



REPORT OF INDEPENDENT AUDITORS

Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and of cash flows present fairly, in all material respects, in terms of United States dollars, the financial position of the Asian Development Bank—Japan Special Fund at 31 December 2000 and 1999, and the results of its activities and changes in net assets and its cash flows for the years then ended, in conformity with generally accepted accounting principles in the United States. These financial statements are the responsibility of the management of the Asian Development Bank; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards in the United States which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

A handwritten signature in black ink, appearing to be 'Richard J. ...' followed by some illegible characters.

Boston, Massachusetts
7 March 2001

JSF-1

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF FINANCIAL POSITION

31 December 2000 and 1999

Expressed in Thousands of United States Dollars (Note B)

	2000			1999		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
ASSETS						
DUE FROM BANKS (Note B)	\$ 61	\$ 537	\$ 598	\$ 73	\$ 4,535	\$ 4,608
INVESTMENTS (Notes A, B, and C)						
Government and government-guaranteed obligations	103,281	10,676	113,957	98	—	98
Time deposits	127,616	136,256	263,872	116,754	255,227	371,981
Other securities	—	145,816	145,816	—	39,679	39,679
	<u>230,897</u>	<u>292,748</u>	<u>523,645</u>	<u>116,852</u>	<u>294,906</u>	<u>411,758</u>
EQUITY INVESTMENTS (Notes A, B, and D), net	—	338	338	—	709	709
ACCRUED REVENUE	46	6,701	6,747	30	5,803	5,833
OTHER ASSETS (Note E)	71	4,289	4,360	—	4,781	4,781
TOTAL	\$231,075	\$304,613	\$535,688	\$116,955	\$310,734	\$427,689
LIABILITIES AND UNCOMMITTED BALANCES						
ACCOUNTS PAYABLE AND OTHER LIABILITIES						
Payable to Ordinary Capital Resources	\$ —	\$ 144	\$ 144	\$ 11	\$ 194	\$ 205
Other Liabilities (Note E)	4,807	60	4,867	485	59	544
	<u>4,807</u>	<u>204</u>	<u>5,011</u>	<u>496</u>	<u>253</u>	<u>749</u>
UNDISBURSED COMMITMENTS (Notes B and F)						
Technical assistance	13,099	114,416	127,515	6,182	118,295	124,477
Interest payment assistance	76,185	—	76,185	84,145	—	84,145
	<u>89,284</u>	<u>114,416</u>	<u>203,700</u>	<u>90,327</u>	<u>118,295</u>	<u>208,622</u>
NET ASSETS (JSF-2) (Note B), represented by:						
Uncommitted balances (Note G)						
Unrestricted	—	43,469	43,469	—	66,718	66,718
Temporarily restricted (Notes A and H)	136,637	57,276	193,913	26,129	54,710	80,839
	<u>136,637</u>	<u>100,745</u>	<u>237,382</u>	<u>26,129</u>	<u>121,428</u>	<u>147,557</u>
Net accumulated investment income						
Temporarily restricted (Notes A and H)	347	89,248	89,595	3	70,758	70,761
	<u>136,984</u>	<u>189,993</u>	<u>326,977</u>	<u>26,132</u>	<u>192,186</u>	<u>218,318</u>
TOTAL	\$231,075	\$304,613	\$535,688	\$116,955	\$310,734	\$427,689

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 2000 and 1999

Expressed in Thousands of United States Dollars (Note B)

	2000			1999		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
CHANGES IN UNRESTRICTED NET ASSETS						
CONTRIBUTIONS (Notes B and H)	\$ -	\$ 37,561	\$ 37,561	\$ -	\$ 16,781	\$ 16,781
REVENUE FROM OTHER SOURCES	-	150	150	-	72	72
UNREALIZED INVESTMENT (LOSSES) GAINS ON EQUITY INVESTMENTS (Note D)	-	(330)	(330)	-	506	506
NET ASSETS RELEASED FROM (PUT BACK INTO) RESTRICTIONS (Notes B and H)	9,632	(557)	9,075	95,678	3,463	99,141
Total	9,632	36,824	46,456	95,678	20,822	116,500
EXPENSES						
Technical assistance (Notes B and F)	9,575	59,274	68,849	6,628	55,801	62,429
Interest payment assistance (Note B)	-	-	-	89,000	-	89,000
Administrative expenses	57	1,485	1,542	50	1,368	1,418
Total	9,632	60,759	70,391	95,678	57,169	152,847
CONTRIBUTIONS AND REVENUE LESS THAN EXPENSES	-	(23,935)	(23,935)	-	(36,347)	(36,347)
EXCHANGE (LOSSES) GAINS (Note B)	-	(116)	(116)	-	532	532
DECREASE IN UNRESTRICTED NET ASSETS BEFORE TRANSLATION ADJUSTMENTS	-	(24,051)	(24,051)	-	(35,815)	(35,815)
TRANSLATION ADJUSTMENTS (Note B)	-	802	802	-	(538)	(538)
DECREASE IN UNRESTRICTED NET ASSETS	-	(23,249)	(23,249)	-	(36,353)	(36,353)
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS						
CONTRIBUTIONS (Notes B and H)	136,587	-	136,587	104,367	31,838	136,205
REVENUE FROM INVESTMENTS (Notes B and C)	401	19,823	20,224	53	16,576	16,629
NET ASSETS (RELEASED FROM) PUT BACK INTO RESTRICTIONS (Notes B and H)	(9,632)	557	(9,075)	(95,678)	(3,463)	(99,141)
EXCHANGE GAINS (LOSSES) (Note B)	10	-	10	(35)	-	(35)
TRANSLATION ADJUSTMENTS (Note B)	(16,514)	676	(15,838)	17,425	418	17,843
INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	110,852	21,056	131,908	26,132	45,369	71,501
INCREASE (DECREASE) IN NET ASSETS	110,852	(2,193)	108,659	26,132	9,016	35,148
NET ASSETS AT BEGINNING OF YEAR	26,132	192,186	218,318	-	183,170	183,170
NET ASSETS AT END OF YEAR	\$136,984	\$189,993	\$326,977	\$26,132	\$192,186	\$218,318

See notes to financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

STATEMENT OF CASH FLOWS

For the Years Ended 31 December 2000 and 1999

Expressed in Thousands of United States Dollars (Note B)

	2000			1999		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
CASH FLOWS FROM OPERATING ACTIVITIES						
Contributions received	\$ 136,587	\$ 37,561	\$ 174,148	\$ 104,367	\$ 48,619	\$ 152,986
Interest on investments received	128	17,731	17,859	11	13,767	13,778
Technical assistance disbursed	(2,684)	(60,622)	(63,306)	–	(72,389)	(72,389)
Interest assistance paid	(3,736)	–	(3,736)	(4,855)	–	(4,855)
Administrative expenses paid	(14)	(2,038)	(2,052)	–	(972)	(972)
Others—net	11	19	30	(35)	141	106
Net Cash Provided by (Used in) Operating Activities	<u>130,292</u>	<u>(7,349)</u>	<u>122,943</u>	<u>99,488</u>	<u>(10,834)</u>	<u>88,654</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Net cash (invested in) withdrawn from time deposits, other obligations of banks and corporate bonds	(21,072)	14,048	(7,024)	(108,770)	15,159	(93,611)
Sales of investment securities	9,309	–	9,309	66,161	49,181	115,342
Maturities of investment securities	298,815	–	298,815	174,840	–	174,840
Purchases of investment securities	(423,740)	(10,696)	(434,436)	(231,268)	(47,964)	(279,232)
Net Cash (Used in) Provided by Investing Activities	<u>(136,688)</u>	<u>3,352</u>	<u>(133,336)</u>	<u>(99,037)</u>	<u>16,376</u>	<u>(82,661)</u>
Effect of Exchange Rate Changes on Due from Banks	<u>6,384</u>	<u>(1)</u>	<u>6,383</u>	<u>(378)</u>	<u>(1,336)</u>	<u>(1,714)</u>
Net (Decrease) Increase in Due from Banks	(12)	(3,998)	(4,010)	73	4,206	4,279
Due from Banks at Beginning of Year	<u>73</u>	<u>4,535</u>	<u>4,608</u>	<u>–</u>	<u>329</u>	<u>329</u>
Due from Banks at End of Year	<u>\$ 61</u>	<u>\$ 537</u>	<u>\$ 598</u>	<u>\$ 73</u>	<u>\$ 4,535</u>	<u>\$ 4,608</u>
RECONCILIATION OF INCREASE (DECREASE) IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:						
Increase (decrease) in net assets (JSF-2)	\$ 110,852	\$ (2,193)	\$ 108,659	\$ 26,132	\$ 9,016	\$ 35,148
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:						
Unrealized investment losses (gains)	7	382	389	–	(506)	(506)
Translation adjustments	16,514	(1,478)	15,036	(17,425)	120	(17,305)
Change in undisbursed commitments	(1,043)	(3,879)	(4,922)	90,327	(15,955)	74,372
Amortization of discounts/premiums	(264)	(1,245)	(1,509)	(13)	(284)	(297)
Others—net	4,226	1,064	5,290	467	(3,225)	(2,758)
Net Cash Provided by (Used in) Operating Activities	<u>\$ 130,292</u>	<u>\$ (7,349)</u>	<u>\$ 122,943</u>	<u>\$ 99,488</u>	<u>\$(10,834)</u>	<u>\$ 88,654</u>

See notes to financial statements (JSF-4).

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND**NOTES TO FINANCIAL STATEMENTS****31 December 2000 and 1999**

CONTINUED

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 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 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 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 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 trans-

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND
NOTES TO FINANCIAL STATEMENTS

31 December 2000 and 1999

lated 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. 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."

Currency	2000			1999		
	ACCSF	JSF		ACCSF	JSF	
		Regular and Supplementary	Total		Regular and Supplementary	Total
Japanese yen	\$230,897,000	\$ –	\$230,897,000	\$116,852,000	\$ –	\$116,852,000
United States dollar	–	292,748,000	292,748,000	–	294,906,000	294,906,000
Total	\$230,897,000	\$292,748,000	\$523,645,000	\$116,852,000	\$294,906,000	\$411,758,000

Reclassification

Certain 1999 amounts have been reclassified to conform with the 2000 presentation.

NOTE C—INVESTMENTS

The currency compositions of the investment portfolio as of 31 December 2000 and 1999 expressed in United States dollars were as follows:

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 1.18% and 6.42%, respectively (0.07% and 5.22% – 1999).

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 \$338,000 at 31 December 2000 (\$709,000 – 1999). The investment is reported at its

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2000 and 1999

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estimated fair value and the unrealized loss of \$330,000 (gain of \$506,000 – 1999) is charged against income for the year.

NOTE E—OTHER ASSETS AND LIABILITIES

Included in other assets and liabilities are interfund transfers between JSF and ACCSF. As of 31 December 2000, an amount of \$584,000 (\$485,000 – 1999) was receivable from ACCSF. The said amount is reflected as other assets under JSF and other liabilities under ACCSF.

NOTE F—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent TA projects/programs and IPA grants which have become effective but have not been disbursed. During 2000, an amount of \$11,751,000 (\$4,779,000 - 1999), representing completed and canceled TA projects, has been written back as a reduction in technical assistance for the period and the corresponding undisbursed commitment has been eliminated. The fair value of undisbursed commitments

	2000			1999		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Uncommitted balances	\$136,637,000	\$100,745,000	\$237,382,000	\$26,129,000	\$121,428,000	\$147,557,000
TA projects/programs approved by Japan and ADB but not yet effective (36,709,000)	(1,875,000)	(38,725,000)	(40,600,000)	(3,850,000)	(32,859,000)	
TA projects/programs approved by Japan and not yet effective	(8,865,000)	(10,918,000)	(19,783,000)	(3,000,000)	(18,630,000)	(21,630,000)
Uncommitted balances available for new commitments	\$125,897,000	\$ 51,102,000	\$176,999,000	\$19,279,000	\$ 69,939,000	\$ 89,218,000

approximates the amounts outstanding because JSF expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE G—UNCOMMITTED BALANCES

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

2000. These balances include TA projects/programs that had been approved but which had not yet become effective.

As of 31 December 2000 and 1999 these balances were as follows:

NOTE H—CONTRIBUTIONS AND TEMPORARILY RESTRICTED NET ASSETS

All contributions for the years ended 31 December 2000 and 1999 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 2000

ASIAN DEVELOPMENT BANK—JAPAN SPECIAL FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2000 and 1999

and 1999:

	<u>2000</u>	<u>1999</u>
Asian Currency Crisis Support Facility	\$136,637,000	\$26,129,000
Japan Special Fund		
Environment-Related		
Activities	29,113,000	27,710,000
Financial Sector	10,997,000	10,843,000
Private Sector Promotion	9,676,000	9,032,000
Gender and Development	7,096,000	6,777,000
Training/Symposium	394,000	348,000
	<u>57,276,000</u>	<u>54,710,000</u>
Total	<u>\$193,913,000</u>	<u>\$80,839,000</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 Japan, 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 I—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 (\$3.2 billion), encashable by ADB at any time to meet any calls on the guarantee facility. As of 31 December 2000, no guarantee has been made.

NOTE J—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.