

### 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.

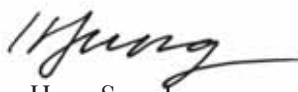
ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2008. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*.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



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**Report of Independent Auditors to the Asian Development Bank**

In our opinion, the accompanying balance sheets and the related statements of income and expenses, cash flows, and changes in capital and reserves present fairly, in all material respects, the financial position of the Asian Development Bank (“ADB” or “the Bank”)—Ordinary Capital Resources 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. 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 basic financial statements taken as a whole. The accompanying summary statements of loans and of borrowings as at 31 December 2008 and 2007, and of statement of subscriptions to capital stock and voting power as at 31 December 2008 are presented for purposes of additional analyses and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic 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 'PricewaterhouseCoopers'.

PricewaterhouseCoopers LLP  
Public Accountants and Certified Public Accountants

Singapore  
5 March 2009

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****BALANCE SHEET****31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

ASSETS				
	2008		2007	
DUE FROM BANKS (Notes B and C)	\$	142,238	\$	108,821
INVESTMENTS (Notes B, C, D, L, and P)				
Government and government-guaranteed obligations	\$	6,485,000	\$	2,343,130
Time deposits		1,481,370		7,491,886
Other securities		7,446,149		3,461,927
		15,412,519		13,296,943
SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENT (Notes B and P)		309,358		5,041,387
SECURITIES PURCHASED UNDER RESALE ARRANGEMENT (Notes B and P)		511,756		427,132
LOANS OUTSTANDING (OCR-5) (Notes A, B, E, and Q) (Including FAS 133 adjustment of \$451– 2008 and \$538 – 2007; net unamortized loan origination costs of \$68,262 – 2008 and \$42,130 – 2007)				
Sovereign		34,256,740		29,008,793
Nonsovereign		1,662,494		1,289,129
		35,919,234		30,297,922
Less—provision for loan losses		9,174	35,910,060	15,043
				30,282,879
EQUITY INVESTMENTS (Notes A, B, G, and P)		641,427		808,157
ACCRUED REVENUE				
On investments		131,880		143,785
On loans		299,184	431,064	320,514
				464,299
RECEIVABLE FROM MEMBERS (Note K) Nonnegotiable, noninterest-bearing demand obligations (Note C)		144,514		174,805
RECEIVABLE FROM SWAPS (Notes B, H, P, and Q)				
Borrowings		23,831,087		17,968,867
Others		882,793	24,713,880	512,089
				18,480,956
OTHER ASSETS				
Property, furniture, and equipment (Notes B and I)		158,235		154,239
Investment related receivables		229,390		138,149
Unamortized issuance cost of borrowings		2,781		58,869
Miscellaneous (Note N)		114,530	504,936	112,536
				463,793
<b>TOTAL</b>		<b>\$78,721,752</b>		<b>\$69,549,172</b>

The accompanying notes are an integral part of these financial statements (OCR-8).

LIABILITIES, CAPITAL, AND RESERVES				
	2008		2007	
BORROWINGS (OCR-6) (Notes B, H, J, and P)				
At amortized cost	\$ 4,627,521		\$28,615,661	
At fair value	31,012,976	\$35,640,497	2,954,704	\$31,570,365
ACCRUED INTEREST ON BORROWINGS		385,949		388,935
PAYABLE FOR SWAPS (Notes B, H, J, P, and Q)				
Borrowings	\$24,867,815		\$16,936,964	
Others	1,198,781	26,066,596	583,320	17,520,284
PAYABLE UNDER SECURITIES REPURCHASE AGREEMENT (Note B)		301,759		5,092,316
ACCOUNTS PAYABLE AND OTHER LIABILITIES				
Investment related payables	275,066		230,114	
Undisbursed technical assistance commitments (Note M)	10,489		2,318	
Accrued pension and postretirement medical benefit costs (Note O)	635,300		368,284	
Miscellaneous (Notes B, F, I, and N)	136,626	1,057,481	121,686	722,402
TOTAL LIABILITIES		63,452,282		55,294,302
CAPITAL AND RESERVES (OCR-4)				
Capital stock (OCR-7) (Notes B and K)				
Authorized and subscribed (SDR35,463,110,000 – 2008 and 2007)	54,890,156		55,977,810	
Less—"callable" shares subscribed	51,029,546		52,040,702	
"Paid-in" shares subscribed	3,860,610		3,937,108	
Less—subscription installments not due	9,848		19,664	
Subscription installments matured	3,850,762		3,917,444	
Less—capital transferred to the Asian Development Fund	73,691		75,151	
	3,777,071		3,842,293	
Net notional amounts required to maintain value of currency holdings (Notes B and K)	(564,383)		(661,197)	
Ordinary reserve (Note L)	9,532,487		9,245,332	
Special reserve (Note L)	209,723		202,847	
Loan loss reserve (Note L)	195,062		182,100	
Surplus (Note L)	894,594		616,300	
Cumulative revaluation adjustments account (Note L)	(23,336)		(110,959)	
Cumulative effect of FAS 157/159 adoption (Note B)	227,500		–	
Net income after appropriation (OCR-2) (Note L)	1,119,473		760,174	
Accumulated other comprehensive income (OCR-4) (Notes B and L)	(98,721)	15,269,470	177,980	14,254,870
<b>TOTAL</b>		<b>\$78,721,752</b>		<b>\$69,549,172</b>

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****STATEMENT OF INCOME AND EXPENSES****For the Years Ended 31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	2008	2007
REVENUE (Note M)		
From loans (Notes B and E)		
Interest	\$1,316,105	\$1,385,036
Commitment charge	59,668	55,206
Other	(17,792)	2,096
	<u>\$1,357,981</u>	<u>\$1,442,338</u>
From investments (Notes B and D)		
Interest	677,175	683,212
From guarantees (Notes B and F)	6,876	5,049
From equity investments	3,737	58,897
From other sources—net (Notes E and R)	18,685	18,835
	<u>18,685</u>	<u>18,835</u>
TOTAL REVENUE	\$2,064,454	\$2,208,331
EXPENSES (Note M)		
Borrowings and related expenses (Note J)	1,208,391	1,389,778
Administrative expenses (Note M)	141,047	127,327
Technical assistance to member countries	8,357	(683)
Provision for losses (Notes B and E)	(3,467)	(579)
Other expenses	6,272	3,998
	<u>6,272</u>	<u>3,998</u>
TOTAL EXPENSES	1,360,600	1,519,841
NET REALIZED GAINS (LOSSES)		
From loans	525	3,980
From investments (Notes D and M)	(24,837)	(2,801)
From equity investments (Note M)	(3,884)	21,793
From borrowings	70	(106)
Others	30	39
	<u>30</u>	<u>39</u>
NET REALIZED (LOSSES) GAINS	(28,096)	22,905
NET UNREALIZED GAINS (Note M)	450,591	53,828
NET INCOME	\$1,126,349	\$ 765,223

The accompanying notes are an integral part of these financial statements (OCR-8).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****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 and other charges on loans received	\$ 1,230,411	\$ 1,202,933
Interest on investments received	633,155	635,459
Interest received for securities purchased under resale arrangement	5,634	17,080
Interest and other financial expenses paid	(913,351)	(1,236,490)
Administrative expenses paid	(118,517)	(95,784)
Technical assistance disbursed	(136)	(1,477)
Others—net	49,153	13,452
Net Cash Provided by Operating Activities	<u>886,349</u>	<u>535,173</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Sales of investments	7,979,848	8,205,482
Maturities of investments	152,126,260	176,587,583
Purchases of investments	(162,198,163)	(184,797,477)
Net receipts (payments) on future contracts	1,082	(372)
Net (payments for) receipts from securities purchased under resale arrangement	(61,122)	1,990
Principal collected on loans	1,919,052	1,454,419
Loans disbursed	(6,340,161)	(5,074,927)
Net currency and interest rate swaps	2,097	(8,329)
Property, furniture, and equipment acquired	(20,302)	(9,569)
Purchases of equity investments	(125,697)	(115,603)
Sales of equity investments	53,550	112,107
Net Cash Used in Investing Activities	<u>(6,663,556)</u>	<u>(3,644,696)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds of new borrowings	11,803,386	11,874,946
Borrowings redeemed	(6,301,308)	(9,137,838)
Matured capital subscriptions collected <sup>1</sup>	4,618	4,618
Borrowing issuance expenses paid	(13,030)	(30,506)
Demand obligations of members encashed	9,255	8,068
Net currency and interest rate swaps	408,500	368,067
Resources transferred to ADF	(40,000)	(40,000)
Resources transferred to TASF	(23,000)	—
Resources transferred to CCF	(40,000)	—
Resources transferred to RCIF	—	(40,000)
Net Cash Provided by Financing Activities	<u>5,808,421</u>	<u>3,007,355</u>
Effect of Exchange Rate Changes on Due from Banks	2,203	5,571
Net Increase (Decrease) in Due from Banks	33,417	(96,597)
Due from Banks at Beginning of Year	108,821	205,418
Due from Banks at End of Year	<u>\$ 142,238</u>	<u>\$ 108,821</u>
RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Net Income (OCR-2)	\$ 1,126,349	\$ 765,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	301,985	81,127
Provision for losses written back—net	(3,467)	(579)
Net realized losses (gains) from investments and other borrowings	19,963	(18,886)
Proportionate share in losses (earnings) on equity investments	12,160	(47,827)
Net unrealized gains	(450,591)	(53,828)
Change in accrued revenue from loans, investments, and other swaps	(116,103)	(252,022)
Change in receivable from ADF - allocation of administrative expenses	(2,973)	(2,902)
Change in accrued interest on borrowings and swaps, and other expenses	224,249	144,002
Change in undisbursed technical assistance commitments	8,171	(2,409)
Change in pension and postretirement benefit liability	(259,835)	(60,171)
Others—net	26,441	(16,555)
Net Cash Provided by Operating Activities	<u>\$ 886,349</u>	<u>\$ 535,173</u>

<sup>1</sup> Supplementary disclosure of noncash financing activities:

Nonnegotiable, noninterest-bearing demand promissory notes amounting to \$2,726 (\$2,738 - 2007) were received from members.

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****STATEMENT OF CHANGES IN CAPITAL AND RESERVES****For the Years Ended 31 December 2008 and 2007**

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

	Capital Stock	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Loan Loss Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Income	Total
Balance- 1 January 2007	\$3,652,800	\$(672,899)	\$8,993,737	\$197,799	\$130,100	\$330,117	\$ 27,519	\$565,886	\$ (82,160)	\$13,142,899
Comprehensive income for the year 2007 (Note L)								765,223	260,140	1,025,363
Appropriation of guarantee fees to Special Reserve (Note L)				5,049				(5,049)		–
Change in SDR value of paid-in shares subscribed	185,667									185,667
Change in subscription installments not due	(2,889)									(2,889)
Additional paid-in shares subscribed during the year	10,242									10,242
Change in SDR value of capital transferred to Asian Development Fund	(3,527)									(3,527)
Change in notional maintenance of value (Note K)		11,702								11,702
Allocation of 2006 net income to ordinary reserve, loan loss reserve and surplus and transfer from cumulative revaluation account (Note L)			286,183		52,000	286,183	(138,479)	(485,886)		–
Allocation of 2006 net income to ADF and RCIF (Note L)								(80,000)		(80,000)
Charge to ordinary reserve for change in SDR value of capital stock (Note L)			(34,587)							(34,587)
Balance- 31 December 2007	\$3,842,293	\$(661,197)	\$9,245,332	\$202,847	\$182,100	\$616,300	\$(110,959)	\$760,174	\$177,980	\$14,254,870

	Capital Stock	Net Notional Maintenance of Value	Ordinary Reserve	Special Reserve	Loan Loss Reserve	Surplus	Cumulative Revaluation Adjustments Account	Net Income After Appropriations	Accumulated Other Comprehensive Income	Total
Balance- 31 December 2007	\$ 3,842,293	\$ (661,197)	\$ 9,245,332	\$ 202,847	\$ 182,100	\$ 616,300	\$(110,959)	\$ 760,174	\$177,980	\$ 14,254,870
Cumulative effect of FAS 157/159 adoption								227,500		227,500
Comprehensive income for the year 2008 (Note L)								1,126,349	(276,701)	849,648
Appropriation of guarantee fees to Special Reserve (Note L)				6,876				(6,876)		-
Change in SDR value of paid-in shares subscribed	(74,035)									(74,035)
Change in subscription installments not due	7,353									7,353
Change in SDR value of capital transferred to Asian Development Fund	1,460									1,460
Change in notional maintenance of value (Note K)		96,814								96,814
Allocation of 2007 net income to ordinary reserve, loan loss reserve and surplus and transfer to cumulative revaluation account (Note L)			278,294		12,962	278,294	87,623	(657,174)		-
Allocation of 2007 net income to ADF, TASF and CCF (Note L)								(103,000)		(103,000)
Charge to ordinary reserve for change in SDR value of capital stock (Note L)			8,860							8,860
Balance- 31 December 2008	\$3,777,071	\$(564,383)	\$9,532,487	\$209,723	\$195,062	\$894,594	\$(23,336)	\$1,346,973	\$(98,721)	\$15,269,470

Note: Figures may not add to total due to rounding.

### Accumulated Other Comprehensive Income (Note L) For the Years Ended 31 December 2008 and 2007 Expressed in Thousands of United States Dollar (Note B)

	FAS 133 Adjustments and Amortization		Accumulated Translation Adjustments		Unrealized Investment Holding Gains		Pension/ Postretirement Liability Adjustment- FAS 158		Accumulated Other Comprehensive Income	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
Balance, 1 January	\$ (289)	\$ (1,154)	\$(113,385)	\$(200,039)	\$433,376	\$200,584	\$(141,722)	\$(81,551)	\$177,980	\$(82,160)
Amortization	(669)	865	-	-	-	-	-	-	(669)	865
Other comprehensive income for the year	-	-	(43,420)	86,654	27,223	232,792	(259,835)	(60,171)	(276,032)	259,275
Balance, 31 December	\$ (958)	\$ (289)	\$(156,805)	\$(113,385)	\$460,599	\$433,376	\$(401,557)	\$(141,722)	\$(98,721)	\$177,980

The accompanying notes are an integral part of these financial statements (OCR-8).

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### SUMMARY STATEMENT OF LOANS

31 December 2008 and 2007

Expressed in Thousands of United States Dollars (Note B)

Borrowers/Guarantors	Loans Outstanding <sup>1</sup>	Undisbursed Balances of Effective Loans <sup>2</sup>	Loans Not Yet Effective	Total Loans	Percent of Total Loans
Afghanistan	\$ 72,745	\$ 31,667	\$ –	\$ 104,412	0.18
Azerbaijan	55,328	235,552	215,400	506,280	0.90
Bangladesh	517,884	822,182	82,000	1,422,066	2.52
Bhutan	–	–	51,000	51,000	0.09
Cambodia	7,000	–	–	7,000	0.01
China, People's Rep. of	8,464,133	4,223,072	1,658,852	14,346,057	25.38
Cook Islands	–	–	8,630	8,630	0.02
Fiji Islands	94,832	24,565	–	119,397	0.21
Georgia	25,000	–	–	25,000	0.04
India	6,453,809	4,289,109	1,563,480	12,306,398	21.77
Indonesia	10,160,917	545,360	95,000	10,801,277	19.11
Kazakhstan	216,529	25,128	390,000	631,657	1.12
Korea, Rep. of	108,847	–	–	108,847	0.19
Lao People's Dem. Rep.	62,743	7,257	–	70,000	0.12
Malaysia	212,368	–	–	212,368	0.38
Maldives	1,500	10,500	–	12,000	0.02
Marshall Islands	3,142	–	–	3,142	0.01
Micronesia, Fed. States of	101	4,699	–	4,800	0.01
Mongolia	12,500	2,000	–	14,500	0.03
Myanmar	–	–	–	–	–
Nauru	1,214	–	–	1,214	0.00
Nepal	16,929	–	–	16,929	0.03
Pakistan	4,345,421	2,003,171	599,300	6,947,892	12.29
Papua New Guinea	123,821	113,878	–	237,699	0.42
Philippines	3,891,694	171,821	490,000	4,553,515	8.06
Sri Lanka	319,722	566,342	7,500	893,564	1.58
Thailand	51,145	–	–	51,145	0.09
Uzbekistan	440,428	301,006	85,000	826,434	1.46
Viet Nam	173,220	425,787	1,552,200	2,151,207	3.84
	<u>35,832,972</u>	<u>13,803,096</u>	<u>6,798,362</u>	<u>56,434,430</u>	<u>99.88</u>
Regional	18,000	14,500	32,500	65,000	0.12
TOTAL – 31 December 2008	35,850,972	13,817,596	6,830,862	56,499,430	100.00
Provision for loan losses	(9,174)	–	–	(9,174)	
Unamortized loan origination cost – net	68,262	–	–	68,262	
<b>NET BALANCE – 31 December 2008</b>	<b><u>\$35,910,060</u></b>	<b><u>\$13,817,596</u></b>	<b><u>\$6,830,862</u></b>	<b><u>\$56,558,518</u></b>	
Made up of:					
Sovereign Loans	\$34,252,384	\$13,099,342	\$5,498,830	\$52,850,556	
Nonsovereign Loans					
Private Sector	1,573,676	718,254	1,032,032	3,323,962	
Public Sector	84,000	–	300,000	384,000	
Net balance – 31 December 2008	<u>\$35,910,060</u>	<u>\$13,817,596</u>	<u>\$6,830,862</u>	<u>\$56,558,518</u>	
TOTAL – 31 December 2007	\$30,255,792	\$12,971,665	\$6,039,610	\$49,267,067	
Provision for loan losses	(15,043)	–	–	(15,043)	
Unamortized front-end fee	42,130	–	–	42,130	
<b>NET BALANCE – 31 December 2007</b>	<b><u>\$30,282,879</u></b>	<b><u>\$12,971,665</u></b>	<b><u>\$6,039,610</u></b>	<b><u>\$49,294,154</u></b>	
Made up of:					
Sovereign Loans	\$29,003,104	\$12,814,137	\$5,061,815	\$46,879,056	
Nonsovereign Loans					
Private Sector	1,248,775	113,528	797,795	2,160,098	
Public Sector	31,000	44,000	180,000	255,000	
Net balance – 31 December 2007	<u>\$30,282,879</u>	<u>\$12,971,665</u>	<u>\$6,039,610</u>	<u>\$49,294,154</u>	

1 Amounts outstanding on the multicurrency fixed lending rate loans totaled \$33,734 (\$38,049 - 2007), on pool-based loans totaled \$10,257,327 (\$10,861,527 - 2007) and on LIBOR-based loans and market-based loans totaled \$25,559,911 (\$19,356,215 - 2007). The average yield on loans was 3.84% (5% - 2007).

2 Of the undisbursed balances, ADB has made irrevocable commitments to disburse various amounts totaling \$333,541 (\$361,280 - 2007).

## MATURITY OF EFFECTIVE LOANS

Twelve Months Ending 31 December	Amount	Five Years Ending 31 December	Amount
2009	\$ 1,987,970	2018	14,245,184
2010	2,370,739	2023	11,685,193
2011	2,641,966	2028	7,521,777
2012	2,935,736	2033	3,086,366
2013	3,152,033	over 2033	41,604
		Total	<u>\$49,668,568<sup>3</sup></u>

## SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING

Currency	2008	2007	Currency	2008	2007
Chinese yuan	\$ 83,098	\$ 23,001	Kazakhstan tenge	39,727	49,776
Euro	–	920	Pakistan rupee	131	–
Japanese yen	5,566,126	4,607,011	Philippine peso	81,011	42,856
Indian rupee	190,354	143,024	Swiss franc	3,247	3,502
Indonesian rupiah	10,762	–	United States dollar	29,876,516	25,385,702
			Total	<u>\$35,850,972</u>	<u>\$30,255,792</u>

<sup>3</sup> Includes undisbursed commitment relating to Revolving Credit Facility of Trade Financing Facilitation Program amounting to \$14,500.

The accompanying notes are an integral part of these financial statements (OCR-8).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****SUMMARY STATEMENT OF BORROWINGS****31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	Borrowings		Swap Arrangements <sup>2</sup>	
	Principal Outstanding <sup>1</sup>		Payable (Receivable) <sup>3</sup>	
	2008	2007	2008	2007
Australian dollar	\$ 6,010,372	\$ 5,729,446	\$ (6,094,769)	\$(5,463,460)
Canadian dollar	1,327,790	1,526,591	(1,496,399)	(1,521,721)
Chinese yuan	145,574	136,909	28,805	14,363
			(31,718)	
Euro	42,851	47,117	(45,899)	(45,819)
Hong Kong dollar	365,694	345,983	(367,466)	(353,274)
Indian rupee	100,867	126,791	26,779	16,384
			(27,398)	
Japanese yen	3,639,786	4,607,002	4,472,977	2,706,761
			(3,285,653)	(3,220,956)
Kazakhstan tenge	39,727	49,776	—	—
Malaysian ringgit	472,027	421,941	(447,571)	(421,221)
Mexican peso	121,615	155,913	(123,482)	(153,378)
New Taiwan dollar	153,801	146,437	(154,063)	(146,437)
New Zealand dollar	402,099	463,271	(413,403)	(464,535)
Philippine peso	150,736	168,824	3,584	(130,271)
			(121,092)	
Pound sterling	882,641	695,816	(767,883)	(517,914)
Singapore dollar	400,826	380,307	(404,681)	(392,574)
South African rand	2,469,917	1,850,334	(2,483,788)	(1,742,132)
Swiss franc	414,266	374,924	—	—
Thai baht	327,484	349,708	(329,481)	(356,683)
Turkish lira	1,416,566	474,746	(1,334,657)	(483,611)
United States dollar	16,787,230	13,517,474	20,335,670	14,199,456
			(5,901,684)	(2,554,881)
Subtotal	35,671,869	31,569,310	\$ 1,036,728	\$(1,031,903)
Unamortized discounts/ premiums and transition adjustments	(31,372)	1,055		
ATA				
FAS 133 Adjustments				
<b>Total</b>	<b>\$35,640,497</b>	<b>\$31,570,365</b>		

**MATURITY STRUCTURE OF BORROWINGS OUTSTANDING<sup>5</sup>**

	Twelve Months Ending	Amount	Five Years Ending	Amount
	31 December		31 December	
	2009	6,877,509	2018	8,233,829
	2010	6,723,106	2023	215,601
	2011	4,981,028	2028	2,237,164
	2012	3,262,047	2033	39,247
	2013	3,102,338	over 2034	—
			<b>Total</b>	<b>\$35,671,869</b>

1 Reported at Fair Value upon adoption of FAS 157/159 effective 1 January 2008, except for unswapped borrowings which are reported at net of principal amount and unamortized discount/premium of zero coupon bonds. The aggregate face amounts and discounted values of zero coupon and deep discount borrowings (in United States dollar equivalents) are:

	Aggregate Face Amount		Discounted Value	
	2008	2007	2008	2007
Australian dollar	\$1,188,688	\$1,506,016	\$1,040,308	\$1,258,707
Canadian dollar	657,516	814,913	554,656	660,746
Philippine peso	52,615	60,643	44,914	47,538
South African rand	386,809	161,672	305,381	125,014
Swiss franc	461,212	434,223	320,561	286,703
Turkish lira	712,080	255,334	552,518	217,699
United States dollar	1,898,326	1,977,963	1,445,211	1,229,074

2 Include currency and interest rate swaps. At 31 December 2008, the remaining maturity of swap agreements ranged from less than one year to 35 years. Approximately 81.57% of the swap receivables and 87.29% of the payables are due before 1 January 2014.

3 Adjusted by the cumulative effect of the adoption of FAS 133 effective 1 January 2001.

Net Currency Obligation <sup>3</sup>		Weighted Average Cost (%) After Swaps <sup>4</sup>
2008	2007	
\$ (84,397)	\$ 265,986	(11.75)
(168,609)	4,870	3.67
142,661	151,272	4.43
(3,048)	1,298	0.63
(1,772)	(7,291)	0.18
100,248	143,175	7.39
4,827,110	4,092,807	1.18
39,727	49,776	6.69
24,456	720	0.47
(1,867)	2,535	0.05
(262)	–	0.10
(11,304)	(1,264)	(6.50)
33,228	38,553	3.11
114,758	177,902	11.80
(3,855)	(12,267)	1.93
(13,871)	108,202	3.88
414,266	374,924	5.33
(1,997)	(6,975)	30.17
81,909	(8,865)	(0.06)
31,221,216	25,162,049	3.62
<u>\$ 36,708,597</u>	<u>\$ 30,537,407</u>	3.32
		2.54
		(1.75)
		<u>4.11</u>

## INTEREST RATE SWAP ARRANGEMENTS

	Notional Amount	Average Rate (%)		Maturing Through <sup>7</sup>	
		Receive	Pay		
			Fixed	Floating <sup>6</sup>	
<b>Receive Fixed Swaps:</b>					
Australian dollar <sup>8</sup>	\$ 55,350	2.64		0.66	2027-2032
Chinese yuan	146,299	3.34		4.26	2015
Euro <sup>9</sup>	110,699	4.40	3.62		2010
Indian rupee	103,167	5.40		7.77	2014
Philippine peso	34,362			4.92	2010
United States dollar	11,151,658	3.51		2.64	2009-2043
United States dollar <sup>10</sup>	55,350	2.14		0.60	2016-2027
<b>Receive Floating Swaps:</b>					
Japanese yen	742,237	0.88	0.62	0.59	2009-2032
United States dollar	1,000,000	1.91		2.82	2011
<b>Total</b>	<u>\$13,399,122</u>				

4 Calculation is based on average carry book value of borrowings net of fair value of swaps. Thus, the weighted average cost may be negative if the related swaps payable exposure is in a different currency and the fair value of swaps receivable exceeds the carry book value of borrowings.

5 Bonds with put and call options were considered maturing on the first put or call date.

6 Represent average current floating rates, net of spread.

7 Swaps with early termination date were considered maturing on the first termination date.

8 Consists of dual currency swaps with interest receivable in Australian dollar and interest payable in Japanese yen.

9 Consists of dual currency swap with interest receivable in Euro and interest payable in Japanese yen.

10 Consists of dual currency swaps with interest receivable in United States dollar and interest payable in Japanese yen.

The accompanying notes are an integral part of these financial statements (OCR-8).

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER

31 December 2008

Expressed in Thousands of United States Dollars (Note B)

MEMBERS	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value Of Shares			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
<b>REGIONAL</b>							
Afghanistan	1,195	0.034	\$ 18,496	\$ 12,584	\$ 5,913	14,427	0.325
Armenia	10,557	0.298	163,402	151,918	11,485	23,789	0.537
Australia	204,740	5.773	3,168,986	2,947,061	221,925	217,972	4.917
Azerbaijan	15,736	0.444	243,563	226,429	17,134	28,968	0.653
Bangladesh	36,128	1.019	559,193	520,033	39,160	49,360	1.114
Bhutan	220	0.006	3,405	3,049	356	13,452	0.303
Brunei Darussalam	12,462	0.351	192,888	179,329	13,559	25,694	0.580
Cambodia	1,750	0.049	27,087	22,474	4,612	14,982	0.338
China, People's Rep. of	228,000	6.429	3,529,007	3,281,806	247,201	241,232	5.442
Cook Islands	94	0.003	1,455	1,362	93	13,326	0.301
Fiji Islands	2,406	0.068	37,240	34,625	2,616	15,638	0.353
Georgia	12,081	0.341	186,991	173,850	13,141	25,313	0.571
Hong Kong, China	19,270	0.543	298,263	277,368	20,895	32,502	0.733
India	224,010	6.317	3,467,249	3,224,444	242,805	237,242	5.352
Indonesia	192,700	5.434	2,982,630	2,773,768	208,861	205,932	4.646
Japan	552,210	15.571	8,547,162	7,948,593	598,569	565,442	12.756
Kazakhstan	28,536	0.805	441,683	410,742	30,941	41,768	0.942
Kiribati	142	0.004	2,198	2,043	155	13,374	0.302
Korea, Republic of	178,246	5.026	2,758,909	2,565,727	193,182	191,478	4.320
Kyrgyz Republic	10,582	0.298	163,789	152,320	11,469	23,814	0.537
Lao PDR	492	0.014	7,615	6,795	820	13,724	0.310
Malaysia	96,350	2.717	1,491,315	1,386,869	104,446	109,582	2.472
Maldives	142	0.004	2,198	2,043	155	13,374	0.302
Marshall Islands	94	0.003	1,455	1,362	93	13,326	0.301
Micronesia, Fed. States of	142	0.004	2,198	2,043	155	13,374	0.302
Mongolia	532	0.015	8,234	7,662	573	13,764	0.310
Myanmar	19,270	0.543	298,263	277,368	20,895	32,502	0.733
Nauru	142	0.004	2,198	2,043	155	13,374	0.302
Nepal	5,202	0.147	80,517	74,868	5,650	18,434	0.416
New Zealand	54,340	1.532	841,080	782,186	58,894	67,572	1.524
Pakistan	77,080	2.174	1,193,052	1,109,501	83,551	90,312	2.037
Palau	114	0.003	1,765	1,641	124	13,346	0.301
Papua New Guinea	3,320	0.094	51,387	47,812	3,575	16,552	0.373
Philippines	84,304	2.377	1,304,866	1,213,499	91,367	97,536	2.200
Samoa	116	0.003	1,795	1,610	186	13,348	0.301
Singapore	12,040	0.340	186,356	173,308	13,048	25,272	0.570
Solomon Islands	236	0.007	3,653	3,405	248	13,468	0.304
Sri Lanka	20,520	0.579	317,611	295,369	22,242	33,752	0.761
Taipei, China	38,540	1.087	596,526	554,766	41,760	51,772	1.168
Tajikistan	10,134	0.286	156,855	145,819	11,036	23,366	0.527
Thailand	48,174	1.358	745,642	693,419	52,223	61,406	1.385
Timor-Leste	350	0.010	5,417	5,030	387	13,582	0.306
Tonga	142	0.004	2,198	2,043	155	13,374	0.302
Turkmenistan	8,958	0.253	138,653	128,902	9,751	22,190	0.501
Tuvalu	50	0.001	774	712	62	13,282	0.300
Uzbekistan	23,834	0.672	368,905	343,072	25,833	37,066	0.836
Vanuatu	236	0.007	3,653	3,405	248	13,468	0.304
Viet Nam	12,076	0.341	186,914	165,476	21,437	25,308	0.571
<b>Total Regional (Forward)</b>	<b>2,247,995</b>	<b>63.390</b>	<b>34,794,691</b>	<b>32,341,552</b>	<b>2,453,140</b>	<b>2,883,131</b>	<b>65.040</b>

MEMBERS	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value Of Shares			Number of Votes	Percent of Total
			Total	Callable	Paid-in		
<b>Total Regional (Forward)</b>	<b>2,247,995</b>	<b>63.390</b>	<b>34,794,691</b>	<b>32,341,552</b>	<b>2,453,140</b>	<b>2,883,131</b>	<b>65.040</b>
<b>NONREGIONAL</b>							
Austria	12,040	0.340	186,356	173,308	13,048	25,272	0.570
Belgium	12,040	0.340	186,356	173,308	13,048	25,272	0.570
Canada	185,086	5.219	2,864,780	2,664,168	200,612	198,318	4.474
Denmark	12,040	0.340	186,356	173,308	13,048	25,272	0.570
Finland	12,040	0.340	186,356	173,308	13,048	25,272	0.570
France	82,356	2.322	1,274,714	1,185,437	89,278	95,588	2.156
Germany	153,068	4.316	2,369,202	2,203,277	165,925	166,300	3.752
Ireland	12,040	0.340	186,356	173,246	13,110	25,272	0.570
Italy	63,950	1.803	989,824	920,498	69,326	77,182	1.741
Luxembourg	12,040	0.340	186,356	173,246	13,110	25,272	0.570
The Netherlands	36,294	1.023	561,762	522,432	39,330	49,526	1.117
Norway	12,040	0.340	186,356	173,308	13,048	25,272	0.570
Portugal	12,040	0.340	186,356	173,246	13,110	25,272	0.570
Spain	12,040	0.340	186,356	173,308	13,048	25,272	0.570
Sweden	12,040	0.340	186,356	173,308	13,048	25,272	0.570
Switzerland	20,650	0.582	319,623	297,226	22,397	33,882	0.764
Turkey	12,040	0.340	186,356	173,308	13,048	25,272	0.570
United Kingdom	72,262	2.038	1,118,478	1,040,159	78,319	85,494	1.929
United States	552,210	15.571	8,547,162	7,948,593	598,569	565,442	12.756
<b>Total Nonregional</b>	<b>1,298,316</b>	<b>36.610</b>	<b>20,095,465</b>	<b>18,687,995</b>	<b>1,407,470</b>	<b>1,549,724</b>	<b>34.960</b>
<b>TOTAL</b>	<b>3,546,311</b>	<b>100.000</b>	<b>\$54,890,156</b>	<b>\$51,029,546</b>	<b>\$3,860,610</b>	<b>4,432,855</b>	<b>100.000</b>

Note: Figures may not add due to rounding.

The accompanying notes are an integral part of these financial statements (OCR-8).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****NOTES TO FINANCIAL STATEMENTS**

31 December 2008 and 2007

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

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in the Asian and Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. With the adoption of its poverty reduction strategy at the end of 1999, ADB made reducing poverty in the region its main goal. ADB provides financial and technical assistance (TA) for projects and programs, which will contribute to achieving this purpose.

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

ADB's ordinary operations comprise loans, equity investments, and guarantees. During the years 2001 and 2002, limited technical assistance to member countries to support high priority TA programs was included. ADB finances its ordinary operations through borrowings, paid-in capital, and reserves.

*Limitations on Loans, Guarantees, and Equity Investments*

Article 12, paragraph 1 of the Charter provides that the total amount outstanding of loans, equity investments, and guarantees made by ADB shall not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. In December 2008, the Board of Directors approved the revised policy on ADB's lending limitations, which limits the total amount of disbursed loans, approved equity investments, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount

of ADB's unimpaired subscribed capital, reserves and surplus. At 31 December 2008 and 2007, the total of such loans, equity investments, and guarantees aggregated approximately 55.7% and 46.9%, respectively, of the total subscribed capital, reserves, and surplus as defined, based on this new policy.

Article 12, paragraph 3 of the Charter provides that equity investments shall not exceed 10% of the unimpaired paid-in capital together with reserves and surplus, exclusive of the special reserve. At 31 December 2008, such equity investments represented approximately 6.1% (7.6% - 2007) of the paid-in capital, reserves, and surplus, as defined.

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

The currencies of members are all functional currencies as these are the currencies of the primary economic environment in which ADB generates and expends cash. The reporting currency is the United States dollar (USD).

*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, capital, and reserves denominated in non-USD are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments, other than those relating to the non-functional currencies (Note M) and to the maintenance of Special Drawing Right (SDR) capital values (Notes K and L), are charged or credited to "Accumulated translation adjustments" and reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

*Valuation of Capital Stock*

The authorized capital stock of ADB is defined in Article 4, paragraph 1 of the Charter "in terms of United States dollars of the weight and fineness in effect on 31 January 1966" (the 1966 dollar) and the value of each share is

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defined as 10,000 1966 dollars. The capital stock had historically been translated into the current United States dollar (ADB's unit of account) on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was \$1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer have par values in terms of gold. Pending ADB's selection of the appropriate successor to the 1966 dollar, the capital stock has been valued for purposes of these financial statements in terms of the SDR at the value in current United States dollars as computed by the IMF, with each share valued at SDR10,000.

As of 31 December 2008, the value of the SDR in terms of the current United States dollar was \$1.54781 (\$1.57848 – 2007) giving a value for each share of ADB's capital equivalent to \$15,478.10 (\$15,784.80 – 2007). However, ADB could decide to fix the value of each share at \$12,063.50 based on the 31 March 1978 par value of the United States dollar in terms of gold.

#### *Derivative Financial Instruments*

ADB reports all derivative transactions in accordance with Statement of Financial Accounting Standards (FAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities," along with its amendments, collectively referred as FAS 133. FAS 133 requires that derivative instruments be recorded in the Balance Sheet as either assets or liabilities measured at fair value. The initial application of FAS 133 in January 2001 gave rise to a transition loss of \$81,657,000 in other comprehensive income and a gain of \$34,656,000 was reported in net income. The amount recorded in other comprehensive income as transition loss is being reclassified into earnings in the same period or periods in which the underlying transactions affect earnings.

In applying FAS 133 for purposes of financial statement reporting, ADB has elected not to define any qualifying hedging relationships. Rather, all derivative instruments, as defined by FAS 133, have been marked to fair value, and all changes in fair value have been recognized in net income. ADB has elected not to define any qualifying hedging relationships, not because economic hedges do not exist, but rather because the application of FAS 133 hedging criteria does not make fully evident ADB's risk management strategies.

In February 2006, the Financial Accounting Standards Board issued FAS 155, "Accounting for Certain Hybrid Financial Instruments, an amendment of FASB Statements No. 133 and 140." ADB decided to early adopt the provisions which allow hybrid financial instruments that contain embedded derivatives requiring bifurcation under FAS 133 to be measured at fair value, effective 1 January 2006. With this, FAS 133 as presented in ADB's financial statements incorporates the provisions of FAS 155.

ADB issues hybrid instruments, i.e. structured debts, to lower its cost of borrowings, which are generally fully hedged through derivative transactions. ADB measures and reports any of its qualified bifurcable structured debts and their corresponding derivatives at fair value with changes in fair value recognized in net income. This consistent accounting treatment would fully capture the economic hedging relationship between the hybrid instruments and their derivatives.

#### *Investments*

All investment securities and negotiable certificate of deposits held by ADB other than derivative instruments are considered by Management to be "Available for Sale" and are reported at estimated fair value, which represents their fair market value. Time deposits are reported at cost, which is a reasonable estimate of fair value. Unrealized gains and losses are reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income." Realized gains and losses are included in income from investments and are measured by the difference between amortized cost and the net proceeds of sales. With respect to exchange traded futures, realized gains or losses are reported based on daily settlement of the net cash margin.

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

Unrealized losses on investment securities are assessed to determine whether the impairment is deemed to be other than temporary. If the impairment is deemed to be other than temporary, the investment is written down to the impaired value, which becomes the new cost basis of the investments. Impairment losses are not reversed for subsequent recoveries in the value of the investments, until it is sold.

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2008 and 2007

#### *Securities Transferred Under Repurchase Agreement and Securities Purchased Under Resale Arrangement*

ADB 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. All outstanding securities as of 31 December 2008 and 2007 classified under securities transferred under repurchase agreement correctly reflect the nature of the transactions.

#### *Loans*

ADB's loans are made to or guaranteed by members, with the exception of nonsovereign loans, and have maturities ranging between 3 and 32 years. ADB requires its borrowers to absorb exchange risks attributable to fluctuations in the value of the currencies which it has disbursed. Loan interest income and loan commitment fees are recognized on accrual basis. In line with ADB's principle of cost pass through pricing, any variation in the actual cost of borrowings is passed to LIBOR-based borrowers as surcharge or rebate.

It is the policy of ADB to place loans in non-accrual status for which principal, interest, or other charges are overdue by six months. Interest and other charges on non-accruing loans are included in income only to the extent that payments have been received by ADB. 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.

ADB determines that a loan is impaired and therefore subject to provisioning when principal or interest is in arrears for one year for sovereign loans

(unless there is clear and convincing evidence warranting the deferment or acceleration of such provisioning) and six months for nonsovereign loans. If the present value of expected future cash flows discounted at the loan's effective interest rate is less than the carrying value of the loan, a valuation allowance is established with a corresponding charge to provision for loan losses.

ADB's periodic evaluation of the adequacy of the provision for loan losses is based on its past loan loss experience, known and inherent risks in existing loans, and adverse situations that may affect a borrower's ability to repay.

In December 2006, the Board approved the application of the concept of expected loss for nonsovereign credit exposure to establish loss provision and loss reserve, the same concept that was applied to sovereign operations in 2004. In line with accounting principles generally accepted in the United States of America, the amount of expected loss pertaining to credit exposures that are impaired and rated substandard or worse is charged to the income statement, following the discounted cash flow method described above, while those that are better are recorded as loss reserve in the equity section of the balance sheet. Any adjustment to loan loss reserve following this new methodology is subject to the approval of the Board of Governors.

Effective 2000, ADB levies front-end fees on all new sovereign loans. These fees are deferred and amortized over the life of the loans after offsetting deferred direct loan origination costs. In 2004, ADB waived the entire front-end fee on all new sovereign loans approved during the year. Subsequently, the policy was extended to cover the period up to June 2009. In December 2007, the Board approved the elimination of front-end fees on sovereign LIBOR-based loans negotiated on and after 1 October 2007.

ADB levies a commitment charge on the undisbursed balance of effective loans. Unless otherwise provided by the loan agreement, the charges take effect commencing on the 60<sup>th</sup> day after the loan signing date and are credited to loan income.

#### *Guarantees*

ADB extends guarantees to sovereign and nonsovereign borrowers. Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred. ADB would be required to perform under its

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guarantees if the payments guaranteed were not made by the debtor, and the guaranteed party called the guarantee by demanding payments from ADB in accordance with the term of the guarantee.

Prior to 1 January 2003, guarantees in the absence of any call, were not reflected in the financial statements but disclosed as a note to the financial statements (*Note F*) in accordance with the provisions of FASB No. 5, Accounting for Contingencies. FASB Interpretation No. 45 (FIN 45), "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others," which came into effect in 2003, requires the recognition of two types of liabilities that are associated with guarantees: (a) the stand-by ready obligation to perform, and (b) the contingent liability. ADB recognizes at the inception of a guarantee, a liability for the stand-by ready obligation to perform on guarantees issued and modified after 31 December 2002. The liability is included in "Miscellaneous liabilities."

Front-end fee income on guarantees received is deferred and amortized over the term of the guarantee contract and the unamortized balance of deferred front-end fee of guarantee is included in "Miscellaneous liabilities."

#### *Equity Investments*

All equity investments are considered as "Available for Sale" and are reported at estimated fair value.

Investments in equity securities with readily determinable market price are reported at fair value, with unrealized gains and losses reported in "CAPITAL AND RESERVES" as part of "Accumulated other comprehensive income."

Investments in equity securities without readily determinable fair values are reported at cost or at impaired value, for investments where the impairment is deemed other than temporary. These investments are assessed each quarter to reflect the amount that can be realized using valuation techniques appropriate to the market and industry of each investment. When impairment is identified and is deemed to be other than temporary, the equity investment is written down to the impaired value, which becomes the new cost basis of the equity investments. Impairment losses are not reversed for subsequent recoveries in the value of the equity investments, until it is sold.

ADB applies the equity method of accounting to investments in limited liability partnerships (LLPs) and certain limited liability companies (LLCs) that maintain a specific ownership account for each investor.

#### *Variable Interest Entities*

ADB complies with FIN 46R, "Consolidation of Variable Interest Entities – an interpretation of ARB No. 51, Consolidated Financial Statements." FIN 46 requires an entity to consolidate and provide disclosures for any VIE for which it is the primary beneficiary. An entity that will absorb a majority of VIE's expected losses or receive a majority of expected residual return is deemed to be the primary beneficiary of the VIE. Variable interests can arise from equity investments, loans, and guarantees. ADB is required to disclose information about its involvement in VIE where ADB holds significant variable interest (*Note S*).

#### *Property, Furniture, and Equipment*

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

#### *Borrowings*

Borrowings are generally reported on the balance sheet at their carrying book value, adjusted for any unamortized discounts or premium. As part of its borrowing strategy, ADB issues various types of contractual obligations, which include structured debts containing embedded derivatives in order to minimize the cost of borrowings. ADB simultaneously enters into currency and/or interest rate swaps to fully hedge the debt.

Upon the adoption of FAS 155 on 1 January 2006, ADB no longer bifurcates and fair values the embedded derivatives (the debt was valued at its carrying book value) in the structured debt portfolio that meet the bifurcation criteria under FAS 133. Instead, ADB measures and reports at fair value any structured debt that contains embedded derivatives that would otherwise be bifurcated under FAS 133 as a whole, with changes in fair value reported in net income.

Effective 1 January 2008, ADB adopted the provisions of FAS 159 for non-hybrid borrowings that are

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

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swapped. Further information relating to the adoption of FAS 159 and the reasons for electing FAS 159 for these financial instruments are discussed in detail in Note P. Borrowing valuations are further adjusted for the credit spread by currency.

#### *Accounting Estimates*

The preparation of the financial statements in conformity with generally accepted accounting principles requires Management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the year and the reported amounts of revenues and expenses during the year. The actual results could differ from those estimates.

#### *Accounting and Reporting Developments*

Effective 1 January 2008, ADB adopted FAS 157 and FAS 159. FAS 157 defines fair value (FV) which focuses on the price that would be received to sell the asset or paid to transfer the liability (exit price) and establishes a framework for measuring FV through a FV hierarchy that ranks the quality and reliability of the data used in FV measurements. FAS 159 expands the scope of financial instruments that may be carried at FV. It offers an irrevocable option to carry the majority of financial assets and liabilities at FV, on an instrument-by-instrument basis, with changes in FV recognized in earnings. Fair Value Option may be elected at the time an entity recognizes an eligible financial asset or liability. FAS 159 also allows a one time election for existing financial assets and liabilities, on an instrument-by-instrument basis, at the initial adoption date. The adoption of FAS 157 and 159 was applied prospectively and the cumulative effect of changes in valuation of the financial assets and liabilities for which the Fair Value Option have been elected were reported as an adjustment to the 1 January 2008 balance of reserves.

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.

In December 2008, the FASB issued FASB Staff Position (FSP) FAS 132(R)-1, which amends 132(R) to require more detailed disclosures about employers’ plan assets, including employers’ investment strategies, major categories of plan assets, concentration of risk within plan assets, and valuation techniques used to measure the fair value of plan assets. This aims to address financial statement users’ concerns “about the lack of transparency surrounding the types of assets and associated risks in an employer’s defined benefit pension or other postretirement plan and events in the economy and markets that could have a significant effect on the value of the plan assets.” An entity must provide the FSP’s disclosures in financial statements for fiscal years ending after 15 December 2009.

#### *Statement of Cash Flows*

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

#### *Reclassification*

Certain non-material reclassifications of prior year’s amounts and information have been made to conform to the current year’s presentation.

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

In accordance with Article 24, paragraph 2(i) of the Charter, the use by ADB or by any recipient from ADB of certain currencies may be restricted by members to payments for goods or services produced and intended for use in their territories. With respect to the currencies of 42 DMCs for 2008 (44 - 2007), cash in banks (due from banks) and demand obligations totaling \$70,095,000 (\$65,915,000 – 2007) and \$144,515,000 (\$174,805,000 – 2007), respectively, may be, but are not currently so restricted.

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In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, one member (one - 2007) has restricted the use by ADB or by any recipient from ADB of its currency to payments for goods or services produced in its territory. As such, cash in banks (due from banks) and investments totaling \$20,000 (\$20,000 - 2007) and \$3,182,000 (\$3,082,000 - 2007), respectively, have been restricted. None of the demand obligations held by ADB in 2008 and in 2007 was restricted.

**NOTE D—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.

ADB may purchase and sell exchange traded financial futures and option contracts, and enter into currency and interest rate swaps, and forward rate agreements. Exposure to interest rate risk may be adjusted within defined bands to reflect changing market conditions. These adjustments are made through the purchase and sale of securities, and financial futures. Accordingly, financial futures are held for risk management purposes. At 31 December 2008, the notional amount of outstanding purchase and sales futures contracts were \$6,300,000 and \$7,000,000, respectively, (\$99,300,000 and \$54,200,000, respectively - 2007).

Included in "Other securities" as of 31 December 2008 were corporate bonds and other obligations of banks amounting to \$6,688,083,000 (\$2,622,373,000 - 2007) and asset/mortgage-backed securities of \$758,066,000 (\$838,716,000 - 2007).

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

Currency	2008	2007
Australian dollar	\$ 412,599,000	\$ 462,654,000
Canadian dollar	261,180,000	306,592,000
Euro	898,121,000	854,590,000
Japanese yen	1,277,485,000	928,670,000
Pound sterling	208,158,000	288,721,000
Swiss franc	463,590,000	457,381,000
United States dollar	11,407,590,000	9,480,057,000
Others	483,796,000	518,278,000
Total	<u>\$15,412,519,000</u>	<u>\$13,296,943,000</u>

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

	Estimated Fair Value	Amortized Cost
Due in one year or less	\$ 6,119,336,000	\$ 6,100,549,000
Due after one year through five years	6,802,245,000	6,595,104,000
Due after five years through ten years	2,490,938,000	2,393,526,000
Total	<u>\$15,412,519,000</u>	<u>\$15,089,179,000</u>

Additional information relating to investments in government and government-guaranteed obligations and other securities are as follows:

	2008	2007
<b>As of 31 December:</b>		
Amortized cost	\$13,607,809,000	\$5,770,063,000
Estimated fair value	13,931,149,000	5,805,057,000
Gross unrealized gains	364,824,000	60,811,000
Gross unrealized losses	(41,484,000)	(25,817,000)
<b>For the years ended 31 December:</b>		
Change in net unrealized gains from prior year	288,346,000	76,994,000
Proceeds from sales	7,979,848,000	8,205,482,000
Gross gain on sales	53,508,000	13,466,000
Gross loss on sales	(81,408,000)	(19,411,000)

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As of 31 December 2008, gross unrealized losses amounted to \$41,484,000 (\$25,817,000 – 2007) from government and government-guaranteed obligations, corporate bonds, and mortgage/asset-backed securities. One government and government-guaranteed obligation

(12 – 2007), five corporate obligations (32 – 2007), and 11 mortgage/asset-backed securities (75 – 2007) sustained unrealized losses for over one year, representing 3.70% (9.34% – 2007) of the total investments. 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	\$ 67,243,000	\$ 215,000	\$ 239,844,000	\$ 897,000	\$ 307,087,000	\$ 1,112,000
Corporate bonds	546,087,000	6,431,000	320,160,000	2,552,000	866,247,000	8,983,000
Mortgage/Asset-backed securities	255,292,000	23,525,000	10,241,000	7,864,000	265,533,000	31,389,000
Total	<u>\$868,622,000</u>	<u>\$30,171,000</u>	<u>\$ 570,245,000</u>	<u>\$11,313,000</u>	<u>\$1,438,867,000</u>	<u>\$41,484,000</u>
For the year 2007						
Government and government-guaranteed obligations	\$290,291,000	\$ 5,814,000	\$ 460,364,000	\$ 6,816,000	\$ 750,655,000	\$12,630,000
Corporate bonds	507,085,000	3,835,000	627,532,000	3,301,000	1,134,617,000	7,136,000
Mortgage/Asset-backed securities	119,347,000	2,980,000	153,954,000	3,021,000	273,301,000	6,001,000
Options	300,000	50,000	–	–	300,000	50,000
Total	<u>\$917,023,000</u>	<u>\$12,679,000</u>	<u>\$1,241,850,000</u>	<u>\$13,138,000</u>	<u>\$2,158,873,000</u>	<u>\$25,817,000</u>

**Asset/Mortgage-backed Securities:** Asset/Mortgage-backed securities are instruments whose cash flow is based on the cash flows of a pool of underlying assets or mortgage loans managed by a trust.

**Exchange Traded Futures:** Futures are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date of a specified instrument at a specified price or yield. Initial margin requirements are met with cash or securities, and changes in the market prices are generally settled daily in cash. ADB generally closes out open positions prior to maturity. Therefore, cash receipts or payments are limited to the change in market value of the future contracts. As of 31 December 2008, net receipts on future contracts amounted to \$1,082,000 (\$372,000 net payments – 2007).

**NOTE E—LOANS***Loans*

ADB does not sell its sovereign loans, nor does it believe there is a market for its sovereign loans. The estimated fair value of all loans is based on the estimated cash flows from principal repayments, interest and other charges discounted at the applicable market yield curves for ADB's borrowing cost plus lending spread.

The carrying amount and estimated fair value of loans outstanding at 31 December 2008 and 2007 are as follows:

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	2008		2007	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Fixed rate multicurrency loans	\$ 22,246,000	\$ 27,157,000	\$ 22,462,000	\$ 28,279,000
Pool-based single currency (JPY) loans	3,202,996,000	3,683,699,000	3,138,612,000	3,594,501,000
Pool-based single currency (US\$) loans	7,049,324,000	8,609,127,000	7,716,536,000	8,537,918,000
LIBOR-based loans	25,219,728,000	25,084,442,000	19,135,910,000	19,012,074,000
Fixed rate loans	11,470,000	12,806,000	15,587,000	17,811,000
Local currency loans	404,296,000	413,728,000	253,772,000	270,787,000
Total	\$35,910,060,000	\$37,830,959,000	\$30,282,879,000	\$31,461,370,000

Prior to 1 July 1986, the lending rate of ADB was based on a multicurrency fixed lending rate system under which loans carried interest rates fixed at the time of loan approval for the entire life of the loans. Effective 1 July 1986, ADB adopted a multicurrency pool-based variable lending rate system. In addition, in July 1992, ADB introduced a United States dollar pool-based variable lending rate system, and in November 1994, a market-based lending rate system was made available to financial intermediaries of sovereign and nonsovereign borrowers.

The outstanding balances of pool-based multicurrency loans were subsequently transformed into pool-based single currency loans in Japanese yen, effective 1 January 2004.

Commencing 1 July 2001, ADB offered LIBOR-based loans (LBLs) in the following currencies – Euro, Japanese yen, and United States dollar. The LBL lending facility offers borrowers the flexibility of (i) choice of currency and interest rate basis; (ii) change the original loan terms (currency and interest rate basis) at any time during the life of the loan; and (iii) options to cap or collar the floating lending rate at any time during the life of the loan. With the introduction of LBLs, all other loan windows are no longer offered to borrowers. In November 2002, ADB offered local currency loans (LCLs) to nonsovereign borrowers. In August 2005, ADB also offered LCLs to sovereign borrowers. In November 2006, ADB introduced series of enhancements to sovereign LBLs negotiated after 1 January 2007, offering additional major currencies that ADB can efficiently intermediate, and additional repayment options including (i) annuity method with various discount factors, (ii) straight-line repayment, (iii) bullet repayment, and (iv) custom-tailored repayment.

In 2008, ADB received prepayments for 11 loans (6 loans – 2007) amounting to \$277,053,000 (\$80,139,000 – 2007) and collected prepayment premiums of \$3,937,000

(\$210,000 – 2007). Ninety percent of the prepaid amounts in 2008 were pool-based single currency US dollar and Japanese yen loans compared to 87% for pool-based single currency US dollar loans in 2007.

#### Loan Charges

Since 1988, ADB has charged front-end fees for non-sovereign loans. Effective 1 January 2000, ADB levied front-end fee of 1% for sovereign loans for which the loan negotiations are completed after that date. In addition, a flat commitment fee of 0.75% was charged for new program loans and a progressive commitment fee of 0.75% was maintained for project loans. Effective 1 January 2000, the lending spread applied to all outstanding pool-based sovereign loans and new sovereign market-based loans was increased from 0.4% to 0.6%.

In 2004, the Board approved the waiver of the entire 1% front-end fee on all new sovereign loans approved during 1 January 2004 to 30 June 2005 (waiver of 50 basis points on sovereign loans approved in 2003) and waiver of 20 basis points of the lending spread on sovereign loans outstanding from 1 July 2004 – 30 June 2005 for borrowers that do not have loans in arrears. Subsequently, the policy was extended to cover the period up to June 2009.

The front-end fees received on nonsovereign loans for the year ended 31 December 2008 were \$10,987,000 (\$4,576,000 – 2007). Administrative expenses relating to direct loan origination of \$35,540,000 for the year ended 31 December 2008 (\$34,080,000 – 2007) were deferred and offset against front-end fees received. The excess, if any, is amortized over the life of each loan.

In November 2006, the Board approved a change in the commitment charge policy for all sovereign project

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LIBOR-based loans negotiated after 1 January 2007, from 75 basis points on a progressive structure of undisbursed loan balances to a flat fee of 35 basis points on the full amount of undisbursed balances. Further to this, the Board also approved in April 2007, the waiver of 10 basis points of the commitment charge on the undisbursed balances of sovereign project loans negotiated after 1 January 2007 and 50 basis points of the commitment charge on the undisbursed balances of sovereign program loans.

In December 2007, the Board approved the revision of loan charges for sovereign LIBOR-based loans negotiated on and after 1 October 2007 by a) providing a credit of 0.4% for the duration of the loan, resulting to an effective contractual spread of 0.2%; b) reducing the commitment charge from 0.75% and 0.35% for sovereign program and project loans to 0.15% for both sovereign program and project loans; and c) eliminating front-end fees.

Undisbursed loan commitments and an analysis of loans by borrowing member countries as of 31 December 2008 are shown in OCR-5. The carrying amounts of loan outstanding by loan products at 31 December 2008 and 2007 are as follows:

	2008	2007
<b>Sovereign Loans</b>		
Fixed rate multicurrency loans	\$ 22,246,000	\$ 22,462,000
Pool-based single currency (JPY) loans	3,202,996,000	3,136,766,000
Pool-based single currency (US\$) loans	7,054,332,000	7,722,916,000
LIBOR-based loans	23,901,052,000	18,078,713,000
	<u>34,180,626,000</u>	<u>28,960,857,000</u>
Provision for loan losses	(4,356,000)	(5,689,000)
Unamortized direct loan origination cost	76,114,000	47,936,000
	<u>71,758,000</u>	<u>42,247,000</u>
<b>Subtotal</b>	<u>34,252,384,000</u>	<u>29,003,104,000</u>
<b>Nonsovereign Loans</b>		
Pool-based single currency (JPY) loans	–	1,846,000
Fixed rate loans	11,488,000	15,586,000
LIBOR-based loans	1,253,775,000	1,018,846,000
Local currency loans	404,952,000	258,657,000
Others	131,000	–
	<u>1,670,346,000</u>	<u>1,294,935,000</u>
Provision for loan losses	(4,818,000)	(9,354,000)
Unamortized front-end fee	(7,852,000)	(5,806,000)
	<u>(12,670,000)</u>	<u>(15,160,000)</u>
<b>Subtotal</b>	<u>1,657,676,000</u>	<u>1,279,775,000</u>
<b>Total</b>	<u>\$35,910,060,000</u>	<u>\$30,282,879,000</u>

#### Loans in Non-accrual Status

One nonsovereign loan was in non-accrual status as of 31 December 2008 (four – 2007). The principal outstanding at that date was \$1,674,000 (\$16,507,000 – 2007) of which \$1,315,000 (\$9,659,000 – 2007) was overdue. Loans in non-accrual status resulted in \$151,000 (\$3,223,000 – 2007) not being recognized as income from nonsovereign loans for the year ended 31 December 2008, and a total of \$525,000 as of 31 December 2008 (\$8,314,000 – 2007). The significant decrease resulted mainly from the waiver of loan charges totaling \$4,735,000 due to sale of two loans in January 2008 and restructuring of one loan in April 2008, and recovery of \$2,717,000 from the restructured loan.

In 2008, one sovereign loan was restored to accrual status and loan charges of \$1,130,000 for 2007 was recognized as income for the current year.

#### Loan Loss Provision

ADB has not suffered any losses of principal on sovereign loans. During the year, \$1,333,000 loan loss provision was written back on two loans (\$427,000 on one loan – 2007). Accumulated loan loss provision for sovereign loans as of 31 December 2008 was \$4,356,000 (\$5,689,000 – 2007).

Loan loss provisions for nonsovereign loans totaling \$4,968,000 were written back/off mainly due to sale of two loans. This reduced the balance of accumulated loan loss provision for nonsovereign loans to \$4,818,000 as of 31 December 2008 (\$9,354,000 – 2007).

Information pertaining to loans which were subject to loan loss provisions at 31 December 2008 and 2007 is as follows:

	2008	2007
Loans not subject to loss provisions	\$35,841,044,000	\$30,233,596,000
Loans subject to loss provisions	9,928,000	22,196,000
<b>Total</b>	<u>\$35,850,972,000</u>	<u>\$30,255,792,000</u>
Average amount of loans subject to loss provisions	\$ 11,325,000	\$ 30,019,000
Related interest income on such loans recognized in the year	\$ 4,946,000	\$ 921,000
Cash received on related interest income on such loans	\$ 4,933,000	\$ 782,000

## CONTINUED

The changes in the provision for loan losses during 2008 and 2007 are as follows:

	2008			2007		
	Sovereign Loans	Nonsovereign Loans	Total	Sovereign Loans	Nonsovereign Loans	Total
Balance 1 January	\$5,689,000	\$9,354,000	\$15,043,000	\$6,116,000	\$22,223,000	\$28,339,000
Provision written back - net	(1,333,000)	(2,134,000)	(3,467,000)	(427,000)	(152,000)	(579,000)
Provision written off	—	(2,400,000)	(2,400,000)	—	(12,717,000)	(12,717,000)
Translation adjustment	—	(2,000)	(2,000)	—	—	—
Balance 31 December	\$4,356,000	\$4,818,000	\$9,174,000	\$5,689,000	\$9,354,000	\$15,043,000

### Cofinancing

ADB functions as lead lender in cofinancing arrangements with other participating financial institutions who also provide funds to ADB's sovereign and nonsovereign borrowers. In such capacity, ADB provides loan administration services, which include loan disbursements and loan collections. The participating financial institutions have no recourse to ADB for their outstanding loan balances.

Loans administered by ADB on behalf of participating institutions as at 31 December 2008 and 2007 are as follows:

	2008	
	Amount	No. of Loans
Sovereign loans	\$503,017,000	36
Nonsovereign loans	403,517,000	10
Total	\$906,534,000	46

	2007	
	Amount	No. of Loans
Sovereign loans	\$527,247,000	32
Nonsovereign loans	432,865,000	12
Total	\$960,112,000	44

During the year ended 31 December 2008, a total of \$115,000 (\$490,000 - 2007) was received as compensation for arranging and administering such loans. This amount has been included in "Income from other sources."

### NOTE F—GUARANTEES

ADB extends guarantees to public sector and private sector borrowers. Such guarantees include (i) partial credit guarantees where only certain principal and/or interest payments are covered; and (ii) political risk guarantees, which provide coverage against well-defined sovereign risks. While counterguarantees from the host government are required for all public sector guarantees, guarantees for private sector projects may be provided with or without a host government counterguarantee. A counterguarantee takes the form of a member government agreement to indemnify ADB for any payments it makes under the guarantee. In the event that a guarantee is called, ADB has the contractual right to require payment from the government, on demand, or as ADB may otherwise direct.

Guaranteed payments under partial credit guarantees are generally due 10 or more years from the loan inception date. ADB's political risk guarantee is callable when a guaranteed event has occurred and such an event has resulted in debt service default to the guaranteed lender.

In October 2008, ADB paid a total of PKR10,375,000 (\$127,000 equivalent) under a partial credit guarantee agreement. The amount was booked as a loan arising from a guarantee call with a corresponding 100% provision for losses.

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The committed and outstanding amounts of these guarantee obligations as of 31 December 2008 and 2007 covered:

	2008		2007	
	Committed Amount	Outstanding Amount	Committed Amount	Outstanding Amount
Partial Credit Guarantees				
with counter guarantee	\$1,164,044,000	\$1,097,258,000	\$1,001,492,000	\$ 962,160,000
without counter guarantee	432,363,000	363,075,000	280,863,000	271,881,000
	<u>1,596,407,000</u>	<u>1,460,333,000</u>	<u>1,282,355,000</u>	<u>1,234,041,000</u>
Political Risk Guarantees				
with counter guarantee	145,156,000	129,419,000	146,813,000	134,210,000
without counter guarantee	30,070,000	24,899,000	30,462,000	27,306,000
	<u>175,226,000</u>	<u>154,318,000</u>	<u>177,275,000</u>	<u>161,516,000</u>
Others	950,000	950,000	950,000	950,000
Total	<u>\$1,772,583,000</u>	<u>\$1,615,601,000</u>	<u>\$1,460,580,000</u>	<u>\$1,396,507,000</u>

None of the outstanding amounts as of 31 December 2008 were subject to call. The committed amount represents the maximum potential amount of undiscounted future payment that ADB could be required to make, inclusive of standby portion for which ADB is committed but not currently at risk. The outstanding amount represents the guaranteed amount utilized under the related loans, which have been disbursed as of the end of a reporting period, exclusive of the standby portion. ADB estimates that the present value of guarantees outstanding at 31 December 2008 was \$1,130,777,000 (\$965,849,000 – 2007).

As of 31 December 2008, a total liability of \$23,257,000 (\$13,668,000 – 2007) relating to stand-by ready obligation for seven partial credit risk guarantees (five – 2007) and two political risk guarantees (two – 2007) has been included in “Miscellaneous liabilities” on the balance sheet for all guarantees issued after 31 December 2002.

#### NOTE G—EQUITY INVESTMENTS

ADB's investments in equity securities issued by private enterprises located in DMCs include \$208,071,000 (\$212,463,000 – 2007) investments in limited liability

partnership and limited liability companies. Such equity investments are accounted for under the equity method.

As of 31 December 2008, there were six (six – 2007) equity investments which were reported at fair value totaling \$238,497,000 (\$462,115,000 – 2007). One investment (nil – 2007) sustained unrealized losses of \$106,816,000 as of year end of 2008.

Accumulated net unrealized gains on equity investments reported at market value were \$116,895,000 at 31 December 2008 (\$340,958,000 – 2007) and were reported in “CAPITAL AND RESERVES” as part of “Accumulated other comprehensive income.”

Approved equity investment facility that has not been disbursed was \$275,740,000 at 31 December 2008 (\$344,046,000 – 2007).

#### NOTE H—DERIVATIVE INSTRUMENTS

The fair value of outstanding currency and interest rate swap agreements is determined at the estimated amount that ADB would receive or pay to terminate the agreements using market-based valuation models. The basis of valuation is the present value of expected cash flows based on observable market data.

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**Interest rate swaps:** Under a typical interest rate swap agreement, one party agrees to make periodic payments based on a notional principal amount and an interest rate that is fixed at the outset of the agreement. The counterparty agrees to make floating rate payments based on the same notional principal amount. The terms of ADB's interest rate swap agreements usually match the terms of particular borrowings.

**Currency swaps:** Under a typical currency swap agreement, one party agrees to make periodic payments in one currency while the counterparty agrees to make periodic payments in another currency. The payments may be fixed at the outset of the agreement or vary based on interest rates. A receivable is created for the currency swapped out, and a payable is created for the currency swapped in. The terms of ADB's currency swap agreements usually match the terms of particular borrowings.

Included in Receivable/Payable from Swaps-Others are interest rate and currency swaps that ADB has entered into for the purpose of hedging specific investments and loans. The loan related swaps were executed to better align the composition of certain outstanding loans with funding sources.

#### NOTE I—PROPERTY, FURNITURE, AND EQUIPMENT

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters premises, which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, ADB was compensated \$22,657,000 for the return of these premises. The compensation is in lieu of being provided premises under the agreement and accordingly, is deferred and amortized over the estimated life of the new headquarters building as a reduction of occupancy expense. The amortization for the year ended 31 December 2008 amounted to \$386,000 (\$387,000 – 2007) reducing depreciation expense for the new headquarters building from \$4,427,000 (\$4,471,000 – 2007) to \$4,041,000 (\$4,084,000 – 2007). At 31 December 2008, the unamortized deferred compensation balance (included in “ACCOUNTS PAYABLE AND OTHER LIABILITIES - Miscellaneous”) was \$8,218,000 (\$9,529,000 – 2007). At 31 December 2008 accumulated depreciation for property, furniture, and equipment was \$158,259,000 (\$147,999,000 – 2007).

#### NOTE J—BORROWINGS

The key objective of ADB's borrowing strategy is to raise funds at the lowest possible cost for the benefit of its borrowers. ADB uses financial derivative instruments in connection with its borrowing activities to increase cost efficiency, while achieving risk management objectives. Currency swaps enable ADB to raise operationally needed currencies in a cost-efficient way and to maintain its borrowing presence in the major capital markets. Interest rate swaps are used generally to reduce interest rate mismatches arising from lending operations.

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

##### Capital Stock

The authorized capital stock of ADB as of the end of 2008 and 2007 consists of 3,546,311 shares, all of which have been subscribed by members. Of the subscribed shares, 3,296,887 are “callable” and 249,424 are “paid-in.” The “callable” share capital is subject to call by ADB only as and when required to meet ADB's obligations incurred on borrowings of funds for inclusion in its Ordinary Capital Resources (OCR) or on guarantees chargeable to such resources. The “paid-in” share capital has been paid or is payable in installments, partly in convertible currencies and partly in the currency of the subscribing member which may be convertible. In accordance with Article 6, paragraph 3 of the Charter, ADB accepts non-negotiable, non-interest-bearing demand obligations in satisfaction of the portion payable in the currency of the member, provided such currency is not required by ADB for the conduct of its operations. The settlement of such amounts is not determinable and, accordingly, it is not practicable to determine a fair value for these receivables.

As of 31 December 2008, all matured installments amounting to \$3,850,762,000 (\$3,917,444,000 - 2007) were received. Installments not due aggregating \$9,848,000 (\$19,664,000 - 2007) are as follows:

For the Year ending 31 December:

2009	\$6,563,000	2010	\$3,285,000
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## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2008 and 2007

#### Capital Transferred to Asian Development Fund

Pursuant to the provisions of Article 19, paragraph 1(i) of the Charter, the Board of Governors has authorized the setting aside of 10% of the unimpaired “paid-in” capital paid by members pursuant to Article 6, paragraph 2(a) of the Charter and of the convertible currency portion paid by members pursuant to Article 6, paragraph 2(b) of the Charter as of 28 April 1973 to be used as a part of the Special Funds of ADB. The resources so set aside amounting to \$73,691,000 as of 31 December 2008 (\$75,151,000 - 2007) expressed in terms of the SDR on the basis of \$1.54781 (\$1.57848 - 2007) per SDR (\$57,434,000 in terms of \$1.20635 per 1966 dollar—Note B), were allocated and transferred to the Asian Development Fund.

#### Maintenance of Value of Currency Holdings

Prior to 1 April 1978, the effective date of the Second Amendment to the IMF Articles, ADB implemented maintenance of value (MOV) in respect of holdings of member currencies in terms of 1966 dollars, in accordance with the provisions of Article 25 of the Charter and relevant resolutions of the Board of Directors. Since then, settlement of MOV has been put in abeyance.

In as much as the valuation of ADB's capital stock and the basis of determining possible MOV obligations are still under consideration, notional amounts have been calculated provisionally as receivable from or payable to members in order to maintain the value of currency holdings in terms of the SDR. In view thereof, the notional MOV amounts of receivables and payables are offset against one another and shown as net notional amounts to maintain value of currency holdings in the “CAPITAL AND RESERVES” portion of the Balance Sheet. The carrying book value for such receivables and payables approximates its fair value.

The net notional amounts as of 31 December 2008 consisted of (a) the increase of \$740,985,000 (\$806,160,000 - 2007) in amounts required to maintain the value of currency holdings to the extent of matured and paid capital subscriptions due to the increase in the value of the SDR in relation to the United States dollar during the period from 1 April 1978 to 31 December 2008 and (b) the net increase of \$176,602,000 (\$144,963,000 - 2007) in the value of such currency holdings in relation to the United States dollar during the same period. In

terms of receivable from and payable to members, they are as follows:

	2008	2007
Notional MOV Receivables	\$957,549,000	\$853,546,000
Notional MOV Payables	393,166,000	192,349,000
Total	<u>\$564,383,000</u>	<u>\$661,197,000</u>

#### Membership

As of 31 December 2008, ADB's shareholders consist of 67 member countries, 48 countries from the region and 19 countries from outside the region (*OCR-7*).

### NOTE L—RESERVES

#### Ordinary Reserve and Net Income

Under the provisions of Article 40 of the Charter, the Board of Governors shall determine annually what part of the net income shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members.

In May 2008, the Board of Governors approved the allocation of 2007 net income of \$760,174,000 to Cumulative Revaluation Adjustments account for \$87,623,000, to Loan Loss Reserve for \$12,962,000, to Surplus and Ordinary Reserve for \$278,294,000 each, to Technical Assistance Special Fund for \$23,000,000, and to Asian Development Fund (ADF) and Climate Change Fund for \$40,000,000 each.

In 2007, the 2006 net income of \$565,886,000 and additions from Cumulative Revaluation Adjustments account of \$138,479,000 were allocated to Loan Loss Reserve for 52,000,000, to Surplus and Ordinary Reserve for \$286,183,000 each, and to ADF and Regional Cooperation and Integration Fund for \$40,000,000 each.

The restatement of the capital stock for purposes of these financial statements on the basis of the SDR instead of the 1966 dollar (*Note B*) resulted in a net credit of \$8,860,000 to the Ordinary Reserve during the year ended 31 December 2008 (net charge of \$34,587,000 - 2007). That credit is the decrease in the value of the matured and paid capital subscriptions caused by the change during the year in the value of the SDR in relation to the United States dollar not allocated to members as

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notional maintenance of value adjustments in accordance with resolutions of the Board of Directors.

#### *Cumulative Revaluation Adjustments Account*

In May 2002, the Board of Governors approved the allocation of net income representing the cumulative net unrealized gains (losses) on derivatives, as required by FAS 133 to a separate category of Reserves - "Cumulative Revaluation Adjustments Account." Beginning 2008, the unrealized portion of net income from equity investments accounted under equity method is also transferred to this account. During the year, the 2007 net unrealized gains on derivatives of \$57,508,000 and on income from equity investments accounted under equity method of \$30,115,000 reduced the credit balance of the Cumulative Revaluation Adjustments account at 31 December 2008 to \$23,336,000 (\$110,959,000 - 2007).

#### *Special Reserve*

The Special Reserve includes commissions on loans and guarantee fees on guarantees set aside pursuant to Article 17 of the Charter. Special Reserve assets consist of term deposits and government and government-guaranteed obligations and are included under the heading "INVESTMENTS." For the year ended 31 December 2008, guarantee fees amounting to \$6,876,000 (\$5,049,000 - 2007) were appropriated to Special Reserve.

#### *Loan Loss Reserve*

In 2004, the Board of Directors approved the creation of Loan Loss Reserve through an allocation of \$218,800,000 out of prior year net income. The Loan Loss Reserve forms part of Capital and Reserves to be used as a basis for capital adequacy against the estimated expected loss in ADB's sovereign loans and guarantees portfolio. In December 2006, the Board of Directors approved the adoption of this policy to nonsovereign credit exposures.

In 2008, the estimated loan loss reserve requirement was \$195,062,000 resulting to an increase of \$12,962,000. The estimated expected loss is determined using ADB's credit risk model net of loan loss provisions taken up in accordance with generally accepted accounting principles.

#### *Surplus*

Surplus represents funds for future use to be determined by the Board of Governors. In the first half of 2008, the Board of Governors approved the allocation of \$278,294,000 out of 2007 net income to Surplus (\$286,183,000 - 2007).

#### *Comprehensive Income*

Comprehensive income has two major components: net income and other comprehensive income comprising gains and losses affecting equity that, under accounting principles generally accepted in the United States of America, are excluded from net income. Other comprehensive income includes such items as the effects of the implementation of FAS 133, unrealized gains and losses on available-for-sale securities and listed equity investments, currency translation adjustments, and pension and post-retirement liability adjustment.

#### **NOTE M—INCOME AND EXPENSES**

Total income from loans for the year ended 31 December 2008 was \$1,358,506,000 (\$1,446,318,000 - 2007). The average yield on the loan portfolio during the year was 3.84% (5.00% - 2007), excluding premium received on prepayment and other loan income. Premium on prepaid loans during 2008 amounted to \$3,915,000 (\$232,000 - 2007).

Total income from investments including net realized losses on sales, net unrealized losses on derivatives, and interest earned for securities transferred under repurchase agreements and resale arrangements for the year ended 31 December 2008 was \$564,059,000 (\$676,230,000 - 2007). The annualized rate of return on the average investments held during the year, based on the portfolio held at the beginning and end of each month, was 3.20% (4.68% - 2007) excluding unrealized gains and losses on investments and 4.63% (5.79% - 2007) including unrealized gains and losses on investments.

Including net realized losses, equity investment operations resulted to a net loss of \$147,000 (\$80,690,000 income - 2007) for the year ended 31 December 2008. This included a total of \$12,160,000 share in the net losses of investee companies accounted under equity method and \$8,688,000 impairment losses mostly associated with restructured accounts, offset by dividend income,

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2008 and 2007

gains on disposals, and other income of \$15,823,000, \$4,804,000, and \$75,000 respectively.

Income from other sources primarily included income received as executing agency amounting to \$9,979,000 (\$9,843,000 – 2007), interests earned on bank accounts and on staff accounts totaling \$1,369,000 (\$645,000 – 2007) and \$1,682,000 (\$2,265,000 – 2007), respectively, and reversals of expenses charged to prior years of \$4,335,000 (\$4,719,000 – 2007).

Total interest expense incurred for the year ended 31 December 2008 amounted to \$1,181,410,000 (\$1,368,177,000 – 2007). Other borrowings and related expenses consisted of amortization of borrowings' issuance costs and other expenses of \$26,981,000 (\$21,601,000 – 2007).

Administrative expenses (other than those pertaining directly to ordinary operations and special operations) for the year ended 31 December 2008 were apportioned between OCR and ADF in proportion of the relative volume of operational activities of each fund. Of the total administrative expenses of \$363,724,000 (\$347,803,000 – 2007), \$187,138,000 (\$186,396,000 – 2007) was accordingly charged to ADF. The balance of administrative expenses after allocation was reduced by the deferral of direct loan origination costs of \$35,539,000 (\$34,080,000 – 2007) related to new loans that became effective for the year ended 31 December 2008 (*Notes B and E*).

In November 2008, following the approval by the Board of Directors in September 2007, ADB entered into a Trust fund Grant Arrangement with International Bank for Reconstruction and Development and International Development Association, to provide \$10,000,000 as a contribution to the Java Reconstruction Fund. This was charged to OCR current income as “TECHNICAL ASSISTANCE TO MEMBER COUNTRIES.” Net of write-back for the year totaling \$1,643,000 (\$683,000 – 2007) representing cancellations of the undisbursed amounts of completed TA projects committed in prior periods, technical assistance for the year amounted to \$8,357,000.

As of 31 December 2008, the net cumulative amount of TA commitments that had been charged to OCR net income amounted to \$76,205,000 (\$67,848,000 – 31 December 2007) out of which \$65,716,000 (\$65,530,000 – 2007) had been disbursed.

For the year ended 31 December 2008, total write-back of provision for losses amounted to \$3,467,000 (\$579,000 – 2007). This corresponded to \$1,333,000 for two sovereign loans and \$2,134,000 for a nonsovereign loan, resulting mainly from repayments and loan restructuring.

Other expenses of \$6,271,000 (\$3,998,000 – 2007) included non-borrowings related financial expenses such as fees paid to external asset managers and bank charges.

Net unrealized gains incorporated \$429,000 net losses (\$3,680,000 – 2007) from the translation adjustments of financial instruments denominated in non-functional currencies (South African Rand and Mexican Peso), and net unrealized gains on derivatives of \$451,020,000 (\$57,508,000 – 2007), which were made up of:

	2008	2007
Unrealized gains (losses) on:		
Hybrid financial instruments and related swaps*	\$387,136,000	\$ (5,322,000)
Non-hybrid financial instruments and related swaps*	249,942,000	108,028,000
Investments related swaps	(88,279,000)	(4,182,000)
Loan related swaps	(98,625,000)	(38,089,000)
FX Forward	263,000	(1,958,000)
Amortization of the FAS 133 transition adjustment	583,000	(969,000)
<b>Total</b>	<b>\$451,020,000</b>	<b>\$ 57,508,000</b>

\*Figures are not comparable due to the adoption of FAS 157 and 159 effective 1 January 2008, where (a) credit risk (spread) were incorporated in fair valuing the outstanding financial instruments, and (b) non-hybrid swapped borrowings which were recorded at amortized cost in 2007, were recorded at fair value in 2008.

### NOTE N—OTHER ASSETS AND LIABILITIES—MISCELLANEOUS

At 31 December 2008 and 2007, ADB had the following receivables from/payables to special funds and trust funds resulting from administrative arrangements and operating activities:

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	2008	2007
<u>Amounts receivable from:</u>		
Asian Development Fund (Note M)	\$31,743,000	\$28,750,000
Technical Assistance Special Fund	–	14,000
Japan Special Fund	145,000	159,000
Asian Tsunami Fund	669,000	343,000
Pakistan Earthquake Fund	4,000	5,000
Regional Cooperation and Integration Fund	15,000	–
Climate Change Fund	6,000	–
Asian Development Bank Institute Special Fund	847,000	341,000
Staff Retirement Plan	–	11,012,000
Agency Trust Funds (net)	842,000	1,984,000
<b>Total</b>	<b>\$34,271,000</b>	<b>\$42,608,000</b>
<u>Amounts payable to:</u>		
Technical Assistance Special Fund	\$ 12,000	\$ –
Staff Retirement Plan	14,205,000	–
<b>Total</b>	<b>\$14,217,000</b>	<b>\$ –</b>

#### NOTE O—STAFF RETIREMENT PLAN AND POSTRETIREMENT MEDICAL BENEFITS

##### *Staff Retirement Plan*

ADB has a contributory defined benefit Staff Retirement Plan (the Plan). Every employee, as defined under the Plan, shall, as a condition of service, become a participant from the first day of service, provided that at such a date, the employee has not reached the normal retirement age of 60. The Plan applies also to members of the Board of Directors who elect to join the Plan. Retirement benefits are based on length of service and highest average remuneration during two years of eligible service. The Plan assets are segregated and are not included in the accompanying Balance Sheet. The costs of administering the Plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the Plan.

Participants hired on or before 30 September 2006 are required to contribute 9 1/3% of their salary to the Plan while those hired after that date do not anymore contribute to the plan. Participants may also make additional voluntary contributions. ADB's contribution is determined at a rate sufficient to cover that part of the costs of the Plan not covered by the participants' contributions.

##### *Expected Contributions*

The expected amount of contributions to the Plan for 2009 amounts to \$51,499,000 (\$43,291,000 – 2007) representing ADB's contributions of \$29,394,000 (\$22,902,000 – 2007), based on budgeted contribution rate of 19% (16% - 2007), participants' mandatory contributions of \$11,605,000 (\$11,889,000 – 2007) and discretionary contributions of \$10,500,000 (\$8,500,000 – 2007).

##### *Investment Strategy*

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. The Plan employs nine external asset managers and one global custodian who function within the guidelines established by the Plan's Investment Committee. The investment of these assets, over the long term, is expected to produce higher returns than short-term investments. The investment policy incorporates the Plan's package of desired investment return and tolerance for risk, taking into account the nature and duration of the Plan's liabilities. The Plan's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

The Plan's investment policy is periodically reviewed and revised to reflect the best interest of the Plan's participants and beneficiaries. The current policy, adopted in January 2003, specifies an asset-mix structure of 70% of assets in equities and 30% in fixed income securities. At present, investments of the Plan's assets are divided into three categories: US equity, Non-US equity, and US fixed income.

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****NOTES TO FINANCIAL STATEMENTS**

31 December 2008 and 2007

As of 31 December 2008 and 2007, the breakdown of the fair value of plan assets held are as follows:

	2008	
	Amount	Percentage
Equity Securities		
US	\$ 320,303,000	
Non-US	215,489,000	
	535,792,000	58.6%
Fixed Income Securities	362,584,000	39.6
Other Assets (Liabilities) – net	16,254,000	1.8
Total	\$ 914,630,000	100.0%
	2007	
	Amount	Percentage
Equity Securities		
US	\$ 541,837,000	
Non-US	407,222,000	
	949,059,000	72.9%
Fixed Income Securities	362,646,000	27.9
Other Assets (Liabilities) – net	(10,150,000)	(0.8)
Total	\$1,301,555,000	100.0%

All investments excluding time deposits are valued using market prices. Time deposits are reported at cost which is a reasonable estimate of fair value. Fixed income securities include US government and government guaranteed obligations, corporate bonds and time deposits. Other assets include forward exchange contracts in various foreign currencies transacted to

hedge currency exposure in the investment portfolio, which are reported at fair value.

For the year ended 31 December 2008 the net return on the Plan assets was -29.5% (6.0% – 2007). ADB expects the long-term rate of return on the assets to be 8%.

*Assumptions*

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the Plan's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, the assumed investment return of 8% on the Plan's assets is expected to remain broadly the same, year to year.

*Postretirement Medical Benefits Plan*

In 1993, ADB adopted a cost-sharing plan for retirees' medical insurance premiums. Under the plan, ADB is obligated to pay 75% of the Group Medical Insurance Plan premiums for retirees, including retired members of the Board of Directors, and their eligible dependents who elected to participate. The cost-sharing plan is currently unfunded.

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

The following table sets forth the pension and postretirement medical benefits at 31 December 2008 and 2007:

## CONTINUED

	Pension Benefits		Postretirement Medical Benefits	
	2008	2007	2008	2007
Change in projected benefit obligation:				
Projected benefit obligation at beginning of year	\$ 1,476,832,000	\$ 1,336,833,000	\$ 193,008,000	\$ 187,030,000
Service cost	38,077,000	38,564,000	8,432,000	8,823,000
Interest cost	89,682,000	81,558,000	11,969,000	11,634,000
Plan participants' contributions	30,831,000	27,186,000	—	—
Transfers	—	(232,000)	—	—
Actuarial (gain) loss	(163,591,000)	59,287,000	(57,563,000)	(11,952,000)
Amendments	—	—	—	—
Benefits paid	(75,032,000)	(66,364,000)	(2,715,000)	(2,527,000)
Projected benefit obligation at end of year	<u>\$ 1,396,799,000</u>	<u>\$ 1,476,832,000</u>	<u>\$ 153,131,000</u>	<u>\$ 193,008,000</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	\$ 1,301,555,000	\$ 1,235,346,000	\$ —	\$ —
Actual return on plan assets	(381,940,000)	73,905,000	—	—
Employer's contribution	39,216,000	31,714,000	2,715,000	2,527,000
Plan participants' contributions	30,831,000	27,186,000	—	—
Transfers	—	(232,000)	—	—
Benefits paid	(75,032,000)	(66,364,000)	(2,715,000)	(2,527,000)
Fair value of plan assets at end of year	<u>\$ 914,630,000</u>	<u>1,301,555,000</u>	<u>\$ —</u>	<u>—</u>
Funded status	<u>\$ (482,169,000)</u>	<u>\$ (175,277,000)</u>	<u>\$ (153,131,000)</u>	<u>\$ (193,008,000)</u>
Amounts recognized in the Balance sheet consist of:				
Current liabilities	—	—	(4,183,000)	(3,907,000)
Noncurrent liabilities	(482,169,000)	(175,277,000)	(148,948,000)	(189,101,000)
Net amount recognized	<u>\$ (482,169,000)</u>	<u>\$ (175,277,000)</u>	<u>\$ (153,131,000)</u>	<u>\$ (193,008,000)</u>
Amounts recognized in the Accumulated other comprehensive income consist of:				
Net actuarial loss (gain)	\$ 425,385,000	\$ 110,605,000	\$ (15,660,000)	\$ 43,853,000
Prior service cost (credit)	11,833,000	15,912,000	(20,002,000)	(28,648,000)
Total amount recognized	<u>\$ 437,218,000</u>	<u>\$ 126,517,000</u>	<u>\$ (35,662,000)</u>	<u>\$ 15,205,000</u>
Weighted-average assumptions as of 31 December				
Discount rate	7.25%	6.00%	7.25%	6.00%
Expected return on plan assets	8.00%	8.00%	N/A	N/A
Rate of compensation increase varies with age and averages	5.05%	4.65%	5.05%	4.65%

For measurement purposes, a 9.0% annual rate of increase in the per capita cost of covered health care benefits was assumed for the valuation as at 31 December

2008. The rate was assumed to decrease gradually to 5.0% for 2013 and remain at the level thereafter.

## ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES

### NOTES TO FINANCIAL STATEMENTS

31 December 2008 and 2007

	Pension Benefits		Postretirement Medical Benefits	
	2008	2007	2008	2007
Components of net periodic benefit cost:				
Service cost	\$38,077,000	\$38,564,000	\$ 8,432,000	\$ 8,823,000
Interest cost	89,682,000	81,558,000	11,969,000	11,634,000
Expected return on plan assets	(98,293,000)	(88,047,000)	–	–
Amortization of prior service cost	4,079,000	4,079,000	(8,646,000)	(8,646,000)
Recognized actuarial loss	1,862,000	2,569,000	1,950,000	3,304,000
Net periodic benefit cost	\$35,407,000	\$38,723,000	\$13,705,000	\$15,115,000

The accumulated benefit obligation of the pension plan as of 31 December 2008 was \$1,306,323,000 (\$1,374,738,000 – 2007).

The estimated net loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are US\$8,940,000 and US\$4,079,000, respectively. The estimated net loss and prior service credit for the other postretirement benefits plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is US\$(27,000) and US\$(8,646,000), respectively.

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

	1-Percentage-Point Increase	1-Percentage-Point Decrease
Effect on total service and interest cost components	\$ 5,234,000	\$ (3,953,000)
Effect on postretirement benefit obligation	27,449,000	(21,903,000)

#### Estimated Future Benefits Payments

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at 31 December 2008:

	Pension Benefits	Postretirement Medical Benefits
2009	\$ 68,830,000	\$ 4,183,000
2010	66,041,000	4,802,000
2011	71,501,000	5,475,000
2012	76,081,000	6,137,000
2013	78,628,000	6,780,000
2014-2018	460,645,000	43,674,000

#### NOTE P—FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amounts and estimated fair values of ADB's significant financial instruments as of 31 December 2008 and 2007 are summarized in the next page.

#### The Fair Value Option

Effective 1 January 2008, ADB elected the Fair Value Option on all borrowings with associated derivative instruments. This election allows ADB to mitigate the earnings volatility in its statutory reporting that is caused by the different accounting treatment of the borrowing and its related derivative without having to apply the complex hedge accounting requirements of FAS 133.

#### Fair Value Measurement

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.

ADB determines fair values using inputs based on quoted or observable market prices and cash flow models. Inputs for the models are based on observable market data such as yield curves, interest rates, volatilities, and foreign exchange rates. Parameters and models used for valuation are subject to internal review and periodic external validation.



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*Equity Investments.* Readily marketable equity investments are fair valued using quoted prices in active markets.

#### Fair Value Hierarchy

FAS 157 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.

Assets and liabilities measured at fair value on a recurring basis:

*The fair value of the following financial assets and liabilities 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)
<b>Assets</b>				
Investments	\$15,412,519,000	\$6,410,116,000	\$ 8,978,004,000	\$ 24,399,000
Securities transferred under repurchase agreement	309,358,000	309,358,000	—	—
Securities purchased under resale arrangement	511,756,000	—	511,756,000	—
Investments related swaps	544,796,000	—	544,796,000	—
Loans related swaps	337,997,000	—	337,997,000	—
Borrowings related swaps	23,831,087,000	—	23,831,087,000	—
Equity investments	238,497,000	238,497,000	—	—
<b>Total</b>	<b>\$41,186,010,000</b>	<b>\$6,957,971,000</b>	<b>\$34,203,640,000</b>	<b>\$ 24,399,000</b>
<b>Liabilities</b>				
Borrowings	\$31,012,976,000	—	\$24,528,881,000	\$6,484,095,000
Borrowings related swaps	24,867,815,000	—	24,867,815,000	—
Investments related swaps	745,289,000	—	745,289,000	—
Loans related swaps	453,492,000	—	453,492,000	—
<b>Total</b>	<b>\$57,079,572,000</b>	<b>\$ —</b>	<b>\$50,595,477,000</b>	<b>\$6,484,095,000</b>

*Assets (liabilities) measured at fair value on a recurring basis using significant unobservable inputs (level 3):*

	Investments	Borrowings
Balance, 1 January 2008	\$127,442,000	\$(5,034,939,000)
Total gains (losses) – (realized/unrealized)		
Included in earnings	52,000	384,233,000
Included in other comprehensive income	(8,652,000)	550,965,000
Purchases, sales, and paydowns	1,262,000	—
Issuances, redemptions, and maturities	—	(2,384,354,000)
Transfers out of Level 3	(95,705,000)	—
<b>Balance, 31 December 2008</b>	<b>\$ 24,399,000</b>	<b>\$(6,484,095,000)</b>
The amount of net losses for the period included in earnings attributable to the change in net unrealized gains relating to assets/liabilities still held at the reporting date	\$ —	\$ 282,466,000

## CONTINUED

The following table provides the effect of the initial adoption of FAS 157 and FAS 159.

	Carrying value 1 January 2008, prior to adoption	Net gain upon adoption	Carrying value 1 January 2008, after adoption
Borrowings	\$31,959,300,000	\$(227,500,000)	\$31,731,800,000
Cumulative effect to 1 January 2008 balance of reserves		\$227,500,000	

The fair value of borrowings for which the fair value option has been elected exceeds the aggregate principal balance by \$1,541,598,000.

The estimated gain from fair value changes included in earnings that are attributable to the widening of the credit spreads was \$531,665,000 for the year ended 31 December 2008. Changes in fair value resulting from changes in instrument-specific credit risk were estimated by incorporating ADB's current observable credit spread by currency into the relevant valuation technique used to value the borrowing instruments.

The related interest expense continues to be measured based on the contractual interest rates and reported as such in the Statement of Income and Expenses.

#### NOTE Q—CREDIT RISK

ADB is exposed to risk if the borrowers fall in arrears on payments. ADB manages country risk for lending operations through continuous monitoring of creditworthiness of the borrowers and rigorous capital adequacy framework. Guarantees involve elements of credit risk which are also not reflected on the balance sheet. Credit risk represents the potential loss due to possible nonperformance by obligors and counterparties under the terms of the contract.

As of 31 December 2008, ADB has a significant concentration of credit risk to Asian and the Pacific region associated with loan and guarantee products with credit exposure determined based on fair value of loans and outstanding guarantees amounting to \$39,446,560,000 (\$32,857,877,000 – 2007).

ADB undertakes derivative transactions with its eligible counterparties and transacts in various financial instruments as part of liquidity and asset/liability management purposes that may involve credit risks.

For all investment securities and their derivatives, ADB manages credit risks by following the guidelines set forth in the Investment Authority (*Note D*).

ADB has a potential risk of loss if the swap counterparty fails to perform its obligations. In order to reduce such credit risk, ADB only enters into long-term swap transactions with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have a credit rating of A-/A3 or higher and requires certain counterparties with executed Credit Support Annex, to provide collateral in form of cash or other approved liquid securities based on market-to-market exposure.

As of 31 December 2008, ADB had received collateral of \$418,995,000 (\$461,017,000 – 2007) in connection with the swap agreements. ADB has also entered into master swap agreements which contain legally enforceable close-out netting provisions for all counterparties with outstanding swap transactions.

#### NOTE R—SPECIAL AND TRUST FUNDS

ADB's operations include special operations, which are financed from special fund resources, consisting of the Asian Development Fund, the Technical Assistance Special Fund, Japan Special Fund, the Asian Development Bank Institute Special Fund, the Asian Tsunami Fund, the Pakistan Earthquake Fund, the Regional Cooperation and Integration Fund, and the Climate Change Fund.

The OCR and special fund resources are at all times used, committed, and invested entirely separate from each other. The Board of Governors may approve allocation of the net income of OCR to special funds, based on the funding and operational requirements for the funds. The administrative and operational expenses pertaining to the OCR and special funds are charged to the respective special funds. The administrative

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expenses of ADB are allocated amongst OCR and special funds and are settled on a regular basis between the OCR and the special funds.

In addition, ADB, alone or jointly with donors, administers on behalf of the donors, including members of ADB, their agencies and other development institutions, projects/programs supplementing ADB's operations. Such projects/programs are funded with external funds administered by ADB and with external funds not under ADB's administration. ADB charges administrative fees for external funds administered by ADB. The funds are restricted for specific uses including technical assistance to borrowers and technical assistance

for regional programs. The responsibilities of ADB under these arrangements range from project processing to project implementation including the facilitation of procurement of goods and services. These funds are held in trust with ADB, and are held in a separate investment portfolio, which is not commingled with ADB's funds, nor are they included in the assets of ADB.

Special funds and funds administered by ADB on behalf of the donors are not included in the assets of OCR. The breakdown of the total of such funds together with the funds of the special operations as of 31 December 2008 and 2007 is as follows:

	2008		2007	
	Total Net Assets	No. of Funds	Total Net Assets	No. of Funds
Special Funds				
Asian Development Fund	\$33,479,348,000	1	\$31,949,604,000	1
Technical Assistance Special Fund	102,707,000	1	193,119,000	1
Japan Special Fund	142,116,000	1	171,558,000	1
Asian Development Bank Institute Special Fund	15,723,000	1	18,292,000	1
Asian Tsunami Fund	46,387,000	1	40,008,000	1
Pakistan Earthquake Fund	2,203,000	1	(3,453,000)	1
Regional Cooperation and Integration Fund	24,588,000	1	33,817,000	1
Climate Change Fund	37,427,000	1	–	
Subtotal	33,850,499,000	8	32,402,945,000	7
Trust Funds				
Funds administered by ADB	953,075,000	66	1,130,226,000	64
Funds not administered by ADB	7,660,000	2	7,337,000	2
Subtotal	960,735,000	68	1,137,563,000	66
Total	\$34,811,234,000	76	\$33,540,508,000	73

During the year ended 31 December 2008, a total of \$9,573,000 (\$9,310,000 – 2007) was recorded as compensation for administering projects/programs under Trust Funds. The amount has been included in “Revenue from Other Sources - net.”

#### NOTE S—VARIABLE INTEREST ENTITIES

As of 31 December 2008, ADB did not identify any VIE in which ADB is the primary beneficiary, requiring consolidation in OCR financial statements. ADB may hold significant variable interests in VIE, which requires disclosures.

The review of ADB's loan, equity investments, and guarantee portfolio, has identified 2 (2 – 2007) investments in VIEs in which ADB is not the primary beneficiary, but in which it is reasonably possible that ADB could be deemed to hold significant variable interest. ADB's total committed investment in these entities, comprising disbursed and undisbursed balances, corresponded to the maximum exposure to loss totaling \$143,700,000 as of 31 December 2008 (\$109,200,000 – 2007). Based on the most recent available information from these VIEs, the assets of these VIEs totaled \$422,912,000 (\$376,785,000 – 2007).