

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

BALANCE SHEET

31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

A S S E T S				
	1999		1998	
DUE FROM BANKS (Notes B and C)	\$	72,972	\$	62,617
INVESTMENTS (Notes B, C, D, and J)				
Government and government-guaranteed obligations	\$	2,295,714	\$	4,500,649
Time deposits		3,643,433		3,446,843
Other obligations of banks		2,259,544	8,198,691	128,028
LOANS OUTSTANDING (OCR-5) (Notes A, B, and E)				
Members and guaranteed by members		27,936,529		24,358,635
Private sector		407,612		401,257
		28,344,141		24,759,892
Less—allowance for possible losses		72,991	28,271,150	61,507
EQUITY INVESTMENTS (Notes A, B, and F)		272,616		237,008
Less—allowance for possible losses		61,522	211,094	51,115
ACCRUED INCOME				
On investments		86,564		107,122
On loans		372,502	459,066	362,474
RECEIVABLE FROM MEMBERS				
Nonnegotiable, noninterest-bearing demand obligations (Notes C and I)		381,576		350,289
Amounts required to maintain value of currency holdings (Note I)		5,495		13,541
Subscription installments (Note I)		1,943	389,014	5,964
OTHER ASSETS				
Receivable from currency swaps (Note H)		6,666,875		6,773,746
Notional amounts required to maintain value of currency holdings (Note I)		708,431		718,693
Property, furniture, and equipment (Notes B and G)		155,395		160,155
Unamortized issuance costs of borrowings		56,135		63,815
Miscellaneous (Note L)		105,834	7,692,670	74,604
TOTAL		\$45,294,657		\$41,652,818

See notes to financial statements (OCR-8).

OCR-1

LIABILITIES, CAPITAL, AND RESERVES

	1999	1998
BORROWINGS (OCR-6) (Note H)	\$26,285,451	\$23,743,713
ACCRUED INTEREST ON BORROWINGS	405,960	367,540
ACCOUNTS PAYABLE AND OTHER LIABILITIES		
Payable for currency swaps (Note H)	\$ 7,484,515	\$ 7,095,896
Notional amounts required to maintain value of currency holdings (Note I)	340,351	247,931
Investment related payables	79,405	—
Advance payments on subscriptions (Note I)	8,802	6,496
Miscellaneous (Note G)	126,937	127,995
	8,040,010	7,478,318
CAPITAL AND RESERVES (OCR-4)		
Capital Stock (OCR-7) (Notes B and I)		
Authorized (SDR34,909,940,000)		
Subscribed		
(SDR34,656,690,000 - 1999, SDR34,414,060,000 - 1998)	47,596,805	48,456,029
Less—"callable" shares subscribed	44,249,150	45,041,908
"Paid-in" shares subscribed	3,347,655	3,414,121
Less—subscription installments not due	160,426	244,542
Subscription installments matured	3,187,229	3,169,579
Less—capital transferred to the Asian Development Fund	65,386	67,036
	3,121,843	3,102,543
Ordinary Reserve (Note J)	6,688,873	6,211,102
Special Reserve (Note J)	181,608	181,608
Surplus (Note J)	196,645	276,645
Net income after allocations and appropriations (OCR-2) (Note J)	449,873	464,257
Accumulated other comprehensive income (OCR-4) (Note J)	(75,606)	(172,908)
	10,563,236	10,063,247
TOTAL	\$45,294,657	\$41,652,818

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF INCOME AND EXPENSES

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	1999		1998	
INCOME (Note K)				
From loans (Notes B and E)				
Interest	\$1,625,654		\$1,392,056	
Commitment charge	47,789		47,773	
Others	1,192	\$1,674,635	1,100	\$1,440,929
From investments (Notes B and D)				
Interest	386,426		353,592	
Net (loss) gain on sales	(42,475)	343,951	29,272	382,864
From other sources—net (Notes E and P)		9,233		8,747
TOTAL INCOME		\$2,027,819		\$1,832,540
EXPENSES (Note K)				
Interest and other financial expenses	1,447,218		1,206,478	
Administrative expenses (Note M)	105,894		121,701	
Provision for possible losses (Notes B, E, and F)	24,834		37,465	
TOTAL EXPENSES		1,577,946		1,365,644
NET INCOME		449,873		466,896
APPROPRIATION OF GUARANTEE FEES TO SPECIAL RESERVE (Note J)		—		(2,639)
NET INCOME AFTER APPROPRIATION TO SPECIAL RESERVE		\$ 449,873		\$ 464,257

See notes to financial statements (OCR-8).

OCR-3

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF CASH FLOWS

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

	<u>1999</u>	<u>1998</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest and other charges on loans received	\$ 1,425,823	\$ 1,066,994
Interest on investments received	407,745	363,414
Interest and other financial expenses paid	(1,257,541)	(987,994)
Administrative expenses paid	(121,937)	(121,908)
Others—net	12,400	25,905
Net Cash Provided by Operating Activities	<u>466,490</u>	<u>346,411</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Net cash (invested in) withdrawn from time deposits and other obligations of banks	(2,246,019)	525,129
Sales of investment securities	8,300,935	7,799,209
Maturities of investment securities	87,602,260	81,397,038
Purchases of investment securities	(93,773,186)	(90,727,988)
Principal collected on loans	1,151,803	953,808
Loans disbursed	(3,492,014)	(5,344,655)
Property, furniture, and equipment acquired	(3,754)	(2,263)
Net purchases of equity investments	(20,013)	(63,398)
Net Cash Used in Investing Activities	<u>(2,479,988)</u>	<u>(5,463,120)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds of new borrowings	7,508,639	12,971,107
Bonds purchased for redemption and borrowings redeemed	(5,523,641)	(7,897,339)
Matured capital subscriptions collected ¹	35,207	29,160
Borrowing issuance expenses paid	(10,708)	(17,019)
Demand obligations of members encashed	25,413	28,191
Net currency swaps	61,446	(18,297)
Resources transferred to TASF	(80,000)	-
Net Cash Provided by Financing Activities	<u>2,016,356</u>	<u>5,095,803</u>
Effect of Exchange Rate Changes on Due from Banks	<u>7,497</u>	<u>7,797</u>
Net Increase (Decrease) in Due from Banks	10,355	(13,109)
Due from Banks at Beginning of Year	62,617	75,726
Due from Banks at End of Year	<u>\$ 72,972</u>	<u>\$ 62,617</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (OCR-2)	\$ 449,873	\$ 466,896
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in accrued interest and other expenses	32,432	50,841
Change in accrued income, including interest and commitment charges added to loans	(228,254)	(381,927)
Depreciation and amortization	153,303	165,897
Net loss (gain) from sales of investments	42,475	(29,272)
Change in accrued administrative expenses	(39,643)	(2,833)
Provision for possible losses charged	24,834	37,465
Others—net	31,470	39,344
Net Cash Provided by Operating Activities	<u>\$ 466,490</u>	<u>\$ 346,411</u>

¹ In addition, nonnegotiable, noninterest-bearing demand promissory notes amounting to \$56,697 (\$44,770 – 1998) were received from members. See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF CHANGES IN CAPITAL AND RESERVES

For the Years Ended 31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Notes B and I)

	Capital Stock	Ordinary Reserve	Special Reserve	Surplus	Net Income After Allocations and Appropriations	Accumulated Other Comprehensive Income	Total
Balance—							
1 January 1998	\$2,892,939	\$5,867,429	\$178,969	\$256,645	\$467,458	\$(361,584)	\$ 9,301,856
Comprehensive income for the year 1998 (Note J)					464,257	188,676	652,933
Appropriation of guarantee fees to Special Reserve			2,639				2,639
Change in SDR value of paid-in shares subscribed	140,800						140,800
Additional paid-in shares subscribed during the year	6,538						6,538
Change in subscription installments not due	65,064						65,064
Change in SDR value of capital transferred to Asian Development Fund	(2,798)						(2,798)
Allocation of 1997 net income to ordinary reserve (Note J)		367,458			(367,458)		–
Allocation of 1997 net income to surplus (Note J)				100,000	(100,000)		–
Allocation of surplus to Technical Assistance Special Fund (Note J)				(80,000)			(80,000)
Charge to ordinary reserve for change in SDR value of capital stock (Note J)		(23,785)					(23,785)
Balance—							
31 December 1998 (Forward)	\$3,102,543	\$6,211,102	\$181,608	\$276,645	\$464,257	\$(172,908)	\$10,063,247

OCR-4

	Capital Stock	Ordinary Reserve	Special Reserve	Surplus	Net Income After Allocations and Appropriations	Accumulated Other Comprehensive Income	Total
Balance—							
31 December 1998 (Forward)	\$3,102,543	\$6,211,102	\$181,608	\$276,645	\$464,257	\$(172,908)	\$10,063,247
Comprehensive income for the year 1999 (Note J)					449,873	97,302	547,175
Appropriation of guarantee fees to Special Reserve				—			—
Change in SDR value of paid-in shares subscribed	(66,367)						(66,367)
Additional paid-in shares subscribed during the year	15,417						15,417
Change in subscription installments not due	68,600						68,600
Change in SDR value of capital transferred to Asian Development Fund	1,650						1,650
Allocation of 1998 net income to ordinary reserve (Note J)		464,257			(464,257)		—
Allocation of surplus to Technical Assistance Special Fund (Note J)				(80,000)			(80,000)
Credit to ordinary reserve for change in SDR value of capital stock (Note J)		13,514					13,514
Balance—							
31 December 1999	\$3,121,843	\$6,688,873	\$181,608	\$196,645	\$449,873	\$ (75,606)	\$10,563,236

Accumulated Other Comprehensive Income (Note J)
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	\$(200,036)	\$(393,018)	\$ 27,128	\$31,434	\$(172,908)	\$(361,584)
Other comprehensive income for the year	121,707	192,982	(24,405)	(4,306)	97,302	188,676
Balance, 31 December	\$ (78,329)	\$(200,036)	\$ 2,723	\$27,128	\$ (75,606)	\$(172,908)

See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

SUMMARY STATEMENT OF LOANS

31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

Borrower/Guarantor	Loans Outstanding ¹	Undisbursed Balance of Effective Loans ²	Loans Not Yet Effective	Total Loans	Percent of Total Loans
Bangladesh	\$ 10,000	\$ 6,667	\$ 122,000	\$ 138,667	0.33
China, People's Rep. of	4,531,464	3,340,044	902,000	8,773,508	20.92
Fiji Islands	57,050	38,923	—	95,973	0.23
India	4,279,868	1,096,382	700,000	6,076,250	14.49
Indonesia	6,925,801	3,631,894	—	10,557,695	25.17
Kazakhstan	265,158	85,236	—	350,394	0.84
Korea, Rep. of	4,076,338	310,389	—	4,386,727	10.46
Malaysia	528,463	168,969	—	697,432	1.66
Myanmar	929	—	—	929	n.a. ³
Nauru	2,300	2,700	—	5,000	0.01
Nepal	36,882	9,651	—	46,533	0.11
Pakistan	2,275,001	468,454	—	2,743,455	6.54
Papua New Guinea	165,742	51,535	63,000	280,277	0.67
Philippines	2,697,317	1,490,325	88,074	4,275,716	10.20
Sri Lanka	10,917	35,000	—	45,917	0.11
Thailand	2,448,697	710,118	4,500	3,163,315	7.54
Uzbekistan	17,385	172,615	—	190,000	0.45
Viet Nam	2,655	27,345	40,000	70,000	0.17
	<u>28,331,967</u>	<u>11,646,247</u>	<u>1,919,574</u>	<u>41,897,788</u>	<u>99.90</u>
Regional	12,174	27,826	—	40,000	0.10
TOTAL – 31 December 1999	<u>28,344,141</u>	<u>11,674,073</u>	<u>1,919,574</u>	<u>41,937,788</u>	<u>100.00</u>
Allowance for possible losses	(72,991)			(72,991)	
NET BALANCE – 31 December 1999	<u>\$28,271,150</u>	<u>\$11,674,073</u>	<u>\$1,919,574</u>	<u>\$41,864,797</u>	
Made up of loans to:					
Members and guaranteed by members	\$27,936,529	\$11,533,289	\$1,769,574	\$41,239,392	
Private sector (net of allowance for possible losses)	334,621	140,784	150,000	625,405	
Net balance – 31 December 1999	<u>\$28,271,150</u>	<u>\$11,674,073</u>	<u>\$1,919,574</u>	<u>\$41,864,797</u>	
TOTAL – 31 December 1998	\$24,759,892	\$11,658,258	\$2,601,276	\$39,019,426	
Allowance for possible losses	(61,507)			(61,507)	
NET BALANCE – 31 December 1998	<u>\$24,698,385</u>	<u>\$11,658,258</u>	<u>\$2,601,276</u>	<u>\$38,957,919</u>	
Made up of loans to:					
Members and guaranteed by members	\$24,358,635	\$11,531,796	\$2,514,576	\$38,405,007	
Private sector (net of allowance for possible losses)	339,750	126,462	86,700	552,912	
Net balance – 31 December 1998	<u>\$24,698,385</u>	<u>\$11,658,258</u>	<u>\$2,601,276</u>	<u>\$38,957,919</u>	

1 The interest rates charged on loans outstanding range from 5.44297% per annum to 11.00% per annum on loans to governments or with government-guarantee and 6.33% per annum to 13.73% per annum for loans to the private sector. Amounts outstanding on loans made under the Pool-Based Variable Interest Rate System and market-based variable interest rate loans totaled \$27,117,644 (\$23,339,784 – 1998). The average yield on loans was 6.41% in 1999 (6.78% – 1998).

2 Of the undisbursed balances, ADB has made irrevocable commitments to disburse various amounts totaling \$309,432 (\$499,767 – 1998).

3 Below 0.01%.

MATURITY OF EFFECTIVE LOANS

<u>Twelve Months Ending 31 December</u>	<u>Amount</u>	<u>Five Years Ending 31 December</u>	<u>Amount</u>
2000	\$1,272,136	2009	13,922,112
2001	1,357,450	2014	10,475,907
2002	1,624,611	2019	5,879,518
2003	1,749,357	2024	1,785,269
2004	1,803,866	2028	147,988
		Total	<u><u>\$40,018,214</u></u>

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

<u>Currency</u>	<u>1999</u>	<u>1998</u>	<u>Currency</u>	<u>1999</u>	<u>1998</u>
Australian dollar	\$ 188	\$ 220	Malaysian ringgit	-	41
Deutsche mark	7,000	44,778	New Zealand dollar	983	1,233
Euro	20,370	-	Swiss franc	978,709	1,186,268
Japanese yen	10,773,863	10,173,726	United States dollar	16,563,028	13,353,626
			Total	<u><u>\$28,344,141</u></u>	<u><u>\$24,759,892</u></u>

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

SUMMARY STATEMENT OF BORROWINGS

31 December 1999 and 1998

Expressed in Thousands of United States Dollars (Note B)

B o r r o w i n g s			
	Principal Outstanding ¹		Weighted Average Cost (%)
	1999	1998	1999
Long-Term Borrowing:			
Australian dollar	\$ 969,000	\$ 614,000	5.57
Austrian schilling	73,093	85,036	8.08
Canadian dollar	172,307	161,447	7.88
Deutsche mark	—	1,019,306	—
Euro	773,071	—	5.55
Hong Kong dollar	385,976	580,832	8.39
Japanese yen	6,549,570	6,536,291	4.82
Korean won	69,777	66,918	12.33
Netherlands guilder	329,336	393,790	7.10
New Taiwan dollar	622,716	297,859	5.73
Pound sterling	522,615	537,495	8.86
Swiss franc	1,013,278	1,213,773	4.77
United States dollar	14,418,609	10,475,531	6.27
Subtotal	<u>25,899,348</u>	<u>21,982,278</u>	5.91
Short-Term Borrowing:			
United States dollar	370,000	1,797,500	5.13
Principal amount outstanding	<u>26,269,348</u>	<u>23,779,778</u>	5.90 ²
Unamortized discounts and premiums	16,103	(36,065)	
TOTAL	<u><u>\$26,285,451</u></u>	<u><u>\$23,743,713</u></u>	

MATURITY STRUCTURE OF BORROWINGS OUTSTANDING

Twelve Months Ending 31 December		Five Years Ending 31 December	
	Amount		Amount
2000	\$1,453,074	2009	6,928,010
2001	1,387,582	2014	1,050,667
2002	5,438,800	2019	834,565
2003	4,077,815	2024	48,828
2004	3,590,007	2028	1,460,000
		Total	<u><u>\$26,269,348</u></u>

¹ Includes zero coupon borrowings which have been recorded at their discounted values. The aggregate face amounts and discounted values of these borrowings (in United States dollar equivalents) are:

Currency	Aggregate Face Amount		Discounted Value	
	1999	1998	1999	1998
Swiss franc	\$ 307,064	\$ 353,707	\$134,565	\$147,263
United States dollar	1,254,591	1,254,591	906,987	838,909

Currency Swap Arrangements³

Payable (Receivable)		Weighted Average Cost (Return) %	Net Currency Obligation	
1999	1998		1999	1998
\$ (964,236)	\$ (609,318)	(5.57)	\$ 4,764	\$ 4,682
(73,313)	(85,325)	(8.08)	(220)	(289)
(171,570)	(160,573)	(7.88)	737	874
(773,074)	(1,019,294)	(5.55)	(773,074)	12
—	—	—	773,071	—
(385,801)	(580,348)	(8.39)	175	484
2,999,202	2,992,437	5.66 ⁴	9,402,288	9,052,608
(146,484)	(476,120)	(4.14) ⁴	—	—
(69,777)	(66,918)	(12.33)	—	—
(328,771)	(393,029)	(7.10)	565	761
(622,442)	(297,533)	(5.73)	274	326
(362,497)	(372,451)	(7.47)	160,118	165,044
331,802	392,811	6.23	907,023	1,316,903
(438,057)	(289,681)	(2.41)	—	—
4,153,511	3,710,648	5.68 ⁴	16,241,267	11,763,023
(2,330,853)	(2,423,156)	(7.31) ⁴	—	—
—	—	—	370,000	1,797,500

INTEREST RATE SWAP ARRANGEMENTS⁵

	Notional Amount	Average Rate (%)		Maturing Through	
		Receive	Pay		
			Fixed		Floating
Receive Fixed Swaps:					
Australian dollar ⁶	\$ 292,969	6.34	4.89	2001-2005	
Deutsche mark ⁷	97,656	4.40	3.62	2010	
Japanese yen	97,656	5.50	0.13	2004	
United States dollar	3,731,840	6.02	5.97	2002-2004	
Receive Floating Swaps:					
Japanese yen	488,281	1.94	4.56	2002-2004	
United States dollar	5,000	5.88	6.76	2007	
Total	\$4,713,402				

2 The weighted average cost of long-term borrowings outstanding at 31 December 1999, after adjustment for swap activities, was 5.66% (5.70% – 1998).

3 At 31 December 1999, the remaining duration of currency swap agreements ranged from 1 to 23 years. Approximately 26.19% of the currency swap receivables and 25.31% of the payables are due from 31 December 2004 through 1 August 2022.

4 Includes cost of related interest rate swap transaction.

5 The interest rate swap information is based on interest rates at 31 December 1999. To the extent that interest rates change, variable interest rate information will change.

6 Consists of a currency coupon swap with interest receivable in Australian dollar and interest payable in Japanese yen.

7 Consists of a currency coupon swap with interest receivable in Deutsche mark and interest payable in Japanese yen.

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

31 December 1999

Expressed in Thousands of United States Dollars (Note B)

MEMBER	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value of Shares			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
REGIONAL							
Afghanistan	1,195	0.034	\$ 16,412	\$ 11,166	\$ 5,246	16,133	0.372
Australia	204,740	5.908	2,811,858	2,614,943	196,915	219,678	5.071
Azerbaijan	15,736	0.454	216,115	200,912	15,203	30,674	0.708
Bangladesh	36,128	1.042	496,175	461,428	34,747	51,066	1.179
Bhutan	220	0.006	3,021	2,706	316	15,158	0.350
Cambodia	1,750	0.050	24,034	19,941	4,093	16,688	0.385
China, People's Rep. of	228,000	6.579	3,131,306	2,911,964	219,343	242,938	5.608
Cook Islands	94	0.003	1,291	1,209	82	15,032	0.347
Fiji Islands	2,406	0.069	33,044	30,723	2,321	17,344	0.400
Hong Kong, China	19,270	0.556	264,650	246,110	18,541	34,208	0.790
India	224,010	6.464	3,076,509	2,861,066	215,442	238,948	5.516
Indonesia	192,700	5.560	2,646,503	2,461,179	185,324	207,638	4.793
Japan	552,210	15.934	7,583,942	7,052,828	531,114	567,148	13.092
Kazakhstan	28,536	0.823	391,908	364,454	27,454	43,474	1.004
Kiribati	142	0.004	1,950	1,813	137	15,080	0.348
Korea, Rep. of	178,246	5.143	2,447,995	2,276,583	171,412	193,184	4.459
Kyrgyz Republic	10,582	0.305	145,331	135,154	10,177	25,520	0.589
Lao PDR	492	0.014	6,757	6,029	728	15,430	0.356
Malaysia	96,350	2.780	1,323,252	1,230,576	92,676	111,288	2.569
Maldives	142	0.004	1,950	1,813	137	15,080	0.348
Marshall Islands	94	0.003	1,291	1,209	82	15,032	0.347
Micronesia, Fed. States of	142	0.004	1,950	1,813	137	15,080	0.348
Mongolia	532	0.015	7,306	6,798	508	15,470	0.357
Myanmar	19,270	0.556	264,650	246,110	18,541	34,208	0.790
Nauru	142	0.004	1,950	1,813	137	15,080	0.348
Nepal	5,202	0.150	71,443	66,430	5,013	20,140	0.465
New Zealand	54,340	1.568	746,295	694,038	52,257	69,278	1.599
Pakistan	77,080	2.224	1,058,601	984,466	74,135	92,018	2.124
Papua New Guinea	3,320	0.096	45,596	42,424	3,173	18,258	0.421
Philippines	84,304	2.433	1,157,814	1,076,744	81,071	99,242	2.291
Samoa	116	0.003	1,593	1,428	165	15,054	0.348
Singapore	12,040	0.347	165,355	153,777	11,578	26,978	0.623
Solomon Islands	236	0.007	3,241	3,021	220	15,174	0.350
Sri Lanka	20,520	0.592	281,818	262,082	19,735	35,458	0.818
Taipei, China	38,540	1.112	529,301	492,247	37,054	53,478	1.234
Tajikistan	10,134	0.292	139,178	129,386	9,792	25,072	0.579
Thailand	48,174	1.390	661,612	615,274	46,338	63,112	1.457
Tonga	142	0.004	1,950	1,813	137	15,080	0.348
Tuvalu	50	0.001	687	632	55	14,988	0.346
Uzbekistan	23,834	0.688	327,331	304,410	22,922	38,772	0.895
Vanuatu	236	0.007	3,241	3,021	220	15,174	0.350
Viet Nam	12,076	0.348	165,849	146,828	19,021	27,014	0.624
Total Regional (Forward)	2,203,473	63.580	\$30,262,058	\$28,128,361	\$2,133,697	2,830,869	65.347

OCR-7

MEMBER	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value of Shares			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
Total Regional (Forward)	2,203,473	63.580	\$30,262,058	\$28,128,361	\$2,133,697	2,830,869	65.347
NONREGIONAL							
Austria	12,040	0.347	165,355	153,777	11,578	26,978	0.623
Belgium	12,040	0.347	165,355	153,777	11,578	26,978	0.623
Canada	185,086	5.341	2,541,934	2,363,930	178,004	200,024	4.617
Denmark	12,040	0.347	165,355	153,777	11,578	26,978	0.623
Finland	12,040	0.347	165,355	153,777	11,578	26,978	0.623
France	82,356	2.376	1,131,061	1,051,844	79,217	97,294	2.246
Germany	153,068	4.417	2,102,205	1,954,979	147,226	168,006	3.878
Italy	63,950	1.845	878,277	816,763	61,514	78,888	1.821
Netherlands	36,294	1.047	498,455	463,557	34,898	51,232	1.183
Norway	12,040	0.347	165,355	153,777	11,578	26,978	0.623
Spain	12,040	0.347	165,355	153,777	11,578	26,978	0.623
Sweden	12,040	0.347	165,355	153,777	11,578	26,978	0.623
Switzerland	20,650	0.596	283,603	263,730	19,873	35,588	0.822
Turkey	12,040	0.347	165,355	153,777	11,578	26,978	0.623
United Kingdom	72,262	2.085	992,432	922,939	69,493	87,200	2.013
United States	552,210	15.934	7,583,942	7,052,828	531,114	567,148	13.092
Total Nonregional	1,262,196	36.420	17,334,747	16,120,789	1,213,958	1,501,204	34.653
TOTAL	3,465,669	100.000	\$47,596,805	\$44,249,150	\$3,347,655	4,332,073	100.000

Note: Figures may not add due to rounding.

See notes to financial statements (OCR-8).

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

NOTE A—NATURE OF OPERATIONS AND
LIMITATIONS ON LOANS, GUARANTEES,
AND EQUITY INVESTMENTS*Nature of Operations*

The Asian Development Bank (ADB), a multilateral development finance institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in the Asian and 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. ADB provides financial and technical assistance (TA) for projects and programs which will contribute to achieving this purpose.

Mobilizing financial resources, including cofinancing, is an integral part of ADB's operational activities. In addition, ADB, alone or jointly, administers on behalf of donors, including members, their agencies and other development institutions, funds restricted for specific uses which include technical assistance grants as well as regional programs.

ADB's ordinary operations comprise loans, equity investments, and guarantees. It finances its ordinary operations through borrowings, paid-in capital, and retained earnings.

Limitations on Loans, Guarantees, and Equity Investments

Article 12, paragraph 1 of the Charter provides that the total amount outstanding of 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. At 31 December 1999, the total of such loans, equity investments, and guarantees aggregated approximately 77.4% (71.7% - 1998) of the total subscribed capital, reserves, and surplus as defined.

Article 12, paragraph 3 of the Charter provides that equity investments shall not exceed 10% of the unimpaired paid-in capital together with reserves and surplus, exclusive of the special reserve. At 31 December 1999, such equity investments represented approximately 3.5% (3.7% - 1998) of the paid-in capital, reserves, and surplus, as defined.

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

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

Valuation of Capital Stock

The authorized 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) and the value of each share is defined as 10,000 1966 dollars. The capital stock 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 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 Special Drawing Right (SDR) at the value in current United States dollars as computed by the IMF, with each share valued at SDR10,000.

As of 31 December 1999, the value of the SDR in terms of the current United States dollar was \$1.37338 (\$1.40803 - 1998) giving a value for each share of ADB's capital equivalent to \$13,733.80 (\$14,080.30 - 1998). However, ADB could decide to fix the value of each share at \$12,063.50 based on the 31 March 1978 par value of the United States dollar in terms of gold.

Translation of Currencies

Assets and liabilities are translated from their functional currencies to the reporting currency generally at the applicable rates of exchange at the end of a reporting period. Income and expense amounts are translated for each semi-monthly 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 other than those relating to maintenance

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of SDR capital values (see Notes I and J), are charged or credited to "Accumulated translation adjustments" and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

Investments

All investment securities held by ADB other than derivative instruments are considered by Management to be available for sale and are reported at estimated fair value, with unrealized gains and losses excluded from net income and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." All derivative instruments are marked to market. 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 income from investments and are measured by the difference between average cost or amortized cost and the net proceeds of sales.

Loans

ADB's loans are made to or guaranteed by members, with the exception of loans to the private sector, and have maturities ranging between 4 and 30 years. ADB requires its borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies which it has disbursed. It is the policy of ADB to place in nonaccrual status loans for which principal, interest, or other charges are overdue by six months. Interest and other charges on nonaccruing loans are included in income only to the extent that payments have actually been received by ADB. 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 is in arrears for one year for public sector loans made to or guaranteed by a member (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.

Equity Investments

Investments in equity securities without readily determinable fair values are reported at cost less an allowance for possible losses.

Provisions for possible loss of value are established quarterly based on Management's evaluation of potential losses for such investments. Equity securities with readily determinable fair values are reported at fair value, with unrealized gains and losses excluded from net income and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." ADB applies the equity method of accounting to one investment where it has the ability to exercise significant influence.

Property, Furniture, and Equipment

Property, furniture, and equipment are stated at cost and, except for land, depreciated over estimated useful lives on a straight-line basis. Maintenance, repairs, and minor betterments are charged to expense.

Accounting Estimates

The preparation of the 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 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.

Statement of Cash Flows

For the purposes of the statement of cash flows, ADB considers that its cash and cash equivalents are limited to "DUE FROM BANKS."

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

NOTE C—RESTRICTIONS ON USE OF CURRENCIES AND DEMAND OBLIGATIONS OF MEMBERS

In accordance with Article 24, paragraph 2(i) of the Charter, the use by ADB or by any recipient from ADB of certain currencies may be restricted by members to payments for goods or services produced and intended for use in their territories. With respect to the currencies of 38 DMCs for 1999 (37 – 1998), cash in banks (due from banks) and demand obligations totaling \$63,377,000 (\$52,270,000 – 1998) and \$233,248,000 (\$221,478,000 – 1998), respectively, may be, but are not currently so restricted.

In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, two members have restricted the use by ADB or by any recipient from ADB of their currencies to payments for goods or services produced in their territories. Cash in banks (due from banks), demand obligations of members, and investments totaling \$23,000 (\$22,000 – 1998), \$3,495,000 (\$2,579,000 – 1998) and \$3,427,000 (\$4,460,000 – 1998), respectively, have been so restricted.

NOTE D—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	\$ 301,277,000	\$ 342,733,000
Canadian dollar	321,462,000	429,372,000
Deutsche mark	23,090,000	216,295,000
Euro	476,069,000	–
Italian lira	17,854,000	326,480,000
Japanese yen	1,619,039,000	1,223,655,000
Pound sterling	244,327,000	281,856,000
Swiss franc	175,648,000	456,100,000
United States dollar	4,672,815,000	4,162,395,000
Others	347,110,000	636,634,000
Total	<u>\$8,198,691,000</u>	<u>\$8,075,520,000</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	\$7,177,151,000	\$7,178,126,000
Due after one year through five years	952,564,000	964,053,000
Due after five years through ten years	68,976,000	73,627,000
Total	<u>\$8,198,691,000</u>	<u>\$8,215,806,000</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	\$4,572,373,000	\$4,608,278,000
Estimated fair value	4,555,258,000	4,628,677,000
Gross unrealized gains	551,000	25,500,000
Gross unrealized losses	17,666,000	5,101,000
For the years ended		
31 December		
Change in net unrealized (losses) gains	(37,514,000)	4,352,000
Proceeds from sales	8,300,935,000	7,799,209,000
Gross realized gains	14,511,000	39,646,000
Gross realized losses	56,986,000	10,374,000

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 its 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.

ADB is restricted by its Investment Authority to invest in (a) securities which are obligations of a limited class of issuers, primarily government or government-guaranteed obligations, multilateral banks, and selected commercial banks; and (b) exchange-traded derivatives of such securities.

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Exposure to interest rate risk may be adjusted within defined bands to reflect changing market circumstances. These adjustments are made through the purchase and sale of both securities and exchange-traded financial futures and options. The use of options has been minimal and there were no outstanding options as of 31 December 1999 (nil - 1998). To increase returns, ADB may invest in securities denominated in currencies other than the originating functional currencies and then enter into covered forward foreign exchange agreements in order to maintain its original mix of functional currency holdings. Accordingly, the financial futures, options, and covered forwards are held for risk management rather than for trading purposes.

Futures: Futures are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Initial margin requirements are met with cash or securities, and changes in the market prices are settled daily. Changes in the market value of open futures contracts are recognized as gains or losses in the period of the change and included in income from investments. At 31 December 1999, there were no outstanding purchase nor sales contracts (nil - 1998).

Covered forwards: Covered forwards are agreements in which cash in one currency is converted into a different currency and simultaneously a forward exchange agreement is executed providing for a future exchange of the two currencies

in order to recover the currency converted. ADB records the covered forward as an investment in the underlying currency. A receivable is created for the forward contract of the originating currency and a payable for the underlying instrument to be converted into the originating currency at maturity. Premiums or discounts are deferred and amortized as adjustments to income from investments over the life of the underlying instrument. No covered forward agreements were outstanding at 31 December 1999 (nil - 1998).

Short sales: Short sales are sales of securities not held in ADB's portfolio at the time of the sale. ADB must purchase the security at a later date and bears the risk that the market value of the security will move adversely between the time of the sale and the time the security must be delivered. The payable created upon entering into a short sale is stated at the market value of the security subject to the short sale and gains and losses resulting from changes in market value are included in income from investments in the period of the change. Short sales are used by ADB for adjusting the risk exposure of the investment portfolio and for establishing spread positions to enhance income. As of 31 December 1999, there was no open short sale position (nil - 1998).

NOTE E—LOANS AND GUARANTEES

Loans

The carrying amount and estimated fair value of loans outstanding at 31 December 1999 and 1998 were as follows:

	1999		1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Loans to the public sector with interest at variable rates	\$26,815,606,000	\$26,815,606,000	\$23,053,815,000	\$23,053,815,000
Loans to the public sector with interest at fixed rates	1,120,923,000	1,386,947,000	1,304,821,000	1,631,770,000
Loans to the private sector	334,621,000	352,283,000	339,749,000	358,121,000
Total	<u>\$28,271,150,000</u>	<u>\$28,554,836,000</u>	<u>\$24,698,385,000</u>	<u>\$25,043,706,000</u>

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

Prior to 1 July 1986, the lending rate of ADB was based on a multicurrency fixed lending rate system under which loans carried interest rates fixed at the time of loan approval for the entire life of the loans. Effective 1 July 1986, ADB adopted a multicurrency pool-based variable lending rate system. In addition, in July 1992, ADB introduced a pool-based variable United States dollar lending system, and in November 1994, a market-based variable lending system was made available to financial intermediaries in the public sector and to the private sector. For loans to the private sector, approximately 72% (71% – 1998) of the loans were based on a variable interest rate.

Undisbursed loan commitments and an analysis of loans by borrowing member countries as of 31 December 1999 are shown in OCR-5. The carrying amounts of loan outstanding by loan products at 31 December 1999 and 1998 were as follows:

	1999	1998
Public Sector		
Fixed rate		
multicurrency loans	\$ 1,044,517,000	\$ 1,227,329,000
Pool-based		
multicurrency loans	10,918,735,000	10,404,222,000
Pool-based single		
currency (US\$) loans	11,773,000,000	8,731,130,000
Market-based loans –		
floating rate	4,200,277,000	3,995,954,000
	<u>27,936,529,000</u>	<u>24,358,635,000</u>
Private Sector		
Pool-based		
multicurrency loans	26,746,000	30,914,000
Currency specific loans	217,899,000	248,471,000
Private sector		
facility loans	24,673,000	33,005,000
Market-based loans –		
floating rate	115,203,000	83,867,000
Market-based loans –		
fixed rate	10,917,000	5,000,000
Revolving facility – AFIC	12,174,000	–
	<u>407,612,000</u>	<u>401,257,000</u>
Less: Allowance for		
possible loss	72,991,000	61,507,000
	<u>334,621,000</u>	<u>339,750,000</u>
Total	<u>\$28,271,150,000</u>	<u>\$24,698,385,000</u>

Public Sector Loans

The fair value of loans outstanding to or guaranteed by members with interest rates which vary based on the pool-based variable lending rate system were determined using the entry value method. Under this method, fair value was 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 approximated the carrying amount. For undisbursed balances of effective loans and for loans not yet effective, the contractual amount approximated fair value.

The fair value of loans outstanding to or guaranteed by members with fixed interest rates (principally loans made prior to 1 July 1986) were determined using a discounted cash flow method. This method takes into account the scheduled cash flows over the average life, by currency, of the loans, and current funding costs for the average life, including a factor for administrative costs.

The estimated fair value of loans to or guaranteed by members was not affected by credit risks based on ADB's experience with its borrowers.

Two public sector loans to Myanmar were in nonaccrual status as of 31 December 1999 (two – 1998). The principal outstanding and overdue at that date was \$929,000 (\$935,000 – 1998). Loans in nonaccrual status resulted in \$68,000 (\$68,000 – 1998) not being recognized as income from public sector loans for the year ended 31 December 1999. The accumulated interest and other charges that are not recognized as income on these loans would have totaled \$139,000 (\$70,000 – 1998).

Private Sector Loans

The fair value of loans outstanding to the private sector were determined using a discounted cash flow method.

Eleven private sector loans were in nonaccrual status as of 31 December 1999 (seven – 1998). The principal outstanding at that date was \$72,048,000 (\$51,609,000 – 1998) of which \$30,770,000 (\$17,752,000 – 1998) was overdue. Loans in nonaccrual status resulted in \$6,289,000 (\$5,226,000 – 1998) not being recognized in income from private sector loans for the year ended 31 December 1999. The accumulated interest and other charges on these loans that are not recognized would have totaled \$13,033,000 (\$6,665,000 – 1998).

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Loan Loss Provision

ADB has not suffered any losses of principal on loans made to or guaranteed by members. No loan loss provisions have been made against loans outstanding to or guaranteed by members, but loan loss provisions have been made against private sector loans during the year (See Note K).

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

	1999	1998
Loans not subject to loss provisions	\$27,936,529,000	\$24,358,635,000
Loans subject to loss provisions	407,612,000	401,257,000
Total	<u>\$28,344,141,000</u>	<u>\$24,759,892,000</u>
Average amount of loans subject to loss provisions	\$ 79,534,000	\$ 76,858,000
Related interest income on such loans	\$ 5,687,000	\$ 5,746,000
Cash received on related interest income on such loans	\$ 1,431,000	\$ 1,839,000

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

	1999	1998
Balance – 1 January	\$61,507,000	\$50,401,000
Provision during the year	11,014,000	10,981,000
Provision written off	–	(218,000)
Translation adjustments	470,000	343,000
Balance – 31 December	<u>\$72,991,000</u>	<u>\$61,507,000</u>

Loan Guarantees and Cofinancings

ADB extends guarantees for the benefit of its members which are not reflected in the financial statements. Such guarantees include partial credit guarantees where only certain principal and/or interest payments are covered. Such guaranteed payments are generally due 10 or more years from the loan inception date. The present value of the contingent future payment obligations of all outstanding guarantees at 31 December 1999 and 1998 is used to calculate ADB's lending limitation. None of these amounts were subject to call as of that date. ADB estimates that the fair value of guarantees outstanding at 31 December 1999 approximates their present value. The estimated fair value of loans to or guaranteed by members was not affected by credit risks based on ADB's experience with its borrowers.

As of 31 December 1999 and 1998, the outstanding amount and present value of ADB's guarantee obligations covered:

	1999		1998	
	Outstanding Guaranteed Amount	Present Value	Outstanding Guaranteed Amount	Present Value
Complementary Loans				
China, People's Rep. of	\$ 29,358,000	\$ 16,361,000	\$ 28,674,000	\$ 14,857,000
India	73,242,000	36,876,000	65,374,000	30,431,000
Indonesia	27,822,000	15,395,000	24,833,000	12,704,000
Papua New Guinea	2,695,000	2,419,000	3,863,000	3,346,000
Subtotal	<u>133,117,000</u>	<u>71,051,000</u>	<u>122,744,000</u>	<u>61,338,000</u>
Bond Issue				
Philippines	117,188,000	34,340,000	104,598,000	28,381,000
Term Loans				
Sri Lanka	117,568,000	62,051,000	115,144,000	56,200,000
Thailand	–	–	108,963,000	97,449,000
Subtotal	<u>117,568,000</u>	<u>62,051,000</u>	<u>224,107,000</u>	<u>153,649,000</u>
Total	<u>\$367,873,000</u>	<u>\$167,442,000</u>	<u>\$451,449,000</u>	<u>\$243,368,000</u>

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

ADB functions as lead lender in cofinancing arrangements with other participating financial institutions who also provide funds to ADB's public and private sector borrowers. In such capacity, ADB provides loan administration services, which include loan disbursement and loan collection. The

participating financial institutions have no recourse to ADB for their outstanding loan balances.

Loans administered by ADB on behalf of participating institutions as of 31 December 1999 and 1998 were as follows:

	1999		1998	
	Amount	No. of Loans	Amount	No. of Loans
Public Sector Loans	\$1,617,530,000	44	\$ 931,603,000	41
Private Sector Loans	253,454,000	12	157,634,000	11
Total	<u>\$1,870,984,000</u>	<u>56</u>	<u>\$1,089,237,000</u>	<u>52</u>

During the year ended 31 December 1999, a total of \$510,000 (\$1,583,000 - 1998) was received as compensation for arranging and administering such loans. This amount has been included in "Income from Other Sources."

NOTE F—EQUITY INVESTMENTS

ADB's investments in equity securities issued by private enterprises located in DMCs include a \$11,908,000 (\$10,342,000 - 1998) investment in the Asian Finance and Investment Corporation Ltd. (AFIC) which is accounted for on the equity method. The holding represents 30.3% of the investee's issued ordinary share capital and net assets. ADB also holds 100% of AFIC issued convertible noncumulative preference shares in the amount of \$25,000,000 (\$25,000,000 - 1998). In 1999, ADB together with other financiers, renewed the revolving credit facility provided to AFIC in 1998 up to a maximum aggregate principal amount outstanding at any time of \$92,000,000 (\$105,000,000 - 1998). ADB's obligations amount to \$40,000,000, of which, at 31 December 1999, the outstanding loan is \$12,174,000 (\$9,524,000 - 1998). This amount has been included in "Loans Outstanding" (See Note E).

Unrealized gains on equity investments reported at market value were \$19,838,000 at 31 December 1999 (\$6,729,000 - 1998) and are reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

Undisbursed equity investment commitments were \$149,928,000 at 31 December 1999 (\$175,429,000 - 1998).

NOTE G—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters premises which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, ADB was compensated \$22,657,000 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 new headquarters building as a reduction of occupancy expense. The amortization for the years ended 31 December 1999 and 1998 amounted to \$566,000 reducing depreciation expense for the new headquarters building for 1999 and 1998 from \$4,700,000 to \$4,134,000. At 31 December 1999, the unamortized deferred compensation balance (included in "ACCOUNTS PAYABLE AND OTHER LIABILITIES - Miscellaneous") was \$17,608,000 (\$18,174,000 - 1998). At 31 December 1999, accumulated depreciation for property, furniture, and equipment was \$69,910,000 (\$61,396,000 - 1998).

NOTE H—BORROWINGS AND SWAPS

ADB uses derivative financial instruments in connection with its borrowing activities to diversify its funding sources across public and private debt markets, currencies and instruments. Currency swaps are used to convert a currency borrowed under advantageous terms into one of ADB's major operational currencies, taking advantage of the opportunities offered in different financial markets. Such currency swaps enable ADB to raise operationally needed currencies in a

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cost-efficient way and to maintain its borrowing presence in the major capital markets. Interest rate swaps are used generally to reduce balance sheet interest rate mismatches arising from lending operations.

ADB issues structured debt which includes embedded currency and/or interest rate derivatives in order to decrease its cost of borrowing. However, ADB enters into simultaneous currency and/or interest rate swaps to hedge fully against the effects of such embedded derivatives.

ADB has a potential risk of loss if the swap counterparty fails to perform its obligations (*see Note O*). In order to reduce such credit risk, ADB only enters into long-term swap transactions with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have a credit rating of double A or higher. ADB does not anticipate that any of its counterparties will fail to perform their obligations under such agreements.

Interest rate swaps: Under a typical interest rate swap agreement used by ADB, one party agrees to make periodic payments based on a notional principal amount and an interest rate that is fixed at the outset of the agreement. The counterparty agrees to make floating rate payments based on the same notional principal amount. Amounts receivable or payable under the terms of the swap are accrued over the period to which the payment relates and the related cost or

income is included in interest and other financial expenses. The terms of ADB's interest rate swap agreements specifically match the terms of particular borrowings.

Currency swaps: Under a typical currency swap agreement, one party agrees to make periodic payments in one currency while the counterparty agrees to make periodic payments in another currency. The payments may be fixed at the outset of the agreement or vary based on interest rates. A receivable is created for the currency swapped out, and a payable is created for the currency swapped in. Swap premiums and discounts are deferred and amortized into interest and other financial expenses over the life of the underlying instruments. The terms of ADB's currency swap agreements specifically match the terms of particular borrowings.

The fair value of borrowings outstanding is estimated using prevailing market prices where available, or estimated replacement values where market prices are not available.

The fair value of outstanding currency and interest rate swap agreements are determined at the estimated amount that ADB would receive or pay to terminate the agreements based upon market quotes from dealers.

As of 31 December 1999 and 1998, the carrying amounts and estimated fair values of borrowings and swaps were as follows:

	1999		1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Balance sheet financial instruments:				
Borrowings	\$26,285,451,000	\$26,315,305,000	\$23,743,713,000	\$23,009,165,000
Currency swap receivables	6,666,875,000	6,779,405,000	6,773,746,000	7,029,990,000
Currency swap payables	7,484,515,000	7,767,028,000	7,095,896,000	7,563,385,000
	Notional Amount	Unrealized Gain (Loss)	Notional Amount	Unrealized Gain (Loss)
Off-balance sheet financial instruments:				
Interest rate swaps	\$ 4,713,402,000	\$ (75,534,000)	\$ 3,158,490,000	\$ 115,676,000

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

NOTE 1—CAPITAL STOCK, CAPITAL TRANSFERRED TO ASIAN DEVELOPMENT FUND, MAINTENANCE OF VALUE OF CURRENCY HOLDINGS, AND MEMBERSHIP

Capital Stock

The authorized capital stock of ADB as of the end of 1999 and 1998 consists of 3,490,994 shares, of which 3,465,669 shares (3,441,406 – 1998) have been subscribed by members. Of the subscribed shares, 3,221,916 (3,198,931 – 1998) are “callable” and 243,753 (242,475 – 1998) 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 ordinary capital resources or on guarantees chargeable to such resources. The “paid-in” share capital has been paid or is payable in installments, 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. The settlement of such amounts is not determinable and, accordingly, it is not practicable to determine a fair value for these receivables.

As of 31 December 1999, all matured installments amounting to \$3,187,229,000 (\$3,169,579,000 – 1998) were received, except for \$1,814,000 (\$5,964,000 – 1998) from two countries (five – 1998). Installments not due aggregating \$160,426,000 (\$244,542,000 – 1998) are receivable as follows:

Year ending 31 December:

2000	\$78,137,000	2002	\$16,420,000
2001	65,869,000		

Payments in respect of capital subscription installments in advance of due dates are shown in the balance sheet (under the caption “ACCOUNTS PAYABLE AND OTHER LIABILITIES”) as “Advance payments on subscriptions” pending the determination of the full value of such payments based on the rate of exchange to be used by ADB as of the date on which such payments are actually due.

Capital Transferred to Asian Development Fund

Pursuant to the provisions of Article 19, paragraph 1(i) of the Charter, the Board of Governors has authorized the setting aside of 10% of the unimpaired “paid-in” capital paid by members pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by members 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 resources so set aside amounting to \$65,386,000 as of 31 December 1999 (\$67,036,000 – 1998) expressed in terms of the SDR on the basis of \$1.37338 (\$1.40803 – 1998) per SDR (\$57,434,000 in terms of \$1.20635 per 1966 dollar—see Note B), were allocated and transferred to the Asian Development Fund.

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 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. The “Amounts required to maintain value of currency holdings” under “RECEIVABLE FROM MEMBERS” represent the aggregate amounts receivable resulting from changes in exchange rates of member currencies from those previously used for the purpose of computing maintenance of value of ADB’s holdings of certain member currencies. The settlement of such amounts is not determinable and, accordingly, it is not practicable to determine a fair value for these receivables.

Since 1 April 1978, inasmuch as the valuation of ADB’s capital stock and the basis of determining possible maintenance of value obligations are still under consideration, notional amounts have been calculated provisionally as receivable from or payable to members in order to maintain the value of currency holdings in terms of the SDR. The timing of any establishment and settlement of such amounts is uncertain and, accordingly, it is not practicable to determine a fair value for such receivables and payables. The notional amounts as of 31 December 1999 consisting of receivables of \$708,431,000 (\$718,693,000 – 1998) and payables of \$340,351,000 (\$247,931,000 – 1998) consist of (a) the increase of \$369,650,000 (\$423,006,000 – 1998) in amounts required to maintain the value of currency holdings to the extent of matured and paid capital subscriptions due to the increase in the value of the SDR in relation to the

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United States dollar during the period from 1 April 1978 to 31 December 1999 and (b) the net increase of \$1,570,000 (decrease of \$47,756,000 – 1998) in the value of such currency holdings in relation to the United States dollar during the same period.

Membership

As of 31 December 1999, ADB is owned by 58 member countries, 42 countries from the region and 16 countries from outside the region (see *OCR-7*). During 1999, the Board of Governors approved the membership application of Azerbaijan. As at 31 December 1999, Azerbaijan has subscribed to 15,736 shares (10,134 shares by Tajikistan – 1998) of ADB's capital stock and remitted the required paid-in portion of its subscription.

NOTE J—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. During 1999, \$464,257,000 of the net income after appropriation of guarantee fees to Special Reserve for the year ended 31 December 1998 was allocated to the Ordinary Reserve, (\$367,458,000 to Ordinary Reserve and \$100,000,000 to Surplus – 1998) and \$80,000,000 (\$80,000,000 – 1998) was allocated to Technical Assistance Special Fund from Surplus.

The restatement of the capital stock for purposes of these financial statements on the basis of the SDR instead of the 1966 dollar (see *Note B*) resulted in a net credit of \$13,514,000 to the Ordinary Reserve during the year ended 31 December 1999 (charge of \$23,785,000 – 1998). That credit is the decrease in the value of the matured and paid capital subscriptions caused by the change during the year in the value of the SDR in relation to the United States dollar not allocated to members as notional maintenance of value adjustments in accordance with resolutions of the Board of Directors.

Special Reserve

The Special Reserve includes commissions on loans and guarantee fees on guarantees set aside pursuant to Article

17 of the Charter. Special Reserve assets consist of term deposits and government and government-guaranteed obligations and are included under the heading "INVESTMENTS." For the year ended 31 December 1999, the net refund of guarantee fees of \$1,553,000 due to the non-utilization of the full amount of guarantee under the Cofinancing Facility Agreement with Thailand resulted in a net charge to guarantee fees of \$896,000. Accordingly, no amount was appropriated to Special Reserve for 1999 (\$2,639,000 – 1998).

Surplus

During 1999, the Board of Governors allocated \$80,000,000 (\$80,000,000 – 1998) out of Surplus to Technical Assistance Special Fund. Surplus represents funds for future use to be determined by the Board of Governors.

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

NOTE K—INCOME AND EXPENSES

Total income from loans for the year ended 31 December 1999 was \$1,674,635,000 (\$1,440,929,000 – 1998). The average yield on the loan portfolio during the year was 6.41% (6.78% – 1998).

Total income from investments for the year ended 31 December 1999 was \$343,951,000 (\$382,864,000 – 1998). 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 3.93% (5.27% – 1998). If unrealized gains and losses were included, the annualized rate of return would have been 3.51% (5.32% – 1998).

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Income from other sources includes an increase in the share of the net assets of an equity investment of \$1,573,000 (reduction of \$25,951,000 – 1998) accounted for on the equity method.

Dividends received for the year ended 31 December 1999 amounted to \$3,525,000 (\$18,173,000 – 1998).

Total interest expense incurred for the year ended 31 December 1999 amounted to \$1,425,535,000 (\$1,187,630,000 – 1998).

Other financial expenses consist of amortization of borrowings' issuance costs and other expenses of \$19,775,000 (\$16,039,000 – 1998). They also include charges of \$1,908,000 (\$2,809,000 – 1998) representing the difference between reacquisition price and net carrying amount of borrowings extinguished prior to maturity.

Administrative expenses (other than those pertaining directly to ordinary operations and special operations) for the year ended 31 December 1999 were apportioned between Ordinary Capital Resources and the Asian Development Fund, according to the number of loans and equity investments approved during the year. Of the total administrative expenses of \$201,433,000 (\$193,176,000 – 1998), \$95,528,000 (\$71,475,000 – 1998) was accordingly charged to the Asian Development Fund.

For the year ended 31 December 1999, the provision for possible losses totaled \$24,834,000 (\$14,047,000 for private sector loans and \$10,787,000 for equity investments). For the year ended 31 December 1998, the provision for losses totaled \$37,465,000 (\$10,981,000 for private sector loans and \$26,484,000 for equity investments).

NOTE L—OTHER ASSETS—MISCELLANEOUS

Included in miscellaneous assets are amounts receivable from the following related funds as of 31 December 1999 and 1998:

	1999	1998
Asian Development Fund (Note K)	\$42,476,000	\$12,101,000
Technical Assistance Special Fund	91,000	65,000
Japan Special Fund	205,000	512,000
Asian Development Bank Institute Special Fund	252,000	78,000
Total	<u>\$43,024,000</u>	<u>\$12,756,000</u>

NOTE M—STAFF RETIREMENT PLAN AND
POSTRETIREMENT MEDICAL BENEFITS*Staff Retirement Plan*

ADB has a contributory defined benefit Staff Retirement Plan (the Plan). Every employee, as defined under the Plan, shall, as a condition of service, become a participant from the first day of service, provided that at such a date, the employee has not reached the normal retirement age of 60. The Plan applies also to members of the Board of Directors who elect to join the Plan. Retirement benefits are based on length of service and highest average remuneration during two years of eligible service. The Plan assets are segregated and are not included in the accompanying balance sheet. 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 Plan.

Participants are required to contribute 9 1/3% of their salary to the Plan and may also make voluntary contributions. ADB's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

Postretirement Medical Benefits Plan

In 1993, ADB adopted a cost-sharing plan for retirees' medical insurance premiums. Under the plan, ADB is obligated to pay 80% of the Group Medical Insurance Plan premiums for retirees, including retired members of the Board of Directors, and their eligible dependents who elected to participate. The cost-sharing plan is currently unfunded.

Generally accepted accounting principles require an actuarially determined assessment of the periodic cost of postretirement medical benefits.

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The following table sets forth the pension and postretirement benefits at 31 December 1999 and 1998:

	Pension Benefits		Postretirement Medical Benefits	
	1999	1998	1999	1998
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 505,507,000	\$ 439,427,000	\$ 57,130,000	\$ 51,476,000
Service cost	19,978,000	16,813,000	1,754,000	1,714,000
Interest cost	34,092,000	31,853,000	3,802,000	3,696,000
Participants' contributions	23,260,000	19,802,000	-	-
Amendments	64,000	-	-	-
Actuarial (gain) loss	(28,555,000)	20,335,000	(4,700,000)	1,236,000
Benefits paid	(23,480,000)	(22,723,000)	(1,195,000)	(992,000)
Benefit obligation at end of year	<u>\$ 530,866,000</u>	<u>\$ 505,507,000</u>	<u>\$ 56,791,000</u>	<u>\$ 57,130,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 634,314,000	\$ 527,904,000	\$ -	\$ -
Actual return on plan assets	108,047,000	97,866,000	-	-
Employer's contribution	12,317,000	11,465,000	1,195,000	992,000
Plan participants' contributions	23,260,000	19,802,000	-	-
Benefits paid	(23,480,000)	(22,723,000)	(1,195,000)	(992,000)
Fair value of plan assets at end of year	<u>\$ 754,458,000</u>	<u>\$ 634,314,000</u>	<u>\$ -</u>	<u>\$ -</u>
Funded status	\$ 223,592,000	\$ 128,807,000	\$(56,791,000)	\$(57,130,000)
Unrecognized actuarial (loss) gain	(224,303,000)	(132,209,000)	(3,439,000)	1,261,000
Unrecognized prior service cost	3,821,000	4,739,000	-	-
Unrecognized transition obligation	(4,427,000)	(5,532,000)	12,524,000	14,933,000
Net amount recognized	<u>\$ (1,317,000)</u>	<u>\$ (4,195,000)</u>	<u>\$(47,706,000)</u>	<u>\$(40,936,000)</u>
Amounts recognized in the balance sheet consist of:				
Accrued benefit liability	(1,455,000)	(4,278,000)	(47,706,000)	(40,936,000)
Intangible asset	64,000	-	-	-
Accumulated other comprehensive income	74,000	83,000	-	-
Net amount recognized	<u>\$ (1,317,000)</u>	<u>\$ (4,195,000)</u>	<u>\$(47,706,000)</u>	<u>\$(40,936,000)</u>
Weighted-average assumptions as of 31 December				
Discount rate	7.75%	6.50%	7.75%	6.50%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase varies with age and averages	6.75%	5.50%	6.75%	5.50%

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

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For measurement purposes, a 10.75% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December 1999.

The rate was assumed to decrease gradually to 4.75% for 2009 and remain at that level thereafter.

	Pension Benefits		Postretirement Medical Benefits	
	1999	1998	1999	1998
Components of net periodic benefit cost:				
Service cost	\$ 19,978,000	\$ 16,813,000	\$1,754,000	\$1,714,000
Interest cost	34,092,000	31,853,000	3,802,000	3,696,000
Expected return on plan assets	(44,542,000)	(41,824,000)	–	–
Amortization of prior service cost	982,000	982,000	–	–
Amortization of transition obligation	(1,105,000)	(1,105,000)	2,409,000	2,409,000
Recognized actuarial loss (gain)	34,000	(3,622,000)	–	–
Net periodic benefit cost	<u>\$ 9,439,000</u>	<u>\$ 3,097,000</u>	<u>\$7,965,000</u>	<u>\$7,819,000</u>

The projected benefit obligation, accumulated benefit obligation, and fair value of plan assets for the pension plan with accumulated benefit obligations in excess of plan assets were \$574,000,000, \$572,000,000, and \$289,000,000, respectively as of 31 December 1999 and \$487,000,000, \$487,000,000, and \$218,000,000, respectively, as of 31 December 1998.

A one-percentage-point change in assumed health care trend rates would have the following effects:

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	\$ 1,199,000	\$ (949,000)
Effect on postretirement benefit obligation	10,625,000	(8,505,000)

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NOTE N—FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of ADB's significant financial instruments as of 31 December 1999 and 1998 are summarized as follows:

	1999		1998	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
On-balance sheet financial instruments:				
ASSETS:				
Due from banks	\$ 72,972,000	\$ 72,972,000	\$ 62,617,000	\$ 62,617,000
Investments (Note D)	8,198,691,000	8,198,691,000	8,075,520,000	8,075,520,000
Loans outstanding (Note E)	28,271,150,000	28,554,836,000	24,698,385,000	25,043,706,000
Equity investments	211,094,000	211,094,000	185,893,000	185,893,000
Other assets				
Nonnegotiable, noninterest-bearing demand obligations	381,576,000	381,576,000	350,289,000	350,289,000
Currency swap receivables (Note H)	6,666,875,000	6,779,405,000	6,773,746,000	7,029,990,000
LIABILITIES:				
Borrowings (Note H)	26,285,451,000	26,315,305,000	23,743,713,000	23,009,165,000
Other liabilities				
Currency swap payables (Note H)	7,484,515,000	7,767,028,000	7,095,896,000	7,563,385,000
	Notional/Contract Amount	Unrealized Gain (Loss)	Notional/Contract Amount	Unrealized Gain (Loss)
Off-balance sheet financial instruments:				
Borrowings (Note H)				
Interest rate swaps	\$ 4,713,402,000	\$ (75,534,000)	\$ 3,158,490,000	\$ 115,676,000
Guarantees (Note E)	367,873,000	–	451,449,000	–

Additional fair value information, including methods used to estimate certain values, is included in the notes referenced in the above table.

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.

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

NOTES TO FINANCIAL STATEMENTS

31 December 1999 and 1998

NOTE O—OFF-BALANCE SHEET CREDIT RISK

ADB is a party to off-balance sheet financial instruments. These financial instruments involve elements of credit risk in excess of amounts reflected on the balance sheet. Credit risk represents the maximum potential accounting loss due to possible nonperformance by obligors and counterparties under the terms of the contract.

	1999	1998
Credit risk at 31 December:		
Currency swaps (Note H)	\$ 97,323,000	\$156,657,000
Interest rate swaps (Note H)	18,110,000	117,823,000
Guarantees (Note E)	167,442,000	243,368,000

NOTE P—SPECIAL AND TRUST FUNDS

ADB's operations include special operations, which are financed from special funds resources, consisting of the Asian Development Fund, the Technical Assistance Special Fund, Japan Special Fund, and the Asian Development Bank Institute Special Fund.

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. The funds are restricted for specific uses, including technical assistance to borrowers and technical assistance for regional programs. The responsibilities of ADB under these arrangements range from project processing to project implementation, including the facilitation of procurement of goods and services.

Special funds and funds administered by ADB on behalf of the donors are not included in the assets of Ordinary Capital Resources. The breakdown of the total of such funds, together with the funds of the special operations as of 31 December 1999 and 1998, was as follows:

	1999		1998	
	Total Net Assets	No. of Funds	Total Net Assets	No. of Funds
Special Funds				
Asian Development Fund	\$22,086,878,000	1	\$20,535,398,000	1
Technical Assistance Special Fund	116,289,000	1	97,187,000	1
Japan Special Fund	218,318,000	1	183,170,000	1
Asian Development Bank Institute Special Fund	15,115,000	1	17,998,000	1
Subtotal	22,436,600,000	4	20,833,753,000	4
Trust Funds				
Funds administered by ADB	60,038,000	24	48,585,000	21
Funds not administered by ADB	12,503,000	1	17,322,000	1
Subtotal	72,541,000	25	65,907,000	22
Total	\$22,509,141,000	29	\$20,899,660,000	26

During the year ended 31 December 1999, a total of \$911,000 (\$992,000 - 1998) was received as compensation

for administering projects/programs under Trust Funds. The amount has been included in "Income from Other Sources."