



## FINANCIAL STATEMENTS

### 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 2001 and 2000, 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.

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Detroit, Michigan  
 27 February 2002

**ASIAN DEVELOPMENT BANK-JAPAN SPECIAL FUND**
**STATEMENT OF FINANCIAL POSITION**
**31 December 2001 and 2000**

Expressed in Thousands of United States Dollars (Note B)

	2001			2000		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
<b>ASSETS</b>						
DUE FROM BANKS (Note B)	\$ 1,315	\$ 663	\$ 1,978	\$ 61	\$ 537	\$ 598
INVESTMENTS (Notes A, B, and C)						
Government and government-guaranteed obligations	35,967	-	35,967	103,281	10,676	113,957
Time deposits	80,964	96,085	177,049	127,616	136,256	263,872
Other securities	64,546	181,676	246,222	-	145,816	145,816
	<u>181,477</u>	<u>277,761</u>	<u>459,238</u>	<u>230,897</u>	<u>292,748</u>	<u>523,645</u>
EQUITY INVESTMENTS (Notes A, B, and D), net	-	105	105	-	338	338
ACCRUED REVENUE	431	1,335	1,766	46	6,701	6,747
OTHER ASSETS (Note E)	23	6,170	6,193	71	4,289	4,360
<b>TOTAL</b>	<b>\$183,246</b>	<b>\$286,034</b>	<b>\$469,280</b>	<b>\$231,075</b>	<b>\$304,613</b>	<b>\$535,688</b>
<b>LIABILITIES AND UNCOMMITTED BALANCES</b>						
ACCOUNTS PAYABLE AND OTHER LIABILITIES						
Payable to Ordinary Capital Resources	\$ -	\$ 143	\$ 143	\$ -	\$ 144	\$ 144
Other Liabilities (Note E)	10,327	43	10,370	4,807	60	4,867
	<u>10,327</u>	<u>186</u>	<u>10,513</u>	<u>4,807</u>	<u>204</u>	<u>5,011</u>
UNDISBURSED COMMITMENTS (Notes B and F)						
Technical assistance	14,918	117,605	132,523	13,099	114,416	127,515
Interest payment assistance	58,115	-	58,115	76,185	-	76,185
	<u>73,033</u>	<u>117,605</u>	<u>190,638</u>	<u>89,284</u>	<u>114,416</u>	<u>203,700</u>
NET ASSETS (JSF-2) (Note B), represented by:						
Uncommitted balances (Note G)						
Unrestricted	-	8,505	8,505	-	43,469	43,469
Temporarily restricted (Notes A and H)	99,366	57,794	157,160	136,637	57,276	193,913
	<u>99,366</u>	<u>66,299</u>	<u>165,665</u>	<u>136,637</u>	<u>100,745</u>	<u>237,382</u>
Net accumulated investment income						
Temporarily restricted (Notes A and H)	520	101,944	102,464	347	89,248	89,595
	<u>99,886</u>	<u>168,243</u>	<u>268,129</u>	<u>136,984</u>	<u>189,993</u>	<u>326,977</u>
<b>TOTAL</b>	<b>\$183,246</b>	<b>\$286,034</b>	<b>\$469,280</b>	<b>\$231,075</b>	<b>\$304,613</b>	<b>\$535,688</b>

The accompanying notes are an integral part of these financial statements (JSF-4).

**ASIAN DEVELOPMENT BANK-JAPAN SPECIAL FUND**
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**For the Years Ended 31 December 2001 and 2000**

Expressed in Thousands of United States Dollars (Note B)

	2001			2000		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>						
CONTRIBUTIONS (Notes B and H)	\$ -	\$ 30,929	\$ 30,929	\$ -	\$ 37,561	\$ 37,561
REVENUE FROM OTHER SOURCES	-	74	74	-	150	150
UNREALIZED INVESTMENT GAINS (LOSSES) ON EQUITY INVESTMENTS (Note D)	-	205	205	-	(330)	(330)
NET ASSETS RELEASED FROM (PUT BACK INTO) RESTRICTIONS (Notes B and H)	8,779	894	9,673	9,632	(557)	9,075
Total	8,779	32,102	40,881	9,632	36,824	46,456
<b>EXPENSES</b>						
Technical assistance (Notes B and F)	8,700	64,227	72,927	9,575	59,274	68,849
Administrative expenses	79	1,413	1,492	57	1,485	1,542
Provision for losses (Notes B and D)	-	431	431	-	-	-
Total	8,779	66,071	74,850	9,632	60,759	70,391
CONTRIBUTIONS AND REVENUE LESS THAN EXPENSES	-	(33,969)	(33,969)	-	(23,935)	(23,935)
EXCHANGE LOSSES (Note B)	-	(992)	(992)	-	(116)	(116)
DECREASE IN UNRESTRICTED NET ASSETS BEFORE TRANSLATION ADJUSTMENTS	-	(34,961)	(34,961)	-	(24,051)	(24,051)
TRANSLATION ADJUSTMENTS (Note B)	-	(3)	(3)	-	802	802
DECREASE IN UNRESTRICTED NET ASSETS	-	(34,964)	(34,964)	-	(23,249)	(23,249)
<b>CHANGES IN TEMPORARILY RESTRICTED NET ASSETS</b>						
CONTRIBUTIONS (Notes B and H)	-	-	-	136,587	-	136,587
REVENUE FROM INVESTMENTS (Notes B and C)	252	14,110	14,362	401	19,823	20,224
NET ASSETS (RELEASED FROM) PUT BACK INTO RESTRICTIONS (Notes B and H)	(8,779)	(894)	(9,673)	(9,632)	557	(9,075)
EXCHANGE (LOSSES) GAINS (Note B)	(218)	-	(218)	10	-	10
TRANSLATION ADJUSTMENTS (Note B)	(28,353)	(2)	(28,355)	(16,514)	676	(15,838)
(DECREASE) INCREASE IN TEMPORARILY RESTRICTED NET ASSETS	(37,098)	13,214	(23,884)	110,852	21,056	131,908
(DECREASE) INCREASE IN NET ASSETS	(37,098)	(21,750)	(58,848)	110,852	(2,193)	108,659
NET ASSETS AT BEGINNING OF YEAR	136,984	189,993	326,977	26,132	192,186	218,318
<b>NET ASSETS AT END OF YEAR</b>	<b>\$ 99,886</b>	<b>\$168,243</b>	<b>\$268,129</b>	<b>\$136,984</b>	<b>\$189,993</b>	<b>\$326,977</b>

The accompanying notes are an integral part of these financial statements (JSF-4).

**ASIAN DEVELOPMENT BANK-JAPAN SPECIAL FUND**
**STATEMENT OF CASH FLOWS**
**For the Years Ended 31 December 2001 and 2000**

Expressed in Thousands of United States Dollars (Note B)

	2001			2000		
	ACCSF	JSF Regular & Supplementary	Total	ACCSF	JSF Regular & Supplementary	Total
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>						
Contributions received	\$ -	\$ 30,929	\$ 30,929	\$ 136,587	\$ 37,561	\$ 174,148
Interest on investments received	536	18,096	18,632	128	17,731	17,859
Technical assistance disbursed	(7,010)	(62,893)	(69,903)	(2,684)	(60,622)	(63,306)
Interest assistance paid	(12,398)	-	(12,398)	(3,736)	-	(3,736)
Administrative expenses paid	(55)	(1,470)	(1,525)	(14)	(2,038)	(2,052)
Others—net	(218)	(902)	(1,120)	11	19	30
Net Cash (Used in) Provided by Operating Activities	<u>(19,145)</u>	<u>(16,240)</u>	<u>(35,385)</u>	<u>130,292</u>	<u>(7,349)</u>	<u>122,943</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>						
Sales of investment	8,419	29,966	38,385	9,309	-	9,309
Maturities of investment	3,733,758	6,864,848	10,598,606	2,273,868	1,656,089	3,929,957
Purchases of investment	(3,721,982)	(6,878,441)	(10,600,423)	(2,419,865)	(1,652,737)	(4,072,602)
Net Cash Provided by (Used in) Investing Activities	<u>20,195</u>	<u>16,373</u>	<u>36,568</u>	<u>(136,688)</u>	<u>3,352</u>	<u>(133,336)</u>
Effect of Exchange Rate Changes on Due from Banks	<u>204</u>	<u>(7)</u>	<u>197</u>	<u>6,384</u>	<u>(1)</u>	<u>6,383</u>
Net Increase (Decrease) in Due from Banks	1,254	126	1,380	(12)	(3,998)	(4,010)
Due from Banks at Beginning of Year	<u>61</u>	<u>537</u>	<u>598</u>	<u>73</u>	<u>4,535</u>	<u>4,608</u>
Due from Banks at End of Year	<u>\$ 1,315</u>	<u>\$ 663</u>	<u>\$ 1,978</u>	<u>\$ 61</u>	<u>\$ 537</u>	<u>\$ 598</u>
<b>RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:</b>						
(Decrease) Increase in net assets (JSF-2)	\$ (37,098)	\$ (21,750)	\$ (58,848)	\$ 110,852	\$ (2,193)	\$ 108,659
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:						
Translation adjustments	28,353	5	28,358	16,514	(1,478)	15,036
Change in undisbursed commitments	(16,251)	3,189	(13,062)	(1,043)	(3,879)	(4,922)
Amortization of discounts/premiums	623	(1,401)	(778)	(264)	(1,245)	(1,509)
Provision for losses charged	-	431	431	-	-	-
Unrealized investment losses (gains)	45	(203)	(158)	7	382	389
Loss from sales of investments	-	19	19	-	-	-
Others—net	5,183	3,470	8,653	4,226	1,064	5,290
Net Cash (Used in) Provided by Operating Activities	<u>\$ (19,145)</u>	<u>\$ (16,240)</u>	<u>\$ (35,385)</u>	<u>\$ 130,292</u>	<u>\$ (7,349)</u>	<u>\$ 122,943</u>

The accompanying notes are an integral part of these financial statements (JSF-4).

**ASIAN DEVELOPMENT BANK-JAPAN SPECIAL FUND**
**NOTES TO FINANCIAL STATEMENTS**
**31 December 2001 and 2000**
**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. Time deposits are classified as "Held-to-Maturity" and are reported at cost.

*Contributions*

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

*Technical Assistance and Interest Payment Assistance*

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

*Functional Currency and Reporting Currency*

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

*Translation of Currencies*

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

**ASIAN DEVELOPMENT BANK-JAPAN SPECIAL FUND**
**NOTES TO FINANCIAL STATEMENTS**  
**31 December 2001 and 2000**

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. The reserve against losses is established 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."

*Reclassification*

Certain 2000 amounts have been reclassified to conform with the 2001 presentation.

**NOTE C—INVESTMENTS**

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999. ADB is restricted by its Investment Authority to invest in investment instruments which are obligations of a limited class of issuers, primarily government or government-guaranteed obligations and corporate obligations.

The currency compositions of the investment portfolio as of 31 December 2001 and 2000 expressed in United States dollars are as follows:

Currency	2001			2000		
	ACCSF	JSF Regular and Supplementary	Total	ACCSF	JSF Regular and Supplementary	Total
Japanese yen	\$181,477,000	\$ -	\$181,477,000	\$230,897,000	\$ -	\$230,897,000
United States dollar	-	277,761,000	277,761,000	-	292,748,000	292,748,000
Total	<u>\$181,477,000</u>	<u>\$277,761,000</u>	<u>\$459,238,000</u>	<u>\$230,897,000</u>	<u>\$292,748,000</u>	<u>\$523,645,000</u>

The annualized rates of return on the average investments held under ACCSF and JSF funds during the year, based on the portfolio held at the beginning and end of each month were 0.12% and 4.76%, respectively (0.18% and 6.42% -2000).

**NOTE D—EQUITY INVESTMENTS**

ADB used JSF resources to make an equity investment in India in 1990. In May 2001, due to the unavailability of a reliable market for the investment, ADB reported the

investment at its written down value of \$105,000 (\$338,000 - 2000).

**NOTE E—OTHER ASSETS AND LIABILITIES**

Included in other assets and liabilities are interfund transfers between JSF and ACCSF. As at 31 December 2001, an amount of \$431,000 (\$584,000 - 2000) was receivable from ACCSF. The said amount is reflected as other assets under JSF and other liabilities under ACCSF.

**ASIAN DEVELOPMENT BANK-JAPAN SPECIAL FUND**
**NOTES TO FINANCIAL STATEMENTS**  
**31 December 2001 and 2000**
**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 not yet disbursed. During 2001, an amount of \$2,920,000 (\$11,751,000 - 2000), 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 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 comprised of amounts which have not been committed by ADB as at 31 December 2001. These balances include TA projects/programs that had been approved but not yet become effective.

As of 31 December 2001 and 2000 these balances are as follows:

	2001			2000		
	ACCSF	JSF		ACCSF	JSF	
		Regular and Supplementary	Total		Regular and Supplementary	Total
Uncommitted balances	\$99,366,000	\$ 66,299,000	\$165,665,000	\$136,637,000	\$100,745,000	\$237,382,000
TA projects/programs approved by Japan and ADB but not yet effective	(7,540,000)	(23,555,000)	(31,095,000)	(1,875,000)	(38,725,000)	(40,600,000)
TA projects/programs approved by Japan and not yet effective	(2,750,000)	( 3,440,000)	( 6,190,000)	(8,865,000)	(10,918,000)	(19,783,000)
Uncommitted balances available for new commitments	<u>\$89,076,000</u>	<u>\$ 39,304,000</u>	<u>\$128,380,000</u>	<u>\$125,897,000</u>	<u>\$ 51,102,000</u>	<u>\$176,999,000</u>

**NOTE H—CONTRIBUTIONS AND TEMPORARILY RESTRICTED NET ASSETS**

All contributions for the years ended 31 December 2001 and 2000 were received during the respective years. Some of the contributions received were with restriction that 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 2001 and 2000:

	2001	2000
Asian Currency Crisis Support Facility	\$ 99,366,000	\$136,637,000
Japan Special Fund Environment-Related Activities	29,365,000	29,113,000
Financial Sector	11,009,000	10,997,000
Private Sector Promotion	9,916,000	9,676,000
Gender and Development Training/Symposium	7,110,000	7,096,000
	394,000	394,000
	<u>57,794,000</u>	<u>57,276,000</u>
Total	<u>\$157,160,000</u>	<u>\$193,913,000</u>

**ASIAN DEVELOPMENT BANK-JAPAN SPECIAL FUND**
**NOTES TO FINANCIAL STATEMENTS**  
**31 December 2001 and 2000**

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 JSF'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 (\$2.7 billion), encashable by ADB at any time to meet any calls on the guarantee facility. As of 31 December 2001, 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 carrying amounts of JSF's assets, liabilities, and uncommitted balances are considered to approximate fair values for all significant financial instruments. See Notes B, C, D, and F for discussions relating to investments, equity investments, and undisbursed commitments.