are adjusted using the applicable exchange rates 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 investments held by JSF are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included in REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE.

### *Technical Assistance, Grants and Related Undisbursed Amounts*

TA and grants are recognized in the financial statements when the project 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.

### *Fair Value of Financial Instruments*

Accounting Standards Codification (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.

continued

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 accordance 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 2016, the Financial Accounting Standards Board (FASB) issued the following Accounting Standard Updates (ASUs): (i) ASU 2016-14, *"Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities,"* which improves 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 amendments in this update change 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. This ASU impacted presentation and disclosures on JSF's financial statements as of 31 December 2018, and are reflected in JSF-1, JSF-2, JSF-3 and Notes G and H.; (ii) ASU 2016-15, *"Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments,"* which provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient, and (iii) ASU 2016-18, *"Statement of Cash Flows (Topic 230) – Restricted Cash,"* which 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. These updates became effective on 1 January 2018 and are reflected in JSF-3.

In June 2018, FASB issued ASU 2018-08, *"Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,"* which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective on 1 January 2019 but is not expected to have a material impact on JSF's financial statements.

In August 2018, as part of FASB's disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 *"Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements,"* the FASB issued ASU 2018-13 *"Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement"* which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020. ADB is currently assessing the impact of this ASU on JSF's financial statements.

### *Statement of Cash Flows*

For the purposes of the Statement of Cash Flows, the JSF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.



continued

### NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE

The main investment management objective is to maintain security and liquidity of funds invested. 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 2018 and 2017 were in US dollar time deposits.

The 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 1.97% and 1.97%, respectively (1.10% and 1.10% respectively – 2017).

#### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2018 and 2017 is as follows:

(\$ thousand)

		Fair Value Measurements			
	Total	Level 1	Level 2	Level 3	
<b>31 December 2018</b>					
Investments for liquidity purpose					
Time deposits	\$ 107,225	\$ –	\$ 107,225	\$ –	
<b>31 December 2017</b>					
Investments for liquidity purpose					
Time deposits	\$ 106,160	\$ –	\$ 106,160	\$ –	

ADB maintains documented processes and internal controls to value investments. 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 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.

As of 31 December 2018, \$30,000 (\$5,000 – 2017) was payable by JSF to OCR which is included in the ACCOUNTS PAYABLE AND OTHER LIABILITIES.

### 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 2018, \$181,000 (\$191,000 – 2017) representing completed and/or 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.

continued

**NOTE F—UNCOMMITTED BALANCES**

Effective 31 December 2002, all remaining net assets with donor restrictions under JSF were transferred and integrated into the regular net assets without donor restrictions, 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 2018 and 2017. These balances include approved TA projects/programs that are not yet effective. As of 31 December 2018 and 2017 these balances are as follows:

(\$ thousand)

	2018			2017		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
Uncommitted balances	\$ 28,199	\$ 71,024	\$ 99,223	\$ 28,199	\$ 69,540	\$ 97,739

The uncommitted balance with donor restrictions remaining available as of 31 December 2018 corresponds to funds under ACCSF of \$28,199,000 (\$28,199,000 – 2017) and the amount of net accumulated income from investment for liquidity purpose of \$10,157,000 (\$9,411,000 – 2017) for settlement of all administrative expenses.

Net assets transferred to assets without donor restriction 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—ADMINISTRATIVE AND FINANCIAL EXPENSES**

Administrative and financial expenses include salaries and benefits, audit fees, and financial expenses, which are incurred for management and general supporting activities. The following table summarizes administrative expenses for the year ended 31 December 2018:

(\$ thousand)

	2018
Salaries and benefits	\$ 66
Audit fees	18
Financial expenses	0
Total	\$ 84

Note: 0 = amount less than \$500.

continued

**NOTE H—LIQUIDITY AND AVAILABILITY OF RESOURCES**

Liquidity risk refers to the risk that the fund has difficulties in meeting its short-term obligations. As part of JSF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations comes due. In addition, as part of its liquidity management, JSF invests cash in excess of daily requirements in short-term investments.

The JSF has liquidity of \$71,007,000 consisting of DUE FROM BANKS of \$1,920,000 and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$69,087,000, available within one year of the balance sheet date to meet cash needs for general expenditure as presented in the Statement of Financial Position. See Note F for discussions relating to donor restrictions on ACCSF's uncommitted balance.

**NOTE I—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2018 and 2017, 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 J—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the JSF's Financial Statements as of 31 December 2018.



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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, 2018 and 2017, 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.

**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, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	2018		2017	
ASSETS				
DUE FROM BANKS (Note L)	\$ 12,391		\$ 13,809	
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and L)				
Time deposits	3,811		—	
PROPERTY, FURNITURE, AND EQUIPMENT (Note D)				
Property, Furniture, and Equipment	\$ 2,858		\$ 2,797	
Less—allowance for depreciation	<u>2,829</u>	29	<u>2,760</u>	37
DUE FROM CONTRIBUTORS (Note G)	6,694		5,964	
LONG-TERM GUARANTEE DEPOSITS (Note E)	1,291		1,263	
OTHER ASSETS (Note J)	334		287	
TOTAL	\$ 24,550		\$ 21,360	
LIABILITIES AND UNCOMMITTED BALANCES				
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Accrued pension and postretirement				
medical benefit costs (Note K)	\$ 6,217		\$ 7,286	
Asset reinstatement obligations (Note F)	981		960	
Others (Note J)	<u>1,042</u>	\$ 8,240	<u>1,050</u>	\$ 9,296
UNCOMMITTED BALANCES (ADBI-2), represented by:				
Net assets without donor restrictions	16,202		11,871	
Net assets with donor restrictions (Note H)	<u>108</u>	16,310	<u>193</u>	12,064
TOTAL	\$ 24,550		\$ 21,360	

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN NET ASSETS WITHOUT RESTRICTIONS</b>		
CONTRIBUTIONS (Note G)	\$ 15,027	\$ 13,555
REVENUE		
From rental (Note H)	315	318
From investments for liquidity purpose (Note C)	14	—
From other sources—net (Notes H and J)	198	178
NET ASSETS RELEASED FROM ASSETS WITH DONOR RESTRICTIONS	<u>341</u>	<u>52</u>
Total	<u>15,895</u>	<u>14,103</u>
EXPENSES		
Administrative expenses (Notes H, I and J)	(8,176)	(8,751)
Program expenses (Note H)	<u>(5,096)</u>	<u>(4,170)</u>
Total	<u>(13,272)</u>	<u>(12,921)</u>
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES	2,623	1,182
EXCHANGE GAINS—net	195	325
TRANSLATION ADJUSTMENTS	130	167
POST RETIREMENT BENEFIT LIABILITY ADJUSTMENTS	<u>1,383</u>	<u>189</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>4,331</u>	<u>1,863</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
REVENUE FROM OTHER SOURCES (Note H)	256	245
NET ASSETS RELEASED TO ASSETS WITHOUT DONOR RESTRICTIONS	<u>(341)</u>	<u>(52)</u>
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(85)</u>	<u>193</u>
INCREASE IN NET ASSETS	4,246	2,056
NET ASSETS AT BEGINNING OF YEAR	12,064	10,008
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 16,310</b>	<b>\$ 12,064</b>

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE****STATEMENT OF CASH FLOWS****For the Years Ended 31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 14,417	\$ 13,335
Interest received on investments for liquidity purpose	11	—
Expenses paid	(12,914)	(12,189)
Others—net	964	1,066
Net Cash Provided by Operating Activities	<u>2,478</u>	<u>2,212</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	26,630	—
Purchases of investments for liquidity purpose	(30,440)	—
Purchase of property, furniture, and equipment	—	(42)
Net Cash Used in Investing Activities	<u>(3,810)</u>	<u>(42)</u>
Effect of Exchange Rate Changes on Due from Banks	<u>(86)</u>	<u>166</u>
Net (Decrease) Increase in Due From Banks	(1,418)	2,336
Due From Banks at Beginning of Year	<u>13,809</u>	<u>11,473</u>
Due From Banks at End of Year	<u><u>\$ 12,391</u></u>	<u><u>\$ 13,809</u></u>

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 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

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 support without donor restrictions as these are made available to the Institute without conditions other than for the purposes of pursuing the objectives of the Institute.

The Institute reports the contributions of cash and other assets as support with donor restrictions 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, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities and Changes in Net Assets.

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<sup>1</sup> 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 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 exchange rates at the end of a reporting period. Commitments included in the financial statements during the year are recognized at the applicable exchange rates as of the end of the month of commitment. Revenue and expense amounts are translated at the applicable exchange rates 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 NET ASSETS WITHOUT DONOR RESTRICTIONS.

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—net and included in the CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS.

#### *Investments for Liquidity Purpose*

All investments held by the Institute are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose.

#### *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 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.

continued

### *Fair Value Hierarchy*

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

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

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

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

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

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

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

### *Accounting Estimates*

The preparation of the financial statements in accordance with generally accepted accounting principles requires management to make 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. Actual results could differ from those estimates.

### *Accounting and Reporting Developments*

In February 2016, the FASB issued ASU 2016-02, "*Leases (Topic 842)*," which established that all leases create an asset and a liability for the lessee in accordance with FASB Concepts Statement No. 6, *Elements of Financial Statements*. This ASU requires the recognition of lease assets and lease liabilities for the rights and obligations arising from leases with terms of more than 12 months. This also requires qualitative and specific quantitative disclosures. In August 2018, ASUs 2018-10 and 2018-11 were issued to make targeted improvements to Topic 842. These updates are effective for the Institute on 1 January 2019 where requirements of the new leases standard will only be applied at the adoption date and a cumulative effect adjustment to the opening balance of retained earnings will be recognized in the period of adoption. As a result, \$3,354,000 in Right-of-use Asset and \$3,131,000 in Lease Liability will be recognized as beginning balances in the Institute's statement of financial position on 1 January 2019. Since the Institute only has operating leases, there will be no cumulative-effect adjustment to the opening balance of net assets on adoption date. In addition, there will be no material impact to the amount of monthly lease expense recognized in the Institute's statement of activities and changes in net assets.

In 2016, the FASB issued the following ASUs: (i) ASU 2016-14, "*Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*," which improves 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 amendments in this update change 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. This ASU impacted presentation and disclosures on the Institute's financial statements as of 31 December 2018, and are reflected in ADBI-1, ADBI-2, ADBI-3 and Notes H and L; (ii) ASU 2016-15, "*Statement of Cash Flows (Topic 230) - Classification of Certain Cash Receipts and Cash Payments*," which provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient, and (iii) ASU 2016-18,

continued

*“Statement of Cash Flows (Topic 230) – Restricted Cash,”* which 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. These updates became effective on 1 January 2018 and are reflected in ADBI-3.

In March 2017, the FASB issued ASU 2017-07 *“Compensation—Retirement Benefits (Topic 715) – Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost”* which requires employers to report the service cost component of net periodic pension cost (NPPC) as compensation cost and the other NPPC components (e.g. interest cost, expected return on plan assets and recognized actuarial gain/loss) outside of income from operations on the income statement or be disclosed in the notes to the financial statements. The amendment also allows only the service cost component of NPPC to be eligible for capitalization when applicable. The amendments became effective on 1 January 2018 and did not have a material impact on the Institute’s financial statements.

In June 2018, FASB issued ASU 2018-08, *“Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”*, which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective for ADB on 1 January 2019 but is not expected to have a material impact on the Institute’s financial statements.

In August 2018, the FASB issued the following ASUs as part of its disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 *“Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements”*: (i) ASU 2018-13 *“Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”* which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020; and (ii) ASU 2018-14 *“Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”* which remove disclosures that no longer are considered cost-beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. This amendment is effective on 1 January 2022. The Institute is currently assessing the impact of these ASUs on its financial statements.

In August 2018, the FASB issued ASU 2018-15, *“Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”* which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This amendment is effective on 1 January 2021 where requirements should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. The Institute is currently assessing the impact of this ASU on its financial statements.

continued

*Statement of Cash Flows*

For the purposes of the Statement of Cash Flows, the Institute considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

**NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE**

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

All investments for liquidity purpose held as of 31 December 2018 were in US dollar time deposits.

The rates of return on the average investments for liquidity purpose held during the period ended 31 December 2018, based on the portfolio held at the beginning and end of each month, was 2.33% (nil – 2017).

*Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2018 (nil – 31 December 2017) is as follows:

(\$ thousand)

<b>31 December 2018</b>	<b>Fair Value Measurements</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
Investments for liquidity purpose				
Time deposits	\$ 3,811	\$ –	\$ 3,811	\$ –

ADB maintains documented processes and internal controls to value investments. Time deposits are reported at cost, which approximates FV.

**NOTE D—PROPERTY, FURNITURE, AND EQUIPMENT**

Property, furniture and equipment consist of one-time establishment cost (comprising the office furniture, fixtures and equipment purchased at inception for use in the operations of the Institute), and subsequently purchased furniture and equipment.

continued

The changes in the property, furniture, and equipment during 2018 and 2017, as well as information pertaining to accumulated depreciation, are as follows:

(\$ thousand)

	<b>Property, Furniture and Equipment</b>			
	One-time establishment cost	Furniture	Equipment	Grand Total
<b>2018</b>				
<b>Cost:</b>				
Balance, 1 January 2018	\$ 2,387	\$ 53	\$ 357	\$ 2,797
Additions during the year	–	–	–	–
Disposals during the year	–	–	–	–
Translation adjustments	52	1	8	61
Balance, 31 December 2018	2,439	54	365	2,858
<b>Accumulated Depreciation:</b>				
Balance, 1 January 2018	(2,387)	(53)	(320)	(2,760)
Depreciation during the year	–	–	(2)	(2)
Disposals during the year	–	–	–	–
Translation adjustments	(52)	(1)	(14)	(67)
Balance, 31 December 2018	(2,439)	(54)	(336)	(2,829)
<b>Net Book Value, 31 December 2018</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 29</b>	<b>\$ 29</b>

(\$ thousand)

	<b>Property, Furniture and Equipment</b>			
	One-time establishment cost	Furniture	Equipment	Grand Total
<b>2017</b>				
<b>Cost:</b>				
Balance, 1 January 2017	\$ 2,299	\$ 51	\$ 303	\$ 2,653
Additions during the year	–	–	42	42
Disposals during the year	–	–	–	–
Translation adjustments	88	2	12	102
Balance, 31 December 2017	2,387	53	357	2,797
<b>Accumulated Depreciation:</b>				
Balance, 1 January 2017	(2,299)	(51)	(293)	(2,643)
Depreciation during the year	–	–	(16)	(16)
Disposals during the year	–	–	–	–
Translation adjustments	(88)	(2)	(11)	(101)
Balance, 31 December 2017	(2,387)	(53)	(320)	(2,760)
<b>Net Book Value, 31 December 2017</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 37</b>	<b>\$ 37</b>

continued

#### NOTE E—LONG-TERM GUARANTEE DEPOSITS

The Institute leases office space and deposits the equivalent of six months of office rent to the lessor, as stipulated in the contract of lease signed in 1997. The amount is updated every contract renewal. The last renewal date was 1 April 2017.

#### NOTE F—ASSET REINSTATEMENT OBLIGATIONS

The Institute has recorded the estimated asset reinstatement obligations related to leased office space.

#### NOTE G—CONTRIBUTIONS AND UNCOMMITTED BALANCES

Contributions pertain to donations from governments of ADB's member countries and are approved by the ADB Board of Directors. Contributions are recognized in the Statement of Activities and Changes in Net Assets when unconditional commitments are received from the donors.

Contributions committed and received during the year ended 31 December 2018 and 2017 are as follows:

(in thousand)

Donor	Amount of commitment		Commitment date	Receipt date
	LC	USD		
Government of Japan				
32nd contribution	¥ 672,069	\$ 6,094	December 2018	18 January 2019
31st contribution	¥ 672,070	\$ 6,083	June 2018	29 June 2018
30th contribution	¥ 672,069	\$ 5,964	December 2017	17 January 2018
29th contribution	¥ 672,070	\$ 6,091	June 2017	12 June 2017
28th contribution	¥ 672,070	\$ 5,744	December 2016	6 January 2017
Government of Republic of Korea				
2nd installment of the 3rd contribution		\$ 875	October 2018	5 October 2018
1st installment of the 3rd contribution		\$ 875	March 2018	5 April 2018
4th installment of the 2nd contribution		\$ 300	October 2017	26 October 2017
3rd installment of the 2nd contribution		\$ 700	April 2017	28 April 2017
Government of People's Republic of China				
2nd contribution		\$ 500	November 2018	19 November 2018
1st contribution		\$ 500	November 2017	15 November 2017
Government of Indonesia				
2nd contribution		\$ 600	October 2018	within 2019

LC = local currency, USD = US dollar.

Uncommitted balances comprise amounts which have not been committed by the Institute as of 31 December 2018 and 2017.

continued

## NOTE H—REVENUE AND EXPENSES

### *Revenue from rental*

Revenue from rental consists of sublease rental income totaling \$315,000 for 2018 (\$318,000 – 2017) 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 negotiated at arm's length.

### *Revenue from other sources*

Grants received from private donors for a specific purpose or program are classified as restricted support.

The net assets with donor restrictions including net accumulated interest income as of 31 December 2018 amounts to \$108,000 (\$193,000 – 2017).

Net assets released to assets without donor restrictions relate to non-sewered sanitation program expenses in 2018 amounting to \$341,000 (\$52,000 – 2017) which have satisfied the conditions specified by the donor.

### *Administrative expenses*

Administrative expenses include salaries and benefits, office and occupancy, travel, external services and other expenses, which are incurred for management and general supporting activities. The following table summarizes administrative expenses for the year ended 31 December 2018:

(\$ thousand)

	<b>Amount</b>
Salaries and benefits	\$ 3,998
Office and occupancy	3,285
Travel	407
External services	438
Other expenses	48
<b>Total Administrative Expenses</b>	<b>\$ 8,176</b>

### *Program expenses*

Program expenses represent trainings and seminars and consultant expenses related to research and capacity building projects of the Institute. The following table summarizes program expenses for the year ended 31 December 2018:

(\$ thousand)

	<b>Amount</b>
Trainings and seminars	\$ 4,271
Consultants	825
<b>Total Program Expenses</b>	<b>\$ 5,096</b>



continued

## NOTE I—LEASES

The Institute leases office space and other assets. Rental expenses under operating leases for the years ended 31 December 2018 and 2017 were \$2,661,000 and \$2,684,000, respectively. As of 31 December 2018, the Institute has the following operating lease commitments:

<b>Year ending 31 December</b>	<b>Minimum future rentals (\$ thousand)</b>
2019	2,669
2020	445

## NOTE J—RELATED PARTY TRANSACTIONS

ADB has not allocated service fees to the Institute for a range of administrative and financial services such as managing the investments or administering the Staff Retirement Plan (SRP) and Post-Retirement Group Medical Insurance Plan (PRGMIP). 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 2018, the calculated service fee was \$18,000 (\$15,000 – 2017) 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 \$105,000 at 31 December 2018 (\$147,000 – 31 December 2017). The payable resulted from transactions in the normal course of business.

## NOTE K—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS

### *Staff Retirement Plan*

Eligible employees of the Institute are entitled by its Statute to be participants of ADB's defined benefit SRP. An eligible employee, as defined under SRP, shall, as a condition of service, become a participant from the first day of service, provided the employee has not reached the normal retirement age at that time, which is 60 for staff on board before 1 October 2017 and 62 for staff who joined on or after 1 October 2017. Retirement benefits are based on an annual accrual rate, length of service and the highest average remuneration during eligible service, which is 2 years for staff on board before 1 October 2017. For staff hired on or after 1 October 2017, the salary basis for a pension is the highest average three years remuneration, capped at \$100,000 (or equivalent in US dollars, if salary is denominated in a different currency), adjusted each year in line of US dollar salary scales. 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 hired before 1 October 2017 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.

In October 2017, ADB introduced a defined contribution (DC) plan. Participants hired on or after 1 October 2017 may contribute up to 40% of salary into the DC plan. ADB will make additional contributions to a participant's DC account equal to 20% of the participant's salary above the cap. ADB will match participant's contributions at a ratio of \$1 to each \$8 (1:8), capped at 12% of salary.

continued

From 1 October to 16 December 2018, all eligible staff who joined ADB prior to 1 October 2017 (and are below the age of 60) had the option to voluntarily switch into the 2017 Plan arrangement. Two types of switches were: 1) switch from their current Defined Benefit (DB) plan to the new 2017 DB plan and DC plan and/or cash; and 2) switch from the Discretionary Benefit (XB) contracts that earn 8.0% p.a. into the DC plan and/or cash. ADBI provided incentives to the staff to switch into the 2017 Plan arrangement.

#### *Expected Contributions*

The Institute'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. The Institute is expected to contribute \$260,000 to the SRP for 2019 based on the budgeted contribution of 24% of salary of Institute participants.

The Institute's staff members are expected to contribute \$153,000 representing participants' mandatory contribution of \$16,000 assuming full year service and discretionary contributions of \$137,000.

#### *Investment Strategy*

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. The SRP employs 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 November 2017, the SRP's new long-term target asset-mix, which has been implemented in 2018, is 30% US equity, 30% non-US equity, 15% global fixed income, 10% global high yield, and 15% diversified asset.

For the year ended 31 December 2018, the net return on the SRP assets was -6.14% (16.22% – 2017). ADB expects the long-term rate of return on the assets to be 6.5% (7.0% – 2017).

#### *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 6.5% 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.

continued

#### *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. The 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*

The Institute's expected contribution to the RMPF is determined based on the recommendation of the SRP Pension Committee. For 2019, 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 2018, the net return on the RMPF assets was -6.24% (15.73% – 2017).

#### *Assumptions*

The overall long-term rate of return is 6.5% 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.

continued

The following table sets forth the Institute's participants' pension and postretirement medical benefits at 31 December 2018 and 2017:

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2018	2017	2018	2017
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 6,580	\$ 5,668	\$ —	\$ —
Actual return on plan assets	(396)	919	—	—
Employer's contribution	256	261	—	—
Plan participants' contributions	140	216	—	—
Benefits paid	(665)	(484)	—	—
Fair value of plan assets at end of year	<u>\$ 5,915</u>	<u>\$ 6,580</u>	<u>\$ —</u>	<u>\$ —</u>
Change in benefit obligation:				
Projected benefit obligation at beginning of year	\$ 13,468	\$ 12,352	\$ 398	\$ 353
Service cost	389	389	30	65
Interest cost	553	560	19	20
Plan participants' contributions	140	216	—	—
Actuarial (gain) loss	(1,929)	532	(271)	(40)
Plan amendment in 2017	—	(97)	—	—
Benefits paid	(665)	(484)	—	—
Projected benefit obligation at end of year	<u>\$ 11,956</u>	<u>\$ 13,468</u>	<u>\$ 176</u>	<u>\$ 398</u>
<b>Funded Status</b>	<b>\$ (6,041)</b>	<b>\$ (6,888)</b>	<b>\$ (176)</b>	<b>\$ (398)</b>
Amounts recognized in the Balance sheet consist of:				
Noncurrent liabilities	<u>\$ (6,041)</u>	<u>\$ (6,888)</u>	<u>\$ (176)</u>	<u>\$ (398)</u>
Amounts recognized in the Unrestricted net assets consist of:				
Net actuarial loss (gain)	<u>\$ 689</u>	<u>\$ 1,849</u>	<u>\$ (843)</u>	<u>\$ (620)</u>
Weighted-average assumptions as of 31 December				
Discount rate	4.90%	4.00%	5.70%	4.50%
Expected return on plan assets	6.50%	7.00%	6.50%	7.00%
Rate of compensation increase varies with age and averages	4.00%	4.00%	N/A	N/A

For measurement purposes, a 7.0% annual rate of increase in the per capita cost of covered postretirement medical care benefits was assumed for the valuation as of 31 December 2018 and 2017. The rate was assumed to decrease gradually to 5.0% by 2024 and remain at that level thereafter.

continued

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the years ended 31 December 2018 and 2017:

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2018	2017	2018	2017
Components of net periodic benefit cost:				
Service cost	\$ 389	\$ 389	\$ 30	\$ 65
Interest cost	553	560	19	20
Expected return on plan assets	(448)	(397)	—	—
Recognized actuarial loss (gain)	75	112	(48)	(50)
<b>Net periodic benefit cost</b>	<b>\$ 569</b>	<b>\$ 664</b>	<b>\$ 1</b>	<b>\$ 35</b>

All components of the net periodic benefit cost are included in Administrative expenses in the Statement of Activities and Changes in Net Assets.

The Institute's accumulated benefit obligation of the pension plan as of 31 December 2018 was \$11,894,000 (\$13,246,000 – 2017).

The estimated net loss and prior service credit for the defined benefit pension plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are nil and \$11,000, respectively. The estimated net gains and prior service cost for the postretirement medical benefits plan that will be amortized from net assets without donor restrictions into net periodic benefit cost over the next fiscal year are \$59,000 and nil, 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:

(\$ thousand)

	1-Percentage- Point Increase	1-Percentage- Point Decrease
Effect on total service and interest cost components	\$ 17	\$ (13)
Effect on postretirement medical benefit obligation	39	(31)

#### *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 2018:

(\$ thousand)

	Pension Benefits	Postretirement Medical Benefits
2019	\$ 615	\$ 1
2020	475	2
2021	746	5
2022	596	5
2023	611	5
2024–2028	3,650	31

continued

*Fair Value Disclosure*

The FV of the Institute's SRP asset's measured on a recurring basis as of 31 December 2018 and 2017 is shown below:

(\$ thousand)

(\$ thousands)

		Fair Value Measurements			
	Total	Level 1	Level 2	Level 3	
<b>31 December 2018</b>					
Cash and cash equivalents	\$ 93	\$ —	\$ 93	\$ —	
Common/preferred stocks	936	936	—	—	
Investment funds	3,296	2,972	324	—	
Government or government-guaranteed securities	638	634	4	—	
Corporate debt securities	751	737	14	—	
Mortgage/asset-backed securities:					
Mortgage-backed securities	178	73	105	—	
Collateralized mortgage obligations	2	—	2	—	
Asset-backed securities	1	—	1	—	
Short-term investments	123	109	14	—	
Derivatives	(33)	(8)	(25)	—	
Other asset/liabilities <sup>a</sup> —net	(70)	—	(70)	—	
<b>Total fair value of SRP assets</b>	<b>\$ 5,915</b>	<b>\$ 5,453</b>	<b>\$ 462</b>	<b>\$ —</b>	
<b>31 December 2017</b>					
Cash and cash equivalents	\$ 150	\$ —	\$ 150	\$ —	
Common/preferred stocks	1,204	1,204	—	—	
Investment funds	3,497	3,497	—	—	
Government or government-guaranteed securities	619	611	8	—	
Corporate debt securities	865	839	24	2	
Mortgage/asset-backed securities:					
Mortgage-backed securities	136	40	94	2	
Collateralized mortgage obligations	10	—	7	3	
Asset-backed securities	1	—	—	1	
Short-term investments	81	80	1	—	
Derivatives	(9)	0	(9)	—	
Other asset/liabilities <sup>a</sup> —net	26	—	26	—	
<b>Total fair value of SRP assets</b>	<b>\$ 6,580</b>	<b>\$ 6,271</b>	<b>\$ 301</b>	<b>\$ 8</b>	

0 = Less than \$500.

<sup>a</sup> Includes 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 2018 and 2017:

(\$ thousand)

	2018		2017	
	Level 1	Level 2	Level 1	Level 2
Investments				
Investment funds				
Transfers into	\$ –	\$ 324	\$ –	\$ –
Transfers (out of)	(324)	–	–	–
Government or government-guaranteed securities				
Transfers into (out of)	1	–	–	–
Transfers (out of) into	–	(1)	(3)	3
Corporate debt securities				
Transfers into (out of)	13	9	22	(22)
Transfers (out of) into	(9)	(13)	(7)	7
	<u>\$ (319)</u>	<u>\$ 319</u>	<u>\$ 12</u>	<u>\$ (12)</u>

The following tables present the changes in the carrying amounts of the Institute's SRP Level 3 investments for the years ended 31 December 2018 and 2017:

(\$ thousand)

	Investments	
	Corporate debt securities	MBS/ ABS/ CMO
Balance, 31 December 2017	\$ 3	\$ 5
Total realized/unrealized (losses)/gains in:		
Net increase in net assets available for benefits	0	0
Purchases	–	1
Sales/Maturities	–	(5)
Settlement and others	–	–
Transfers out of Level 3	(3)	(1)
Balance, 31 December 2018	<u>\$ 0</u>	<u>\$ 0</u>
Total unrealized gains included in income related to financial assets and liabilities still held at the reporting date	<u>\$ 0</u>	<u>\$ 0</u>

0 = Less than \$500.

ABS = Asset-backed securities, CMO = Collateralized Mortgage Obligations, MBS = Mortgage-backed securities.

continued

(\$ thousand)

	Investments	
	Corporate debt securities	MBS/ ABS/ CMO
Balance, 31 December 2016	\$ 4	\$ 5
Total realized/unrealized (losses)/gains in:		
Net increase in net assets available for benefits	0	0
Purchases	3	5
Sales/Maturities	(1)	(4)
Settlement and others	—	(1)
Transfers out of Level 3	(3)	0
Balance, 31 December 2017	\$ 3	\$ 5
Total unrealized gains included in income related to financial assets and liabilities still held at the reporting date	\$ 0	\$ 0

0 = Less than \$500.

ABS = Asset-backed securities, CMO = Collateralized Mortgage Obligations, MBS = Mortgage-backed securities.

Transfers out of Level 3 in 2018 and 2017 are due to the availability of market observable inputs.

**NOTE L—LIQUIDITY AND AVAILABILITY OF RESOURCES**

Liquidity risk refers to the risk that the fund has difficulties in meeting its short-term obligations. As part of the Institute's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations comes due. In addition, as part of its liquidity management, the Institute invests cash in excess of daily requirements in short-term investments.

The Institute has liquidity of \$16,202,000 consisting of DUE FROM BANKS of \$12,391,000 and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$3,811,000, available within one year of the balance sheet date to meet cash needs for general expenditure as presented in the Statement of Financial Position. See Note G for discussions relating to donor restrictions on the Institute's uncommitted balance.

**NOTE M—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2018 and 2017, the Institute has no assets or liabilities measured at FV on a non-recurring basis. See Note C for discussions relating to investments for liquidity purpose. In all other cases, the carrying amounts of the Institute's assets and liabilities are considered to approximate FVs.

**NOTE N—SUBSEQUENT EVENTS**

The Institute has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the Institute's Financial Statements as of 31 December 2018.



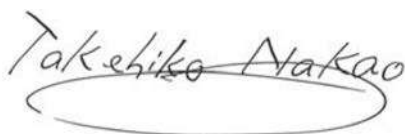
**REGIONAL COOPERATION AND INTEGRATION FUND  
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 2018, 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 2018, 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



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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, 2018, 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.



### **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, 2018, 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, 2018 and 2017 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 15, 2019 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019



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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, 2018 and 2017, 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.

**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, 2018 and 2017, and the changes in its net assets 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, 2018, 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 15, 2019 expressed an unmodified opinion on ADB's internal control over financial reporting.

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

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND****STATEMENT OF FINANCIAL POSITION****31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 2,630	\$ 1,917
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H and I)		
Time deposits	15,482	19,839
ACCRUED REVENUE	11	8
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	90	37
<b>TOTAL</b>	<b>\$ 18,213</b>	<b>\$ 21,801</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 62	\$ 78
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and I)	8,406	7,456
TOTAL LIABILITIES	8,468	7,534
UNCOMMITTED BALANCES (RCIF-2, Note F), represented by:		
Net assets without donor restrictions	9,745	14,267
<b>TOTAL</b>	<b>\$ 18,213</b>	<b>\$ 21,801</b>

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

**ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ —	\$ 10,000
REVENUE		
From investments for liquidity purpose (Note C)	346	194
From other sources	<u>4</u>	<u>3</u>
Total	<u>350</u>	<u>10,197</u>
EXPENSES		
Technical assistance—net (Notes E and G)	(4,678)	(1,648)
Administrative and financial expenses (Notes D and G)	<u>(205)</u>	<u>(132)</u>
Total	<u>(4,883)</u>	<u>(1,780)</u>
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(4,533)	8,417
EXCHANGE GAINS—net	<u>11</u>	<u>0</u>
(DECREASE) INCREASE IN NET ASSETS	(4,522)	8,417
NET ASSETS AT BEGINNING OF YEAR	14,267	5,850
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 9,745</b>	<b>\$ 14,267</b>

0 = Less than \$500.

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

**ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND****STATEMENT OF CASH FLOWS****For the Years Ended 31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ —	\$ 10,000
Interest received on investments for liquidity purpose	343	188
Cash received from other sources	4	3
Technical assistance disbursed	(3,805)	(2,220)
Administrative and financial expenses paid	(186)	(119)
Net Cash (Used in) Provided by Operating Activities	(3,644)	7,852
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	919,494	854,400
Purchases of investments for liquidity purpose	(915,137)	(862,388)
Net Cash Provided by (Used in) Investing Activities	4,357	(7,988)
Net Increase (Decrease) in Due From Banks	713	(136)
Due from Banks at Beginning of Year	1,917	2,053
Due from Banks at End of Year	\$ 2,630	\$ 1,917

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 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

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, capacity development, 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 assets without donor restrictions 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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<sup>1</sup> Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

#### *Translation of Currencies*

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets and liabilities which are denominated in non-US dollar currencies are adjusted using the applicable exchange rates 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 investments held by RCIF are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included 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*

TA and grants are recognized in the financial statements when the project 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*

Accounting Standards Codification (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 accordance 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 August 2016, the Financial Accounting Standards Board (FASB) issued the following Accounting Standard Update (ASUs): (i) 2016-14, *"Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities,"* which improves 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 amendments in this update change 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. This ASU impacted presentation and disclosures on RCIF's annual financial statements as of 31 December 2018, and are reflected in RCIF-1, RCIF-2, RCIF-3 and Notes G and H; and (ii) ASU 2016-15, *"Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments,"* which provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. This update became effective on 1 January 2018 and are reflected in RCIF-3.

In June 2018, FASB issued ASU 2018-08, *"Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,"* which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective on 1 January 2019 but is not expected to have a material impact on RCIF's financial statements.

In August 2018, as part of FASB's disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 *"Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements,"* the FASB issued ASU 2018-13, *"Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement"* which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020. ADB is currently assessing the impact of this ASU on RCIF's financial statements.

continued

### *Statement of Cash Flows*

For the purposes of the Statement of Cash Flows, RCIF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

### **NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE**

The main investment management objective is to maintain security and liquidity of funds invested. 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 2018 and 2017 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the period ended 31 December 2018, based on the portfolio held at the beginning and end of each month, was 1.92% (1.14% – 2017).

### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2018 and 2017 is as follows:

(\$ thousand)

	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b><u>31 December 2018</u></b>				
Investments for liquidity purpose				
Time deposits	\$ 15,482	\$ –	\$ 15,482	\$ –
<b><u>31 December 2017</u></b>				
Investments for liquidity purpose				
Time deposits	\$ 19,839	\$ –	\$ 19,839	\$ –

ADB maintains documented processes and internal controls to value investments. 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 administered by ADB. The service fee is currently 5% of the amount disbursed for technical assistance and 2% of the amount disbursed for grant components of investment projects.

continued

The interfund account balances included in ACCOUNTS PAYABLE AND OTHER LIABILITIES as of 31 December 2018 and 2017 are as follows:

(\$ thousand)

	2018	2017
<b>Payable to:</b>		
Ordinary capital resources	\$ 30	\$ 25
Technical Assistance Special Fund	2	15
Trust Funds—net	10	19
Total	<u>\$ 42</u>	<u>\$ 59</u>

#### NOTE E—UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed technical assistance are denominated in US dollars and represent effective TA not yet disbursed and unliquidated. During 2018, \$572,000 (\$1,102,000 – 2017) 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 in 2018. In May 2017, the RCIF received \$10,000,000 following the Board of Governors' approval of the transfer of OCR's 2016 allocable net income.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2018 and 2017.

#### NOTE G—EXPENSES

*Technical assistance and grants—net*

TA expenses are classified according to its nature using the budget allocation specified in the relevant TA agreement for the TAs that became effective during the year. The details of TA expenses for the year ended 31 December 2018 is as follows:

(\$ thousand)

	2018
Consultants	\$ 4,169
Trainings and seminars	666
Studies	60
Other expenses—net <sup>1</sup>	(217)
Total	<u>\$ 4,678</u>

<sup>1</sup> Net of savings and cancellations (See Note E).

continued

*Administrative and financial expenses*

Administrative and financial expenses include service fees to OCR, audit fees and financial expenses, which are incurred for management and general supporting activities. The following table summarizes administrative expenses for the year ended 31 December 2018:

(\$ thousand)

	<b>2018</b>
Service fees	\$ 186
Audit fees	18
Financial expenses	1
Total	<u>\$ 205</u>

**NOTE H—LIQUIDITY AND AVAILABILITY OF RESOURCES**

Liquidity risk refers to the risk that the fund has difficulties in meeting its short-term obligations. As part of RCIF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations comes due. In addition, as part of its liquidity management, RCIF invests cash in excess of daily requirements in short-term investments.

The RCIF has liquidity of \$18,112,000 consisting of DUE FROM BANKS of \$2,630,000 and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$15,482,000, available within one year of the balance sheet date to meet cash needs for general expenditure as presented in the Statement of Financial Position. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

**NOTE I—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2018 and 2017, 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 J—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the RCIF's Financial Statements as of 31 December 2018.

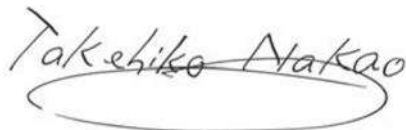
**CLIMATE CHANGE FUND  
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 2018, 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 2018, 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



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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, 2018, 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.





### **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, 2018, 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, 2018 and 2017 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 15, 2019 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019



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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, 2018 and 2017, 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.

**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, 2018 and 2017, and the changes in its net assets 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, 2018, 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 15, 2019 expressed an unmodified opinion on ADB's internal control over financial reporting.

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

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND****STATEMENT OF FINANCIAL POSITION****31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 1,854	\$ 2,722
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H and I)		
Time deposits	23,857	25,662
ACCRUED REVENUE	20	11
ADVANCES FOR TECHNICAL ASSISTANCE AND GRANTS AND OTHER ASSETS (Note D)	31	244
<b>TOTAL</b>	<b>\$ 25,762</b>	<b>\$ 28,639</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 139	\$ 235
UNDISBURSED TECHNICAL ASSISTANCE AND GRANTS (Notes E and I)	8,010	8,183
TOTAL LIABILITIES	8,149	8,418
UNCOMMITTED BALANCES (CCF-2, Note F), represented by:		
Net assets without donor restrictions	17,613	20,221
<b>TOTAL</b>	<b>\$ 25,762</b>	<b>\$ 28,639</b>

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

**ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended 31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ —	\$ 15,000
REVENUE		
From investments for liquidity purpose (Note C)	504	263
From other sources	<u>25</u>	<u>12</u>
Total	<u>529</u>	<u>15,275</u>
EXPENSES		
Technical assistance and grants—net (Notes E and G)	(2,397)	(1,824)
Administrative and financial expenses (Notes D and G)	<u>(740)</u>	<u>(1,446)</u>
Total	<u>(3,137)</u>	<u>(3,270)</u>
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(2,608)	12,005
EXCHANGE LOSSES—net	<u>(0)</u>	<u>(1)</u>
(DECREASE) INCREASE IN NET ASSETS	(2,608)	12,004
NET ASSETS AT BEGINNING OF YEAR	20,221	8,217
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 17,613</b>	<b>\$ 20,221</b>

0 = Less than \$500.

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

**ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ —	\$ 15,000
Interest received on investments for liquidity purpose	495	255
Cash received from other activities	25	12
Technical assistance and grants disbursed	(3,047)	(4,633)
Administrative and financial expenses paid	(146)	(396)
	<u>(2,673)</u>	<u>10,238</u>
<b>Net Cash (Used in) Provided by Operating Activities</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments for liquidity purpose	1,312,786	1,132,420
Purchases of investments for liquidity purpose	(1,310,981)	(1,141,475)
	<u>1,805</u>	<u>(9,055)</u>
<b>Net Cash Provided by (Used in) Investing Activities</b>		
<b>Net (Decrease) Increase in Due From Banks</b>	(868)	1,183
<b>Due from Banks at Beginning of Year</b>	<u>2,722</u>	<u>1,539</u>
<b>Due from Banks at End of Year</b>	<u><u>\$ 1,854</u></u>	<u><u>\$ 2,722</u></u>

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

**ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 December 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

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 assets without donor restrictions 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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<sup>1</sup> Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

#### *Translation of Currencies*

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets and liabilities which are denominated in non-US dollar currencies are adjusted using the applicable exchange rates 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 investments held by CCF are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included 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*

TA and grants are recognized in the financial statements when the project 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*

Accounting Standards Codification (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 accordance 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 August 2016, the Financial Accounting Standards Board (FASB) issued the following Accounting Standard Update (ASUs): (i) 2016-14, "*Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements of Not-for-Profit Entities*," which improves 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 amendments in this update change 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. This ASU impacted presentation and disclosures on CCF's annual financial statements as of 31 December 2018, and are reflected in CCF-1, CCF-2, CCF-3 and Notes G and H; and (ii) ASU 2016-15, "Statement of Cash Flows (Topic 230) – Classification of Certain Cash Receipts and Cash Payments," which provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. This update became effective on 1 January 2018 and are reflected in CCF-3.

In June 2018, FASB issued ASU 2018-08, "*Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*", which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective on 1 January 2019 but is not expected to have a material impact on CCF's financial statements.

In August 2018, as part of FASB's disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 "*Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*", the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*" which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020. ADB is currently assessing the impact of this ASU on CCF's financial statements.

continued

### *Statement of Cash Flows*

For the purposes of the Statement of Cash Flows, CCF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

### **NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE**

The main investment management objective is to maintain security and liquidity of funds invested. 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 2018 and 2017 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the period ended 31 December 2018, based on the portfolio held at the beginning and end of each month, was 1.97% (1.20% – 2017).

### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2018 and 2017 is as follows:

(\$ thousand)

	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>31 December 2018</b>				
Investments for liquidity purpose				
Time deposits	<u>\$ 23,857</u>	<u>\$ –</u>	<u>\$ 23,857</u>	<u>\$ –</u>
<b>31 December 2017</b>				
Investments for liquidity purpose				
Time deposits	<u>\$ 25,662</u>	<u>\$ –</u>	<u>\$ 25,662</u>	<u>\$ –</u>

ADB maintains documented processes and internal controls to value investments. 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 the administration, management, supervision and operation of the CCF. The service fee is currently 5% of the amount disbursed for technical assistance and 2% of the amount disbursed for grant components of investment projects.

continued

The interfund account balances included in ADVANCES FOR TECHNICAL ASSISTANCE AND GRANTS AND OTHERS ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES as of 31 December 2018 and 2017 are as follows:

(\$ thousand)

	2018	2017
<b>Receivable from:</b>		
Technical Assistance Special Fund	\$ —	\$ 5
Trust Funds	2	82
Total	<u>\$ 2</u>	<u>\$ 87</u>
<b>Payable to:</b>		
Ordinary capital resources	\$ 105	\$ 218
Technical Assistance Special Fund—net	25	—
Total	<u>\$ 130</u>	<u>\$ 218</u>

#### 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 2018, \$1,661,000 (\$581,000 – 2017) 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 2018. In May 2017, the CCF received \$15,000,000 following the Board of Governors' approval of the transfer of OCR's 2016 allocable net income.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2018 and 2017. These balances include approved TA projects/programs that are not yet effective.

#### NOTE G—EXPENSES

*Technical assistance and grants—net*

TA expenses are classified according to their nature using the budget allocation specified in the relevant TA agreement for the TAs that became effective during the year. The details of TA expenses for the year ended 31 December 2018 is as follows:

(\$ thousand)

	2018
Consultants	\$ 3,022
Trainings and seminars	606
Studies	277
Other expenses—net <sup>a</sup>	(1,508)
Total	<u>\$ 2,397</u>

<sup>a</sup> Net of savings and cancellations (See Note E).

continued

### *Administrative and financial expenses*

Administrative and financial expenses include consultants, service fees to OCR, and other expenses, which are incurred for management and general supporting activities. The following table summarizes administrative expenses for the year ended 31 December 2018:

(\$ thousand)

	<b>2018</b>
Consultants	\$ 596
Service fees	126
Audit fees	18
Financial expenses	0
Total	<u>\$ 740</u>

0 = Less than \$500.

### **NOTE H—LIQUIDITY AND AVAILABILITY OF RESOURCES**

Liquidity risk refers to the risk that the fund has difficulties in meeting its short-term obligations. As part of CCF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations comes due. In addition, as part of its liquidity management, CCF invests cash in excess of daily requirements in short-term investments.

The CCF has liquidity of \$25,711,000 consisting of DUE FROM BANKS of \$1,854,000 and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$23,857,000, available within one year of the balance sheet date to meet cash needs for general expenditure as presented in the Statement of Financial Position. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

### **NOTE I—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2018 and 2017, 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 J—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the CCF's Financial Statements as of 31 December 2018.

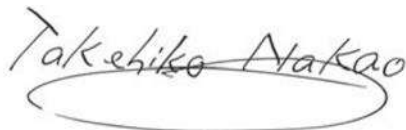
**ASIA PACIFIC DISASTER RESPONSE FUND  
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 2018, 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 2018, 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



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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, 2018, 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.



### **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, 2018, 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, 2018 and 2017 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 15, 2019 expressed an unmodified opinion on those financial statements.

A handwritten signature in black ink, appearing to read "Deloitte, member", written over the Deloitte logo.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019



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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, 2018 and 2017, 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.



**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, 2018 and 2017, and the changes in its net assets 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, 2018, 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 15, 2019 expressed an unmodified opinion on ADB's internal control over financial reporting.

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

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 1,231	\$ 4,171
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H and I)		
Time deposits	22,571	21,704
ACCRUED REVENUE	15	9
ADVANCES FOR GRANTS	1,516	1,857
<b>TOTAL</b>	<b>\$ 25,333</b>	<b>\$ 27,741</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 34	\$ 25
UNDISBURSED GRANTS (Notes E and I)	4,627	1,942
TOTAL LIABILITIES	4,661	1,967
UNCOMMITTED BALANCES (APDRF-2, Note F), represented by:		
Net assets without donor restrictions	20,672	25,774
<b>TOTAL</b>	<b>\$ 25,333</b>	<b>\$ 27,741</b>

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

**ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**For the Years Ended 31 December 2018 and 2017**  
Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ —	\$ 20,000
REVENUE		
From investments for liquidity purpose (Note C)	373	171
From other sources	<u>7</u>	<u>8</u>
Total	<u>380</u>	<u>20,179</u>
EXPENSES		
Grants—net (Note E)	(5,410)	(2,200)
Administrative and financial expenses (Notes D and G)	<u>(72)</u>	<u>(166)</u>
Total	<u>(5,482)</u>	<u>(2,366)</u>
(DECREASE) INCREASE IN NET ASSETS	(5,102)	17,813
NET ASSETS AT BEGINNING OF YEAR	25,774	7,961
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 20,672</b>	<b>\$ 25,774</b>

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

**ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND****STATEMENT OF CASH FLOWS****For the Years Ended 31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ —	\$ 20,000
Interest received on investments for liquidity purpose	366	163
Cash received from other sources	7	8
Grants disbursed	(2,383)	(2,115)
Administrative and financial expenses paid	(63)	(157)
Net Cash (Used in) Provided by Operating Activities	(2,073)	17,899
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments for liquidity purpose	974,760	681,453
Purchases of investments for liquidity purpose	(975,627)	(696,415)
Net Cash Used in Investing Activities	(867)	(14,962)
Net (Decrease) Increase in Due From Banks	(2,940)	2,937
Due from Banks at Beginning of Year	4,171	1,234
Due from Banks at End of Year	\$ 1,231	\$ 4,171

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

**ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 December 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

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 assets without donor restrictions 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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<sup>1</sup> Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), ADB Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF).

continued

### *Translation of Currencies*

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar currencies to be translated to the reporting currency using exchange rates applicable at the time of the transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. At the end of each accounting month, translations of assets and liabilities which are denominated in non-US dollar currencies are adjusted using the applicable exchange rates 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 investments held by APDRF are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included 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 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*

Accounting Standards Codification (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.

continued

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 accordance 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 2016, the Financial Accounting Standards Board (FASB) issued the following Accounting Standard Update (ASUs): (i) 2016-14, "*Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities*," which improves 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 amendments in this update change 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. This ASU impacted presentation and disclosures on APDRF's annual financial statements as of 31 December 2018, and are reflected in APDRF-1, APDRF-2, APDRF-3 and Notes G and H; and (ii) ASU 2016-15, "*Statement of Cash Flows (Topic 230) – Classification of Certain Receipts and Cash Payments*," which provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. This update became effective on 1 January 2018 and are reflected in APDRF-3.

In June 2018, FASB issued ASU 2018-08, "*Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*", which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective on 1 January 2019 but is not expected to have a material impact on APDRF's financial statements.

In August 2018, as part of FASB's disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 "*Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements*", the FASB issued ASU 2018-13, "*Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*" which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020. ADB is currently assessing the impact of this ASU on APDRF's financial statements.

### *Statement of Cash Flows*

For the purposes of the Statement of Cash Flows, APDRF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

continued

### NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE

The main investment management objective is to maintain security and liquidity of funds invested. 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 2018 and 2017 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the period ended 31 December 2018, based on the portfolio held at the beginning and end of each month, was 1.92% (1.20% – 2017).

#### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2018 and 2017 is as follows:

(\$ thousand)

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
<b>31 December 2018</b>				
Investments for liquidity purpose				
Time deposits	\$ 22,571	\$ –	\$ 22,571	\$ –
<b>31 December 2017</b>				
Investments for liquidity purpose				
Time deposits	\$ 21,704	\$ –	\$ 21,704	\$ –

ADB maintains documented processes and internal controls to value investments. 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 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 incremental cost for the administration, management, supervision and operation of the APDRF, a trust fund administered by ADB. The service fee is currently 2% of the amount disbursed for investment projects. As of 31 December 2018, \$26,000 (\$8,000 – 2017) 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 2018, there were \$89,000 undisbursed amounts written back from financially completed and/or cancelled grant (nil – 2017). 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 in 2018. In May 2017, the APDRF received \$20,000,000 following the Board of Governor's approval of the transfer of OCR's 2016 allocable net income.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2018 and 2017.



continued

#### **NOTE G—ADMINISTRATIVE AND FINANCIAL EXPENSES**

The administrative expenses and financial expenses include service fees to OCR, audit fees and financial expenses, which are incurred for management and general supporting activities. The table below summarizes the administrative expenses for the year ended 31 December 2018:

(\$ thousand)

	<b>2018</b>
Service fees	\$ 54
Audit fees	18
Financial expenses	0
Total	<u>\$ 72</u>

0 = Less than \$500.

#### **NOTE H—LIQUIDITY AND AVAILABILITY OF RESOURCES**

Liquidity risk refers to the risk that the fund has difficulties in meeting its short-term obligations. As part of APDRF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations comes due. In addition, as part of its liquidity management, APDRF invests cash in excess of daily requirements in short-term investments.

The APDRF has liquidity of \$23,802,000 consisting of DUE FROM BANKS of \$1,231,000 and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$22,571,000, available within one year of the balance sheet date to meet cash needs for general expenditure as presented in the Statement of Financial Position. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

#### **NOTE I—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2018 and 2017, 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 J—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the APDRF's Financial Statements as of 31 December 2018.

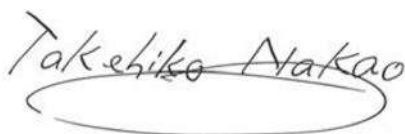
**FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND  
MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

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 2018, 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 2018, 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)



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Controller



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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, 2018, 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.



### **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, 2018, 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, 2018 and 2017 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 15, 2019 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019



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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, 2018 and 2017, 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.

**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, 2018 and 2017, and the changes in its net assets 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, 2018, 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 15, 2019 expressed an unmodified opinion on ADB's internal control over financial reporting.

A handwritten signature in black ink, appearing to read "Deloitte" followed by a stylized name, possibly "J. Wang".

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2019

**ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND**  
**STATEMENT OF FINANCIAL POSITION**

**31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 2,671	\$ 3,933
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H and I)		
Time deposits	6,431	6,800
ACCRUED REVENUE	4	3
DUE FROM CONTRIBUTORS (Note F)	1,717	—
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	23	4
<b>TOTAL</b>	<b>\$ 10,846</b>	<b>\$ 10,740</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 44	\$ 131
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and I)	6,588	5,255
TOTAL LIABILITIES	6,632	5,386
UNCOMMITTED BALANCES (FSDPSF-2, Note F), represented by:		
Net assets without donor restrictions	4,214	5,354
<b>TOTAL</b>	<b>\$ 10,846</b>	<b>\$ 10,740</b>

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

**ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

**For the Years Ended 31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<u>2018</u>	<u>2017</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ 1,697	\$ 1,177
REVENUE		
From investments for liquidity purpose (Note C)	132	69
From other sources	<u>39</u>	<u>24</u>
Total	<u>1,868</u>	<u>1,270</u>
EXPENSES		
Technical assistance (Notes E and G)	(2,929)	(2,835)
Administrative and financial expenses (Notes D and G)	<u>(98)</u>	<u>(78)</u>
Total	(3,027)	(2,913)
CONTRIBUTION AND REVENUE LESS THAN EXPENSES	(1,159)	(1,643)
EXCHANGE GAINS (LOSSES)—net	<u>19</u>	<u>(3)</u>
DECREASE IN NET ASSETS	(1,140)	(1,646)
NET ASSETS AT BEGINNING OF YEAR	5,354	7,000
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 4,214</b>	<b>\$ 5,354</b>

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



**ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND**  
**STATEMENT OF CASH FLOWS**

**For the Years Ended 31 December 2018 and 2017**

Expressed in Thousands of US Dollars

	<b>2018</b>	<b>2017</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ —	\$ 2,753
Interest received on investments for liquidity purpose	130	67
Cash received from other sources	39	24
Technical assistance disbursed	(1,712)	(1,000)
Administrative and financial expenses paid	(89)	(190)
Net Cash (Used in) Provided by Operating Activities	<u>(1,632)</u>	<u>1,654</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments for liquidity purpose	348,372	305,823
Purchases of investments for liquidity purpose	<u>(348,002)</u>	<u>(304,989)</u>
Net Cash Provided by Investing Activities	<u>370</u>	<u>834</u>
Net (Decrease) Increase in Due From Banks	(1,262)	2,488
Due from Banks at Beginning of Year	<u>3,933</u>	<u>1,445</u>
Due from Banks at End of Year	<u><u>\$ 2,671</u></u>	<u><u>\$ 3,933</u></u>

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 2018 and 2017**

**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 new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries. 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.<sup>1</sup>

The FSDPSF was approved by the Board of Directors and established on 31 January 2013 to strengthen regional, subregional, and national financial systems in Asia and the Pacific. 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 assets without donor restrictions 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 currencies are adjusted using the applicable exchange rates 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.

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<sup>1</sup> 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

#### *Investments for Liquidity Purpose*

All investments held by FSDPSF are reported at fair value (FV). Interest income earned, realized and unrealized gains and losses are included 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 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*

Accounting Standards Codification (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.

continued

### *Accounting Estimates*

The preparation of financial statements in accordance 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 2016, the Financial Accounting Standards Board (FASB) issued the following Accounting Standard Update (ASUs): (i) 2016-14, *“Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities,”* which improves 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 amendments in this update change 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. This ASU impacted presentation and disclosures on FSDPSF's annual financial statements as of 31 December 2018, and are reflected in FSDPSF-1, FSDPSF-2, FSDPSF-3 and Notes G and H; and (ii) ASU 2016-15, *“Statement of Cash Flows (Topic 230) – Classification of Certain Receipts and Cash Payments,”* which provides guidance for eight specific cash flow issues, where current standards are either unclear or deficient. This update became effective on 1 January 2018 and are reflected in FSDPSF-3.

In June 2018, FASB issued ASU 2018-08, *“Not-for-Profit Entities (Topic 958) - Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made”*, which should assist entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, Not-for-Profit Entities, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The amendments in this update are effective on 1 January 2019 but is not expected to have a material impact on FSDPSF's financial statements.

In August 2018, as part of FASB's disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 *“Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements”*, the FASB issued ASU 2018-13 *“Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”* which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective on 1 January 2020. ADB is currently assessing the impact of this ASU on FSDPSF's financial statements.

### *Statement of Cash Flows*

For the purposes of the Statement of Cash Flows, FSDPSF considers that its cash and cash equivalents are limited to DUE FROM BANKS, which consists of cash on hand and current accounts in banks used for operational disbursements.

## **NOTE C—INVESTMENTS FOR LIQUIDITY PURPOSE**

The main investment management objective is to maintain security and liquidity of funds invested. 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 2018 and 2017 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the period ended 31 December 2018, based on the portfolio held at the beginning and end of each month, was 1.95% (1.10% – 2017).

continued

*Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2018 and 2017 is as follows:

(\$ thousand)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>31 December 2018</b>				
Investments for liquidity purpose				
Time deposits	\$ 6,431	\$ –	\$ 6,431	\$ –
<b>31 December 2017</b>				
Investments for liquidity purpose				
Time deposits	\$ 6,800	\$ –	\$ 6,800	\$ –

ADB maintains documented processes and internal controls to value investments. 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 FSDPSF are settled regularly with OCR and the other funds. Grant programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's incremental cost for the administration, management, supervision, and operation of the FSDPSF. The service fees are set at (i) 5% of amounts disbursed for TA projects; and (ii) 5% of amounts disbursed for grant components of investment projects up to \$5,000,000, or 2% of amounts disbursed for grant components of investment projects above \$5,000,000 with a minimum of \$250,000, whichever is greater.

The interfund account balances included in ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES as of 31 December 2018 and 2017 are as follows:

(\$ thousand)

	2018	2017
<b>Payable to:</b>		
Ordinary capital resources, net	\$ 31	\$ 17
Technical Assistance Special Fund, net	4	97
Total	\$ 35	\$ 114

**NOTE E—UNDISBURSED TECHNICAL ASSISTANCE**

Undisbursed technical assistance are denominated in US dollars and represent effective TA not yet disbursed and unliquidated. During 2018, \$146,000 (\$564,000 – 2017) 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.

continued

## NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

Committed contributions in 2018 and 2017 came from the Government of Luxembourg. As of 31 December 2018, committed contribution equivalent to \$1,717,000 (nil – 2017) 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 2018 and 2017. These balances include approved TA projects/programs that are not yet effective.

## NOTE G—EXPENSES

### *Technical assistance—net*

TA expenses are classified according to their nature using the budget allocation specified in the TA paper for the TAs that became effective during the year. The details of TA expenses for the year ended 31 December 2018 is as follows:

(\$ thousand)	
	2018
Consultants	\$ 2,300
Trainings and Seminars	466
Other expenses—net <sup>a</sup>	163
Total	<u>\$ 2,929</u>

<sup>a</sup> Net of savings and cancellations (See Note E).

### *Administrative and financial expenses*

The administrative expenses and financial expenses include service fees to OCR, audit fees and financial expenses, which are incurred for management and general supporting activities. The table below summarizes the administrative expenses for the year ended 31 December 2018:

(\$ thousand)	
	2018
Service fees	\$ 80
Audit fees	18
Financial expenses	0
Total	<u>\$ 98</u>

0 = Less than \$500.

## NOTE H—LIQUIDITY AND AVAILABILITY OF RESOURCES

Liquidity risk refers to the risk that the fund has difficulties in meeting its short-term obligations. As part of FSDPSF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations comes due. In addition, as part of its liquidity management, FSDPSF invests cash in excess of daily requirements in short-term investments.

The FSDPSF has liquidity of \$9,102,000 consisting of DUE FROM BANKS of \$2,671,000 and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$6,431,000, available within one year of the balance sheet date to meet cash needs for general expenditure as presented in the Statement of Financial Position. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the balance sheet date.

continued

**NOTE I—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2018 and 2017, 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 J—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2018 through 15 March 2019, the date these Financial Statements are available for issuance. As a result of this evaluation, there are no subsequent events that require recognition or disclosure in the FSDPSF's Financial Statements as of 31 December 2018.

