

ADF-1

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## BALANCE SHEET

31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	1999		1998	
<b>ASSETS</b>				
DUE FROM BANKS (Note B)		\$ 30,151		\$ 7,893
INVESTMENTS (Notes B and C)				
Government and government-guaranteed obligations	\$ 297,644		\$ 116,375	
Time deposits	1,226,719		1,319,512	
Other obligations of banks	562,621	2,086,984	—	1,435,887
LOANS OUTSTANDING (ADF-5) (Notes B and D)	15,960,241		14,324,035	
Less—allowance for possible losses	6,929	15,953,312	6,267	14,317,768
ACCRUED REVENUE				
On investments	18,188		10,736	
On loans	37,062	55,250	36,959	47,695
DUE FROM CONTRIBUTORS (Notes B and E)		4,066,554		4,738,765
OTHER ASSETS		182		3,471
<b>TOTAL</b>		<b>\$22,192,433</b>		<b>\$20,551,479</b>
<b>LIABILITIES, UNEXPENDED BALANCES, AND CAPITAL</b>				
PAYABLE TO ORDINARY CAPITAL RESOURCES		\$ 42,476		\$ 12,101
ADVANCE PAYMENTS ON CONTRIBUTIONS (ADF-6)		29,601		—
OTHER LIABILITIES				
Investment related payables	\$ 32,729		\$ —	
Others	749	33,478	3,980	3,980
UNEXPENDED BALANCES AND CAPITAL				
Amounts available for loan commitments (ADF-6)				
Contributed Resources (Note B)	20,452,212		19,020,422	
Set-Aside Resources (Note G)	65,386		67,036	
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund (Note A)	232,855		233,256	
	20,750,453		19,320,714	
Accumulated surplus (ADF-4)	1,299,577		1,177,152	
Accumulated other comprehensive income (ADF-4) (Note H)	36,848	22,086,878	37,532	20,535,398
<b>TOTAL</b>		<b>\$22,192,433</b>		<b>\$20,551,479</b>

See notes to financial statements (ADF-7).

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## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## STATEMENT OF REVENUE AND EXPENSES

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	<u>1999</u>		<u>1998</u>	
<b>REVENUE</b>				
From loans (Notes B and D)		\$141,187		\$122,184
From investments (Notes B and C)				
Interest	\$76,754		\$59,542	
Net gain on sales	193	76,947	—	59,542
From other sources—net		<u>296</u>	<u>297</u>	\$182,023
		\$218,430		
<b>EXPENSES</b>				
Administrative expenses (Note F)		95,536		71,502
Provision for possible losses (Notes B and D)		<u>469</u>	<u>822</u>	72,324
		96,005		
<b>EXCESS OF REVENUE OVER EXPENSES— NET INCOME</b>		<b>\$122,425</b>		<b>\$109,699</b>

See notes to financial statements (ADF-7).

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## STATEMENT OF CASH FLOWS

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	1999	1998
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest charges on loans received	\$ 105,748	\$ 99,447
Interest on investments received	66,397	55,202
Cash received from other sources	307	297
Administrative expenses paid	(55,893)	(58,680)
Net Cash Provided by Operating Activities	<u>116,559</u>	<u>96,266</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash invested in time deposits and other obligations of banks	(492,118)	(383,566)
Sales of investment securities	504,171	738,558
Maturities of investment securities	11,583,696	5,900,540
Purchases of investment securities	(12,240,970)	(6,693,268)
Principal collected on loans	177,296	147,637
Loans disbursed	(1,085,246)	(1,121,384)
Net Cash Used in Investing Activities	<u>(1,553,171)</u>	<u>(1,411,483)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received and encashed <sup>1</sup>	1,462,481	1,323,739
Cash received from Ordinary Capital Resources and others	—	287
Net Cash Provided by Financing Activities	<u>1,462,481</u>	<u>1,324,026</u>
Effect of Exchange Rate Changes on Due from Banks	(3,611)	(4,215)
Net Increase in Due from Banks	<u>22,258</u>	<u>4,594</u>
Due from Banks at Beginning of Year	7,893	3,299
Due from Banks at End of Year	<u>\$ 30,151</u>	<u>\$ 7,893</u>
RECONCILIATION OF EXCESS OF REVENUE OVER EXPENSES—NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Excess of revenue over expenses—net income (ADF-2)	\$ 122,425	\$ 109,699
Adjustments to reconcile excess of revenue over expenses—net income to net cash provided by operating activities:		
Change in accrued revenue on investments and loans	(5,870)	(8,080)
Change in accrued/prepaid administrative expenses	39,643	12,822
Capitalized charges on loans	(27,412)	(20,724)
Decrease in payables	(9,609)	—
Provision for possible losses charged	469	822
Amortization of discounts/premiums	(2,935)	1,727
Net gain on sales of securities	(193)	—
Others—net	41	—
Net Cash Provided by Operating Activities	<u>\$ 116,559</u>	<u>\$ 96,266</u>

<sup>1</sup> In addition, nonnegotiable, noninterest-bearing demand promissory notes amounting to \$781,718 (\$736,879 - 1998) were received from contributing members.

See notes to financial statements (ADF-7).

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## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## STATEMENT OF CHANGES IN UNEXPENDED BALANCES AND CAPITAL

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	Contributed Resources	Set-Aside Resources	Transfers from OCR and TASF	Accumulated Surplus	Accumulated Other Comprehensive Income	Total
<b>Balance—</b>						
<b>1 January 1998</b>	\$16,902,469	\$64,237	\$233,057	\$1,067,453	\$(47,987)	\$18,219,229
Comprehensive income for the year 1998 (Note H)				109,699	85,519	195,218
Change in amount available for loan commitment	2,117,953					2,117,953
Change in SDR value of set-aside resources		2,799				2,799
Change in value of transfers from Technical Assistance Special Fund			199			199
<b>Balance—</b>						
<b>31 December 1998</b>	\$19,020,422	\$67,036	\$233,256	\$1,177,152	\$ 37,532	\$20,535,398
Comprehensive income for the year 1999 (Note H)				122,425	(684)	121,741
Change in amount of contributed resources available for loan commitments	1,431,790					1,431,790
Change in SDR value of set-aside resources		(1,650)				(1,650)
Change in value of transfers from Technical Assistance Special Fund			(401)			(401)
<b>Balance—</b>						
<b>31 December 1999</b>	\$20,452,212	\$65,386	\$232,855	\$1,299,577	\$ 36,848	\$22,086,878

## Accumulated Other Comprehensive Income (Note H)

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	Accumulated Translation Adjustments		Unrealized Investment Holding Gains (Losses)		Accumulated Other Comprehensive Income	
	1999	1998	1999	1998	1999	1998
Balance, 1 January	\$35,880	\$(48,180)	\$ 1,652	\$ 193	\$37,532	\$(47,987)
Other comprehensive income for the year	3,950	84,060	(4,634)	1,459	(684)	85,519
<b>Balance, 31 December</b>	<b>\$39,830</b>	<b>\$ 35,880</b>	<b>\$(2,982)</b>	<b>\$1,652</b>	<b>\$36,848</b>	<b>\$ 37,532</b>

See notes to financial statements (ADF-7).

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## SUMMARY STATEMENT OF LOANS

31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

Borrower/Guarantor <sup>1</sup>	Loans Outstanding	Undisbursed Balance of Effective Loans <sup>2</sup>	Loans Not Yet Effective <sup>2</sup>	Total Loans	Percent of Total Loans
Afghanistan	\$ 33,082	\$ —	\$ —	\$ 33,082	0.15
Bangladesh	4,370,955	939,878	189,823	5,500,656	25.55
Bhutan	46,258	12,567	9,897	68,722	0.32
Cambodia	154,097	122,025	88,417	364,539	1.69
Cook Islands	21,270	1,695	—	22,965	0.11
Indonesia	687,731	167,419	—	855,150	3.97
Kazakhstan	44,381	14,492	—	58,873	0.27
Kiribati	3,374	9,986	—	13,360	0.06
Kyrgyz Republic	248,054	108,111	35,926	392,091	1.82
Lao PDR	573,556	188,122	51,688	813,366	3.78
Maldives	33,061	12,672	8,054	53,787	0.25
Marshall Islands	32,035	17,307	—	49,342	0.23
Micronesia, Fed. States of	25,071	11,023	—	36,094	0.17
Mongolia	294,284	80,464	50,230	424,978	1.97
Myanmar	502,645	—	—	502,645	2.34
Nepal	1,113,781	253,021	49,734	1,416,536	6.58
Pakistan	4,102,135	1,042,508	54,427	5,199,070	24.14
Papua New Guinea	295,442	24,559	20,039	340,040	1.58
Philippines	892,436	183,095	—	1,075,531	4.99
Samoa	79,607	3,591	—	83,198	0.39
Solomon Islands	49,767	11,042	—	60,809	0.28
Sri Lanka	1,615,364	439,491	147,482	2,202,337	10.23
Tajikistan	9,868	9,752	24,984	44,604	0.21
Thailand	64,610	—	—	64,610	0.30
Tonga	35,498	3,552	—	39,050	0.18
Tuvalu	2,800	1,289	—	4,089	0.02
Uzbekistan	554	19,314	—	19,868	0.09
Vanuatu	38,245	14,787	—	53,032	0.25
Viet Nam	590,280	970,702	179,677	1,740,659	8.08
BALANCE – 31 December 1999	15,960,241	4,662,464	910,378	21,533,083	100.00
Allowance for possible losses	(6,929)			(6,929)	
<b>NET BALANCE – 31 December 1999</b>	<b>\$15,953,312</b>	<b>\$ 4,662,464</b>	<b>\$ 910,378</b>	<b>\$21,526,154</b>	
BALANCE – 31 December 1998	\$14,324,035	\$ 4,751,253	\$ 1,211,891	\$20,287,179	
Allowance for possible losses	(6,267)			(6,267)	
<b>NET BALANCE – 31 December 1998</b>	<b>\$14,317,768</b>	<b>\$ 4,751,253</b>	<b>\$1,211,891</b>	<b>\$20,280,912</b>	

1 Loans other than those made directly to a member or to its central bank have been guaranteed by the member with the exception of loans to the private sector amounting to \$10,765 (\$16,209 – 1998).

2 Loans negotiated before 1 January 1983 were denominated in current United States dollars. Loans negotiated after that date are denominated in Special Drawing Rights (SDR) for the purpose of commitment. The undisbursed portions of such SDR loans are translated into United States dollars at the applicable exchange rates as of the end of a reporting period. Of the undisbursed balances, ADB has entered into irrevocable commitments to disburse various amounts totaling \$105,523 (\$161,061 – 1998).

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**MATURITY OF EFFECTIVE LOANS**


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<u>Twelve Months Ending 31 December</u>	<u>Amount</u>	<u>Five Years Ending 31 December</u>	<u>Amount</u>
2000	\$385,614	2009	2,848,170
2001	322,195	2014	3,722,219
2002	357,202	2019	4,161,644
2003	389,334	2024	3,817,756
2004	436,722	2029	2,466,672
		2034	1,350,893
		2039	364,284
		<b>Total</b>	<b><u>\$20,622,705</u></b>

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**SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING**


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<u>Currency</u>	<u>1999</u>	<u>1998</u>	<u>Currency</u>	<u>1999</u>	<u>1998</u>
Australian dollar	\$ 421,550	\$ 391,511	Japanese yen	9,864,985	8,092,001
Austrian schilling	677	125,068	Korean won	73	23
Belgian franc	39	142,441	Netherlands guilder	-	387,413
Canadian dollar	761,906	676,201	New Zealand dollar	25,962	26,613
Danish krone	82,942	94,504	Norwegian krone	49,882	73,271
Deutsche mark	-	1,056,399	Pound sterling	297,710	326,311
Euro	2,344,711	-	Spanish peseta	-	49,337
Finnish markka	-	73,716	Swedish krona	80,481	82,773
French franc	-	482,818	Swiss franc	175,784	188,977
Italian lira	-	254,008	United States dollar	1,853,539	1,800,650
			<b>Total</b>	<b><u>\$15,960,241</u></b>	<b><u>\$14,324,035</u></b>

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## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## STATEMENT OF RESOURCES

31 December 1999

Expressed in Thousands of United States Dollars (Note B)

	Effective Amounts Committed During 1999	Effective Amounts At Exchange Rates Per Resolutions	Effective Committed At 31 Dec. 1999 Exchange Rates	Amounts Not Yet Available For Loan Commitments	Amounts Available For Loan Commitments	Amounts Received	Amounts Receivable
CONTRIBUTED RESOURCES							
Australia	\$ -	\$ 1,139,532	\$ 864,646	\$ 37,402	\$ 827,244	\$ 827,244	\$ -
Austria	-	144,706	146,954	7,863	139,091	139,091	-
Belgium	-	138,556	129,130	3,666	125,464	125,464	-
Canada	-	1,280,180	1,087,267	29,682	1,057,585	1,057,585	-
Denmark	-	154,229	140,676	4,620	136,056	136,056	-
Finland	-	100,391	77,535	3,391	74,144	74,144	-
France	-	831,755	734,627	47,929	686,698	686,698	-
Germany	-	1,132,547	1,152,658	59,312	1,093,346	1,093,346	-
Hong Kong, China	-	20,270	20,270	3,848	16,422	16,422	-
Indonesia	-	14,960	14,960	2,500	12,460	12,460	-
Italy	-	707,302	464,920	44,230	420,690	420,690	-
Japan	-	6,441,291	11,646,244	263,129	11,383,115	11,383,115	-
Korea, Rep. of	-	77,170	59,960	9,265	50,695	50,695	-
Malaysia	-	10,000	6,708	2,968	3,740	3,740	-
Nauru	-	1,933	1,933	-	1,933	1,433	500
Netherlands	-	413,497	414,564	12,333	402,231	402,231	-
New Zealand	-	70,473	52,108	8,754	43,354	43,354	-
Norway	-	138,458	106,678	4,855	101,823	101,823	-
Spain	81	103,513	80,379	2,610	77,769	77,769	-
Sweden	-	249,844	176,824	7,885	168,939	168,939	-
Switzerland	-	214,910	229,917	6,675	223,242	223,242	-
Taipei, China	-	31,080	29,004	3,174	25,830	25,830	-
Thailand	-	4,000	2,691	673	2,018	2,018	-
Turkey	-	100,386	100,386	7,133	93,253	93,253	-
United Kingdom	-	725,477	664,221	27,062	637,159	637,159	-
United States	-	2,924,928	2,924,928	277,017	2,647,911	2,647,911	-
Total	81	17,171,388	21,330,188	877,976	20,452,212	20,451,712 <sup>1</sup>	500
SET-ASIDE RESOURCES							
(Note G)	-	-	65,386	-	65,386	-	-
TRANSFER FROM ORDINARY CAPITAL RESOURCES							
	-	-	230,000	-	230,000	-	-
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND <sup>2</sup>							
	-	-	2,855	-	2,855	-	-
<b>TOTAL</b>	<b>\$81</b>	<b>\$17,171,388</b>	<b>\$21,628,429</b>	<b>\$877,976</b>	<b>\$20,750,453</b>	<b>\$20,451,712</b>	<b>\$500</b>

1 Excludes \$29,601 equivalent representing advance payments received but not yet available for loan commitments as of 31 December 1999.

2 Includes translation adjustments amounting to \$617 as of 31 December 1999.

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

CONTINUED

## NOTE A—NATURE OF OPERATIONS

The Asian Development Fund (the Fund) was established on 28 June 1974 to more effectively carry out the special operations of the Asian Development Bank (ADB) by providing resources on concessional terms which are made available almost exclusively to the least developed borrowing countries.

The resources of the Fund have been subsequently augmented by six replenishments, the most recent of which became effective in September 1997 in a total amount equivalent to US\$2,657,777,000 to cover the operational requirements for the four-year period from January 1997. In 1997, unallocated net income of \$230,000,000 held in the surplus account of ADB's Ordinary Capital Resources was allocated to the Fund to supplement donors' contributions.

NOTE B—SUMMARY OF SIGNIFICANT  
ACCOUNTING POLICIES*Functional Currencies and Reporting Currency*

The currencies of contributing member countries are functional currencies. The reporting currency is the United States dollar, and the financial statements are expressed in thousands of current United States dollars.

*Translation of Currencies*

Assets, liabilities, amounts available for loan commitments and advance payments on contributions are translated from their functional currencies to the reporting currency, generally at the applicable rates of exchange at the end of a reporting period. Revenue and expense amounts 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 relating to set-aside resources (*see Note G*) are recorded as notional amounts receivable from or payable to Ordinary Capital Resources. Other translation adjustments are charged or credited to "Accumulated translation adjustments" and reported in "UNEXPENDED BALANCES AND CAPITAL" as part of "Accumulated other comprehensive income." Exchange gains or losses on currency transactions among functional currencies are included in revenue.

*Investments*

All investment securities held by the Fund are considered by Management to be available for sale and are reported at estimated fair value, with unrealized gains and losses excluded from revenue and reported in "UNEXPENDED BALANCES AND CAPITAL" as part of "Accumulated other comprehensive income." 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.). Realized gains and losses are included in revenue from investments and are measured by the difference between average cost or amortized cost and the net proceeds of sales.

*Loans*

It is the policy of the Fund to place in nonaccrual status loans made to eligible developing member countries if the principal or interest with respect to any such loans are overdue by six months. Interest on nonaccruing loans are included in revenue only to the extent that payments have actually been received by the Fund. ADB follows a policy of not taking part in debt rescheduling agreements with respect to public sector loans. In the case of private sector loans, ADB may agree to debt rescheduling only after alternative courses of action have been exhausted.

ADB determines that a loan is impaired and, therefore, subject to provisioning when principal or interest are in arrears for one year for public sector loans made to or guaranteed by a member country (unless there is clear and convincing evidence warranting the deferment or acceleration of such provisioning) and six months for private sector loans. If the present value of expected future cash flows discounted at the loan's effective interest rate is less than the carrying value of the loan, a valuation allowance is established with a corresponding charge to provision for possible losses.

ADB's periodic evaluation of the adequacy of the allowance for possible losses is based on its past loan loss experience, known and inherent risks in existing loans and adverse situations that may affect a borrower's ability to repay.

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

*Contributed Resources*

Contributions by member countries are included in the financial statements as amounts committed from the date Instruments of Contribution are deposited and related formalities are completed.

Contributions are generally paid or to be paid in the currency of the contributor either in cash or notes.

*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 Fund 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 1999 and 1998, expressed in United States dollars, were as follows:

Currency	1999	1998
Australian dollar	\$ 251,443,000	\$ 142,529,000
Austrian schilling	–	27,998,000
Belgian franc	–	23,922,000
Canadian dollar	173,470,000	99,276,000
Danish krone	29,447,000	18,139,000
Deutsche mark	–	40,890,000
Euro	401,454,000	–
French franc	–	118,489,000
Italian lira	–	81,671,000
Japanese yen	233,903,000	178,867,000
Netherlands guilder	–	26,222,000
Norwegian krone	54,580,000	22,123,000
Pound sterling	318,618,000	233,076,000
Spanish peseta	–	33,291,000
Swedish krone	41,337,000	19,833,000
United States dollar	551,096,000	343,458,000
Others	31,636,000	26,103,000
Total	<u>\$2,086,984,000</u>	<u>\$1,435,887,000</u>

The estimated fair value and amortized cost of the investments by contractual maturity at 31 December 1999 were as follows:

	Estimated Fair Value	Amortized Cost
Due in one year or less	\$2,036,159,000	\$2,036,941,000
Due after one year through five years	30,010,000	30,591,000
Due after five years through ten years	20,815,000	22,434,000
Total	<u>\$2,086,984,000</u>	<u>\$2,089,966,000</u>

Additional information relating to investments in government and government-guaranteed obligations and other obligations of banks is as follows:

	1999	1998
As of 31 December		
Amortized cost	\$863,247,000	\$114,723,000
Estimated fair value	860,265,000	116,375,000
Gross unrealized gains	–	1,652,000
Gross unrealized losses	2,982,000	–
For the years ended 31 December		
Change in net unrealized (losses) gains	(4,634,000)	1,459,000
Proceeds from sales	504,171,000	738,558,000
Gross gains	245,000	1,000
Gross losses	52,000	1,000

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, excluding unrealized gains and losses, was 3.99% (4.56% – 1998). If unrealized gains and losses were included, the annualized rate of return would have been 3.75% (4.67% – 1998).

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, ADB seeks the highest possible return on the Fund's investments.

In 1999, the Board of Directors approved a new Investment Authority. The new Investment Authority allows investment in higher-yielding investment instruments, such as high-

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quality corporate bonds, mortgage-backed securities, and asset-backed securities.

#### NOTE D—LOANS AND LOAN LOSS PROVISION

##### Loans

Prior to 1 January 1999, loans of the Fund were extended to eligible developing member countries, which bore a service charge of 1% and required repayment over periods ranging from 35 to 40 years. On 14 December 1998, the Board of Directors approved an amendment to ADF loan terms, as follows: (i) for loans to finance specific projects, 32-year maturity including an 8-year grace period; (ii) program loans to support sector development, 24-year maturity including an 8-year grace period; and (iii) all new loans bear a 1% interest charge during the grace period, and 1.5% during the amortization period, with equal amortization. The new ADF lending terms took effect on 1 January 1999 and apply only to new loans for which formal loan negotiations were completed on or after 1 January 1999. The Fund requires borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies disbursed.

The fair value of loans are determined using an entry value method. Under this method, fair value is determined based on the terms at which a similar loan would currently be made by ADB to a similar borrower. For such loans, fair value approximates the carrying amount. The estimated fair value of loans is not affected by credit risks because the amount of any such adjustment is not considered to have a material effect based on ADB's experience with its borrowers.

Undisbursed loan commitments and an analysis of loans by countries as of 31 December 1999 are shown in ADF-5.

The principal amount outstanding of public sector loans in nonaccrual status as of 31 December 1999 was \$535,727,000 (\$492,379,000 – 1998) of which \$40,152,000 (\$22,253,000 – 1998) was overdue. Loans in nonaccrual status resulted in \$5,045,000 (\$5,740,000 – 1998) not being recognized as income from loans for the year ended 31 December 1999. The loans in nonaccrual status as of 31 December 1999 were four loans made to Afghanistan and 28 loans to Myanmar. (Four loans to Afghanistan and 27 loans to Myanmar were in nonaccrual status as of 31 December 1998). The accumulated interest that are not recognized as income on these loans would have totaled \$12,877,000 (\$6,960,000 – 1998).

Private sector loans outstanding as of 31 December 1999 were \$7,778,000 (\$13,885,000 – 1998), net of accumu-

lated provision for possible loan losses as of 31 December 1999 of \$2,986,000 (\$2,324,000 – 1998), and there were no undisbursed loan commitments (nil – 1998).

##### Loan Loss Provision

ADB makes provision for possible losses on loans to the private sector, based on an evaluation by ADB of the collectibility of loans outstanding.

ADB makes provision for possible losses on loans made to the public sector when principal or interest is in arrears for a year or more unless there is clear and convincing evidence warranting the deferment or acceleration of such provisioning. The amount of any loss provision is determined by comparing the carrying value of the loan to the present value of expected cash inflows discounted at the loan's effective interest rate.

During the 1999 financial year, no loan loss provisions (nil – 1998) were made against public sector loans while \$469,000 (\$822,000 – 1998) has been provided against private sector loans.

Information pertaining to loans which are subject to loan loss provisions as at 31 December 1999 and 1998 is as follows:

	1999	1998
Loans without loss provisions	\$15,917,379,000	\$14,284,233,000
Loans subject to loss provisions	42,862,000	39,802,000
<b>Total</b>	<b>\$15,960,241,000</b>	<b>\$14,324,035,000</b>
Average amount of loans subject to loss provisions	\$ 39,873,000	\$ 36,197,000
Related interest charges on such loans	\$ 427,000	\$ 387,000
Cash received on related interest charges on such loans	\$ 63,000	\$ 81,000

## ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

## NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

The changes in the allowance for possible loan losses during 1999 and 1998 were as follows:

	1999	1998
Balance – 1 January	\$6,267,000	\$5,577,000
Provision during the year	469,000	822,000
Translation adjustments	193,000	(132,000)
Balance – 31 December	<u>\$6,929,000</u>	<u>\$6,267,000</u>
Made up of:		
Against public sector loans		
Afghanistan	\$3,943,000	\$3,943,000
Against private sector loans	2,986,000	2,324,000
Total	<u>\$6,929,000</u>	<u>\$6,267,000</u>

## NOTE E—NOTES OF CONTRIBUTORS

Notes of contributors are nonnegotiable, noninterest-bearing and, subject to certain restrictions imposed by applicable Board of Governors' resolutions encashable by ADB at par upon demand.

ADB currently expects that the notes outstanding at 31 December 1999 will be encashed in varying amounts over the eight-year period ending 31 December 2007.

The fair value of notes of contributors are determined using an entry value method whereby fair value is determined, based on the terms at which notes are currently being accepted from contributors. On this basis, the fair value of outstanding notes of contributors approximates their carrying amount.

## NOTE F—ADMINISTRATIVE EXPENSES AND ADMINISTRATION CHARGE

Administrative expenses include an administration charge from Ordinary Capital Resources amounting to \$95,528,000 (\$71,475,000 - 1998). The charge represents an apportionment of all administrative expenses of ADB (other than those pertaining directly to ordinary operations and special operations), based on the number of loans and equity investments approved during the year.

## NOTE G—SET-ASIDE RESOURCES

Pursuant to the provisions of Article 19, paragraph 1(i) of the Articles of Agreement Establishing the Asian Development Bank (the Charter), the Board of Governors has authorized the setting aside of 10% of the unimpaired "paid-in" capital paid by member countries pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by member countries pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973, to be used as a part of the Special Funds of ADB. The capital so set aside was allocated and transferred from the Ordinary Capital Resources to the Fund as Set-Aside Resources.

The capital stock of ADB is defined in Article 4, paragraph 1 of the Charter, "in terms of United States dollars of the weight and fineness in effect on 31 January 1966" (the 1966 dollar). Therefore, Set-Aside Resources had historically been translated into the current United States 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 had par values in terms of gold. Pending ADB's selection of the appropriate successor to the 1966 dollar, the Set-Aside Resources have been valued for purposes of the accompanying financial statements in terms of the Special Drawing Right (SDR), at the value in current United States dollars as computed by the IMF. As of 31 December 1999, the value of the SDR in terms of the current United States dollar was \$1.37338 (\$1.40803 - 1998). On this basis, Set-Aside Resources amounted to \$65,386,000 (\$67,036,000 - 1998). If the capital stock of ADB as of 31 December 1999 had been valued in terms of \$12,063.50 per share, Set-Aside Resources would have been \$57,434,000.

## NOTE H—COMPREHENSIVE INCOME AND ACCUMULATED OTHER COMPREHENSIVE INCOME

In 1998, ADB adopted Statement of Financial Accounting Standards (SFAS) No. 130—Reporting Comprehensive Income issued by the Financial Accounting Standards Board. SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components (revenues, expenses, gains, and losses) in a full set of general-purpose financial statements. Comprehensive income

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has two major components: net income and other comprehensive income. Other comprehensive income include such items as unrealized gains and losses on available-for-sale securities and foreign currency translation adjustments.

NOTE 1—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 balance sheet carrying amounts are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and E for discussions with respect to investments, loans, and notes of contributors, respectively.

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