

JSF-1

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

## STATEMENT OF FINANCIAL POSITION

31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	1999			1998
	ACCSF	JSF Regular and Supplementary	Total	JSF Regular and Supplementary
<b>ASSETS</b>				
DUE FROM BANKS (Note B)	\$ 73	\$ 4,535	\$ 4,608	\$ 329
INVESTMENTS (Notes A, B, and C)				
Government and government-guaranteed obligations	98	–	98	–
Time deposits	116,754	255,227	371,981	309,782
Other obligations of banks	–	39,679	39,679	–
	<u>116,852</u>	<u>294,906</u>	<u>411,758</u>	<u>309,782</u>
EQUITY INVESTMENTS (Notes A, B, and D), net	–	709	709	216
ACCRUED REVENUE	30	5,803	5,833	3,279
OTHER ASSETS	–	4,781	4,781	4,362
<b>TOTAL</b>	<b>\$116,955</b>	<b>\$310,734</b>	<b>\$427,689</b>	<b>\$317,968</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>				
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Payable to Ordinary Capital Resources	\$ 11	\$ 194	\$ 205	\$ 512
Miscellaneous	485	59	544	36
	<u>496</u>	<u>253</u>	<u>749</u>	<u>548</u>
UNDISBURSED COMMITMENTS (Notes B and E)				
Technical assistance	6,182	118,295	124,477	134,250
Interest payment assistance	84,145	–	84,145	–
	<u>90,327</u>	<u>118,295</u>	<u>208,622</u>	<u>134,250</u>
NET ASSETS (JSF-2) (Note B), represented by:				
Uncommitted Balances (Note F)				
Unrestricted	–	66,718	66,718	103,071
Temporarily restricted (Notes A and G)	26,129	54,710	80,839	24,464
	26,129	121,428	147,557	127,535
Net Accumulated Investment Income				
Temporarily restricted (Notes A and G)	3	70,758	70,761	55,635
	<u>26,132</u>	<u>192,186</u>	<u>218,318</u>	<u>183,170</u>
<b>TOTAL</b>	<b>\$116,955</b>	<b>\$310,734</b>	<b>\$427,689</b>	<b>\$317,968</b>

See notes to financial statements (JSF-4).

JSF-2

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND  
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS  
 For the Years Ended 31 December 1999 and 1998  
 Expressed in Thousands of United States Dollars (Note B)

	1999			1998
	ACCSF	JSF Regular and Supplementary	Total	JSF Regular and Supplementary
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>				
CONTRIBUTIONS (Notes B and G)	\$ –	\$ 16,781	\$ 16,781	\$ 46,479
REVENUE FROM OTHER SOURCES	–	72	72	64
UNREALIZED INVESTMENT HOLDING GAINS (LOSSES) ON EQUITY INVESTMENTS	–	506	506	(152)
NET ASSETS RELEASED FROM RESTRICTIONS (Notes B and G)	95,678	3,463	99,141	26,926
Total	95,678	20,822	116,500	73,317
<b>EXPENSES</b>				
Technical assistance (Notes B and E)	6,628	55,801	62,429	95,651
Interest payment assistance (Note B)	89,000	–	89,000	–
Administrative expenses	50	1,368	1,418	1,080
Provision for possible losses (Notes B and D)	–	–	–	134
Total	95,678	57,169	152,847	96,865
CONTRIBUTIONS AND REVENUE LESS THAN EXPENSES	–	(36,347)	(36,347)	(23,548)
EXCHANGE GAINS (LOSSES) (Note B)	–	532	532	(1,585)
DECREASE IN UNRESTRICTED NET ASSETS BEFORE TRANSLATION ADJUSTMENTS	–	(35,815)	(35,815)	(25,133)
TRANSLATION ADJUSTMENTS (Note B)	–	(538)	(538)	(1,259)
DECREASE IN UNRESTRICTED NET ASSETS	–	(36,353)	(36,353)	(26,392)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>				
CONTRIBUTIONS (Notes B and G)	104,367	31,838	136,205	16,068
REVENUE FROM INVESTMENTS (Notes B and C)	53	16,576	16,629	16,560
NET ASSETS RELEASED FROM RESTRICTIONS (Notes B and G)	(95,678)	(3,463)	(99,141)	(26,926)
EXCHANGE LOSSES (Note B)	(35)	–	(35)	–
TRANSLATION ADJUSTMENTS (Note B)	17,425	418	17,843	(561)
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	26,132	45,369	71,501	5,141
INCREASE (DECREASE) IN NET ASSETS	26,132	9,016	35,148	(21,251)
NET ASSETS AT BEGINNING OF YEAR	–	183,170	183,170	204,421
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 26,132</b>	<b>\$192,186</b>	<b>\$218,318</b>	<b>\$183,170</b>

See notes to financial statements (JSF-4).

JSF-3

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL 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
	ACCSF	JSF Regular and Supplementary	Total	JSF Regular and Supplementary
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Contributions received	\$104,367	\$48,619	\$152,986	\$ 62,547
Interest on investments received	11	13,767	13,778	13,738
Technical assistance disbursed	–	(72,389)	(72,389)	(69,012)
Interest assistance paid	(4,855)	–	(4,855)	–
Administrative expenses paid	–	(972)	(972)	(1,446)
Others—net	(35)	141	106	(1,666)
Net Cash Provided by (Used in) Operating Activities	<u>99,488</u>	<u>(10,834)</u>	<u>88,654</u>	<u>4,161</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Net cash (invested in) withdrawn from time deposits	(108,770)	15,159	(93,611)	(43,904)
Sales of investment securities	66,161	49,181	115,342	63,478
Maturities of investment securities	174,840	–	174,840	–
Purchases of investment securities	(231,268)	(47,964)	(279,232)	(63,070)
Net Cash (Used in) Provided by Investing Activities	<u>(99,037)</u>	<u>16,376</u>	<u>(82,661)</u>	<u>(43,496)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Cash paid to Ordinary Capital Resources and others—net	–	–	–	(139)
Effect of Exchange Rate Changes on Due from Banks	(378)	(1,336)	(1,714)	1,345
Net Increase (Decrease) in Due from Banks	73	4,206	4,279	(38,129)
Due from Banks at Beginning of Year	–	329	329	38,458
Due from Banks at End of Year	<u>\$ 73</u>	<u>\$ 4,535</u>	<u>\$ 4,608</u>	<u>\$ 329</u>
<b>RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>				
Increase (Decrease) in net assets (JSF-2)	\$ 26,132	\$ 9,016	\$ 35,148	\$(21,251)
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:				
Unrealized investment (gains) losses	–	(506)	(506)	152
Translation adjustments	(17,425)	120	(17,305)	1,820
Provision for possible losses charged	–	–	–	134
Change in undisbursed commitments	90,327	(15,955)	74,372	27,667
Amortization of discounts/premiums	(13)	(284)	(297)	(3)
Others—net	467	(3,225)	(2,758)	(4,358)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 99,488</u>	<u>\$(10,834)</u>	<u>\$ 88,654</u>	<u>\$ 4,161</u>

See notes to financial statements (JSF-4).

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

## NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

## NOTE A—NATURE OF OPERATIONS

The Japan Special Fund (JSF) was established in March 1988 when Japan and the Asian Development Bank (ADB) entered into a financial arrangement whereby Japan agreed to make an initial contribution and ADB became the administrator. The purpose of JSF is to help developing member countries (DMCs) of ADB restructure their economies and broaden the scope of opportunities for new investments, thereby assisting the recycling of funds to DMCs of ADB. While the JSF resources are used mainly to finance technical assistance (TA) operations, these resources may also be used for equity investment operations in ADB's DMCs. Under the agreement between ADB and Japan, ADB may invest the proceeds of JSF pending disbursement. The revenue from such investments, if retained by ADB, may only be used to pay for direct and identifiable costs incurred in the administration of JSF.

In March 1999, the Board approved the acceptance and administration by ADB of a new facility, the Asian Currency Crisis Support Facility (ACCSF) to assist Asian currency crisis-affected member countries (CAMCs). Funded by Japan, ACCSF was established within the Japan Special Fund (JSF) to assist in the economic recovery of CAMCs through interest payment assistance (IPA) grants, TA grants and guarantees. ACCSF funds must be committed within three years after the date the facility became effective. Thereafter, the use of any residual funds, if and when the purpose of ACCSF is considered to be fulfilled, shall be decided in consultation between ADB and Japan.

## NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

*Presentation of the Financial Statements*

The financial statements of the JSF are presented on the basis of unrestricted and temporarily restricted net assets. ACCSF funds are separately reported in the financial statements.

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

*Investments*

All investment securities held by the JSF 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 by Japan are included in the financial statements from the date indicated by Japan that funds are expected to be made available. Contributions which are restricted by the donor for specific TA projects/programs or for IPA grants are classified as temporarily restricted contributions. Those without any stipulation as to specific use are accounted for as unrestricted contributions and reported as such.

*Technical Assistance and Interest Payment Assistance*

Technical assistance and interest payment assistance are recognized in the financial statements when the related project or assistance 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.

*Functional Currency and Reporting Currency*

The functional currency of JSF is the Japanese yen, while the reporting currency is the United States dollar. The financial statements are expressed in thousands of current United States dollars.

*Translation of Currencies*

Assets, liabilities, and uncommitted balances are translated from the functional currency to the reporting currency at the applicable rates of exchange at the end of a reporting period. Contributions included in the financial statements during the year are translated at the applicable exchange rates as of the respective dates of commitment. Revenue and expense amounts in Japanese yen are translated for each semimonthly period 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.

JSF-4

CONTINUED

Exchange gains or losses on currency transactions arise on translation differences between the date a project/program is committed and the timing of disbursements. Exchange gains or losses are charged or credited to operations.

#### Equity Investments

Equity investments with readily determinable fair values are reported at fair value. ADB makes provisions for possible loss of value quarterly based on Management's evaluation of potential losses on investments without readily determinable fair values.

#### 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 JSF 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
	ACCSF	JSF Regular and Supplementary	Total	JSF Regular and Supplementary
Japanese yen	\$116,852,000	\$ -	\$116,852,000	\$ -
United States dollar	-	294,906,000	294,906,000	309,782,000
Total	<u>\$116,852,000</u>	<u>\$294,906,000</u>	<u>\$411,758,000</u>	<u>\$309,782,000</u>

The annualized rates of return on the average investments held under ACCSF and JSF funds during the year, based on the portfolio held at the beginning and end of each month were 0.07% and 5.22%, respectively (5.08% for JSF - 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 JSF'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-quality corporate bonds, mortgage-backed securities, and asset-backed securities.

#### NOTE D—EQUITY INVESTMENTS

ADB used JSF resources to make an equity investment in India in 1990 totaling \$709,000 at 31 December 1999

(\$216,000 - 1998). The investment is reported at its estimated fair value and the unrealized gain of \$506,000 (loss of \$152,000 - 1998) is included in income for the year.

#### NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent effective TA for projects/programs and IPA grants which have not been disbursed. During 1999, an amount of \$4,779,000 (\$9,169,000 - 1998), representing completed and canceled TA projects, has been written back as a reduction in TA for the period and the corresponding undisbursed commitment has been eliminated. The fair value of undisbursed commitments approximates the amounts outstanding because JSF expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

## ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

## NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

## NOTE F—UNCOMMITTED BALANCES

Uncommitted balances are composed of amounts which have not been committed by ADB at 31 December 1999.

These balances include TA projects/programs that had been approved but which had not yet become effective.

As of 31 December 1999 and 1998 these balances were as follows:

	1999			1998
	ACCSF	JSF Regular and Supplementary	Total	JSF Regular and Supplementary
Uncommitted balances	\$26,129,000	\$121,428,000	\$147,557,000	\$127,535,000
TA projects/programs approved by Japan and ADB but not yet effective	(3,850,000)	(32,859,000)	(36,709,000)	(35,108,000)
TA projects/programs approved by Japan and not yet effective	(3,000,000)	(18,630,000)	(21,630,000)	(29,050,000)
Uncommitted balances available for new commitments	<u>\$19,279,000</u>	<u>\$ 69,939,000</u>	<u>\$ 89,218,000</u>	<u>\$ 63,377,000</u>

## NOTE G—CONTRIBUTIONS AND TEMPORARILY RESTRICTED NET ASSETS

All contributions for the years ended 31 December 1999 and 1998 were received during the respective years. Some of the contributions received were with the restriction that they were to be utilized for specific TA projects/programs and IPA grants. Such contributions were classified as temporarily restricted support.

Temporarily restricted uncommitted balances are available for the following purposes as of 31 December 1999 and 1998:

	1999	1998
Asian Currency Crisis Support Facility	\$26,129,000	\$ -
Japan Special Fund		
Environment-Related Activities	27,710,000	13,917,000
Financial Sector	10,843,000	-
Private Sector Promotion	9,032,000	5,458,000
Gender and Development	6,777,000	4,809,000
Training/Symposium	348,000	280,000
	<u>54,710,000</u>	<u>24,464,000</u>
Total	<u>\$80,839,000</u>	<u>\$24,464,000</u>

Accumulated investment income net of accumulated administrative expenses has been categorized as temporarily restricted net assets because, under the terms of the agreement between ADB and the donor, it may only be used for defraying of the Fund's administrative expenses.

Net assets released from restrictions relate to commitments for technical assistance and interest payment assistance satisfying the conditions specified by the donor and, in the case of accumulated investment income, to defray the administrative expenses of the Fund.

## NOTE H—GUARANTEES

To assist in the economic recovery of CAMCs, a guarantee facility is provided under ACCSF. In this connection, Japan has made available a noninterest-bearing, nonnegotiable note in the amount of ¥360 billion (\$3.5 billion), encashable by ADB at any time to meet any calls on the guarantee facility. As of 31 December 1999, no guarantee has been made.

## NOTE I—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, C, D, and E for discussions with respect to investments, equity investments, and undisbursed commitments, respectively.

---