

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.

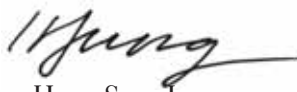
ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2008. In making this assessment, ADB's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in *Internal Control – Integrated Framework*. 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 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”)—Asian Tsunami Fund at 31 December 2008 and 2007, and the results of its activities and changes in net assets 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.



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. K. S. S. S.', is written over a faint, light-colored watermark of the PricewaterhouseCoopers logo.

PricewaterhouseCoopers LLP
Public Accountants and Certified Public Accountants

Singapore
5 March 2009

ASIAN DEVELOPMENT BANK—ASIAN TSUNAMI 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)	\$ 383	\$ 161
INVESTMENTS (Notes B, C, and G)		
Time deposits	\$ 93,032	\$366,524
Corporate bonds	158,256	—
ACCRUED REVENUE	731	375
ADVANCES FOR GRANTS (Note B)	43,017	62,443
TOTAL	\$295,419	\$429,503
LIABILITIES AND UNCOMMITTED BALANCES		
ACCOUNTS PAYABLE AND OTHER LIABILITIES (Note D)	\$ 694	\$ 363
UNDISBURSED COMMITMENTS (Notes B, E, and G)	248,338	389,132
UNCOMMITTED BALANCES (ATF-2) (Notes B and F), represented by:		
Unrestricted net assets	46,387	40,008
TOTAL	\$295,419	\$429,503

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

ASIAN DEVELOPMENT BANK—ASIAN TSUNAMI FUND**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS****For the Years Ended 31 December 2008 and 2007**

Expressed in Thousands of United States Dollars (Note B)

	2008		2007	
CHANGES IN UNRESTRICTED NET ASSETS				
REVENUE				
From investments (Notes B and C)	\$ 9,125		\$ 22,257	
From other sources	215	\$ 9,340	389	\$ 22,646
EXPENSES				
Technical assistance (Notes B and E)	–		(115)	
Administrative expenses (Note D)	2,849		2,218	
Financial expenses	2	2,851	1	2,104
REVENUE IN EXCESS OF EXPENSES		6,489		20,542
EXCHANGE LOSSES (Note B)		(110)		(16)
INCREASE IN NET ASSETS		6,379		20,526
NET ASSETS AT BEGINNING OF YEAR		40,008		19,482
NET ASSETS AT END OF YEAR		\$ 46,387		\$ 40,008

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

ASIAN DEVELOPMENT BANK—ASIAN TSUNAMI FUND**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 on investments received	\$ 7,622	\$ 22,644
Grants / Technical assistance disbursed	(121,820)	(128,707)
Administrative expenses paid	(2,178)	(2,107)
Cash received from other sources	216	387
Net Cash Used in Operating Activities	(116,160)	(107,783)
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of investments	9,337,364	9,180,041
Purchases of investments	(9,220,982)	(9,072,380)
Net Cash Provided by Investing Activities	116,382	107,661
Net Increase (Decrease) in Due from Banks	222	(122)
Due from Banks at Beginning of Year	161	283
Due from Banks at End of Year	\$ 383	\$ 161
RECONCILIATION OF INCREASE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Increase in net assets (ATF-2)	\$ 6,379	\$ 20,526
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Amortization of discounts/premiums on investments	(834)	—
Change in accrued revenue	(357)	386
Change in advances for grants	19,427	(20,543)
Change in accounts payable and other liabilities	331	110
Change in undisbursed commitments	(140,794)	(108,262)
Change in unrealized investment gains	(312)	—
Net Cash Used in Operating Activities	\$ (116,160)	\$ (107,783)

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

ASIAN DEVELOPMENT BANK—ASIAN TSUNAMI FUND

NOTES TO FINANCIAL STATEMENTS

31 December 2008 and 2007

NOTE A—NATURE OF OPERATIONS

The Asian Tsunami Fund (ATF) was established on 11 February 2005 in response to the special circumstances surrounding the developing member countries (DMCs) that were stricken by the effects of the tsunami on 26 December 2004. The purpose of ATF is to provide emergency grant financing promptly and effectively to affected DMCs in the form of technical assistance (TAs) and investment projects to support reconstruction, rehabilitation and associated development activities following the tsunami disaster.

ATF will serve as a dedicated source of grant financing to support priority rehabilitation and reconstruction needs on a multi-sector basis. Resources from the Fund will be available to central governments and other suitable entities including non-governmental organizations.

ATF's resources may consist of allocations from the net income of Ordinary Capital Resources (OCR) and contributions from bilateral, multilateral and individual sources.

NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Presentation of the Financial Statements

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

ATF reports donors' contributions of cash and other assets as unrestricted assets as these are made available to ATF 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 ATF.

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 ATF 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 the allocations from OCR net income are included in the financial statements, from the date of effectivity of the contribution agreement, and the Board of Governors' approval, respectively.

Technical Assistance, Grants and Undisbursed Commitments

Technical Assistance and grants are recognized in the financial statements when the project is approved and becomes effective. Upon completion of the TA project or cancellation of a grant, any undisbursed amount is written back as a reduction in technical assistance or grants 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.

ASIAN DEVELOPMENT BANK—ASIAN TSUNAMI FUND**NOTES TO FINANCIAL STATEMENTS**

31 December 2008 and 2007

Accounting Estimates

The preparation of 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 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, ATF 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 classified as “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 year, based on the portfolio held at the beginning and end of each month was 2.96% (5.27% – 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. The administrative and operational expenses pertaining to ATF are settled on a regular basis between OCR and ATF. As of 31 December 2008, \$669,000 (\$343,000 – 2007) was payable to OCR which is included in accounts payable and other liabilities.

NOTE E—UNDISBURSED COMMITMENTS

Undisbursed commitments are denominated in United States dollars and represent effective technical assistance and grants 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.

In 2008, there were no undisbursed commitments on closed TA projects that were written back as a reduction of technical assistance (\$115,000 – 2007).

NOTE F—CONTRIBUTIONS AND UNCOMMITTED BALANCES

In April and May 2005, ADB contributed \$600,000,000 from OCR surplus to ATF. Contributions were also received from Australia and Luxembourg amounting to \$3,796,000 and \$1,000,000, respectively. In November 2005, following the establishment of Pakistan Earthquake Fund (PEF) in response to the special circumstances surrounding the 8 October 2005 earthquake in Pakistan, unutilized ATF fund of \$40,000,000 was transferred back to OCR, which was subsequently transferred to PEF. Another \$10,000,000 was returned to OCR in June 2006 and was committed as ADBs contribution to the Java Reconstruction Fund in November 2008, to support post-disaster management, rehabilitation, immediate construction, and urgent vital development activities in Yogyakarta and Central Java in Indonesia.

No contributions were received in 2008 and 2007.

Uncommitted balances comprised of amounts which have not been committed by ADB as at 31 December 2008 and 2007.

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

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amount received for the asset or minimize the amount paid to transfer the liability. The fair value measurement is not adjusted for transaction cost.

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

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

Investments

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 value of the following financial assets of ATF 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	\$251,288,000	\$88,455,000	\$162,833,000	\$ –

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

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