

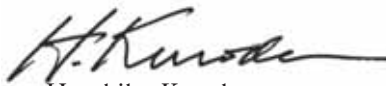
Management's Report on Internal Control over Financial Reporting

The management of Asian Development Bank (“ADB”) is responsible for establishing and maintaining adequate internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

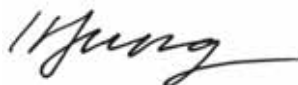
ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2008. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. Based on that assessment, management believes that as of 31 December 2008, ADB's internal control over financial reporting is effective based upon the criteria established in *Internal Control – Integrated Framework*.



Haruhiko Kuroda
President



Bindu N. Lohani
Vice President (Finance and Administration)



Hong-Sang Jung
Controller

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Report of Independent Auditors to the Asian Development Bank

In our opinion, the accompanying special purpose statements of assets, liabilities, fund balances and the related special purpose statements of revenues and expenses, cash flows and changes in fund balances present fairly, in all material respects, the financial position of Asian Development Bank (“ADB” or “the Bank”)—Asian Development Fund at 31 December 2008 and 2007 and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America, with the exception of loan loss provisioning which has been eliminated with the adoption of special purpose financial statements. Also in our opinion, management’s assertion that ADB maintained effective internal control over financial reporting as of 31 December 2008 is fairly stated, in all material respects, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The management of ADB is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assertion of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements and on ADB’s internal control over financial reporting based on our integrated audit in 2008 and financial statement audit in 2007. We conducted our audits of the financial statements in accordance with auditing standards generally accepted in the United States of America and our audit of internal control over financial reporting in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.



Our audits were conducted for the purpose of forming an opinion on the special purpose financial statements taken as a whole. The accompanying special purpose statements of loans as at 31 December 2008 and 2007, and of resources as at 31 December 2008 are presented for purposes of additional analyses and are not required parts of the special purpose financial statements. Such information has been subjected to the auditing procedures applied in the audits of the special purpose financial statements and in our opinion is fairly stated in all material respects in relation to the special purpose financial statements taken as a whole.

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention, or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A handwritten signature in black ink, appearing to read 'PwC' or similar, written in a cursive style.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore
5 March 2009

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**SPECIAL PURPOSE STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES****31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

ASSETS	2008		2007	
DUE FROM BANKS (Note B)	\$	7,974	\$	2,945
INVESTMENTS (Notes B, C, and L)				
Government and government-guaranteed obligations	\$	2,912,159	\$	688,654
Time deposits		687,147		6,054,661
Corporate bonds		2,401,231	151,409	6,894,724
SECURITIES PURCHASED UNDER RESALE ARRANGEMENT (Notes B, C, and L)		322,361		58,178
LOANS OUTSTANDING (ADF-5) (Notes B, D, L, and M)				
Sovereign		26,427,289		24,017,992
Less—provision for HIPC Debt Relief		87,471	26,339,818	–
ACCRUED REVENUE				
On investments		56,659		32,618
On loans		56,045	112,704	59,077
DUE FROM CONTRIBUTORS (Notes B, E, and L)		1,928,941		1,678,404
RECEIVABLE FROM FORWARD CONTRACTS		307,811		–
OTHER ASSETS		41,270		36,495
TOTAL		\$35,061,416		\$32,780,433
LIABILITIES AND FUND BALANCES				
PAYABLE TO RELATED FUNDS (Notes F and H)	\$	31,743	\$	30,170
ADVANCE PAYMENTS ON CONTRIBUTIONS (ADF-6) (Note B)		124,473		117,573
UNDISBURSED COMMITMENTS (Notes B, K, and L)		1,052,333		682,582
PAYABLE FOR FORWARD CONTRACTS		373,041		–
OTHER LIABILITIES (Note G)		478		504
TOTAL LIABILITIES		1,582,068		830,829
FUND BALANCES				
Amounts available for operational commitments (ADF-6)				
Contributed Resources (Notes B and G)	\$31,089,051		\$28,725,096	
Unamortized Discount (ADF-6) (Note B)	(44,645)		(46,711)	
		31,044,406		28,678,385
Set-Aside Resources (Note I)		73,691		75,151
Transfers from Ordinary Capital Resources and Technical Assistance Special Fund (Note A)		743,823		703,986
		31,861,920		29,457,522
Accumulated surplus (ADF-4)		3,719,782		2,243,408
Accumulated other comprehensive income (ADF-4) (Notes B and J)		(2,102,354)	33,479,348	248,674
TOTAL		\$35,061,416		\$32,780,433

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**SPECIAL PURPOSE STATEMENT OF REVENUE AND EXPENSES****For the Years Ended 31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	2008		2007	
REVENUE				
From loans (Notes B and D)	\$ 250,568		\$ 218,761	
From investments (Notes B and C)	258,880		317,579	
From other sources—net	1,066	\$ 510,514	1,277	\$ 537,617
EXPENSES				
Grants (Notes B and K)	539,800		377,760	
Administrative expenses (Note H)	187,138		186,396	
Amortization of discounts on contributions (Notes B and G)	6,547		4,237	
Provision for HIPC Debt Relief (Notes D and M)	89,788		—	
Other expenses	17	823,290	25	568,418
NET REALIZED GAINS				
From loans (Note B)	2,088,211		—	
From investments	362	2,088,573	—	—
NET UNREALIZED (LOSSES) GAINS (Note B)		(299,423)		13,486
REVENUE IN EXCESS OF (LESS THAN) EXPENSES		\$1,476,374		\$ (17,315)

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**SPECIAL PURPOSE STATEMENT OF CASH FLOWS****For the Years Ended 31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Interest charges on loans received	\$ 228,544	\$ 185,569
Interest on investments received	201,334	302,569
Interest received from securities under resale arrangement	939	2,022
Cash received from other sources	1,066	1,247
Administrative expenses paid	(184,109)	(183,664)
Grants disbursed	(177,466)	(62,804)
Financial expenses paid	(16)	(24)
Net Cash Provided by Operating Activities	<u>70,292</u>	<u>244,915</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	362	–
Maturities of investments	132,364,873	135,378,128
Purchases of investments	(131,564,370)	(135,503,687)
Net payments for securities purchased under resale arrangement	(247,866)	(3,863)
Net payments for forward contracts	(12,644)	–
Principal collected on loans	676,889	586,409
Loans disbursed	(2,015,224)	(1,592,955)
Net Cash Used in Investing Activities	<u>(797,980)</u>	<u>(1,135,968)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Contributions received and encashed ¹	698,028	847,961
Cash received from Ordinary Capital Resources	40,000	40,000
Net Cash Provided by Financing Activities	<u>738,028</u>	<u>887,961</u>
Effect of Exchange Rate Changes on Due from Banks	<u>(5,311)</u>	<u>3,435</u>
Net Increase in Due from Banks	5,029	343
Due from Banks at Beginning of Year	2,945	2,602
Due from Banks at End of Year	<u>\$ 7,974</u>	<u>\$ 2,945</u>
RECONCILIATION OF REVENUE IN EXCESS OF (LESS THAN) EXPENSES TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Revenue in excess of (less than) expenses (ADF-2)	\$ 1,476,374	\$ (17,315)
Adjustments to reconcile revenue in excess of (less than) expenses to net cash provided by operating activities:		
Amortization of discounts/premiums on investments	(26,222)	(18,570)
Amortization of discounts/premiums on forward contracts	(3,089)	–
Amortization of discount under ANE	6,547	4,237
Grants approved and effective	539,800	377,760
Capitalized charges on loans	(27,421)	(24,675)
Net loss on sales of investments	(362)	–
Provision for HIPC debt relief	89,788	–
Change in disbursed grants	(170,098)	(51,051)
Change in advances under TA grants	(7,333)	(11,801)
Change in accrued revenue on investments and loans	(21,898)	(2,934)
Change in accrued expenses	2,993	2,780
Change in other assets	(0)	(30)
Translation adjustments	(1,788,787)	(13,486)
Net Cash Provided by Operating Activities	<u>\$ 70,292</u>	<u>\$ 244,915</u>

0 – Less than \$500.

1 Supplementary disclosure on noncash financing activities:

Nonnegotiable, noninterest-bearing demand promissory notes amounting to \$823,323 (\$783,246 - 2007) were received from contributing members. The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**SPECIAL PURPOSE STATEMENT OF CHANGES IN FUND BALANCES****For the Years Ended 31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	Contributed Resources	Set-Aside Resources	Transfers from OCR & TASF	Accumulated Surplus	Accumulated Other Comprehensive Income	Total
Balance - 1 January 2007	\$25,963,646	\$71,624	\$663,614	\$2,260,723	\$287,863	\$29,247,470
Comprehensive income for the year 2007 (Note J)				(17,315)	(39,189)	(56,504)
Change in amounts available for operational commitments						
Contributed Resources	2,727,913					2,727,913
Unamortized Discount	(13,174)					(13,174)
Transfer from ordinary capital resources			40,000			40,000
Change in SDR value of set-aside resources		3,527				3,527
Change in value of transfers from Technical Assistance Special Fund			372			372
Balance - 31 December 2007	\$28,678,385	\$75,151	\$703,986	\$2,243,408	\$248,674	\$31,949,604
Comprehensive income for the year 2008 (Note J)				1,476,374	(2,351,028)	(874,654)
Change in amounts available for operational commitments						
Contributed Resources	2,363,955					2,363,955
Unamortized Discount	2,066					2,066
Transfer from ordinary capital resources			40,000			40,000
Change in SDR value of set-aside resources		(1,460)				(1,460)
Change in value of transfers from Technical Assistance Special Fund			(163)			(163)
Balance - 31 December 2008	\$31,044,406	\$73,691	\$743,823	\$3,719,782	\$(2,102,354)	\$33,479,348

Accumulated Other Comprehensive Income (Note J)**For the Years Ended 31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	Accumulated Translation Adjustments		Unrealized Investment Holding Gains (Losses)		Accumulated Other Comprehensive Income	
	2008	2007	2008	2007	2008	2007
Balance, 1 January	\$ 241,638	\$ 288,700	\$ 7,036	\$ (837)	\$ 248,674	\$287,863
Other comprehensive income for the year	(2,451,641)	(47,062)	100,613	7,873	(2,351,028)	(39,189)
Balance, 31 December	<u>\$(2,210,003)</u>	<u>\$ 241,638</u>	<u>\$107,649</u>	<u>\$ 7,036</u>	<u>\$(2,102,354)</u>	<u>\$248,674</u>

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**SPECIAL PURPOSE SUMMARY STATEMENT OF LOANS****31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

Borrowers/Guarantors ¹	Loans Outstanding	Undisbursed Balances of Effective Loans ²	Loans Not Yet Effective ²	Total Loans	Percent of Total Loans
Afghanistan	\$ 463,601	\$ 324,022	\$ –	\$ 787,623	2.39
Armenia	8,100	59,343	17,337	84,780	0.26
Azerbaijan	26,558	31,570	–	58,128	0.18
Bangladesh	5,743,777	1,156,028	84,850	6,984,655	21.16
Bhutan	115,992	56,852	29,148	201,992	0.61
Cambodia	812,591	215,568	–	1,028,159	3.11
Cook Islands	26,770	76	7,002	33,848	0.10
Georgia	72,560	38,141	–	110,701	0.34
Indonesia	1,130,869	463,476	80,500	1,674,845	5.07
Kazakhstan	7,353	525	–	7,878	0.02
Kiribati	14,520	–	–	14,520	0.04
Kyrgyz Republic	570,858	53,359	–	624,217	1.89
Lao PDR	1,129,607	75,169	–	1,204,776	3.65
Maldives	67,199	24,061	7,078	98,338	0.30
Marshall Islands	67,748	–	–	67,748	0.21
Micronesia, Fed. States of	48,699	19,100	–	67,799	0.21
Mongolia	575,286	90,020	–	665,306	2.02
Myanmar	565,751	–	–	565,751	1.71
Nepal	1,564,986	328,870	–	1,893,856	5.74
Pakistan	6,403,379	763,024	230,229	7,396,632	22.41
Papua New Guinea	301,809	68,417	104,146	474,372	1.44
Philippines	907,770	–	–	907,770	2.75
Samoa	84,867	41,645	2,647	129,159	0.39
Solomon Islands	56,169	–	–	56,169	0.17
Sri Lanka	2,614,832	403,603	61,996	3,080,431	9.33
Tajikistan	237,101	146,593	–	383,694	1.16
Thailand	45,870	–	–	45,870	0.14
Tonga	44,317	–	–	44,317	0.13
Tuvalu	6,989	990	–	7,979	0.02
Uzbekistan	26,126	113,257	45,504	184,887	0.56
Vanuatu	53,816	–	–	53,816	0.16
Viet Nam	2,630,421	1,107,475	330,708	4,068,604	12.33
Regional	998	593	–	1,591	–
TOTAL – 31 December 2008	26,427,289	5,581,777	1,001,145	33,010,211	100.00
Provision for HIPC Debt Relief	(87,471)	–	–	(87,471)	
NET BALANCE –					
31 December 2008	\$ 26,339,818	\$ 5,581,777	\$ 1,001,145	\$ 32,922,740	
NET BALANCE –					
31 December 2007	\$ 24,017,992	\$ 6,127,364	\$ 1,048,872	\$ 31,194,228	

1 Loans other than those made directly to a member or to its central bank have been guaranteed by the member.

2 Loans negotiated before 1 January 1983 were denominated in current United States dollars. Loans negotiated after that date are denominated in Special Drawing Rights (SDR) for the purpose of commitment. The undisbursed portions of such SDR loans are translated into United States dollars at the applicable exchange rates as of the end of a reporting period. Of the undisbursed balances, ADB has entered into irrevocable commitments to disburse various amounts totaling \$27,601 (\$49,996 - 2007).

MATURITY OF EFFECTIVE LOANS

Twelve Months Ending 31 December		Amount	Five Years Ending 31 December		Amount
2009		\$ 1,135,914	2018		7,094,027
2010		945,246	2023		7,272,100
2011		1,059,334	2028		5,751,782
2012		1,136,702	2033		4,000,091
2013		1,214,380	2038		1,805,918
			2043		436,212
			2048		157,360
			Total		<u>\$ 32,009,066</u>

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2008	2007	Currency	2008	2007
Australian dollar	\$ 59,046	\$ 230,396	Norwegian krone	112,091	279,628
Canadian dollar	278,119	921,698	Pound sterling	189,337	497,311
Danish krone	36,809	82,874	Singapore dollar	86	2,603
Euro	2,235,000	5,051,792	Swedish krona	98,374	296,379
Japanese yen	6,262,394	11,740,188	Swiss franc	128,826	356,988
Korean won	24,536	96,630	Thai baht	863	4,103
Malaysian ringgit	875	6,923	United States dollar	2,101,757	3,911,724
New Zealand dollar	1,279	12,958	Special Drawing Rights ³	14,897,897	525,797
			Total	<u>\$26,427,289</u>	<u>\$24,017,992</u>

³ Basket of currencies defined by the International Monetary Fund consisting of the Euro, Japanese yen, Pound sterling and US dollar.

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**SPECIAL PURPOSE STATEMENT OF RESOURCES****31 December 2008**

Expressed in Thousands of United States Dollars (Note B)

	Effective Amounts Committed During 2008	Effective Amounts Committed		Amounts Not Yet Available For Operational Commitments	Amounts Available For Operational Commitments	Amounts Received	Amounts Receivable
		At Exchange Rates Per Resolutions	At 31 December 2008 Exchange Rates				
CONTRIBUTED RESOURCES							
Australia	\$ –	\$ 1,528,867	\$ 1,317,489	\$ –	\$ 1,317,489	\$ 1,317,489	\$ –
Austria	–	196,897	271,000	17,512	253,488	253,488	–
Belgium	–	181,749	234,752	1,814	232,938	232,938	–
Brunei Darussalam ¹	9,500	9,500	9,500	–	9,500	9,500	–
Canada	5,934	1,581,659	1,638,863	18,205	1,620,657	1,620,657	–
China, People's Republic of	–	28,004	28,004	–	28,004	28,004	–
Denmark	1,198	211,781	268,061	3,804	264,257	264,257	–
Finland	614	132,515	148,550	1,907	146,644	146,644	–
France	–	1,096,317	1,359,361	–	1,359,361	1,359,361	–
Germany	–	1,479,254	2,036,586	104,845	1,931,741	1,931,741	–
Hong Kong	–	54,459	54,459	–	54,459	54,459	–
Indonesia	–	14,960	14,960	–	14,960	14,960	–
Ireland	–	28,046	32,470	–	32,470	32,470	–
Italy	112,428	916,215	915,630	–	915,630	915,630	–
Japan	–	8,602,366	15,759,886	–	15,759,886	15,759,886	–
Korea, Rep. of	1,400	267,256	220,135	2,541	217,594	217,594	–
Luxembourg	–	38,328	47,818	–	47,818	47,818	–
Malaysia	–	14,667	12,435	–	12,435	12,435	–
Nauru	–	1,933	1,933	–	1,933	1,433	500
The Netherlands	–	587,468	798,349	–	798,349	798,349	–
New Zealand	295	113,174	100,894	561	100,334	100,334	–
Norway	–	200,475	187,696	4,255	183,440	183,440	–
Portugal	–	65,994	93,709	–	93,709	93,709	–
Singapore	–	7,734	9,130	–	9,130	9,130	–
Spain	–	295,384	384,090	4,879	379,211	379,211	–
Sweden	1,674	338,996	284,391	5,197	279,194	279,194	–
Switzerland	–	288,698	444,559	–	444,559	444,559	–
Taipei, China	–	63,475	60,990	–	60,990	60,990	–
Thailand	–	9,470	9,019	–	9,019	9,019	–
Turkey	–	110,520	110,520	2,524	107,996	107,996	–
United Kingdom	–	1,051,133	868,016	–	868,016	868,016	–
United States	–	3,767,249	3,767,249	278,054	3,489,195	3,489,195	–
Total	133,042²	23,284,544	31,490,504³	446,098⁴	31,044,406⁵	31,043,906⁶	500
SET-ASIDE RESOURCES	–	–	73,691	–	73,691	73,691	–
TRANSFER FROM ORDINARY CAPITAL RESOURCES	40,000	–	740,000	–	740,000	740,000	–
TRANSFERS FROM TECHNICAL ASSISTANCE SPECIAL FUND ⁷	–	–	3,823	–	3,823	3,823	–
TOTAL	\$173,042	\$23,284,544	\$32,308,018	\$446,098	\$31,861,920	\$31,861,420	\$500

Note: Figures may not add due to rounding.

1 Became a member of ADB in June 2006, and have committed and fully paid its contribution to ADF IX in June 2008.

2 Except for Brunei and Italy, amounts committed during the year represents the discount due to the accelerated note encashment (ANE).

3 Represents amounts committed per Instrument of Contribution including discount on donor's contributions due to the ANE for ADF IX totaling \$56,758.

4 Includes the balance of unamortized discount on donor's contributions due to the ANE for ADF IX totaling \$44,645.

5 Includes the amortized discount on donor's contributions due to the ANE for ADF IX totaling \$12,113 and the foregone interest received.

6 Excludes advance payments received from donors totaling \$124,473, which have not been made available for operational commitments as of 31 December 2008.

7 Includes translation adjustments amounting to \$352 as of 31 December 2008.

The accompanying notes are an integral part of these special purpose financial statements (ADF-7).

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS

31 December 2008 and 2007

NOTE A—NATURE OF OPERATIONS

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

The resources of ADF have been subsequently augmented by eight replenishments, the most recent of which became effective in April 2005 consisting of \$3,302,547,000 in contributions from donors and \$3,700,000,000 from internal resources to cover the operational requirements for the four-year period from January 2005. Under this replenishment, ADB was authorized to provide financing in the form of grants for projects and programs of high developmental priority.

In August 2008, the Board of Governors approved the resolution providing for the ninth replenishment of the Asian Development Fund (ADF X) and the fourth regularized replenishment of the Technical Assistance Special Fund (TASF). The resolution provides for a substantial replenishment of the ADF to finance ADB's concessional program for the four-year period from January 2009, and for a replenishment of the TASF in conjunction with the ADF replenishment, to finance technical assistance operations under the fund. Total replenishment size is SDR7,111,290,000, of which SDR2,641,290,000 will come from new donor contributions. Donors agreed to allocate 3% of the total replenishment size (equivalent to 8% of total donor contributions) to TASF. The replenishment shall be effective upon receipt of the Instruments of Contribution for Unqualified Contribution commitments in an aggregate amount equivalent to at least SDR1,320,645,000, and such date should not be later than 1 July 2009.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In May 2001, the Board of Directors approved the adoption of the special purpose financial statements for ADF. Due to the nature and organization of ADF, these financial statements have been prepared for the specific purpose of reflecting the sources and applications of member contributions and are presented in US dollar equivalents at the reporting dates. With the adoption

of the special purpose financial statements, loan loss provisioning has been eliminated. With the exceptions of the aforementioned, the ADF financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

In November 2005, to improve ADF currency management practices, the Board of Governors accepted a resolution to adopt a full-fledged special drawing rights (SDR) approach to facilitate resource administration and operational planning for the benefit of borrowers. The currency management framework was implemented on 1 January 2006 whereby ADB is authorized to convert ADF resources held in various currencies into the currencies which constitute the SDR, to value disbursements, repayments and loan charges in terms of SDR, and to determine the value of contributors' paid-in contributions and all other resources of the Fund in terms of SDR, in case of withdrawal of a Contributor or termination of ADF.

In July 2007, as an application of the Board-approved currency management exercise, ADB decided to offer a full-fledged special drawing rights (SDR) approach to ADF legacy loans by providing ADF borrowers the option to convert their existing liability (i.e., disbursed and outstanding loan balance) in various currencies into SDR, while the undisbursed portions will be treated as new loans. The conversion was made available beginning 1 January 2008, and as of 31 December 2008, 16 out of 30 ADF borrowing countries have opted to convert their loans, which were carried out on the nearest loan service payment dates from their concurrence. The conversion resulted in a realized gain of \$2,088,211,000 with a corresponding reduction in other comprehensive income.

Functional Currencies and Reporting Currency

The implementation of the full-fledged SDR framework is expected to change the primary economic environment of ADF. Until this process is completed, and a significant change in the primary economic environment becomes evident, the currencies of contributing member countries are functional currencies as these represent the currencies of the primary economic environment in which ADF generates and expends cash. The United States dollar is the reporting currency of the fund.

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

31 December 2008 and 2007

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions in currencies other than USD to be translated to the reporting currency using exchange rates applicable at the time of transactions. At the end of each accounting month, translations of assets, liabilities, and amounts available for operational commitments denominated in non-USD are adjusted using the applicable rates of exchange at the end of the reporting period. Translation adjustments relating to set-aside resources (Note I) are recorded as notional amounts receivable from or payable to OCR. Translation adjustments relating to the maintenance of SDR loans are charged or credited to “Unrealized Gains/Losses” and reported in the Statement of Revenue and Expenses. All other translation adjustments are charged or credited to “accumulated translation adjustments” and reported in “FUND BALANCES” as part of “Accumulated Other Comprehensive Income.”

Investments

Investment securities and negotiable certificate of deposits are classified as “Available for Sale” and are reported at estimated fair value, which represents their fair market value. Unrealized gains and losses are reported in “FUND BALANCES” as part of “Accumulated Other Comprehensive Income.” Realized gains and losses are measured by the difference between amortized cost and the net proceeds of sales. Time deposits are reported at cost, which is a reasonable estimate of fair value.

Interest income on investment securities and time deposits is recognized as realized and reported, net of amortizations of premiums and discounts.

Securities Transferred Under Repurchase Agreement and Securities Purchased Under Resale Arrangement

ADF accounts for transfers of financial assets in accordance with FAS 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities - a replacement of FAS 125.” In general, transfers are accounted for as sales when control over the transferred assets has been relinquished. Otherwise the transfers are accounted for as repurchase/resale agreements and collateralized financing arrangements.

Under repurchase agreements, securities transferred are recorded as assets and reported at estimated fair value and cash collateral received are recorded as liabilities. ADB monitors the fair value of the securities transferred under repurchase agreements and the collateral. Under resale arrangements, securities purchased are recorded as assets, while securities received are not recorded as liabilities and are not re-pledged.

There were no outstanding securities transferred under repurchase agreement as of 31 December 2008 and 2007.

Loans

Loan interest income is recognized on accrual basis. It is the policy of ADF to place in non-accrual status loans made to eligible borrowing member countries if the principal or interest with respect to any such loans is overdue by six months. Interest on non-accruing loans is included in revenue only to the extent that payments have actually been received by ADF. ADB maintains a position of not taking part in debt rescheduling agreements with respect to sovereign loans. In the case of nonsovereign loans, ADB may agree to debt rescheduling only after alternative courses of action have been exhausted. When ADB decides that a particular loan is no longer collectible, the entire amount is expensed during the period.

Contributed Resources

Contributions by donors are included in the financial statements as amounts committed and are reported in “Contributed Resources” as part of Fund Balances from the date Instruments of Contribution are deposited and related formalities are completed and made available for operational commitments.

Contributions are generally received in the currency of the contributor either in cash or notes.

Under ADF IX, contributors have the option to pay their contributions under accelerated note encashment (ANE) program and receive a discount. ADF invests the cash generated from this program and the investment income is used to finance operations. The related contributions are recorded at the full undiscounted amount, and the discount is amortized over the standard encashment period of 10 years.

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Advanced Payments on Contributions

Payments received in advance or as qualified contributions that cannot be made available for operational commitment are recorded as advance payments and included under “Liabilities.”

Grants and Undisbursed Commitments

Grants are recognized in the financial statements when the grant is approved and becomes effective. Upon completion of a project or cancellation of a grant, any undisbursed amount is written back as a reduction in the grants for the year and the corresponding undisbursed commitment is eliminated accordingly.

Accounting Estimates

The preparation of special purpose financial statements in conformity with generally accepted accounting principles requires Management to make reasonable estimates and assumptions that affect the reported amounts of assets, liabilities, and fund balances as at the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Accounting and Reporting Developments

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement No. 161 “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133,” which will be applicable for fiscal years beginning after 15 November 2008 and interim periods within those fiscal years. This statement amends and expands the disclosure requirements of FAS 133 to provide users with better understanding of (i) how and why an entity uses derivatives; (ii) how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations; and (iii) how derivative instruments and hedged items affect an entity’s financial position, performance, and cash flows. ADB is currently assessing the impact of this standard on its financial statements.

Special Purpose Statement of Cash Flows

For the purposes of the Special Purpose Statement of Cash Flows, ADF considers that its cash and cash equivalents are limited to “DUE FROM BANKS.”

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, and reviewed in 2006. The review endorsed a portfolio strategy that is largely consistent with the 1999 approach.

The net unrealized gains on the outstanding ANE portfolio amounted to \$19,069,000 (\$7,135,000 - 2007).

The currency composition of the investment portfolio as of 31 December 2008 and 2007 expressed in United States dollars are as follows:

Currency	2008	2007
Australian dollar	\$ –	\$ 71,531,000
Canadian dollar	–	44,620,000
Euro	2,581,915,000	2,806,481,000
Japanese yen	583,470,000	366,715,000
Pound sterling	604,228,000	995,227,000
United States dollar	2,230,923,000	2,610,150,000
Total	\$6,000,536,000	\$6,894,724,000

The estimated fair value and amortized cost of the investments as of 31 December 2008 are as follows:

	Estimated Fair Value	Amortized Cost
Due in one year or less	\$3,754,777,000	\$3,747,964,000
Due in one year through five years	2,165,685,000	2,071,155,000
Due after five years through ten years	80,074,000	73,768,000
Total	\$6,000,536,000	\$5,892,887,000

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND

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Additional information relating to investments in government and government-guaranteed obligations and corporate bonds is as follows:

	2008	2007
As of 31 December:		
Amortized cost	\$5,205,740,000	\$833,026,000
Estimated fair value	5,313,389,000	840,063,000
Gross unrealized gains	110,118,000	8,402,000
Gross unrealized losses	(2,469,000)	(1,365,000)
For the years ended 31 December:		
Change in net unrealized gains (losses) from prior year	100,613,000	7,874,000
Proceeds from sales	14,350,000	–
Gross gain on sales	365,000	–

The rate of return on the average investments held during the year, including securities transferred under securities lending arrangement and securities purchased under resale arrangement, based on the portfolio held at the beginning and end of each month, was 3.72% (4.60% - 2007) excluding unrealized gains and losses on investment securities, and 5.17% (4.72% - 2007) including unrealized gains and losses on investments.

As of 31 December 2008, gross unrealized losses amounted to \$2,469,000 (\$1,365,000 - 2007) from government and government-guaranteed obligations and corporate bonds, resulting from market movements. There are no positions in 2008 that sustained unrealized losses for over one year, (fifteen positions representing 1.64% of the investments in 2007). Comparative details for 2008 and 2007 are as follows:

	One year or less		Over one year		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
For the year 2008						
Government and government-guaranteed obligations	\$ 28,416,000	\$ 4,000	\$ –	\$ –	\$ 28,416,000	\$ 4,000
Corporate bonds	205,417,000	2,465,000	–	–	205,417,000	2,465,000
Total	\$233,833,000	\$ 2,469,000	\$ –	\$ –	\$233,833,000	\$ 2,469,000
For the year 2007						
Government and government-guaranteed obligations	\$ 44,608,000	\$ 18,000	\$ 82,419,000	\$ 1,168,000	\$ 127,027,000	\$ 1,186,000
Corporate bonds	31,361,000	36,000	30,989,000	143,000	62,350,000	179,000
Total	\$ 75,969,000	\$ 54,000	\$ 113,408,000	\$ 1,311,000	\$ 189,377,000	\$ 1,365,000

NOTE D—LOANS AND LOAN LOSS PROVISION

Loans

Prior to 1 January 1999, loans of ADF were extended to eligible borrowing member countries, which bore a service charge of 1% and required repayment over periods ranging from 35 to 40 years. On 14 December 1998, the Board of Directors approved an amendment

to ADF loan terms, as follows: (i) for loans to finance specific projects, the maturity was shortened to 32 years including an 8-year grace period; (ii) for program loans to support sector development, the maturity was shortened to 24 years including an 8-year grace period; and (iii) all new loans bear a 1% interest charge during the grace period, and 1.5% during the amortization period, with equal amortization. The revised ADF lending terms took effect on 1 January 1999 for loans for which formal

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loan negotiations were completed on or after 1 January 1999. ADF requires borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies disbursed.

In September 2007, the Board of Directors approved a new hard-term ADF lending facility. The facility will have a fixed interest rate of 150 basis points below the weighted average of the ten-year fixed swap rates of the special drawing rights component currencies plus the OCR lending spread, or the current ADF rate, whichever is higher. Other terms are similar to those of regular ADF loans. The interest rate will be reset every January and will apply to all hard-term loans approved that year and will be fixed for the life of the loan. For hard-term ADF loans approved in 2008, the interest rate was set at 3.15% (3.85% – 2007). Three loans were approved under this facility in 2008 (nil – 2007).

ADB believes that there is no comparable market, nor ADB intends to sell ADF loans. The use of market data to arrive at the loan at fair value will give meaningless results. As such, the fair value of loans is determined based on the terms at which a similar loan would currently be made by ADB to a similar borrower. For such loans, fair value approximates the carrying amount. The estimated fair value of loans is not affected by credit risks because the amount of any such adjustment is not considered to have a material effect based on ADB's experience with its borrowers.

Undisbursed loan commitments and an analysis of loans by country as of 31 December 2008 are shown in ADF-5.

As of 31 December 2008 and 2007, loans to borrowers that exceeded 5% of the total loans outstanding were as follows:

	2008	2007
Pakistan	\$ 6,403,379,000	\$ 5,444,555,000
Bangladesh	5,743,777,000	5,399,187,000
Vietnam, Socialist Republic of	2,630,421,000	2,298,804,000
Sri Lanka	2,614,832,000	2,539,657,000
Nepal	1,564,986,000	1,486,034,000
Others (individually less than 5% of total loans)	7,469,894,000	6,849,755,000
Total Outstanding Loans	26,427,289,000	\$24,017,992,000
Provision for HIPC Debt Relief	(87,471,000)	–
Net Outstanding Loans	\$26,339,818,000	\$24,017,992,000

The principal amount outstanding of sovereign loans in non-accrual status as of 31 December 2008 was \$565,751,000 (\$488,901,000 – 2007) of which \$263,444,000 (\$209,477,000 – 2007) was overdue. Loans in non-accrual status resulted in \$5,176,000 (\$4,691,000 – 2007) not being recognized as income from loans for the year ended 31 December 2008. The accumulated interest on these loans that was not recognized as income as of 31 December 2008 would have totaled \$63,802,000 (\$50,260,000 – 2007). The loans in non-accrual status as of 31 December 2008 were 28 loans to Myanmar representing 2.1% of the total outstanding loans (28 loans to Myanmar – 2007).

During the period, provision for HIPC debt relief amounting to \$89,788,000 relating to the Afghanistan debt relief under the HIPC initiative was recognized and charged to income. Of this amount, a total of \$527,000 was written-off as the loan service payments of some affected loans fell due. This brought the balance of Provision for HIPC debt relief as of 31 December 2008, including the effects of translation adjustments, to \$87,471,000 (nil – 31 December 2007) (See Note M).

NOTE E—DUE FROM CONTRIBUTORS

Included in “Due From Contributors” are notes of contributors and contributions receivable. Notes of contributors are non-negotiable, non-interest-bearing and, subject to certain restrictions imposed by applicable Board of Governors' resolutions, encashable by ADB at par upon demand.

ADB currently expects that the notes outstanding at 31 December 2008 will be encashed in varying amounts over a six-year period ending 31 December 2014.

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

NOTE F—PAYABLE TO RELATED FUNDS

The OCR and special fund resources are at all times used, committed, and invested entirely separate from each other. The administrative and operational expenses pertaining to the OCR and ADF are allocated based on operational activities and are settled regularly. Under ADF IX and third regularized replenishment of Technical

ASIAN DEVELOPMENT BANK—ASIAN DEVELOPMENT FUND**NOTES TO SPECIAL PURPOSE FINANCIAL STATEMENTS**

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Assistance Special Fund (TASF), a specific portion of the total contributions are to be allocated to TASF. ADF receives all contributions of members and subsequently transfers TASF's portion to TASF.

As of 31 December 2008, \$31,743,000 representing administration charges was payable to OCR (\$28,750,000 – 2007). No payable to TASF was outstanding in 2008 while \$1,419,000 in 2007 corresponds to contributions from donors incorporated in ADF IX for the third regularized replenishment of TASF.

**NOTE G—CONTRIBUTED RESOURCES/
OTHER LIABILITIES**

As of 31 December 2008, contributions from 30 donors totaling \$3,431,219,000 (28 donors totaling \$3,290,116,000 – 2007) were committed for ADF IX. Of these, contributions totaling \$3,153,949,000 (\$2,270,884,000 – 2007), including amortized discount totaling \$12,112,000 (\$7,523,000 – 2007), were received and made available for operational commitment. These were recorded in “Contributed Resources.”

In May 2008, the Board of Governors approved the allocation of \$40,000,000 from OCR's 2007 net income to ADF.

As of 31 December 2008, Italy's promissory note received under ADF VI has a remaining balance of €342,000 (\$481,000 equivalent). This was recorded in Deferred Credits and included in “Other liabilities.”

**NOTE H—ADMINISTRATIVE EXPENSES AND
ADMINISTRATION CHARGE**

Administrative expenses represent administration charge from OCR which is an apportionment of all administrative expenses of ADB (other than those pertaining directly to ordinary operations and special operations), in the proportion of the relative volume of operational activities of each fund.

NOTE I—SET-ASIDE RESOURCES

Pursuant to the provisions of Article 19, paragraph 1(i) of the Articles of Agreement Establishing the Asian Development Bank (the Charter), the Board of Governors has authorized the setting aside of 10% of the unimpaired “paid-in” capital paid by member countries pursuant to Article 6, paragraph 2(a) of the Charter and of the

convertible currency portion paid by member countries pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973, to be used as a part of the Special Funds of ADB. The capital so set aside was allocated and transferred from the OCR to ADF as Set-Aside Resources.

The capital stock of ADB is defined in Article 4, paragraph 1 of the Charter, “in terms of United States dollars of the weight and fineness in effect on 31 January 1966” (the 1966 dollar). Therefore, Set-Aside Resources had historically been translated into the current United States dollar (ADB's unit of account), on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was \$1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer had par values in terms of gold. Pending ADB's selection of the appropriate successor to the 1966 dollar, the Set-Aside Resources have been valued for purposes of the accompanying financial statements in terms of the Special Drawing Right (SDR), at the value in current United States dollars as computed by the IMF. As of 31 December 2008, the value of the SDR in terms of the current United States dollar was \$1.54781 (\$1.57848 - 2007). On this basis, Set-Aside Resources amounted to \$73,691,000 (\$75,151,000 - 2007). If the capital stock of ADB as of 31 December 2008 had been valued in terms of \$12,063.50 per share, Set-Aside Resources would have been \$57,434,000.

NOTE J—COMPREHENSIVE INCOME

Comprehensive Income has two major components: revenue in excess of (less than) expenses and other comprehensive income. Other Comprehensive Income includes unrealized gains and losses on “Available for Sale” securities and translation adjustments of functional currencies.

**NOTE K—GRANTS AND UNDISBURSED
COMMITMENTS**

The ADF IX introduced financing in the form of grants for the first time. As of 31 December 2008 and 2007, 27 grants amounting to \$707,360,000 and 24 grants amounting to \$519,340,000 were approved, respectively. During the year, grants totaling \$539,800,000 (\$377,760,000 – 2007) became effective.

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The fair value of undisbursed commitments approximates the amount outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE L—FAIR VALUE MEASUREMENTS

FAS 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability at measurement date (exit price) in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction cost.

FAS 157 also establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level

1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3). FAS 157 requires the fair value measurement to maximize the use of market observable inputs.

The following guidelines are applied in determining the fair values of financial instruments:

Investments, forward contracts, and securities purchased under resale arrangements

Readily marketable investments are fair valued using active market quotes in Level 1 category. Level 2 category includes investments, resale arrangements, and forward contracts which are fair valued with significant other market observable inputs. Forward foreign exchange contracts are fair valued using discounted cash flow models.

The fair value of the following financial assets of ADF as of 31 December 2008 were reported based on the following:

	31 December 2008	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments	\$6,000,536,000	\$3,951,007,000	\$2,049,529,000	\$ —
Securities purchased under resale arrangement	322,361,000	—	322,361,000	—
Receivable - forward contracts	307,811,000	—	307,811,000	—
Total	\$6,630,708,000	\$3,951,007,000	\$2,679,701,000	\$ —
Liabilities				
Payable - forward contracts	\$ 373,041,000	\$ —	\$ 373,041,000	\$ —

See Notes C, D, E, and K for discussions relating to investments, loans, due from contributors, and undisbursed commitments. In all other cases, the carrying amounts of ADF's assets, liabilities, and fund balances are considered to approximate fair values for all significant financial instruments.

NOTE M—HEAVILY INDEBTED POOR COUNTRIES (HIPC) INITIATIVE

In April 2008, the Board of Governors adopted the resolution on Providing Heavily Indebted Poor Countries (HIPC) Relief from Asian Development Fund Debt, for ADB to participate in the HIPC debt relief initiative.

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The HIPC debt relief initiative was launched in 1996 by the International Development Association (IDA) and International Monetary Fund (IMF) to address the debt problems of heavily indebted poor countries to ensure that reform efforts in these countries are not put at risk due to their high external debt burden. Under the HIPC debt relief initiative, all bilateral and

multilateral creditors provide debt relief for countries that demonstrated good policy performance over an extended period to bring their debt service burden to sustainable level. As of 31 December 2008, Afghanistan is the only borrower that has qualified for HIPC debt relief.