

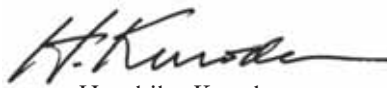
Management's Report on Internal Control over Financial Reporting

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

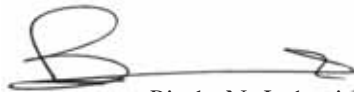
ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are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

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

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



Haruhiko Kuroda
President



Bindu N. Lohani
Vice President (Finance and Administration)



Hong-Sang Jung
Controller

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Report of Independent Auditors to the Asian Development Bank

In our opinion, the accompanying statements of financial position and the related statements of activities and changes in net assets and cash flows present fairly, in all material respects, the financial position of the Asian Development Bank (“ADB” or “the Bank”)—Regional Cooperation and Integration Fund at 31 December 2008 and 2007, and the results of its activities and changes in net assets and its cash flows for the year ended 31 December 2008 and for the period from 26 February 2007 (establishment of the Fund) to 31 December 2007, 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.



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 'P. L. Cooper'.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore
5 March 2009

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND**STATEMENT OF FINANCIAL POSITION****31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	2008	2007
ASSETS		
DUE FROM BANKS (Note B)	\$ 1,446	\$ 1,240
INVESTMENTS (Notes B, C, and G)		
Government and government-guaranteed obligations	\$ 6,104	\$ –
Time deposits	8,199	39,925
Corporate bonds	24,973	–
ACCRUED REVENUE	154	61
ADVANCES FOR GRANTS (Note B)	335	–
TOTAL	\$41,211	\$41,226
LIABILITIES AND UNCOMMITTED BALANCES		
MISCELLANEOUS LIABILITIES (Note D)	\$ 52	\$ 9
UNDISBURSED COMMITMENTS (Notes B, E, and G)	16,571	7,400
UNCOMMITTED BALANCES (RCIF-2) (Notes B and F), represented by:		
Unrestricted net assets	24,588	33,817
TOTAL	\$41,211	\$41,226

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

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS****For the Year Ended 31 December 2008 and For the Period 26 February to 31 December 2007**

Expressed in Thousands of United States Dollars (Note B)

	2008		2007	
CHANGES IN UNRESTRICTED NET ASSETS				
CONTRIBUTIONS (Notes B and F)	\$	–		\$ 40,000
REVENUE				
From investments (Notes B and C)	\$	1,244	\$	1,186
From other sources		34		40
		<u>1,278</u>		<u>1,226</u>
Total		1,278		41,226
EXPENSES				
Technical assistance (Notes B and E)		10,458		7,400
Administrative expenses (Note D)		41		9
		<u>10,499</u>		<u>7,409</u>
CONTRIBUTIONS AND REVENUE (LESS THAN) IN EXCESS OF EXPENSES		(9,221)		33,817
NET EXCHANGE LOSSES (Note B)		<u>(8)</u>		<u>–</u>
(DECREASE) INCREASE IN NET ASSETS		(9,229)		33,817
NET ASSETS AT BEGINNING OF YEAR		33,817		–
NET ASSETS AT END OF YEAR		\$ 24,588		\$ 33,817

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

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND**STATEMENT OF CASH FLOWS**

For the Year Ended 31 December 2008 and For the Period 26 February to 31 December 2007
Expressed in Thousands of United States Dollars (Note B)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Contributions received	\$ —	\$ 40,000
Interest on investments received	962	1,125
Cash received from other sources	34	40
Technical assistance disbursed	(1,600)	—
Administrative and financial expenses paid	(28)	—
Net Cash (Used in) Provided by Operating Activities	<u>(632)</u>	<u>41,165</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	730,875	579,875
Acquisition of investments	(730,037)	(619,800)
Net Cash Provided by (Used in) Investing Activities	<u>838</u>	<u>(39,925)</u>
Net Increase in Due from Banks	206	1,240
Due from Banks at Beginning of Year	<u>1,240</u>	<u>—</u>
Due from Banks at End of Year	<u>\$ 1,446</u>	<u>\$ 1,240</u>
RECONCILIATION OF (DECREASE) INCREASE IN NET ASSETS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
(Decrease) Increase in net assets (RCIF-2)	\$ (9,229)	\$ 33,817
Adjustments to reconcile (decrease) increase in net assets to net cash (used in) provided by operating activities:		
Amortization of discounts/premiums on investments	(132)	—
Change in accrued revenue	(93)	(61)
Change in accrued expenses	6	9
Change in interfund payables	37	—
Change in advances for grants	(343)	—
Change in undisbursed commitments	9,171	7,400
Change in unrealized investment holding gains	(57)	—
Translation adjustments	8	—
Net Cash (Used in) Provided by Operating Activities	<u>\$ (632)</u>	<u>\$ 41,165</u>

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

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2008 and 2007

NOTE A—NATURE OF OPERATIONS

The Regional Cooperation and Integration Fund (RCIF), together with Regional Cooperation and Integration (RCI) Trust Funds, was established on 26 February 2007 under the “umbrella” of Regional Cooperation and Integration Financing Partnership Facility (RCIFPF), in response to the increasing demand for regional cooperation and integration activities among ADB’s member countries in Asia and the Pacific. Its main objective is to enhance regional cooperation and integration in Asia and the Pacific by facilitating the pooling and provision of additional financial and knowledge resources to support RCI activities.

Financial assistance will be provided in the form of untied grants for technical assistance (TA), including advisory, project preparatory, and regional TA.

RCIF’s resources may consist of contributions from ADB and other bilateral, multilateral, and individual sources, including companies and foundations.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

The financial statements of the RCIF are presented on the basis of those for not-for-profit organizations.

RCIF reports donors’ contributions of cash and other assets as unrestricted assets as these are made available to RCIF without conditions other than for the purpose of pursuing its objectives.

Functional and Reporting Currency

The United States dollar is the functional and reporting currency, representing the currency of the primary economic operating environment of RCIF.

Translation of Currencies

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions denominated in non-US dollar to be translated to the reporting currency using exchange rates applicable at the time of transactions. Contributions included in the financial statements during the year are recognized at applicable exchange rates as of the respective dates

of commitment. At the end of each accounting month, translations of assets, liabilities, and uncommitted balances which are denominated in non-US dollar are adjusted using the applicable rates of exchange at the end of the reporting period. These translation adjustments are accounted for as exchange gains or losses and are credited or charged to operations.

Investments

All investment securities held by RCIF are reported at estimated fair value, which represents their fair market value. Realized and unrealized gains and losses are included in revenue. Time deposits are reported at cost which is a reasonable estimate of fair value.

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

Contributions

The contributions from donors and allocations from the net income of Ordinary Capital Resources are included in the financial statements, from the date of effectivity of the contributions agreement, and the Board of Governors’ approval, respectively.

Technical Assistance, Grants and Undisbursed Commitments

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

Advances are provided from technical assistance grant funds to the executing agency or co-operating institution, for the purpose of making payments for eligible expenses. The advances shall be subject to liquidation and charged against undisbursed commitment, any unutilized portion shall be refunded to the fund.

Accounting Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires

ASIAN DEVELOPMENT BANK—REGIONAL COOPERATION AND INTEGRATION FUND**NOTES TO FINANCIAL STATEMENTS**

31 December 2008 and 2007

Management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and uncommitted balances as at the end of the year and the reported amounts of revenue and expenses during the year. The actual results could differ from those estimates.

Statement of Cash Flows

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

NOTE C—INVESTMENTS

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors in 1999, and reviewed in 2006. The review endorsed a portfolio strategy that is largely consistent with the 1999 approach.

Investment securities and negotiable certificate of deposits held as of 31 December 2008 are considered “Available for Sale” and are reported at fair value, which represents their fair market value. Unrealized gains and losses are included in revenue from investments.

The annualized rate of return on the average investments held during the period ended 31 December 2008, based on the portfolio held at the beginning and end of each month, was 3.12% (5.31% - 2007).

NOTE D—RELATED PARTY TRANSACTIONS

The OCR and special fund resources are at all times used, committed, and invested entirely separate from each other. Regional technical assistance projects and programs may be combined activities between special and trust funds. The administrative and operational expenses pertaining to RCIF are settled on a regular basis between RCIF and the other funds. As of 31 December 2008, \$15,000 (nil-2007) and \$22,000 (nil-2007) was payable to OCR and TASF, respectively, which are included in miscellaneous liabilities.

NOTE E—TECHNICAL ASSISTANCE AND UNDISBURSED COMMITMENTS

During the year, there were thirteen (four technical assistance (TA) and one supplementary approval – 2007) TA grants totaling \$10,458,000 (\$7,400,000 – 2007) which became effective.

Undisbursed commitments are denominated in United States dollars and represent technical assistance not yet disbursed. The fair value of undisbursed commitments approximates the amounts outstanding, because ADB expects that disbursements will substantially be made for all the projects/programs covered by the commitments.

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In May 2007, the Board of Governors approved the allocation of \$40,000,000 to the RCIF from the 2006 OCR net income.

Uncommitted balances comprised of amounts which have not been committed by ADB as at 31 December 2008.

NOTE G—FAIR VALUE MEASUREMENTS

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

FAS 157 also establishes a fair value hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3). FAS 157 requires the fair value measurement to maximize the use of market observable inputs.

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

CONTINUED

Investments

Readily marketable investments are fair valued using active market quotes in Level 1 category. Level 2 category includes investments which are fair valued with significant other market observable inputs.

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

	31 December 2008	Fair Value Measurements		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Investments	\$39,276,000	\$ -	\$39,276,000	\$ -

See Notes C and E for discussions relating to investments and undisbursed commitments. In all other cases, the carrying amount of RCIF's assets, liabilities

and uncommitted balances are considered to approximate fair values for all significant financial instruments.