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REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statement of financial position and the related statements of activities and changes in net assets and of cash flows present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank – Technical Assistance Special Fund at 31 December 1998 and 1997, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Bank's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying statement of resources as at 31 December 1998 and summary statement of technical assistance approved and effective for the year ended 31 December 1998 are presented as additional analyses and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PricewaterhouseCoopers LLP

17 February 1999

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF FINANCIAL POSITION

31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	<u>1998</u>	<u>1997</u>
ASSETS		
DUE FROM BANKS (Note B)	\$ 1,216	\$ 641
INVESTMENTS (Notes B and C)		
Government and government-guaranteed obligations	\$ 36,111	\$ 15,710
Time deposits and other obligations of banks	<u>146,966</u>	<u>138,711</u>
	183,077	154,421
ACCRUED REVENUE	2,209	791
OTHER ASSETS	11,804	13,372
TOTAL	\$198,306	\$ 169,225
LIABILITIES AND UNCOMMITTED BALANCES		
PAYABLE TO ORDINARY CAPITAL RESOURCES	\$ 65	\$ 117
ACCOUNTS PAYABLE AND OTHER LIABILITIES	17	117
UNDISBURSED COMMITMENTS (Notes B and E)	101,037	115,023
UNCOMMITTED BALANCES (TASF-2 and TASF-4) (Note B), represented by:		
Unrestricted net assets	\$ 97,187	\$ 53,776
Temporarily restricted net assets	<u>—</u>	<u>192</u>
	97,187	53,968
TOTAL	\$198,306	\$ 169,225

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	<u>1998</u>	<u>1997</u>
CHANGES IN UNRESTRICTED NET ASSETS		
CONTRIBUTIONS (TASF-4) (Notes B and D)	\$ 80,066	\$ 1,126
REVENUE		
From investments (Notes B and C)		
Interest	\$5,918	\$5,876
Unrealized investment losses	(40)	(114)
Net gain on sales	<u>7</u>	<u>-</u>
	5,885	5,762
From other sources—net (Note E)	<u>766</u>	<u>746</u>
	6,651	6,508
NET ASSETS RELEASED FROM RESTRICTIONS (Note B)	<u>192</u>	<u>-</u>
Total	<u>86,909</u>	<u>7,634</u>
EXPENSES		
Technical assistance (TASF-5) (Note B)	36,037	58,233
Financial expenses	<u>7</u>	<u>5</u>
Total	<u>36,044</u>	<u>58,238</u>
CONTRIBUTIONS AND REVENUE IN EXCESS OF (LESS THAN) EXPENSES	50,865	(50,604)
EXCHANGE LOSSES—net (Note B)	<u>(7,454)</u>	<u>(13,745)</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	<u>43,411</u>	<u>(64,349)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
CONTRIBUTIONS (TASF-4) (Notes B and D)	-	192
NET ASSETS RELEASED FROM RESTRICTIONS (Note B)	<u>(192)</u>	<u>-</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>(192)</u>	<u>192</u>
INCREASE (DECREASE) IN NET ASSETS	43,219	(64,157)
NET ASSETS AT BEGINNING OF YEAR	53,968	118,125
NET ASSETS AT END OF YEAR	\$97,187	\$ 53,968

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
STATEMENT OF CASH FLOWS
For the Years Ended 31 December 1998 and 1997

Expressed in Thousands of United States Dollars (Note B)

	<u>1998</u>	<u>1997</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ 2,461	\$ 643
Interest on investments received	5,457	5,871
Cash received from other activities	704	717
Technical assistance disbursed	(49,616)	(49,406)
Financial expenses paid	(7)	(5)
Net Cash Used in Operating Activities	<u>(41,001)</u>	<u>(42,180)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash withdrawn from time deposits and other obligations of banks ¹	64,736	34,026
Sales of investment securities	4,060	13,093
Maturities of investment securities	9	505
Purchases of investment securities	(27,294)	(4,930)
Net Cash Provided by Investing Activities	<u>41,511</u>	<u>42,694</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash paid to Ordinary Capital Resources and others—net	(42)	(463)
Net Cash Used in Financing Activities	<u>(42)</u>	<u>(463)</u>
Effect of Exchange Rate Changes on Due from Banks	<u>107</u>	<u>(31)</u>
Net Increase in Due from Banks	575	20
Due from Banks at Beginning of Year	641	621
Due from Banks at End of Year	<u>\$ 1,216</u>	<u>\$ 641</u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase (Decrease) in net assets (TASF-2)	\$ 43,219	\$(64,157)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Noncash contributions from OCR	(78,658)	-
Change in contributions receivable	1,053	(675)
Change in undisbursed commitments	(13,986)	9,885
Translation adjustments	7,392	13,716
Unrealized investment losses	40	114
Change in advances for technical assistance to member countries	407	(1,058)
Amortization of discounts/premiums	527	57
Gain on sale of investments	(7)	-
Change in accrued interest receivable and other	(988)	(62)
Net Cash Used in Operating Activities	<u>\$ (41,001)</u>	<u>\$ (42,180)</u>

¹ In addition to cash invested in time deposits during 1998, time deposits and related interest amounting to \$78,658 were received by the Fund from the Ordinary Capital Resources of the Bank.

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND

STATEMENT OF RESOURCES

31 December 1998

Expressed in Thousands of United States Dollars (Note B)

	Contributions Received During 1998	Cumulative Contributions Received	Contributions Utilized During 1998	Cumulative Contributions Utilized	Contributions Unutilized
DIRECT VOLUNTARY CONTRIBUTIONS					
Australia	\$ —	\$ 2,484	\$ —	\$ 2,484	\$ —
Austria	—	159	—	159	—
Bangladesh	—	47	—	47	—
Belgium	—	1,394	—	1,394	—
Canada	—	3,346	—	3,346	—
China, People's Republic of	—	600	—	600	—
Denmark	—	1,963	—	1,963	—
Finland	—	237	—	237	—
France	—	1,697	—	1,697	—
Germany	—	3,315	—	3,315	—
Hong Kong, China	—	100	—	100	—
India	—	2,659	256	2,659	—
Indonesia	—	250	—	250	—
Italy	—	774	—	774	—
Japan	—	47,710	—	47,710	—
Korea, Republic of	—	1,900	—	1,900	—
Malaysia	—	909	—	909	—
Netherlands	—	1,337	—	1,337	—
New Zealand	—	1,096	—	1,096	—
Norway	—	3,279	—	3,279	—
Pakistan	66	1,317	128	1,317	—
Singapore	—	1,100	1,000	1,100	—
Spain	—	190	—	190	—
Sri Lanka	—	6	—	6	—
Sweden	—	861	—	861	—
Switzerland	—	1,035	—	1,035	—
Taipei, China	—	200	—	200	—
United Kingdom	—	5,617	—	5,617	—
United States	—	1,500	—	1,500	—
Total	66	87,082	1,384	87,082	—
REGULARIZED TASF REPLENISHMENTS AND ALLOCATION FROM ORDINARY CAPITAL RESOURCES NET INCOME (Note D)					
	80,000	579,039	40,488	523,913	55,126
TRANSFERS TO ASIAN DEVELOPMENT FUND					
	—	(3,472)	—	(3,472)	—
OTHER RESOURCES ¹					
	—	57,923	7	17,017	40,906
UNREALIZED INVESTMENT HOLDING GAINS					
	—	1,155	—	—	1,155
TOTAL	\$80,066	\$721,727	\$41,879²	\$624,540	\$97,187

¹ Other resources represent income and replenishments accruing to TASF since 1 April 1980.

² Includes exchange loss amounting to \$5,835.

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK—TECHNICAL ASSISTANCE SPECIAL FUND
SUMMARY STATEMENT OF TECHNICAL ASSISTANCE APPROVED AND EFFECTIVE
For the Year Ended 31 December 1998

Expressed in Thousands of United States Dollars (Note B)

Recipient	Project Preparation	Project Implementation/ Advisory	Total
Bangladesh	\$ 289	\$ 2,844	\$ 3,133
Bhutan	–	(77)	(77)
Cambodia	(34)	1,014	980
China, People's Republic of	402	2,413	2,815
Cook Islands	–	(965)	(965)
Fiji	–	(95)	(95)
India	917	479	1,396
Indonesia	202	368	570
Kazakhstan	(31)	1,395	1,364
Kiribati	(28)	361	333
Kyrgyz Republic	–	819	819
Lao PDR	(18)	1,008	990
Malaysia	(33)	(362)	(395)
Maldives	–	1,079	1,079
Marshall Islands	–	830	830
Micronesia, Federated States of	–	1,191	1,191
Mongolia	(81)	1,603	1,522
Nepal	(8)	(73)	(81)
Pakistan	(409)	391	(18)
Papua New Guinea	108	(132)	(24)
Philippines	(5)	1,145	1,140
Samoa	(16)	(52)	(68)
Solomon Islands	150	750	900
Sri Lanka	–	(428)	(428)
Tajikistan	–	150	150
Thailand	(11)	118	107
Tonga	–	(9)	(9)
Tuvalu	–	135	135
Uzbekistan	(23)	1,150	1,127
Vanuatu	–	1,807	1,807
Viet Nam	–	3,615	3,615
Total	<u>\$1,371</u>	<u>\$22,472</u>	23,843
Regional Activities			12,194
TOTAL			\$ 36,037

Negative amounts represent net undisbursed commitments written back to balances available for future commitments (Note B and E).

See notes to financial statements (TASF-6).

ASIAN DEVELOPMENT BANK – TECHNICAL ASSISTANCE SPECIAL FUND**NOTES TO FINANCIAL STATEMENTS****31 December 1998 and 1997****NOTE A—NATURE OF OPERATIONS**

The Technical Assistance Special Fund (TASF) was established to provide technical assistance on a grant basis to the Bank's developing member countries and for regional technical assistance. TASF resources consist of direct voluntary contributions by members, allocations from the net income of Ordinary Capital Resources (OCR) and Asian Development Fund (ADF) contributions, and revenue from investments and other sources.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*Presentation of the Financial Statements*

The financial statements of the TASF are presented on the basis of unrestricted, temporarily restricted, and permanently restricted net assets.

TASF reports the contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions.

Investments

All investment securities held by TASF are reported at estimated fair value, with realized and unrealized gains and losses included in revenue. Estimated fair value generally represents market value. Cost or amortized cost is used to approximate fair value for certain short-term investments not traded in the market (time deposits, etc.).

Contributions

Contributions from members are included in the financial statements from the date contribution agreements become

effective. Contributions from donors which are restricted by them to technical assistance (TA) projects/programs with specified procurement sources are classified as temporarily restricted contributions. Those without any stipulations as to specific use are accounted for as unrestricted contributions.

Technical Assistance to Member Countries

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

Reporting Currency

The financial statements of TASF are expressed in thousands of current United States dollars. As a matter of convenience, the United States dollar is the functional and reporting currency and is used to measure exchange gains and losses.

Translation of Currencies

Assets, liabilities, and uncommitted balances in currencies other than United States dollars are translated at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in currencies other than United States dollars are translated for each semimonthly period generally at the applicable rates of exchange at the beginning of each period; such practice approximates the application of average rates in effect during the period. Translation adjustments are accounted for as exchange gains or losses and are charged or credited to operations.

CONTINUED

Accounting Estimates

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

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."

NOTE C—INVESTMENTS

The currency compositions of the investment portfolio as of 31 December 1998 and 1997 expressed in United States dollars were as follows:

Currency	1998	1997
Australian dollar	\$ 5,299,000	\$ 5,231,000
Canadian dollar	85,137,000	89,047,000
Deutsche mark	6,103,000	5,821,000
Italian lira	5,032,000	4,490,000
Netherlands guilder	2,542,000	2,286,000
Swiss franc	72,884,000	40,040,000
Others	6,080,000	7,506,000
Total	\$183,077,000	\$154,421,000

The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month was 4.10% (3.18% – 1997).

Investments are governed by the Investment Authority approved by the Board of Directors. The main investment management objective is to maintain security and liquidity.

Subject to these parameters, the Bank seeks the highest possible return on its investments.

NOTE D—FUNDING

Since 1967, contributions have been made by 31 member countries. In February 1992, the Board of Governors, in authorizing a \$4,200,000,000 replenishment of the ADF, provided for an allocation to the TASF in an aggregate amount equivalent to \$140,000,000 to be used for technical assistance to poorer developing members and for regional technical assistance. This replenishment became effective in August 1992.

An aggregate amount equivalent to \$161,000,000 has been allocated to TASF (\$81,000,000 and \$80,000,000 from the 1994 and 1997 net income of the OCR, respectively, in 1995 and 1998).

Some of the contributions received were restricted to use upon procurement sources, while some were given on condition that the TA be made on reimbursable basis.

The total contributions received for the years ended 31 December 1998 and 1997 were as follows:

	1998	1997
Unrestricted contributions	\$80,066,000	\$1,126,000
Temporarily restricted contributions	—	192,000
Total	\$80,066,000	\$1,318,000

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent effective ongoing grant-financed TA projects/programs which are not yet disbursed as of the end of the year. During 1998, an amount of \$15,557,000 (\$5,481,000 – 1997) representing completed and cancelled

ASIAN DEVELOPMENT BANK – TECHNICAL ASSISTANCE SPECIAL FUND**NOTES TO FINANCIAL STATEMENTS****31 December 1998 and 1997**

TA projects has been written back as a reduction in TA of the period and the corresponding undisbursed commitment has been eliminated. The fair value of undisbursed commitments approximates the amounts undisbursed because the Bank expects that grants will be made for all projects/programs covered by the commitments. When TA provided as a project preparatory grant leads to a Bank loan, the amount of the grant exceeding \$250,000 will be refinanced under the terms of that Bank loan. Refinanced amounts of \$714,000 (\$656,000 – 1997) were charged to such loans and credited to revenue from other sources of the TASF during the year ended 31 December 1998.

NOTE F—FAIR VALUE OF FINANCIAL INSTRUMENTS

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

The fair value of financial instruments that are short-term approximates their carrying amounts.

If available, quoted market values are used to determine fair values. Financial instruments for which market quotations are not readily available are valued using methodologies and assumptions which necessarily require the use of subjective judgments. Accordingly, the actual value at which such financial instruments could be exchanged in a current transaction or whether they are actually exchangeable is not determinable.

The Fund's statement of financial position carrying amounts are considered to approximate fair values for all significant financial instruments. See Notes B and E for discussions with respect to investments and undisbursed commitments, respectively.
