

ASIAN DEVELOPMENT BANK  
**FINANCIAL  
REPORT**  
**2021**

MANAGEMENT'S DISCUSSION  
AND ANALYSIS AND ANNUAL  
FINANCIAL STATEMENTS



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**PUBLIC**

March 2022

# Management's Discussion and Analysis and Annual Financial Statements: 31 December 2021

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Asian Development Bank



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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### EXECUTIVE SUMMARY

Under Strategy 2030, which sets the direction for the Asian Development Bank (ADB) to respond effectively to the changing needs of Asia and the Pacific, ADB continues to sustain its efforts to eradicate extreme poverty and to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific. The devastating human, social, and economic consequences of the coronavirus disease (COVID-19) pandemic have expanded the scale of this challenge while reinforcing the relevance and importance of Strategy 2030's core principles. To respond to a multidimensional crisis like the COVID-19 pandemic, ADB continues to be flexible and agile in designing tailored country responses while maintaining focus on its Strategy 2030 objectives.<sup>1</sup>

In 2021, ADB delivered total commitments of \$22.8 billion (\$31.6 billion – 2020) and disbursements of \$18.2 billion (\$23.6 billion – 2020), including the COVID-19 response of \$13.5 billion commitments and \$7.0 billion disbursements.<sup>2</sup> ADB will continue to step up its efforts to address the direct impacts of the COVID-19 pandemic while reorientating all regular operations toward accelerating Asia and the Pacific's transition toward a green, resilient, and inclusive recovery (footnote 1).

**Financial Results:** Ordinary capital resources (OCR) reported net income of \$730 million (\$1,372 million – 2020) and allocable net income of \$1,161 million (\$1,132 million – 2020) in 2021. The net income decreased mainly because of the unrealized losses from fair value changes of financial instruments. The allocable net income slightly increased in 2021, driven by the higher income from increased lending operations and lower provision for credit losses, offset by higher administrative expenses. The OCR balance sheet continued to grow in line with its growing lending operations. Loans outstanding balance increased by \$7.4 billion to \$137.2 billion in 2021 from \$129.8 billion in 2020. Liquidity investments after swaps increased by \$2.7 billion to \$44.9 billion in 2021 from \$42.2 billion in 2020. Borrowings after swaps increased by \$10.6 billion to \$135.2 billion in 2021 from \$124.6 billion in 2020. In 2021, ADB issued \$35.8 billion bonds (\$35.8 billion – 2020).

**Reference Rate Transition:** In preparation for the transition from London interbank offered rate (LIBOR) to alternative reference rate, the ADB Board of Directors approved in July 2021 the change in the cost base rate from LIBOR to the Secured Overnight Financing Rate (SOFR) for US dollar-denominated loans and to the Tokyo Overnight Average Rate (TONA) for yen-denominated loans. ADB renamed its primary loan product to the Flexible Loan Product (FLP) capturing the various flexible options which are currently offered to borrowers that will continue with the FLP, including rate fixings, loan conversions and tailored amortization structures. In September 2021, the Board approved the revised Ordinary Operations Loan Regulations for sovereign borrowers to implement the changes to ADB's financial loan product. These changes took effect for new sovereign and new nonsovereign loans on 1 January 2022. Existing sovereign loans have started the transition to the terms of the FLP from 1 January 2022 onwards and the existing nonsovereign loans are expected to complete the transition by 30 June 2023.

**ADF 13 Replenishment:** The 12th replenishment of the Asian Development Fund (ADF 13) and the seventh regularized replenishment of the Technical Assistance Special Fund became effective on 8 June 2021. As of 31 December 2021, ADB received instruments of contributions from 29 donors totaling \$2,183 million, which represents 92% of the total ADF and TASF donor contribution commitment amounting to \$2,361 million.<sup>3</sup>

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<sup>1</sup> ADB. 2021. *Work Program and Budget Framework, 2022-2024*.

<sup>2</sup> The figures are for OCR, ADF and other Special Funds. Other Special Funds include Technical Assistance Special Fund, Regional Cooperation and Integration Fund, Asia Pacific Disaster Response Fund, Climate Change Fund and Financial Sector Development Partnership Special Fund. COVID-19 response includes APVAX.

<sup>3</sup> US dollar equivalent based on exchange rates in Board of Governors' Resolution no. 408.



## 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>4</sup> ADB is owned by 68 members, 49 of which are regional members providing 63.4% of its capital and 19 nonregional members providing 36.6% of its capital.

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

ADB also offers debt management products to its sovereign and sovereign-guaranteed borrowers 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 transaction advisory services to its DMCs and private sector clients to promote public-private partnerships in the region, 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 loans, equity investments, and credit enhancement products such as guarantees and syndications.

In 2021, ADB continued to focus on implementing Strategy 2030, its long-term corporate strategy, while focusing on COVID-19 response. ADB delivered total commitments of \$22.8 billion (\$31.6 billion – 2020) in 2021.<sup>5</sup> ADB will continue to be flexible and agile in balancing operations between COVID-19 response, including vaccine access, and support for a green, resilient, and inclusive recovery. ADB's projected commitments between 2022 and 2024 are expected to reach \$78 billion,<sup>6</sup> comprising \$60 billion in sovereign operations and \$17 billion in nonsovereign operations.<sup>7</sup>

Since April 2020, ADB has taken major steps to assist its DMCs through the \$20 billion COVID-19 response package. The package includes a COVID-19 pandemic response option (CPRO) under ADB's Countercyclical Support Facility. In addition, the \$9 billion Asia Pacific Vaccine Access Facility (APVAX) was launched in December 2020, providing additional rapid and equitable support to help DMCs deliver effective and safe COVID-19 vaccines. In 2021, ADB delivered COVID-19 response, including APVAX, of \$13.5 billion commitments and \$7.0 billion disbursements. Table 1 summarizes ADB's COVID-19 response comprising commitments and disbursements for various support for its DMCs.

ADB will continue its efforts to address the impacts of the COVID-19 pandemic and expand its COVID-19 response financing by \$40 billion between 2022 and 2024, with cumulative financing expected to reach \$74 billion by 2024 (footnotes 6 and 7).

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<sup>4</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

<sup>5</sup> The figures are for OCR, ADF and other Special Funds. Other Special Funds include Technical Assistance Special Fund, Regional Cooperation and Integration Fund, Asia Pacific Disaster Response Fund, Climate Change Fund and Financial Sector Development Partnership Special Fund.

<sup>6</sup> The figures are for OCR and ADF.

<sup>7</sup> ADB. 2021. *Work Program and Budget Framework, 2022-2024*.

**Table 1: ADB's COVID-19 Response**  
(\$ million)

	2021				2020			
	OCR	ADF	Other <sup>a</sup>	Total	OCR	ADF	Other <sup>a</sup>	Total
<b>Commitments</b>								
Loans								
Regular Sovereign	8,049	–	–	8,049	11,235	–	–	11,235
Concessional Sovereign	1,998	–	–	1,998	1,466	–	–	1,466
Nonsovereign	238	–	–	238	316	–	–	316
Private Sector Programs <sup>b</sup>								
Loans	216	–	–	216	202	–	–	202
Guarantees	2,831	–	–	2,831	2,217	–	–	2,217
Other Debt Securities	19	–	–	19	126	–	–	126
Grants	–	126	3	129	–	395	55	450
Technical Assistance	–	–	30	30	–	–	134	134
Grand Total	<b>13,352</b>	<b>126</b>	<b>33</b>	<b>13,511</b>	<b>15,563</b>	<b>395</b>	<b>189</b>	<b>16,146</b>
<b>Disbursements</b>								
Loans								
Regular Sovereign	4,799	–	–	4,799	8,178	–	–	8,178
Concessional Sovereign	1,607	–	–	1,607	1,101	–	–	1,101
Nonsovereign	188	–	–	188	136	–	–	136
Private Sector Programs <sup>b</sup>								
Loans	310	–	–	310	257	–	–	257
Other Debt Securities	23	–	–	23	90	–	–	90
Grants	–	44	9	53	–	331	49	380
Technical Assistance	–	–	18	18	–	–	39	39
Grand Total	<b>6,928</b>	<b>44</b>	<b>27</b>	<b>6,999</b>	<b>9,763</b>	<b>331</b>	<b>88</b>	<b>10,183</b>

– = nil, ADB = Asian Development Bank, ADF = Asian Development Fund, COVID-19 = coronavirus disease, OCR = ordinary capital resources

Notes: Numbers may not sum precisely because of rounding.

<sup>a</sup> Other includes Technical Assistance Special Fund, Regional Cooperation and Integration Fund, Asia Pacific Disaster Response Fund and Financial Sector Development Partnership Special Fund.

<sup>b</sup> Private sector programs includes Trade and Supply Chain Finance Program and Microfinance Programs.

Facing the interconnected challenges of the COVID-19 pandemic and the climate crisis, many DMCs are taking actions to promote a green, resilient, and inclusive recovery. In 2021, ADB provided \$3.5 billion for climate change mitigation and adaptation reaching \$14.3 billion cumulative financing for 2019–2021. The bank is committed to providing a total of \$35 billion by 2024 and elevated its ambition to \$100 billion by 2030.

## II. ORDINARY CAPITAL RESOURCES

OCR provides financial assistance to sovereign and nonsovereign borrowers in DMCs in the form of loans, equity investments, and other debt securities. In addition to direct lending, OCR also provides guarantees to assist DMC governments and nonsovereign borrowers in securing commercial funds for ADB-assisted projects and provides transaction advisory services to sovereign and nonsovereign clients.

Funding of OCR lending, investment and other ordinary operations comes from three distinct sources: borrowings from the capital markets and private placements; paid-in capital provided by shareholders; and accumulated retained income (reserves). To fund its OCR operations, ADB issues debt securities in the international and domestic capital markets. ADB's debt securities carry the highest possible investment ratings from three major international credit rating agencies. The funding strategy is aimed at ensuring availability of funds for operations at the most stable and lowest possible cost. Such strategy has enabled OCR to achieve cost-efficient funding levels for its borrowing members.

### A. Basis of Financial Reporting

ADB's basis of financial reporting are (i) statutory reporting, which is in accordance with accounting principles generally accepted in the United States of America (US GAAP) reporting requirements, and (ii) management reporting, which is used as the primary measure to make financial management decisions and to monitor key financial ratios. The key financial performance indicator under these two bases is net income for statutory reporting and allocable net income for management reporting.

**Statutory reporting.** ADB prepares OCR financial statements in accordance with US GAAP. 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 the accounting standards 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 year as part of net income. To apply a consistent accounting treatment between the borrowings and their related swaps, ADB elects to measure all borrowings that are swapped or are intended to be swapped in the future at fair value. All investments for liquidity purpose, other debt securities classified as available for sale, and equity investments (except for those accounted for under the equity method) are reported at fair value. ADB continues to report its loans, other debt securities classified as held-to-maturity, and the remaining borrowings at amortized cost.

**Management reporting (non-GAAP measure).** ADB also reports OCR financial results based on internal management reporting basis which is used as the primary measure to make financial management decisions and to monitor key financial ratios.

ADB reports allocable net income, which is defined as net income after appropriation of guarantee fees to special reserve and certain adjustments reported in the cumulative revaluation adjustments account.<sup>8</sup> The cumulative revaluation adjustments account sets aside the impact of unrealized gains or losses from fair value changes associated with certain financial instruments

<sup>8</sup> ADB's Charter stipulates that the Board of Governors shall determine the allocation of net income annually.

and from translation adjustments of non-functional currencies, and unrealized gains or losses from equity investments accounted for under the equity method.

ADB intends to hold most borrowings and swaps until maturity or call, hence interim net 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 holds its investments until ADB's development role has been fulfilled. Any gains or losses from equity investments recorded at fair value are realized and are deemed available for allocation when ADB exits the investments. Therefore, the periodic net unrealized gains or losses are excluded from the allocable net income until the exit date.

The management reporting basis balance sheet reconciled from the statutory reporting basis balance sheet as of 31 December 2021 is provided in the Appendix.

## B. Overall Financial Results

OCR reported net income of \$730 million (\$1,372 million – 2020) and allocable net income of \$1,161 million (\$1,132 million – 2020) for the year ended 31 December 2021. Table 2 presents the overall financial results for 2021 and 2020.

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

Item	2021	2020	Change
<b>Revenue from loans — operations<sup>a</sup></b>	<b>1,576</b>	<b>2,253</b>	<b>(677)</b>
Sovereign regular	717	1,367	(650)
Sovereign concessional	663	641	22
Nonsovereign	196	245	(49)
<b>Revenue from investments for liquidity purpose</b>	<b>566</b>	<b>701</b>	<b>(135)</b>
Interest	547	680	(133)
Realized gains on sale of investments	19	21	(2)
<b>Revenue from equity investments — operations</b>	<b>267</b>	<b>212</b>	<b>55</b>
Net realized gains <sup>b</sup>	122	190	(68)
Dividends and other equity investment-related income and expenses	6	6	0
Realized gains on equity method investments <sup>c</sup>	6	31	(25)
Unrealized gains (losses) on equity method investments <sup>c</sup>	133	(15)	148
<b>Revenue from guarantees — operations</b>	<b>37</b>	<b>27</b>	<b>10</b>
<b>Revenue from other debt securities — operations</b>	<b>54</b>	<b>47</b>	<b>7</b>
Interest	36	47	(11)
Realized gains	18	—	18
<b>Revenue from other sources<sup>d</sup></b>	<b>58</b>	<b>43</b>	<b>15</b>
<b>Borrowings and related expenses</b>	<b>(460)</b>	<b>(1,351)</b>	<b>891</b>
<b>Release of provision (Provision) for credit losses</b>	<b>69</b>	<b>(108)</b>	<b>177</b>
<b>Administrative expenses — OCR</b>	<b>(819)</b>	<b>(669)</b>	<b>(150)</b>
<b>Other expenses</b>	<b>(17)</b>	<b>(11)</b>	<b>(6)</b>
<b>Net unrealized (losses) gains</b>	<b>(601)</b>	<b>228</b>	<b>(829)</b>
Fair value changes	(492)	425	(917)
Reclassification of unrealized gains on divested equity investments <sup>e</sup>	(111)	(194)	83
Translation adjustments of nonfunctional currencies	2	(3)	5
<b>Net income</b>	<b>730</b>	<b>1,372</b>	<b>(642)</b>
<b>Appropriation of guarantee fees to special reserve</b>	<b>(37)</b>	<b>(27)</b>	<b>(10)</b>
<b>Net income after appropriation of guarantee fees to special reserve</b>	<b>693</b>	<b>1,345</b>	<b>(652)</b>
<b>Adjustments</b>	<b>468</b>	<b>(213)</b>	<b>681</b>
Net unrealized losses (gains)	601	(228)	829
Unrealized (gains) losses on equity method investments <sup>c</sup>	(133)	15	(148)
<b>Allocable net income (Non-GAAP measure)</b>	<b>1,161</b>	<b>1,132</b>	<b>29</b>

( ) = negative, — = nil, ADB = Asian Development Bank, OCR = ordinary capital resources.

Notes: Numbers may not sum precisely because of rounding.

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

<sup>b</sup> Includes \$127 million (\$190 million – 2020) realized gains on disposal of equity investments, net of \$5 million (nil – 2020) impairment loss on equity method investments.

<sup>c</sup> Pertains to ADB's proportionate share of gains or losses from equity method investments.

<sup>d</sup> Includes income from trust fund administration.

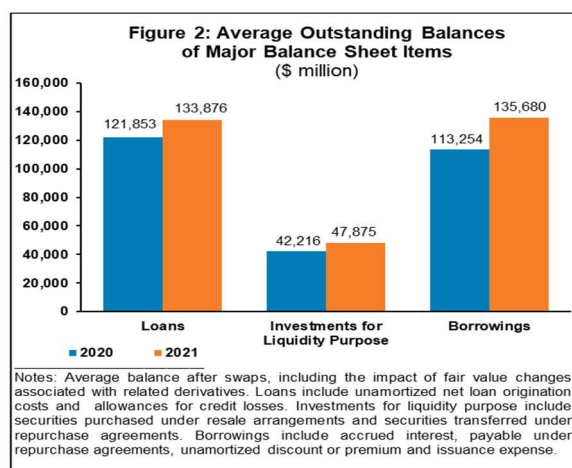
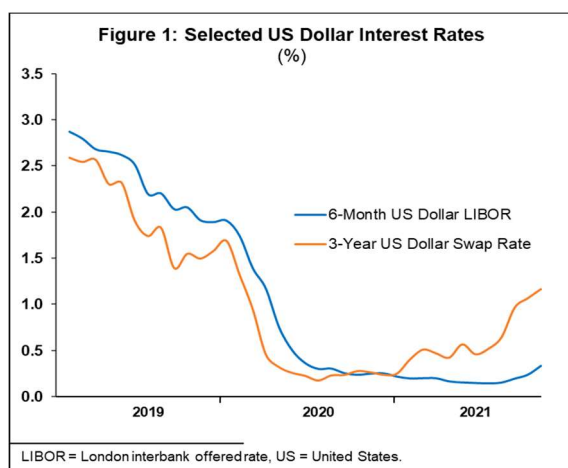
<sup>e</sup> Disposal of equity investments in 2021 resulted in reclassification of the unrealized gains up to 31 December 2020 of \$111 million (\$194 million – up to 31 December 2019) to realized gains. The realized gains up to the date of disposal in 2021 amounted to \$127 million (\$190 million – 2020).

**Net income.** Net income for 2021 decreased to \$730 million, from \$1,372 million reported in 2020, mainly because of the unrealized losses from fair value change of financial instruments. The realized gains on divested equity investments of \$127 million in 2021 and \$190 million in 2020 had a modest impact on net income as the periodic fair value changes (\$111 million – 2021; \$194 million – 2020) were recognized as unrealized gains in previous years.

**Allocable net income.**<sup>9</sup> OCR allocable net income for the year ended 31 December 2021 slightly increased to \$1,161 million, compared with \$1,132 million in 2020, driven by the higher income from increased lending operations and lower provision for credit losses, offset by higher administrative expenses.

The change in net income and allocable net income were driven by the following factors.

- Revenue from loans decreased by \$677 million primarily because of the \$650 million decrease in revenue from sovereign regular OCR loans, mainly driven by the lower average United States (US) dollar London interbank offered rate (LIBOR) applied to the US dollar LIBOR-based loans (LBL) portfolio. The decrease was partially offset by the 10% increase in average outstanding loans (Figure 2),
- Revenue from investments for liquidity purpose decreased by \$135 million mainly because of the lower return on US dollar investments,
- Revenue from equity investments, excluding unrealized gains/losses on equity method investments, decreased by \$93 million (\$134 million – 2021, \$227 million – 2020) mainly because of the \$68 million decrease in realized gains from divestment of equity investments,
- Borrowings and related expenses decreased by \$891 million mainly because of the lower average US dollar LIBOR in 2021 (Figure 1), which was partially offset by the increase in average outstanding borrowings from 2021 (Figure 2),
- Provision for credit losses during 2021 decreased by \$177 million. The decrease was because of the \$69 million release of provision for credit losses in 2021, reflecting more stable macroeconomic environment, compared to the \$108 million provision expense in 2020,
- Administrative expenses of OCR increased by \$150 million. This was primarily because of an increase in net periodic pension and post-retirement medical benefit costs, and



<sup>9</sup> Allocable net income is defined as net income after appropriation of guarantee fees to special reserve and certain adjustments set aside in the cumulative revaluation adjustments account.

- \$601 million net unrealized losses for the year ended 31 December 2021 (\$228 million net unrealized gains – 2020) was mainly from the fair value changes of borrowings and derivatives resulting from the rising USD interest rates and refinement of the discounting method in the fair valuation model (Table 3).

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

	2021	2020	Change
Fair value changes from:	<b>(492)</b>	<b>425</b>	<b>(917)</b>
Borrowings and related derivatives	(942)	114	(1,056)
Loans related derivatives	318	376	(58)
Investments related derivatives	139	25	114
Equity investments	(7)	(90)	83
Reclassification of unrealized gains on divested equity investment	<b>(111)</b>	<b>(194)</b>	<b>83</b>
Translation adjustments of nonfunctional currencies	<b>2</b>	<b>(3)</b>	<b>5</b>
<b>Total</b>	<b>(601)</b>	<b>228</b>	<b>(829)</b>

( ) = negative

**Selected Financial data.** Selected financial data are presented in Table 4. Return on earning assets and return on equity on statutory reporting basis decreased because of lower net income driven by the net unrealized losses from fair value changes of financial instruments. Under management reporting basis, the returns are relatively unchanged because of the slight increase in allocable net income. Return on loans, return on investments for liquidity purposes, and cost of borrowings, under both reporting bases, have decreased because of the lower average United States (US) dollar interest rates in 2021.

**Table 4: Selected Financial Data**  
(%, unless otherwise stated)

Item	2021	2020	2019
<b>Statutory Reporting Basis</b>			
Net Income (\$ million)	730	1,372	1,554
Return on Earning Assets <sup>a</sup>	0.4	0.8	1.0
Return on Equity <sup>b</sup>	1.4	2.6	3.0
Return on Loans <sup>c</sup>	1.4	2.2	3.0
Return on Investments for Liquidity Purpose <sup>d</sup>	1.5	1.7	2.5
Cost of Borrowings <sup>e</sup>	1.0	1.1	2.5
<b>Management Reporting Basis (non-GAAP measure)<sup>f</sup></b>			
Allocable Net Income <sup>g</sup> (\$ million)	1,161	1,132	1,069
Return on Earning Assets <sup>a</sup>	0.6	0.7	0.7
Return on Equity <sup>b</sup>	2.2	2.2	2.1
Return on Loans <sup>c</sup>	1.2	1.9	2.9
Return on Investments for Liquidity Purpose <sup>d</sup>	1.2	1.7	2.5
Cost of Borrowings <sup>e</sup>	0.3	1.2	2.6
Capitalization Utilization Ratio <sup>h</sup>	74.0	69.1	62.1

Note: All ratios are annualized and based on average monthly balances.

<sup>a</sup> Net income (for statutory reporting basis) or allocable net income (for management reporting basis) divided by average earning assets. Earning assets comprise investments for liquidity purpose, loans outstanding, equity investments, and other debt securities (all after swaps, if applicable).

<sup>b</sup> Net income (for statutory reporting basis) or allocable net income (for management reporting basis) divided by average equity balances.

<sup>c</sup> Interest revenue on loans, commitment fees, other revenue or expenses on loans and related swaps, and gains or losses on related swaps divided by average outstanding loans after swaps.

<sup>d</sup> Interest revenue and gains or losses on investments and related swaps divided by average balances of investments after swaps.

<sup>e</sup> Financial expenses and gains or losses on borrowings and related swaps divided by average outstanding borrowings after swaps.

<sup>f</sup> Management reporting basis ratios exclude impact of unrealized gains or losses from fair value changes associated with certain financial instruments, proportionate share in unrealized gains or losses from equity investments accounted for under the equity method, and nonnegotiable and noninterest-bearing demand obligations on account of subscribed capital.

<sup>g</sup> Allocable net income is defined as net income after appropriation of guarantee fees to special reserve and certain adjustments set aside in the cumulative revaluation adjustments account. Starting from the year ended 31 December 2020, ADB changed its income measure under management reporting basis from operating income to allocable net income.

<sup>h</sup> Capital utilization ratio is the ratio of the total economic capital used to usable equity.

## C. 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 provides policy dialogue and transaction advisory services to its DMCs and private sector clients to promote public-private partnerships in the region. ADB 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 5 shows the 3-year trend in operational highlights.

**Table 5: OCR Operational Highlights  
for the Years Ended 31 December**  
(\$ million)

Item	2021	2020	2019
Commitments	22,180	30,211	22,935
Disbursements	17,828	22,708	15,957
Loan Principal Repayments and Prepayments	8,349	8,250	7,554

OCR = ordinary capital resources.

Notes: The figures include loans, guarantees, equity investments, and other debt securities under OCR. Commitments include loans and guarantees under private sector programs, namely, the Trade and Supply Chain Finance Program and Microfinance Program.

## 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, integrity, governance, 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 and the proceeds of the loans it guarantees be used only for procurement of goods and services produced in and supplied from member countries.<sup>10</sup> 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 2021, the total of such loans (including other debt securities), equity investments and related prudential buffer, and guarantees was \$139,521 million (\$132,146 million – 2020), compared with the maximum lending ceiling of \$195,976 million (\$199,213 million – 2020), which resulted in a headroom of \$56,455 million (\$67,067 million – 2020).

<sup>10</sup> The Board of Directors approved a temporary waiver of ADB's member country procurement eligibility restrictions to permit universal procurement for sovereign and nonsovereign operations supporting the COVID-19 response. The Board of Directors has also approved blanket waivers of ADB's member country eligibility restrictions to permit universal procurement in certain cases where sovereign and nonsovereign operations are cofinanced.

**Loans — operations.** ADB's OCR lending falls into two categories: sovereign and nonsovereign. Sovereign loans consists of sovereign regular OCR loans and sovereign concessional OCR loans. Sovereign regular OCR loans are available to sovereign and sovereign-guaranteed borrowers in ADB DMCs that have attained higher economic development and sovereign concessional OCR loans are available for the poorest and most vulnerable members of ADB. ADB also provides lending without sovereign guarantee to privately-held or state-owned or subsovereign entities. In its nonsovereign operations, ADB provides financial assistance based on market-based terms and conditions. ADB, as needed, will help mobilize additional debt from diverse institutions, such as private and public financial institutions and development partners.

OCR offers lending products broadly in three modalities:

- **Project** – Also known as investment lending, it finances expenditures incurred for discrete investment projects and focuses on project implementation. Disbursements in this modality are linked to expenditures for inputs. Nonsovereign loans fall under this modality.
- **Policy-based** – This modality provides sovereign budget support for structural reforms and development expenditure programs in DMCs. In certain circumstances, it may also be used to provide balance of payments or counter-cyclical fiscal support. It is linked to the implementation of policy reforms, disbursed quickly, and targets sector-wide and economy-wide impact.
- **Results-based** – It supports government-owned sector programs and disburses ADB funds based on the achievement of program results.

As of 31 December 2021, OCR's loans outstanding was \$137,163 million (\$129,788 million – 31 December 2020), of which \$98,352 million were sovereign regular OCR loans (\$91,280 million – 31 December 2020), \$32,180 million were sovereign concessional OCR loans (\$32,012 million – 31 December 2020) and \$6,631 million were nonsovereign loans (\$6,496 million – 31 December 2020). Table 6 shows OCR's loans outstanding by modality.

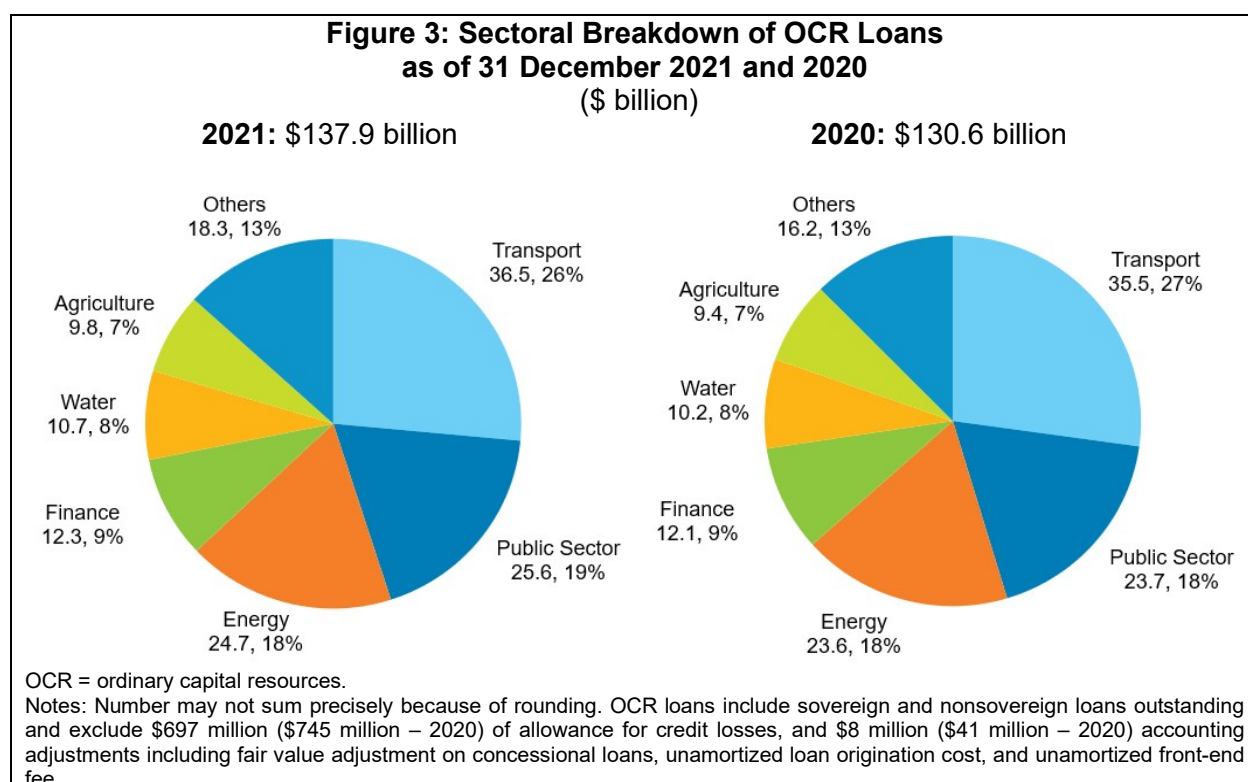
**Table 6: OCR Loans Outstanding by Modality**  
**as of 31 December 2021 and 2020**  
(\$ million)

	<b>Sovereign</b>		<b>NSO</b>	<b>Total</b>
	<b>Regular</b>	<b>Concessional</b>		
<b>2021</b>				
Project Loan	64,454	22,501	7,153	94,108
Policy-based Loan	29,698	9,435	–	39,133
Results-based Loan	4,049	578	–	4,627
Total Outstanding	98,201	32,514	7,153	137,868
Accounting adjustments <sup>a</sup>	212	(173)	(47)	(8)
	98,413	32,341	7,106	137,860
Allowance for credit losses on loans	(61)	(161)	(475)	(697)
<b>Loans Outstanding</b>	<b>98,352</b>	<b>32,180</b>	<b>6,631</b>	<b>137,163</b>
<b>2020</b>				
Project Loan	60,476	22,307	7,072	89,855
Policy-based Loan	27,383	9,533	–	36,916
Results-based Loan	3,286	517	–	3,803
Total Outstanding	91,145	32,357	7,072	130,574
Accounting adjustments <sup>a</sup>	206	(196)	(51)	(41)
	91,351	32,161	7,021	130,533
Allowance for credit losses on loans	(71)	(149)	(525)	(745)
<b>Loans Outstanding</b>	<b>91,280</b>	<b>32,012</b>	<b>6,496</b>	<b>129,788</b>

– = nil, ( ) = negative, NSO = nonsovereign, OCR = ordinary capital resources.

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

A summary of the total OCR loan portfolio by member country as of 31 December 2021 is shown in OCR-6 of the Financial Statements. A breakdown by sector of total OCR loans as of 31 December 2021 and 2020 is shown in Figure 3.



**Expected credit loss.** The Financial Accounting Standards Board issued the Accounting Standards Update (ASU) 2016–13, “*Financial Instruments–Credit Losses (Topic 326)*”, which introduced the expected credit loss model. The ASU became effective for ADB on 1 January 2020 and significantly changed accounting for credit losses for financial assets measured at amortized cost. The update superseded the previous guidance on credit losses for financial instruments and affected ADB’s accounting for loans, guarantees, and held-to-maturity debt securities.

Expected loss is calculated using three components: exposure at default, probability of default, and loss given default. Credit losses are measured over the contractual term (lifetime) of the asset or commitment based on all available information: historical experience, current conditions, and macroeconomic forecasts. ADB also includes off-balance sheet credit exposures, in which ADB is exposed to credit risk. ADB records a liability for credit losses on off-balance sheet exposures, for the undisbursed loan and certain other debt securities commitments, and guarantees.

As of 31 December 2021, total allowance for credit losses and liability for credit losses on off-balance sheet exposures decreased to \$863 million (\$933 million – 31 December 2020), primarily attributed to the decrease in nonsovereign loan loss allowance because of the more stable macroeconomic environment. Allowance for credit losses and liability for credit losses on off-balance sheet exposures are summarized in Table 7. Refer to Credit risk under Risk Management section for more information.

**Table 7: Summary of Allowance for Credit Losses and Liability for Credit Losses on Off-Balance Sheet Exposures**  
(\$ million)

Item	31 December 2021	31 December 2020
<b>Allowance for credit losses on loans</b>	<b>697</b>	<b>745</b>
Sovereign regular OCR loans	61	71
Sovereign concessional OCR loans <sup>a</sup>	161	149
Nonsovereign loans	475	525
<b>Allowance for credit losses on other debt securities</b>	<b>12</b>	<b>19</b>
<b>Liability for credit losses on off-balance sheet exposures</b>	<b>154</b>	<b>169</b>
<b>Total<sup>b</sup></b>	<b>863</b>	<b>933</b>

OCR = ordinary capital resources.

<sup>a</sup> Include allowance for heavily indebted poor countries debt relief (\$43 million – 31 December 2021, \$46 million – 31 December 2020).

<sup>b</sup> Excludes recoveries from risk transfer arrangements.

**Summary of loan activities.** Table 8 shows the summary of loan activities, comprising commitments, disbursements, and repayments for sovereign regular OCR, sovereign concessional OCR and nonsovereign loans. For the year ended 31 December 2021, the total OCR loan commitments was \$18,912 million (\$26,987 million – 2020). The \$8,075 million or 30% decrease in commitments is mainly from the decrease in sovereign loan commitments. The total loan disbursements during 2021 decreased by 21% to \$17,644 million from \$22,273 million during 2020. The decrease is mainly attributed to the large loan commitments and disbursements OCR provided for COVID-19 response in 2020 (Table 9).

**Table 8: Summary of Loan Activities  
for the Years Ended 31 December 2021 and 2020**  
(\$ million)

(\$ million)

Item	Sovereign								Nonsovereign			TOTAL (A+B+C)
	Regular				Concessional				Private sector <sup>a</sup>			
	Project	Policy-Based	Results-Based	Total (A)	Project	Policy-Based	Results-Based	Total (B)	Project	programs	Total (C)	
2021												
Commitments <sup>b</sup>												
Amount	9,427	4,201	1,646	15,274	2,009	639	—	2,648	774	216	990	18,912
Number	51	17	4	72	20	7	—	27	23	1,156	1,179	1,278
Disbursements	7,325	4,989	935	13,249	2,289	549	80	2,918	1,167	310	1,477	17,644
Repayments <sup>c</sup>	3,099	1,850	126	5,075	1,454	468	11	1,933	1,047	294	1,341	8,349
2020												
Commitments <sup>b</sup>												
Amount	7,034	12,543	1,740	21,317	2,587	1,845	—	4,432	937	301	1,238	26,987
Number	45	37	5	87	32	16	—	48	26	481	507	642
Disbursements	6,318	10,025	704	17,047	1,375	1,916	91	3,382	1,484	360	1,844	22,273
Repayments <sup>c</sup>	2,887	2,425	50	5,362	1,356	379	9	1,744	846	298	1,144	8,250

– = nil, OCR = ordinary capital resources.

<sup>a</sup> Private sector programs include the Trade and Supply Chain Finance Program and Microfinance Programs. Excluding \$2,856 million (\$2,755 million – 2020) guarantee commitments. Commitments for nonsovereign loans under the private sector program are net of risk transfer and comprise \$214 million short term (\$301 million – 2020) and \$2 million long term (nil – 2020) programs.

<sup>b</sup> Based on exchange rates at loan signing date.

<sup>c</sup> Includes prepayment of \$8 million for two sovereign regular OCR loan and \$226 million for eight nonsovereign loans in 2021 (\$22 million for 1 sovereign regular OCR loan, and \$154 million for 16 nonsovereign loans – 2020). Amounts are based on United States dollar equivalent as of receipt of payment.

Table 9 shows the summary of OCR loans for the COVID-19 response, comprising commitments and disbursements for sovereign regular OCR, sovereign concessional OCR and nonsovereign loans.

**Table 9: Summary of OCR Loans for COVID-19 Response  
for the Year Ended 31 December**  
(\$ million)

Item	Sovereign		Nonsovereign		TOTAL (a+b+c+d)
	Regular (a)	Concessional (b)	Project (c)	Private sector programs (d)	
<b>2021</b>					
Commitments <sup>a</sup>	8,049	1,998	238	216 <sup>b</sup>	<b>10,501</b>
CPRO	250	—	—	—	250
APVAX	2,794	1,157	—	—	3,951
Others	5,005	841	238	216	6,300
Disbursements	4,799	1,607	188	310	<b>6,904</b>
CPRO	1,750	125	—	—	1,875
APVAX	890	976	—	—	1,866
Others	2,159	506	188	310	3,164
<b>2020</b>					
Commitments <sup>a</sup>	11,235	1,466	316	202 <sup>b</sup>	<b>13,219</b>
CPRO	8,814	1,100	—	—	9,914
APVAX	—	—	—	—	—
Others	2,422	366	316	202	3,306
Disbursements	8,178	1,101	136	257	<b>9,672</b>
CPRO	7,395	975	—	—	8,370
APVAX	—	—	—	—	—
Others	783	126	136	257	1,302

APVAX = Asia Pacific Vaccine Access Facility, COVID-19 = coronavirus disease, CPRO = Covid-19 Pandemic Response Option

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Amounts are based on the United States dollar equivalent at the time of loan signing.

<sup>b</sup> Commitments are net of risk transfer. Excluding \$2,831 million (\$2,217 million – 2020) guarantee commitments under the private sector programs.

**Status of loans.** ADB places loans in non-accrual status when the principal, interest or other charges are overdue by more than 180 days or in case of loans that are not yet past due, 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 2021, there were five nonsovereign loans in non-accrual status with outstanding amount of \$194 million, of which \$26 million was overdue by more than 180 days (four nonsovereign loans with outstanding amount of \$166 million, of which \$11 million was overdue by more than 180 days – 2020). There were no outstanding sovereign loans in non-accrual status as of 31 December 2021 and 2020.

**Loan Products.** ADB's available loan products for regular OCR loans are the LIBOR-based loan (LBL) and the local currency loan (LCL). The LBL is the primary loan product for OCR sovereign and nonsovereign operations. The LBL is designed to meet demand by borrowers for loan products that suit project needs and effectively manage their external debt.

ADB provides sovereign OCR borrowers of LBLs with options to manage their interest rate and exchange rate risks, while providing low intermediation risk to ADB. Borrowers may request a conversion of all or any portion of the principal amount of the loan through: (i) currency conversion to an approved currency of all or any portion of the principal amount of the loan whether unwithdrawn or withdrawn and outstanding; (ii) an interest rate conversion of all or any portion of the principal amount of the loan withdrawn and outstanding; and (iii) establishment of an interest

rate cap or an interest rate collar on a floating rate applicable to all or any portion of the principal amount of the loan withdrawn and outstanding. For the year ended 31 December 2021, ADB effected five interest rate conversions (from floating to fixed rate) totaling \$655 million (\$1,303 million – 2020); and six combined interest rate and currency conversions totaling \$1,023 million (\$4,718 million – 2020). There were no currency conversions effected in 2021 (\$410 million – 2020).

ADB offers LCLs to sovereign and nonsovereign borrowers in different local currencies which ADB can intermediate. As of 31 December 2021, total outstanding LCLs was \$1,646 million (\$1,358 million – 31 December 2020).

In addition to the LBL and LCL, ADB provides sovereign concessional OCR loans to eligible DMCs. Concessional loans represent the concessional financing to DMCs with (i) per capita gross national income below the ADB operational cutoff and (ii) limited or low creditworthiness.

In 2021, the ADB Board of Directors approved the change in the cost base rate from LIBOR to the Secured Overnight Financing Rate (SOFR) for US dollar-denominated loans and to the Tokyo Overnight Average Rate (TONA) for yen-denominated loans. ADB renamed its primary loan product to the Flexible Loan Product (FLP) capturing the various flexible options which are currently offered to borrowers that will continue with the FLP, including rate fixings, loan conversions and tailored amortization structures. Existing sovereign loans have started the transition to the terms of the FLP from 1 January 2022 onwards and the existing nonsovereign loans are expected to complete the transition by 30 June 2023.

A breakdown of ADB's loan portfolio by product as of 31 December 2021 and 2020 is presented in Table 10.

**Table 10: Loan Portfolio by Product  
as of 31 December 2021 and 2020**  
(\$ million)

Item	Sovereign				Nonsovereign	
	Regular		Concessional			
	2021	2020	2021	2020	2021	2020
LIBOR-based loans <sup>a,b</sup>						
Outstanding	97,630	90,444	n/a	n/a	5,579	5,715
Undisbursed Committed	40,146	39,435	n/a	n/a	668	1,024
Local currency loans						
Outstanding	71	0	n/a	n/a	1,575	1,357
Undisbursed Committed	184	242	n/a	n/a	1,185	1,353
Concessional loans						
Outstanding	n/a	n/a	32,514	32,357	n/a	n/a
Undisbursed Committed	n/a	n/a	10,891	11,423	n/a	n/a
Pool-based single currency loans <sup>b</sup>						
Outstanding	499	701	n/a	n/a	n/a	n/a
Undisbursed Committed	–	–	n/a	n/a	n/a	n/a
<b>Total Outstanding</b>	<b>98,201</b>	<b>91,145</b>	<b>32,514</b>	<b>32,357</b>	<b>7,153</b>	<b>7,072</b>
Accounting adjustments <sup>c</sup>	212	206	(173)	(196)	(47)	(51)
Allowance for credit losses	(61)	(71)	(161)	(149)	(475)	(525)
<b>Loans Outstanding</b>	<b>98,352</b>	<b>91,280</b>	<b>32,180</b>	<b>32,012</b>	<b>6,631</b>	<b>6,496</b>
<b>Undisbursed Committed</b>	<b>40,330</b>	<b>39,677</b>	<b>10,891</b>	<b>11,423</b>	<b>1,853</b>	<b>2,377</b>

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

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

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

<sup>b</sup> With the introduction of the LBL in 2001, ADB's pool-based single currency loans and market-based loans are no longer offered.

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

**Sovereign 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. If the floating lending rate for a given interest reset date yields a negative rate, the lending rate is fixed at zero. 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 pool-based single currency loans are based on the previous semester's average cost of borrowing.<sup>11</sup> Table 11 shows the summary of charges on sovereign regular OCR LIBOR-based and local currency loans as of 31 December 2021. Table 12 shows the funding cost margin on LBLs for 2021 and 2020.

<sup>11</sup> The pool-based single currency loan (PSCL) effective contractual spread is 60 basis points. On 19 November 2020, the Board Directors approved, for borrowers of US dollar PSCLs that do not have arrears with ADB, the continuation of the waiver of 20 basis points of the lending spread for all interest periods commencing from 1 January 2021 to 31 December 2021.

**Table 11: Summary of Charges on Sovereign Regular OCR  
LIBOR-based and Local Currency Loans as of 31 December 2021**  
(basis point)

Item	Approved on or after 1 January 2021	Negotiated from 1 October 2007 to 31 December 2020	Negotiated prior to 1 October 2007	CSF and SPBL	CPRO
<b>A. Cost Base Rate</b>	6-month LIBOR				
<b>B. Lending Spread<sup>a</sup></b>					
1. Contractual spread			60	200	50
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				
<b>C. Maturity Premium<sup>b</sup></b>					
1. Average loan maturity of < or = 9 years	0	0			
2. Average loan maturity of >9 years up to 13 years	0 – 40	0			
3. Average loan maturity of >13 years up to 16 years	0 – 50	10			
4. Average loan maturity of >16 years up to 19 years	0 – 75	20			
<b>D. Surcharge or (Rebate)<sup>c</sup></b>					
1. US dollar	1		1	8	13
2. Yen	(38)		(38)		
3. Euro	2				(2)
4. New Zealand dollar	47				47
<b>E. Commitment Charges<sup>d</sup></b>	15			75	15

( ) = negative, APVAX = Asia Pacific Vaccine Access Facility, CPRO = COVID-19 pandemic response option, CSF = Countercyclical Support Facility, LBL = LIBOR-based loan, LCL = local currency loan, LIBOR = London interbank offered rate, OCR = ordinary capital resources, SPBL = special policy-based loan, US = United States.

<sup>a</sup> The current LBL and LCL effective contractual spread is 50 basis points. The terms of emergency assistance loans are similar to LBL terms.

<sup>b</sup> For LBLs and 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. A limit of 19 years applies to the average loan maturity of LBLs and LCLs. As of 31 December 2021, 342 committed loans totaling \$58,687 million (312 committed loans totaling \$52,613 million – 31 December 2020) were subject to maturity premium. For all loans to regular OCR-only borrowing countries, approved on or after 1 January 2021, a new pricing structure was implemented to adjust the pricing framework and introduce diversity in the current flat pricing structure for countries in different stages of development. The new maturity premium is applied for the life of a loan regardless of country group changes during the tenor of the loan. The existing stock of regular OCR sovereign lending operations is not amended to reflect the new financing terms.

<sup>c</sup> To maintain the principle of the cost pass-through pricing policy, ADB passes on its actual funding cost margin above or below six-month LIBOR to its borrowers through a surcharge or rebate. The rebates or surcharges are passed on to borrowers by incorporating them into the interest rate for the succeeding interest period. 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. The information presented is applicable for 1 July to 31 December 2021. APVAX will follow the rebate/surcharge rates applicable to LBL pool.

<sup>d</sup> The commitment charge is levied on undisbursed balances beginning 60 days after signing of the applicable loan agreement. Charges begin to accrue when the loan becomes effective. For loans under contingent disaster financing, the borrower will pay, in lieu of commitment charges, a front-end fee of 0.25% or 0.10% of the committed loan amount depending on contingent disaster financing option.

**Table 12: Funding Cost Margin on LIBOR-based Loans**  
(basis point)

Type	Surcharge or (Rebate)			
	1 July 2021	1 January 2021	1 July 2020	1 January 2020
<b>LIBOR-based Loans</b>				
US dollar	1	1	2	-
Yen	(38)	(38)	(38)	(38)
Euro	2	2	2	2
New Zealand dollar	47	47	38	38
<b>CSF/SPBL Loans</b>				
US dollar	8	8	9	7

CSF = Countercyclical Support Facility, LIBOR = London interbank offered rate, SPBL = Special Policy Based Loan, US = United States

Note: Funding cost margins are announced on 1 January and 1 July and are valid for 6 months. 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 by incorporating them into the interest rate for the succeeding interest period.

**Sovereign concessional OCR loan terms.** ADB offers sovereign concessional OCR loans to eligible DMCs. Table 13 shows the summary of lending terms on currently available sovereign concessional OCR loans.

**Table 13: Sovereign Concessional OCR Loan Terms**  
as of 31 December 2021

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

COVID-19 = coronavirus disease, OCR = ordinary capital resources.

Note: Sovereign concessional OCR loans under the the COVID-19 pandemic response option have the same lending terms as those for standard policy-based loans.

<sup>a</sup> Countries that are eligible for sovereign concessional OCR loans and/or Asian Development Fund grants.

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

<sup>c</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.

**Currency choices.** The borrowers of sovereign concessional OCR loans may choose a currency of liability in special drawing rights (SDR) or a currency that is available under ADB's LIBOR-based product and in the SDR basket, subject to ADB's confirmation of the availability of such currency. As of December 31, 2021, over 96% of sovereign concessional OCR loans were in SDR and US dollars.

**Price diversification:** For new regular OCR loans that are approved by the ADB Board of Directors on or after 1 January 2021, a new pricing structure was implemented to diversify the flat pricing structure offered to regular OCR-only borrowing countries in different stages of

development.<sup>12</sup> More vulnerable countries, such as small island developing states and countries that have lost access to concessional assistance, are given more favorable terms.

The new pricing structure uses a range of maturity premium for regular OCR sovereign lending operations in regular OCR-only borrowing countries. OCR blend countries are not affected by the proposed diversification of ADB financing terms. The new maturity premium is applied for the entire life of a loan regardless of country group changes during the tenor of the loan. The existing stock of regular OCR sovereign lending operations was not amended to reflect the new financing terms.

**Nonsovereign loan terms.** For nonsovereign loans, ADB applies market-based pricing to determine the lending spread, front-end fees, commitment charges, and other fees 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 1.25% depending on the transaction. ADB applies a commitment fee (typically 0.50% to 1.0% 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.

**Sovereign and nonsovereign loan cofinancing.** In 2021, a total of \$4,661 million sovereign loan cofinancing was committed for 22 projects, of which \$2,129 million is under full and partial ADB administration while \$2,532 million are not administered; and a total of \$971 million nonsovereign cofinancing was committed for 15 projects. (Refer to Note F of OCR Financial Statements for loans administered by ADB as of 31 December 2021).

## 2. Equity Investments

ADB provides financial assistance through equity investments to help capital-constrained, but economically important, investee companies. ADB's equity investments may be in the form of direct investments or through private equity funds.

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 2021, the total equity investment portfolio for OCR, including prudential buffers, was \$1,732 million (\$1,563 million – 2020), or about 32% (30% – 2020) of the ceiling defined by the Charter.<sup>13</sup>

In 2021, ADB committed nine equity investments totaling \$265 million (five equity investments totaling \$255 million – 2020), disbursed \$141 million (\$86 million – 2020), and received \$244 million from capital distributions and full or partial divestments in 25 projects (\$328 million from 26 projects – 2020). 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. Table 14 shows ADB's equity investments as of 31 December 2021 and 2020.

<sup>12</sup> ADB 2019. *Diversification of Financing Terms for Regular Ordinary Capital Resources Sovereign Lending Operations under Strategy 2030*, Manila.

<sup>13</sup> Represents 80% and 100% of the signed and undisbursed amounts for private equity funds and direct equity investments, respectively.

**Table 14: Outstanding Equity Investments  
as of 31 December 2021 and 2020**  
(\$ million)

<b>Item</b>	<b>2021</b>	<b>2020</b>
Direct investments	723	863
Private equity funds	599	426
<b>Total equity investments</b>	<b>1,322</b>	<b>1,289</b>

### 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 partial credit guarantee and a partial 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 partial risk guarantees to cover specifically defined political risks such as expropriation, currency inconvertibility or non-transfer. Reducing these risks can make a significant difference in mobilizing private sector financing for projects.

For the year ended 31 December 2021, \$2,856 million guarantees were committed under ADB's private sector programs (\$2,755 million – 2020), of which \$2,831 million relates to the COVID-19 response (\$2,217 million – 2020).<sup>14</sup> There were no other guarantees committed in 2021 and 2020.

Refer to Note G of OCR Financial Statements for ADB's outstanding and maximum potential exposure on guarantees as of 31 December 2021 and 2020.

**Trade and Supply Chain Finance Program.** Trade and Supply Chain Finance Program (TSCFP) consists of the Trade Finance Program (TFP) and the Supply Chain Finance Program (SCFP). The TFP comprises three products: (i) a credit guarantee facility, TFP's most used product, under which ADB issues guarantees, transaction-by-transaction, 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 2021, TFP supported \$8,005 million (\$5,800 million – 2020) in trade through 71 DMC banks in 11 countries. Of the trade supported, \$2,647 million was financed by ADB (\$2,837 million – 2020) and \$5,358 million was cofinanced (\$2,963 million – 2020).

TFP transactions have average maturities of less than 180 days. This short average tenor enables an efficient use of its \$2,150 million limit, which cannot be breached at any one point in time. As of 31 December 2021, TFP guarantees outstanding totaled \$1,997 million (\$1,745 million – 2020) and loans outstanding totaled \$142 million (\$139 million – 2020). Of the outstanding TFP guarantees and loans, \$851 million were with risk distribution (\$567 million – 2020), resulting in a net exposure of \$1,288 million (\$1,317 million – 2020).

<sup>14</sup> Private sector programs include Trade and Supply Chain Finance Program and Microfinance Programs.

The SCFP provides guarantees and loans (both without government guarantee) on an average tenor of less than 120 days in risk sharing arrangements with partner financial institutions to support payments to DMC suppliers and distributors of goods operating in supply chains. SCFP's maximum exposure limit at any one point in time is \$300 million. The program provided guarantees of \$131 million in 2021 (\$61 million – 2020) and loans of \$57 million (\$24 million – 2020). As of 31 December 2021, the SCFP outstanding guarantees totaled \$6 million (\$16 million – 2020) and loans outstanding totaled \$17 million (\$5 million – 2020).

**Microfinance Program.** Microfinance Program (MFP) provides risk participation on revolving basis for loans made by commercial financial institutions to microfinance institutions in ADB's DMCs. As of 31 December 2021, MFP revolving cover is up to \$600 million. The program provided guarantees of \$238 million in 2021 (\$147 million – 2020) and the outstanding guarantee amount as of 31 December 2021 was \$125 million (\$90 million – 2020).

**Exposure Exchange Agreement.** In December 2020, ADB entered into an agreement to exchange \$1 billion in sovereign exposures with another multilateral development bank (MDB). The exposure exchange agreement (EEA) provides for the simultaneous exchange of credit risk coverage for potential non-accrual events on the exchanged sovereign exposures. In case of non-accrual events, the party providing protection would pay the other counterparty interest for any period the covered exposure is in nonaccrual. The EEA transaction is treated as an exchange of two separate financial guarantees (guarantee provided and guarantee received). Under the EEA, (i) ADB provides a guarantee for the sovereign exposures received from the counterpart MDB (ADB as a seller of protection), and (ii) ADB will receive a guarantee for the sovereign exposures transferred to the counterpart MDB (ADB as a buyer of protection).

#### 4. Other Debt Securities

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. For the year ended 31 December 2021, other debt securities commitment amounted to \$147 million (\$214 million – 2020), of which \$19 million (\$126 million – 2020) pertains to the COVID-19 response. Disbursement for the year amounted to \$43 million (\$349 million – 2020), of which \$23 million (\$90 million – 2020) pertains to the COVID-19 response. As of 31 December 2021, outstanding amount of other debt securities amounted to \$823 million (\$977 million – 2020).

#### 5. 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>15</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 the complementary financing, in 2021, eight projects totaling \$383 million were signed (three projects totaling \$468 million – 2020).<sup>16</sup>

#### 6. Transaction Advisory Services

ADB provides transaction advisory services (TAS) to assist public and private sector clients structure and procure viable projects. TAS aims to promote public–private partnership (PPP) projects to catalyze public and private capital investment for development purposes. The bank

<sup>15</sup> Depending on whether ADB retains risk or not, ADB may or may not have a contingent liability.

<sup>16</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 financed by ADB.

also manages the Asia Pacific Project Preparation Facility (AP3F)—a multi-donor trust fund—to help prepare and monitor PPP projects, build government capacity, and create an enabling environment for PPPs.

In 2021, ADB achieved commercial closure of three PPP transaction advisory services, garnering \$298 million in capital commitments from the private sector. As of 31 December 2021, ADB is implementing 24 transaction advisory mandates and project preparation projects with a total estimated capital investment of over \$3 billion.

## 7. 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 interest rate swaps, cross currency swaps and local currency swaps (transforming a foreign currency liability into a local currency liability only).

## D. Funding Resources

ADB's ordinary operations are funded 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

ADB had 68 members as of 31 December 2021, with Japan and the United States as the two largest shareholders. Out of the 68 members, 27 members are non-borrowing members holding 66.8% of total shareholdings with a total voting power of 61.4%. The capital subscription of all ADB members is shown in OCR-8 of the Financial Statements.

As of 31 December 2021, ADB's total authorized capital of 10,639,083 shares valued at \$148,903 million was fully subscribed, which consisted of \$7,462 million paid-in and \$141,441 million callable capital. The details of ADB's equity as of 31 December 2021 and 2020 are shown in Table 15.

**Table 15: Details of Equity**  
(\$ million)

	2021	2020
Authorized (SDR106,391)		
Subscribed (SDR106,391)	148,903	153,232
Less: Callable capital subscribed	141,441	145,553
Paid-in capital subscribed	7,462	7,679
Less: Other adjustments <sup>a</sup>	81	113
	7,381	7,566
Add: (1) ADF assets transfer <sup>b</sup>	30,748	30,748
(2) Other reserves <sup>c</sup>	14,726	14,323
Total Equity	52,855	52,637

ADF = Asian Development Fund, SDR = special drawing rights.

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

<sup>b</sup> The transfer of ADF assets to OCR on 1 January 2017 was treated as a contribution from ADF which was recognized as a one-time income.

<sup>c</sup> Includes ordinary reserve, special 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 make payments for goods and services produced and intended for use in their respective territories. (See Note C of the OCR Financial Statements).

**Total equity.** Total equity increased from \$52,637 million as of 31 December 2020 to \$52,855 million as of 31 December 2021. This mainly resulted from: (i) \$730 million net income in 2021; (ii) \$1,003 million decrease in postretirement benefit liability; offset by (iii) \$1,018 million net unrealized holding losses; and (ii) \$397 million allocation of 2020 net income to Special Funds.

**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 2021 and 2020, the Board of Governors approved the allocation of OCR's net income for 2020 and 2019, respectively, as shown in Table 16.

**Table 16: Allocation of OCR Net Income**  
(\$ million)

	For the year ended	
	2020	2019
Net Income	1,372	1,554
Adjustment to cumulative revaluation adjustments	(213)	(461)
Appropriation of guarantee fees to special reserve	(27)	(24)
Allocable net income	1,132	1,069
Allocation to ordinary reserve	734	616
Allocation to special funds		
Asian Development Fund	292	259
Technical Assistance Special Fund	90	130
Asia Pacific Disaster Response Fund	15	10
Regional Cooperation and Integration Fund	–	30
Climate Change Fund	–	24
Total Allocated Net Income	1,132	1,069

( ) = negative, – = nil, OCR = ordinary capital resources.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Allocation of net income is done every May of the following year.

## 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.

**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 2021, ADB continued to diversify its funding platform by issuing across a broad range of currencies, in both public issue and private placement format, introducing new currencies and engaging new investors. ADB continues to offer thematic bonds (Table 17).

**Table 17: Overview of Outstanding Thematic Bonds**

<b>Themes</b>	<b>Amount (\$ million)</b>	<b>Maturity range of bonds issued<sup>a</sup></b>
Blue	302	10 to 15 years
Education	161	10 years
Gender	2,858	1 to 15 years
Green	8,807	1 to 14 years
Health	605	1 to 15 years
Water	263	1 to 10 years
<b>Total Outstanding Thematic Bonds</b>	<b>12,996</b>	

<sup>a</sup> Refers to maturity from bond's issue date. Bonds with call options are assumed to be called on the first call or trigger date.

**2021 funding operations.** In 2021, ADB raised the equivalent of \$35,761 million (\$35,765 million – 2020) with 160 borrowing transactions. The new borrowings were raised in 21 currencies.<sup>17</sup> The average maturity to first call date of these borrowings was 5.2 years (4.3 years – 2020) at the time of issue. Of the 2021 borrowings, \$30,148 million was raised through 42 public offerings and the remaining \$5,613 million was raised through 118 private placements.

ADB also raised \$17,736 million (\$17,633 million – 2020) of short-term funds under its Euro-Commercial Paper Program (ECP). Of the ECPs issued in 2021, \$1,275 million were outstanding as of 31 December 2021. Table 18 shows details of 2021 borrowings as compared with 2020.

<sup>17</sup> Currencies include Australian dollar, Brazilian real, Canadian dollar, Chinese yuan, Euro, Georgian lari, Ghanaian cedi, Hong Kong dollar, Indian rupee, Mexican peso, New Zealand dollar, Norwegian krone, Pakistan rupee, Pound sterling, Russian ruble, South African rand, Swedish krona, Kazakhstan tenge, Turkish lira, Ukrainian hryvnia and US dollar.

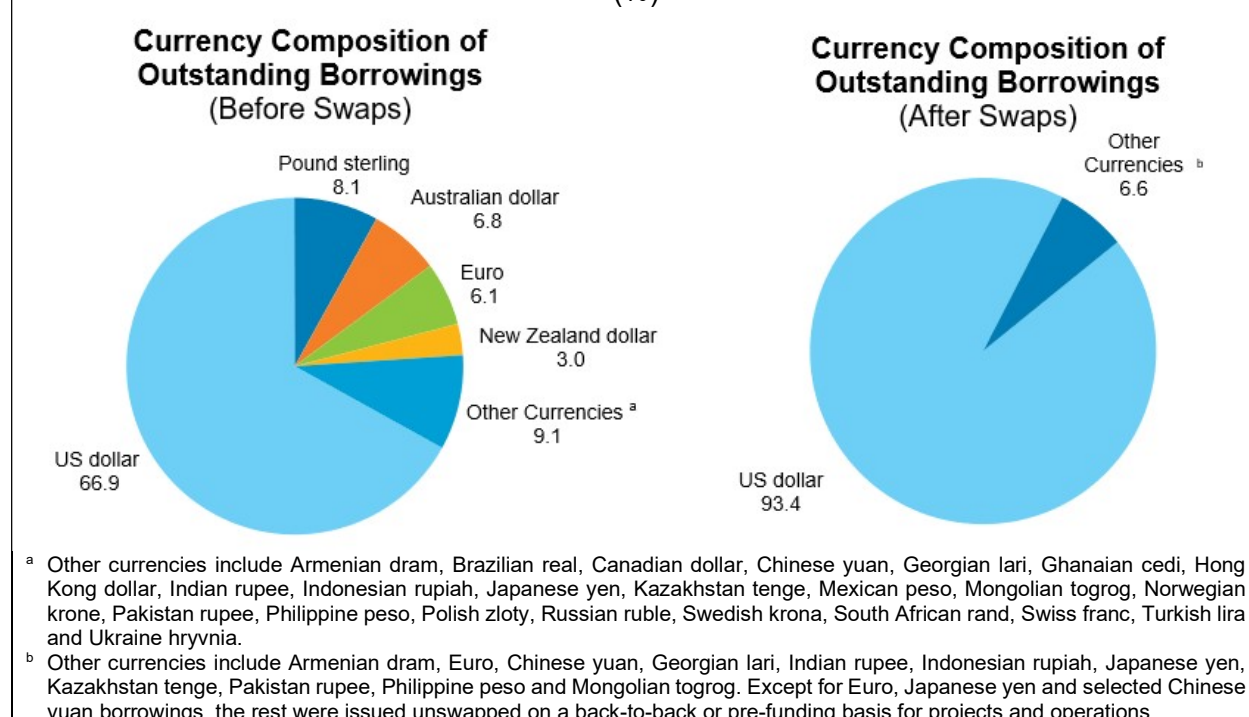
**Table 18: Borrowings**  
(\$ million)

Item	2021	2020
<b>Bonds</b>		
Total Principal Amount	35,761	35,765
Average Maturity to First Call (years)	5.2	4.3
Average Final Maturity (years)	5.9	4.5
Number of Transactions		
Public Offerings	42	40
Private Placements	118	106
Number of Currencies (before swaps)		
Public Offerings	12	10
Private Placements	17	18
<b>Euro Commercial Papers</b>		
Total Principal Amount <sup>a</sup>	17,736	17,633
Number of Transactions	144	118
Number of Currencies	1	1

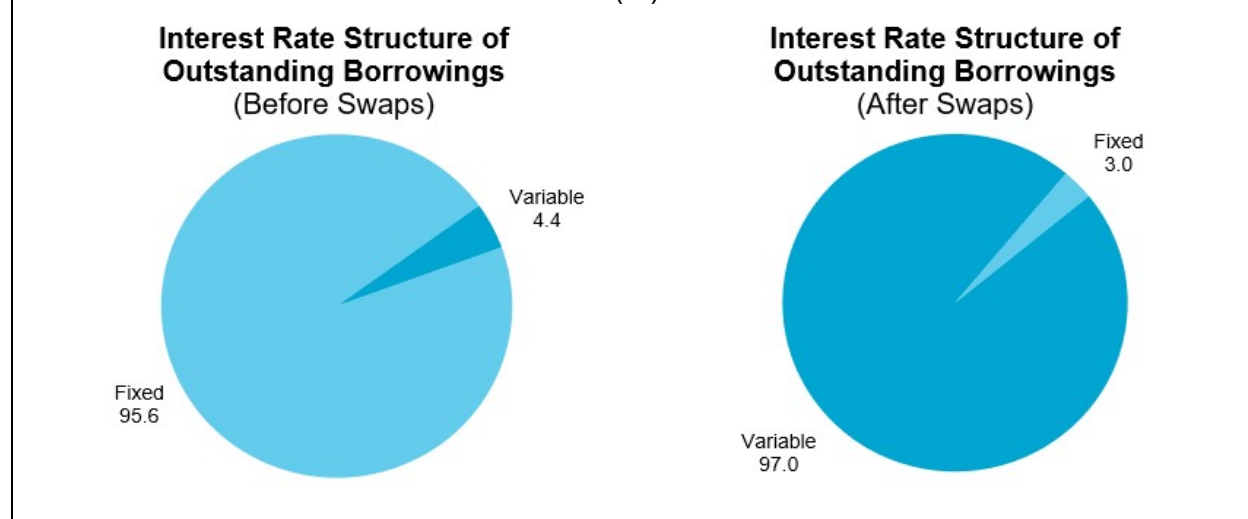
<sup>a</sup> At year-end, the outstanding principal amount was \$1,275 million in 2021 (\$3,101 million in 2020).

**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 4 and 5 show the effects of swaps on the currency composition and interest rate structure of ADB's outstanding borrowings as of 31 December 2021. 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 4: Effect of Swaps on Currency Composition of Borrowings  
as of 31 December 2021**  
(%)



**Figure 5: Effect of Swaps on Interest Rate Structure of Borrowings as of 31 December 2021 (%)**



## E. Liquidity Management

### 1. 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. At the end of 2021, ADB held liquid investments in 19 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, discretionary liquidity, cash cushion, operational cash, and ad hoc—all of which have different risk profiles and performance benchmarks.

The year-end balance of the portfolios in 2021 and 2020 is presented in Table 19. The amortized cost and fair value returns of the portfolios are presented in Table 20.

**Table 19: Year-End Balance of Investment Portfolio**  
(\$ million)

Item	2021	2020
Core Liquidity Portfolio	19,088	19,331
Discretionary Liquidity Portfolio	16,460	12,991
Cash Cushion Portfolio	7,824	8,744
Operational Cash Portfolio	514	245
Ad hoc Portfolio	1,037	848
<b>Total</b>	<b>44,923</b>	<b>42,159</b>

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

**Table 20: Return on Investment Portfolio**  
(%)

Item	Annualized Return			
	Amortized Cost		Fair Value	
	2021	2020	2021	2020
Core Liquidity Portfolio	1.8	2.0	(0.7)	4.2
Discretionary Liquidity Portfolio <sup>a</sup>	0.5	0.4	0.5	0.4
Cash Cushion Portfolio	0.4	0.8	0.3	0.9
Operational Cash Portfolio – USD	0.0	0.4	0.0	0.4
Ad hoc Portfolio	2.1	2.5	(1.2)	6.8

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 3.0 years (3.0 years – 2020) as of 31 December 2021.

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.

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.

## 2. Prudential Minimum Liquidity

Holding appropriate levels of liquidity ensures uninterrupted lending support to DMCs. ADB's prudential minimum liquidity (PML) is set at 12-month liquidity coverage and it is 100% of ADB's one-year net cash requirement (NCR) where NCR is equal to cash outflows less cash inflows. Cash outflows include disbursements from operations, redemptions on ADB's debt instruments and OCR net income transfers. Cash inflows mainly represent income from operations, repayments and prepayments from borrowers and capital subscription payments. Maintaining the PML is designed to enable ADB to cover NCR for 12 months without borrowing from the capital markets. The liquidity levels and cash requirements are monitored periodically in accordance with ADB's liquidity policy. As of 31 December 31, 2021, ADB's aggregate liquidity holding remained above the 2021 PML requirement.

## 3. Contractual Cash Obligations

In the normal course of business, ADB enters into contractual obligations that may require short-term and long-term future cash payments. Table 21 summarizes ADB's significant contractual cash obligations as of 31 December 2021. Long-term debt includes medium- and long-term borrowings. Other long-term liabilities correspond to future lease payments and accrued liabilities, including pension and postretirement medical benefits.

**Table 21: Contractual Cash Obligations**  
**As of 31 December 2021**  
(\$ million)

Item	Maturities		Total
	within one year	more than one year	
Long-Term Debt	28,382	105,689	134,071
Undisbursed Commitments <sup>a</sup>	14,725	39,062	53,787
Other Liabilities	1,058	1,410	2,468
<b>Total</b>	<b>44,165</b>	<b>146,161</b>	<b>190,326</b>

<sup>a</sup> Includes undisbursed commitments for loans, equity investments and other debt securities.

As a triple-A rated borrower, ADB raises funds regularly through bond issuances in the international capital markets in a cost-effective manner, which demonstrates ADB's ability to meet the required cash requirements in the long term. Furthermore, ADB's capital structure provides an additional level of security as callable capital is available to meet debt obligations in the unlikely event of large-scale default by ADB's borrowers. ADB has never made a call on callable capital.

## F. 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 maintains an independent risk management office and has various management committees with responsibilities to oversee bank-wide risk issues. ADB's Risk Committee monitors and discusses risks, recommends proposed risk policies and actions to the President, and provides senior management oversight on risk policy matters to ensure that ADB maintains its superior credit standing. The office of risk management reports quarterly to the Audit and Risk Committee of the Board on the development of the risks in ADB's operations.

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; computes expected credit losses; and assesses its capital adequacy.

Risks to which ADB is exposed in carrying out its mission include credit risk, market risk, liquidity risk, and operational risk. This section discusses (i) COVID-19 risk management, (ii) risk management of each key risk, (iii) ADB's capital adequacy—ADB's ultimate protection against unexpected losses, and (iv) asset and liability management.

### 1. COVID-19

COVID-19 has posed additional credit, market, liquidity, and operational risks for ADB. ADB managed such risks to ensure ADB could continue to respond to increased demand for support as DMCs combat the impact of COVID19. ADB has been closely monitoring the evolution of the COVID-19 pandemic and increased the depth, breadth and frequency of scenario analyses to fully understand and assess potential impact on ADB's balance sheet and operations under different circumstances.

**Credit risks.** Challenging macroeconomic and credit conditions because of COVID-19 slightly weakened credit quality of ADB borrowers but the considerable external financial support provided for DMCs, as well as policy action taken by many governments to offset the economic downturn, partially mitigated the impact of the pandemic. Some successful recoveries and restructuring of impaired transactions also reduced the adverse impact on nonsovereign credit quality.

The credit outlook has begun to improve since the outset of the pandemic as evidenced by recovering global growth and successful vaccination programs across many DMCs; however, uncertainties remain around the emergence of new variants globally and across Asia temporarily undermining growth. Moreover, the expected monetary policy tightening could increase financial risks for some DMCs.

ADB's liquidity portfolio maintained a high weighted average credit rating throughout 2021. ADB uses derivatives instruments linked to liquidity portfolio, lending, and borrowings for hedging purposes. The credit risks associated with ADB's derivatives counterparties are deemed low because the derivatives counterparties are subject to high minimum credit rating requirements, with counterparty exposures fully or partly collateralized depending on each counterparty's credit rating.

**Market risks.** ADB's liquidity portfolio is also exposed to interest rate risk. Duration, or the portfolio's sensitivity to interest rate movements, has been managed at steady levels during 2021. The key theme for many global interest rate markets evolved during the year, from a COVID-19 driven accommodative monetary policy to speculation on the timing and magnitude of central banks' policy shifts to address inflation concerns; this has been closely monitored.

**Liquidity risks.** Liquidity risk could arise if ADB would be unable to access capital markets for an extended period of time. In order to mitigate this risk and maintain sufficient liquidity to meet cash flow requirements for an extended period of time under stressed conditions, ADB maintains a conservative prudential minimum liquidity. In 2021, ADB implemented its second-largest borrowing program ever in a challenging environment to meet the increasing cash requirements to support ADB's operations and COVID-19 responses.

**Operational risks.** Work-from-home arrangements and other temporary processes continued to be in place during 2021. Maximum occupancy in ADB headquarter at the year-end remained limited to 25%. A full re-opening to the normal capacity is expected in 2022, subject to the evolution of the pandemic.

Exposure to operational risks related to health, safety and security; organizational resilience; and cybersecurity continued to be elevated during 2021. The relevant departments and offices adapted processes, tools and services to enable a safe and uninterrupted continuation of ADB's activities. All critical functions are operating effectively as ADB continues to provide resources to support its DMCs.

## 2. 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, debt security, and treasury counterparty (Table 22). For nonsovereign transactions, the rating typically is not better than that of the sovereign.

**Table 22: 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 loans 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 23 details the total risk exposure and weighted average risk rating for each asset class.<sup>18</sup>

**Table 23: Total Risk Exposure**  
as of 31 December 2021 and 2020

Item	2021		2020	
	Exposure (\$ million)	Rating (1–14)	Exposure (\$ million)	Rating (1–14)
Loans and guarantees <sup>a</sup>	140,638		133,762	
a. Sovereign operations	131,423	7.6 / BB–	124,336	7.2 / BB
1. Regular OCR Loans and guarantees	98,952	6.8 / BB	92,026	6.5 / BB
2. Concessional OCR Loans	32,471	10.6 / B–	32,310	10.3 / B
b. Nonsovereign operations	9,215	9.7 / B	9,425	9.7 / B
Equity Investments	1,316		1,321	
a. Sovereign operations	165	n/a	153	n/a
b. Nonsovereign operations <sup>b</sup>	1,150	n/a	1,167	n/a
Treasury	48,772	AA	51,088	AA
a. Fixed income	33,578	AA	31,795	AA
b. Cash instruments	15,016	AA–	19,000	AA–
c. Derivatives	179	AA–	293	AA–
<b>Aggregate Exposure</b>	<b>190,726</b>		<b>186,170</b>	

n/a = not applicable.

Note: Numbers may not sum precisely because of rounding.

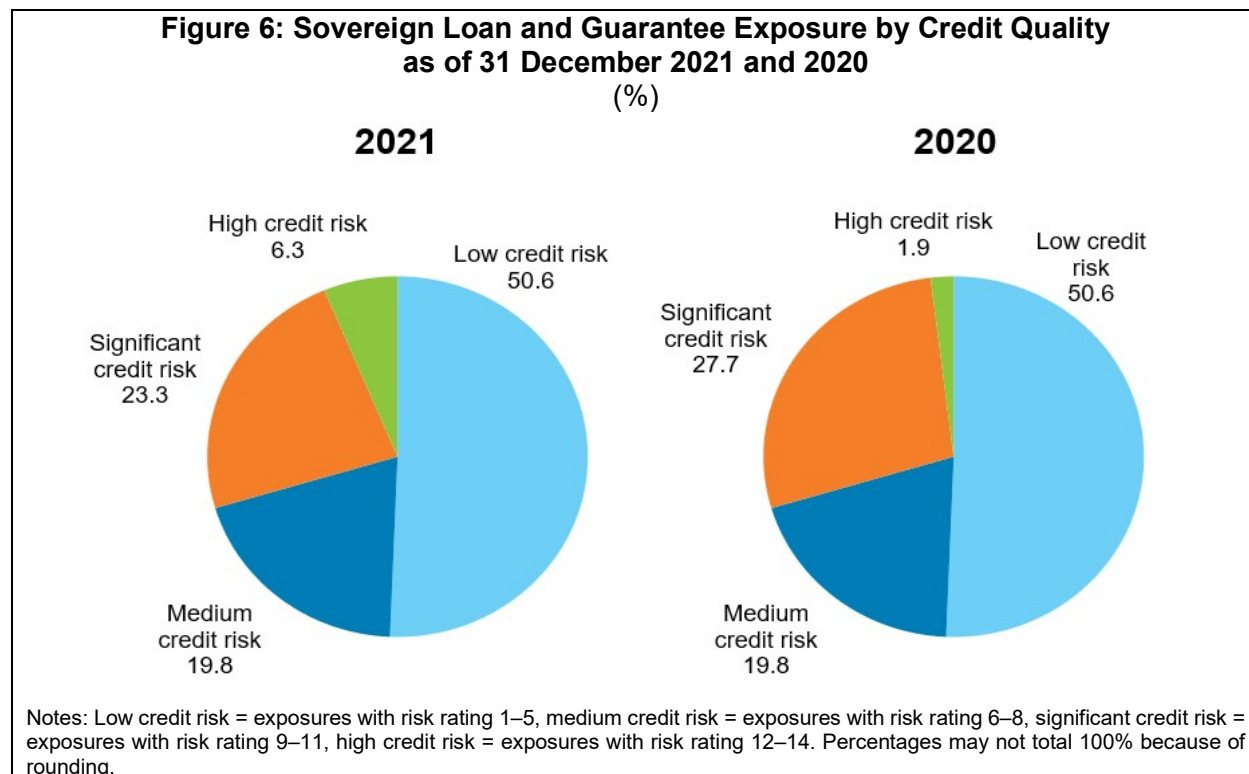
<sup>a</sup> Sum of outstanding loan balances, present value of guaranteed obligations, and securities classified as debt net of provision.

<sup>b</sup> At fair values. 2020 includes one hybrid investment classified as other debt security.

<sup>18</sup> The average risk ratings are weighted by the probability of default and outstanding credit exposure. The computation uses a set of probabilities of default at the end of the corresponding quarter.

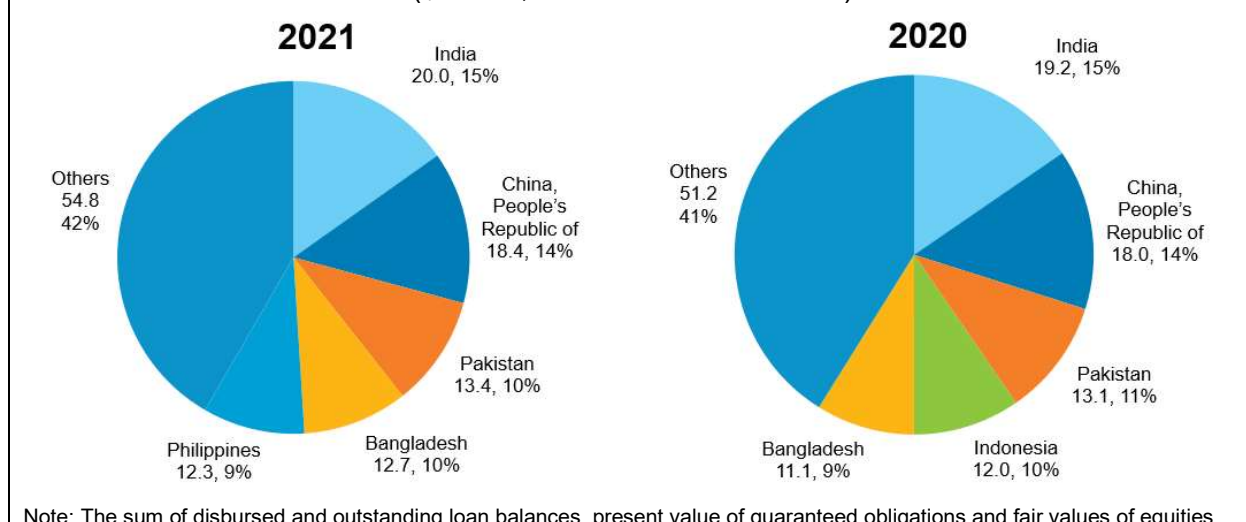
**Credit risk in the sovereign portfolio.** Sovereign credit risk is the risk that a sovereign borrower or guarantor will default on its loan or guarantee obligations. ADB manages its sovereign credit risk through provision for credit losses as well as by maintaining conservative equity levels. ADB's sovereign regular OCR loan operations have experienced no loss of principal. Countries that previously had delayed payments eventually repaid and returned their loans to accrual status.

**Sovereign loan and guarantee exposure.** The average credit rating of the regular and concessional sovereign loan and guarantee portfolio slightly weakened to 7.6 (BB–) in 2021 from 7.2 (BB) in 2020 given downgrades to some sovereign borrowers (Figure 6). Refer to COVID-19 section above and Note F of OCR Financial Statements for additional information.



**Sovereign concentrations.** ADB has assumed some concentration risk to fulfill its development mandate. The three largest borrowers— India, the People's Republic of China, and Pakistan— represented 39% of the portfolio in 2021 (Figure 7).

**Figure 7: Sovereign Country Exposure  
as of 31 December 2021 and 2020**  
(\$ billion, unless otherwise stated)



To reduce concentration risk and maintain a well-capitalized balance sheet, ADB approved in 2020 a policy framework for exchanges of sovereign exposures among multilateral development banks (MDBs). The EEA provides for the simultaneous exchange of credit risk coverage for potential non-accrual events on the exchanged sovereign exposures. In case of non-accrual events, the party providing protection would pay the other counterparty interest for any period the covered exposure is in nonaccrual. In December 2020, ADB entered into a pilot exchange of \$1 billion in sovereign exposures with another MDB. The EEA transaction is treated as an exchange of two separate financial guarantees (guarantee provided and guarantee received).

**Credit and equity risks in the nonsovereign portfolio.** Nonsovereign credit risk is the risk that a borrower will default on a loan, debt security or guarantee obligation for which ADB does not have recourse to a sovereign entity. Equity risk is the risk of losses arising from movements in equity prices. While the aggregate nonsovereign exposure is smaller in size than the sovereign exposure, the credit risk in individual transactions is more significant. 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 oversees all risks in ADB's balance sheet and operations, and reviews and endorses proposed changes to risk policies. It also monitors aggregate nonsovereign portfolio risks and individual transactions with deteriorating creditworthiness.

ADB manages 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. For equity risk, ADB updates the valuation for equity investments including assessing whether impairments are considered permanent. ADB also enters into risk transfer agreements to reduce its exposure to selected nonsovereign transactions and to enhance the granularity of its portfolio.

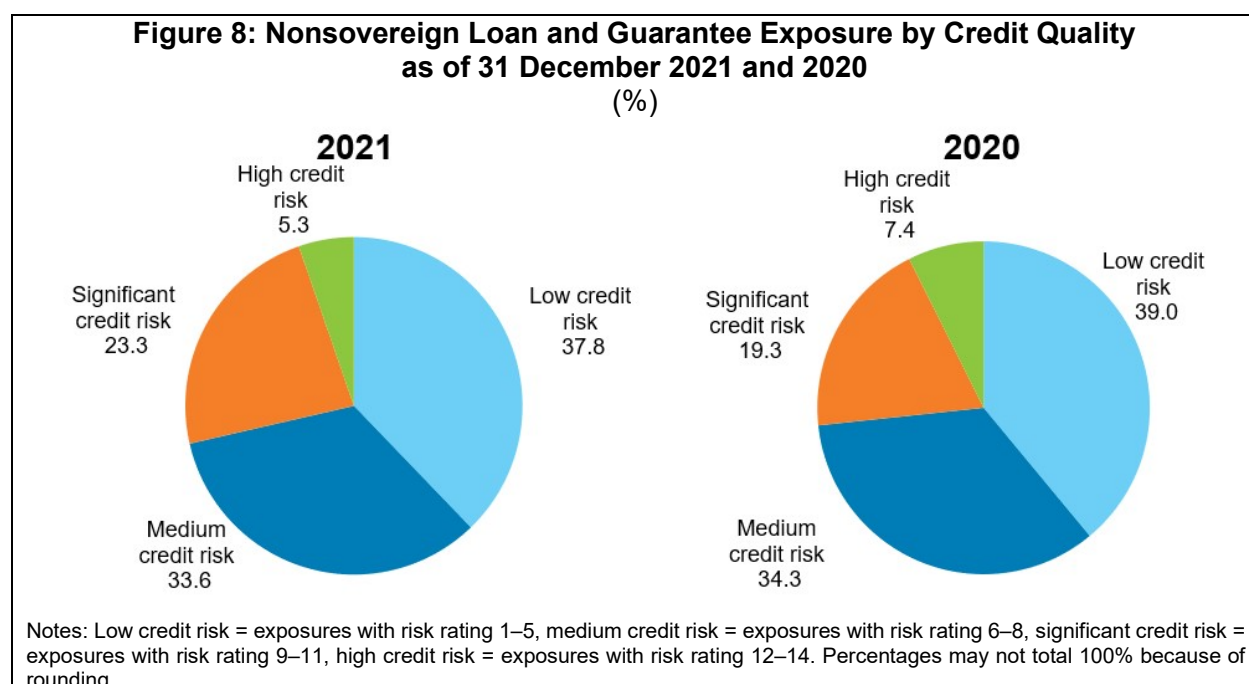
ADB manages expected credit losses from nonsovereign credit portfolio as well as known or highly probable losses in individual loans, debt securities or guarantees through allowance for credit losses and liability for credit losses on off-balance sheet exposures.

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

**Nonsovereign loan, guarantee, and debt security exposure.** ADB assigns a risk rating to each nonsovereign loan, guarantee, and debt security. The average credit rating of the nonsovereign portfolio remained at 9.7 (B) in 2021 and 2020 as risk rating downgrades was offset by, prepayments, risk transfers and recoveries (Figure 8).

Credit exposure is considered impaired when it is unlikely that ADB will be able to collect all amounts due in accordance with contractual terms. Impaired credit exposure includes all rated transactions, namely (i) loans, (ii) guarantees, and (iii) debt securities that are held to maturity and reported at amortized cost, which are extended to borrowers rated 13 and 14 on ADB's 14-point rating scale. Impaired exposure increased to 4.8% of total nonsovereign credit exposure in 2021 from 4.2% in 2020.

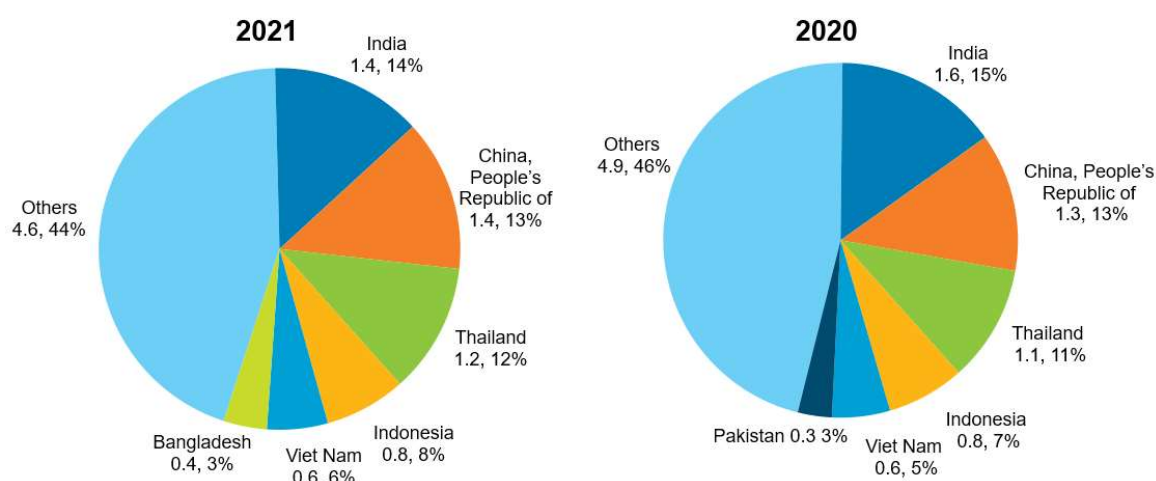
Refer to Note F of OCR Financial Statements for additional information.



**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 \$17 million in 2021 from 2020 mainly because of disposal of some investments. Refer to Note H of OCR Financial Statements for additional information.

**Nonsovereign concentrations.** The three largest nonsovereign country risk exposures as of 31 December 2021 were India (14%), the People's Republic of China (13%), and Thailand (12%). The exposure of the top three countries remained at 39% in 2021 and 2020 (Figure 9). All country exposures complied with ADB exposure limits.

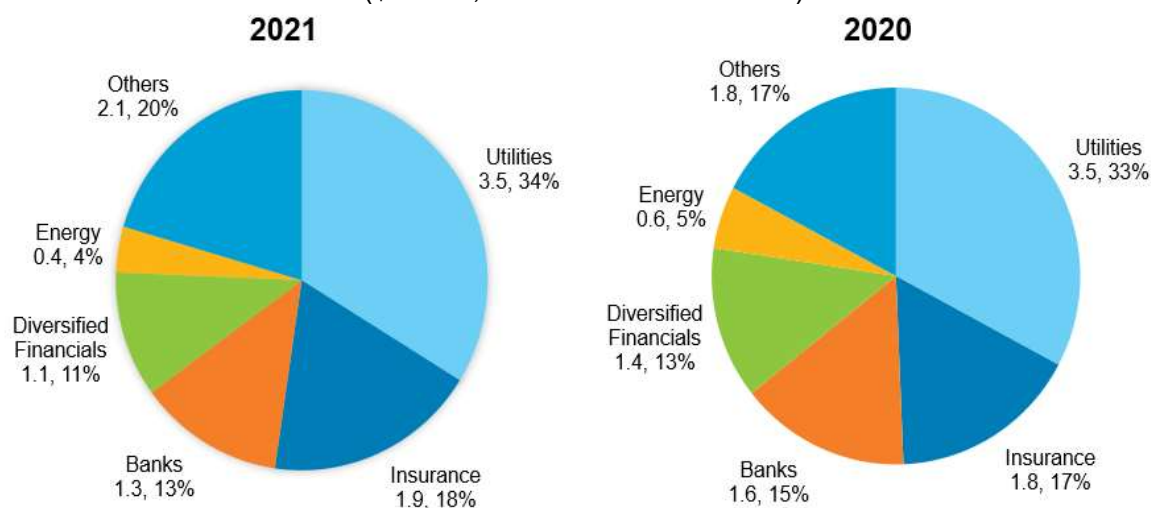
**Figure 9: Nonsovereign Country Exposure<sup>a</sup>**  
**as of 31 December 2021 and 2020**  
(\$ billion, unless otherwise stated)



<sup>a</sup> The sum of disbursed and outstanding loan balances and other debt securities, 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 nonsovereign sector exposures (Figure 10). ADB maintains higher exposures to this sector because of its importance 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 into seven major sub-industries. To mitigate sector concentration risk, ADB conducts additional monitoring and reporting on this sector and employs specialists in these areas.

**Figure 10: Nonsovereign Sector Exposure**  
**as of 31 December 2021 and 2020**  
(\$ billion, unless otherwise stated)



**Expected credit loss.** On 1 January 2020, ADB adopted the new accounting standard, the current expected credit loss (CECL) model, which requires the provision for credit losses from sovereign and nonsovereign operations to be based on expected losses over the remaining lifetime of loans and certain debt securities. The new requirement also includes measuring expected losses for off-balance sheet credit exposures such as undisbursed loan commitments and guarantees. With the implementation of CECL, all expected losses are charged through provision for credit losses and loan loss reserve was discontinued.

The expected credit losses as of 31 December 2021 for sovereign and nonsovereign operations (loans, guarantees, and held-to-maturity debt securities) was \$263 million and \$600 million, respectively (\$264 million and \$668 million – 2020). The net decrease from 2020 was mainly because of a more stable macroeconomic environment and the credit rating of some of ADB's borrowers in 2021. Expected loss as a percentage of the total loan and guarantee portfolio in 2021 is at 0.2% for sovereign (0.2% – 2020) and 6.5% for nonsovereign (7.1% – 2020).

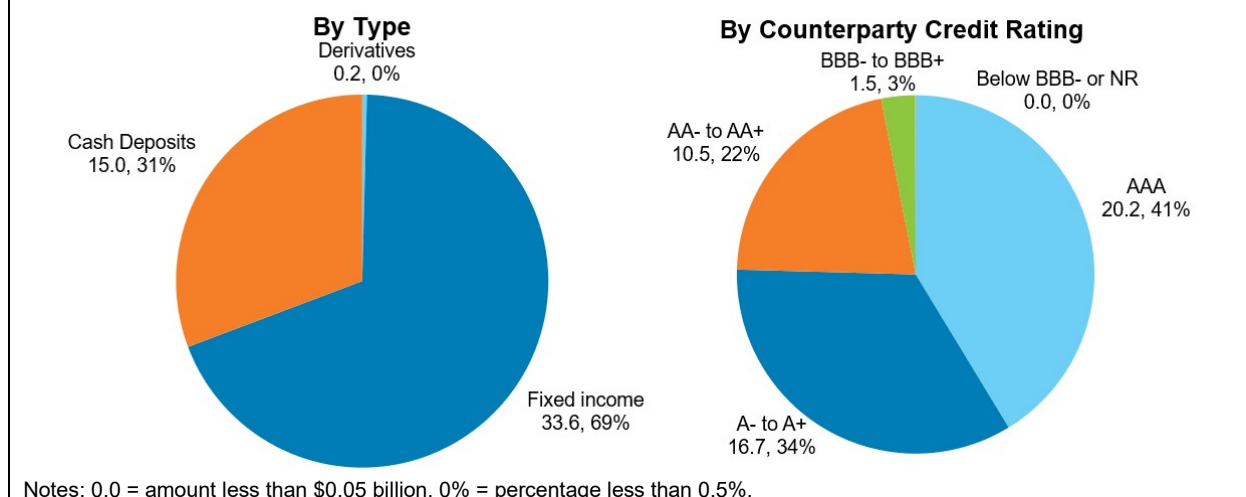
**Credit risk in ADB's treasury operations.** Issuer default and counterparty default are credit risks that affect ADB's liquidity portfolio. Issuer default is the risk that a bond issuer will default on its interest and/or principal payments, while counterparty default is the risk that a counterparty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

To mitigate issuer and counterparty credit risks, ADB generally transacts only with institutions rated by reputable international rating agencies and satisfy a minimum rating criteria. The liquidity portfolio is also invested in highly rated assets, with substantial allocation to money market instruments and government and government-related securities. In addition, ADB has established exposure limits for its bond investments, depository relationships, and other investments.

ADB has established 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 (ISDA) Master Agreement, and have signed a Credit Support Annex (CSA). Under the CSA, derivative positions are marked to market daily, and the resulting exposures are generally collateralized by cash or eligible 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.

As of 31 December 2021, ADB's treasury portfolio comprises fixed income securities, high credit quality cash deposits and derivative instruments with a weighted average credit rating of AA, and with 97% of the portfolio rated A– or better. Figure 11 provides the breakdown of treasury portfolio by type and counterparty credit risk rating.

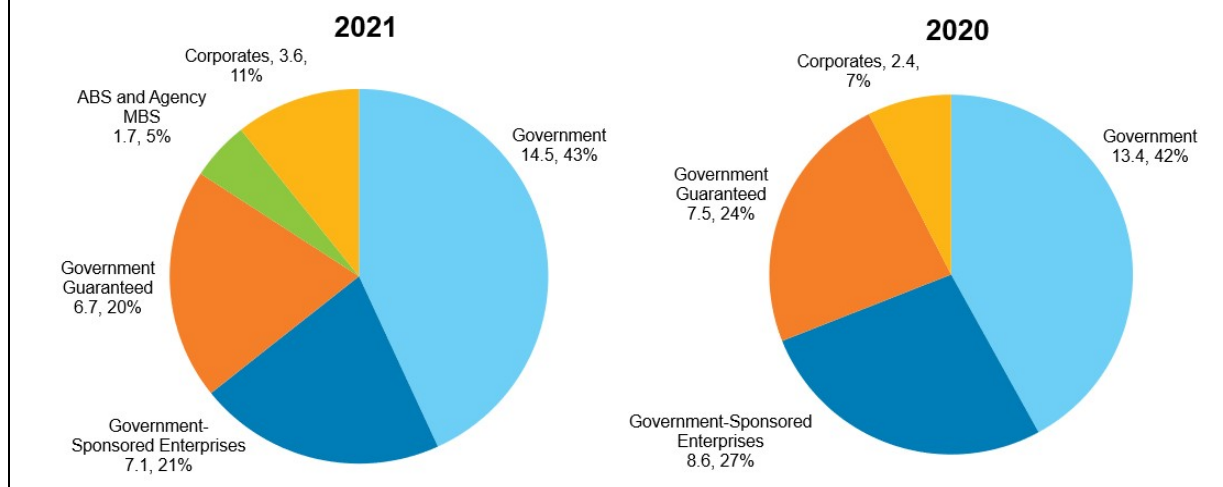
**Figure 11: Breakdown of Treasury Credit Exposure  
as of 31 December 2021**  
(\$ billion, unless otherwise stated)



As of 31 December 2021 and 2020, no fixed-income instruments, derivatives, or other treasury exposures were past due or impaired.

**Fixed income.** Sovereign and sovereign-guaranteed securities, and those issued by government-related enterprises (including supranationals and excluding mortgage-backed securities) represent 84% of ADB's fixed income assets. The remainder is in corporate bonds that are rated at least A-, asset-backed securities (ABS) which are rated AAA, and US agency mortgage-backed securities (Agency MBS) which are subject to a AA+ minimum rating requirement and are currently rated AAA (Figure 12). ADB will continue to monitor market developments closely and adjust its risk exposure accordingly.

**Figure 12: Fixed Income Portfolio by Asset Class  
as of 31 December 2021 and 2020**  
(\$ billion, unless otherwise stated)

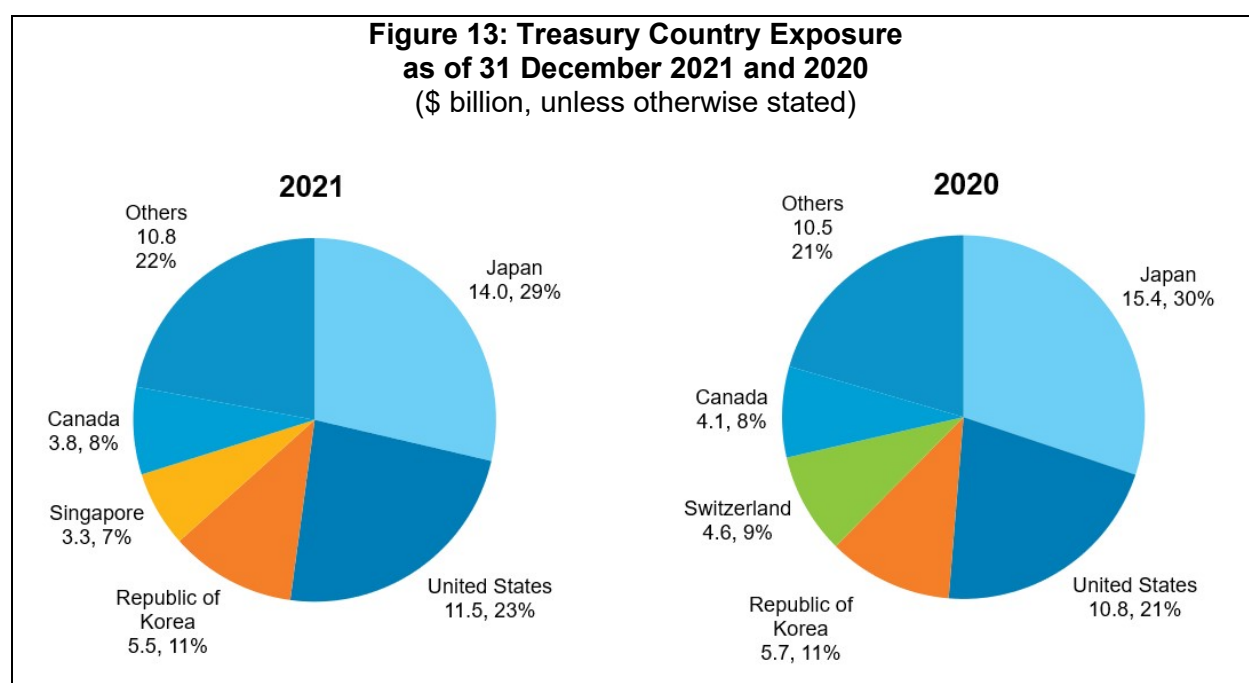


**Cash deposits.** Credit risk from investment deposits is considered low. ADB invests with depository institutions that satisfy a minimum long-term average credit rating requirement. ADB maintains a watch list of institutions that it perceives as potentially riskier than its credit rating

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.

**Derivatives.** All eligible swap counterparties satisfy a minimum credit rating requirement. 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 2021, swap counterparty marked-to-market exposures were generally fully collateralized. Uncollateralized exposures to several banks were in line with established thresholds and minimum transfer amounts; banks that had collateral shortfalls were issued margin calls.

**Country exposure.** At the end of 2021, treasury credit risk exposure was allocated across 33 countries with the largest five exposures presented in Figure 13.



### 3. 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's potential loss 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 rate agreements. However, because of its multicurrency operations, ADB is exposed to fluctuations in reported US dollar because of currency translation adjustments.

**Value-at-risk.** The interest rate 1-year VaR of the total OCR, decreased from 0.92% of ADB's equity on 31 December 2020 to 0.66% on 31 December 2021. This means a 5.0% probability exists that the portfolio will lose more than \$341 million because interest rate moves over the next year. As a supplement to VaR, ADB also computes expected shortfall to monitor the magnitude and changes to the treasury portfolio's tail risk over time.

**Duration.** Interest rate sensitivity of total OCR, as reflected in its weighted portfolio duration, decreased slightly from 1.41 years as of the end of 2020 to 1.39 years as of the end of 2021.

**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 2.7% of net asset value (NAV) (\$1,319 million). ADB also uses historical and hypothetical scenario analysis to assess how the total OCR would respond to significant changes in asset values. Because of the high quality of ADB's investments, scenario analysis suggests the impact to the liquidity portfolio from historical stress scenarios is generally limited. 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 including the US dollar, yen, euro, and pound sterling, and represented 86% of the CLP NAV.

#### 4. 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 markets 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 prudential minimum liquidity is set at 12-month liquidity coverage and it is 100% of ADB's one-year net cash requirement. 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 periodically in accordance with ADB's liquidity policy. Refer to Prudential minimum liquidity section under E. Liquidity Management for additional information.

#### 5. 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. Risks with a high residual exposure are managed by implementing mitigation actions or controls, by transferring them (e.g., insurance, for mitigating low-frequency high-severity operational risks), or by making conscious decision to accept a risk if mitigations are not possible under a cost-benefit perspective.

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 through the issuance of a monthly operational risk 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.

ADB regularly reports and performs analysis on its most relevant operational risks. They are rated in terms of likelihood of their occurrence and the impact to the organization. Processes and internal controls related to the most relevant risks are continuously strengthened and monitored to reduce the likelihood and impact of these operational risks.

## **6. Capital Adequacy**

ADB's capital adequacy framework (CAF) aims to ensure that large risk events will not lead to a downgrade of ADB's AAA rating or to an erosion of investor confidence. The framework is designed to protect the risk-bearing capacity of ADB without relying on callable capital, and to maintain ADB's ability to lend even during crises.

Under the CAF, ADB holds capital to protect against eight material risk types: credit risk in the operations portfolio, equity investment risk, interest rate risk, treasury counterparty risk, operational risk, pension risk, currency risk, and risk buffer for noncredit risk. ADB uses a capital utilization ratio (CUR) as the key metric in measuring capital adequacy. The CUR is the ratio of the total economic capital used (numerator) to usable equity (denominator).

The current CUR is 74.0% as of 31 December 2021 (69.1% – 31 December 2020). Capitalization levels remain adequate to support the projected growth of ADB's balance sheet .

## **7. 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.

## **G. Internal Control over Financial Reporting**

ADB assessed the effectiveness of its internal control over financial reporting based on the criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission for its 2021 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 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 key controls.

The financial reporting processes and controls have not been significantly affected by the prolonged work from home arrangement during the COVID-19 pandemic. ADB systems are accessible remotely allowing transactions to be processed, reviewed, and approved through the relevant systems supported by IT controls. Necessary financial data for preparing the financial statements were also accessible remotely. Overall, there were no significant changes to the existing business processes and key controls relevant to financial reporting.

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 2021.

## **H. Critical Accounting Policies and Estimates**

Significant accounting policies are contained in Note B of the OCR financial statements. The preparation of the financial statements requires estimates, judgments and assumptions on certain transactions. These estimates, which are based on judgment and available information, are considered critical because they have material impact, or have the potential to have a material impact on the reported balances in the financial statements. ADB believes that the estimates, judgments and assumptions made are reasonable based on historical experience, current trends and available information at the time they were made. 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. ADB follows a fair value hierarchy that gives highest priority to quoted prices in active markets for identical assets and 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). These are discussed in Note B of OCR's financial statements. 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.

The pricing models used to determine the fair value are generally based on discounted cash flow models. For level 3 equity investments at fair value, pricing models include discounted cash flows, net asset value, and comparable valuations incorporating inputs such as equity multiples. 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.

Changes in the pricing models used and selection of inputs for the valuation of level 3 financial instruments may involve some judgement and could significantly impact the fair value of the financial instruments in the balance sheet and the unrealized gains or losses in the income statement. ADB believes that the estimates of fair values are reasonable.

**Allowance and liability for credit losses.** ADB adopts the CECL model in measuring the allowance for credit losses. CECL mainly focuses on the credit loss model for financial assets measured at amortized cost, which are represented by loans and held-to-maturity debt securities for ADB. CECL also requires measuring credit losses for off-balance sheet commitments such as undisbursed loan and held-to-maturity debt securities commitments and guarantees, in which ADB is exposed to credit risk. ADB records a liability for credit losses on off-balance sheet

exposures for the off-balance sheet commitments. The provision for credit losses is based on expected losses over the remaining lifetime of loans, guarantees, and certain debt securities. The measurement of allowance and liability for credit losses includes significant judgments based on relevant information about past events, current conditions, and reasonable and supportable forecasts. For further details, refer to Current expected credit loss under Loans section and to Note B of OCR Financial Statements.

In determining the allowance and liability for credit losses, ADB considers various factors including default rates, credit ratings and macroeconomic forecasts. Changes in assumptions and forecasts could significantly affect the allowance and liability for credit losses. ADB believes that the assumptions used in making the estimates are reasonable and the allowance and liability for credit losses are adequate.

**Pension and other postretirement benefits.** ADB provides staff pension and postretirement medical benefits for all eligible staff members that have not reached the normal retirement age. 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 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. In deriving the pension and postretirement benefit obligations and funded status, ADB considers the discount rate as the most significant input. Change in this assumption could significantly affect the benefit obligations and funded status at the end of reporting period. For further details, refer to Note Q of OCR Financial Statements.

## I. Other Developments

**Reference Rate Transition.** In July 2017, the United Kingdom's (UK) Financial Conduct Authority (FCA) announced that it would no longer compel banks to submit rates for LIBOR beyond 2021, signaling uncertainty about the future sustainability of LIBOR. In March 2021, the FCA announced that the publication of LIBOR on a representative basis will cease for all yen-based LIBORs, as well as the 1-week and 2-month USD LIBOR settings immediately after 31 December 2021, and the remaining USD LIBOR settings after 30 June 2023. As a result of the announcements, financial institutions that are exposed to LIBOR need to transition to alternative reference rates (ARR) to avoid disruption when publication of LIBOR ceases.

ADB is exposed to LIBOR across various financial modalities. The most significant is the LIBOR-based loan product, which was introduced in 2001 and was, until 31 December 2021, ADB's main lending product for regular OCR loans, and the borrowings and swaps that have been issued to fund such loans. ADB offered its sovereign regular OCR loan borrowers LIBOR-based loans with a floating interest rate based on the 6-month LIBOR, plus an effective contractual spread and, where applicable, a maturity premium fixed over the life of the loan. The cost base rate for such loans was 6-month LIBOR for US dollar and yen, and 6-month Euribor for euro-denominated loans. ADB also offered its nonsovereign borrowers LIBOR-based loans.

In 2021, the ADB Board of Directors approved the change in the cost base rate from LIBOR to the Secured Overnight Financing Rate (SOFR) for US dollar-denominated loans and to the Tokyo Overnight Average Rate (TONA) for yen-denominated loans. ADB renamed its primary loan product to the Flexible Loan Product (FLP) capturing the various flexible options which are currently offered to borrowers that will continue with the FLP, including rate fixings, loan conversions and tailored amortization structures. The Board also approved the revised Ordinary Operations Loan Regulations for sovereign borrowers to implement the changes to ADB's financial loan product. These changes will take effect for new sovereign and nonsovereign loans from 1 January 2022. Existing sovereign loans have started the transition to the terms of the FLP (with notifications being sent to borrowers of the changes to their loans) from 1 January 2022.

onwards and the existing nonsovereign loans are expected to complete the transition by 30 June 2023.

ADB has undertaken outreach programs for borrowers to ensure a smooth transition to ARR. ADB has considered operational, legal, and financial risks to prudently manage the transition process.

### 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), Asian Development Bank 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 accounting principles generally accepted in the United States of America.

#### 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 provides a multilateral source of concessional assistance dedicated exclusively to reducing poverty and improving the quality of life in Asia and the Pacific. The ADF has received contributions from 34 donors (regional and nonregional). Cofinancing with bilateral and multilateral development partners complements ADF resources. 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 13 Replenishment.** In November 2020, the Board of Governors adopted a resolution for the 12th replenishment of the ADF (ADF 13) and the seventh regularized replenishment of the TASF. The \$4.1 billion replenishment provides grant financing to eligible recipients from 2021 to 2024.<sup>19</sup> The ADF 13 became effective on 8 June 2021. As of 31 December 2021, ADB received instruments of contributions from 29 donors totaling \$2,183 million, which represents 92% of the total ADF and TASF donor contribution commitment amounting to \$2,361 million.<sup>20</sup>

**Contributed resources.** During 2021, \$482 million of donor contributions (excluding TASF portion) was made available for operational commitments. Contributions not yet available for operational commitments comprise: (i) unpaid contributions; (ii) contributions received but are withheld due to pro-rata exercise; (iii) contributions received in advance; and (iv) unamortized discounts on accelerated notes encashment.

**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 2021 was \$1,037 million (\$618 million – 2020) equivalent (Table 24).

<sup>19</sup> 2020. Board of Governors' Resolution No. 408: Twelfth Replenishment of the Asian Development Fund and Seventh Regularized Replenishment of the Technical Assistance Special Fund. Manila.

<sup>20</sup> US dollar equivalent based on exchange rates in Board of Governor's Resolution No. 408.

**Table 24: Asian Development Fund Commitment Authority**  
**31 December 2021**  
(\$ million)

<b>Item</b>	<b>Amount</b>
Carryover of ADF 12 Commitment Authority	281
Other sources from ADF 12 <sup>a</sup>	337
ADF 13 contributions	434
ADF 12 contributions <sup>b</sup>	33
Grant savings and cancellations	47
Income from liquidity investment	53
OCR net income transfer	292
<b>Resources available for regular ADF</b>	<b>1,478</b>
<b>ADF 13 Commitments</b>	<b>(344)</b>
<b>Administrative expenses<sup>c</sup></b>	<b>(97)</b>
<b>ADF Commitment Authority Available for Future Commitments</b>	<b>1,037</b>

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

Notes: Amounts may not sum precisely because of rounding. Amounts are valued at exchange rates as of 31 December 2021.

<sup>a</sup> Resources earmarked for ADF13 includes the ADF-12 set-asides for Disaster Response Facility and reserves for changes in debt distress (*ADB 2020. Twelfth Replenishment of the Asian Development Fund and Seventh Regularized Replenishment of the Technical Assistance Special Fund. Manila*).

<sup>b</sup> Represents payments from Indonesia and the United States.

<sup>c</sup> Represents ADF's share in the administrative expenses for 2021.

In May 2021, the Board of Governors approved the transfer of \$292 million to the ADF as part of the net income allocation of OCR (\$259 million – 2020). In addition, \$47 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 2021, deposited installments under ADF 13 amounted to \$569 million, ADF 13 encashment totaled \$406 million, and about \$105 million was transferred to the TASF.<sup>21</sup>

**Investments for liquidity purpose.** The ADF investment portfolio totaled \$4,644 million at the end of 2021 compared with \$4,122 million at the end of 2020.<sup>22</sup> As of 31 December 2021, about 14% of the portfolio was invested in time deposits (4% – 2020) and 86% in fixed-income securities (96% – 2020). The rate of return on ADF investments, excluding unrealized gains and losses, was 1.59% (1.85% – 2020).

**Grants.** Grants are recognized as expenses in the financial statements upon effectivity, when the agreements are signed and all conditions to effectiveness of the grant are satisfied. During the year ended 31 December 2021, 28 grants totaling \$344 million were committed (47 grants totaling \$1,017 million – 2020) while 38 grants totaling \$524 million (43 grants totaling \$1,176 million – 2020) became effective, net of \$47 million (\$121 million – 2020) undisbursed grants that were reversed as reduction of grant expenses. During the year ended 31 December 2021, a total of \$126 million (\$395 million – 2020) COVID-19 response grants were committed and a total of \$44 million (\$331 million – 2020) were disbursed.

**Sovereign cofinancing for ADF grants.** In 2021, a total of \$64 million in sovereign loan and grant cofinancing was committed for ten ADF-financed projects totaling \$94 million.

<sup>21</sup> ADF 13 encashment included encashment of promissory notes and cash payments. US dollar equivalent based on exchange rates as of 31 December 2021.

<sup>22</sup> Includes securities purchased under resale arrangements.

## B. Technical Assistance Special Fund

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

**TASF Seventh Regularized Replenishment.** In November 2020, as part of the ADF 13 replenishment, the donors agreed to allocate \$517 million of the total replenishment size as the seventh regularized replenishment of TASF. The replenishment will cover TA financing for 2021 to 2024.

**Contributed resources.** As of 31 December 2021, a total of \$447 million of donor contributions have been received out of the \$461 million allocation set-aside for TASF under ADF 12 and a total of \$103 million of donor contributions have been received out of the \$517 million set-aside for TASF under ADF 13.

At the end of 2021, cumulative TASF resources (Table 25) totaled \$3,878 million, of which \$3,414 million was committed, leaving an uncommitted balance of \$464 million (\$87 million – 2020).

**Table 25: Technical Assistance Special Fund  
Cumulative Resources as of 31 December 2021 and 2020**  
(\$ million)

Item	2021	2020
Regularized Replenishment		
Contributions	2,089	1,611
Allocations from OCR Net Income	1,429	1,339
Direct Voluntary Contributions	91	91
Income from Investment and Other Sources	272	268
Transfers from the TASF to the ADF	(3)	(3)
<b>Total</b>	<b>3,878</b>	<b>3,306</b>

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

In May 2021, following the Board of Governors' approval, \$90 million was transferred from OCR to the TASF as part of the allocation of OCR net income (\$130 million – 2020).

**Operations.** For the year ended 31 December 2021, net TA expenses amounted to \$189 million (\$251 million – 2020), comprising \$207 million for 154 TA projects and 96 supplementary TAs (\$274 million of 183 TA projects and 81 supplementary TAs – 2020) made effective during the year, net of \$18 million (\$23 million – 2020) undisbursed amounts that were reversed as reduction of TA expenses. During the year ended 31 December 2021, a total of \$28 million (\$133 million – 2020) COVID-19 response TAs were committed and a total of \$18 million (\$39 million – 2020) were disbursed. The undisbursed TAs net of TA advances amounted to \$629 million as of 31 December 2021 (\$577 million – 2020).

**Investments for liquidity purpose.** As of 31 December 2021, the total investment portfolio amounted to \$672 million (\$608 million – 2020). About 42% of the portfolio was invested in time deposits and 58% in fixed-income securities (74% in time deposits and 26% in fixed-income securities – 2020). Total revenue from investments for the year ended 31 December 2021 amounted to -\$4 million (\$2 million – 2020). The rate of return on TASF investments was -0.56% (0.52% – 2020).

### C. Japan Special Fund

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 in the light of changing global environment and to broaden their investment opportunities. The last effective TA was financially closed in May 2019.

In March 1999, funded by the Government of Japan, ACCSF was established within JSF to assist in the economic recovery of crisis-affected member countries (CAMCs). With the general fulfillment of the purpose of the facility, the Government of Japan and ADB agreed to terminate the ACCSF in March 2002 and all projects were financially completed in 2011.

In September 2021, the Government of Japan decided to use JSF's unutilized balance starting January 2022 to maximize its benefits in supporting the needs of ADB's DMCs through TA. In addition, the Government decided to transfer the residual funds of ACCSF to JSF's account and close the ACCSF's account. In November 2021, ACCSF account was closed after transferring its residual balance amounting to \$39,447,000 to JSF's account.

**Contributed resources.** As of 31 December 2021, the cumulative fund resources of JSF totaled \$1,013 million, of which \$901 million had been used, leaving an uncommitted balance of \$112 million. As of 31 December 2021, with the transfer of ACCSF residual balance to JSF, there was no remaining uncommitted balance pertaining to ACCSF.

**Operations.** During the year ended 31 December 2021, no new TA projects or grants were made effective (nil – 2020) and no undisbursed amounts were reversed (nil – 2020). There were no undisbursed TAs as of 31 December 2021 (nil – 2020).

**Investments for liquidity purpose.** As of 31 December 2021, the total investment portfolio, which was in time deposits, amounted to \$107 million for JSF and nil for ACCSF (\$71 million for JSF and \$39 million for ACCSF – 2020).

### D. Asian Development Bank Institute

ADBI was established in 1996 as a subsidiary body of ADB, whose 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 ADBI.

During 2021, committed contributions to ADBI totaled \$13 million (\$15 million – 2020). As of 31 December 2021, cumulative contributions committed to ADBI amounted to ¥33 billion, A\$2 million, and \$14 million (about \$326 million equivalent). Of the total contributions received, \$255 million had been utilized by the end of 2021 (\$251 million – 2020) 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. For the year ended 31 December 2021, total expenses of ADBI totaled \$13 million (\$11 million – 2020). The balance of net assets without donor restrictions (excluding property, furniture, and equipment and lease liability) available for future projects and programs was about \$25 million (\$23 million – 2020).

**Investments for liquidity purpose.** As of 31 December 2021, the total investment portfolio, which was in time deposits, amounted to \$11 million (\$4 million – 31 December 2020).

## E. Regional Cooperation and Integration Fund

Established on 27 February 2007 as a special fund under the Regional Cooperation and Integration Financing Partnership Facility, the RCIF aims to enhance regional cooperation and integration in Asia and the Pacific by financing TA projects that support greater and higher quality connectivity between economies, expand global and regional trade and investment opportunities, and increase and diversify regional public goods.

**Contributed resources.** As of 31 December 2021, cumulative RCIF resources totaled \$104 million, of which \$92 million had been used, leaving an uncommitted balance of \$12 million (\$25 million – 2020).

**Operations.** During the year ended 31 December 2021, 11 TA projects and 10 supplementary TAs amounting \$13 million (nine TA projects and five supplementary TAs amounting to \$10 million – 2020) that became effective, and undisbursed amounts of \$22 thousand (\$0.2 million – 2020) were reversed as reduction in TA expense. During the year ended 31 December 2021, a total of \$2 million (\$1 million – 2020) COVID-19 response TAs were committed and a total of \$0.06 million (\$0.01 million – 2020) were disbursed. The balance of undisbursed TAs, net of TA advances as of 31 December 2021 amounted to \$26 million (\$16 million – 2020).

**Investments for liquidity purpose.** As of 31 December 2021, the total investment portfolio, which was in time deposits, amounted to \$36 million (\$36 million – 2020).

## 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.** As of 31 December 2021, cumulative CCF resources totaled \$101 million, of which \$81 million had been used, leaving an uncommitted balance of \$20 million (\$27 million – 2020).

**Operations.** During the year ended 31 December 2021, 10 TA projects and one supplementary TA totaling \$7 million (six TA projects and two supplementary TAs totaling \$6 million – 2020) became effective, and \$0.3 million undisbursed amounts were reversed as a reduction in TA expense (nil – 2020). The balance of undisbursed grants and TA, net of advances as of 31 December 2021 amounted to \$21 million (\$17 million – 2020).

**Investments for liquidity purpose.** As of 31 December 2021, the total investment portfolio, which was in time deposits, amounted to \$38 million (\$38 million – 2020).

## G. Asia Pacific Disaster Response Fund

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

**Contributed resources.** As of 31 December 2021, cumulative fund resources totaled \$181 million, of which \$125 million had been used, leaving an uncommitted balance of \$56 million (\$47 million – 2020).

On 18 May 2020, the Government of Japan contributed \$75 million to APDRF which is earmarked for ADB's response to the COVID-19 pandemic. Contributions received for specific purpose or

grant programs are classified as support with donor restrictions. The net assets with donor restrictions as of 31 December 2021 amounts to \$28 million (\$31 million – 31 December 2020). In May 2021, the Board of Governors approved the transfer of \$15 million to the APDRF as part of OCR's 2020 net income allocation (\$10 million – 2020).

**Operations.** During the year ended 31 December 2021, three grants totaling \$5 million (39 grants totaling \$60 million – 2020) became effective, and \$0.1 million undisbursed amounts were reversed as a reduction in grant expense (nil – 2020). Of the \$5 million grants that became effective, \$3 million (\$55 million – 2020) relates to ADB's COVID-19 response. During the period, a total of \$3 million (\$55 million – 2020) COVID-19 response grants were committed and a total of \$9 million (\$49 million – 2020) were disbursed. The balance of undisbursed grants, net of grant advances as of 31 December 2021 amounted to \$42 thousand (\$6 million – 31 December 2020).

**Investments for liquidity purpose.** As of 31 December 2021, the total investment portfolio, which was in time deposits, amounted to \$42 million (\$35 million – 2020).

## **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.** As of 31 December 2021, cumulative fund resources totaled \$25 million, of which \$22 million had been used, leaving an uncommitted balance of \$3 million (\$3 million – 2020).

In 2021, the Government of Luxembourg committed contribution equivalent to \$2 million (\$2 million – 2020).

**Operations.** During the year ended 31 December 2021, there were four TA projects and four supplementary TAs totaling \$2 million that became effective (six TA projects and three supplementary TAs totaling \$3 million – 2020), and \$0.2 million undisbursed amounts were reversed as a reduction in TA expense (\$0.01 million – 2020). During the year ended 31 December 2021, \$0.45 million (nil - 2020) COVID-19 response TAs were committed and a total of \$.02 million (nil - 2020) were disbursed. The balance of undisbursed TAs as of 31 December 2021 amounted to \$9 million (\$10 million – 2020).

**Investments for liquidity purpose.** As of 31 December 2021, the total investment portfolio, which was in time deposits, amounted to \$8 million (\$8 million – 2020).

#### IV. TRUST FUNDS AND 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 cumulatively contributed about \$10,031 million in grants and loans to ADB operations. In 2021, ADB fully-administered sovereign cofinancing commitments amounted to \$192 million, composed of \$69 million for 13 investment projects and \$123 million for 95 TA projects. Nonsovereign cofinancing commitments amounted to \$53 million for 5 projects. By the end of 2021, ADB was administering 45 trust funds, comprising 28 stand-alone trust funds, and 17 trust funds established under financing partnership facilities. Of these, 26 trust funds have available uncommitted balances for new projects and activities totaling \$327 million. Additional contributions from external partners totaled \$354 million in 2021, comprising \$329 million in new contributions and replenishments to existing trust funds and \$25 million in additional allocation from global funding initiatives. Additional allocations from global funding initiatives comprised of \$15 million from the Global Environment Facility, and \$10 million from Climate Investment Funds.

Table 26 shows the commitments and replenishments provided by financing partners to existing trust funds in 2021.

**Table 26: Schedule of Commitments and Replenishments  
from Financing Partners to Trust Funds during 2021**  
(\$ million)

Financing partner	Trust fund	Amount
Government of Japan	Japan Fund for Poverty Reduction <sup>23</sup> , 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	280.3
Government of the Republic of Korea	Republic of Korea e-Asia and Knowledge Partnership Fund	26.6
Government of the United Kingdom	Artificial Intelligence and Digitalization Innovation Fund	13.9
Government of France	Cooperation Fund for Project Preparation in the Greater Mekong Subregion and in Other Specific Asian Countries	1.2
Nordic Development Fund	Community Resilience Partnership Program Trust Fund	6.8
Government of Switzerland	Cities Development Initiative for Asia Trust Fund	0.1
TOTAL		328.9

<sup>23</sup> In 2021, the ADB Board of Directors approved the enhanced and renamed Japan Fund for Prosperous and Resilient Asia and the Pacific to be operationalized on 1 January 2022.

**Japan Fund for Poverty Reduction.**<sup>24</sup> The Government of Japan established the Japan Fund for Poverty Reduction (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 to support capacity building efforts in DMCs. At the end of 2021, the JFPR received \$966.33 million in cumulative contributions from the Government of Japan. Total project commitments since 2000 amounted to \$1,018 million for 207 grant projects and 308 technical assistance projects. The COVID-19 window, with a total allocation of \$75 million created in 2020 to help DMCs strengthen their capacity to contain the spread of the COVID-19 pandemic, has 5 projects amounting to \$19 million committed and 4 projects equivalent to \$12 million awaiting effectiveness as of end 2021.

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<sup>24</sup> In 2021, the ADB Board of Directors approved the enhanced and renamed Japan Fund for Prosperous and Resilient Asia and the Pacific to be operationalized on 1 January 2022.

**Table 27: Schedule of Cumulative Contributions from External Sources  
Administered by Asian Development Bank  
as of 31 December 2021  
(\$ million)**

Item	Amount	Item	Amount
Bilateral Partners		Multilateral Partners	
Australia	1,039.1	ADB Ventures Investment Fund 1	13.0
Austria	25.9	ADB Ventures Investment Fund 2	4.0
Belgium	15.9	Asian Infrastructure Investment Bank	74.0
Canada	421.8	Association of Southeast Asian Nations	0.6
China, People's Republic of	90.0	Cities Alliance	0.5
Denmark	32.3	Clean Technology Fund	972.2
European Commission	475.8	Commonwealth Secretariat	0.0
Finland	73.6	GEF/Least Developed Countries Fund	21.6
France	43.1	GEF/Special Climate Change Fund	12.0
Germany	124.5	Global Agriculture and Food Security Program	67.7
India	0.9	Global Environment Facility	259.1
Ireland	15.8	Global Partnership for Education Fund	1.4
Italy	2.2	Global Road Safety Facility	0.7
Japan	2,369.2	Global Road Safety Partnership	0.2
Korea, Republic of	178.5	Green Climate Fund	375.9
Luxembourg	8.3	International Federation of Red Cross and Red Crescent Societies	1.5
The Netherlands	390.9	International Fund for Agricultural Development	0.9
New Zealand	76.8	Islamic Financial Services Board	0.5
Norway	254.9	Nordic Development Fund	63.4
Portugal	0.6	Partnership for Market Readiness	0.3
Singapore	1.6	Public Private Infrastructure Advisory Facility	1.3
Spain	36.2	Strategic Climate Fund	448.8
Sweden	239.7	Trust Fund for Forest	13.2
Switzerland	66.5	United Nations Development Programme	0.4
Taipei, China	0.5	Other	0.8
United Kingdom of Great Britain and Northern Ireland	1,130.1	Sub-Total	2,334.2
United States	499.1		
Sub-Total	7,613.6	Private Partners	
		Bill and Melinda Gates Foundation	20.1
		Credit Suisse	0.1
		Education Above All Foundation	12.6
		ENECO Energy Trade B.V.	11.5
		Hewlett Foundation	0.3
		JPMorgan Chase Foundation	1.4
		Korea Energy Agency	0.3
		Korean Energy Management Corporation	0.2
		Korea Venture Investment Corp.	10.0
		POSCO	20.0
		The Rockefeller Foundation	5.0
		Other	1.2
		Sub-Total	82.7
		<b>Grand Total</b>	<b>10,030.5</b>

Notes: 0.0 = Amount less than \$0.05 million. Numbers may not sum precisely because of rounding. Excludes capital contributions to Credit Guarantee and Investment Facility (CGIF).

**ORDINARY CAPITAL RESOURCES**  
**CONDENSED MANAGEMENT REPORTING (Non-GAAP measure) BALANCE SHEETS**  
**As of 31 December 2021 and 2020**  
(\$ million)

Item	2021			2020
	Statutory Reporting Basis	Adjustments <sup>a</sup>	Management Reporting Basis	Management Reporting Basis
Due from banks	3,848	—	3,848	5,524
Investments for liquidity purpose	43,287	—	43,287	41,963
Securities transferred under repurchase agreements	498	—	498	1,089
Securities purchased under resale arrangements	542	—	542	246
Loans outstanding — operations	137,163	—	137,163	129,788
Equity investments — operations	1,322	(208)	1,114	1,085
Other debt securities — operations	823	—	823	977
Derivative Assets				
Borrowings	49,582	(1,103)	48,479	40,806
Investments for liquidity purpose	25,176	(257)	24,919	24,180
Loans — operations	18,102	(1,361)	16,741	16,540
Accrued interest receivable	459	—	459	502
Other assets	1,282	66	1,348	2,682
<b>TOTAL</b>	<b>282,084</b>	<b>(2,863)</b>	<b>279,221</b>	<b>265,382</b>
Borrowings and accrued interest	134,071	(1,245)	132,826	124,393
Derivative Liabilities				
Borrowings	50,243	(1,434)	48,809	39,692
Investments for liquidity purpose	24,582	(109)	24,473	25,319
Loans — operations	17,122	(648)	16,474	17,714
Payable under securities repurchase agreements	499	—	499	1,096
Payable for swap related collateral	643	—	643	2,002
Accounts payable and other liabilities	2,069	—	2,069	2,732
<b>Total Liabilities</b>	<b>229,229</b>	<b>(3,436)</b>	<b>225,793</b>	<b>212,948</b>
Paid-in capital	7,381	66	7,447	7,663
Net notional maintenance of value receivable	(1,565)	—	(1,565)	(1,645)
Ordinary reserve	45,040	2	45,042	44,306
Special reserve	472	—	472	435
Surplus	1,065	—	1,065	1,065
Cumulative revaluation adjustments account	403	(403)	—	—
Unallocated net income <sup>b</sup>	693	468	1,161	1,132
Accumulated other comprehensive loss	(634)	440	(194)	(522)
<b>Total Equity</b>	<b>52,855</b>	<b>573</b>	<b>53,428</b>	<b>52,434</b>
<b>TOTAL</b>	<b>282,084</b>	<b>(2,863)</b>	<b>279,221</b>	<b>265,382</b>

— = nil, ( ) = negative.

<sup>a</sup> 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**

## 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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion on Internal Control Over Financial Reporting

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying balance sheets of ADB – Ordinary Capital Resources as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### Basis of Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### Responsibilities of Management 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 Responsibilities for the Audit of Internal Control over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

**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.

*Deloitte & Touche LLP*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Ordinary Capital Resources, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Ordinary Capital Resources and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Ordinary Capital Resources' ability to continue as a going concern within one year after the date that the financial statements are issued.

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Ordinary Capital Resources' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## 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, 2021 and 2020, and statement of subscriptions to capital stock and voting power as of December 31, 2021, 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.

## Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Deloitte Touche LLP*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES  
BALANCE SHEET**
**31 December 2021 and 2020**

Expressed in Millions of US Dollars

<b>A S S E T S</b>				
	<b>2021</b>		<b>2020</b>	
DUE FROM BANKS (Notes C and R)		\$ 3,848		\$ 5,524
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes D, J, O, and R)				
Government or government-related obligations	\$34,914		\$36,933	
Time deposits	2,970		2,667	
Other securities	<u>5,403</u>	43,287	<u>2,363</u>	41,963
SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENTS (Notes D, E, and R)		498		1,089
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS (Notes D and R)		542		246
LOANS OUTSTANDING — OPERATIONS (OCR-6, Notes A, F, J, R, T, and U) (Including net unamortized loan origination costs of \$195 – 2021 and \$179 – 2020)				
Sovereign				
Regular	98,413		91,351	
Concessional	<u>32,341</u>		<u>32,161</u>	
	130,754		123,512	
Nonsovereign	<u>7,106</u>		<u>7,021</u>	
	137,860		130,533	
Less—allowance for credit losses	<u>697</u>	137,163	<u>745</u>	129,788
EQUITY INVESTMENTS — OPERATIONS (Notes A, H, R, T, and U)		1,322		1,289
OTHER DEBT SECURITIES — OPERATIONS (Notes I, R, and U)	835		996	
Less—allowance for credit losses	<u>12</u>	823	<u>19</u>	977
ACCRUED INTEREST RECEIVABLE				
Investments for liquidity purpose	141		154	
Loans — Operations	305		332	
Other debt securities — Operations	<u>13</u>	459	<u>16</u>	502
DERIVATIVE ASSETS (Notes J, L, and R)				
Borrowings	49,582		45,149	
Investments for liquidity purpose	25,176		24,390	
Loans — Operations	<u>18,102</u>	92,860	<u>18,239</u>	87,778
OTHER ASSETS				
Property, furniture, and equipment (Note K)	252		238	
Swap related collateral (Notes J and R)	643		2,002	
Miscellaneous (Notes D, G, P, and R)	<u>387</u>	1,282	<u>345</u>	2,585
<b>TOTAL</b>		<b>\$282,084</b>		<b>\$271,741</b>

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

LIABILITIES AND EQUITY				
	2021		2020	
BORROWINGS (OCR-7, Notes J, L, and R)		\$134,071		\$128,757
DERIVATIVE LIABILITIES (Notes J, L, and R)				
Borrowings	\$50,243		\$39,902	
Investments for liquidity purpose	24,582		25,529	
Loans — Operations	<u>17,122</u>	91,947	<u>19,086</u>	84,517
PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS (Notes E and R)		499		1,096
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Swap related collateral (Notes J and R)	643		2,002	
Accrued pension and postretirement medical benefit costs (Note Q)	1,319		2,242	
Liability for credit losses on off-balance sheet exposures (Notes F, G, and I)	154		169	
Miscellaneous (Notes D, G, K, P, and R)	<u>596</u>	<u>2,712</u>	<u>321</u>	<u>4,734</u>
TOTAL LIABILITIES		<u>229,229</u>		<u>219,104</u>
EQUITY (OCR-4)				
Capital stock (OCR-8, Note M)				
Authorized and subscribed (SDR106,391)	148,903		153,232	
Less—"callable" shares subscribed (SDR101,060)	<u>141,441</u>		<u>145,553</u>	
"Paid-in" shares subscribed (SDR5,331)	7,462		7,679	
Less—discount	<u>15</u>		<u>16</u>	
	7,447		7,663	
Nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital	<u>(66)</u>	7,381	<u>(97)</u>	7,566
Net notional amounts required to maintain value of currency holdings (Note M)	(1,565)		(1,645)	
Ordinary reserve (Note N)				
From ADF assets transfer (OCR-9, Notes A and N)	\$30,748		\$30,748	
From retained earnings	<u>14,292</u>	45,040	<u>13,557</u>	44,305
Special reserve (Note N)	472		435	
Surplus (Note N)	1,065		1,065	
Cumulative revaluation adjustments account (Note N)	403		190	
Net income after appropriation (OCR-4, Note N)	693		1,345	
Accumulated other comprehensive loss (Note N)	<u>(634)</u>	<u>45,474</u>	<u>(624)</u>	<u>45,071</u>
TOTAL EQUITY		52,855		52,637
<b>TOTAL</b>		<b>\$282,084</b>		<b>\$271,741</b>

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the Years Ended 31 December 2021 and 2020**  
Expressed in Millions of US Dollars

	<u>2021</u>	<u>2020</u>
<b>REVENUE</b>		
From loans — operations (Notes F, J, and O)		
Sovereign — Regular	\$ 717	\$ 1,367
Sovereign — Concessional	663	641
Nonsovereign	<u>196</u>	<u>245</u>
	\$ 1,576	\$ 2,253
From investments for liquidity purpose (Notes D, J, and O)		
Interest	547	680
From equity investments — operations (Note O)	145	22
From guarantees — operations (Note N)	37	27
From other debt securities — operations (Note O)	36	47
From other sources—net (Notes O and S)	<u>58</u>	<u>43</u>
Total	\$ 2,399	\$ 3,072
<b>EXPENSES (Note O)</b>		
Borrowings and related expenses (Notes J and L)	(460)	(1,351)
Administrative expenses (Notes K, N, and Q)	(819)	(669)
Release of provision (Provision)		
for credit losses—net (Notes F, G, and I)	69	(127)
Other expenses	<u>(17)</u>	<u>(11)</u>
Total	(1,227)	(2,158)
<b>NET REALIZED GAINS (Note O)</b>		
From investments for liquidity purpose (Notes D, J, and N)	19	21
From equity investments — operations (Note N)	122	190
From other debt securities — operations	<u>18</u>	<u>19</u>
Total	159	230
NET UNREALIZED (LOSSES) GAINS (Notes H, J, L, and O)	(601)	228
<b>NET INCOME</b>	<b>\$ 730</b>	<b>\$ 1,372</b>

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 2021 and 2020**  
Expressed in Millions of US Dollars

	<u>2021</u>	<u>2020</u>
NET INCOME (OCR-2)	\$ 730	\$ 1,372
Other comprehensive (loss) income (Note N)		
Unrealized holding (losses) gains:		
From investments for liquidity purpose	\$ (611)	\$ 537
From equity investments — operations	11	(6)
From other debt securities — operations	(3)	4
From borrowings	<u>(415)</u>	<u>(241)</u>
Postretirement benefit liability adjustments	1,003	(495)
Currency translation adjustments	<u>5</u>	<u>210</u>
	(10)	9
<b>COMPREHENSIVE INCOME</b>	<b>\$ 720</b>	<b>\$ 1,381</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 2021 and 2020**  
Expressed in Millions of US Dollars

	Capital Stock	Nonnegotiable, Noninterest- bearing Demand Obligations	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Loan Loss Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appro- priations	Accumulated Other Compre- hensive Loss	Total
<b>Balance, 31 December 2019</b>	<b>\$ 7,357</b>	<b>\$ (182)</b>	<b>\$ (1,520)</b>	<b>\$ 43,939</b>	<b>\$ 408</b>	<b>\$ 225</b>	<b>\$ 1,065</b>	<b>\$ (271)</b>	<b>\$ 1,530</b>	<b>\$ (633)</b>	<b>\$ 51,918</b>
Cumulative effect adjustment of ASU 2016-13				(249)		(225)					(474)
<b>Balance, 1 January 2020</b>	<b>7,357</b>	<b>(182)</b>	<b>(1,520)</b>	<b>43,690</b>	<b>408</b>	<b>–</b>	<b>1,065</b>	<b>(271)</b>	<b>1,530</b>	<b>(633)</b>	<b>51,444</b>
Comprehensive income (OCR-3, Note N)									1,372	9	1,381
Appropriation of guarantee fees (Note N)					27				(27)		–
Encashment of demand obligations		82									82
Change in USD value	306	3	(125)								184
Allocation of prior year income (Note N)				616				461	(1,077)		–
Allocation of prior year income to Special Funds (Note N)									(453)		(453)
<b>Balance, 31 December 2020</b>	<b>7,663</b>	<b>(97)</b>	<b>(1,645)</b>	<b>44,305</b>	<b>435</b>	<b>–</b>	<b>1,065</b>	<b>190</b>	<b>1,345</b>	<b>(624)</b>	<b>52,637</b>
Comprehensive income (loss) (OCR-3, Note N)									730	(10)	720
Appropriation of guarantee fees (Note N)					37				(37)		–
Encashment of demand obligations		28									28
Change in USD value	(216)	3	80								(133)
Allocation of prior year income (Note N)				734				213	(947)		–
Allocation of prior year income to Special Funds (Note N)									(397)		(397)
<b>Balance, 31 December 2021</b>	<b>\$ 7,447</b>	<b>\$ (66)</b>	<b>\$ (1,565)</b>	<b>\$ 45,040</b>	<b>\$ 472</b>	<b>\$ –</b>	<b>\$ 1,065</b>	<b>\$ 403</b>	<b>\$ 693</b>	<b>\$ (634)</b>	<b>\$ 52,855</b>

ASU = Accounting Standard Update, USD = United States dollar.

Note: Numbers may not sum precisely because of rounding.

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 2021 and 2020**

Expressed in Millions of US Dollars

	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest and other charges received on loans — operations	\$ 1,506	\$ 2,359
Interest received on investments for liquidity purpose	481	694
Interest received from securities purchased under resale/ repurchase agreement	0	1
Interest and other charges received on other debt securities — operations	38	41
Dividends received on equity investments — operations	77	70
Interest and other financial expenses paid	(479)	(1,789)
Administrative expenses paid	(715)	(562)
Others—net	57	56
Net Cash Provided by Operating Activities	965	870
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments for liquidity purpose	7,321	2,866
Maturities of investments for liquidity purpose	444,013	382,631
Purchases of investments for liquidity purpose	(455,252)	(386,209)
Receipts from securities purchased under resale arrangements	57,865	64,314
Payments for securities purchased under resale arrangements	(58,161)	(64,325)
Principal collected on loans — operations	8,349	8,250
Loans — operations disbursed	(17,547)	(22,122)
Derivatives—net	914	(19)
Property, furniture, and equipment acquired	(46)	(31)
Sales of equity investments — operations	173	265
Purchases of equity investments — operations	(141)	(86)
Maturities of other debt securities — operations	183	126
Purchases of other debt securities — operations	(43)	(349)
Net Cash Used in Investing Activities	(12,372)	(14,689)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from new borrowings	53,537	53,849
Borrowings redeemed	(42,773)	(34,849)
Capital subscriptions collected	—	0
Issuance expenses paid	(35)	(31)
Demand obligations of members encashed	28	82
Derivatives—net	(271)	(686)
Change in swap related collateral	(1,350)	1,698
Resources transferred to Special Funds	(397)	(453)
Net Cash Provided by Financing Activities	8,739	19,610
Effect of Exchange Rate Changes on Due from Banks	(367)	202
Net (Decrease) Increase in Due from Banks	(3,035)	5,993
<b>Cash at Beginning of Period</b>		
Due from Banks	5,524	1,235
Swap Related Collateral	2,002	298
Total	\$ 7,526	\$ 1,533
<b>Cash at End of Period</b>		
Due from Banks	3,848	5,524
Swap Related Collateral	643	2,002
Total	\$ 4,491	\$ 7,526
<b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>		
Net Income (OCR-2)	\$ 730	\$ 1,372
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3	57
(Release of provision) Provision for credit losses	(69)	127
Net realized gains	(159)	(229)
Proportionate share in earnings on equity investments — operations	(139)	(16)
Net unrealized losses (gains)	601	(228)
Change in accrued revenue from loans — operations, investments for liquidity purpose, other debt securities — operations, and other swaps	(114)	75
Change in accrued interest on borrowings and swaps, and other expenses	(953)	147
Change in pension and postretirement benefit liability	1,003	(494)
Others—net	62	59
Net Cash Provided by Operating Activities	\$ 965	\$ 870

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**  
**SUMMARY STATEMENT OF LOANS — OPERATIONS**
**31 December 2021 and 2020**

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	\$ 554	\$ 10	\$ —	\$ —	\$ 564	0.29	
Armenia	937	230	—	—	1,167	0.60	
Azerbaijan	2,476	88	—	—	2,564	1.33	
Bangladesh	13,122	4,621	163	294	18,200	9.42	
Bhutan	427	99	24	—	550	0.28	
Cambodia	1,938	890	327	20	3,175	1.64	
China, People's Republic of	19,671	7,371	714	144	27,900	14.45	
Cook Islands	117	41	—	—	158	0.08	
Fiji	492	98	—	—	590	0.31	
Georgia	2,036	1,124	129	100	3,389	1.76	
India	21,486	8,441	3,038	580	33,545	17.37	
Indonesia	12,826	1,687	1,679	450	16,642	8.62	
Kazakhstan	2,312	225	—	100	2,637	1.37	
Kiribati	23	—	—	—	23	0.01	
Kyrgyz Republic	668	268	49	—	985	0.51	
Lao People's Democratic Republic	1,038	174	—	—	1,212	0.63	
Maldives	95	51	—	—	146	0.08	
Marshall Islands	40	—	—	—	40	0.02	
Micronesia, Federated States of	44	—	—	—	44	0.02	
Mongolia	1,907	793	—	67	2,767	1.43	
Myanmar	1,442	1,685	351	—	3,478	1.80	
Nepal	2,580	1,904	60	—	4,544	2.35	
Pakistan	13,965	3,822	628	195	18,610	9.64	
Palau	117	25	—	—	142	0.07	
Papua New Guinea	2,257	648	—	—	2,905	1.50	
Philippines	12,059	2,618	1,025	10	15,712	8.14	
Samoa	74	3	—	—	77	0.04	
Solomon Islands	63	68	—	—	131	0.07	
Sri Lanka	5,588	2,053	—	—	7,641	3.96	
Tajikistan	297	21	—	—	318	0.16	
Thailand	2,587	87	—	6	2,680	1.39	
Timor-Leste	150	290	35	—	475	0.25	
Tonga	26	1	—	3	30	0.02	
Turkmenistan	281	303	—	—	584	0.30	
Tuvalu	3	—	—	—	3	0.00	
Uzbekistan	5,299	1,938	616	—	7,853	4.07	
Vanuatu	49	16	—	—	65	0.03	
Viet Nam	8,408	2,300	138	100	10,946	5.67	
Regional	414	105	—	108	627	0.32	
	<b>137,868</b>	<b>44,098</b>	<b>8,976</b>	<b>2,177</b>	<b>193,119</b>	<b>100.00</b>	
Fair value adjustment on concessional loans	(203)	—	—	—	(203)		
Allowance for credit losses	(697)	—	—	—	(697)		
Unamortized loan origination cost—net	195	—	—	—	195		
	<b>(705)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(705)</b>		
<b>TOTAL – 31 December 2021</b>	<b>\$ 137,163</b>	<b>\$ 44,098</b>	<b>\$ 8,976</b>	<b>\$ 2,177</b>	<b>\$ 192,414</b>		

Note: 0 = less than \$0.5 million.

<sup>1</sup> Refer to the unwithdrawn portions of effective loans as of 31 December 2021 and 2020. Of the undisbursed balances, ADB has made irrevocable commitments to disburse regular and concessional sovereign amounts totaling \$792 million (\$896 million – 2020).

<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 2021 and 2020.

	Loans Outstanding	Undisbursed Committed Loans		Loans Approved Not Yet Committed <sup>3</sup>	Total Loans
		Effective <sup>1</sup>	Not Yet Effective <sup>2</sup>		
Sovereign Loans					
Regular	\$ 98,413	\$ 32,681	\$ 7,649	\$ 1,290	\$ 140,033
Concessional	32,341	9,564	1,327	214	43,446
Nonsovereign Loans	7,106	1,853	–	673	9,632
	137,860	44,098	8,976	2,177	193,111
Allowance for credit losses	(697)	–	–	–	(697)
<b>TOTAL – 31 December 2021</b>	<b>\$ 137,163</b>	<b>\$ 44,098</b>	<b>\$ 8,976</b>	<b>\$ 2,177</b>	<b>\$ 192,414</b>
Sovereign Loans					
Regular	\$ 91,351	\$ 34,303	\$ 5,375	\$ 1,433	\$ 132,462
Concessional	32,161	9,547	1,876	93	43,677
Nonsovereign Loans	7,021	2,377	–	796	10,194
	130,533	46,227	7,251	2,322	186,333
Allowance for credit losses	(745)	–	–	–	(745)
<b>TOTAL – 31 December 2020</b>	<b>\$ 129,788</b>	<b>\$ 46,227</b>	<b>\$ 7,251</b>	<b>\$ 2,322</b>	<b>\$ 185,588</b>

**MATURITY OF LOANS OUTSTANDING AS OF 31 DECEMBER 2021<sup>4</sup>**

Twelve Months Ending 31 December		Five Years Ending 31 December	
	Amount		Amount
2022	8,201	2031	44,576
2023	9,761	2036	28,890
2024	11,480	2041	11,381
2025	10,357	2046	3,493
2026	9,197	over 2046	532
		<b>Total</b>	<b>\$ 137,868</b>

**SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING — OPERATIONS<sup>4</sup>**

Currency	2021	2020	Currency	2021	2020
Australian dollar	\$ 14	\$ 16	New Zealand dollar	90	57
Baht	553	429	Norwegian krone	32	36
Canadian dollar	35	38	Philippine peso	9	18
Chinese yuan	562	506	Pound sterling	68	72
Danish krone	8	9	Ringgit	2	3
Euro	8,844	8,156	Special drawing rights	23,599	25,461
Indian rupee	263	222	Swedish krona	15	17
Kazakhstan tenge	207	142	Swiss franc	32	36
Korean won	10	11	Uzbekistan Sum	19	–
Lari	23	31	US dollar	98,835	90,417
Mongolian togrog	6	7	Yen	4,642	4,890
			<b>Total</b>	<b>\$ 137,868</b>	<b>\$ 130,574</b>

<sup>3</sup> Refer to loans approved which loan agreements have not been signed as of 31 December 2021 and 2020.

<sup>4</sup> Excluding fair value adjustment on concessional loans, allowance for credit 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 2021 and 2020**

Expressed in Millions of US Dollars

Currency	Borrowings		Swap Arrangements <sup>2</sup>		Net Currency Obligation	
	Outstanding <sup>1</sup>		Net Payable (Receivable)			
	2021	2020	2021	2020	2021	2020
Armenian dram	\$ 5	\$ 5	\$ —	\$ —	\$ 5	\$ 5
Australian dollar	9,159	9,046	(9,080)	(9,083)	79	(37)
Brazilian real	111	73	(110)	(73)	1	(0)
Canadian dollar	2,512	1,011	(2,514)	(1,019)	(2)	(8)
Chinese yuan	1,668	804	(1,149)	(805)	519	(1)
Euro	8,167	7,598	(1,840)	(1,958)	6,327	5,640
Georgian lari	24	32	—	—	24	32
Ghana cedi	40	17	(39)	(17)	1	0
Hong Kong dollar	1,301	1,072	(1,299)	(1,073)	2	(1)
Indian rupee	706	1,023	(2)	(4)	704	1,019
Indonesian rupiah	166	167	—	—	166	167
Japanese yen	902	1,409	(228)	(661)	674	748
Kazakhstan tenge	208	141	—	—	208	141
Mexican peso	193	172	(194)	(172)	(1)	(0)
Mongolian togrog	6	7	—	—	6	7
New Zealand dollar	4,024	3,342	(3,948)	(3,322)	76	20
Norwegian krone	994	663	(989)	(663)	5	0
Pakistan rupee	26	11	—	—	26	11
Philippine peso	214	239	—	—	214	239
Polish zloty	4	5	(4)	(5)	0	0
Pound sterling	10,849	9,192	(10,825)	(9,221)	24	(29)
Russian ruble	124	91	(124)	(91)	0	0
South African rand	916	681	(921)	(686)	(5)	(5)
Swedish krona	1,347	1,340	(1,348)	(1,347)	(1)	(7)
Swiss franc	274	296	(274)	(305)	(0)	(9)
Turkish lira	329	839	(333)	(854)	(4)	(15)
Ukraine hryvnia	123	29	(123)	(29)	0	0
United States dollar	89,679	89,452	36,005	26,141	125,684	115,593
<b>Total</b>	<b>\$ 134,071</b>	<b>\$ 128,757</b>	<b>\$ 661</b>	<b>\$ (5,247)</b>	<b>\$ 134,732</b>	<b>\$ 123,510</b>

Note: 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 2021, the remaining maturity of swap agreements ranged from less than one year to 30 years (less than one year to 31 years – 2020). Approximately 66.02% (66.68% – 2020) of the swap receivables and 66.91% (72.04% – 2020) of the payables are due within the next five years.

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**MATURITY STRUCTURE OF BORROWINGS OUTSTANDING AS OF 31 DECEMBER 2021<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>
2022	\$ 28,382	2031	\$ 29,481
2023	22,352	2036	850
2024	19,486	2041	834
2025	13,320	over 2041	22
2026	19,345	<b>Total</b>	<b>\$ 134,071</b>

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**INTEREST RATE SWAP ARRANGEMENTS AS OF 31 DECEMBER 2021**


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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>	\$ 43	2.64	(0.43)
Chinese yuan	518	3.01	2.15
Euro <sup>6</sup>	589	1.40	(0.79)
Indian rupee	83	6.61	3.45
United States dollar	83,045	1.35	0.27
United States dollar <sup>7</sup>	17	2.45	(0.41)
<b>Receive Floating Swaps:<sup>4</sup></b>			
Japanese yen	35	5.02	(0.45)
United States dollar	19,632	0.49	0.39
<b>Total</b>	<b>\$ 103,963</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> Accreted pay leg notional amounts to \$161 million equivalent.

<sup>7</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 2021**

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		
<b>REGIONAL</b>							
Afghanistan	3,585	0.034	50.2	43.5	6.7	42,699	0.321
Armenia	31,671	0.298	443.3	421.0	22.2	70,785	0.532
Australia	614,220	5.773	8,596.5	8,166.6	429.9	653,334	4.913
Azerbaijan	47,208	0.444	660.7	627.6	33.1	86,322	0.649
Bangladesh	108,384	1.019	1,516.9	1,441.1	75.9	147,498	1.109
Bhutan	660	0.006	9.2	8.7	0.6	39,774	0.299
Brunei Darussalam	37,386	0.351	523.2	497.0	26.2	76,500	0.575
Cambodia	5,250	0.049	73.5	67.3	6.1	44,364	0.334
China, People's Republic of	684,000	6.429	9,573.1	9,094.3	478.8	723,114	5.437
Cook Islands	282	0.003	3.9	3.8	0.2	39,396	0.296
Fiji	7,218	0.068	101.0	96.0	5.1	46,332	0.348
Georgia	36,243	0.341	507.2	481.8	25.4	75,357	0.567
Hong Kong, China	57,810	0.543	809.1	768.6	40.5	96,924	0.729
India	672,030	6.317	9,405.6	8,935.2	470.4	711,144	5.347
Indonesia	578,100	5.434	8,091.0	7,686.4	404.6	617,214	4.641
Japan	1,656,630	15.571	23,185.9	22,026.3	1,159.5	1,695,744	12.751
Kazakhstan	85,608	0.805	1,198.2	1,138.2	59.9	124,722	0.938
Kiribati	426	0.004	6.0	5.7	0.3	39,540	0.297
Korea, Republic of	534,738	5.026	7,484.1	7,109.8	374.3	573,852	4.315
Kyrgyz Republic	31,746	0.298	444.3	422.1	22.2	70,860	0.533
Lao People's Democratic Republic	1,476	0.014	20.7	19.4	1.3	40,590	0.305
Malaysia	289,050	2.717	4,045.5	3,843.2	202.3	328,164	2.468
Maldives	426	0.004	6.0	5.7	0.3	39,540	0.297
Marshall Islands	282	0.003	3.9	3.8	0.2	39,396	0.296
Micronesia, Federated States of	426	0.004	6.0	5.7	0.3	39,540	0.297
Mongolia	1,596	0.015	22.3	21.2	1.1	40,710	0.306
Myanmar	57,810	0.543	809.1	768.6	40.5	96,924	0.729
Nauru	426	0.004	6.0	5.7	0.3	39,540	0.297
Nepal	15,606	0.147	218.4	207.5	10.9	54,720	0.411
New Zealand	163,020	1.532	2,281.6	2,167.5	114.1	202,134	1.520
Niue	150	0.001	2.1	2.0	0.1	39,264	0.295
Pakistan	231,240	2.174	3,236.4	3,074.5	161.8	270,354	2.033
Palau	342	0.003	4.8	4.5	0.2	39,456	0.297
Papua New Guinea	9,960	0.094	139.4	132.4	7.0	49,074	0.369
Philippines	252,912	2.377	3,539.7	3,362.7	177.0	292,026	2.196
Samoa	348	0.003	4.9	4.6	0.3	39,462	0.297
Singapore	36,120	0.340	505.5	480.3	25.3	75,234	0.566
Solomon Islands	708	0.007	9.9	9.4	0.5	39,822	0.299
Sri Lanka	61,560	0.579	861.6	818.5	43.1	100,674	0.757
Taipei, China	115,620	1.087	1,618.2	1,537.3	80.9	154,734	1.164
Tajikistan	30,402	0.286	425.5	404.2	21.3	69,516	0.523
Thailand	144,522	1.358	2,022.7	1,921.5	101.2	183,636	1.381
Timor-Leste	1,050	0.010	14.7	14.0	0.7	40,164	0.302
Tonga	426	0.004	6.0	5.7	0.3	39,540	0.297
Turkmenistan	26,874	0.253	376.1	357.3	18.9	65,988	0.496
Tuvalu	150	0.001	2.1	2.0	0.1	39,264	0.295
Uzbekistan	71,502	0.672	1,000.7	950.7	50.0	110,616	0.832
Vanuatu	708	0.007	9.9	9.4	0.5	39,822	0.299
Viet Nam	36,228	0.341	507.0	474.1	32.9	75,342	0.567
<b>Total Regional (Forward)</b>	<b>6,744,135</b>	<b>63.390</b>	<b>\$ 94,389.6</b>	<b>\$ 89,654.2</b>	<b>\$ 4,735.3</b>	<b>8,660,721</b>	<b>65.124</b>

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>6,744,135</b>	<b>63.390</b>	<b>\$ 94,389.6</b>	<b>\$ 89,654.2</b>	<b>\$ 4,735.3</b>	<b>8,660,721</b>	<b>65.124</b>
<b>NONREGIONAL</b>							
Austria	36,120	0.340	505.5	480.3	25.3	75,234	0.566
Belgium	36,120	0.340	505.5	480.3	25.3	75,234	0.566
Canada	555,258	5.219	7,771.3	7,382.6	388.6	594,372	4.469
Denmark	36,120	0.340	505.5	480.3	25.3	75,234	0.566
Finland	36,120	0.340	505.5	480.3	25.3	75,234	0.566
France	247,068	2.322	3,457.9	3,285.0	172.9	286,182	2.152
Germany	459,204	4.316	6,426.9	6,105.5	321.4	498,318	3.747
Ireland	36,120	0.340	505.5	480.2	25.3	75,234	0.566
Italy	191,850	1.803	2,685.1	2,550.8	134.3	230,964	1.737
Luxembourg	36,120	0.340	505.5	480.2	25.3	75,234	0.566
The Netherlands	108,882	1.023	1,523.9	1,447.7	76.2	147,996	1.113
Norway	36,120	0.340	505.5	480.3	25.3	75,234	0.566
Portugal	36,120	0.340	505.5	480.2	25.3	75,234	0.566
Spain	36,120	0.340	505.5	480.3	25.3	75,234	0.566
Sweden	36,120	0.340	505.5	480.3	25.3	75,234	0.566
Switzerland	61,950	0.582	867.0	823.7	43.4	101,064	0.760
Turkey	36,120	0.340	505.5	480.3	25.3	75,234	0.566
United Kingdom	216,786	2.038	3,034.1	2,882.4	151.7	255,900	1.924
United States	1,656,630	15.571	23,185.9	22,026.3	1,159.5	1,695,744	12.751
<b>Total Nonregional</b>	<b>3,894,948</b>	<b>36.610</b>	<b>54,512.9</b>	<b>51,786.6</b>	<b>2,726.3</b>	<b>4,638,114</b>	<b>34.876</b>
<b>TOTAL</b>	<b>10,639,083</b>	<b>100.000</b>	<b>\$ 148,902.5</b>	<b>\$ 141,440.8</b>	<b>\$ 7,461.7</b>	<b>13,298,835</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 2021 was \$1.39958. (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 2021 and 2020**

**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 bank, 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 donor's 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. 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 a one-time income of \$30,748 million in OCR (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 2021, the total of such loans (including other debt securities), equity investments and related prudential buffers, and guarantees aggregated approximately 71.2% (66.3% – 2020) of the total subscribed capital, reserves, and surplus exclusive of the special reserve.

Article 12, paragraph 3 of the Charter provides that equity investments shall not exceed 10% of the unimpaired paid-in capital actually paid up at any given time together with reserves and surplus, exclusive of the special reserve. As of 31 December 2021, such equity investments represented approximately 3.2% (3.0% – 2020) of the paid-in capital, reserves, and surplus, as defined.

continued

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

### *Presentation of the Financial Statements*

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

### *Functional Currencies and Reporting Currency*

The functional currencies of OCR comprise the currencies of all members and special drawing right (SDR) 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 N), are charged or credited to Accumulated translation adjustments and reported in EQUITY as part of Accumulated other comprehensive loss.

### *Valuation of Capital Stock*

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

As of 31 December 2021, the value of the SDR in terms of the US dollar was \$1.399580 (\$1.440270 – 2020) giving a value for each share of ADB’s capital equivalent to \$13,995.80 (\$14,402.70 – 2020).

### *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.

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.

continued

### *Investments for Liquidity Purpose*

All investment securities and time deposits held by ADB are considered to be available for sale (AFS) and are reported at FV. Unrealized gains and losses are reported in EQUITY as part of Accumulated other comprehensive loss. Realized gains and losses are reported in the Statement of Income and Expenses under NET REALIZED GAINS From investments 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.

### *Securities Transferred Under Repurchase Agreements and Securities Purchased Under Resale Arrangements*

Transfer of financial assets 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 as collateral is recorded as a liability. ADB monitors the FV of 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 if the principal, interest, or other charges with respect to any such loans is overdue by more than 180 days or in case of loans that are not yet overdue by more than 180 days, 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 on non-accruing loans is included in revenue only to the extent that payments have actually 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 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. For loans under contingent disaster financing, the borrower will pay, in lieu of commitment charges, a front-end fee of 0.25% or 0.10% of the committed loan amount depending on contingent disaster financing option.

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.

continued

### *Allowance for Credit Losses*

ADB records an allowance for credit losses over the remaining lifetime of financial assets measured at amortized cost (including loans and held-to-maturity debt securities). In addition, a liability is recorded for off-balance sheet credit exposures for undisbursed loan commitments and financial guarantees over the contractual period. ADB estimates the expected credit losses based on relevant information about past events, current conditions, and reasonable and supportable forecasts. The expected credit losses are measured as the product of exposure at default (EAD), probability of default (PD), and loss given default (LGD). When loans are considered impaired, they are individually reviewed and assessed to determine the expected credit losses using appropriate methods, including discounted cash flow method.

The allowance for credit losses and liability for credit losses on off-balance sheet exposures such as guarantees and undisbursed commitments for loans, and debt securities, are reviewed quarterly, and the amount necessary to adjust the allowance and liability for credit losses is reported as Provision for credit losses in the Statement of Income and Expenses under EXPENSES. ADB elects not to record the allowance on accrued interest receivables as it reverses the accrued interest of the loans under non-accrual status in accordance with its non-accrual policy. Partial or full write-off of financial assets will be deducted from the allowance. Expected recoveries of amounts previously written-off or expected to be written-off are recognized as a negative allowance which does not exceed the aggregate of amounts previously written off and expected to be written off.

ADB uses risk transfer contracts between ADB and third parties such as insurance companies or banks, where the third parties agree to assume a portion of the credit risk in a loan, held-to-maturity debt security, or guarantee provided by ADB. A recovery asset related to the risk transfer contracts is recognized at the time of recording of expected credit losses for the loans, held-to-maturity debt securities, and guarantees. The recovery asset is reviewed quarterly, and the amount to adjust the recovery asset is reflected in Provision for credit losses.

When an available-for-sale (AFS) debt security's fair value is lower than amortized cost, ADB recognizes impairment losses in earnings if ADB has the intent to sell the debt securities or if it is more likely than not that ADB will be required to sell the debt securities before recovery of the amortized cost. When ADB intends to hold and is not required to sell the debt securities, ADB will evaluate to determine if a credit loss exists. Portion of the decline in fair value below amortized cost basis due to credit-related factors will be recognized as an allowance for credit losses with a related charge to Provision for credit losses.

For certain financial assets, such as Due from Banks, Securities Purchased under Resale Arrangements, and Swap related collateral, no expected loss is determined based on the credit quality.

### *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. 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. ADB also records a liability for the expected credit losses over the contractual period in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Liability for credit losses on off-balance sheet exposure on the Balance Sheet.

continued

ADB entered into an exposure exchange agreement (EEA) with another multilateral development bank (MDB). The EEA provides for the simultaneous exchange of credit risk coverage for potential non-accrual events on the exchanged sovereign exposures. In case of non-accrual events, the party providing protection would pay the other counterparty interest for any period the covered exposure is in nonaccrual. The EEA transaction is treated as an exchange of two separate financial guarantees (guarantee provided and guarantee received). Under the EEA, (i) ADB provides a guarantee for the sovereign exposures received from the counterpart MDB (ADB as a seller of protection), and (ii) ADB will receive a guarantee for the sovereign exposures transferred to the counterpart MDB (ADB as a buyer of protection).

### *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 cash in OTHER ASSETS with a corresponding obligation to return the cash in ACCOUNTS PAYABLE AND OTHER LIABILITIES. Collateral received in the form of liquid securities is disclosed in Note J and not recorded on OCR's Balance Sheet.

### *Equity Investments — Operations*

Investments in equity securities (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.

Realized gains and losses are reported in the Statement of Income and Expenses under NET REALIZED 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."

### *Variable Interest Entities*

ADB complies with ASC 810, "Consolidation." 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 2021 and 2020, 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).

continued

### *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.

### *Property, Furniture, and Equipment*

Land is stated at cost and is not amortized. Buildings and improvements, and office furniture and equipment are stated at cost and depreciated over estimated useful lives on a straight-line basis. Maintenance, repairs, and minor betterments are charged to expense.

### *Operating Leases*

Right-of-use asset mainly pertains to lease of real properties such as offices, buildings and parking lots in field offices. ADB does not have any finance lease. Right-of-use asset is derived from the lease liability, which is the present value of future lease payments using the applicable discount rate, adjusted by prepaid rent and deferred rent. Operating lease expenses are recognized on a straight-line basis.

ADB determines whether a contract contains a lease if the contract conveys the right to control the use of identified property, furniture or equipment for a period of time in exchange for a consideration. ADB has included renewal options in determining the lease term when it is reasonably certain that the renewal option will be exercised. ADB uses its incremental borrowing rate as the discount rate in determining the present value of future lease payments.

### *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. 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.

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.

### *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 March 2020 and January 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2020-04, *“Reference Rate Reform (Topic 848)—Facilitation of the Effects of Reference Rate Reform on Financial Reporting”* and ASU 2021-01, *“Reference Rate Reform (Topic 848): Scope”*, which provide optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate because of reference rate reform. ADB can elect not to apply certain modification accounting requirements to contracts modifications affected by the reference rate reform. These optional expedients will be available only for the reference rate related contract modifications made from 1 January 2020 through 31 December 2022. In July 2021, the ADB Board of Directors approved the change in the cost base rate from LIBOR to the Secured Overnight Financing Rate (SOFR) for US dollar-denominated loans and to the Tokyo Overnight Average Rate (TONA) for yen-denominated loans. ADB renamed its primary loan product to the Flexible Loan Product (FLP) capturing the various flexible options which are currently offered to borrowers that will continue with the FLP, including rate fixings, loan conversions and tailored amortization structures. In September 2021, the Board approved the revised Ordinary Operations Loan Regulations for sovereign borrowers to implement the changes to ADB's financial loan product. These changes will take effect for new sovereign and new nonsovereign loans as of 1 January 2022. Existing sovereign loans have started the transition to the terms of the FLP (with notifications being sent to borrowers of the changes to their loans) from 1 January 2022 onwards and the existing nonsovereign loans are expected to complete the transition by 30 June 2023. ADB adopted the optional expedients and the adoption did not have a material impact on the 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.

continued

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, paragraphs 2(i) and (ii) 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. As of 31 December 2021 and 2020, no member has restricted the use by ADB or by any recipient from ADB.

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

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

ADB enters into currency and interest rate swaps, and forward rate agreements. Exposure to interest rate risk may be adjusted within defined bands to reflect changing market conditions. These adjustments are made through the purchase and sale of securities.

ADB may engage in securities lending of government or government-related 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 2021 were securities transferred under securities lending arrangements of government or government-related obligations and corporate obligations totaling \$167 million (\$147 million – 2020).

ADB records time deposits on the settlement dates and all other investment securities on the trade date. As of 31 December 2021, there were \$40 million unsettled sales (nil – 2020) included under OTHER ASSETS – Miscellaneous while unsettled purchases amounted to \$269 million (\$6 million – 2020) and is included under ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous.

The currency composition of the investment portfolio as of 31 December 2021 and 2020 expressed in US dollars is as follows:

(\$ million)			
<b>Currency</b>		<b>2021</b>	<b>2020</b>
US dollar	\$	18,333	\$ 17,785
Yen		13,146	14,183
Won		5,427	5,638
Singapore dollar		2,048	747
Yuan		1,256	801
Indian rupee		891	1,011
Others		2,186	1,798
<b>Total</b>	<b>\$</b>	<b>43,287</b>	<b>\$ 41,963</b>

continued

The FV and amortized cost of the investments by contractual maturity at 31 December 2021 and 2020 are as follows:

(\$ million)

	2021		2020	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Due in one year or less	\$ 16,019	\$ 16,001	\$ 17,827	\$ 17,788
Due after one year through five years	22,203	22,114	18,601	18,247
Due after five years through ten years	4,107	4,145	5,437	5,224
Due after ten years through fifteen years	214	205	98	85
Due after fifteen years	744	746	—	—
<b>Total</b>	<b>\$ 43,287</b>	<b>\$ 43,211</b>	<b>\$ 41,963</b>	<b>\$ 41,344</b>

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

(\$ million)

	Amortized Cost	Gross Unrealized		Fair Value
		Gains	Losses	
<b>As of 31 December 2021</b>				
Government or government-related obligations	\$ 34,830	\$ 232	\$ (147)	\$ 34,915
Other securities				
Corporate obligations	3,694	19	(20)	3,693
Asset/Mortgage-backed securities	1,718	0	(8)	1,710
<b>Total</b>	<b>\$ 40,242</b>	<b>\$ 251</b>	<b>\$ (175)</b>	<b>\$ 40,318</b>
<b>As of 31 December 2020</b>				
Government or government-related obligations	\$ 36,382	\$ 565	\$ (14)	\$ 36,933
Other securities				
Corporate obligations	2,296	67	(0)	2,363
<b>Total</b>	<b>\$ 38,678</b>	<b>\$ 632</b>	<b>\$ (14)</b>	<b>\$ 39,296</b>

0 = less than \$0.5 million.

(\$ million)

<b>For the year ended 31 December</b>	<b>2021</b>	<b>2020</b>
Change in net unrealized gains from prior year	\$ (542)	\$ 449
Proceeds from sales	7,321	2,865
Gross gain on sales	29	23
Gross loss on sales	(9)	(1)

continued

The table below shows the gross unrealized losses and fair value of investments with unrealized losses aggregated by investment category and length of time that individual securities had unrealized loss position as of 31 December 2021 and 2020. There were 21 government or government-related obligations (4 – 2020), and 3 corporate obligations (nil – 2020) that have been in continuous losses for over one year representing 9.84% (2.80% – 2020) 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>2021</b>						
Government or government-related obligations	\$ 18,069	\$ 115	\$ 4,254	\$ 32	\$ 22,323	\$ 147
Other securities						
Corporate obligations	2,072	20	7	0	2,079	20
Asset/Mortgage-backed securities	1,495	8	–	–	1,495	8
<b>Total</b>	<b>\$ 21,636</b>	<b>\$ 143</b>	<b>\$ 4,261</b>	<b>\$ 32</b>	<b>\$ 25,897</b>	<b>\$ 175</b>
<b>2020</b>						
Government or government-related obligations	\$ 9,999	\$ 13	\$ 1,173	\$ 1	\$ 11,172	\$ 14
Other securities						
Corporate obligations	11	0	–	–	11	0
<b>Total</b>	<b>\$ 10,010</b>	<b>\$ 13</b>	<b>\$ 1,173</b>	<b>\$ 1</b>	<b>\$ 11,183</b>	<b>\$ 14</b>

0 = less than \$0.5 million.

As of 31 December 2021, ADB had the intent to hold and was not required to sell the AFS debt securities of which the fair value is lower than amortized cost. ADB also assessed and determined that the decline of fair value below the amortized cost basis of the AFS securities was not due to credit-related factors.

#### Fair Value Disclosure

The fair value of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2021 and 2020 are as follows:

(\$ million)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>2021</b>				
Investments for liquidity purpose				
Government or government-related obligations	\$ 34,914	\$ 31,957	\$ 2,957	\$ –
Time deposits	2,970	–	2,970	–
Other securities	5,403	3,873	1,530	–
Securities transferred under repurchase agreements	498	498	–	–
Securities purchased under resale arrangements	542	–	542	–
<b>Total at fair value</b>	<b>\$ 44,327</b>	<b>\$ 36,328</b>	<b>\$ 7,999</b>	<b>\$ –</b>

continued

(\$ million)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
<b>2020</b>				
Investments for liquidity purpose				
Government or government-related obligations	\$ 36,933	\$ 33,389	\$ 3,544	\$ —
Time deposits	2,667	—	2,667	—
Other securities	2,363	2,263	100	—
Securities transferred under repurchase agreements	1,089	1,089	—	—
Securities purchased under resale arrangements	246	—	246	—
<b>Total at fair value</b>	<b>\$ 43,298</b>	<b>\$ 36,741</b>	<b>\$ 6,557</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-related 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 valuations are obtained from independent valuation services, custodians, and asset managers, and are 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.

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

ADB has entered into Global Master Repurchase Agreements (GMRA) 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 include 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-related securities. ADB monitors periodically the FV of securities transferred against the amount of cash received under the agreement and the counterparty credit exposure against approved limits. ADB only deals with counterparties that meet the required credit rating and have signed a GMRA or its equivalent.

continued

The gross amounts of PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS subject to enforceable master netting agreements as of 31 December 2021 and 2020 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		
		Financial instruments	Collateral pledged	Net amount
<b>2021</b>				
Payable under securities repurchase agreement	\$ 499	\$ 498	\$ –	\$ 1
<b>Total</b>	<b>\$ 499</b>	<b>\$ 498</b>	<b>\$ –</b>	<b>\$ 1</b>
<b>2020</b>				
Payable under securities repurchase agreement	\$ 1,096	\$ 1,089	\$ –	\$ 7
<b>Total</b>	<b>\$ 1,096</b>	<b>\$ 1,089</b>	<b>\$ –</b>	<b>\$ 7</b>

The contractual maturity of payable under securities repurchase agreements as of 31 December 2021 and 2020 are summarized below:

(\$ million)

	Remaining contractual maturity of the agreements			
	1-30 Days	31-90 Days	> 90 Days	Total
<b>2021</b>				
<b>Payable under securities repurchase agreement</b>				
Government or government-related obligations	\$ 499			\$ 499
<b>Total</b>	<b>\$ 499</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 499</b>
<b>Gross amount of recognized liabilities for repurchase agreements disclosed above</b>				<b>499</b>
<b>Amounts related to agreements not included in offsetting disclosure</b>				<b>–</b>
<b>2020</b>				
<b>Payable under securities repurchase agreement</b>				
Government or government-related obligations	\$ 1,096	\$ –	\$ –	\$ 1,096
<b>Total</b>	<b>\$ 1,096</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 1,096</b>
<b>Gross amount of recognized liabilities for repurchase agreements disclosed above</b>				<b>1,096</b>
<b>Amounts related to agreements not included in offsetting disclosure</b>				<b>–</b>

continued

## **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 loan (LBL), 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.

#### *Concessional Loans*

Concessional loans represent the concessional financing to DMCs with (i) per capita gross national income below the ADB operational cutoff and (ii) limited or low creditworthiness. 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. LCLs to nonsovereign borrowers are priced based on relevant local funding benchmarks or ADB's funding costs plus a credit spread.

continued

Summary statement of loans as of 31 December 2021 which include loans outstanding, undisbursed committed loans, and loans approved not yet committed are shown in OCR-6. The carrying amounts of loan outstanding by loan products as of 31 December 2021 and 2020 are as follows:

(\$ million)

	Sovereign Loans	Nonsovereign Loans	Total
<b>2021</b>			
LIBOR-based loans	\$ 97,631	\$ 5,579	\$ 103,210
Local currency loans	71	1,574	1,645
Pool-based single currency loans (US\$)	499	–	499
Concessional loans <sup>a</sup>	32,311	–	32,311
	<u>130,512</u>	<u>7,153</u>	<u>137,665</u>
Allowance for credit losses	(222)	(475)	(697)
Unamortized direct loan origination cost (front-end fee)—net	242	(47)	195
	<u>20</u>	<u>(522)</u>	<u>(502)</u>
<b>Loans Outstanding</b>	<b>\$ 130,532</b>	<b>\$ 6,631</b>	<b>\$ 137,163</b>
<b>2020</b>			
LIBOR-based loans	\$ 90,444	\$ 5,715	\$ 96,159
Local currency loans	–	1,357	1,357
Pool-based single currency loans (US\$)	701	–	701
Concessional loans <sup>a</sup>	32,137	–	32,137
	<u>123,282</u>	<u>7,072</u>	<u>130,354</u>
Allowance for credit losses	(220)	(525)	(745)
Unamortized direct loan origination cost (front-end fee)—net	230	(51)	179
	<u>10</u>	<u>(576)</u>	<u>(566)</u>
<b>Loans Outstanding</b>	<b>\$ 123,292</b>	<b>\$ 6,496</b>	<b>\$ 129,788</b>

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Net of \$203 million fair value adjustment as of 31 December 2021 (\$220 million – 2020).

### Prepayments

During 2021, ADB received prepayments for 10 loans (17 loans – 2020) amounting to \$234 million (\$176 million – 2020), of which \$8 million (\$22 million – 2020) was for regular sovereign loans, and \$226 million was for nonsovereign loans (\$154 million – 2020).

continued

*Past Due Loans*

An analysis of the age of the recorded loans outstanding that are past due as of 31 December 2021 and 2020 is as follows:

(\$ million)

	1-90 Days	91-180 Days	> 180 Days	Total Past Due	Current	Total	Loans 90 Days or More Past Due and Still Accruing
<b>2021</b>							
Sovereign loans							
Regular	\$ —	\$ —	\$ —	\$ —	\$ 98,201	\$ 98,201	\$ —
Concessional	2	0	—	2	32,512	32,514	0
Subtotal	2	0	—	2	130,713	130,715	0
Nonsovereign loans	8	11	26	45	7,108	7,153	5
Total	<u>\$ 10</u>	<u>\$ 11</u>	<u>\$ 26</u>	<u>\$ 47</u>	<u>\$137,821</u>	<u>137,868</u>	<u>\$ 5</u>
Fair value adjustment on concessional loans						(203)	
Allowance for credit losses						(697)	
Unamortized loan origination cost—net						195	
<b>Loans Outstanding</b>						<b><u>\$137,163</u></b>	
<b>2020</b>							
Sovereign loans							
Regular	\$ 1	\$ —	\$ —	\$ 1	\$ 91,144	\$ 91,145	\$ —
Concessional	—	—	—	—	32,357	32,357	—
Subtotal	1	—	—	1	123,501	123,502	—
Nonsovereign loans	2	5	11	18	7,054	7,072	0
Total	<u>\$ 3</u>	<u>\$ 5</u>	<u>\$ 11</u>	<u>\$ 19</u>	<u>\$130,555</u>	<u>130,574</u>	<u>\$ 0</u>
Fair value adjustment on concessional loans						(220)	
Allowance for credit losses						(745)	
Unamortized loan origination cost—net						179	
<b>Loans Outstanding</b>						<b><u>\$129,788</u></b>	

0 = less than \$0.5 million

Note: The amount of accrued interest excluded from the amortized cost basis in the above table is \$305 million (\$332 million – 2020).

*Loans in Non-Accrual Status*

ADB places loans in non-accrual status if the principal, interest, or other charges with respect to any such loans is overdue by more than 180 days or in case of loans that are not yet overdue by more than 180 days, 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 on non-accruing loans is included in revenue only to the extent that payments have actually been received by ADB.

continued

The amortized cost basis of loans in non-accrual status as of 31 December 2021 and 2020 is as follows:

(\$ million)

	2021	2020
Sovereign loans	\$ —	\$ —
Nonsovereign loans	194	166
<b>Total</b>	<b>\$ 194</b>	<b>\$ 166</b>

#### *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. As of 31 December 2021, the unamortized balance of the FV adjustment on concessional loans was \$203 million.

#### *Credit Quality Information*

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 quality in the portfolio.

continued

The amortized cost basis by origination year and internal risk rating for loans as of 31 December 2021 and 2020 is as follows:

(\$ million)

(\$ million)

		31 December 2021								
Risk Class	Risk Rating	Origination Year						Private sector programs	Total	
		2021	2020	2019	2018	2017	Prior			
<b>Sovereign Loans:</b>										
Low credit risk	1–5 (AAA to BBB–)	\$ 849	\$11,803	\$ 3,227	\$ 4,714	\$ 5,568	\$40,112	\$ –	\$ 66,273	
Medium credit risk	6–8 (BB+ to BB–)	1,747	1,213	937	1,108	2,388	18,000	–	25,393	
Significant credit risk	9–11 (B+ to B–)	1,288	3,885	3,341	1,816	3,135	17,545	–	31,010	
High credit risk	12–14 (CCC+ to D)	223	356	381	332	425	6,361	–	8,078	
Total Sovereign Loans		4,107	17,257	7,886	7,970	11,516	82,018	–	130,754	
<b>Nonsovereign Loans:</b>										
Low credit risk	1–5 (AAA to BBB–)	51	145	537	19	559	779	–	2,090	
Medium credit risk	6–8 (BB+ to BB–)	108	506	570	705	362	475	19	2,745	
Significant credit risk	9–11 (B+ to B–)	137	40	170	542	172	405	140	1,606	
High credit risk	12–14 (CCC+ to D)	40	–	24	76	37	488	–	665	
Total Nonsovereign Loans		336	691	1,301	1,342	1,130	2,147	159	7,106	
<b>Total</b>		<b>\$ 4,443</b>	<b>\$17,948</b>	<b>\$ 9,187</b>	<b>\$ 9,312</b>	<b>\$12,646</b>	<b>\$84,165</b>	<b>\$ 159</b>	<b>\$137,860</b>	

Notes:

1. Private sector programs include Trade and Supply Chain Finance Program and Microfinance Program
2. The amount of accrued interest excluded from the amortized cost basis in the above table is \$305 million.

(\$ million)

(\$ million)

		31 December 2020								
Risk Class	Risk Rating	Origination Year						Private sector programs	Total	
		2020	2019	2018	2017	2016	Prior			
<b>Sovereign Loans:</b>										
Low credit risk	1–5 (AAA to BBB–)	\$ 7,609	\$ 2,535	\$ 4,159	\$ 5,156	\$ 3,329	\$39,902	\$ –	\$ 62,690	
Medium credit risk	6–8 (BB+ to BB–)	846	797	815	2,062	902	18,460	–	23,882	
Significant credit risk	9–11 (B+ to B–)	3,698	3,138	1,613	3,147	1,828	21,069	–	34,493	
High credit risk	12–14 (CCC+ to D)	27	61	5	35	74	2,245	–	2,447	
Total Sovereign Loans		12,180	6,531	6,592	10,400	6,133	81,676	–	123,512	
<b>Nonsovereign Loans:</b>										
Low credit risk	1–5 (AAA to BBB–)	194	550	44	643	406	448	–	2,285	
Medium credit risk	6–8 (BB+ to BB–)	133	458	787	317	242	634	5	2,576	
Significant credit risk	9–11 (B+ to B–)	19	159	399	189	11	529	139	1,445	
High credit risk	12–14 (CCC+ to D)	–	35	83	37	98	462	–	715	
Total Nonsovereign Loans		346	1,202	1,313	1,186	757	2,073	144	7,021	
<b>Total</b>		<b>\$ 12,526</b>	<b>\$ 7,733</b>	<b>\$ 7,905</b>	<b>\$ 11,586</b>	<b>\$ 6,890</b>	<b>\$ 83,749</b>	<b>\$ 144</b>	<b>\$ 130,533</b>	

Notes:

1. Private sector programs include Trade and Supply Chain Finance Program and Microfinance Program
2. The amount of accrued interest excluded from the amortized cost basis in the above table is \$332 million.

No trade and supply chain finance, and microfinance programs were converted to term loans during the year ended 31 December 2021 and 2020.

ADB's internal risk ratings are updated at least annually for sovereign and nonsovereign exposures and may be revised based on the availability of new/updated information. ADB's internal risk ratings are mapped into the corresponding PD for sovereign and nonsovereign borrowers based on ADB's risk rating model.

As of 31 December 2021, 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 \$141,154 million (\$134,105 million – 2020).

continued

### *Allowance for Credit Losses*

The allowance for credit losses is estimated over the remaining contractual term (lifetime) of the loan and recorded at signing of the loan agreement. EAD for the outstanding principal balances over the remaining lifetime is estimated based on the contractual amortization schedule and projected prepayments considering historical experience. Estimating the lifetime expected loss is broken down into two periods: reasonable and supportable period which is based on reasonable forecasts of future credit quality; and the reversion and post-reversion period which is based on historical loss experience.

Credit quality and default probabilities are estimated to move in conjunction with the credit cycle as such, expected losses from default move in line with credit trends and current economic conditions. A reasonable and supportable period of three years is used, based on the availability of macroeconomic variables, while a reversion period of four years is used, based on the cyclical credit upturns and downturns of the economy.

Sovereign loans have credit risk that a sovereign borrower or guarantor will default on its loan or guarantee obligations. ADB's sovereign regular OCR loan operations have experienced no loss of principal. Sovereign borrowers that previously had delayed payments eventually repaid and returned their loans to accrual status. Nonsovereign loans have credit risk that a borrower will default on loan or guarantee obligations for which ADB does not have recourse to a sovereign entity. While the balance of nonsovereign loans is smaller than the sovereign loans, the credit risks could be larger.

In estimating the PD, ADB considered past events such as historical default frequencies as reported by multilateral development banks and international rating agencies, current risk rating, and reasonable and supportable forecasts of macroeconomic factors such as nominal GDP, per capita GDP, budget balance, international reserves, and others. Sovereign PD is based on sovereign borrowers' historical default data to multilateral development banks. Sovereign LGD is calculated based on non-accrual data from the historical default experiences. Nonsovereign PD and LGD are published by leading international rating agencies. PDs for sovereign loans, and PDs and LGDs for nonsovereign loans are updated annually.

For sovereign LGD, ADB has a different loss experience compared with commercial lenders in a sovereign default event as evidenced in its historical non-accrual events. Historically, the sovereign loans put under non-accrual status were eventually fully repaid and ADB has not written off any sovereign loans except for those under the Heavily Indebted Poor Countries Initiative (HIPC) launched by the International Development Association (IDA) and International Monetary Fund (IMF). However, ADB does not charge interest on overdue interest payments during the arrears period. Therefore, LGD for sovereign loans is calculated as the estimated time value of money loss from the expected delay in loan service payments.

When loans are considered impaired, they are individually reviewed and assessed to determine the expected credit losses using appropriate methods, including discounted cash flow method.

continued

### *Rollforward of the Allowance for Credit Losses*

The changes in the allowance for credit losses on loans outstanding for the years ended 31 December 2021 and 2020, are as follows:

(\$ million)

	2021			2020		
	Sovereign Loans	Nonsovereign Loans	Total	Sovereign Loans	Nonsovereign Loans	Total
Beginning balance	\$ 220	\$ 525	\$ 745	\$ 50	\$ 210	\$ 260
Cumulative effect adjustment of ASU 2016-13	—	—	—	109	189	298
Provision (Release of provision)	5	(50)	(45)	64	126	190
Write off	(3) <sup>a</sup>	—	(3)	(4) <sup>a</sup>	—	(4)
Ending balance	\$ 222	\$ 475	\$ 697	\$ 220	\$ 525	\$ 745

Note: Numbers may not sum precisely because of rounding.

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

For the year ended 31 December 2021, one nonsovereign loan was considered troubled debt restructuring and has been modified and restructured through deferral of interest and principal repayments. As of 31 December 2021, outstanding amount for the restructured loan is \$54 million, net of \$20 million allowance for credit losses, with no undisbursed commitments. There was no change in level of allowance for credit losses after the loan was restructured. As of 31 December 2020, no loan modification or restructuring was considered as troubled debt restructuring.

### *Liability for Credit Losses*

ADB recognizes expected credit losses for undisbursed loan commitments as these cannot be cancelled by ADB unconditionally. EAD for undisbursed commitments is estimated based on projected disbursements, prepayments, cancellations considering historical experience, and contractual amortization schedule. The credit losses are determined based on the same methodology that is used for loans. As of 31 December 2021, the amount of liability for credit losses on undisbursed loan commitments was \$58 million (\$81 million – 2020) and reported under ACCOUNTS PAYABLE AND OTHER LIABILITIES – Liability for credit losses on off-balance sheet exposures in the Balance Sheet.

### *Fair Value Disclosure*

ADB does not sell its sovereign loans. As of 31 December 2021 and 2020, all loans are carried at amortized cost.

The carrying amount and FV of loans outstanding at 31 December 2021 and 2020 are as follows:

(\$ million)

	2021		2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Sovereign – Regular	\$ 98,352	\$ 98,264	\$ 91,280	\$ 91,530
Sovereign – Concessional	32,180	32,180	32,012	32,012
Nonsovereign	6,631	6,699	6,496	6,628
<b>Total</b>	<b>\$ 137,163</b>	<b>\$ 137,143</b>	<b>\$ 129,788</b>	<b>\$ 130,170</b>

continued

The FV hierarchy of ADB loans as of 31 December 2021 and 2020 is as follows:

(\$ million)

	2021	2020
Level 1	\$ —	\$ —
Level 2	—	—
Level 3	137,143	130,170
<b>Total fair value</b>	<b>\$ 137,143</b>	<b>\$ 130,170</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 2021 and 2020 are as follows:

(\$ million)

	2021		2020	
	Amount	No. of Loans	Amount	No. of Loans
Sovereign loans	\$ 2,842	57	\$ 2,223	60
Nonsovereign loans	2,558	69	2,344	59
<b>Total</b>	<b>\$ 5,400</b>	<b>126</b>	<b>\$ 4,567</b>	<b>119</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, 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.

continued

The maximum potential exposure and outstanding amounts of these guarantee obligations as of 31 December 2021 and 2020 covered:

(\$ million)

	2021		2020	
	Maximum Potential Exposure	Outstanding Amount	Maximum Potential Exposure	Outstanding Amount
Credit Guarantees				
Trade Related				
with counterguarantee	\$ 804	\$ 804	\$ 525	\$ 525
without counterguarantee	1,192	1,192	1,220	1,220
	1,996	1,996	1,745	1,745
Non-Trade Related				
with counterguarantee	353	343	531	493
without counterguarantee	1,656	1,601	1,689	1,625
	2,009	1,944	2,220	2,118
Subtotal	4,005	3,940	3,965	3,863
Political Risk Guarantees				
Non-Trade Related				
with counterguarantee	106	47	113	49
without counterguarantee	77	24	79	23
Subtotal	183	71	192	72
<b>Total</b>	<b>\$ 4,188</b>	<b>\$ 4,011</b>	<b>\$ 4,157</b>	<b>\$ 3,935</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 2021 and 2020, one credit guarantee with nonsovereign counter-guarantee had collateral from a counter-guarantor.

ADB entered into an EEA with another MDB which is recognized as financial guarantees in the financial statements. As of 31 December 2021 and 2020, outstanding amount of guarantee provided under EEA amounted to \$1 billion.

As of 31 December 2021, a total liability of \$92 million (\$99 million – 2020) relating to standby ready obligations for eight credit risk guarantees (nine – 2020) and two political risk guarantees (two – 2020) is reported in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous on the Balance Sheet for all guarantees issued after 31 December 2002. Of this amount, \$51 million (\$56 million – 2020) pertains to EEA.

#### *Credit Quality Information*

For guarantees, each transaction is reviewed and assigned a rating based on the same methodology as the loans, that is broadly aligned with the rating approach of international rating agencies (See Note F). The risk ratings are used to monitor the credit quality of guarantees.

continued

### *Liability for Credit Losses*

ADB recorded a liability for estimated expected credit losses on off-balance sheet credit exposures over the contractual lifetime of guarantees. The credit losses are estimated based on the same methodology that is used for loans (See Note F). The liability for credit losses on off-balance sheet exposures for guarantees is reviewed quarterly, and the amount to adjust the liability is recorded in the Statement of Income and Expenses as Provision for credit losses.

As of 31 December 2021, a liability of \$94 million (\$87 million – 2020) for the expected credit losses from guarantees have been included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Liability for credit losses on off-balance sheet exposures in the Balance Sheet.

### *Fair Value Disclosure*

As of 31 December 2021 and 2020, all of ADB's future guarantee receivables and guarantee liabilities are classified as Level 3 within the FV hierarchy.

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 2021 and 2020 are summarized below:

Valuation Technique	Unobservable Inputs	Range (Average) <sup>a</sup>	
		2021	2020
Discounted cash flows	Discount rates	2.22% to 4.43% (2.83%)	2.22% to 4.43% (2.77%)

<sup>a</sup> Average represents the arithmetic average of the unobservable inputs.

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 2021 and 2020:

(\$ million)			
	2021		2020
Balance, 1 January	\$	99	\$ 41
Issuances		25	80
Amortization		(32)	(22)
Balance, 31 December	\$	92	\$ 99

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

continued

## 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 private equity funds.

Breakdown of equity investments as of 31 December 2021 and 2020 are as follows:

(\$ million)		
	2021	2020
Equity method	\$ 973	\$ 775
Fair value method	349	514
<b>Total</b>	<b>\$ 1,322</b>	<b>\$ 1,289</b>

Additional information relating to equity investments reported at FV as of 31 December 2021 and 2020 is as follows:

(\$ million)		
	2021	2020
<b>As of 31 December</b>		
Cost	\$ 338	\$ 373
Fair value	349	514
Gross unrealized gains	99	223
Gross unrealized losses	(88)	(82)
<b>For the years ended 31 December:</b>		
Net unrealized losses	(118)	(284)
Net realized gains	127	190
Net gains (losses)	9	(94)

Approved equity investments that have not been disbursed totaled \$679 million at 31 December 2021 (\$577 million – 2020).

### *Fair Value Disclosure*

ADB's equity investments reported at FV as of 31 December 2021 were \$349 million (\$514 million – 2020). 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 2021 and 2020 is as follows:

(\$ million)		
	2021	2020
Level 1	\$ 114	\$ 278
Level 2	41	47
Level 3	194	189
<b>Total equity investments at fair value</b>	<b>\$ 349</b>	<b>\$ 514</b>

continued

The valuation techniques and significant unobservable inputs for equity investments classified as Level 3 as of 31 December 2021 and 2020 are presented below.

Valuation Technique	Fair Value (\$ million)	Unobservable Inputs	Range (Weighted Average) <sup>a</sup>
<b>2021</b>			
Discounted cash flow	\$ 30	Discount rate	12.40% – 23.00% (15.58%)
Comparable valuations	112	Equity multiples <sup>b</sup> EV/EBITDA	0.50x – 1.40x (0.96x) (7.70x)
Net asset value	42	Discount	(50%)
Other techniques	10		
	<b>\$ 194</b>		
<b>2020</b>			
Discounted cash flow	\$ 28	Discount rate	17.00% – 20.00% (17.48%)
Comparable valuations	85	Equity multiples <sup>b</sup> EV/EBITDA	0.50x – 1.60x (1.01x) 6.60x – 12.20x (7.28x)
Net asset value	64	Discount	(40%)
Other techniques	12		
	<b>\$ 189</b>		

EV/EBITDA = enterprise value/earnings before interest, taxes, depreciation, and amortization.

<sup>a</sup> Unobservable inputs were weighted by the relative fair value of the instruments.

<sup>b</sup> Including price-to-book and price-to-earnings ratios.

An increase (decrease) in the discount rate, independently, will decrease (increase) the FV of equity investments. Conversely, significant increase (decrease) in price-to-book multiples, price-to-earnings multiples and EV/Revenue will generally increase (decrease) the FV of the equity investments. The valuation technique used for one Level 2 and one Level 3 equity investments was changed in 2021 (six – 2020) to reflect a more relevant FV measurement.

The following table presents the changes in the carrying amounts of ADB's Level 3 equity investments for the years ended 31 December 2021 and 2020:

(\$ million)	Equity investments under FV Method	
	2021	2020
Balance, beginning of year	\$ 189	\$ 75
New Level 3 equity investment	21	171
Reclassified out of Level 3	–	(1)
Total unrealized (losses) gains		
Included in earnings <sup>a</sup>	(11)	(57)
Included in other comprehensive loss <sup>b</sup>	(5)	1
Balance, end of year	<b>\$ 194</b>	<b>\$ 189</b>
The amount of total losses for the year included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date <sup>a</sup>		
	<b>\$ (11)</b>	<b>\$ (57)</b>

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

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

continued

**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. As of 31 December 2021 and 2020, AFS and HTM other debt securities are as follows:

(\$ million)

	2021	2020
Available for sale	\$ 44	\$ 58
Held-to-maturity	791	938
	835	996
Allowance for credit losses	(12)	(19)
<b>Total</b>	<b>\$ 823</b>	<b>\$ 977</b>

The amortized cost and FV of the outstanding other debt securities by contractual maturity as of 31 December 2021 and 2020 are presented below:

(\$ million)

	2021		2020	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 196	\$ 225	\$ 134	\$ 162
Due after one year through five years	548	553	655	708
Due after five years through ten years	87	92	200	187
<b>Total</b>	<b>\$ 831</b>	<b>\$ 870</b>	<b>\$ 989</b>	<b>\$ 1,057</b>

*Credit Quality Information*

For HTM debt securities, each transaction is reviewed and assigned a rating based on the same methodology as the loans, that is broadly aligned with the rating approach of international rating agencies (See Note F). The risk ratings are used to monitor the credit quality of HTM debt securities.

The amortized cost basis by origination year and internal risk rating for HTM debt securities as of 31 December 2021 and 2020 is as follows:

(\$ million)

		31 December 2021				
Risk Class	Risk Rating	Origination Year				Total
		2021	2020	2019	2018	
Low credit risk	1-5 (AAA to BBB-)	\$ —	\$ —	\$ —	\$ —	\$ —
Medium credit risk	6-8 (BB+ to BB-)	13	99	258	338	708
Significant credit risk	9-11 (B+ to B-)	—	77	6	—	83
High credit risk	12-14 (CCC+ to D)	—	—	—	—	—
<b>Total</b>		<b>\$ 13</b>	<b>\$ 176</b>	<b>\$ 264</b>	<b>\$ 338</b>	<b>\$ 791</b>

Note: The amount of accrued interest excluded from the amortized cost basis in the above table is \$15 million.

continued

(\$ million)

		31 December 2020				
		Origination Year				
Risk Class	Risk Rating	2020	2019	2018	2017	Total
Low credit risk	1-5 (AAA to BBB-)	\$ —	\$ —	\$ —	\$ —	\$ —
Medium credit risk	6-8 (BB+ to BB-)	100	275	454	33	862
Significant credit risk	9-11 (B+ to B-)	68	8	—	—	76
High credit risk	12-14 (CCC+ to D)	—	—	—	—	—
<b>Total</b>		<b>\$ 168</b>	<b>\$ 283</b>	<b>\$ 454</b>	<b>\$ 33</b>	<b>\$ 938</b>

Note: The amount of accrued interest excluded from the amortized cost basis in the above table is \$16 million.

Internal risk ratings of HTM debt securities are updated annually and may be revised based on the availability of new/updated information. Internal risk ratings are mapped into the corresponding probability of default for issuers of HTM debt securities based on ADB's risk rating model.

#### *Allowance for Credit Losses*

Expected credit loss is measured as the product of the EAD, the PD, and the LGD. EAD for HTM debt securities are based on amortized costs. Recognition and measurement of expected credit loss for HTM debt securities follows the same assumptions, procedure and timing as expected credit loss for loans (See Note F).

#### *Rollforward of the Allowance for Credit Losses*

The changes in the allowance for credit losses on outstanding other debt securities during the years ended 31 December 2021 and 2020 are as follows:

(\$ million)

	2021	2020
Balance, beginning of year	\$ 19	\$ —
Cumulative effect adjustment of ASU 2016-13	—	8
Release of provision	(7)	(2)
Adjustment for fully repaid debt security	—	13
Balance, end of year	<u>\$ 12</u>	<u>\$ 19</u>

#### *Past Due Status and Non-Accrual Status*

ADB places HTM debt securities in non-accrual status if the principal or interest with respect to any such securities is overdue by more than 180 days or in case of securities that are not yet overdue by more than 180 days, 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 on non-accruing HTM debt securities is included in revenue only to the extent that payments have actually been received by ADB.

As of 31 December 2021, there are no HTM debt securities that are past due or in non-accrual status.

#### *Liability for Credit Losses*

ADB recorded a liability for estimated expected credit losses on off-balance sheet credit exposures over the undisbursed portion of HTM debt securities. The credit losses are estimated based on the same methodology that is used for loans (See Note F). The liability for credit losses on off-balance sheet exposures for HTM debt securities is reviewed quarterly, and the amount to adjust the liability is recorded in net income as Provision for credit losses.

continued

As of 31 December 2021, the amount of liability for credit losses on undisbursed HTM debt securities commitments was \$2 million (\$1 million – 2020) and reported under ACCOUNTS PAYABLE AND OTHER LIABILITIES – Liability for credit losses on off-balance sheet exposures in the Balance Sheet.

### *Fair Value Disclosure*

The hierarchy of FV of ADB's other debt securities as of 31 December 2021 and 2020 is as follows:

(\$ million)

	2021	2020
Level 1	\$ 62	\$ 41
Level 2	–	–
Level 3	808	1,016
<b>Total at fair value</b>	<b>\$ 870</b>	<b>\$ 1,057</b>

There is no AFS other debt security classified as Level 3 as of 31 December 2021. The valuation technique and significant unobservable input for AFS other debt securities classified as Level 3 as of 31 December 2020 are as follows:

Valuation Technique	Unobservable Inputs	Range (Average) <sup>a</sup>
Discounted cash flows	Discount rate	18.20% – 20.20% (19.20%)

<sup>a</sup> Average represents the arithmetic average of the unobservable inputs.

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

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 2021 and 2020:

(\$ million)

	2021	2020
Balance, beginning of year	\$ 34	\$ –
Purchases	–	8
Transfer into Level 3	–	24
Divestment	(30)	–
Total unrealized (losses) gains included in accumulated other comprehensive income <sup>a</sup>	(4)	2
Balance, end of year	<u>\$ –</u>	<u>\$ 34</u>

The amount of total gains for the period included in other comprehensive income attributable to the change in net unrealized gains or losses<sup>b</sup> relating to assets still held at the reporting date

<u>\$ –</u>	<u>\$ 3</u>
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<sup>a</sup> Included in unrealized holding gains from other debt securities — operations and accumulated translation adjustments (Note N).

<sup>b</sup> Included in unrealized holding gains from other debt securities — operations (Note N).

continued

Additional information relating to other debt securities classified as AFS are as follows:

(\$ million)

	2021	2020
<b>As of 31 December</b>		
Amortized cost	\$ 40	\$ 51
Fair value	44	58
Gross unrealized gains	4	7
<b>For the year ended 31 December</b>		
(Decrease) Increase in net unrealized gains from prior year	(3)	4
Proceeds from sales	49	–
Gross gain on sales	18	–

**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, and currency swap agreements usually match the terms of particular borrowings while foreign exchange swap terms may not match the terms of particular borrowing because this is used for bridge financing and most of the time undertaken without a matching bond. Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Investments for liquidity purpose are interest rate, currency and foreign exchange swaps 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.

Future dated derivatives as of 31 December 2021 amounted to \$44 million for derivative assets (\$1,031 million – 2020) and \$1 million for derivative liabilities (\$1,061 million – 2020).

continued

*Fair Value Disclosure*

The FV hierarchy of ADB's derivatives and the balance sheet location as of 31 December 2021 and 2020 are as follows:

(\$ million)

	Balance Sheet Location	Fair Value Measurements			
		Total	Level 1	Level 2	Level 3
<b>2021</b>					
<b>Assets</b>					
Borrowings related derivatives	Derivative Assets				
Currency swaps	- Borrowings	\$ 48,307	\$ —	\$ 45,397	\$ 2,910
Interest rate swaps		1,275	—	1,273	2
Investments related derivatives	Derivative Assets				
Currency swaps	- Investments for liquidity purpose	15,013	—	15,013	—
Interest rate swaps		32	—	32	—
Foreign exchange swaps		9,974	—	9,974	—
Foreign exchange forward		157	—	157	—
Loans related derivatives	Derivative Assets				
Currency swaps	- Loans — Operations	17,821	—	17,821	—
Interest rate swaps		281	—	281	—
<b>Total assets at fair value</b>		<b>\$ 92,860</b>	<b>\$ —</b>	<b>\$ 89,948</b>	<b>\$ 2,912</b>
<b>Liabilities</b>					
Borrowings related derivatives	Derivative Liabilities				
Currency swaps	- Borrowings	\$ 49,452	\$ —	\$ 49,452	\$ —
Interest rate swaps		791	—	791	0
Investments related derivatives	Derivative Liabilities				
Currency swaps	- Investments for liquidity purpose	14,596	—	14,596	—
Interest rate swaps		39	—	39	—
Foreign exchange swaps		9,789	—	9,789	—
Foreign exchange forward		158	—	158	—
Loans related derivatives	Derivative Liabilities				
Currency swaps	- Loans — Operations	17,047	—	15,786	1,261
Interest rate swaps		75	—	75	—
<b>Total liabilities at fair value</b>		<b>\$ 91,947</b>	<b>\$ —</b>	<b>\$ 90,686</b>	<b>\$ 1,261</b>

0 = less than \$0.5 million.

continued

(\$ million)

	Balance Sheet	Fair Value Measurements			
	Location	Total	Level 1	Level 2	Level 3
<b>2020</b>					
<b>Assets</b>					
Borrowings related derivatives	Derivative Assets				
Currency swaps	- Borrowings	\$ 41,114	\$ —	\$ 37,959	\$ 3,155
Interest rate swaps		2,899	—	2,895	4
Foreign exchange swaps		1,136	—	1,136	—
Investments related derivatives	Derivative Assets				
Currency swaps	- Investments for liquidity purpose	11,333	—	11,333	—
Foreign exchange swaps		13,038	—	13,038	—
Foreign exchange forward		19	—	19	—
Loans related derivatives	Derivative Assets				
Currency swaps	- Loans — Operations	17,820	—	17,820	—
Interest rate swaps		419	—	419	—
<b>Total assets at fair value</b>		<b>\$ 87,778</b>	<b>\$ —</b>	<b>\$ 84,619</b>	<b>\$ 3,159</b>
<b>Liabilities</b>					
Borrowings related derivatives	Derivative Liabilities				
Currency swaps	- Borrowings	\$ 38,711	\$ —	\$ 38,711	\$ —
Interest rate swaps		45	—	45	0
Foreign exchange swaps		1,146	—	1,146	—
Investments related derivatives	Derivative Liabilities				
Currency swaps	- Investments for liquidity purpose	12,254	—	12,254	—
Interest rate swaps		24	—	24	—
Foreign exchange swaps		13,232	—	13,232	—
Foreign exchange forward		19	—	19	—
Loans related derivatives	Derivative Liabilities				
Currency swaps	- Loans — Operations	18,952	—	17,870	1,082
Interest rate swaps		134	—	134	—
<b>Total liabilities at fair value</b>		<b>\$ 84,517</b>	<b>\$ —</b>	<b>\$ 83,435</b>	<b>\$ 1,082</b>

0 = less than \$0.5 million.

ADB uses discounted cash flow models in determining FV of derivatives. Market inputs, such as yield curves, foreign exchange (FX) rates, cross currency basis spreads, yield basis spread, interest rates 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.

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 2021 and 2020 are presented below:

Valuation Technique	Unobservable Inputs	Range (Weighted Average) <sup>a</sup>	
		2021	2020
Discounted cash flows	Basis swap spreads	-1.14% to 6.33% (0.18%)	-1.31% to 5.21% (-1.21%)

<sup>a</sup> Unobservable inputs were weighted by the relative fair value of the instruments.

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

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 2021 and 2020:

(\$ million)

	Borrowings related derivatives		Loans related derivatives	
	Assets	Liabilities	Assets	Liabilities
<b>2021</b>				
Balance, beginning of year	\$ 3,159	\$ (0)	\$ –	\$ (1,082)
Total (losses) gains - (realized/unrealized)				
Included in earnings <sup>a</sup>	(192)	(0)	–	34
Included in other comprehensive loss <sup>b</sup>	(462)	0	–	95
Issuances	1,678	–	–	(371)
Maturities/Redemptions	(1,271)	–	–	63
Balance, end of year	<u>\$ 2,912</u>	<u>\$ (0)</u>	<u>\$ –</u>	<u>\$ (1,261)</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>\$ (125)</u>	<u>\$ (0)</u>	<u>\$ –</u>	<u>\$ 33</u>
<b>2020</b>				
Balance, beginning of year	\$ 2,575	\$ (0)	\$ –	\$ (804)
Total (losses) gains - (realized/unrealized)				
Included in earnings <sup>a</sup>	(1)	0	–	(12)
Included in other comprehensive loss <sup>b</sup>	(6)	0	–	(4)
Issuances	1,102	–	–	(335)
Maturities/Redemptions	(511)	–	–	73
Balance, end of year	<u>\$ 3,159</u>	<u>\$ (0)</u>	<u>\$ –</u>	<u>\$ (1,082)</u>
The amount of total gains (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>\$ 4</u>	<u>\$ 0</u>	<u>\$ –</u>	<u>\$ (11)</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	
		2021	2020
Borrowings related derivatives			
Currency swaps	Borrowing and related expenses	\$ 673	\$ 308
	Net Realized Gains	0	0
	Net Unrealized (Losses) Gains	(2,056)	479
Interest rate swaps	Borrowing and related expenses	963	453
	Net Unrealized (Losses) Gains	(2,384)	1,844
Foreign exchange swaps	Borrowing and related expenses	1	0
	Net Unrealized (Losses) Gains	(1)	1
		<u>\$ (2,804)</u>	<u>\$ 3,085</u>
Investments related derivatives			
Currency swaps	Revenue from investments for liquidity purpose	\$ 32	\$ 80
	Net Unrealized (Losses) Gains	132	25
Interest rate swaps	Revenue from investments for liquidity purpose	(9)	(6)
	Net Unrealized (Losses) Gains	9	(2)
Foreign exchange swaps	Revenue from investments for liquidity purpose	37	57
	Net Unrealized (Losses) Gains	(1)	2
Foreign exchange forwards	Net Unrealized (Losses) Gains	(1)	(0)
		<u>\$ 199</u>	<u>\$ 156</u>
Loans related derivatives			
Currency swaps	Revenue from Loans — Operations	\$ 86	\$ 131
	Net Unrealized (Losses) Gains	393	249
Interest rate swaps	Revenue from Loans — Operations	52	52
	Net Unrealized (Losses) Gains	(75)	127
		<u>\$ 456</u>	<u>\$ 559</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 2021, ADB had received collateral of \$1,180 million (\$3,518 million – 2020) in connection with the swap agreements. Of this amount, \$643 million (\$2,002 million – 2020) 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 2021 was \$454 million (\$925 million – 2020). The gross liability position in the aggregate FV of all derivative instruments that ADB has under the ISDA Master Agreement with local market constraints amounted to \$287 million as of 31 December 2021 (\$326 million – 2020).

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 2021 and 2020 are as follows: (See Note E for PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS.)

(\$ million)				
	2021		2020	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
Gross amount presented in the balance sheet	\$ 92,584 <sup>a</sup>	\$ (91,659) <sup>b</sup>	\$ 87,469 <sup>a</sup>	\$ (84,191) <sup>b</sup>
Gross amounts not offset in the balance sheet				
Financial instruments	(91,205)	91,205	(83,266)	83,266
Collateral received <sup>c</sup>	(1,043)	–	(3,374)	–
Net amount <sup>d</sup>	<u>\$ 336</u>	<u>\$ (454)</u>	<u>\$ 829</u>	<u>\$ (925)</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 \$277 million (\$309 million – 2020).

<sup>b</sup> This excludes gross amount of DERIVATIVE LIABILITIES presented in the balance sheet not subject to enforceable master netting agreements amounting to \$287 million (\$326 million – 2020).

<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**

Property, furniture and equipment includes (i) land; (ii) buildings and improvements; (iii) office furniture and equipment; and (iv) right-of-use asset. Breakdown as of 31 December 2021 and 2020 is as follows:

(\$ million)

	2021	2020
Land	\$ 10	\$ 10
Buildings and improvements	117	114
Office furniture and equipment	73	65
Right-of-use asset	52	49
<b>Total</b>	<b>\$ 252</b>	<b>\$ 238</b>

Changes during 2021 and 2020, as well as information pertaining to accumulated depreciation, of buildings and improvements, office furniture and equipment are as follows:

(\$ million)

	2021		2020	
	Buildings and Improvements	Office Furniture and Equipment	Buildings and Improvements	Office Furniture and Equipment
<b>Cost:</b>				
Balance, 1 January	\$ 287	\$ 271	\$ 279	\$ 248
Additions during the year	20	32	8	25
Disposals during the year	(5)	(6)	(0)	(2)
Balance, 31 December	302	297	287	271
<b>Accumulated Depreciation:</b>				
Balance, 1 January	(173)	(206)	(163)	(185)
Depreciation during the year	(12)	(23)	(10)	(22)
Disposals during the year	0	5	0	1
Balance, 31 December	(185)	(224)	(173)	(206)
<b>Net Book Value, 31 December</b>	<b>\$ 117</b>	<b>\$ 73</b>	<b>\$ 114</b>	<b>\$ 65</b>

0 = less than \$0.5 million.

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 2021 amounted to \$5 million (\$5 million – 2020), net of amortization of the compensation for the former HQ building. As of 31 December 2021, the unamortized deferred compensation balance (included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous) was \$3 million (\$4 million – 2020).

Right-of-use asset mainly pertains to lease of real properties such as offices, buildings and parking lots in field offices. As of 31 December 2021, lease liability amounted to \$48 million and is recorded as part of Miscellaneous under ACCOUNTS PAYABLE AND OTHER LIABILITIES (\$44 million – 2020).

continued

In 2021, operating lease cost amounted to \$15 million (\$14 million – 2020), while weighted average remaining lease term is 8.70 years (10.57 years – 2020), and weighted average discount rate is 2% (3% – 2020).

The maturity analysis on an undiscounted basis of ADB's operating lease liabilities as of 31 December 2021 are as follows:

<b>Year ending 31 December</b>	<b>\$ million</b>
2022	12
2023	9
2024	11
2025	6
2026	6
Later years	11

## 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.

The carrying amounts of ADB's outstanding borrowings as of 31 December 2021 and 2020 are as follows:

(\$ million)

	<b>2021</b>	<b>2020</b>
At Amortized cost	\$ 3,090	\$ 4,869
At Fair value	130,981	123,888
<b>Total</b>	<b>\$ 134,071</b>	<b>\$ 128,757</b>

### *Fair Value Disclosure*

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, interest rates 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. 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.

continued

The FV hierarchy of ADB's outstanding borrowings reported at amortized cost and FV as of 31 December 2021 and 2020 are as follows:

(\$ million)

	2021	2020
<b>At Amortized cost</b>		
Level 1	\$ —	\$ —
Level 2	3,383	5,349
Level 3	137	77
<b>Sub-total</b>	<b>3,520</b>	<b>5,426</b>
<b>At Fair value</b>		
Level 1	—	—
Level 2	124,015	118,115
Level 3	6,966	5,773
<b>Sub-total</b>	<b>130,981</b>	<b>123,888</b>
<b>Total borrowings at fair value</b>	<b>\$ 134,501</b>	<b>\$ 129,314</b>

For borrowings carried at FV, the quantitative information on significant unobservable input used for valuation as of 31 December 2021 and 2020 are presented below:

Valuation Technique	Unobservable Inputs	Range (Weighted Average) <sup>a</sup>	
		2021	2020
Discounted cash flows	Derived credit spreads	-1.21% to 3.89% (0.18%)	-0.88% to 1.48% (0.12%)

<sup>a</sup> Unobservable inputs were weighted by the relative fair value of the instruments.

A significant increase (decrease) in credit spreads generally decreases (increases) the FV of the borrowings.

continued

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 2021 and 2020:

(\$ million)

	2021	2020
Balance, beginning of year	\$ 5,773	\$ 4,208
Total (gains) losses - (realized/unrealized)		
Included in earnings <sup>a</sup>	(164)	79
Included in other comprehensive income <sup>b</sup>	(487)	33
Issuances	3,854	2,519
Maturities/Redemptions	(2,010)	(1,066)
Balance, end of year	<u>\$ 6,966</u>	<u>\$ 5,773</u>
The amount of total (gains) losses 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		
	<u>\$ (135)</u>	<u>\$ 49</u>
The amount of total gains for the year included in other comprehensive income attributable to the change in net unrealized gains or losses <sup>c</sup> relating to liabilities still held at the reporting date		
	<u>\$ (16)</u>	<u>\$ (27)</u>

<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).

<sup>c</sup> Included in unrealized holding gains from borrowings (Note N).

Refer to OCR-7 for Summary Statement of Borrowings.

## NOTE M—CAPITAL STOCK AND MAINTENANCE OF VALUE OF CURRENCY HOLDINGS

### *Capital Stock*

The authorized capital stock of ADB totaling 10,639,083 shares, was fully subscribed by members. Of the subscribed shares, 10,105,947 are "callable" and 533,136 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 \$66 million (\$97 million – 2020).

As of 31 December 2021, ADB's shareholders consist of 68 members, 49 from the region and 19 from outside the region (OCR-8).

### *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

continued

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 2021 consisted of (i) the net increase of \$946 million (\$1,076 million – 2020) 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 2021 and (ii) the net increase of \$619 million (\$569 million – 2020) in the value of such currency holdings in relation to the US dollar during the same period. Receivable and payable to members are as follows:

(\$ million)				
	2021		2020	
Notional MOV Receivables	\$	1,675	\$	1,767
Notional MOV Payables		(110)		(122)
<b>Total</b>	<b>\$</b>	<b>1,565</b>	<b>\$</b>	<b>1,645</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 2021, the Board of Governors approved the following with respect to ADB's 2020 net income of \$1,345 million, after the appropriation of guarantee fees of \$27 million to the Special Reserve: (i) the following adjustments be made to the net income amount to determine the allocable net income: \$213 million representing adjustments for the net unrealized gains for the year ended 31 December 2020, be added to the cumulative revaluation adjustments (CRA) account; (ii) \$734 million be allocated to the Ordinary Reserve; (iii) \$292 million be allocated to the ADF; (iv) \$90 million be allocated to the Technical Assistance Special Fund (TASF); and (v) \$15 million to be allocated to the Asia Pacific Disaster Response Fund (APDRF).

In May 2020, the Board of Governors approved the following with respect to ADB's 2019 net income of \$1,530 million, after the appropriation of guarantee fees of \$24 million to the Special Reserve: (i) the following adjustments be made to the net income amount to determine the allocable net income: \$461 million representing adjustments for the net unrealized gains for the year ended 31 December 2019, be added to the CRA account; (ii) \$616 million be allocated to the Ordinary Reserve; (iii) \$259 million be allocated to the ADF; (iv) \$130 million be allocated to the TASF; (v) \$30 million be allocated to the Regional Cooperation and Integration Fund; (vi) \$24 million be allocated to the Climate Change Fund; and (vii) \$10 million to be allocated to the APDRF.

### *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 –

continued

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

As part of 2020 net income allocation following the Resolution of the Board of Governors in May 2021, the net unrealized gains on financial instruments of \$228 million and the net unrealized losses on equity method investments of \$15 million were transferred to the CRA account.

As part of 2019 net income allocation following the Resolution of the Board of Governors in May 2020, the net unrealized gains on financial instruments of \$434 million and the net unrealized gains on equity method investments of \$27 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 2021, guarantee fees amounting to \$37 million (\$27 million – 2020) 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 2019, the loan loss reserve was \$225 million. In April 2020, the Board of Governors approved the discontinuation of the loan loss reserve effective 1 January 2020 following the adoption of FASB's current expected credit loss guidance.

### *Surplus*

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

### *Accumulated Other Comprehensive Income (Loss)*

Comprehensive income (loss) has two major components: net income (loss) and other comprehensive income (loss) comprising gains and losses affecting equity that, under US GAAP, are excluded from net income (loss). Other comprehensive income (loss) includes items such as translation adjustments for functional currencies; 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 2021 and 2020 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	Other Debt Securities — Operations	Borrowings		
<b>Balance, 1 January 2021</b>	\$ 598	\$ 705	\$ (5)	\$ 7	\$ (56)	\$ (1,873)	\$ (624)
Other comprehensive income (loss) before reclassifications	5	(553)	11	(3)	(415)	865	(90)
Amounts reclassified from accumulated other comprehensive income	—	(58)	—	—	—	138	80
Net current-period other comprehensive income (loss)	5	(611)	11	(3)	(415)	1,003	(10)
<b>Balance, 31 December 2021</b>	<b>\$ 603</b>	<b>\$ 94</b>	<b>\$ 6</b>	<b>\$ 4</b>	<b>\$ (471)</b>	<b>\$ (870)</b>	<b>\$ (634)</b>
<b>Balance, 1 January 2020</b>	\$ 388	\$ 168	\$ 1	\$ 3	\$ 185	\$ (1,378)	\$ (633)
Other comprehensive income (loss) before reclassifications	210	533	(6)	4	(241)	(578)	(78)
Amounts reclassified from accumulated other comprehensive income	—	4	—	—	—	83	87
Net current-period other comprehensive income (loss)	210	537	(6)	4	(241)	(495)	9
<b>Balance, 31 December 2020</b>	<b>\$ 598</b>	<b>\$ 705</b>	<b>\$ (5)</b>	<b>\$ 7</b>	<b>\$ (56)</b>	<b>\$ (1,873)</b>	<b>\$ (624)</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 2021 and 2020 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
	2021	2020	
Unrealized Holding Gains (Losses)			
Investments for liquidity purpose	\$ 58	\$ (4)	NET REALIZED GAINS From investments for liquidity purpose
Pension/Postretirement Liability			
Adjustments Actuarial losses	(138)	(83)	Administrative expenses
Total reclassifications for the year	<u>\$ (80)</u>	<u>\$ (87)</u>	

<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 2021 and 2020 is summarized as follows:

(\$ million)

	Interest	Commitment charge	Other, net <sup>a</sup>	Total
<b>2021</b>				
Sovereign – Regular	\$ 683	\$ 50	\$ (16)	\$ 717
Sovereign – Concessional	664	–	(1)	663
Nonsovereign	196	2	(2)	196
<b>Total</b>	<b>\$ 1,543</b>	<b>\$ 52</b>	<b>\$ (19)</b>	<b>\$ 1,576</b>
<b>2020</b>				
Sovereign – Regular	\$ 1,324	\$ 52	\$ (9)	\$ 1,367
Sovereign – Concessional	642	–	(1)	641
Nonsovereign	243	4	(2)	245
<b>Total</b>	<b>\$ 2,209</b>	<b>\$ 56</b>	<b>\$ (12)</b>	<b>\$ 2,253</b>

<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 1.40% (2.16% – 2020).

REVENUE from investments for liquidity purpose for the year ended 31 December 2021 was \$547 million (\$680 million – 2020). This comprises interest income including interest earned for securities transferred under repurchase agreements, and securities purchased under resale arrangements. The annualized rate of return on the average investments held during the year was 1.47% (1.72% – 2020) excluding unrealized gains and losses on investments, and 0.20% (2.99% – 2020) including unrealized gains and losses on investments.

REVENUE from equity investment operations for the year ended 31 December 2021 amounted to \$145 million (\$22 million – 2020). This comprises gains from equity method investments totaling \$139 million (\$16 million – 2020) and dividend and other income and expenses from equity investments totaling \$6 million (\$6 million – 2020).

REVENUE from other debt securities for the year ended 31 December 2021 was \$36 million consisting mostly of interest income (\$47 million – 2020).

REVENUE from other sources for the year ended 31 December 2021 was \$58 million (\$43 million – 2020). This included income received as administration fees for projects and/or programs totaling \$29 million (\$27 million – 2020), transaction advisory service fee of \$7 million (\$0.1 million – 2020) and other miscellaneous income totaling \$22 million (\$16 million – 2020).

### Expenses

Borrowings and related expenses for the year ended 31 December 2021 amounted to \$460 million (\$1,351 million – 2020). These consist of interest expense and other related expenses such as amortization of issuance costs, discounts, and premiums. The average cost of borrowings outstanding after swaps was 1.03% (1.09% – 2020).

Total depreciation expense incurred for the year ended 31 December 2021 amounted to \$35 million (\$32 million – 2020).

continued

Administrative expenses for the year ended 31 December 2021 were allocated between OCR and the ADF in proportion to the relative volume of operational activities. Of the total administrative expenses of \$951 million (\$824 million – 2020), \$97 million (\$104 million – 2020) 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 \$35 million (\$51 million – 2020) related to new loans made effective during the year.

For the year ended 31 December 2021, net release of provision for credit losses amounted to \$69 million (\$127 million provision for credit losses – 2020).

#### *Net realized gains*

NET REALIZED GAINS for the year ended 31 December 2021 was \$159 million (\$230 million – 2020). This included gains on sale of equity investments of \$127 million (\$190 million – 2020), impairment losses of equity method investments of \$5 million (nil – 2020), gains on sale of investments for liquidity purpose totaling \$19 million (\$21 million – 2020), and gains on redemption of other debt securities totaling \$18 million (\$19 million recovery of impairment on other debt securities – 2020).

#### *Net unrealized (losses) gains*

The following table provides information on the unrealized gains or losses included in income for the years ended 31 December 2021 and 2020:

(\$ million)

	2021	2020
Fair value changes from:		
Borrowings and related swaps	\$ (942)	\$ 114
Loans related swaps	318	376
Investments related swaps and forwards	139	25
Equity investments	(7)	(90)
Reclassification of unrealized gains on divested equity investment	(111)	(194)
Translation adjustments in non-functional currencies	2	(3)
<b>Total</b>	<b>\$ (601)</b>	<b>\$ 228</b>

## **NOTE P—RELATED PARTY TRANSACTIONS**

At 31 December 2021 and 2020, ADB had the following net receivables from and payable to ADF, external funded trust funds under ADB administration (Trust Funds), other Special Funds, and employee benefit plans consisting of the Staff Retirement Plan (SRP), the Retiree Medical Plan Fund (RMPF), and the Defined Contribution (DC) plan. These are included in Miscellaneous under OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES:

(\$ million)

	2021	2020
<b>Amounts receivable from:</b>		
Asian Development Fund	\$ 28	\$ 29
Trust Funds and Others—net	20	9
Employee Benefit Plans	—	1
<b>Total</b>	<b>\$ 48</b>	<b>\$ 39</b>
<b>Amounts payable to:</b>		
Employee Benefit Plans	\$ 2	\$ —

continued

See Note S for additional information relating to Special Funds and other funds.

## **NOTE Q—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS**

### *Staff Retirement Plan*

ADB has a 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; 62 for staff who joined on or after 1 October 2017 and before 1 October 2021; and 65 for staff who joined on or after 1 October 2021. 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 observed over 2 consecutive years during eligible service 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 \$106,329 as of 31 December 2021 (\$106,329 – 2020) adjusted each year in line with the structural increase in US dollar salary scales of International Staff based at headquarters. 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 pension 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 make Discretionary Benefit (XB) contributions. Such contributions earn a prescribed interest crediting rate and benefits are payable to the Participants who reach retirement age or upon termination of employment.

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 predefined threshold. ADB will match participant's contributions at a ratio of \$1 to each \$8 (1:8), capped at 12% of salary. For the year ended 31 December 2021, ADB contributed \$4 million to the DC Plan (\$3 million – 2020).

### *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 \$86 million for 2022 based on a budgeted contribution of 27% of salary.

ADB's staff members are expected to contribute \$35 million representing participants' mandatory contribution of \$6 million and discretionary contributions of \$29 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 eleven 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,

continued

leverage or taking risks is avoided. Selected derivatives are used for hedging and transactional efficiency purposes.

The SRP's investment policy is periodically reviewed and revised. The SRP's long-term target asset-mix implemented in 2021 and 2020 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 2021, the net return on the SRP assets was 13.36% (12.64% – 2020). ADB expects the long-term rate of return on the assets to be 5.75% (5.75% – 2020).

### *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 5.75% on the SRP's assets is expected to remain on average broadly the same, year to year. The discount rate used in determining the benefit obligation is selected in reference to the rates of return on high-quality bonds.

### *Post-Retirement Group Medical Insurance Plan*

ADB adopts 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 RMPF holds 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*

ADB's expected contribution to the RMPF is based on the recommendation of the SRP Pension Committee. For 2022, 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 avoided. Selected derivatives are used for hedging and transactional efficiency purposes.

The RMPF's long-term target asset-mix implemented in 2021 and 2020 is 40% US equity, 30% non-US equity, and 30% global fixed income. For the year ended 31 December 2021, the net return on the RMPF assets was 14.26% (13.90% – 2020).

continued

### Assumptions

The overall long-term rate of return is 5.75% per annum, similar to the SRP.

The following table sets forth the funded status of pension and postretirement medical benefits at 31 December 2021 and 2020:

(\$ million)

	Pension Benefits		Postretirement Medical Benefits	
	2021	2020	2021	2020
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 3,956	\$ 3,550	\$ 492	\$ 432
Actual return on plan assets	530	447	70	60
Employer's contribution	210	69	7	6
Plan participants' contributions	37	38	—	—
Benefits paid	(167)	(148)	(7)	(6)
Fair value of plan assets at end of year	<u>\$ 4,566</u>	<u>\$ 3,956</u>	<u>\$ 562</u>	<u>\$ 492</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 5,979	\$ 5,113	\$ 711	\$ 500
Service cost	140	116	37	25
Interest cost	182	192	26	22
Plan participants' contributions	37	38	—	—
Actuarial (gains) losses	(300)	668	(191)	170
Benefits paid	(167)	(148)	(7)	(6)
Benefit obligation at end of year	<u>\$ 5,871</u>	<u>\$ 5,979</u>	<u>\$ 576</u>	<u>\$ 711</u>
<b>Funded status</b>	<u><b>\$ (1,305)</b></u>	<u><b>\$ (2,023)</b></u>	<u><b>\$ (14)</b></u>	<u><b>\$ (219)</b></u>
Amounts recognized in the Balance sheet as Accrued pension and postretirement medical benefit costs	<u>\$ (1,305)</u>	<u>\$ (2,023)</u>	<u>\$ (14)</u>	<u>\$ (219)</u>
Amounts recognized in the Accumulated other comprehensive loss as Pension/Postretirement liability adjustments (Note N)	<u>\$ 998</u>	<u>\$ 1,758</u>	<u>\$ (129)</u>	<u>\$ 115</u>
Weighted-average assumptions as of 31 December (%)				
Discount rate	3.30	3.00	4.00	3.50
Expected return on plan assets	5.75	5.75	5.75	5.75
Rate of compensation increase varies with age and averages	4.75	4.75	N/A	N/A
Interest crediting rate	5.60	5.60	N/A	N/A

The accumulated benefit obligation of the pension plan as of 31 December 2021 was \$5,543 million (\$5,620 million – 2020). The actuarial gain of \$300 million for pension benefit obligation was mainly due to the change in discount rates and \$191 million actuarial gain for postretirement medical benefit obligation was mainly due to the change in discount rates and lower claim costs assumption.

continued

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered postretirement medical benefits was assumed for the valuation as of 31 December 2021 (6.5% – 2020). The rate was assumed to decrease gradually to 5% by 2027 and remain at that level thereafter.

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the year ended 31 December 2021 and 2020:

(\$ million)

	Pension Benefits		Postretirement Medical Benefits	
	2021	2020	2021	2020
Components of net periodic benefit cost:				
Service cost	\$ 140	\$ 116	\$ 37	\$ 25
Interest cost	182	192	26	22
Expected return on plan assets	(201)	(220)	(25)	(27)
Recognized actuarial loss (Note N)	130	83	8	–
<b>Net periodic benefit cost</b>	<b>\$ 251</b>	<b>\$ 171</b>	<b>\$ 46</b>	<b>\$ 20</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.

#### *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 2021.

(\$ million)

Year	Pension Benefits	Postretirement Medical Benefits
2022	\$ 193	\$ 9
2023	205	10
2024	218	12
2025	234	13
2026	246	14
2027–2031	1,447	91

continued

*Fair Value Disclosure*

The FV of the SRP's and RMPF's assets measured on a recurring basis as of 31 December 2021 and 2020 is shown below:

(\$ million)

<b>2021</b>	<b>Total</b>	<b>Fair Value Measurements</b>		
		<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Staff Retirement Plan</b>				
Cash and cash equivalents	\$ 53	\$ —	\$ 53	\$ —
Common/preferred stocks	860	860	0	—
Investment funds	2,596	2,446	150	—
Government or government-related securities	400	386	14	—
Corporate debt securities	512	510	2	—
Mortgage/Asset-backed securities:				
Mortgage-backed securities	57	11	46	—
Collateralized mortgage obligations	7	0	7	—
Asset-backed securities	0	—	0	—
Short term investments	88	85	3	—
Derivatives	0	(0)	0	—
Other asset/liabilities <sup>a</sup> —net	(7)	—	(7)	—
<b>Total fair value of SRP assets</b>	<b>\$ 4,566</b>	<b>\$ 4,298</b>	<b>\$ 268</b>	<b>\$ —</b>
<b>Retiree Medical Plan Fund</b>				
Cash and cash equivalents	\$ 13	\$ —	\$ 13	\$ —
Common/preferred stocks	170	170	—	—
Investment funds	247	247	—	—
Government or government-related securities	78	78	0	—
Corporate debt securities	50	50	0	—
Mortgage-backed securities	15	6	9	—
Derivatives	(1)	(0)	(1)	—
Other asset/liabilities <sup>a</sup> —net	(10)	—	(10)	—
<b>Total fair value of RMPF assets</b>	<b>\$ 562</b>	<b>\$ 551</b>	<b>\$ 11</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)

2020	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>Staff Retirement Plan</b>				
Cash and cash equivalents	\$ 48	\$ —	\$ 48	\$ —
Common/preferred stocks	675	675	—	—
Investment funds	2,208	2,056	152	—
Government or government-related securities	370	355	15	—
Corporate debt securities	547	537	9	1
Mortgage/Asset-backed securities:				
Mortgage-backed securities	78	4	74	0
Collateralized mortgage obligations	6	—	6	—
Asset-backed securities	0	—	0	—
Short term investments	52	34	18	—
Derivatives	(16)	(5)	(11)	—
Other asset/liabilities <sup>a</sup> —net	(12)	—	(12)	—
<b>Total fair value of SRP assets</b>	<b>\$ 3,956</b>	<b>\$ 3,656</b>	<b>\$ 299</b>	<b>\$ 1</b>
<b>Retiree Medical Plan Fund</b>				
Cash and cash equivalents	\$ 10	\$ —	\$ 10	\$ —
Common/preferred stocks	132	132	—	—
Investment funds	214	214	—	—
Government or government-related securities	59	58	1	—
Corporate debt securities	67	67	0	—
Mortgage-backed securities	14	2	12	—
Short term investments	1	1	—	—
Derivatives	(4)	(2)	(2)	—
Other asset/liabilities <sup>a</sup> —net	(1)	—	(1)	—
<b>Total fair value of RMPF assets</b>	<b>\$ 492</b>	<b>\$ 472</b>	<b>\$ 20</b>	<b>\$ —</b>

0 = less than \$0.5 million.

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

The FV of the SRP 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-related securities, corporate obligations, asset and mortgage-backed securities, and short-term investments. Derivatives include futures, swaps and currency forward contracts.

continued

The following table presents the changes in the carrying amounts of SRP's Level 3 investments for the year ended 31 December 2021 and 2020.

(\$ million)

	Staff Retirement Plan			
	2021		2020	
	Corporate debt securities	MBS - Government bonds	Corporate debt securities	MBS - Government bonds
Balance, beginning of the year	\$ 1	\$ 0	\$ –	\$ –
Total realized/unrealized (losses) gains in:				
Net (decrease) increase in net assets				
available for benefits	(0)	(0)	0	0
Purchases	0	–	1	–
Sales/Maturities	(1)	(0)	–	–
Transfers (out of) into Level 3	(0)	(0)	–	0
Balance, end of the year	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 1</u>	<u>\$ 0</u>
Total unrealized gains included in income related to financial assets still held at the reporting date	<u>\$ –</u>	<u>\$ –</u>	<u>\$ 0</u>	<u>\$ 0</u>

0 = less than \$0.5 million. MBS = Mortgage-backed securities.

Transfers out of and into Level 3 in 2021 and 2020 are due to availability or absence of market observable inputs. The valuations are provided by an independent pricing source.

There were no RMPF Level 3 investments during the years ended 31 December 2021 and 2020.

continued

**NOTE R—OTHER FAIR VALUE DISCLOSURES**

The carrying amounts and FVs of ADB's financial instruments as of 31 December 2021 and 2020 are summarized below:

(\$ million)

	2021		2020	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
<b>On-balance sheet financial instruments:</b>				
<b>ASSETS:</b>				
Due from banks	\$ 3,848	\$ 3,848	\$ 5,524	\$ 5,524
Investments for liquidity purpose (Note D)	43,287	43,287	41,963	41,963
Securities transferred under repurchase agreements (Note E)	498	498	1,089	1,089
Securities purchased under resale arrangements (Note D)	542	542	246	246
Loans outstanding — operations (Note F)	137,163	137,143	129,788	130,170
Equity investments — operations carried at fair value (Note H)	349	349	514	514
Other debt securities — operations (Note I)	823	870	977	1,057
Derivative assets - borrowings (Note J)	49,582	49,582	45,149	45,149
Derivative assets - investments for liquidity purpose (Note J)	25,176	25,176	24,390	24,390
Derivative assets - loans — operations (Note J)	18,102	18,102	18,239	18,239
Swap related collateral (Note J)	643	643	2,002	2,002
Future guarantee receivable (Note G)	92	92	99	99
<b>LIABILITIES:</b>				
Borrowings (Note L)	134,071	134,501	128,757	129,314
Derivative liabilities - borrowings (Note J)	50,243	50,243	39,902	39,902
Derivative liabilities - investments for liquidity purpose (Note J)	24,582	24,582	25,529	25,529
Derivative liabilities - loans — operations (Note J)	17,122	17,122	19,086	19,086
Payable under securities repurchase agreements (Note E)	499	499	1,096	1,096
Swap related collateral (Note J)	643	643	2,002	2,002
Guarantee liability (Note G)	92	92	99	99
<b>Off-balance sheet financial instruments:<sup>a</sup></b>				
<b>ASSETS:</b>				
Future guarantee receivable	n/a	1	n/a	1
<b>LIABILITIES:</b>				
Guarantee liability	n/a	1	n/a	1

n/a = not applicable

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

As of 31 December 2021 and 2020, 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.

continued

In addition, ADB, alone or jointly with donors, administers on behalf of the donors, including members of ADB, their agencies and other development institutions, projects/programs supplementing ADB's operations. Such projects/programs are funded with external funds administered by ADB and with external funds not under ADB's administration (referred as trust funds). ADB charges administrative fees for external funds administered by ADB. The trust funds are restricted for specific uses including technical assistance to borrowers and for regional programs, grants for projects, and loans. The responsibilities of ADB under these arrangements range from project processing to project implementation including the facilitation of procurement of goods and services. These funds are held in trust 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.

Special Funds and trust funds are not included in the assets of OCR. The net assets as of 31 December 2021 and 2020 are summarized below:

(\$ million)

	2021		2020	
	Total Net Assets	No.	Total Net Assets	No.
<b>Special Funds</b>				
Asian Development Fund	\$ 1,517	1	\$ 1,172	1
Technical Assistance Special Fund	464	1	87	1
Japan Special Fund	112	1	112	1
Asian Development Bank Institute	26	1	24	1
Regional Cooperation and Integration Fund	12	1	25	1
Climate Change Fund	20	1	27	1
Asia Pacific Disaster Response Fund	56	1	47	1
Financial Sector Development Partnership Special Fund	3	1	3	1
Subtotal	2,210	8	1,497	8
<b>Trust funds and project specific cofinancing</b>	2,694	166	2,682	171
<b>Total</b>	<b>\$ 4,904</b>	<b>174</b>	<b>\$ 4,179</b>	<b>179</b>

During the year ended 31 December 2021, a total of \$17 million (\$20 million – 2020) 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 39 (39 – 2020) VIEs which are not consolidated by ADB but in which it is deemed to hold significant variable interests at 31 December 2021. 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) private equity funds, where the equity at risk holders lack decision making rights. These VIEs are in the finance, energy, and transport 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 2021, the assets of these non-consolidated VIEs totaled \$5,659 million (\$4,548 million – 2020).

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>2021</b>			
Loans — Operations	\$ 82	\$ 51	\$ 133
Equity Investments — Operations	513	331	844
Guarantees — Operations	8	—	8
<b>Total</b>	<b>\$ 603</b>	<b>\$ 382</b>	<b>\$ 985</b>
<b>2020</b>			
Loans — Operations	\$ 42	\$ 53	\$ 95
Equity Investments — Operations	386	255	641
Guarantees — Operations	13	—	13
<b>Total</b>	<b>\$ 441</b>	<b>\$ 308</b>	<b>\$ 749</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 2021 and 2020:

(\$ million)

Country	2021		2020	
	Outstanding Balance	Revenue	Outstanding Balance	Revenue
India	\$ 22,218	\$ 216	\$ 21,701	\$ 386
People's Republic of China	19,735	191	19,348	343
Pakistan	14,084	187	13,816	229
Bangladesh	13,595	150	11,682	171
Indonesia	12,869	113	13,053	220
Philippines	12,387	84	11,222	137
Viet Nam	9,143	100	9,188	134
Others	39,288	753	35,979	729
<b>Total</b>	<b>\$ 143,319</b>	<b>\$ 1,794</b>	<b>\$ 135,989</b>	<b>\$ 2,349</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 2021, sovereign loans to one member (two – 2020) generated more than 10 percent of loan revenue which amounted to \$171 million (\$303 million and \$296 million – 2020).

continued

**NOTE V—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2021 through 15 March 2022, the date these Financial Statements are available for issuance. During this period, ADB has raised additional borrowings of approximately \$16,559 million in various currencies.

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

The management of Asian Development Bank ("ADB") is responsible for 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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion on Internal Control Over Financial Reporting**

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying balance sheets of ADB – Asian Development Fund as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### **Basis of Opinion**

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### **Responsibilities of Management 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 Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

### **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.



Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion**

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Asian Development Fund, which comprise the balance sheets as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB – Asian Development Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Asian Development Fund’s ability to continue as a going concern within one year after the date that the financial statements are issued.

## Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Asian Development Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Report on Supplemental Schedules**

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, 2021 is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of ADB's management and was derived from and relate 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.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

The signature of Deloitte Touche LLP is written in a cursive, handwritten style.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND****BALANCE SHEET****31 December 2021 and 2020**

Expressed in Millions of US Dollars

	<b>2021</b>		<b>2020</b>	
<b>ASSETS</b>				
DUE FROM BANKS	\$	2	\$	15
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and I)				
Government or government-related obligations	\$	3,644	\$	3,655
Time deposits		671		170
Corporate obligations		312		273
		4,627		4,098
SECURITIES PURCHASED UNDER RESALE ARRANGEMENTS		17		24
ACCRUED REVENUE		19		20
OTHER ASSETS (Note E)		191		176
<b>TOTAL</b>	<b>\$</b>	<b>4,856</b>	<b>\$</b>	<b>4,333</b>
<b>LIABILITIES AND FUND BALANCES</b>				
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Payable to related funds (Note D)	\$	28	\$	30
Advance payments on contributions (Note E)		137		100
Undisbursed grants (Note H and I)		3,174		3,031
Total Liabilities		3,339		3,161
FUND BALANCES (ADF-4)				
Contributions received				
Contributed resources (Note E)	\$	35,581	\$	35,147
Unamortized discount		(50)		(16)
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund		3,033		2,740
		38,564		37,871
Nonnegotiable, noninterest-bearing demand obligations on account of contributions		(805)		(1,140)
Accumulated deficit				
From assets transfer to OCR (ADF-7, Note A)		(31,029)		(31,029)
From others		(3,759)		(3,200)
Accumulated other comprehensive loss (Note F)		(1,454)		(1,330)
Total Fund Balance		1,517		1,172
<b>TOTAL</b>	<b>\$</b>	<b>4,856</b>	<b>\$</b>	<b>4,333</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 2021 and 2020**

Expressed in Millions of US Dollars

	<b>2021</b>	<b>2020</b>
REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE (Note C)	\$ 71	\$ 79
EXPENSES		
Grants (Note H)	(524)	(1,176)
Administrative expenses (Notes D and G)	(97)	(104)
Amortization of discounts on contributions	(8)	(5)
Other expenses	0	(0)
TOTAL EXPENSES	(629)	(1,285)
NET REALIZED GAINS FROM INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and F)	—	0
NET UNREALIZED (LOSSES) GAINS	(1)	1
<b>NET LOSS</b>	<b>\$ (559)</b>	<b>\$ (1,205)</b>

Note: 0 = less than \$0.5 million.

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

## ADF-3

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**  
**STATEMENT OF COMPREHENSIVE LOSS**  
**For the Years Ended 31 December 2021 and 2020**  
Expressed in Millions of US Dollars

	<b>2021</b>	<b>2020</b>
NET LOSS (ADF-2)	\$ (559)	\$ (1,205)
Other comprehensive (loss) income (Note F)		
Unrealized investment holding (losses) gains on investments for liquidity purpose	(124)	115
<b>COMPREHENSIVE LOSS</b>	<b>\$ (683)</b>	<b>\$ (1,090)</b>

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

## ADF-4

**STATEMENT OF CHANGES IN FUND BALANCES**  
**For the Years Ended 31 December 2021 and 2020**  
Expressed in Millions of US Dollars

	<b>2021</b>	<b>2020</b>
Balance, 1 January	\$ 1,172	\$ 1,336
Comprehensive loss (ADF-3, Note F)	(683)	(1,090)
Contributions made available for operational commitment	434	641
Net amortization of discount on donor's contribution	(34)	4
Demand obligations received	(369)	(446)
Encashment of demand obligations	705	468
Transfers from ordinary capital resources	292	259
<b>Balance, 31 December</b>	<b>\$ 1,517</b>	<b>\$ 1,172</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 2021 and 2020**

Expressed in Millions of US Dollars

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Interest received from investments for liquidity purpose	\$ 76	\$ 84
Interest received from securities purchased under resale arrangement	—	0
Administrative expenses paid	(98)	(95)
Grants disbursed	(380)	(824)
Others—net	0	(2)
<b>Net Cash Used in Operating Activities</b>	<b>(402)</b>	<b>(837)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sales of investments for liquidity purpose	—	10
Maturities of investments for liquidity purpose	30,201	24,820
Purchases of investments for liquidity purpose	(30,857)	(24,917)
Receipts from securities purchased under resale arrangements	4,234	9,285
Payments for securities purchased under resale arrangements	(4,227)	(9,275)
<b>Net Cash Used in Investing Activities</b>	<b>(649)</b>	<b>(77)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Contributions received and encashed	748	653
Cash received from ordinary capital resources	292	259
<b>Cash Provided by Financing Activities</b>	<b>1,040</b>	<b>912</b>
Effect of Exchange Rate Changes on Due from Banks	(2)	2
<b>Net (Decrease) Increase in Due from Banks</b>	<b>(13)</b>	<b>0</b>
Due from Banks at Beginning of Year	15	15
<b>Due from Banks at End of Year</b>	<b>\$ 2</b>	<b>\$ 15</b>
<b>RECONCILIATION OF NET LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Net Loss (ADF-2)	\$ (559)	\$ (1,205)
Adjustments to reconcile net loss to to net cash used in operating activities:		
Amortization of discounts/premiums on investments for liquidity purpose	3	3
Amortization of discount on donor's contribution	8	5
Grants that became effective	524	1,176
Net loss on sale of investments for liquidity purpose	(0)	(0)
Change in accrued revenue on investments for liquidity purpose	1	1
Change in other assets	1	(40)
Change in payable to related funds	(1)	7
Change in undisbursed grants	(380)	(783)
Exchange losses (gains)—net	1	(1)
<b>Net Cash Used in Operating Activities</b>	<b>\$ (402)</b>	<b>\$ (837)</b>

Note: 0 = less than \$0.5 million.

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

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND****STATEMENT OF RESOURCES****31 December 2021**

Expressed in Millions of US Dollars

	<b>Effective Amounts Committed<sup>1</sup></b>	<b>Contributions Received</b>
<b>CONTRIBUTED RESOURCES</b>		
Australia	\$ 2,894	\$ 2,432
Austria	310	287
Azerbaijan	2	0
Belgium	244	223
Brunei Darussalam	21	21
Canada	2,108	2,083
China, People's Republic of	277	209
Denmark	265	317
Finland	208	165
France	1,451	1,279
Germany	2,002	1,859
Hong Kong, China	136	127
India	105	73
Indonesia	36	26
Ireland	118	90
Italy	1,228	914
Japan	13,661	16,042
Kazakhstan	8	8
Korea, Republic of	707	604
Luxembourg	65	57
Malaysia	33	29
Nauru	0	0
The Netherlands	788	747
New Zealand	200	180
Norway	327	282
Philippines	2	1
Portugal	92	89
Singapore	28	27
Spain	493	429
Sweden	508	417
Switzerland	425	575
Taipei, China	123	115
Thailand	21	20
Turkey	125	117
United Kingdom	1,811	1,265
United States	4,677	4,423
Total	35,498	35,531
TRANSFERS FROM ORDINARY CAPITAL RESOURCES		3,030
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND		3
<b>TOTAL</b>	<b>\$ 35,498</b>	<b>\$ 38,564</b>

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

<sup>1</sup> At exchange rates per respective Board of Governors' 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 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 were transferred to OCR. The proportionate share of funding sources of the ADF assets transferred to OCR is shown in ADF-7.

*Replenishments*

In November 2020, the Board of Governors adopted a resolution for the 12th replenishment of the Asian Development Fund (ADF 13) and the seventh regularized replenishment of Technical Assistance Special Fund (TASF).<sup>2</sup> The replenishment which became effective on 8 June 2021 provides grant financing to eligible recipients from 2021 to 2024. As of 31 December 2021, ADB received instruments of contributions from 29 donors totaling \$2,183 million, which represent 92% of the total ADF and TASF donor contribution commitment amounting to \$2,361 million. Donors agreed to allocate \$517 million to TASF out of the total replenishment.<sup>3</sup>

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

<sup>2</sup> ADB. 2020. *Board of Governors' Resolution No. 408: Twelfth Replenishment of the Asian Development Fund and Seventh Regularized Replenishment of the Technical Assistance Special Fund*. Manila.

<sup>3</sup> US dollar equivalent based on exchange rates in Board of Governor's Resolution No. 408.

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 the 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 GAINS (LOSSES) in the Statement of Income and Expenses.

### *Investments for Liquidity Purpose*

Investment securities and time deposits 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.

### *Contributions and 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 (ANE) 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 ADF 12, 9 years for ADF X and ADF XI, and 11 years for ADF 13.

continued

### *Advanced Payments on Contributions*

Payments received in advance or as qualified contributions that are not made available for operational commitment are recorded as advance payments on contributions and included under ACCOUNTS PAYABLE AND OTHER LIABILITIES.

### *Allowance for Credit Losses*

When an available-for-sale (AFS) debt security's fair value is lower than amortized cost, ADB recognizes impairment losses in earnings if ADB has the intent to sell the debt securities or if it is more likely than not that ADB will be required to sell the debt securities before recovery of the amortized cost. When ADB intends to hold or is not required to sell the debt securities, ADB will evaluate to determine if a credit loss exists. A portion of the decline in fair value below amortized cost basis due to credit-related factors will be recognized as an allowance for credit losses with a related charge to provision for credit losses. For certain financial assets, such as Due from Banks and Securities Transferred under Resale Arrangements, no expected loss is determined based on the credit quality.

### *Grants and Undisbursed Grants*

Grants are recognized as expense in the financial statements when they become effective. Upon completion of a project or cancellation of a grant, the corresponding undisbursed grant, if any, is reversed into Grants expenses.

Advances are provided from 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 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 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.

continued

### *Accounting Estimates*

The preparation of financial statement in accordance with US GAAP 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.

### *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.

### **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.

The currency of the investment for liquidity purpose portfolio as of 31 December 2021 and 2020 is US dollar currency only.

The FV and amortized cost of investments for liquidity purpose as of 31 December 2021 and 2020 are as follows:

(\$ million)

	2021		2020	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
Due in one year or less	\$ 1,316	\$ 1,313	\$ 818	\$ 811
Due after one year through five years	2,474	2,434	2,259	2,160
Due after five years through ten years	837	834	1,021	957
<b>Total</b>	<b>\$ 4,627</b>	<b>\$ 4,581</b>	<b>\$ 4,098</b>	<b>\$ 3,928</b>

continued

Additional information relating to investments in government or government-related obligations and corporate obligations classified as available for sale are as follows:

(\$ million)

	2021	2020
<b>As of</b>		
Amortized cost	\$ 3,910	\$ 3,758
Fair value	3,956	3,928
Gross unrealized gains	71	170
Gross unrealized losses	(25)	(0)

	2021	2020
<b>For the years ended 31 December</b>		
Change in net unrealized gains		
from prior year	(124)	115
Proceeds from sales	–	10
Gross gain on sales	–	0
Gross loss on sales	–	–

0 = less than \$0.5 million.

The rate of return on the average investments for liquidity purpose held during the year ended 31 December 2021, including securities purchased under resale arrangements, was 1.59% (1.85% – 2020) excluding unrealized gains and losses on investment securities, and -1.19% (4.54% – 2020) including unrealized gains and losses on investment securities.

The table below provides a listing of investments that sustained unrealized losses as of 31 December 2021 and 2020. There were nine government or government-related obligations (nil – 2020) and no corporate obligation (nil – 2020) that have been in continuous losses for over one year.

(\$ 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 2021</b>						
Government or government-related obligations	\$ 1,103	\$ 19	\$ 155	\$ 5	\$ 1,257	\$ 24
Corporate Obligations	73	1	–	–	73	1
<b>Total</b>	<b>\$ 1,176</b>	<b>\$ 20</b>	<b>\$ 155</b>	<b>\$ 5</b>	<b>\$ 1,330</b>	<b>\$ 25</b>
<b>As of 31 December 2020</b>						
Government or government-related obligations	\$ 186	\$ 0	\$ –	\$ –	\$ 186	\$ 0

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

As of 31 December 2021, ADB had the intent and ability to hold the AFS debt securities of which the fair value is lower than amortized cost. ADB also assessed and determined that the decline of fair value below the amortized cost basis of the AFS securities was not due to credit-related factors.

continued

*Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2021 and 2020 are as follows:

(\$ million)

(\$ million)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
<b>31 December 2021</b>				
Investments for liquidity purpose				
Government or government-related obligations	\$ 3,644	\$ 3,517	\$ 127	\$ —
Time deposits	671	—	671	—
Corporate obligations	312	312	—	—
Securities purchased under resale arrangements	17	—	17	—
<b>Total at fair value</b>	<b>\$ 4,644</b>	<b>\$ 3,829</b>	<b>\$ 815</b>	<b>\$ —</b>
<b>31 December 2020</b>				
Investments for liquidity purpose				
Government or government-related obligations	\$ 3,655	\$ 3,465	\$ 190	\$ —
Time deposits	170	—	170	—
Corporate obligations	273	273	—	—
Securities purchased under resale arrangements	24	—	24	—
<b>Total at fair value</b>	<b>\$ 4,122</b>	<b>\$ 3,738</b>	<b>\$ 384</b>	<b>\$ —</b>

If available, active market quotes are used to measure fair values of investment securities and related financial assets. Otherwise, they 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. 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 separate from each other.

Included in Payable to related funds is the net amount of \$28 million (\$29 million – 2020) payable to OCR. There was no payable (\$1 million – 2020) to TASf.

The payable to OCR represents the amount of administrative and operational expenses allocated to the ADF pending settlement (see Note G).

continued

## NOTE E—CONTRIBUTED RESOURCES AND ADVANCED CONTRIBUTIONS

In May 2021, the ADF received \$292 million following the Board of Governors' approval of the transfer of OCR's 2020 net income allocation (\$259 million – 2020).

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 2021 is reported as a reduction in the Fund Balances, which ADB currently expects to be encashed in varying amounts over the standard encashment period ending 31 December 2021 for ADF XI, 31 December 2026 for ADF 12, and 31 December 2031 for ADF 13.

As of 31 December 2021, a total of \$1,778 million was committed and acknowledged for ADF 13, of which \$434 million was made available for operational commitment and recorded in Contributed Resources.

Advance payments on contributions received from donors as of 31 December 2021 totaled \$137 million (\$100 million – 2020) and are presented under ACCOUNTS PAYABLE AND OTHER LIABILITIES. Of this amount, \$57 million (\$37 million – 2020) were received in cash, while the remaining \$80 million (\$63 million – 2020) were received in demand obligations and reported under OTHER ASSETS.

## NOTE F—ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive Loss has two major components: net loss (ADF-2) and other comprehensive income (ADF-3). Other comprehensive loss includes unrealized gains and losses on Available for Sale securities.

The following table presents the changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2021 and 2020:

(\$ million)

	Accumulated Other Comprehensive Loss	
	2021	2020
Balance, 1 January	\$ (1,330)	\$ (1,445)
Unrealized Holding Gains (Losses) on Investments for Liquidity Purpose		
Other comprehensive (loss) income before reclassification	(124)	115
Amounts reclassified from accumulated other comprehensive loss	—	(0)
Net current-period other comprehensive loss	(124)	115
<b>Balance, 31 December</b>	<b>\$ (1,454)</b>	<b>\$ (1,330)</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 2021 and 2020 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
	2021	2020	
Unrealized Holding Gains on Investments for Liquidity Purpose	nil	0	NET REALIZED GAINS FROM INVESTMENTS FOR LIQUIDITY PURPOSE

0 = less than \$0.5 million.

## NOTE G—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 H—GRANTS AND UNDISBURSED GRANTS

Undisbursed grants are denominated in US dollars and represent effective grants not yet disbursed and unliquidated. During 2021, 38 grants (43 grants – 2020) became effective resulting in a total Grants expense of \$524 million (\$1,176 million – 2020), net of undisbursed grants reversals of \$47 million (\$121 million – 2020). \$154 million (\$359 million – 2020) in Grants expense relates to ADB's COVID-19 response.

The FV of undisbursed commitments approximates the amount outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

## NOTE I—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2021 and 2020, ADF has no assets or liabilities measured at FV on a non-recurring basis. See Notes C and H 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 2021 through 15 March 2022, 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 2021.

**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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion on Internal Control Over Financial Reporting

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying statements of financial position of ADB – Technical Assistance Special Fund as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### Basis of Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### Responsibilities of Management 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 Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

**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.

*Deloitte & Touche LLP*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Technical Assistance Special Fund, which comprise the statement of financial position as of December 31, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Technical Assistance Special Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Technical Assistance Special Fund’s ability to continue as a going concern within one year after the date that the financial statements are issued.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Technical Assistance Special Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

## Report on Supplemental Schedules

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, 2021, is presented for the purpose of additional analysis and is not a required part of the financial statements. This schedule is the responsibility of 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.

## Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Deloitte & Touche LLP*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND****STATEMENT OF FINANCIAL POSITION****31 December 2021 and 2020**

Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 8,317	\$ 9,333
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H and I)		
Government or government-related obligations	\$ 361,890	\$ 156,460
Time deposits	284,308	451,465
Corporate obligations	<u>25,563</u>	<u>—</u>
	671,761	607,925
ACCRUED REVENUE	596	145
DUE FROM CONTRIBUTORS (Note F)	413,465	46,469
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS (Note D)	4,300	3,466
<b>TOTAL</b>	<b>\$ 1,098,439</b>	<b>\$ 667,338</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Notes D and E)	\$ 2,528	\$ 1,216
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and I)	<u>631,444</u>	<u>578,973</u>
TOTAL LIABILITIES	633,972	580,189
UNCOMMITTED BALANCES (TASF-2, Note F), represented by:		
Net assets without donor restrictions	464,467	87,149
<b>TOTAL</b>	<b>\$ 1,098,439</b>	<b>\$ 667,338</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (TASF-4, Note F)	\$ 568,065	\$ 130,000
REVENUE		
From investments for liquidity purpose—net (Note C)	(3,598)	2,357
From other sources (Notes D and E)	7,053	8,311
Total	571,520	140,668
EXPENSES		
Technical assistance— net (Notes E and G)	(188,762)	(250,896)
Administrative expenses (Note D)	(6,815)	(8,100)
Financial expenses	(42)	(42)
Total	(195,619)	(259,038)
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	375,901	(118,370)
EXCHANGE GAINS—net	1,417	9,933
INCREASE (DECREASE) IN NET ASSETS	377,318	(108,437)
NET ASSETS AT BEGINNING OF YEAR	87,149	195,586
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 464,467</b>	<b>\$ 87,149</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 2021 and 2020**

Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ 204,325	\$ 257,432
Interest received on investments for liquidity purpose	2,581	2,441
Net cash received from other activities	238	211
Technical assistance disbursed	(137,650)	(160,713)
Financial expenses paid	(42)	(42)
<b>Net Cash Provided by Operating Activities</b>	<b>69,452</b>	<b>99,329</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments for liquidity purpose	5,103,985	11,219,575
Purchases of investments for liquidity purpose	(5,174,452)	(11,422,362)
<b>Net Cash Used in Investing Activities</b>	<b>(70,467)</b>	<b>(202,787)</b>
<b>Effect of Exchange Rate Changes on Due from Banks</b>	<b>(1)</b>	<b>7,068</b>
<b>Net Decrease in Due from Banks</b>	<b>(1,016)</b>	<b>(96,390)</b>
<b>Due from Banks at Beginning of Year</b>	<b>9,333</b>	<b>105,723</b>
<b>Due from Banks at End of Year</b>	<b>\$ 8,317</b>	<b>\$ 9,333</b>

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

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

31 December 2021

Expressed in Thousands of US Dollars

Contributor	C O N T R I B U T I O N S			
	Committed during 2021	CUMULATIVE BALANCES		TOTALS
		Direct Voluntary	Regularized Replenishment <sup>a</sup>	
Australia	\$ 64,689	\$ 2,484	\$ 230,144	\$ 232,628
Austria	4,676	159	19,424	19,583
Azerbaijan	430	—	430	430
Bangladesh	—	47	—	47
Belgium	—	1,394	8,535	9,929
Brunei Darussalam	49	—	1,051	1,051
Canada	20,360	3,346	96,311	99,656
China, People's Republic of	26,764	1,600	53,406	55,006
Denmark	—	1,963	9,919	11,881
Finland	1,913	237	11,099	11,336
France	11,366	1,697	65,047	66,744
Germany	19,768	3,315	95,405	98,720
Hong Kong, China	3,585	100	12,900	13,000
India	11,152	4,494	18,465	22,959
Indonesia	2,639	250	5,147	5,397
Ireland	3,361	—	11,822	11,822
Italy	9,666	774	54,606	55,380
Japan	214,226	47,710	858,007	905,717
Kazakhstan	—	—	940	940
Korea, Republic of	17,670	1,900	66,529	68,429
Luxembourg	1,170	—	4,334	4,334
Malaysia	—	909	2,496	3,405
Nauru	—	—	67	67
Netherlands	3,707	1,337	33,543	34,880
New Zealand	3,500	1,096	13,842	14,937
Norway	4,937	3,279	21,211	24,490
Pakistan	—	2,366	—	2,366
Philippines	669	—	669	669
Portugal	—	—	3,682	3,682
Singapore	900	1,100	3,083	4,183
Spain	2,965	190	25,872	26,062
Sri Lanka	—	6	—	6
Sweden	4,819	861	27,287	28,149
Switzerland	5,590	1,035	24,206	25,241
Taipei, China	2,425	200	9,768	9,968
Thailand	525	—	1,869	1,869
Turkey	473	—	4,588	4,588
United Kingdom	34,071	5,617	128,664	134,281
United States	—	1,500	165,120	166,620
Total	478,065	90,968	2,089,485	2,180,453
Transfer to Asian Development Fund				(3,472)
Allocation from OCR Net Income	90,000			1,429,000
<b>SUBTOTAL</b>	<b>568,065</b>			<b>3,605,981</b>
Other Resources <sup>b</sup>	3,455			271,799
<b>TOTAL</b>	<b>\$ 571,520</b>			<b>\$ 3,877,780</b>

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 Technical Assistance Special Fund authorized by Governors' Resolution Nos. 182, 214, 300, 333, 357, 382 and 408, valued at Resolutions' rate.<sup>b</sup> Represents income and reimbursements.

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 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 Technical Assistance Special Fund (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.

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

*Replenishments*

In November 2020, the Board of Governors adopted a resolution providing for the 12th replenishment of the Asian Development Fund and the seventh regularized replenishment of the Technical Assistance Special Fund (ADF 13).<sup>2</sup> The replenishment which became effective on 8 June 2021 provides grant financing to eligible recipients from 2021 to 2024. Donors agreed to allocate \$517 million to TASF out of the total replenishment.

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

*Presentation of 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 the TASF.

<sup>1</sup> Special funds refer to Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), Asian Development Bank 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> ADB. 2020. *Board of Governors' Resolution No. 408: Twelfth Replenishment of the Asian Development Fund and Seventh Regularized Replenishment of the Technical Assistance Special Fund*. Manila.

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 and Related Undisbursed Balance*

Technical assistance (TA) is recognized as expense in the financial statements when the project becomes effective. Upon completion or cancellation of a TA project, the corresponding undisbursed commitment balance, if any, is reversed into TA expenses.

Advances are provided from TA 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).

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

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.

continued

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

Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

### *Accounting Estimates*

The preparation of financial statements in accordance with US GAAP requires Management to make reasonable estimates and assumptions that affect the reported amounts of assets, liabilities, and uncommitted balances as of the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

### *Statement of Cash Flows*

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

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

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

All investments for liquidity purpose held by TASF are reported at FV. Interest income earned, realized and unrealized gains and losses are included in REVENUE From investments for liquidity purpose. During 2021, REVENUE From investments for liquidity purpose of -\$3,598,000 (\$2,357,000 – 2020) included income from securities, time deposits and corporate obligations of \$2,631,000 (\$2,331,000 – 2020), net of unrealized investment holding losses of \$6,229,000 (gains of \$26,000 – 2020).

The currency composition of the investment for liquidity purpose portfolio as of 31 December 2021 and 2020 is US dollar currency only.

The rate of return on the average investments for liquidity purpose held during the year ended 31 December 2021 was -0.56% (0.52% – 2020).

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets by contractual maturity as of 31 December 2021 and 2020 are as follows:

(\$ thousand)

	2021			2020		
	0-1 year	> 1 year	Total	0-1 year	> 1 year	Total
<b>Investments for liquidity purpose</b>						
Government or government-related obligations	\$ –	\$ 361,890	\$ 361,890	\$ –	\$ 156,460	\$ 156,460
Time deposits	284,308	–	284,308	451,465	–	451,465
Corporate obligations	–	25,563	25,563	–	–	–
<b>Total at fair value</b>	<b>\$ 284,308</b>	<b>\$ 387,453</b>	<b>\$ 671,761</b>	<b>\$ 451,465</b>	<b>\$ 156,460</b>	<b>\$ 607,925</b>

continued

*Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2021 and 2020 are as follows:

(\$ thousand)

		Fair Value Measurements		
	Total	Level 1	Level 2	Level 3
<b>2021</b>				
Investments for liquidity purpose				
Government or government-related obligations	\$ 361,890	\$ 303,946	\$ 57,944	
Time deposits	284,308		284,308	
Corporate obligations	25,563	25,563		
<b>Total at fair value</b>	<b>\$ 671,761</b>	<b>\$ 329,509</b>	<b>\$ 342,252</b>	<b>\$ —</b>
<b>2020</b>				
Investments for liquidity purpose				
Government or government-related obligations	\$ 156,460	\$ 96,688	\$ 59,772	\$ —
Time deposits	451,465	—	451,465	—
<b>Total at fair value</b>	<b>\$ 607,925</b>	<b>\$ 96,688</b>	<b>\$ 511,237</b>	<b>\$ —</b>

If available, investments are fair valued based on active market quotes. These include government or government-related obligations. 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 program 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.

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 2021, the calculated service fee was \$6,815,000 (\$8,099,000 – 2020) recorded as Administrative expenses under EXPENSES, and REVENUE From other sources. The transaction has no impact on the net assets of TASF.

continued

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

(\$ thousand)

	<b>2021</b>	<b>2020</b>
<b>Receivable from:</b>		
Asian Development Fund	\$ —	\$ 1,102
Regional Cooperation and Integration Fund—net	72	66
Climate Change Fund	38	112
Financial Sector Development Partnership Special Fund	31	39
Trust Funds—net	1,274	690
Total	<u>\$ 1,415</u>	<u>\$ 2,009</u>
<b>Payable to:</b>		
Ordinary capital resources—net	<u>\$ 175</u>	<u>\$ 32</u>
Total	<u>\$ 175</u>	<u>\$ 32</u>

#### NOTE E—TECHNICAL ASSISTANCE AND UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed TAs are denominated in US dollars and represent effective TAs not yet disbursed and unliquidated. During 2021, 154 TA projects and 96 supplementary TAs (183 TA projects and 81 supplementary – 2020) became effective resulting in a total TA expense of \$188,762,000 (\$250,896,000 – 2020), net of undisbursed TA reversals of \$18,230,000 (\$23,282,000 – 2020). \$27,730,000 (\$132,831,000 – 2020) in TA expense relates to ADB's COVID-19 response.

The FV undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

ADB normally finances all TA on a grant basis. However, some TA operations are subject to the recovery of the full cost of the TA or provided on a reimbursable basis. During 2021, there was \$232,000 TA reimbursement (nil – 2020) that is included in REVENUE From other sources.

As of 31 December 2021, \$1,707,000 (\$1,050,000 – 2020) was included in ACCOUNTS PAYABLE AND OTHER LIABILITIES as reimbursement for the TA received in advance of the TA effectiveness.

continued

**NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES**

Total contributions of \$568,065,000 for the year ended 31 December 2021 comprise \$478,065,000 contribution commitments from 29 donors from the seventh regularized replenishment of the TASF (ADF 13) and \$90,000,000 following the Board of Governors' approval of the transfer of OCR's 2020 net income allocation (\$130,000,000 – 2020). During the year, TASF received cash and promissory notes from ADF replenishments, comprising of the following:

(\$ thousand)

	<b>2021</b>	<b>2020</b>
Regularized Replenishments		
ADF 13	\$ 103,161	\$ –
ADF 12	7,568	115,564
ADF XI	–	4,063
ADF IX	–	4
Total	<u>\$ 110,729</u>	<u>\$ 119,631</u>

Total contributions not yet received and reported as DUE FROM CONTRIBUTORS are as follows:

(\$ thousand)

	<b>2021</b>	<b>2020</b>
Regularized Replenishments		
ADF 13	\$ 374,909	\$ –
ADF 12	14,679	22,247
ADF X	19,628	19,933
ADF IX	4,249	4,289
Total	<u>\$ 413,465</u>	<u>\$ 46,469</u>

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 2021 and 2020 were without any restrictions.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2021 and 2020. These balances include approved TA projects/programs that are not yet effective.

continued

**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 years ended 31 December 2021 and 2020 are as follows:

(\$ thousand)

	2021	2020
Consultants	\$ 171,873	\$ 180,427
Trainings and seminars	11,943	20,882
Studies	4,513	3,547
Equipment	2,035	45,536
Other expenses-net <sup>a</sup>	(1,602)	504
Total	<u>\$ 188,762</u>	<u>\$ 250,896</u>

<sup>a</sup> Net of undisbursed commitment balances reversed into TA expenses. (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 come due. In addition, TASF invests cash in excess of daily requirements in short-term investments.

As of 31 December 2021, TASF has liquidity of \$292,625,000 (\$460,798,000 – 2020) consisting of DUE FROM BANKS of \$8,317,000 (\$9,333,000 – 2020) and INVESTMENTS FOR LIQUIDITY PURPOSE in Time deposits of \$284,308,000 (\$451,465,000 – 2020), available within one year of the balance sheet date to meet cash needs for general expenditure.

**NOTE I—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2021 and 2020, 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 2021 through 15 March 2022, 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 2021.

**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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion on Internal Control Over Financial Reporting

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying statements of financial position of ADB – Japan Special Fund as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### Basis of Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### Responsibilities of Management 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 Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

### **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.



Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion**

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Japan Special Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Japan Special Fund’s ability to continue as a going concern within one year after the date that the financial statements are issued.

## Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Japan Special Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

## STATEMENT OF FINANCIAL POSITION

31 December 2021 and 2020

Expressed in Thousands of US Dollars

	2021			2020		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
<b>ASSETS</b>						
DUE FROM BANKS (Note G)	\$ —	\$ 5,150	\$ 5,150	\$ 198	\$ 1,786	\$ 1,984
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, G, and H)						
Time deposits	—	107,111	107,111	39,211	71,034	110,245
ACCRUED REVENUE	—	9	9	2	5	7
<b>TOTAL</b>	<b>\$ —</b>	<b>\$ 112,270</b>	<b>\$ 112,270</b>	<b>\$ 39,411</b>	<b>\$ 72,825</b>	<b>\$ 112,236</b>
<b>LIABILITIES AND NET ASSETS</b>						
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ —	\$ 24	\$ 24	\$ —	\$ 22	\$ 22
<b>TOTAL LIABILITIES</b>	<b>—</b>	<b>24</b>	<b>24</b>	<b>—</b>	<b>22</b>	<b>22</b>
NET ASSETS (JSF-2), represented by:						
Uncommitted balances (Note E)						
Without donor restrictions	—	112,246	112,246	—	72,803	72,803
With donor restrictions	—	—	—	28,199	—	28,199
	—	112,246	112,246	28,199	72,803	101,002
Net accumulated investment income						
With donor restrictions	—	—	—	11,212	—	11,212
	—	112,246	112,246	39,411	72,803	112,214
<b>TOTAL</b>	<b>\$ —</b>	<b>\$ 112,270</b>	<b>\$ 112,270</b>	<b>\$ 39,411</b>	<b>\$ 72,825</b>	<b>\$ 112,236</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	2021			2020		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
<b>CHANGES IN NET ASSETS</b>						
<b>WITHOUT DONOR RESTRICTIONS</b>						
REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE (Note C)	\$ —	\$ 80	\$ 80	\$ —	\$ 313	\$ 313
REVENUE FROM OTHER SOURCES	—	—	—	—	5	5
Total	—	80	80	—	318	318
EXPENSES						
Administrative expenses (Note F)	—	(84)	(84)	—	(79)	(79)
TRANSFER OF ACCSF'S RESIDUAL FUNDS TO JSF (Notes A and E)	—	39,447	39,447	—	—	—
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	—	39,443	39,443	—	239	239
<b>CHANGES IN NET ASSETS</b>						
<b>WITH DONOR RESTRICTIONS</b>						
REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE AND OTHER SOURCES (Note C)	36	—	36	177	—	177
TRANSFER OF ACCSF'S RESIDUAL FUNDS TO JSF (Notes A and E)	(39,447)	—	(39,447)	—	—	—
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	(39,411)	—	(39,411)	177	—	177
(DECREASE) INCREASE IN NET ASSETS	(39,411)	39,443	32	177	239	416
NET ASSETS AT BEGINNING OF YEAR	39,411	72,803	112,214	39,234	72,564	111,798
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ —</b>	<b>\$ 112,246</b>	<b>\$ 112,246</b>	<b>\$ 39,411</b>	<b>\$ 72,803</b>	<b>\$ 112,214</b>

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 2021 and 2020**

Expressed in Thousands of US Dollars

	2021			2020		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Transfer of ACCSF's residual funds to JSF	\$ (39,447)	\$ 39,447	\$ —	\$ —	\$ —	\$ —
Interest received on investments for liquidity purpose	38	77	115	195	347	542
Net cash received from other sources	—	—	—	1	5	6
Administrative expenses paid	(0)	(83)	(83)	—	(87)	(87)
Net Cash (Used in) Provided by Operating Activities	(39,409)	39,441	32	196	265	461
CASH FLOWS FROM INVESTING ACTIVITIES						
Maturities of investments for liquidity purpose	1,765,391	3,628,993	5,394,384	1,958,683	3,548,577	5,507,260
Purchases of investments for liquidity purpose	(1,765,427)	(3,625,823)	(5,391,250)	(1,958,878)	(3,548,924)	(5,507,802)
Transfer of investments for liquidity purpose	39,247	(39,247)	—	—	—	—
Net Cash Provided by (Used in) Investing Activities	39,211	(36,077)	3,134	(195)	(347)	(542)
Net (Decrease) Increase in Due from Banks	(198)	3,364	3,166	1	(82)	(81)
Due from Banks at Beginning of Year	198	1,786	1,984	197	1,868	2,065
Due from Banks at End of Year	\$ —	\$ 5,150	\$ 5,150	\$ 198	\$ 1,786	\$ 1,984

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 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 Japan Special Fund (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 in the light of changing global environment and to broaden their investment opportunities. The last effective technical assistance (TA) was financially closed in May 2019.

In March 1999, funded by the Government of Japan, Asian Currency Crisis Support Facility (ACCSF) was established within JSF to assist in the economic recovery of crisis-affected member countries. With the general fulfillment of the purpose of the facility, the Government of Japan and ADB agreed to terminate the ACCSF in March 2002 and all projects were financially completed in 2011.

In September 2021, the Government of Japan decided to use JSF's unutilized balance starting January 2022 to maximize its benefits in supporting the needs of ADB's DMCs through TA. In addition, the Government decided to transfer the residual funds of ACCSF to JSF's account and close the ACCSF's account. In November 2021, ACCSF account was closed after transferring its residual balance amounting to \$39,447,000 to JSF's account. The residual balance transferred from ACCSF forms part of JSF which will be used for JSF's general objectives.

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 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.

The JSF reports donor's contributed cash and other assets as support without donor restrictions as these are made available to the JSF without conditions other than for the purposes of pursuing the objectives of the JSF.

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<sup>1</sup> Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), Asian Development Bank 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

The JSF reports donor's contributed 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 as NET ASSETS RELEASED TO ASSETS WITHOUT DONOR RESTRICTIONS.

#### *Functional and Reporting Currency*

The US dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of the 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 on time deposits is recognized as earned and reported in REVENUE FROM INVESTMENTS FOR LIQUIDITY PURPOSE.

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

TA and grants are recognized as expense in the financial statements when the project becomes effective. Upon completion or cancellation of a TA project or grant, the corresponding undisbursed committed balance, if any, is reversed into TA expenses.

#### *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.

### *Accounting Estimates*

The preparation of financial statements in accordance with US GAAP 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.

### *Statement of Cash Flows*

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

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

The main investment management objective is to maintain security and liquidity 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 2021 and 2020 were in US dollar time deposits.

The rates of return on the average investments for liquidity purpose held under JSF and ACCSF during the year ended 31 December 2021, based on the portfolio held at the beginning and end of each month, were 0.11% and 0.10%, respectively (0.44% and 0.45%, respectively – 2020).

### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2021 and 2020 is as follows:

(\$ thousand)

	Total	Fair Value Measurements		
		Level 1	Level 2	Level 3
<b>2021</b>				
Investments for liquidity purpose				
Time deposits	\$ 107,111	\$ –	\$ 107,111	\$ –
<b>2020</b>				
Investments for liquidity purpose				
Time deposits	\$ 110,245	\$ –	\$ 110,245	\$ –

Time deposits are reported at cost, which approximates FV.

continued

#### NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to JSF are settled regularly with OCR and other funds. Regional technical assistance projects and programs may be combined activities financed by Special Funds and trust funds.

As of 31 December 2021, \$14,000 (\$13,000 – 2020) was payable by JSF to OCR which is included in the ACCOUNTS PAYABLE AND OTHER LIABILITIES.

#### NOTE E—CONTRIBUTIONS AND UNCOMMITTED BALANCES

Contributions received for specific TA projects/programs are classified as support with donor restrictions. Effective 31 December 2002, net assets with donor restrictions under JSF were integrated into the regular net assets without donor restrictions. The ACCSF was established for specific purposes and its net assets were separately reported with donor restrictions. As of 31 December 2021, with the transfer of ACCSF net assets to JSF (Note A), there was no remaining uncommitted balance with donor restrictions pertaining to ACCSF.

Uncommitted balances comprise amounts which have not been committed by ADB as of 31 December 2021 and 2020. As of 31 December 2021 and 2020 these balances are as follows:

(\$ thousand)

	2021			2020		
	JSF			JSF		
	ACCSF	Regular and Supplementary	Total	ACCSF	Regular and Supplementary	Total
Uncommitted balances	\$ —	\$ 112,246	\$ 112,246	\$ 28,199	\$ 72,803	\$ 101,002

#### NOTE F—ADMINISTRATIVE EXPENSES

Administrative expenses include salaries and benefits, audit fees, and contractual services, which are incurred for management and general supporting activities. The following table summarizes administrative expenses for the years ended 31 December 2021 and 2020:

(\$ thousand)

	2021	2020
Salaries and benefits	\$ 59	\$ 55
Audit fees	19	18
Contractual services	6	6
<b>Total</b>	<b>\$ 84</b>	<b>\$ 79</b>

continued

#### **NOTE G—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 come due. In addition, JSF invests cash in excess of daily requirements in short-term investments.

As of 31 December 2021, the JSF has liquidity of \$112,261,000 (\$72,820,000 – 2020) consisting of DUE FROM BANKS of \$5,150,000 (\$1,786,000 – 2020) and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$107,111,000 (\$71,034,000 – 2020), available within one year of the balance sheet date to meet cash needs for general expenditure. See Note E for discussions relating to donor restrictions on 2020 ACCSF's uncommitted balance.

#### **NOTE H—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2021 and 2020, JSF 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 amount of JSF's assets and liabilities is considered to approximate FV.

#### **NOTE I—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2021 through 15 March 2022, 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 2021.

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion**

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Asian Development Bank Institute and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

#### **Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Asian Development Bank Institute’s ability to continue as a going concern within one year after the date that the financial statements are issued.

### **Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Asian Development Bank Institute’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

The logo for Deloitte Touche LLP, featuring the company name in a stylized, handwritten-style script.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT BANK INSTITUTE**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2021 and 2020**  
Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
DUE FROM BANKS (Note J)	\$ 17,034	\$ 22,228
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C and J)		
Time deposits	10,928	3,918
PROPERTY, FURNITURE, AND EQUIPMENT (Note D)	3,200	6,431
Property, Furniture, and Equipment	\$ 5,788	\$ 9,473
Less—allowance for depreciation	<u>2,588</u>	<u>3,042</u>
DUE FROM CONTRIBUTORS (Note F)	5,672	7,013
LONG-TERM GUARANTEE DEPOSITS (Note E)	1,237	1,380
OTHER ASSETS	280	614
<b>TOTAL</b>	<b>\$ 38,351</b>	<b>\$ 41,584</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES		
Accrued pension and postretirement		
medical benefit costs (Note I)	\$ 7,125	\$ 9,589
Asset reinstatement obligations (Note E)	940	1,048
Lease liability (Note E)	2,984	6,180
Others	<u>1,064</u>	<u>980</u>
	\$ 12,113	\$ 17,797
UNCOMMITTED BALANCES (ADBI-2), represented by:		
Net assets without donor restrictions	25,502	22,893
Net assets with donor restrictions (Note G)	<u>736</u>	<u>894</u>
	26,238	23,787
<b>TOTAL</b>	<b>\$ 38,351</b>	<b>\$ 41,584</b>

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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<u>2021</u>	<u>2020</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ 13,322	\$ 15,031
REVENUE		
From rental (Notes E and G)	320	324
From investments for liquidity purpose (Note C)	10	17
From other sources—net (Notes G and H)	625	309
NET ASSETS RELEASED FROM ASSETS WITH DONOR RESTRICTIONS	<u>266</u>	<u>76</u>
Total	<u>14,543</u>	<u>15,757</u>
EXPENSES		
Administrative expenses (Notes G and H)	(9,024)	(7,988)
Program expenses (Note G)	<u>(3,900)</u>	<u>(3,122)</u>
Total	<u>(12,924)</u>	<u>(11,110)</u>
CONTRIBUTIONS AND REVENUE IN EXCESS OF EXPENSES	1,619	4,647
EXCHANGE (LOSSES) GAINS—net	(924)	446
TRANSLATION ADJUSTMENTS	(955)	428
POST RETIREMENT BENEFIT LIABILITY ADJUSTMENTS	<u>2,869</u>	<u>(1,380)</u>
INCREASE IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>2,609</u>	<u>4,141</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
REVENUE FROM OTHER SOURCES (Note G)	108	968
NET ASSETS RELEASED TO ASSETS WITHOUT DONOR RESTRICTIONS	<u>(266)</u>	<u>(76)</u>
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(158)</u>	<u>892</u>
INCREASE IN NET ASSETS	2,451	5,033
NET ASSETS AT BEGINNING OF YEAR	23,787	18,754
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 26,238</b>	<b>\$ 23,787</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 14,644	\$ 14,135
Interest received on investments for liquidity purpose	9	19
Expenses paid	(12,056)	(11,476)
Others—net	128	2,047
Net Cash Provided by Operating Activities	<u>2,725</u>	<u>4,725</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	462,132	195,746
Purchases of investments for liquidity purpose	<u>(469,142)</u>	<u>(195,765)</u>
Net Cash Used in Investing Activities	<u>(7,010)</u>	<u>(19)</u>
Effect of Exchange Rate Changes on Due from Banks	<u>(909)</u>	<u>469</u>
Net (Decrease) Increase in Due From Banks	(5,194)	5,175
Due From Banks at Beginning of Year	<u>22,228</u>	<u>17,053</u>
Due From Banks at End of Year	<u><u>\$ 17,034</u></u>	<u><u>\$ 22,228</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 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 donor's contributed 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 as NET ASSETS RELEASED TO ASSETS WITHOUT DONOR RESTRICTIONS.

*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 and the financial statements are expressed in US dollars.

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

continued

#### *Translation of Currencies*

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

#### *Property, Furniture, and Equipment*

Property, furniture, and equipment, except right-of-use asset, 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.

#### *Operating Lease*

Right-of-use asset mainly pertains to lease of office space, classified as operating lease. The Institute does not have any finance lease. Right-of-use asset is derived from the lease liability, which is the present value of future lease payments using the applicable discount rate, adjusted by prepaid rent and deferred rent. Operating lease expenses are recognized on a straight-line basis.

The Institute determines whether a contract contains a lease if the contract conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for a consideration. The Institute has included renewal options in determining the lease term when it is reasonably certain that the renewal option will be exercised. The Institute elects to use risk-free rate as the discount rate in determining the present value of future lease payments.

#### *Contributions*

Contributions from donors are included in the financial statements from the date committed.

#### *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 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.

### *Accounting Estimates*

The preparation of financial statements in accordance with US GAAP 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 2018, the Financial Accounting Standards Board issued Accounting Standard Update 2018-15, "*Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer 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 took effect on 1 January 2021 but did not have an impact on the Institute's financial statements.

### *Statement of Cash Flows*

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

## **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 2021 and 2020 were in US dollar time deposits.

The rates of return on the average investments for liquidity purpose held during the year ended 31 December 2021 was 0.11% (0.44% – 2020).

continued

*Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2021 and 2020 is as follows:

(\$ thousand)

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
<b>2021</b>				
Investments for liquidity purpose				
Time deposits	\$ 10,928	\$ –	\$ 10,928	\$ –
<b>2020</b>				
Investments for liquidity purpose				
Time deposits	\$ 3,918	\$ –	\$ 3,918	\$ –

Time deposits are reported at cost, which approximates FV.

**NOTE D—PROPERTY, FURNITURE, AND EQUIPMENT**

As of 31 December 2021, property, furniture and equipment was \$3,200,000 (\$6,431,000 – 2020), which consists of \$3,000 for office furniture, fixtures, and equipment (\$13,000 – 2020), and \$3,197,000 for right-of use asset relating to the Institute's office lease (\$6,418,000 – 2020). Additional information on right-of-use asset is provided in Note E.

The changes in office furniture, fixtures, and equipment during 2021 and 2020, as well as information pertaining to accumulated depreciation, are as follows:

(\$ thousand)

	2021			2020		
	One-time establishment cost	Furniture	Equipment	One-time establishment cost	Furniture	Equipment
<b>Cost:</b>						
Balance, 1 January	\$ 2,607	\$ 58	\$ 390	\$ 2,471	\$ 55	\$ 369
Disposals during the year	–	–	(148)	–	–	–
Translation adjustments	(269)	(6)	(41)	136	3	21
Balance, 31 December	2,338	52	201	2,607	58	390
<b>Accumulated Depreciation:</b>						
Balance, 1 January	(2,607)	(58)	(377)	(2,471)	(55)	(348)
Depreciation during the year	–	–	(9)	–	–	(8)
Disposals during the year	–	–	148	–	–	–
Translation adjustments	269	6	40	(136)	(3)	(21)
Balance, 31 December	(2,338)	(52)	(198)	(2,607)	(58)	(377)
<b>Net Book Value, 31 December</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 3</b>	<b>\$ –</b>	<b>\$ –</b>	<b>\$ 13</b>

continued

## NOTE E—LEASE

### *Right-of-use asset and Lease liability*

The Institute's right-of-use asset and lease liability pertain to its leased office space, classified as an operating lease. Rental expenses under operating leases for the years ended 31 December 2021 and 2020 were \$2,704,000 and \$2,742,000, respectively. As of 31 December 2021, the right-of-use asset of \$3,197,000 (\$6,418,000 – 2020), which included prepaid rent of \$213,000 (\$238,000 – 2020), was presented as part of PROPERTY, FURNITURE, AND EQUIPMENT. The lease liability of \$2,984,000 as of 31 December 2021 (\$6,180,000 – 2020) was presented as part of ACCOUNTS PAYABLE AND OTHER LIABILITIES in the Institute's Statement of Financial Position.

The Institute's lease agreement for its office space was renewed until 31 March 2023. The sublease has been classified as an operating lease. The Institute's sublease agreement for a part of its office space was also renewed accordingly. Additional information on the sublease is provided in Note G.

Additional information on the Institute's operating lease are as follows:

(\$ thousand)		
	2021	2020
Operating lease expense <sup>a</sup>	\$ 2,704	\$ 2,742
Revenue from rental (Note G)	(320)	(324)
<b>Net lease expense</b>	<b>\$ 2,384</b>	<b>\$ 2,418</b>
Cash paid for operating lease included in cash flows from operating activities	\$ 2,704	\$ 2,742
Remaining lease term	1.25 years	2.25 years
Discount rate—risk-free rate	0%	0%

<sup>a</sup> Included in Administrative expenses (Note G).

The maturity analysis on an undiscounted basis of the Institute's operating lease liabilities as of 31 December 2021 are as follows:

Year ending 31	
December	\$ thousand
2022	2,853
2023	475

### *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 2021. As of 31 December 2021, the LONG-TERM GUARANTEE DEPOSITS presented in the Institute's Statement of Financial Position amounted to \$1,237,000 (\$1,380,000 – 2020).

### *Asset reinstatement obligations*

The Institute has recorded estimated asset reinstatement obligations for restoration costs to be incurred upon termination of its office space lease. As of 31 December 2021, asset reinstatement obligations amounted to \$940,000 (\$1,048,000 – 2020) and presented as part of ACCOUNTS PAYABLE AND OTHER LIABILITIES in the Institute's Statement of Financial Position.

continued

## NOTE F—CONTRIBUTIONS

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 years ended 31 December 2021 and 2020 are as follows:

(in thousands)

Donor	Amount of commitment		Commitment date	Receipt date
	LC	USD		
Government of Japan				
39th contribution	¥ 652,742	\$ 5,672	December 2021	January 2022
38th contribution	¥ 652,743	\$ 5,900	June 2021	June 2021
37th contribution	¥ 672,069	\$ 6,513	December 2020	January 2021
36th contribution	¥ 672,070	\$ 6,268	June 2020	June 2020
35th contribution	¥ 672,068	\$ 6,172	December 2019	January 2020
Government of Republic of Korea				
4th installment of the 4th contribution		\$ 875	October 2021	October 2021
3rd installment of the 4th contribution		\$ 875	April 2021	May 2021
2nd installment of the 4th contribution		\$ 875	September 2020	October 2020
1st installment of the 4th contribution		\$ 875	May 2020	May 2020
Government of People's Republic of China				
2nd installment of 2nd contribution		\$ 500	December 2020	January 2021

LC = local currency, USD = US dollar.

## NOTE G—REVENUE AND EXPENSES

### *Revenue from rental*

Revenue from rental consists of sublease rental income totaling \$320,000 for the year ended 31 December 2021 (\$324,000 – 2020) 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*

Revenue from other sources include service fees to OCR, fees from honorariums, publication royalties, and grants from private donors.

Grants received from private donors for a specific purpose or program are classified as support with donor restrictions. The net assets with donor restrictions including net accumulated interest income as of 31 December 2021 of \$736,000 (\$894,000 – 2020) are restricted for non-sewered sanitation program expenses.

Net assets released to assets without donor restrictions relate to non-sewered sanitation program expenses of \$266,000 during the year ended 31 December 2021 (\$76,000 – 2020) which have satisfied the conditions specified by the donor.

continued

### *Administrative expenses*

Administrative expenses include salaries and benefits, office and occupancy, external services, travel, and other expenses, which are incurred for management and general supporting activities. The following table summarizes administrative expenses for the years ended 31 December 2021 and 2020:

(\$ thousand)

	2021	2020
Salaries and benefits	\$ 5,336	\$ 4,195
Office and occupancy <sup>a</sup>	3,181	3,233
External services	466	450
Travel	9	72
Other expenses	32	38
<b>Total Administrative Expenses</b>	<b>\$ 9,024</b>	<b>\$ 7,988</b>

<sup>a</sup> Includes operating lease expense (Note E).

### *Program expenses*

Program expenses generally 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 years ended 31 December 2021 and 2020:

(\$ thousand)

	2021	2020
Trainings and seminars	\$ 3,202	\$ 2,475
Consultants	698	647
<b>Total Program Expenses</b>	<b>\$ 3,900</b>	<b>\$ 3,122</b>

## **NOTE H—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 2021, the calculated service fee was \$30,000 (\$26,000 – 2020) 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 \$75,000 at 31 December 2021 (\$68,000 – 2020). The payable resulted from transactions in the normal course of business.

## **NOTE I—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS**

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; 62 for staff who joined on or after 1 October 2017 and before 1 October 2021; and 65 for staff who joined on or after 1 October 2021. Retirement benefits are based on an annual accrual rate, length of service and the highest average remuneration observed over 2 consecutive years during eligible service 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 \$106,329 as

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of 31 December 2021 (\$106,329 – 2020), adjusted each year in line with the structural increase in US dollar salary scales of International Staff based at headquarters. 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 pension 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. 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.

Participants hired before 1 October 2017 may make Discretionary Benefit (XB) contributions. Such contributions earn a prescribed interest crediting rate and benefits are payable to the Participants who reach retirement age or upon termination of employment.

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. The Institute will make additional contributions to a participant's DC account equal to 20% of the participant's salary above the predefined threshold. The Institute will match participant's contributions at a ratio of \$1 to each \$8 (1:8), capped at 12% of salary. For the year ended 31 December 2021, the Institute contributed \$109,000 to the DC Plan (\$69,000 – 2020).

#### *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 \$466,000 to the SRP for 2022 based on the budgeted contribution of 27% of salary of Institute participants.

The Institute's staff members are not expected to contribute to the SRP in 2022.

#### *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 eleven 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 avoided. Selected derivatives are used for hedging and transactional efficiency purposes.

The SRP's investment policy is periodically reviewed and revised. The SRP's long-term target asset-mix implemented in 2021 and 2020 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 2021, the net return on the SRP assets was 13.36% (12.64% – 2020). The Institute expects the long-term rate of return on the assets to be 5.75% (5.75% – 2020).

#### *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

continued

side, the assumed average long term investment return of 5.75% on the SRP's assets is expected to remain on average broadly the same, year to year. The discount rate used in determining the benefit obligation is selected in reference to the rates of return on high-quality bonds.

#### *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. As of 31 December 2021 and 2020, the Institute does not have assets in the Retiree Medical Plan Fund (RMPF).

The costs of administering the RMPF are absorbed by ADB, while investment management and custodian fees are paid from the RMPF.

#### *Expected Contributions*

The Institute's expected contribution to the RMPF is determined based on the recommendation of the SRP Pension Committee. The Institute has not been required to make contributions and is not expected to contribute to the RMPF in 2022.

The following table sets forth the Institute's participants' pension and postretirement medical benefits at 31 December 2021 and 2020:

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2021	2020	2021	2020
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 7,624	\$ 6,883	\$ —	\$ —
Actual return on plan assets	997	863	—	—
Employer's contribution	333	264	—	—
Plan participants' contributions	—	33	—	—
Benefits paid	(558)	(419)	—	—
Fair value of plan assets at end of year	<u>\$ 8,396</u>	<u>\$ 7,624</u>	<u>\$ —</u>	<u>\$ —</u>
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 16,831	\$ 14,559	\$ 382	\$ 266
Service cost	303	314	68	45
Interest cost	500	545	16	13
Plan participants' contributions	—	33	—	—
Actuarial (gain) loss	(1,811)	1,799	(210)	58
Benefits paid	(558)	(419)	—	—
Benefit obligation at end of year	<u>\$ 15,265</u>	<u>\$ 16,831</u>	<u>\$ 256</u>	<u>\$ 382</u>
<b>Funded Status</b>	<b>\$ (6,869)</b>	<b>\$ (9,207)</b>	<b>\$ (256)</b>	<b>\$ (382)</b>

continued

*table continued*

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2021	2020	2021	2020
Amounts recognized in the Balance sheet consist of:				
Noncurrent liabilities	\$ (6,869)	\$ (9,207)	\$ (256)	\$ (382)
Amounts recognized in the Unrestricted net assets consist of:				
Net actuarial loss (gain)	\$ 791	\$ 3,483	\$ (799)	\$ (622)
Weighted-average assumptions as of 31 December (%)				
Discount rate	3.30	3.00	4.00	3.50
Expected return on plan assets	5.75	5.75	N/A	N/A
Rate of compensation increase varies with age and averages	2.50	3.75	N/A	N/A
Interest crediting rate	5.00	5.40	N/A	N/A

The Institute's accumulated benefit obligation of the pension plan as of 31 December 2021 was \$15,178,000 (\$16,775,000 – 2020). The actuarial gain of \$1,811,000 for pension benefit obligation and \$210,000 for postretirement medical benefit obligation were mainly due to the change in discount rate and membership movements.

For measurement purposes, a 6.5% annual rate of increase in the per capita cost of covered postretirement medical benefits was assumed for the valuation as of 31 December 2021 (6.5% – 2020). The rate was assumed to decrease gradually to 5.0% by 2027 and remain at that level thereafter.

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the years ended 31 December 2021 and 2020:

(\$ thousand)

	Pension Benefits		Postretirement Medical Benefits	
	2021	2020	2021	2020
Components of net periodic benefit cost:				
Service cost	\$ 303	\$ 314	\$ 68	\$ 45
Interest cost	500	545	16	13
Expected return on plan assets	(375)	(433)	–	–
Recognized actuarial loss (gain)	259	93	(33)	(46)
<b>Net periodic benefit cost</b>	<b>\$ 687</b>	<b>\$ 519</b>	<b>\$ 51</b>	<b>\$ 12</b>

All components of the net periodic benefit cost are included in Administrative expenses in the Statement of Activities and Changes in Net Assets.

continued

### *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 2021:

(\$ thousand)

	<b>Pension Benefits</b>	<b>Postretirement Medical Benefits</b>
2022	\$ 558	\$ —
2023	562	—
2024	659	—
2025	671	—
2026	681	—
2027–2031	3,952	8

### *Fair Value Disclosure*

The following table shows the FV of the Institute's SRP assets measured on a recurring basis as of 31 December 2021 and 2020:

(\$ thousand)

	<b>Fair Value Measurements</b>			
	<b>Total</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>31 December 2021</b>				
Cash and cash equivalents	\$ 97	\$ —	\$ 97	\$ —
Common/preferred stocks	1,582	1,582	0	—
Investment funds	4,774	4,498	276	—
Government or government-related securities	735	710	25	—
Corporate debt securities	940	937	3	—
Mortgage/asset-backed securities:				
Mortgage-backed securities	105	20	85	—
Collateralized mortgage obligations	14	0	14	—
Asset-backed securities	0	—	0	—
Short-term investments	161	156	5	—
Derivatives	1	(0)	1	—
Other asset/liabilities <sup>a</sup> —net	(13)	—	(13)	—
<b>Total fair value of SRP assets</b>	<b>\$ 8,396</b>	<b>\$ 7,903</b>	<b>\$ 493</b>	<b>\$ —</b>

0 = Less than \$500.

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

continued

(\$ thousand)

		Fair Value Measurements			
	Total	Level 1	Level 2	Level 3	
<b>31 December 2020</b>					
Cash and cash equivalents	\$ 92	\$ —	\$ 92	\$ —	
Common/preferred stocks	1,300	1,300	—	—	
Investment funds	4,257	3,963	294	—	
Government or government-related securities	713	684	29	—	
Corporate debt securities	1,052	1,035	16	1	
Mortgage/asset-backed securities:					
Mortgage-backed securities	151	8	143	0	
Collateralized mortgage obligations	11	—	11	—	
Asset-backed securities	0	—	0	—	
Short-term investments	100	65	35	—	
Derivatives	(30)	(9)	(21)	—	
Other asset/liabilities <sup>a</sup> —net	(22)	—	(22)	—	
<b>Total fair value of SRP assets</b>	<b>\$ 7,624</b>	<b>\$ 7,046</b>	<b>\$ 577</b>	<b>\$ 1</b>	

0 = Less than \$500.

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

The FV of the SRP 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-related securities, corporate obligations, asset and mortgage-backed securities, and short-term investments. Derivatives include futures, swaps and currency forward contracts.

The following table presents the changes in the carrying amounts of the Institute's SRP Level 3 investments for the year ended 31 December 2021 and 2020.

(\$ thousand)

	2021		2020	
	Corporate debt securities	MBS	Corporate debt securities	MBS
Balance, 1 January	\$ 1	\$ 0	\$ —	\$ —
Total realized/unrealized gains in:				
Net (decrease) increase in net assets available for benefits	(0)	(0)	—	0
Purchases	1	(0)	1	—
Sales/Maturities	(1)	—	—	—
Transfer (out of) into Level 3	(1)	(0)	—	0
Balance, 31 December	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1</u>	<u>\$ 0</u>
Total unrealized gains included in income related to financial assets and liabilities still held at the reporting date	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 0</u>	<u>\$ 0</u>

0 = Less than \$500, MBS = Mortgage-backed securities.

Transfers out of and into Level 3 in 2021 and 2020 are due to availability or absence of market observable inputs. The valuations are provided by an independent pricing source.

continued

#### **NOTE J—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 come due. In addition, the Institute invests cash in excess of daily requirements in short-term investments.

As of 31 December 2021, the Institute has liquidity of \$27,962,000 (\$26,146,000 – 2020) consisting of DUE FROM BANKS of \$17,034,000 (\$22,228,000 – 2020) and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$10,928,000 (\$3,918,000 – 2020), available within one year of the balance sheet date to meet cash needs for general expenditure. See Note G for discussions relating to donor restrictions on the Institute's uncommitted balance.

#### **NOTE K—OTHER FAIR VALUE DISCLOSURES**

As of 31 December 2021 and 2020, 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 L—SUBSEQUENT EVENTS**

The Institute has evaluated subsequent events after 31 December 2021 through 15 March 2022, 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 2021.

**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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion on Internal Control Over Financial Reporting**

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying statements of financial position of ADB – Regional Cooperation and Integration Fund as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### **Basis of Opinion**

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### **Responsibilities of Management 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 Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

**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.

*Deloitte & Touche LLP*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

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, 2021, and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Regional Cooperation and Integration Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Regional Cooperation and Integration Fund’s ability to continue as a going concern within one year after the date that the financial statements are issued.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Regional Cooperation and Integration Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

## Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Deloitte & Touche LLP*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2021 and 2020**

Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 2,623	\$ 4,566
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H, and I)		
Time deposits	35,911	36,372
ACCRUED REVENUE	3	3
ADVANCES FOR TECHNICAL ASSISTANCE AND OTHER ASSETS	25	39
<b>TOTAL</b>	<b>\$ 38,562</b>	<b>\$ 40,980</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 121	\$ 103
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and I)	26,343	15,651
TOTAL LIABILITIES	26,464	15,754
UNCOMMITTED BALANCES (RCIF-2, Note F), represented by:		
Net assets without donor restrictions	12,098	25,226
<b>TOTAL</b>	<b>\$ 38,562</b>	<b>\$ 40,980</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<u>2021</u>	<u>2020</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ —	\$ 30,000
REVENUE		
From investments for liquidity purpose (Note C)	39	60
From other sources	<u>—</u>	<u>7</u>
Total	<u>39</u>	<u>30,067</u>
EXPENSES		
Technical assistance—net (Notes E and G)	(13,028)	(9,600)
Administrative and financial expenses (Notes D and G)	<u>(136)</u>	<u>(155)</u>
Total	<u>(13,164)</u>	<u>(9,755)</u>
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES	(13,125)	20,312
EXCHANGE LOSSES—net	<u>(3)</u>	<u>(1)</u>
(DECREASE) INCREASE IN NET ASSETS	(13,128)	20,311
NET ASSETS AT BEGINNING OF YEAR	25,226	4,915
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 12,098</b>	<b>\$ 25,226</b>

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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ —	\$ 30,000
Interest received on investments for liquidity purpose	39	63
Cash received from other sources	—	7
Technical assistance disbursed	(2,308)	(2,748)
Administrative and financial expenses paid	(135)	(183)
Net Cash (Used in) Provided by Operating Activities	(2,404)	27,139
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	1,819,656	1,193,703
Purchases of investments for liquidity purpose	(1,819,195)	(1,219,766)
Net Cash Provided by (Used in) Investing Activities	461	(26,063)
Net (Decrease) Increase in Due From Banks	(1,943)	1,076
Due from Banks at Beginning of Year	4,566	3,490
Due from Banks at End of Year	\$ 2,623	\$ 4,566

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 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 Regional Cooperation and Integration Fund (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 the RCIF.

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<sup>1</sup> Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), Asian Development Bank 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 on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

### *Contributions*

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

### *Technical Assistance and Related Undisbursed Balance*

TA are recognized as expense in the financial statements when the project becomes effective. Upon completion or cancellation of a TA project, any undisbursed committed balance is reversed. TA expenses are also reversed accordingly.

Advances are provided from TA 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).

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.

### *Accounting Estimates*

The preparation of financial statements in accordance with US GAAP 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.

### *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 2021 and 2020 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the year ended 31 December 2021 was 0.11% (0.25% – 2020).

### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2021 and 2020 is as follows:

(\$ thousand)

	<u>Total</u>	<u>Fair Value Measurements</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<b><u>2021</u></b>				
Investments for liquidity purpose				
Time deposits	\$ 35,911	\$ –	\$ 35,911	\$ –
<b><u>2020</u></b>				
Investments for liquidity purpose				
Time deposits	\$ 36,372	\$ –	\$ 36,372	\$ –

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 the 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. See Note G for service fees during the years ended 31 December 2021 and 2020.

continued

The interfund account balances included in ACCOUNTS PAYABLE AND OTHER LIABILITIES as of 31 December 2021 and 2020 are as follows:

(\$ thousand)

	2021	2020
<b>Payable to:</b>		
Ordinary capital resources	\$ 39	\$ 28
Technical Assistance Special Fund—net	72	66
Trust Funds	1	—
<b>Total</b>	<b>\$ 112</b>	<b>\$ 94</b>

#### NOTE E—TECHNICAL ASSISTANCE AND UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed TAs are denominated in US dollars and represent effective TAs not yet disbursed and unliquidated. During 2021, there were 11 TA projects and 10 supplementary TAs (nine TA projects and five supplementary TAs – 2020) became effective resulting in a total TA expense of \$13,028,000 (\$9,600,000 – 2020), net of undisbursed TA reversals of \$22,000 (\$203,000 – 2020). \$1,855,000 (\$750,000 – 2020) in TA expense relates to ADB's COVID-19 response.

The FV of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

#### NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In May 2020, the RCIF received \$30,000,000 following the Board of Governors' approval of the transfer of OCR's 2019 net income allocation.

Uncommitted balances comprise amounts which have not been committed by RCIF as of 31 December 2021 and 2020.

#### NOTE G—EXPENSES

##### *Technical assistance—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 years ended 31 December 2021 and 2020 are as follows:

(\$ thousand)

	2021	2020
Consultants	\$ 10,301	\$ 6,181
Trainings and seminars	1,041	1,923
Studies	517	406
Other expenses—net <sup>a</sup>	1,169	1,090
<b>Total</b>	<b>\$ 13,028</b>	<b>\$ 9,600</b>

<sup>a</sup> Net of amounts reversed as reduction of TA expenses (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 years ended 31 December 2021 and 2020:

(\$ thousand)

	<b>2021</b>	<b>2020</b>
Service fees to OCR (Note D)	\$ 117	\$ 136
Audit fees	18	18
Financial expenses	1	1
Total	<u>\$ 136</u>	<u>\$ 155</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 come due. In addition, RCIF invests cash in excess of daily requirements in short-term investments.

As of 31 December 2021, the RCIF has liquidity of \$38,534,000 (\$40,938,000 – 2020) consisting of DUE FROM BANKS of \$2,623,000 (\$4,566,000 – 2020) and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$35,911,000 (\$36,372,000 – 2020), available within one year of the balance sheet date to meet cash needs for general expenditure. 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 2021 and 2020, 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 2021 through 15 March 2022, 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 2021.

**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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion on Internal Control Over Financial Reporting

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying statements of financial position of ADB – Climate Change Fund as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### Basis of Opinion

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### Responsibilities of Management 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 Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

**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.

*Deloitte & Touche LLP*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## INDEPENDENT AUDITOR'S REPORT

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

#### Opinion

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Climate Change Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Climate Change Fund’s ability to continue as a going concern within one year after the date that the financial statements are issued.

**Auditor’s Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Climate Change Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

## Other Information

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in black ink that reads "Deloitte Touche LLP".

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND**  
**STATEMENT OF FINANCIAL POSITION**  
**31 December 2021 and 2020**

Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 2,379	\$ 5,373
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H, and I)		
Time deposits	38,443	38,402
ACCRUED REVENUE	3	2
ADVANCES FOR TECHNICAL ASSISTANCE AND GRANTS AND OTHER ASSETS (Note D)	74	29
<b>TOTAL</b>	<b>\$ 40,899</b>	<b>\$ 43,806</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 104	\$ 173
UNDISBURSED TECHNICAL ASSISTANCE AND GRANTS (Notes E and I)	21,077	16,730
TOTAL LIABILITIES	21,181	16,903
UNCOMMITTED BALANCES (CCF-2, Note F), represented by:		
Net assets without donor restrictions	19,718	26,903
<b>TOTAL</b>	<b>\$ 40,899</b>	<b>\$ 43,806</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<u>2021</u>	<u>2020</u>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ —	\$ 24,000
REVENUE		
From investments for liquidity purpose (Note C)	42	102
From other sources	<u>0</u>	<u>3</u>
Total	<u>42</u>	<u>24,105</u>
EXPENSES		
Technical assistance (Notes E and G)	(6,818)	(6,300)
Administrative and financial expenses (Notes D and G)	<u>(409)</u>	<u>(790)</u>
Total	<u>(7,227)</u>	<u>(7,090)</u>
(DECREASE) INCREASE IN NET ASSETS	(7,185)	17,015
NET ASSETS AT BEGINNING OF YEAR	26,903	9,888
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 19,718</b>	<b>\$ 26,903</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ —	\$ 24,000
Interest received on investments for liquidity purpose	41	112
Cash received from other activities	0	3
Technical assistance and grants disbursed	(2,580)	(2,506)
Administrative and financial expenses paid	(414)	(889)
Net Cash (Used in) Provided by Operating Activities	(2,953)	20,720
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments for liquidity purpose	1,921,185	1,448,877
Purchases of investments for liquidity purpose	(1,921,226)	(1,465,489)
Net Cash Used in Investing Activities	(41)	(16,612)
Net (Decrease) Increase in Due From Banks	(2,994)	4,108
Due from Banks at Beginning of Year	5,373	1,265
Due from Banks at End of Year	\$ 2,379	\$ 5,373

0 = less than \$500.

The accompanying Notes are an integral part of these financial statements (CCF-4).

**ASIAN DEVELOPMENT BANK—CLIMATE CHANGE FUND**  
**NOTES TO FINANCIAL STATEMENTS**  
**31 December 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 Climate Change Fund (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 the CCF.

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<sup>1</sup> Asian Development Fund (ADF), Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), Asian Development Bank Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), the 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 on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

### *Contributions*

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

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

TA and grants are recognized as expense in the financial statements when the project becomes effective. Upon completion or cancellation of a TA project or grant, any undisbursed committed balance is reversed. TA or grant expenses are also reversed 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.

#### *Accounting Estimates*

The preparation of financial statements in accordance with US GAAP 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.

#### *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 2021 and 2020 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the year ended 31 December 2021 was 0.11% (0.35% – 2020).

#### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2021 and 2020 is as follows:

(\$ thousand)

	Fair Value Measurements			
	Total	Level 1	Level 2	Level 3
<b>2021</b>				
Investments for liquidity purpose				
Time deposits	\$ 38,443	\$ —	\$ 38,443	\$ —
<b>2020</b>				
Investments for liquidity purpose				
Time deposits	\$ 38,402	\$ —	\$ 38,402	\$ —

Time deposits are reported at cost, which approximates FV.

continued

**NOTE D—RELATED PARTY TRANSACTIONS**

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to the 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. See Note G for service fees during the years ended 31 December 2021 and 2020.

The interfund account balances included in ADVANCES FOR TECHNICAL ASSISTANCE AND GRANTS AND OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES as of 31 December 2021 and 2020 are as follows:

(\$ thousand)

	2021	2020
<b>Receivable from:</b>		
Trust Funds	\$ 17	\$ 22
<b>Payable to:</b>		
Ordinary capital resources	\$ 56	\$ 52
Technical Assistance Special Fund	38	112
Total	\$ 94	\$ 164

**NOTE E—TECHNICAL ASSISTANCE, GRANTS AND UNDISBURSED TECHNICAL ASSISTANCE AND GRANTS**

Undisbursed TAs and grants are denominated in US dollars and represent effective TAs and grants not yet disbursed and unliquidated. During 2021, 10 TA projects and one supplementary TAs (six TA projects and two supplementary TAs – 2020) became effective resulting in a total TA expense of \$6,818,000 (\$6,300,000 – 2020), net of undisbursed TA reversals of \$267,000 (nil – 2020).

The FV of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

**NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES**

In May 2020, the CCF received \$24,000,000 following the Board of Governors' approval of the transfer of OCR's 2019 net income allocation.

Uncommitted balances comprise amounts which have not been committed by CCF as of 31 December 2021 and 2020. These balances include approved TA projects/programs that are not yet effective.

continued

## NOTE G—EXPENSES

### *Technical assistance—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 years ended 31 December 2021 and 2020 is as follows:

(\$ thousand)		
	2021	2020
Consultants	\$ 5,857	\$ 4,615
Trainings and seminars	473	1,283
Studies	198	44
Other expenses—net <sup>a</sup>	290	358
Total	<u>\$ 6,818</u>	<u>\$ 6,300</u>

<sup>a</sup> Net of amounts reversed as reduction of TA expenses (See Note E).

### *Administrative and financial expenses*

Administrative and financial expenses include consultants, service fees to OCR, audit fees, and financial expenses, which are incurred for management and general supporting activities. The following table summarizes administrative and financial expenses for the years ended 31 December 2021 and 2020:

(\$ thousand)		
	2021	2020
Consultants	\$ 266	\$ 642
Service fees to OCR (Note D)	124	129
Audit fees	18	18
Financial expenses	1	1
Total	<u>\$ 409</u>	<u>\$ 790</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 CCF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, CCF invests cash in excess of daily requirements in short-term investments.

As of 31 December 2021, the CCF has liquidity of \$40,822,000 (\$43,775,000 – 2020) consisting of DUE FROM BANKS of \$2,379,000 (\$5,373,000 – 2020) and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$38,443,000 (\$38,402,000 – 2020), available within one year of the balance sheet date to meet cash needs for general expenditure. 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 2021 and 2020, 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 2021 through 15 March 2022, 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 2021.

**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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion on Internal Control Over Financial Reporting**

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying statements of financial position of ADB – Asia Pacific Disaster Response Fund as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### **Basis of Opinion**

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### **Responsibilities of Management 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 Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

### **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.

A handwritten signature in dark ink that reads "Deloitte Touche LLP".

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion**

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Asia Pacific Disaster Response Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Asia Pacific Disaster Response Fund’s ability to continue as a going concern within one year after the date that the financial statements are issued.

## Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Asia Pacific Disaster Response Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

The logo for Deloitte Touche LLP, featuring the company name in a stylized, handwritten-style script.

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—ASIA PACIFIC DISASTER RESPONSE FUND****STATEMENT OF FINANCIAL POSITION****31 December 2021 and 2020**

Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 14,170	\$ 18,010
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H, and I)		
Time deposits	41,569	35,030
ACCRUED REVENUE	3	2
ADVANCES FOR GRANTS (Note E)	36,543	49,172
<b>TOTAL</b>	<b>\$ 92,285</b>	<b>\$ 102,214</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 19	\$ 18
UNDISBURSED GRANTS (Notes E and I)	36,585	55,570
TOTAL LIABILITIES	36,604	55,588
UNCOMMITTED BALANCES (APDRF-2, Note F), represented by:		
Net assets without donor restrictions	27,639	15,596
Net assets with donor restrictions	28,042	31,030
<b>TOTAL</b>	<b>\$ 92,285</b>	<b>\$ 102,214</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ 15,000	\$ 10,000
REVENUE		
From investments for liquidity purpose (Note C)	40	83
From other sources	2	19
NET ASSETS RELEASED FROM ASSETS WITH DONOR RESTRICTIONS	<u>2,988</u>	<u>43,970</u>
Total	<u>18,030</u>	<u>54,072</u>
EXPENSES		
Grants—net (Note E)	(4,889)	(59,570)
Administrative expenses (Notes D and G)	<u>(990)</u>	<u>(158)</u>
Total	<u>(5,879)</u>	<u>(59,728)</u>
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	12,151	(5,656)
EXCHANGE (LOSSES) GAINS—net	<u>(108)</u>	<u>102</u>
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	<u>12,043</u>	<u>(5,554)</u>
<b>CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	—	75,000
NET ASSETS RELEASED TO ASSETS WITHOUT DONOR RESTRICTIONS	<u>(2,988)</u>	<u>(43,970)</u>
(DECREASE) INCREASE IN NET ASSETS WITH DONOR RESTRICTIONS	<u>(2,988)</u>	<u>31,030</u>
INCREASE IN NET ASSETS	9,055	25,476
NET ASSETS AT BEGINNING OF YEAR	46,626	21,150
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 55,681</b>	<b>\$ 46,626</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 2021 and 2020**  
Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Contributions received	\$ 15,000	\$ 85,000
Interest received on investments for liquidity purpose	39	89
Cash received from other sources	2	19
Grants disbursed	(11,352)	(53,070)
Administrative expenses paid	(990)	(165)
<b>Net Cash Provided by Operating Activities</b>	<b>2,699</b>	<b>31,873</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Maturities of investments for liquidity purpose	1,829,997	1,621,869
Purchases of investments for liquidity purpose	(1,836,536)	(1,641,982)
<b>Net Cash Used in Investing Activities</b>	<b>(6,539)</b>	<b>(20,113)</b>
<b>Net (Decrease) Increase in Due From Banks</b>	<b>(3,840)</b>	<b>11,760</b>
<b>Due from Banks at Beginning of Year</b>	<b>18,010</b>	<b>6,250</b>
<b>Due from Banks at End of Year</b>	<b>\$ 14,170</b>	<b>\$ 18,010</b>

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 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 Asia Pacific Disaster Response Fund (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 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.

The APDRF reports donor's contributed cash and other assets as support without donor restrictions as these are made available to the APDRF without conditions other than for the purposes of pursuing the objectives of the APDRF.

The APDRF reports donor's contributed 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 as NET ASSETS RELEASED 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), Asian Development Bank 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 the APDRF.

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

### *Contributions*

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

### *Grants and Related Undisbursed Grants*

Grants are recognized as expense in the financial statements when the project becomes effective. Upon completion or cancellation of a grant, the corresponding undisbursed committed balance, if any, is reversed into Grants expenses.

Advances are provided from 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).

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.

### *Accounting Estimates*

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

### *Statement of Cash Flows*

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

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

The main investment management objective is to maintain security and liquidity 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 2021 and 2020 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the year ended 31 December 2021 was 0.11% (0.25% – 2020).

### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2021 and 2020 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>2021</b>				
Investments for liquidity purpose				
Time deposits	\$ 41,569	\$ –	\$ 41,569	\$ –
<b>2020</b>				
Investments for liquidity purpose				
Time deposits	\$ 35,030	\$ –	\$ 35,030	\$ –

Time deposits are reported at cost, which approximates FV.

continued

#### **NOTE D—RELATED PARTY TRANSACTIONS**

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to the APDRF are settled regularly with OCR and the other funds. Grants programs may be combined activities financed by Special Funds and trust funds. ADB charges a service fee to cover ADB's cost for the administration, management, supervision, and operation of the APDRF. The service fee is set at 5% of the amounts disbursed for grant components of investment projects up to \$5,000,000, or 2% of amounts disbursed for grant components of investments projects above \$5,000,000 with a minimum of \$250,000, whichever is greater. See Note G for service fees during years ended 31 December 2021 and 2020. As of 31 December 2021, \$9,000 (\$9,000 – 2020) was payable to OCR which is included in ACCOUNTS PAYABLE AND OTHER LIABILITIES.

#### **NOTE E—GRANTS AND UNDISBURSED GRANTS**

Undisbursed grants are denominated in US dollars and represent effective grants not yet disbursed and unliquidated. The undisbursed grants of \$36,585,000 as of 31 December 2021 (\$55,570,000 – 2020) includes \$36,543,000 (\$49,172,000 – 2020) advances for grants.

During 2021, 3 grants (39 grants – 2020) became effective resulting in a total Grants expense of \$4,889,000 (\$59,570,000 – 2020), net of undisbursed grants reversals of \$111,000 (nil – 2020). \$3,000,000 (\$55,470,000 – 2020) in Grants expense relates to ADB's COVID-19 response.

The FV of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

#### **NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES**

In May 2021, the APDRF received \$15,000,000 following the Board of Governors' approval of the transfer of OCR's 2020 net income allocation (\$10,000,000 – 2020).

In May 2020, the APDRF received \$75,000,000 from the Government of Japan which was earmarked for ADB's response to the COVID-19 pandemic. Contributions received for specific purpose or grant programs are classified as support with donor restrictions. The net assets with donor restrictions as of 31 December 2021 amounted to \$28,042,000 (\$31,030,000 – 2020).

Net assets released to assets without donor restrictions relate to grants for COVID-19 pandemic response which became effective and have satisfied the conditions specified by the donor. During the year ended 31 December 2021, net assets released to assets without donor restrictions amounted to \$2,988,000 (\$43,970,000 – 2020).

Uncommitted balances comprise amounts which have not been committed by APDRF as of 31 December 2021 and 2020.

continued

## NOTE G—ADMINISTRATIVE EXPENSES

The administrative expenses generally include service fees to OCR and audit fees, which are incurred for management and general supporting activities. The table below summarizes the administrative expenses for the years ended 31 December 2021 and 2020:

(\$ thousand)

	2021	2020
Service fees (Note D)	\$ 972	\$ 140
Audit fees	18	18
Total	<u>\$ 990</u>	<u>\$ 158</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 APDRF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, APDRF invests cash in excess of daily requirements in short-term investments.

As of 31 December 2021, APDRF has liquidity of \$55,739,000 (\$53,040,000 – 2020) consisting of DUE FROM BANKS of \$14,170,000 (\$18,010,000 – 2020) and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$41,569,000 (\$35,030,000 – 2020), available within one year of the balance sheet date to meet cash needs for general expenditure. See Note F for discussions relating to donor restrictions on the APDRF's uncommitted balance.

## NOTE I—OTHER FAIR VALUE DISCLOSURES

As of 31 December 2021 and 2020, 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 2021 through 15 March 2022, 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 2021.

**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 2021, 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 ADB's internal control over financial reporting is effective as of 31 December 2021.



Masatsugu Asakawa  
President



Roberta Casali  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

15 March 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion on Internal Control Over Financial Reporting**

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2021, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021.

We also have audited, in accordance with auditing standards generally accepted in the United States of America ("GAAS"), the accompanying statements of financial position of ADB – Financial Sector Development Partnership Special Fund as of December 31, 2021 and 2020, 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, 2022 expressed an unmodified opinion on those financial statements.

#### **Basis of Opinion**

We conducted our audit in accordance with GAAS. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of Internal Control Over Financial Reporting section of our report. We are required to be independent of ADB and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide basis for our audit opinion.

#### **Responsibilities of Management 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 Responsibilities for the Audit of Internal Control Over Financial Reporting**

Our objectives are to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects – and to issue an auditor's report that includes our opinion on internal control over financial reporting. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material weakness when it exists.

In performing an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Obtain an understanding of internal control over financial reporting, assess the risk that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

### **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.



Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

## **INDEPENDENT AUDITOR'S REPORT**

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

#### **Opinion**

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, 2021 and 2020, 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.

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, 2021 and 2020, 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.

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, 2021, 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, 2022 expressed an unmodified opinion on ADB's internal control over financial reporting.

#### **Basis for Opinion**

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of ADB - Financial Sector Development Partnership Special Fund and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## Responsibilities of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Financial Sector Development Partnership Special Fund’s ability to continue as a going concern within one year after the date that the financial statements are issued.

## Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about ADB – Financial Sector Development Partnership Special Fund’s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

**Other Information**

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

*Deloitte is Touché UP.*

Public Accountants and  
Chartered Accountants  
Singapore

March 15, 2022

**ASIAN DEVELOPMENT BANK—FINANCIAL SECTOR DEVELOPMENT PARTNERSHIP SPECIAL FUND**  
**STATEMENT OF FINANCIAL POSITION**

**31 December 2021 and 2020**

Expressed in Thousands of US Dollars

	<u>2021</u>	<u>2020</u>
<b>ASSETS</b>		
DUE FROM BANKS (Note H)	\$ 2,815	\$ 4,447
INVESTMENTS FOR LIQUIDITY PURPOSE (Notes C, H, and I)		
Time deposits	7,666	8,157
ACCRUED REVENUE	0	1
DUE FROM CONTRIBUTORS (Note F)	1,699	218
<b>TOTAL</b>	<b>\$ 12,180</b>	<b>\$ 12,823</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 75	\$ 79
UNDISBURSED TECHNICAL ASSISTANCE (Notes E and I)	8,704	9,525
TOTAL LIABILITIES	8,779	9,604
UNCOMMITTED BALANCES (FSDPSF-2, Note F), represented by:		
Net assets without donor restrictions	3,401	3,219
<b>TOTAL</b>	<b>\$ 12,180</b>	<b>\$ 12,823</b>

0 = Less than \$500

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 2021 and 2020**

Expressed in Thousands of US Dollars

	<b>2021</b>	<b>2020</b>
<b>CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS</b>		
CONTRIBUTIONS (Note F)	\$ 1,738	\$ 1,994
REVENUE		
From investments for liquidity purpose (Note C)	9	36
From other sources	5	13
Total	<u>1,752</u>	<u>2,043</u>
EXPENSES		
Technical assistance—net (Notes E and G)	(1,393)	(3,264)
Administrative expenses (Notes D and G)	<u>(130)</u>	<u>(137)</u>
Total	<u>(1,523)</u>	<u>(3,401)</u>
CONTRIBUTION AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	229	(1,358)
EXCHANGE LOSSES—net	<u>(47)</u>	<u>(29)</u>
INCREASE (DECREASE) IN NET ASSETS	182	(1,387)
NET ASSETS AT BEGINNING OF YEAR	3,219	4,606
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 3,401</b>	<b>\$ 3,219</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 2021 and 2020**

Expressed in Thousands of US Dollars

	<u>2021</u>	<u>2020</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 211	\$ 3,427
Interest received on investments for liquidity purpose	9	40
Cash received from other sources	5	13
Technical assistance disbursed	(2,214)	(2,484)
Administrative expenses paid	(134)	(151)
	<u>(2,123)</u>	<u>845</u>
Net Cash (Used in) Provided by Operating Activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments for liquidity purpose	407,090	407,500
Purchases of investments for liquidity purpose	(406,599)	(407,540)
	<u>491</u>	<u>(40)</u>
Net Cash Provided by (Used in) Investing Activities		
Net (Decrease) Increase in Due From Banks	(1,632)	805
Due from Banks at Beginning of Year	<u>4,447</u>	<u>3,642</u>
Due from Banks at End of Year	<u>\$ 2,815</u>	<u>\$ 4,447</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 2021 and 2020**

**NOTE A—NATURE OF OPERATIONS**

The Asian Development Bank (ADB), a multilateral development bank, 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 Financial Sector Development Partnership Special Fund (FSDPSF) was approved by the Board of Directors and established on 31 January 2013 to strengthen regional, subregional, and national financial systems in Asia and the Pacific. The FSDPSF will provide financial assistance through grants for components of investments projects and technical assistance 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 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 the 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

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

continued

currencies are adjusted using the applicable 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 FSDPSF are reported at fair value (FV). Interest income on time deposits is recognized as earned and reported in REVENUE From investments for liquidity purpose.

#### *Contributions*

The contributions from donors and the allocations from net income of OCR are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors' approval, respectively.

#### *Technical Assistance and Related Undisbursed Balance*

Technical assistance (TA) are recognized as expense in the financial statements when the project becomes effective. Upon completion or cancellation of a TA project, any undisbursed committed balance is reversed. TA expenses are also reversed accordingly.

Advances are provided from TA 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.

continued

### *Accounting Estimates*

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

### *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 2021 and 2020 were in US dollar time deposits.

The rate of return on the average investments for liquidity purpose held during the year ended 31 December 2021 was 0.11% (0.44% – 2020).

### *Fair Value Disclosure*

The FV of INVESTMENTS FOR LIQUIDITY PURPOSE as of 31 December 2021 and 2020 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>2021</u></b>				
Investments for liquidity purpose				
Time deposits	\$ 7,666	\$ —	\$ 7,666	\$ —
<b><u>2020</u></b>				
Investments for liquidity purpose				
Time deposits	\$ 8,157	\$ —	\$ 8,157	\$ —

Time deposits are reported at cost, which approximates FV.

continued

#### NOTE D—RELATED PARTY TRANSACTIONS

The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The administrative and operational expenses pertaining to the FSDPSF is 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 FSDPSF. The service fees are set at (i) 5% of amounts disbursed for technical assistance 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. See Note G for service fees during the years ended 31 December 2021 and 2020.

The interfund account balances included in ACCOUNTS PAYABLE AND OTHER LIABILITIES as of 31 December 2021 and 2020 are as follows:

(\$ thousand)

	2021	2020
<b>Payable to:</b>		
Ordinary capital resources	\$ 35	\$ 30
Technical Assistance Special Fund	31	39
Total	<u>\$ 66</u>	<u>\$ 69</u>

#### NOTE E—TECHNICAL ASSISTANCE AND UNDISBURSED TECHNICAL ASSISTANCE

Undisbursed TAs are denominated in US dollars and represent effective TAs not yet disbursed and unliquidated. During 2021, four TA projects and four supplementary TAs (six TA projects and three supplementary TAs – 2020) became effective resulting in a total TA expense of \$1,393,000 (\$3,264,000 – 2020), net of undisbursed TA reversals of \$157,000 (\$11,000 – 2020).

The FV of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

#### NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In November 2021, the Government of Luxembourg committed contribution of EUR 1,500,000 (equivalent to \$1,738,000). The amount committed in 2021 was reported in the Statement of Financial Position as DUE FROM CONTRIBUTORS as of 31 December 2021.

In December 2020, the Government of Luxembourg committed contribution of EUR 177,400 (equivalent to \$215,000) which was transferred to the FSDPSF on 20 January 2021.

In September 2020, the FSDPSF received contribution of EUR 1,500,000 (equivalent to \$1,778,000) from the Government of Luxembourg.

Uncommitted balances comprise amounts which have not been committed by FSDPSF as of 31 December 2021 and 2020. These balances include approved TA projects/programs that are not yet effective.

continued

## NOTE G—EXPENSES

### *Technical assistance—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 years ended 31 December 2021 and 2020 are as follows:

(\$ thousand)

	2021	2020
Consultants	\$ 1,321	\$ 2,757
Trainings and Seminars	145	207
Studies	—	72
Other expenses—net <sup>a</sup>	(73)	228
Total	<u>\$ 1,393</u>	<u>\$ 3,264</u>

<sup>a</sup> Net of amounts reversed as reduction of TA expenses (See Note E).

### *Administrative expenses*

The administrative expenses include service fees to OCR and audit fees, which are incurred for management and general supporting activities. The table below summarizes the administrative expenses for the years ended 31 December 2021 and 2020:

(\$ thousand)

	2021	2020
Service fees to OCR (Note D)	\$ 111	\$ 119
Audit fees	19	18
Total	<u>\$ 130</u>	<u>\$ 137</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 FSDPSF's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, FSDPSF invests cash in excess of daily requirements in short-term investments.

As of 31 December 2021, FSDPSF has liquidity of \$10,481,000 (\$12,604,000 – 2020) consisting of DUE FROM BANKS of \$2,815,000 (\$4,447,000 – 2020) and INVESTMENTS FOR LIQUIDITY PURPOSE in time deposits of \$7,666,000 (\$8,157,000 – 2020), available within one year of the balance sheet date to meet cash needs for general expenditure. 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 2021 and 2020, 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 2021 through 15 March 2022, 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 2021.

