

## OPERATIONS MANUAL BANK POLICIES (BP)

*These policies were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.*

### NONSOVEREIGN OPERATIONS<sup>1</sup>

#### A. Introduction

1. The Asian Development Bank (ADB) undertakes nonsovereign operations to provide direct financing and/or risk mitigation to entities, or for projects or business activities, in developing member countries (DMCs). Nonsovereign operations refer to any loan, guarantee, equity investment, or other financing arrangement that is (i) not guaranteed by a government; or (ii) guaranteed by a government under terms that do not allow ADB, upon default by the guarantor, to accelerate, suspend, or cancel any other loan or guarantee between ADB and the related sovereign.

2. The *Agreement Establishing the Asian Development Bank* (the Charter) provides the following general mandate and operating principles for nonsovereign operations:

- (i) Article 2(i) of the Charter specifies that one of the functions of ADB is to promote investment in the region of both public and private capital for development purposes.
- (ii) Article 11 authorizes ADB to provide or facilitate financing to any entity or enterprise operating in a DMC, as well as to international or regional entities concerned with economic development of the region.
- (iii) Article 11 also provides that ADB may carry out its operations by making or participating in direct loans, by investing in the equity capital of an institution or enterprise, and by guaranteeing loans for economic development participated in by ADB.
- (iv) Article 12(4) states that if ADB invests in the equity of an enterprise, it shall not seek to obtain a controlling interest, except where necessary to safeguard its investment.
- (v) Article 14 stipulates the operating principles applicable to ADB's operations. In particular, Article 14(xiii) provides that ADB shall not assume any responsibility for managing an entity in which it has invested, except where necessary to safeguard its investment. Article 14(xiv) provides that ADB's operations must be guided by sound banking principles.

<sup>1</sup> This OM section covers nonsovereign operations other than nonsovereign technical assistance. OM Section D12 (Technical Assistance) addresses issues relating to nonsovereign technical assistance.

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### **B. The Policy**

3. Nonsovereign operations aim to catalyze investments and capital flows in DMCs through direct financing or risk-mitigation instruments.<sup>2</sup> The financing of nonsovereign public sector entities, such as state-owned, subsovereign, and quasi-sovereign entities (i) seeks to attract financing into public sector projects or institutions; (ii) generally assists the decentralization process across Asia and the Pacific; and (iii) strengthens the development of sustainable public sector institutions and suitable and predictable legal and regulatory frameworks to support private sector development in DMCs.<sup>3</sup> The main objective of nonsovereign operations is to promote economic development in DMCs, while allowing ADB to generate sufficient profit to (i) sustain such operations without any cross-subsidy from other ADB activities, and (ii) demonstrate the financial viability of investments in DMCs. Nonsovereign investments are exposed to the full range of commercial and political risks, and managing risk is therefore a priority. In addition to developmental considerations, credit strength, financial viability, and good corporate governance must play key roles in the selection, analysis, approval, and administration of any nonsovereign financing.

4. Capitalizing on ADB's strengths, nonsovereign operations in the private sector generally focus on (i) infrastructure, and (ii) capital markets and finance (including financial intermediaries, securities firms, and investment funds), while remaining responsive to the changing needs of DMCs and investment opportunities in new sectors. The targeted entities for nonsovereign operations in the public sector are normally involved in providing access to public goods and services that have a high development impact (such as water, wastewater, waste management, power, energy, transport, and telecommunications) or improve business competitiveness. Nonsovereign financing may be aimed at refinancing existing debt, including for projects that, although technically and financially sound, may be impaired by problems with their financing structure (footnote 3).

### **C. Scope of the Policy**

#### **1. Forms of Assistance**

5. Financial assistance may be provided in one or more of the following forms:
- (i) equity investments;

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<sup>2</sup> ADB. 2001. *Private Sector Operations: Review and Strategic Directions*. Manila; and ADB. 2000. *Private Sector Development Strategy*. Manila.

<sup>3</sup> ADB. 2008. *Pilot Financing Instruments and Modalities: Extension of Pilot Period for the Sub-sovereign and Nonsovereign Public Sector Financing Facility*. Manila; and ADB. 2005. *Pilot Financing Instruments and Modalities*. Manila. ADB's subsovereign and nonsovereign public sector financing modality is in its pilot phase, which ends in August 2011. At the end of this pilot phase, Management and the Board will decide whether to incorporate the modality into ADB's core business model or discontinue it.

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- (ii) loans and other debt instruments (such as funded participations, bonds and credit derivatives); and
  - (iii) guarantees (including credit guarantees, political risk guarantees, and risk participations) of loans and other debt obligations.<sup>4</sup>
6. Nonsovereign financing may be denominated in any of the major international currencies and/or in local currencies.<sup>5</sup>

### 2. Policy and Operational Requirements

#### a. Eligibility of Financing Recipient

7. To be eligible for ADB assistance, the proposed recipient of ADB's nonsovereign financing must be

- (i) established or operating in a DMC; and
- (ii) majority owned by the private sector (defined as an entity with more than 50% of its capital held privately); or, in the case of an entity that is owned or controlled by the public sector (defined as an entity with more than 50% of its capital held publicly), it must be a local government or other subsovereign entity or a state-owned enterprise that can borrow independently from the related sovereign and that can sue and be sued.

#### b. Development Impacts

8. Nonsovereign operations must have clear development impacts or demonstration effects. ADB's assistance must

- (i) attract other financing partners by leveraging ADB's financial resources; or
- (ii) complement, not substitute for, commercial sources of finance; or
- (iii) add value by influencing project design or structure to make it more environmentally or socially friendly, create more jobs, improve delivery of services, impart better skills or technology, or raise the standards of corporate governance.

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<sup>4</sup> ADB. 2006. *Review of ADB's Credit Enhancement Operations*. Manila; and OM Section D9 (Credit Enhancement Operations).

<sup>5</sup> ADB. 2006. *Enhancements for the Asian Development Bank's Loan and Debt Management Products*. Manila; and ADB. 2005. *Introducing the Local Currency Loan Product*. Manila.

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**c. Technical Feasibility, Financial and Economic Viability,  
and Environmental and Social Soundness**

9. ADB must evaluate the technical feasibility, market prospects, financial and economic viability, commitment to best practices of corporate governance, and environmental and social soundness of each proposed nonsovereign financing. In addition, for each financing recipient, ADB must evaluate the integrity, experience, success record, financial resources, and competence of the sponsors and/or shareholders and management.

**d. Policy Compliance**

10. ADB must assess each proposed financing to ensure that it

- (i) complies with the relevant provisions in ADB's policies on poverty reduction,<sup>6</sup> environment,<sup>7</sup> involuntary resettlement,<sup>8</sup> indigenous peoples,<sup>9</sup> governance,<sup>10</sup> anticorruption,<sup>11</sup> and enhancing ADB's role in combating money laundering and the financing of terrorism;<sup>12</sup>
- (ii) complies with the applicable country partnership strategy<sup>13</sup> and sector policy;
- (iii) if credit enhancement operations are involved, complies with ADB's credit enhancement policy;<sup>14</sup>
- (iv) complies with the applicable laws and regulations of the host country;

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<sup>6</sup> ADB. 2004. *Review of the Asian Development Bank's Poverty Reduction Strategy*. Manila; and OM Section C1 (Poverty Reduction).

<sup>7</sup> ADB. 2002. *Environment Policy of the Asian Development Bank*. Manila; and OM Section F1 (Environmental Consideration). Upon the effectiveness of ADB's new safeguard policy in January 2010, the related operational procedures with respect to environment, involuntary resettlement and indigenous peoples will be suitably modified. See ADB. 2009. *Safeguard Policy Statement*. Manila.

<sup>8</sup> ADB. 1995. *Involuntary Resettlement*. Manila; and OM Section F2 (Involuntary Resettlement). See also footnote 7.

<sup>9</sup> ADB. 1998. *The Bank's Policy on Indigenous Peoples*. Manila; and OM Section F3 (Indigenous Peoples). See also footnote 7.

<sup>10</sup> ADB. 2000. *Promoting Good Governance: ADB's Medium-Term Agenda and Action Plan*. Manila; ADB. 2006. *Second Governance and Anticorruption Plan*. Manila; and OM Section C4 (Governance).

<sup>11</sup> ADB. 1998. *Anticorruption Policy*. Manila; ADB. 2006. *Second Governance and Anticorruption Plan*. Manila; and OM Section C5 (Anticorruption).

<sup>12</sup> ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila; and OM Section C6 (Enhancing ADB's Role in Combating Money Laundering and the Financing of Terrorism).

<sup>13</sup> OM Section A2 (Country Partnership Strategy).

<sup>14</sup> ADB. 2006. *Review of ADB's Credit Enhancement Operations*. Manila; and OM Sections E1 (Cofinancing) and D9 (Credit Enhancement Operations).

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- (v) is not engaged in an industry on the negative list (as determined by ADB from time to time),<sup>15</sup> currently including arms, ammunition, and other military or paramilitary materials; radioactive and associated materials, nuclear reactors, and parts thereof, and fuel elements (cartridges) non-irradiated for nuclear reactors; alcoholic beverages and tobacco (manufactured, unmanufactured, or refuse); and environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of a DMC where a nonsovereign project is located or international agreements to which a DMC is a party;
- (vi) complies with the prudential exposure limits; and
- (vii) is reviewed and monitored by independent risk function in accordance with international best practices and sound banking principles.<sup>16</sup>

### D. Framework Agreements

11. In accordance with the requirement of ADB's first policy on equity operations<sup>17</sup> and ADB's first private sector policy,<sup>18</sup> assurances were sought from DMC governments in the form of framework agreements. These agreements were executed between ADB and certain DMCs to confirm ADB's privileges and immunities as provided in the Charter as a condition to ADB undertaking private sector operations in the concerned DMC. This practice will continue, with the framework agreements expanded to refer to nonsovereign operations.

### E. Government No-Objection

12. ADB finances a project in a DMC only if the government has no objection.<sup>19</sup> Accordingly, the government's no-objection for each financing must be obtained before the first disbursement by ADB of such financing, and preferably before the financing is submitted to the Board of Directors for approval.

### F. Credit Enhancement Operations

13. Consistent with ADB's mandate to enter into financing partnerships as a way to leverage its resources and mobilize public and private capital investment in DMCs,<sup>20</sup> ADB shall consider syndications or other risk-sharing arrangements with financing

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<sup>15</sup> The complete negative (prohibited investments) list for nonsovereign projects is available in the ADB Portal under Business Processes/Compendium of BP Clarifications.

<sup>16</sup> ADB. 2007. *Review of Prudential Exposure Limits for Nonsovereign Operations*. Manila; and OM Section D13 (Investment Limitations on Nonsovereign Operations).

<sup>17</sup> ADB. 1983. *Equity Investment Operations by the Bank*. Manila.

<sup>18</sup> ADB. 1985. *Lending to the Private Sector without Government Guarantees*. Manila.

<sup>19</sup> Article 14(iii) of the Charter.

<sup>20</sup> ADB. 2006. *Review of ADB's Credit Enhancement Operations*, August. Manila; and OM Section D9 (Credit Enhancement Operations).

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partners (such as financial institutions and insurance companies) in connection with its nonsovereign operations.

### **G. Business and Credit Processes**

14. All nonsovereign operations will be undertaken and processed in accordance with OM Section D10/OP, which sets out, among other things, new procedures for the credit approval process, credit monitoring and management, and workout and recovery. OM Section D10/OP supersedes the procedural requirements set out in OM Section D9 on *Credit Enhancement Operations* for nonsovereign operations that include guarantees or syndication arrangements.

### **H. Accountability Mechanism**

15. Nonsovereign operations are subject to the ADB accountability mechanism.<sup>21</sup>

### **I. Operations Evaluation**

16. Nonsovereign operations are subject to performance evaluation by the Independent Evaluation Department.<sup>22</sup>

**Basis:** This OM section is based on:

ADB. 2009. *Private Sector Development and Nonsovereign Operations—A Model for Improved Strategic Alignment, Interdepartmental Collaboration, Development Effectiveness, and Risk Management* (Doc. IN.87-09).

ADB. 2008. *Pilot Financing Instruments and Modalities: Extension of Pilot Period for the Sub-sovereign and Nonsovereign Public Sector Financing Facility*. Manila. August (Doc. R177-08).

ADB. 2005. *Pilot Financing Instruments and Modalities*. Manila. August (Doc. R194-05).

ADB. 2005. *The Public Communications Policy of the Asian Development Bank: Disclosure and Exchange of Information*. Manila. March.

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<sup>21</sup> OM Section L1 (ADB Accountability Mechanism).

<sup>22</sup> OM Section K1 (Operations Evaluation).

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ADB. 2001. *Private Sector Operations: Review and Strategic Directions*. Manila. August (Doc. R122-01).

ADB. 2000. *Private Sector Development Strategy*. Manila. March (Doc. R78-00).

ADB. 1985. *Lending to Private Sector without Government Guarantees*. Manila. September (Doc. R93-85).

ADB. 1985. *Bank Assistance to the Private Sector*. Manila. June (Doc. R58-85).

This OM section must be read with OM Section D10/OP.

**For other background information and references, see:**

ADB. 2007. *Review of Prudential Exposure Limits for Nonsovereign Operations*. Manila. March (Doc. R54-07).

ADB. 2006. *Review of Loss Provisioning Policy for Nonsovereign Operations*. Manila. November (Doc. R263-06).

ADB. 2006. *Review of ADB's Credit Enhancement Operations*. Manila. August (Doc. R168-06).

ADB. 2005. *Introducing the Local Currency Loan Product*. Manila. August (Doc. R195-05).

ADB. 2002. *Pricing of Local Currency Loans in Private Sector Operations*. Manila. 18 October (Doc. R215-02).

ADB. 1995. *Strategy for the Bank's Assistance for Private Sector Development*. Manila. 17 February (Doc. R56-95).

ADB. 1994. *Guidelines on Rescheduling of Loans to Private Enterprises without Government Guarantee*. Manila. (Approved by the President on 21 January).

ADB. 1994. *Provisions for Investment Losses in the Bank's Private Sector Operations*. Manila. 10 January (Doc. R15-94).

ADB. 1990. *Second Review of Private Sector Operations*. Manila. 5 October (Doc. R146-90).

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**Compliance:** This OM section is subject to compliance review.

**For inquiries:** Questions may be directed to the Director, Strategy, Policy and Interagency Relations Division, Strategy and Policy Department; and the Head, Risk Management Unit.

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*These procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject.*

### **NONSOVEREIGN OPERATIONS<sup>1</sup>**

#### **A. Introduction**

1. This section describes the procedures by which nonsovereign operations are undertaken by the Asian Development Bank (ADB)<sup>2</sup>.

#### **B. Integration in Country Partnership Strategies and Business Plans**

2. The country partnership strategy<sup>3</sup> serves as an integrated business platform for sovereign and nonsovereign operations. It generally includes private sector development initiatives to improve the private sector environment, public–private partnerships, and other financial partnerships.<sup>4</sup> It ensures synergies between sovereign and nonsovereign operations, and incorporates private sector development discussions in sector road maps.

3. The following principles are applied in the incorporation of nonsovereign operations into the country partnership strategy and indicative rolling country operations business plan:

- (i) All proposed nonsovereign operations are reviewed against ADB's broader policies and strategies to ensure consistency.
- (ii) Nonsovereign operations are pursued within agreed upon sector road maps. Individual projects will depend largely on market conditions and demand.
- (iii) Indicative rolling country operations business plans generally indicate a potential financing “envelope” by priority sector, distinguishing between nonsovereign public and private sector operations.

#### **C. Responsibility of Operations Departments and Teamwork**

4. The Private Sector Operations Department (PSOD) has primary responsibility for the processing of all private sector nonsovereign transactions, including equity

<sup>1</sup> This OM section does not include nonsovereign technical assistance, which is covered by OM Section D12 (Technical Assistance).

<sup>2</sup> A nonsovereign operation refers to an ADB financing which is (i) not guaranteed by a government; or (ii) guaranteed by a government under terms that do not allow ADB, upon default by the guarantor, to accelerate, suspend, or cancel any other loan or guarantee between ADB and the related sovereign (see also OM Section D10/BP, para. 1).

<sup>3</sup> OM Section A2 (Country Partnership Strategy).

<sup>4</sup> ADB. 2006. *Further Enhancing Country Strategy and Program and Business Processes*. Manila.

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investments, loans, and guarantees to or for enterprises that are majority owned by private parties (defined as entities with more than 50% of their capital held privately).

5. The regional departments have primary responsibility for the processing of all public sector nonsovereign transactions in their respective regions which comprise loans and guarantees to or for enterprises that are majority owned by public parties (defined as entities with more than 50% of their capital held publicly).

6. Where a public sector nonsovereign entity is controlled by, and managed as, a private entity, or where PSOD engagement is essential to promote privatization through equity investments, the operations vice-presidents will determine which department will take the lead in managing the transaction.

7. To ensure close collaboration and teamwork between PSOD and regional departments, both should be represented on project teams as appropriate. The directors general of PSOD and the relevant regional department may agree to establish joint project teams.

8. Project teams process nonsovereign transactions in consultation and coordination with other departments and offices concerned and in accordance with ADB's approved policies and programs. For the purposes of this section, the processing department is referred to herein as the operations department.

### **D. Approval Authority**

9. All nonsovereign financing proposals are submitted to the Board of Directors for approval, with the exceptions noted in paras. 10 and 11. Proposals may be submitted for Board consideration under summary procedure if they meet the eligibility criteria.<sup>5</sup>

10. The President is delegated the approval authority for supplementary equity investments not exceeding \$2 million each in existing investee companies that are performing and are expected to perform satisfactorily, subject to prompt reporting to the Board.<sup>6</sup>

11. The President is delegated the approval authority for (i) loan restructuring proposals where no additional ADB funding is involved; and (ii) funding of costs and expenses related to divestments or investment recovery operations of nonsovereign transactions, up to a cumulative amount not to exceed \$2 million, net of recoveries.

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<sup>5</sup> For applicable eligibility criteria and summary procedure process, see paras. 15-17 of OM Section D11/BP (Processing Sovereign and Sovereign-Guaranteed Loan Proposals).

<sup>6</sup> ADB. 2001. *Private Sector Operations: Review and Strategic Directions*. Manila; and ADB. 1995. *Strategy for the Bank's Assistance for Private Sector Development*. Manila.

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### **E. Business and Credit Processes**

12. The business process description below covers the credit approval process, monitoring and management, and workout and recovery, and includes the roles and responsibilities of the Risk Management Unit (RMU) and the relevant operations department.

13. The credit process for nonsovereign operations focuses on the credit risk aspects, covering the approval, monitoring and management, and workout of individual transactions. The process is based on sound banking principles and good corporate governance. The primary objective is to provide and reinforce a systematic means of risk recognition and structuring through the approval and monitoring process, and, as needed, workouts.

#### **1. Credit Approval Process**

14. The major stages in the credit approval process are as follows:

- (i) concept review,
- (ii) transaction review,
- (iii) final review,
- (iv) board approval, and
- (v) closing.

15. An investment committee comprising the vice president, operations 1 (chair); vice president, operations 2 if the transaction concerned is geographically located within vice president, operations 2's responsibility; managing director general; general counsel; director general of PSOD; director general of the Regional and Sustainable Development Department (RSDD); director general of the relevant regional department; and the head of the RMU evaluates proposed nonsovereign transactions at the concept review and final review stages. An investment committee meeting (ICM) is held only if the majority of the investment committee members are present; and must include at all times the vice president, operations 1 as chair (except as provided in the next sentence), director general of the relevant operations department, and head, RMU. On an exceptional basis, the managing director general may act as chair of the investment committee if the vice president, operations 1 is traveling and has requested the managing director general to act in such capacity. The investment committee may invite other ADB staff to participate in the discussions for a particular transaction on a case-by-case basis.

16. The investment committee is assisted by an investment committee secretariat (ICS) comprising representatives of PSOD, RMU, RSDD, Office of the General Counsel (OGC), and the relevant regional department at director level or higher. The ICS for a particular transaction is chaired by the representative of the relevant operations department. No member of a project team may be a member of the ICS for that transaction.

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### **a. Concept Review**

17. The purpose of the concept review is to ensure (based on available information and subject to due diligence and negotiations) that a proposed transaction generally complies with the developmental, lending, financial, and risk management principles and policies of ADB before significant resources and costs have been assigned or expended. To ensure that market conditions and risks are taken into account at this stage and subsequently, the operations department consults, and endeavors to reach agreement with, the RMU before negotiating with a client on the transaction structure, pricing range, security package, and other general terms and conditions. If required by a client as a condition for the provision of information for the operations department to process the transaction, the operations department may sign a confidentiality agreement prepared by OGC during the concept review; otherwise, the operations department may sign a confidentiality agreement following endorsement by the investment committee as described in paras. 42 and 43.

18. The process of consultation between the operations department and the RMU is based on, and facilitated by, a deal pipeline sheet (Appendix 1), which is submitted by the operations department to the RMU. This outlines key details of all the proposed transactions, e.g., purpose, amount, product (debt or equity), possible security structure, sponsor information, timing of the transaction, and project team leader. The deal pipeline sheet is updated by the operations department at least once a month, and when transactions are identified requiring discussions with the RMU.

19. The concept review involves the following steps.

#### **(i) Business Plan**

20. The operations department conducts a preliminary analysis to determine whether a proposed transaction is potentially viable. It then provides the RMU with the sponsor's business plan if this is available. If the business plan and other relevant information are available, the project team (comprising staff from relevant departments, including OGC and RSDD where appropriate) conducts a preliminary risk rating based on the internal credit rating system (ICRS) on a scale of nonsovereign operations (NSO) 1-13, with D being default, and provides the RMU with an advance copy for discussion. The rating scale<sup>7</sup> for debt and credit guarantees is included as Appendix 2. For each transaction, ratings are expressed in two ways: one for the borrower ("the Obligor"), referred to as the obligor risk rating (ORR); and one for the transaction, referred to as the facility risk rating (FRR). The RMU provides all the necessary assistance to the project team in this regard, including on the interpretation of rating guidelines and the 'spreading' of financial statements, and advises on systemic factors such as country, regulatory, and industry risk.

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<sup>7</sup> See the technical note, "Risk Rating Methodology for Nonsovereign Operations", approved by the President on 27 March 2009.

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21. If a business plan is not available, the RMU and the operations department decide whether the transaction can proceed to the concept review paper (CRP) stage, and be assigned a preliminary risk rating (ORR and FRR) based on the assessment of basic transaction information (Appendixes 3a and 3b).<sup>8</sup>

### **(ii) Concept Review Paper**

22. The operations department prepares a CRP (Appendix 4), and discusses it with the RMU along with the preliminary risk rating (ORR and FRR) prior to inter-departmental circulation. Following interdepartmental review (including by the RMU), the project team updates the CRP by incorporating comments, as appropriate, and prepares a matrix of substantive comments.<sup>9</sup> The RMU's input is provided in the form of a credit note as described in para. 24.

23. The CRP and the credit note (Appendixes 5a and 5b) are then sent to the ICS at least 5 business days before the ICM. For some transactions and with the agreement of the head of the RMU, the director general of the relevant operations department may recommend to the ICS that consideration by the investment committee is not necessary. In that case, the director general of the relevant operations department approves the CRP after the ICS has circulated it to the investment committee members for information and if no investment committee member has objected to the ICM not being held after 5 business days. If any investment committee member objects within the applicable period, the CRP is reviewed and considered by the investment committee under the processes described in paras. 24–27.

### **(iii) Preliminary Risk Rating and Credit Note**

24. The RMU reviews the CRP in conjunction with the risk rating proposed (ORR and FRR) by the project team. The project team and the RMU endeavor to agree on the preliminary risk rating (ORR and FRR); in the event there is no agreement, the RMU assigns a preliminary risk rating (ORR and FRR). At the same time, the RMU prepares a credit note for the transaction and performs checks on policy compliance and exposure limits. If the RMU has any concern or reservation with respect to the transaction at any stage, it reflects these concerns or reservations in the credit note. The preliminary risk rating (ORR and FRR) and credit note are submitted to the ICS at least 5 business days before the ICM.

### **(iv) Investment Committee Review**

25. The ICS reviews the CRP, the preliminary risk rating (ORR and FRR), and credit note and drafts an issues memorandum (Appendix 6) in the course of preparing for the ICM. The issues memorandum captures the risk rating (ORR and FRR), summarizes

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<sup>8</sup> A list of standard information requirements to guide a prospective client in the preparation and submission of business plans can be found on the ADB website.

<sup>9</sup> ADB. 2006. *Private Sector Development: A Revised Strategic Framework*. Manila.

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the key issues of the transaction, and reflects any difference of views among the ICS members. All ICS members endorse the issues memorandum. The ICS chair coordinates inputs from the various ICS members, and schedules an ICS meeting if appropriate. The ICS chair circulates these documents to investment committee members at least 3 business days before the ICM.

26. If recommended by the director general of the operations department, the ICS determines whether the investment committee should consider a transaction through a meeting or on a no-objection basis. If the ICS agrees that a no-objection process is appropriate, it circulates the relevant documents with such a recommendation to the investment committee and provides at least 3 business days for any investment committee member to respond. If during this period any investment committee member requests a discussion, an ICM is arranged by the ICS.

27. The investment committee decides whether to proceed with a transaction, and may provide comments endorsing or amending the transaction structure, the due diligence, profitability and cost recovery, possible security package arrangements, or any other key requirements. The ICS chair is responsible for preparing and circulating the ICM's agenda. The ICS chair is also responsible for preparing the minutes of all ICM proceedings, and for coordinating inputs to the minutes from all ICS members to ensure comments and guidance from the investment committee are accurately reflected and take account of each investment committee member's comments and support for the transaction.

### **(v) Mandate Letter**

28. Following approval of the CRP by the director general of the relevant operations department (para. 23) or by the investment committee (para. 27), the project team may draft a mandate letter (using OGC's form) to be signed by the client. Any suggestions or guidance from the director general of the relevant operations department or the investment committee shall be duly reflected in the mandate letter. Aside from transaction-specific points, the mandate letter provides that the client bears all of ADB's expenses in processing the transaction, including the fees and expenses associated with due diligence experts engaged by ADB. If the operations department agrees to cap the client's liability for any expense incurred by ADB in processing the transaction (including, without limitation, the legal expenses), any shortfall is borne by the operations department. The experts required will vary from case to case, and among other things, may cover technical, investment plan, commercial, financial, legal, safeguard and other matters. The project team provides a copy of the mandate letter to the RMU.

### **b. Transaction Review**

29. In the transaction review stage, the project team works closely with the RMU as the transaction is further developed and due diligence undertaken. The RMU provides advice and recommendations to the project team on due diligence items from a credit perspective and on the structuring of the transaction, aimed at addressing, among other

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matters, critical credit concerns, and determining appropriate security packages or other credit support, pricing, and other relevant terms and conditions. The project team and the RMU undertake detailed reviews of relevant background transaction materials, including the business plan, financial model and all the key assumptions supporting pro-forma financial statements (including cash flow, balance sheet and profit and loss accounts) and compliance review (covering know-your-client and anti-money laundering issues, corporate governance, and market checking). The project team also starts to prepare a credit file.

30. The transaction review involves the following steps.

### **(i) Due Diligence**

31. The project team manages and/or undertakes comprehensive due diligence to evaluate the key risk aspects of the transaction, including the technical, market, financial, economic, legal, corporate governance, compliance (e.g., development objectives and effectiveness, know-your-client, anti-money laundering, and market checking), and the social and environmental aspects of the proposed transaction. The project team discusses and agrees with the client the basic terms and conditions (including the structure in terms of debt and equity, the security package, and the pricing range), taking into account guidance from the investment committee and in consultation with the RMU. If due diligence reveals material and adverse risks that were not reasonably described in the CRP, the project team will consult with the RMU promptly after identifying such risks. The project team also examines the integrity, experience, track record, financial resources, and competence of the project sponsors and management. Transactions are expected to follow sound banking principles. The project team distinguishes between commercial, sponsor, and project risks. Given its independent function, the RMU generally does not participate in due diligence. However, in cases where the complexity and/or unique risk profile of the transaction warrants, the RMU may participate in due diligence with the project team to ensure a comprehensive risk assessment of the transaction. In addition, the RMU may also conduct independent missions as it deems necessary. The RMU will bear the cost of its due diligence activities.

32. The project team requests the relevant government for the required no-objection to the transaction as early as practicable during due diligence. This increases the prospect of the no-objection being received by the time the Board paper for the transaction is circulated to the Board for its consideration.

33. The project team documents its due diligence findings, and notes when the required government no-objection was requested, in a due diligence report. Where the RMU participates in due diligence, its findings are documented separately. The project team updates the risk rating (ORR and FRR), based on the information available during the due diligence, discussions with the client, and market information in accordance with the guidelines described in para. 20. Once the due diligence is completed, the project team proposes a final risk rating (ORR and FRR) for the transaction and provides the

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RMU with an advance copy of such rating for discussion. The RMU provides all necessary assistance to the project team in this regard.

### **(ii) Creation of Credit File**

34. To ensure the availability of all the key information on a transaction, the project team develops and makes available to the RMU a credit file (Appendixes 7a and 7b). A list of the documents that would typically be included in the credit file is also set out in Appendixes 7a and 7b. The project team starts preparing the credit file after the approval of the CRP by the investment committee. The credit file is updated in tandem with the processing schedule so it comprehensively documents the transaction, including all due diligence reports and the proposed final risk rating (ORR and FRR).

35. The credit file enables the RMU, as an independent reviewer, to assess the various risks and the measures to mitigate them within the structure of the transaction. Documentation on any meetings or missions (in the form of a back-to-the-office report) conducted during the different stages of the transaction are included in the credit file. The credit file will be deemed complete once all the sections as outlined in Appendixes 7a and 7b have been duly completed.

### **(iii) Risk Rating and Credit Note**

36. Based on the information in the completed credit file, and the proposed final risk rating (ORR and FRR), the project team and the RMU agree on the final risk rating (ORR and FRR). If there is no agreement, the RMU will assign the final risk rating (ORR and FRR). In addition, the RMU prepares the final credit note for the transaction, based on the credit file and discussions with the project team, and performs compliance checks regarding deviations from policy or breaches of limits. Processing of the transaction will cease unless the credit note includes the RMU's recommendation that the transaction should continue to final review. However, a transaction may continue to final review without RMU's favorable recommendation if the director general of the relevant operations department provides a written representation regarding the overwhelming developmental benefits expected from the transaction.

### **c. Final Review**

37. The final review provides an opportunity to ensure specific issues previously identified at the ICM have been adequately addressed, and for significant changes or open issues to be considered and resolved prior to submission of the transaction to the President and the Board. Except as otherwise provided in provided in para. 36, the RMU and the project team jointly determine the acceptability of a transaction for submission for final review and advise the ICS accordingly. The ICS schedules a suitable date for the investment committee to conduct the final review of each transaction. If final review does not take place within 12 months from the prior ICM, the project team consults with the ICS to determine whether an additional transaction review is necessary.

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38. The final review involves the following steps.

**(i) Board Paper**

39. The project team prepares and circulates a draft Board paper through the concerned director general of the operations department for interdepartmental review. Following interdepartmental review, the project team revises the draft Board paper to take account of the comments received. The project team also prepares a matrix of comments for consideration by the investment committee. The Board paper includes the final risk rating (ORR and FRR) for the transaction and a section on risk issues endorsed by the RMU.

**(ii) Final Review Memorandum**

40. The project team is responsible for preparing the final review memorandum (FRM) for the transaction (Appendix 8). The FRM discusses the salient features of the transaction (including the terms and conditions and minimum pricing) and the final risk rating (ORR and FRR), confirms the resolution of specific issues previously raised, identifies significant changes or open issues that must be resolved before circulation of the Board paper, and highlights any areas of concern that require the attention of the investment committee or the Board. The RMU must sign-off on the FRM.

**(iii) Finalization of Term Sheet**

41. The project team finalizes a term sheet based on the terms and conditions and pricing set forth in the FRM for negotiations with the client. The agreed term sheet summarizes the indicative terms upon which ADB will consider financing the transaction. The term sheet must be signed or initialed by the client before the investment committee will consider endorsing the transaction. However, the investment committee may still consider the transaction in an exceptional situation where a client cannot sign or initial the term sheet if (i) the operations department and RMU have discussed and agreed on how to proceed, and (ii) the director general of the relevant operations department has provided a written explanation of the reasons for the client's inability to sign or initial the term sheet and assurance that, notwithstanding such inability, the client has agreed to the terms and conditions in the term sheet. If required by the client, the project team may initial the term sheet.

**(iv) Investment Committee Endorsement**

42. The project team submits to the ICS the draft Board paper (with a comments matrix), the FRM, and the signed or initialed term sheet (or the unsigned or uninitialed indicative term sheet and the written explanation and assurance from the director general in an exceptional situation as described in para. 41) at least 5 business days before the scheduled ICM. The ICS prepares a second issues memorandum that highlights all the major issues for consideration at the ICM and identifies the changes in the transaction since the concept review from a business and risk perspective. The

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second issues memorandum is prepared using the final credit note for the transaction provided by the RMU, as well as comments from other departments. The ICS follows similar procedures in preparing the second issues memorandum as for the first (para. 25). It circulates the credit note, FRM, draft Board Paper (with the comments matrix) and the second issues memorandum to the investment committee at least 3 business days before the ICM.

43. The investment committee focuses on the resolution of any outstanding issues raised in the second issues memorandum and comments raised during the interdepartmental review of the draft Board paper, as well as all material matters raised during the ICM. The ICS chair prepares minutes of the ICM in the manner described in para. 27. When the investment committee has endorsed the transaction, the President's approval will be requested to circulate to the Board (see para. 45).

### **d. Board Approval**

44. The project team is responsible for implementing the decisions recorded in the ICM minutes (at both concept review and final review stages), as well as for revising the draft Board paper suitably. The project team ensures that all material issues relevant to the approval are brought to the attention of the Board in the relevant sections of the Board paper, or during Board consideration. If a transaction is not presented to the Board within 12 months of the ICM final review and endorsement, the operations department should request guidance from the ICS as to whether the investment committee must re-endorse the transaction before the President's approval is requested to circulate to the Board (para. 45).

45. The draft Board paper is edited by the Office of the Secretary (OSEC) and returned to the project team leader for finalization. The final Board paper is cleared by the RMU (with respect to the section on risk issues), OGC, and OSEC. The project team leader prepares a memorandum attaching the second issues memorandum, the minutes of all ICM proceedings, and the Board paper. The memorandum requests approval to circulate the Board paper to the Board for consideration and is forwarded by the director general of the operations department, through the concerned vice-president, to the President.

### **e. Closing**

46. Subsequent to Board approval, the project team negotiates outstanding commercial, technical and legal issues. Legal documentation for the proposed financing transaction is prepared by OGC in close consultation with the project team and with the assistance of external counsel retained and instructed by OGC if required.

47. The project team prepares a closing certificate (Appendix 9) after Board approval but always before signing of the related legal documentation. The closing certificate specifies the negotiated terms and conditions, security package and pricing that have been agreed by the project team and the client, and confirms that what has been

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negotiated is not materially or adversely different from the basic transaction description, terms and conditions, security package, and minimum pricing approved by the investment committee and the Board. If appropriate, the closing certificate highlights changes for the record, and notes any departure from standard documentation. The director general of the relevant operations department endorses the closing certificate and OGC and the RMU either sign off on it, or provide additional comments on the changes as required, or recommend that the changes require further approval at the appropriate level. The ICS consider all changes and decides whether such changes require reporting to or approval by either the investment committee or the Board.

48. The government no-objection to the transaction must be received before any disbursement may be made by ADB. If the no-objection has not been received within 12 months after Board approval, a request to extend the waiting period for up to an additional 6 months may be approved by the relevant vice-president. If the no-objection has not been received within 18 months after Board approval or if all the transaction documentation has not been signed within 12 months after Board approval, the transaction must be presented to the investment committee for re-endorsement.

### **2. Credit Monitoring and Management**

49. Monitoring of loans, guarantees and equity investments starts once legal documents have been signed. The primary objective of monitoring is to maintain the quality of assets through early identification and timely management of problems and opportunities.

#### **a. Responsibilities of Operations Departments**

50. The operations departments have the primary responsibility for monitoring and management of their investments until final loan repayment or asset disposal, unless a transaction has been deemed to be at risk and the responsibility has been transferred to the RMU.

51. The operations department actively manages the relationship with the borrower or investee company, regularly reviews and reports on the progress and credit quality of the transaction, and undertakes all actions necessary to protect ADB's interests. The head of the project administration unit of the operations department has the overall responsibility for monitoring and reviewing the process.

52. The operations department appoints an investment officer to be responsible for the administration of each transaction. The investment officer maintains a complete and current credit file containing all documentation relating to the transaction, including the storage of the complete credit file in e-Star.

53. The investment officer prepares and submits monitoring reports (Appendixes 10a, 10b and 10c) to the RMU regularly. For all debt, guarantee, and equity transactions, monitoring reports will be submitted at least once a year, with the first submission due no

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later than 12 months after Board approval. For debt and guarantee transactions, obligors rated NSO10-12 on a stand-alone basis require quarterly reviews. Obligors rated NSO 13 and D require monthly reviews, unless the transaction has been transferred to the RMU (see para. 62). Equity transactions on the watch list (see para. 57 (viii)) require quarterly reviews. The monitoring report should contain, among other things, complete financial information on all relevant counterparties as well as:

- (i) for debt and guarantee transactions: a rating proposal produced by the relevant rating tool and other risk metrics as agreed from time to time between operations departments and the RMU, and
- (ii) for equity investments: the net asset value, a description of the valuation methodology, a spreadsheet with the most recent valuation, exit options and a recommendation as to the preferred exit strategy.

54. If monitoring reports are not submitted when due, the director general of the respective operations department may request a 30-day extension from the head of the RMU. If a monitoring report is overdue and an extension has not been granted, the division that processed the relevant transaction will not be allowed to present any new transactions to the investment committee until the deficiency has been corrected.

55. The operations department immediately notifies the RMU and OGC of any breaches of covenants and requests for waivers or amendments to the legal documents. All requests for waivers or amendments to any legal document, all restructuring proposals, and all changes to the security package must be approved by the head of the RMU, except where the waivers, amendments, or changes relate directly to social safeguards or otherwise pertain to noncredit matters. The RMU determines whether the waivers, amendments, or changes fall within such exceptions and advises the operations department accordingly within 2 business days after receipt of all relevant documents.

56. If the risk of a transaction deteriorates materially, the operations department advises the RMU immediately.

### **b. Responsibilities of the Risk Management Unit**

57. The RMU is responsible for conducting independent reviews of the quality of all nonsovereign debt, guarantee, and equity transactions. The RMU starts its monitoring process upon the signing of legal documents and agreement on the format of the required monitoring reports with the operations departments. The RMU determines the appropriate frequency of the monitoring reports for each transaction and advises the operations department accordingly. As regards individual transactions, the RMU's major responsibilities are:

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- (i) to verify that monitoring reports are complete, delivered on time, and in accordance with the required format, and to alert the head of the project administration unit of any shortcomings;
- (ii) for debt and guarantee transactions, to review and approve the proposed risk rating (risk ratings for equity transactions will also be reviewed and approved when a suitable rating methodology has been developed);
- (iii) for transactions with an FRR of NSO12, 13 and D, to recommend specific provisioning and plans to reduce exposure;
- (iv) for equity transactions, to assess the valuation of equity investments in terms of their methodology and accuracy, and to comment on the feasibility of the proposed hold and/or exit recommendation (an exit proposal is reviewed by the RMU before it is submitted to the investment committee);
- (v) to alert the director general of the relevant operations department and the head of the RMU of any serious credit deterioration in a transaction not highlighted by the investment officer or head of the project administration unit;
- (vi) to approve, through the head of the RMU, waivers of and amendments to loan covenants and terms and conditions in other legal documents, restructuring proposals, and all changes to the security package, upon recommendation by the operations department and in consultation with OGC, subject to the exception noted in para. 55;
- (vii) to recommend submissions to the investment committee for the approval of substantive issues or changes to transactions and to prepare an independent opinion via a credit note;
- (viii) based on increased risks or adverse trends, and after consultation with the operations department, to place transactions on the watch list (for debt and guarantee transactions with an FRR of NSO 12 or worse and/or an ORR of 10 or worse on a stand-alone basis, and for those equity transactions perceived as potentially impaired) indicating that enhanced monitoring is required, and, if necessary, to recommend a higher risk rating and transfer to the RMU; and
- (ix) to conduct, on its own initiative, and in cooperation with the operations departments, any country, sector, product or group review it deems necessary.

58. The RMU monitors events and developments in countries and sectors that may affect the risk profile of the portfolio. The RMU may request an assessment from the

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operations department with respect to the impact of changes in circumstances or economic conditions on an individual transaction. Such impact assessments are generally delivered by the operations department within 15 days from the date of the request.

59. The RMU has the responsibility to keep the internal credit rating system updated with respect to ratings. Changes in sovereign ratings and systemic rating changes will be reflected in the ratings for individual transactions and advised to the operations departments.

60. The operations departments and the RMU may recommend the sale of a transaction (debt or equity investment) to the investment committee (i) once its objectives are achieved, (ii) to reduce portfolio concentration, (iii) to avoid the impact of individual credit deterioration, or (iv) generally to facilitate effective use of ADB's capital. The President must approve any such sale. The RMU may also recommend the purchase of insurance or similar instruments to modify concentrations and enhance the efficiency of ADB's economic capital utilization to the investment committee. Such a purchase must be approved by the President.

### **3. Workout and Recovery**

61. In keeping with sound banking principles, nonperforming and impaired assets will be managed independently from the operations department that originated the transaction. The RMU has the primary responsibility for the management of such assets, with the prime objective of protecting their value.

62. Debt transactions with an FRR of NSO13 and equity transactions perceived to be impaired will be transferred to the RMU unless both the operations department and the RMU agree that this would not be appropriate. The operations department may also transfer transactions on the watch list to the RMU if such a transfer is considered necessary to preserve the value of the investment. To effect a transfer, the operations department issues a handover memo to be acknowledged by the head of the RMU. The memo includes appropriate contact persons of the obligor and other stakeholders, a description of the current situation, and a strategy recommendation. The operations department further advises the obligor and other stakeholders that the account has been transferred.

63. The RMU may request the assistance of the relevant investment officer throughout the workout process.

64. The RMU presents monthly problem account memoranda for each nonperforming transaction to the investment committee. These memoranda include, among other things:

- (i) reviews of documentation and collateral,
- (ii) reassessment of ORRs and FRRs,

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- (iii) stay-or-exit strategy and detailed action plans, and
- (iv) recovery prospects.

65. The RMU adjusts the loan loss provisions and equity impairment estimates for each nonperforming transaction as events occur and present monthly reports to the Controller's Department (CTL).

66. The RMU will initiate and lead the workout process if it determines that restructuring is the best course of action to protect ADB's interests. Workout is undertaken only when it is expected to improve ADB's prospects for recovery, as demonstrated by financial projections showing that, after the restructuring, the entity will be able to service its debts out of future cash flows with an adequate safety margin. If restructuring is not feasible, ADB will have to resort to exit options such as a direct sale or liquidation of the asset. During the workout and exit processes, the RMU will liaise closely with OGC and the operations department, and seek advice from other departments as appropriate.

67. Information on distressed assets is considered confidential. During the workout process, the RMU interacts with the obligor and may share information with other equity and debt holders. Disclosure of information to other parties is restricted, and any media queries should be routed through the Department of External Relations.

68. Workout plans and decisions to realize losses, release any rights or security interests, and make material changes in transactions are approved by the investment committee. Due to the urgency typically associated with workouts, the RMU may make oral presentations to the investment committee with no prior circulation of memoranda and subsequently prepare minutes of the meeting to record the investment committee's discussions and decisions.

69. Within the scope of the President's delegated authority described in paras. 10 and 11, proposals to increase ADB's exposure or dispose of assets are endorsed by the investment committee for consideration by the President.

70. When managing nonperforming or impaired assets, ADB may incur costs that, under the terms of the relevant legal documents, are for the account of the clients but which, due to the circumstances, need to be covered by ADB to protect its interests. These costs (which may include consultancy costs, legal fees, travel costs, utility charges, and security fees) may be irrecoverable. Such costs will be charged against the respective operations department's budget and reserve, unless the RMU has been allocated a budget for these costs.

71. The quarterly risk management report provides the Board with information on provisions, write-offs, commitments of new funds, and, where material, extensions of maturity, subordination, and agreed reductions in amounts due.

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### **F. Change in Scope**

72. In the event of a change of scope, structure, or implementation arrangements of a nonsovereign transaction, as against those described in the closing certificate, the director of the division supervising the transaction will consider whether the change is major or minor. If it is minor, the director may approve it. The director consults with OGC, the RMU, and OCO (if a guarantee or syndication is involved) to determine whether the change is major or minor. If such a consultation is not conclusive, the relevant director general will decide. The head of the RMU must approve all minor changes that relate to waivers, amendments or changes, subject to the exceptions described in para. 55.

73. The memorandum approving a minor change of scope is copied to CTL, OCO (if a guarantee or syndication is involved), OGC, and the RMU. It must always contain a summary of the views of each department that provided comments.

74. When the relevant director or director general considers the proposed change to be major, a draft memorandum setting out the change is circulated to the RMU, CTL, OGC, OCO (if a guarantee or syndication is involved) and other departments and offices concerned for interdepartmental comments. The Board must approve a major change that fundamentally alters the structure, objectives or risk profile of the proposed financing transaction. Otherwise, the vice-president concerned approves the major change, provided the head of the RMU endorses all the major changes that relate to waivers, amendments or changes, subject to the exceptions described in para. 55. After receiving interdepartmental comments, the vice-president concerned decides whether Board approval is required.

75. If Board approval is required, a Board paper is forwarded to the vice-president for approval before circulation (usually on a no-objection basis) to the Board.<sup>10</sup>

### **G. Loss Provisioning, Reserves, and Write Down**

76. ADB follows the Generally Accepted Accounting Principles (GAAP). These require an institution to estimate the impairment in the value of its investment portfolio. The RMU makes provisions for credit exposures for nonsovereign operations.

77. ADB makes provisions for loan losses on its credit exposures to nonsovereign obligors based on estimates of the expected loss of individual credit exposure. Expected

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<sup>10</sup> The Board paper may follow the format provided in Appendix 2 of PAI 5.04.

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loss is calculated as the product of exposure at default,<sup>11</sup> probability of default,<sup>12</sup> and loss given default.<sup>13</sup> Provisions and reserves are determined quarterly.

78. ADB's nonsovereign credit exposures with FRRs of NSO 12 or worse are deemed to have incurred losses (impaired). The amount of the provision for these credit exposures is charged to the income statement. To comply with GAAP, the estimate of expected loss for loans that are deemed impaired will have to be consistent with the difference between the carrying value of the credit exposure and the present value of all future cash flows.

79. For nonsovereign credit exposures that have FRRs better than NSO 12, the amount of the expected loss is set aside as loan loss reserve in the equity account of ADB's balance sheet.

80. ADB's exposure to equity investments is reported at estimated fair values. For equity investments that are listed on a regular stock exchange, the fair value of those equity investments is reflected by their market values. For investments that are not listed, an assessment of impairment is based on the difference between the fair value and the carrying book value of the equity investments. If the impairment is deemed to be permanent, ADB will write down the invested amount of the investment in the balance sheet and charge it to the income statement. For those impairments that are deemed to be temporary, ADB may provide a loss reserve in the equity section of the balance sheet. This treatment for equity investments will no longer be applicable when ADB adopts fair value accounting.

81. For each nonsovereign investment, the project team in the operations department is responsible for making available to the RMU the information used to determine the inputs in estimating expected loss, and projected cash flows, if required (including information from OCO, as necessary, where ADB has issued a guarantee).

### **H. Custodianship of Finance Documents**

82. All original executed financing documents relating to an investment are received by OGC in the first instance and submitted by OGC to OSEC for safekeeping.

83. Original share certificates or other securities are usually deposited with a custodian (which could be a central bank or other appropriate financial institution) upon OGC's request. OGC is responsible for retrieving share certificates or other securities

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<sup>11</sup> Estimation of exposure at default takes into account the amount committed that is not yet outstanding but is likely to be disbursed during the next 3 years. Exposure at default for nontraditional credit instruments will be based on their appropriate measures such as potential future economic exposures for derivatives.

<sup>12</sup> The probability of default represents the likelihood that an obligor will default on its interest and debt service payment obligations within the next 3 years.

<sup>13</sup> Loss given default represents the amount of the loans and/or guarantees that cannot be recovered once they are in the default.

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from the custodian, for example if they are required in connection with a disposal of such shares or securities by ADB. The operations department is responsible for maintaining a record and preparing quarterly reports confirming the details and location of share certificates or other securities relating to its equity investments.

### **I. Environmental and Social Safeguards and Other Policies**

84. Nonsovereign operations must comply with the relevant operational procedures relating to environmental considerations (OM Section F1), involuntary resettlement (OM Section F2), indigenous peoples (OM Section F3), and incorporation of social dimensions (OM Section C3). Upon the effectiveness of ADB's new safeguard policy<sup>14</sup> in January 2010, the related operational procedures will apply to nonsovereign operations thereafter.

85. Nonsovereign operations must comply with the relevant operational procedures relating to governance (OM Section C4), anticorruption (OM Section C5), and combating money laundering and the financing of terrorism (OM Section C6).

86. Nonsovereign operations must comply with the relevant requirements on consultants (OM Section J2) and procurement (OM Section J3).

87. Nonsovereign operations must comply with the relevant requirements on operations evaluation (OM Section K1).

### **J. Disclosure of Information**

88. Nonsovereign operations are subject to the applicable requirements on disclosure of information of the public communications policy (OM Section L3).

### **K. Representation on the Board of Investee Companies**

89. ADB may require a company in which it has an equity investment to provide ADB with the right to nominate a member to its board of directors. Such a nominated member may be an independent expert or an ADB staff member with expertise in the relevant industry and business conditions. Any staff member appointed to a board of directors shall consider any conflicts of interests between his or her duties to ADB<sup>15</sup> and his or her duties as a director under applicable laws and regulations and comply with any instructions issued by Management. The selection of the nominee director is approved by the director general of the relevant operations department or, if the proposed nominee director is the director general, by the vice-president operations 1.

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<sup>14</sup> ADB. 2009. *Safeguard Policy Statement*. Manila.

<sup>15</sup> Administrative Orders 2.02 and 2.04 regarding duties and responsibilities of staff members and misconduct by staff.

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**L. Effectiveness**

90. This section is effective immediately. All nonsovereign transactions that begin processing after the issuance of this OM section shall comply with all of its procedures and requirements. Nonsovereign transactions that are being processed or are under administration at the time of issuance of this section shall comply with the procedures and requirements set forth in this section that are appropriate to their stage of processing or administration when the section was issued. The relevant operations department and the RMU shall agree on the specific application of this OM section to nonsovereign transactions being processed or under administration before the issuance of this OM section. In the event there is no agreement, the RMU will make the final determination.

**Basis:** This OM section is based on OM Section D10/BP and the documents cited therein.

**Compliance:** This OM section is subject to compliance review.

**For inquiries:** Questions may be directed to the Director, Strategy, Policy and Interagency Relations Division, Strategy and Policy Department; and the Head, Risk Management Unit.







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Rating	Rating Definition	Moody's / S&P equivalent
NSO 1	Lowest expectation of credit risk in ADB's nonsovereign operations. The repayment of a facility rated NSO1 is highly unlikely to be adversely affected by foreseeable events.	AAA, AA, A+, A
NSO 2	Very low credit risk. The borrower's capacity to meet his financial commitments in a timely manner is considered very strong. The repayment of a facility rated NSO2 is unlikely to be adversely affected by foreseeable events.	A3/A-
NSO 3	Low credit risk. The borrower's capacity for payment of financial commitments in a timely manner is considered strong. This capacity may however be vulnerable to changes in circumstances or in economic conditions.	Baa1/BBB+
NSO 4	Low credit risk. The Borrower's capacity for payment of financial commitments is considered strong; however adverse changes in business and economic conditions may weaken this capacity over time.	Baa2/BBB
NSO 5	Low to Medium Credit Risk. The Borrower has a good debt service capacity; however adverse changes in business and economic conditions may weaken this capacity over time.	Baa3/BBB-
NSO 6	Medium Credit Risk. The Borrower has a good debt service capacity. There is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.	Ba1/BB+
NSO 7	Medium Credit Risk. The Borrower has adequate debt service capacity. There is a possibility of credit risk developing, particularly as the result of adverse economic change over time; however, business or financial alternatives may be available to allow financial commitments to be met.	Ba2/BB
NSO 8	Medium Credit Risk. The Borrower has adequate debt service capacity. There is a possibility of credit risk developing, particularly as the result of adverse business or economic change.	Ba3/BB-
NSO 9	Significant credit risk. The Borrower has adequate debt service capacity; however, adverse changes in business or economic circumstances would probably impair the Borrower's capacity to meets his financial commitments in a timely manner, OR, there is a distinct possibility of a country or external event which could hinder repayment of the facility.	B1/B+
NSO 10	Significant credit risk. The borrower has weak debt service capacity. Adverse changes in business or economic circumstances would probably impair the Borrower's capacity to meets his financial commitments in a timely manner, OR, there is a distinct possibility of a country or external event which could hinder repayment of the facility.	B2/B
NSO 11	Significant credit risk. The borrower has a very weak debt service capacity. The borrower appears able to meet his financial obligations during the next twelve months, but adverse changes in business or economic circumstances would impair his capacity to meet financial commitments in a timely manner, OR, there is a distinct possibility of a country or external event which could hinder repayment of the facility.	B3/B-
NSO12	High credit risk. The borrower is dependent upon favorable business or economic conditions to meet his financial commitments. There is a high likelihood, within the next twelve months, of the borrower becoming unable to meet his debt service obligations, OR, of a country or external event that would hinder the timely repayment of the facility.	CCC+
NSO 13	Very high credit risk. It appears unlikely that the borrower will be able to repay the facility in accordance with the contract. The borrower's capacity for meeting his financial commitments is solely reliant on sustained favorable business or economic conditions. The borrower may be in technical default or may have defaulted to some commercial lenders.	CCC, CC, C
D	The borrower has defaulted and the facility is placed in non-accrual status	D



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### **BASIC TRANSACTION INFORMATION**

#### **For Infrastructure/Project Finance**

After the Operating Department (OD) determines that a proposed transaction is viable after a preliminary analysis, it shall immediately provide RMU with the related business plan. If a business plan is not available, RMU may agree with the OD that the transaction can proceed to the Concept Review Paper (CRP) stage based on the availability of the following basic information:

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#### **1. Borrower / Sponsor**

- Identify the borrower and/or sponsor of the project or transaction

#### **2. Purpose of the Facility**

- Describe the purpose for the proposed facility, use of proceeds, etc.

#### **3. Transaction Structure**

- Major terms and conditions such as amount, currency, tenor, security structure, seniority etc.

#### **4. Information on the Sponsor / Obligor**

- Detailed information on sponsors and obligor - track record, experience in the industry, main line of business, general reputation, quality of management
- Background on ADB's relationship with the sponsor, if any
- External credit ratings, if available

#### **5. Project Description**

- Describe the project in detail
- Rationale for undertaking the project
- Discuss how much support has been obtained from the government, lending institutions, and other investors.

#### **6. Cost Estimates**

- Provide cost estimates analyzed according to (a) major cost category and (b) local and foreign currency cost.

## **OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)**

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### **7. Financing Plan / Sources & Uses**

- List the various sources of financing of the project, and include amounts, currency, and terms of the debt and equity investments, security arrangements and status of financing commitments
- Describe the source of finance for contingencies and cost overruns
- Discuss proposed ADB facility (equity, debt, guarantee or cofinancing arrangement)

### **8. Financial Highlights / Ratios – Key Financial Data**

- Key financial highlights, profitability, leverage, efficiency/performance, coverage ratios e.g. DSCR, etc.

### **9. Market Analysis**

- Overview of the market (demand and supply scenario)
- Provide current and projected markets
- Discuss credit-worthiness of customer(s)

### **10. Offtaker Analysis (if applicable)**

- Key information related to offtaker
- Risk rating, financial data, offtake agreement (synopsis)

### **11. Overview of Feasibility / Pre-feasibility Study (if available)**

- Summary of key points from business plan
- Feasibility study establishing the technical, financial, economic, and environmental viability of the project, prepared by a reputable consultant, if necessary.

### **12. Policy Deviations and Rationale**

- Highlight any deviations from bank policies and outline rationale for exception.

## **OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)**

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### **BASIC TRANSACTION INFORMATION**

#### **For Capital Markets/Financial Institutions**

After the Operating Department (OD) determines that a proposed transaction is viable after a preliminary analysis, it shall immediately provide RMU with the related business plan. If a business plan is not available, RMU may agree with the OD that the transaction can proceed to the Concept Review Paper (CRP) stage based on the availability of the following basic information:

---

#### **1. Borrower / Investee**

- Identify the borrower and/or investee in the transaction

#### **2. Purpose of the Facility**

- Describe the purpose for the proposed facility, use of proceeds, etc.

#### **3. Transaction Structure**

- Major terms and conditions such as amount, currency, tenor, security structure, seniority etc.

#### **4. Information on the Obligor / Investee**

- Detailed information on the obligor/investee – shareholding profile/major shareholders, group affiliations/subsidiaries, market share/ranking, track record, experience in the industry, main line of business, general reputation, quality of management, business strategy
- For Fund Investments, discuss information on Fund Manager, fund size, committed funding, investor line-up, investment strategy, investment process, focus countries, deal pipeline, fund performance (if applicable), investments policies, etc.
- Background on ADB's relationship with the obligor/investee, if any
- External credit ratings, if available

#### **5. Description of Proposed Transaction**

- Describe the transaction in detail
- Rationale for undertaking the transaction
- Discuss how much support has been obtained from the government, lending institutions, and other investors.

## **OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)**

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### **6. Financial Highlights / Ratios – Key Financial Data**

- Analysis based on audited financial statements (past 3 years)
- Key financial highlights, profitability, leverage, efficiency/performance, asset quality ratios, capital adequacy, liquidity, growth, deposit base etc.
- Comparison of FI's financial performance with peers/industry
- Compliance with regulatory or prudential ratios and requirements
- CAMELS Analysis (Capital adequacy, Asset Quality, Management, Earnings/Profitability, Liquidity, Sensitivity to market risks)

### **7. Market Analysis**

- Overview of the banking sector, market, FI ranking, competitive environment
- Provide current and projected markets

### **8. Policy Deviations and Rationale**

- Highlight any deviations from bank policies and outline rationale for exception

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

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**CONCEPT REVIEW PAPER TEMPLATE**

**1. Borrower / Sponsor**

- Identify the borrower and/or sponsor of the project or transaction

**2. Industry Classification**

- Identify in what sector the transaction will be classified (indicate ADB-wide sector classification and RMU sector classification)

**3. Purpose of the Facility**

- Describe the purpose for the proposed facility, use of proceeds, etc.

**4. Transaction Structure**

- Major terms and conditions such as amount, currency, tenor, security structure, seniority etc.

**5. Information on the Sponsor / Obligor**

- Detailed information on sponsors and obligor - track record, experience in the industry, main line of business, general reputation, quality of management
- Background on ADB's relationship with the sponsor, if any
- External credit ratings, if any

**6. Project Description**

- Describe project in detail
- Rationale for undertaking the project
- Discuss how much support has been obtained from the government, lending institutions, and other investors.

**7. Financing Plan / Sources & Uses**

- List the various sources of financing of the project, and include amounts, currency, and terms of the debt and equity investments, security arrangements and status of financing commitments
- Describe the source of finance for contingencies and cost overruns
- Discuss proposed ADB facility (equity, debt, guarantee or cofinancing arrangement)

## **OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)**

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### **8. Cost Estimates**

- Provide cost estimates analyzed according to (a) major cost category and (b) local and foreign currency cost.

### **9. Financial Highlights / Ratios – Key Financial Data**

- Key financial highlights, profitability, leverage, efficiency/performance, coverage ratios e.g. DSCR, etc.

### **10. Financial Projections – Key Data (if available)**

- Provide financial projections for the project covering the period from financial closing through final maturity of the proposed ADB financing
- Include balance sheet, profit and loss statement, cashflow statement, and detailed assumptions
- Use an integrated model that will allow for sensitivity analysis of critical elements of the project
- Calculate the economic, financial rates of return, and return on equity investments.

### **11. Industry Analysis**

- Describe the regulatory environment, price trends, competitive environment, barriers to entry / exit, key success factors

### **12. Market Analysis**

- Overview of the market (demand and supply scenario)
- Provide current and projected markets
- Discuss credit-worthiness of customer(s)

### **13. Offtaker Analysis (if applicable)**

- Key information related to the offtaker
- Risk rating, financial data, offtake agreement (synopsis)

### **14. Overview of Feasibility / Pre-feasibility Study (if available)**

- Summary of key points from business plan
- Feasibility study establishing the technical, financial, economic, and environmental viability of the project, prepared by a reputable consultant, if necessary.

## **OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)**

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### **15. Alignment with ADB Strategy and Operations**

- Describe how the proposed aligns with ADB's strategy and operations

### **16. Justification for ADB Assistance**

- Provide rationale for ADB's assistance

### **17. Environmental and Social Safeguards Assessment**

- Environmental Impact Assessments; Key environmental and social issues; Categorization

### **18. Developmental Impact Analysis**

- Discuss other developmental issues that need to be addressed

### **19. Risk Analysis / Key Issues and Concerns**

- Identify key risk issues and concerns and provide mitigants

### **20. Policy Deviations and Rationale**

- Highlight any deviations from bank policies and outline rationale for exception

### **21. Preliminary Risk Rating & Indicative Pricing**

- Indicative / Preliminary risk rating
- Indicative or expected pricing for the transaction

### **22. Areas for Due Diligence**

- Areas to be covered or further investigated during due diligence

### **23. Implementation Arrangements**

- Key arrangements for implementation

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

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Project Team Composition	Processing Schedule

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

**CREDIT NOTE**

**Concept Review**

<b>Date</b>		
<b>Transaction</b>		
<b>Country</b>		
<b>Amount</b>		
<b>Tenor</b>		
<b>Purpose</b>		
<b>Security</b>		
<b>Preliminary Risk Rating</b>	<b>FRR</b>	<b>ORR</b>
<b>Originating Dept./Div.</b>		

**1. Risk Analysis / Risk Issues**

- Identification and discussion of key risk issues
- Financial highlights/analysis of financial performance

**2. Portfolio Implications**

- Exposure amounts, compliance with limits (sector, single borrower, country, product)

**3. Policy Deviations and Rationale**

- Highlight any deviations from bank policies and outline rationale for exception

**4. Recommendations**

- RMU comments/reservations/recommendations

**5. Due Diligence Items**

- Items / issues for further evaluation and investigation during due diligence

**6. Sign-offs**



**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

**CREDIT NOTE**

**Final Review**

<b>Date</b>		
<b>Transaction</b>		
<b>Country</b>		
<b>Amount</b>		
<b>Tenor</b>		
<b>Purpose</b>		
<b>Security</b>		
<b>Preliminary Risk Rating</b>	<b>FRR:</b>	<b>ORR:</b>
<b>Final Risk Rating</b>	<b>FRR:</b>	<b>ORR:</b>
<b>Originating Dept./Div.</b>		

**1. Risk Analysis / Risk Issues**

- Identification and discussion of key risk issues and mitigants
- Financial highlights/analysis of financial performance

**2. Portfolio Implications**

- Exposure amounts, compliance with limits (sector, single borrower, country, product)

**3. Policy Deviations and Rationale**

- Highlight any deviations from bank policies and outline rationale for exception

<b>RMU recommends to proceed to Final Review of IC?</b>		
<input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Conditions for Approval:</b>	<b>Recommendations / Suggested Action:</b>

<b>SIGN-OFF</b>		
<b>RMU</b>		



**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

**ISSUES MEMORANDUM  
SAMPLE FORMAT**

<b>Date</b>		
<b>Transaction</b>		
<b>Country</b>		
<b>Amount</b>		
<b>Tenor</b>		
<b>Purpose</b>		
<b>Operating Dept./Div.</b>		
<b>Obligor Risk Rating</b>	<b>Facility Risk Rating</b>	<b>Proposed Pricing (Risk Premium)</b>
<b>Compliance Review / Issues (if any):</b>		<b>Economic Capital Allocated (% of principal)</b>

Policy Deviations: <input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Rationale / Justification:</b>
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**ICS Summary of Issues Identified and Outstanding**

--

\_\_\_\_\_  
 Advisor , RMU

\_\_\_\_\_  
 Operating Department (Chair)

**IC ENDORSEMENT & APPROVAL GUIDELINES\***

*Approval Conditions / Guidelines are to be noted in this section*

**1. Operating Department (OD):**

*Endorsed with Conditions (Yes / No): If yes, list conditions or comments*

\_\_\_\_\_  
 Director General, OD

**2. Office of General Counsel (OGC):**

*Endorsed with Conditions (Yes / No): If yes, list conditions or comments*

\_\_\_\_\_  
 General Counsel

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

<p><b>3. Risk Management Unit:</b> <i>Endorsed with Conditions (Yes / No): If yes, list conditions or comments</i></p>  <p>_____</p> <p><b>Head, RMU</b></p>
<p><b>4. PSOD or Regional Department:</b> <i>Endorsed with Conditions (Yes / No): If yes, list conditions or comments</i></p>  <p>_____</p> <p><b>Director General, PSOD or RD</b></p>
<p><b>5. Regional and Sustainable Development Department (RSDD):</b> <i>Endorsed with Conditions (Yes / No): If yes, list conditions or comments</i></p>  <p>_____</p> <p><b>Director General, RSDD</b></p>
<p><b>6. Office of the President (OPR):</b> <i>Endorsed with Conditions (Yes / No): If yes, list conditions or comments</i></p>  <p>_____</p> <p><b>Managing Director General</b></p>
<p><b>7. Vice President Operations 2:</b> <i>Endorsed with Conditions (Yes / No): If yes, list conditions or comments</i></p>  <p>_____</p> <p><b>Vice President</b></p>
<p><b>8. Approval Vice President Operations 1 (Chair):</b> <i>Approval Conditions or Comments, if any</i></p>  <p>_____</p> <p><b>Vice President</b></p>

**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

**CREDIT FILE  
 INFRASTRUCTURE / PROJECT FINANCE  
 COVER SHEET**

Obligor/ Investee Company / Sponsor:			Date:	
Transaction/Project Name:				
Originating Division/Department:			Sector:	
Description / Purpose of Facility:				
Security/Guarantor:				
Risk Ratings:				
ORR	FRR	Sovereign Rating	External/ Public Ratings	
Type of Assistance:				
Facility Type		Amount	Tenor/ Grace	Remarks
TOTAL				
Group Exposure:				
Company/Project Name	Amount	Group Exp Limit	Breach in Limit	Remarks
TOTAL				
Limit Breaches (if any):				
Submitted by PSOD / RD:			Reviewed and Endorsed by RMU:	
_____ Team Leader			_____ Credit Officer	
_____ Director OD			_____ Head, RMU	

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

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**CREDIT FILE  
INFRASTRUCTURE / PROJECT FINANCE  
PROPOSED CONTENTS**

- 1. Cover Sheet**
- 2. Background Information**
  - a. Sector/industry
  - b. Project description
  - c. Borrower, management, history/performance (in case of an existing company), corporate governance
  - d. Shareholders and control issues if any
  - e. Implementation arrangements: concession, products, customers, suppliers, construction, O&M
- 3. Cost Estimates and Financing Plan**
- 4. ADB Facility**
  - Description of facility
  - Facility structure and justification
  - Recourse/exit analysis – cashflow, security, collateral valuation, put options, guarantor (if any)
  - Proposed pricing and justification
  - Term sheet: CPs, covenants, events of default
- 5. Financial Analysis**
  - Financial analysis: 3 years historical financial statements in case of an existing company
  - Financial projections: balance sheet, profit and loss statement, cashflow statement, debt service coverage ratio and other appropriate ratios, and sensitivity analysis
  - For existing transaction: Projected versus actual performance, reasons for deviations from projections
- 6. Output from Risk Rating Model**
  - For existing transaction: discuss previous risk rating, revised/recommended rating and brief rationale on maintaining or changing the rating

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

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7. **Risk Analysis** (risk factors depend on the transaction; more elaborate analysis than what may appear in the FRM)
- Key Risk Factors
  - Borrower analysis
  - Completion risk
  - Market risk / price risk
  - Offtaker risk
  - Industry risk
  - Feedstock supply risk
  - Foreign exchange risk
  - Regulatory risks
  - Other applicable risks
  - Portfolio Management -- policy deviations, limit breaches, concentration issues – if any, outline rationale and justification
  - Issues for Due Diligence – pending or remaining issues
8. **Appendixes (supporting documentation):**
- A. Approved Concept Review Paper (CRP)
  - B. Issues Memorandum
  - C. Investment Committee Meeting (ICM) minutes
  - D. Final Review Memorandum (FRM)
  - E. Board Paper (with comments matrix)
  - F. Closing Certificate
  - G. Monitoring Reports
  - H. Third-Party Due Diligence Reports (e.g., technical, financial, legal, insurance)
  - I. Any external reports by credit rating agencies (S&P, Fitch, Moody's or local rating agencies) or analysts
  - J. Back-to-Office Reports (BTOR) or any post-mission communications (e.g., summary emails, notes to files, etc.) that contains information not covered by other parts of the credit file
  - K. Annual Reviews (only in cases where there is existing exposure to the same obligor or Group) - annual review of any other transaction for the obligor or other group companies
  - L. Integrity due diligence results - Deal team to document their assessment whether they are satisfied with the overall reputation of the customer
  - M. Any significant newspaper or press reports

*Revised: 7/17/09*



**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

**CREDIT FILE  
 FINANCIAL INSTITUTIONS / CAPITAL MARKETS  
 COVER SHEET**

Obligor/ Investee Company / Sponsor:				Date:	
Transaction/Project Name:					
Originating Division/Department:			Sector:		
Description / Purpose of Facility:					
Security/Guarantor:					
Risk Ratings:					
ORR	FRR	Sovereign Rating	External/ Public Ratings	Bank Systemic Risk Rating (External)	
Type of Assistance:					
Facility Type		Amount	Tenor/ Grace	Remarks	
TOTAL					
Group Exposure:					
Company/Project Name	Amount	Group Exp Limit	Breach in Limit	Remarks	
TOTAL					
Limit Breaches (if any):					
Submitted by PSOD / RD:			Reviewed and Endorsed by RMU:		
Team Leader		Director OD	Credit Officer	Head, RMU	

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

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**CREDIT FILE  
FINANCIAL INSTITUTIONS / CAPITAL MARKETS  
PROPOSED CONTENTS**

- 1. Cover Sheet**
- 2. Background Information**
  - a. Sector/industry
  - b. Project description
  - c. Borrower, management, history/performance (in case of an existing company), corporate governance
  - d. Shareholders and control issues if any
  - e. Implementation arrangements: concession, products, customers, suppliers, construction, O&M
- 3. Cost Estimates and Financing Plan**
- 4. ADB Facility**
  - Description of facility
  - Facility structure and justification
  - Recourse/exit analysis – cashflow, security, collateral valuation, put options, guarantor (if any)
  - Proposed pricing and justification
  - Term sheet: CPs, covenants, events of default
- 5. Financial Analysis**
  - Financial analysis: 3 years historical financial statements in case of an existing company
  - Financial projections: balance sheet, profit and loss statement, cashflow statement, debt service coverage ratio and other appropriate ratios, and sensitivity analysis
- 6. Output from Risk Rating Model**
- 7. Risk Analysis** (risk factors depend on the transaction; more elaborate analysis than what may appear in the FRM)
  - A. Financial Institution**
    - Key Risk Factors
    - Borrower analysis:
      - Capital
      - Assets
      - Management (including corporate governance, risk management quality)
      - Earnings/Profitability

## **OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)**

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- Liquidity
- Sensitivity to market
- Facility analysis:
  - Legal risk
  - Cash flows
  - Foreign exchange risk
  - Reputation risk
    - Other applicable risks
- Industry risk /Systemic risk -- also include the risk/credit ratings of banks in the same country to provide a comparative picture
- Regulatory risks
- Portfolio Management -- policy deviations, limit breaches, concentration issues – if any, outline rationale and justification
- Issues for Due Diligence – pending or remaining issues

### **B. Fund Investment**

- Key Risk Factors
- Industry risk
- Regulatory risks
- Fund manager analysis
- Investment strategy / policy
- Investment / deal structuring process
- Focus countries
- Market/ Investment pipeline
- Committed funding
- Fund performance – past returns/exits, if applicable
- Other applicable risks
- Portfolio Management -- policy deviations, limit breaches, concentration issues – if any, outline rationale and justification
- Issues for Due Diligence – pending or remaining issues

### **C. Structured Finance**

- Key Risk Factors
- Borrower/investee analysis
- Industry risk
- Regulatory risks
- Operational/administration risk
- Foreign exchange risk
- Other applicable risks
- Portfolio Management -- policy deviations, limit breaches, concentration issues – if any, outline rationale and justification
- Issues for Due Diligence – pending or remaining issues

**OPERATIONS MANUAL  
OPERATIONAL PROCEDURES (OP)**

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- 8. Appendixes (supporting documentation):**
- A. Approved Concept Review Paper (CRP)
  - B. Issues Memorandum
  - C. Investment Committee Meeting (ICM) minutes
  - D. Final Review Memorandum (FRM)
  - E. Board Paper (with comments matrix)
  - F. Closing Certificate
  - G. Monitoring Reports
  - H. Third-Party Due Diligence Reports (e.g., technical, financial, legal, insurance)
  - I. Any external reports by credit rating agencies (S&P, Fitch, Moody's or local rating agencies) or analysts
  - J. Back-to-Office Reports (BTOR) or any post-mission communications (e.g., summary emails, notes to files, etc.) that contains information not covered by other parts of the credit file
  - K. Annual Reviews (only in cases where there is existing exposure to the same obligor or Group) - annual review of any other transaction for the obligor or other group companies
  - L. Integrity due diligence results - Deal team to document their assessment whether they are satisfied with the overall reputation of the customer
  - M. Any significant newspaper or press reports

*Revised: 7/17/09*

**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

**FINAL REVIEW MEMORANDUM**

<b>Date</b>	
<b>Transaction</b>	
<b>Country</b>	
<b>Amount</b>	
<b>Tenor</b>	
<b>Purpose</b>	
<b>Originating Div./Dept.</b>	
<b>Obligor Risk Rating</b>	<b>Facility Risk Rating</b>
<b>Minimum Pricing (Risk Premium)</b>	<b>Economic Capital Allocated (% of principal)</b>

<b>TERMS AND CONDITIONS</b>	
<b>Financing Plan</b>	
<b>Repayment</b>	
<b>Use of proceeds</b>	
<b>Conditions to disbursement</b>	
<b>Stages of completion</b>	
<b>Implementation</b>	
<b>Key covenants</b>	
<b>Sponsor undertakings</b>	
<b>Security</b>	

<b>POLICY DEVIATIONS</b>	
Policy Deviations: <input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Policy Deviation:</b>
	<b>Rationale/Justification:</b>

**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

RESOLUTION OF ISSUES FROM CONCEPT REVIEW	
Issues	Resolution

<b>Any other issues requiring additional review by the IC?</b>	
<input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Details:</b>  

PREPARED BY		
Signature	Date	Comments / Recommendations
Team Leader		
Director, OD		
DG-OD		

SIGN-OFF		
RMU		

**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

**CLOSING CERTIFICATE**

<b>Transaction</b>	
<b>Country</b>	
<b>Facility No.</b>	
<b>Board Approval Date</b>	
<b>Target Signing Date</b>	
<b>Originating Dept./Div.</b>	

**1. Key Terms and Conditions**

<b>Terms &amp; Conditions</b>	<b>Changes from Approved Document</b>	<b>Comments on Changes</b>
Financing Plan		
Pricing		
Repayment		
Use of proceeds		
Conditions to disbursement		
Stages of completion		
Implementation		
Key covenants		
Sponsor undertakings		
Security		

**2. Any Other Material Changes Requiring Additional Review by IC or the Board?**

<input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Details:</b>  
---	-------------------------

**3. Any Significant Departure from Standard Documentation?**

<input type="checkbox"/> Yes <input type="checkbox"/> No	<b>Details:</b>  
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**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

**4. Sign-Offs**

Signature	Date	Comments / Recommendations
<b>DG-OD</b>		
<b>RMU</b>		
<b>OGC</b>		

**5. Required Reporting / Approval Levels**

Recommended Action	Recommended By		
	OD	RMU	OGC
The changes have to be approved by the Investment Committee			
The changes have to be approved by the Board			
The changes have to be reported to the Investment Committee			
The changes have to be reported to the Board			

## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

<b>ADB</b> <span style="float: right;">MONITORING REPORT (Annual)                      For Loan and Guarantee Transactions - Corporate                      Risk Rated NSO 1 - 9</span>				
To be used for balance sheet-based transactions with a corporate entity considered to be a going concern.				
Attachments: 1. Risk Rating Sheet 2. Financial Spreadsheet				
Transaction Name:	Board Approval: [date]	First Review: [date]	This Review: [date]	
Borrower:	Signing Date:	Last Review: [date]	Next Review: [date]	
Country:	First Disbursement:			
Industry/Sector:	Current	Proposed	Final	
Type of Business:	ORR	ORR	ORR	
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee: Type _____	FRR	FRR	FRR	
Amount/s:	EL:	UL:	RAROC:	
Pricing:	Tenor:	Grace Period:	Maturity Date:	
<b>Executive Summary</b>				
<b>Transaction History</b>				
[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]				
<b>Major Changes Since Last Review</b>				
1. Sovereign Overview -- Country/Economic Environment				
2. Industry Overview & Outlook				
3. Management & Ownership				
4. Operating Performance				
5. Financial Performance				
<b>Key Risk Issues</b>				
<b>Key Rating Drivers (For Proposed Risk Rating)</b>				
<b>Development Impact Assessment</b>				
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>				
	Last Year	This Year	Variance	<b>Remarks</b>
Gross Profit Margin				
Net Profit Margin				
ROA				
ROE				
EBITDA Interest Coverage				
Current Ratio				
Total Debt/Equity Ratio				
<b>Key Covenants*</b>				
	Covenant	This Year	Complied?	<b>Remarks</b>
<b>Operating Department</b>				
Deal / Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:
				Endorsed By:

\* This is a sample listing of key financial ratios and covenants. While this template is standard, ratios and covenants specific to the transaction being monitored should be indicated accordingly.

## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

MONITORING REPORT (Annual) For Loan and Guarantee Transactions - Project Finance Risk Rated NSO 1 - 9					
To be used for transactions with single purpose project company, cash flow-based, ring-fenced, with limited or no recourse to sponsor.					
Attachments: 1. Risk Rating Sheet 2. Financial Spreadsheet					
Transaction Name:		Board Approval: [date]	First Review: [date]	This Review: [date]	
Borrower:		Signing Date:	Last Review: [date]	Next Review: [date]	
Country:		First Disbursement:			
Industry/Sector:		Current	Proposed	Final	
Type of Business:		ORR	ORR	ORR	
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee: Type _____		FRR	FRR	FRR	
Amount/s:		EL:	UL:	RAROC:	
Pricing:	Tenor:	Grace Period:	Maturity Date:		
<b>Executive Summary</b>					
<b>Transaction History</b>					
[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]					
<b>Major Changes Since Last Review</b>					
1. Sovereign Overview – Country/Economic Environment					
2. Industry Overview & Outlook					
3. Management & Ownership					
4. Progress of Construction <i>[% completion; compliance with budget/schedule/targets; changes in contractual framework; any unexpected events]</i>					
5. Post-Completion - Operating Performance					
6. Financial Performance					
<b>Key Risk Issues</b>					
<b>Key Rating Drivers (For Proposed Risk Rating)</b>					
<b>Development Impact Assessment</b>					
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>					
	Last Year	This Year	Projected	Variance	Remarks
ROA					
ROE					
Min. DSCR					
Ave. DSCR					
Interest Coverage Ratio					
Loan Life Coverage					
Debt/EBITDA					
LT Debt/Equity Ratio					
<b>Key Covenants*</b>					
	Covenant	This Year	Complied?	Remarks	
<b>Operating Department</b>					
Deal/Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:	
<b>Risk Management Unit</b>					
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:	
				Endorsed By:	

\* This is a sample listing of key financial ratios and covenants. While this template is standard, ratios and covenants specific to the transaction being monitored should be indicated accordingly.

**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

<b>ADB</b>				
<b>MONITORING REPORT (Annual)</b>				
<b>For Loan and Guarantee Transactions - Financial Institution</b>				
<b>Risk Rated NSO 1 - 9</b>				
<i>Attachments:</i> 1. Risk Rating Sheet 2. Financial Spreadsheet				
Transaction Name:	Board Approval: [date]	First Review: [date]	This Review: [date]	
Borrower:	Signing Date:	Last Review: [date]	Next Review: [date]	
Country:	First Disbursement:			
Industry/Sector:	Current	Proposed	Final	
Type of Business:	ORR	ORR	ORR	
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee: Type _____	FRR	FRR	FRR	
Amount/s:	EL:	UL:	RAROC:	
Pricing:	Tenor:	Grace Period:	Maturity Date:	
<b>Executive Summary</b>				
<b>Transaction History</b> <i>[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]</i>				
<b>Major Changes Since Last Review</b>				
1. Sovereign Overview – Country/Economic Environment				
2. Industry Overview & Outlook				
3. Management & Ownership				
4. Business Performance				
5. Financial Performance				
<b>Key Risk Issues</b>				
<b>Key Rating Drivers (For Proposed Risk Rating)</b>				
<b>Development Impact Assessment</b>				
<b>Key Financial Ratios* (For details see attached Financial Template)</b>				
	Last Year	This Year	Variance	Remarks
ROA				
ROE				
Net Interest Margin				
Total CAR				
Total Capital to Gross Loans				
Loans-to-Deposits Ratio				
NPL Ratio				
NPL Coverage Ratio				
Cost/Income Ratio				
<b>Key Covenants*</b>				
	Covenant	This Year	Complied?	Remarks
<b>Operating Department</b>				
Deal/Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
<b>Comments/Recommendation:</b>			Recommended Frequency of Review:	Date Endorsed:
			Endorsed By:	

\* This is a sample listing of key financial ratios and covenants. While this template is standard, ratios and covenants specific to the transaction being monitored should be indicated accordingly.

## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

<b>MONITORING REPORT (Annual)</b> <b>For Equity Transactions - Direct Investment</b> <b>Performing Investments</b>				
<b>ADB</b>				
<i>Attachments:</i> 1. <i>Valuation Methodology Spreadsheet</i> 2. <i>Financial Spreadsheet</i>				
Transaction Name:		Original Equity Amount:		ADB Shareholding %
Investee Company:		Currency:		Expected IRR:
Country:		Potential Gain/(Loss):		
Industry/Sector:		Board Approval: (date)	Signing Date:	
Type of Business:		Initial Disbursement:	First Review: (date)	This Review: (date)
Expected Holding Period:	Actual Holding Period:	Final Disbursement:	Last Review: (date)	Next Review: (date)
<b>Executive Summary</b>				
<b>Transaction History</b>				
[Compliance/waivers/amendments/variations from agreed terms etc.]				
<b>Major Changes Since Last Review</b>				
1. Sovereign Overview – Country/Economic Environment				
2. Industry Overview & Outlook				
3. Management & Ownership				
4. Operating Performance				
5. Financial Performance				
<b>Key Risk Issues</b>				
<b>Development Impact Assessment</b>				
<b>Valuation Methodology</b>		<b>Equity Valuation</b> <i>(see attached spreadsheet for details)</i>		
		Total Disbursements	Total Disposals	Balance
		Market Value		
<b>Exit Strategy/Options</b>		<b>Exit Recommendation</b>		
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>				
	Projected	Actual	Variance	Remarks
Gross Profit Margin				
Net Profit Margin				
ROA				
ROE				
Min. DSCR				
Ave. DSCR				
Interest Coverage Ratio				
Loan Life Coverage				
Current Ratio				
Debt/ EBITDA				
LT Debt/Equity Ratio				
Total Debt/Equity Ratio				
<b>Key Covenants*</b>				
	Covenant	This Year	Complied?	Remarks
<b>Operating Department</b>				
Deal/Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:
				Endorsed By:

\* This is a sample listing of key financial ratios and covenants. While this template is standard, ratios and covenants specific to the transaction being monitored should be indicated accordingly.

**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

<b>MONITORING REPORT (Annual)</b> <b>For Equity Transactions - Fund / Indirect Investment</b> <b>Performing Investments</b>					
<b>ADB</b>					
Attachments: 1. Valuation Methodology Spreadsheet 2. Fund Financial Statements					
Fund Name:	Board Approval: [date]	First Review: [date]	This Review: [date]		
Fund Manager/GP:	Signing Date:	Last Review: [date]	Next Review: [date]		
Limited Partners:	Investment Date/Vintage Year:	ADB Shareholding %	Target Fund Size:		
Fund Type:	ADB Committed Capital:	ADB % of the Fund:	Total Committed Capital:		
Geographic Focus:	ADB Paid-In Capital:	Currency:	Fund Life (yrs):		
Industry/Sector Focus:	Fund Life Cycle Phase: <input type="checkbox"/> Investment <input type="checkbox"/> Divestment	Actual Holding Period:			
<b>Executive Summary</b>					
<b>Transaction History</b>					
[Compliance/amendments/variations from agreed terms/progress of fund raising etc.]					
<b>Major Changes Since Last Review</b>					
1. Sovereign Overview -- Country/Economic Environment in Focus Countries					
2. Industry Overview & Outlook -- for Focus Industries					
3. Investment Strategy					
<b>Key Risk Issues</b>					
<b>Development Impact Assessment</b>					
<b>Portfolio Updates</b>					
<b>Fund Portfolio / Investee Companies</b>			<b>Exits</b>		
Company	Investment Amt	Company	Realized Amt	Realized IRR	Remarks
<b>Impaired / Written-Off Investments</b>					
		Company	Realized Amt	Realized IRR	Remarks
<b>Valuation Methodology</b>			<b>Equity Valuation</b> <i>(see attached spreadsheet for details)</i>		
			Current Fund NAV:		
			ADB NAV (ADB Residual Value):		
			Total ADB Distributions:		
			Total Value (Residual Value + Distributions):		
			RVPI (Residual Value / Paid-In Capital):		
			TVPI (Total Value / Paid-in Capital):		
			DPI (Total Distributions / Paid-in Capital):		
			Benchmark IRR:		
			Expected IRR:		
			Realized IRR:		
<b>Operating Department</b>					
Deal/Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:	
<b>Risk Management Unit</b>					
Comments/Recommendation:				Recommended Frequency of Review:	Date Endorsed:
					Endorsed By:



## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

MONITORING REPORT (Quarterly) For Loan and Guarantee Transactions - Corporate Risk Rated NSO 10 - 12				
To be used for balance sheet-based transactions with a corporate entity considered to be a going concern.				
Attachments: 1. Risk Rating Sheet 2. Financial Spreadsheet				
Transaction Name:	Board Approval: [date]	First Review: [date]	This Review: [date]	
Borrower:	Signing Date:	Last Review: [date]	Next Review: [date]	
Country:	First Disbursement:			
Industry/Sector:	Current	Proposed	Final	
Type of Business:	ORR	ORR	ORR	
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee; Type _____	FRR	FRR	FRR	
Amount/s:	EL:	UL:	RAROC:	
Pricing:	Provisioning Amt:	Tenor:	Grace Period:	Maturity Date:
<b>Executive Summary</b>				
<b>Transaction History</b>				
[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]				
<b>Major Risk Factors</b>				
Risks Already Identified	New (This Quarter)	Changes (Improvements/Deterioration)	Risk Mitigation Measures Taken During this Quarter	
<b>Risk Issues for Monitoring Over the Next 3 Months</b>				
Risk Issues	Monitoring Action	Recommended Action in case of Deterioration		
<b>Key Rating Drivers (For Proposed Risk Rating)</b>				
<b>Development Impact Assessment</b>				
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>				
	Last Quarter	This Quarter	Variance	Remarks
Gross Profit Margin				
Net Profit Margin				
ROA				
ROE				
EBITDA Interest Coverage				
Current Ratio				
Total Debt/Equity Ratio				
<b>Key Covenants*</b>				
	Covenant	This Quarter	Complied?	Remarks
<b>Operating Department</b>				
Deal / Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:
				Endorsed By:

\* This is a sample listing of key financial ratios and covenants. While this template is standard, ratios and covenants specific to the transaction being monitored should be indicated accordingly.

## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

<b>MONITORING REPORT (Quarterly)</b> For Loan and Guarantee Transactions - Project Finance Risk Rated NSO 10 - 12				
To be used for transactions with single purpose project company, cash flow-based, ring-fenced, with limited or no recourse to sponsor.				
Attachments: 1. Risk Rating Sheet 2. Financial Spreadsheet				
Transaction Name:	Board Approval: [date]	First Review: [date]	This Review: [date]	
Borrower:	Signing Date:	Last Review: [date]	Next Review: [date]	
Country:	First Disbursement:			
Industry/Sector:	Current	Proposed	Final	
Type of Business:	ORR	ORR	ORR	
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee: Type _____	FRR	FRR	FRR	
Amount/s:	EL:	UL:	RAROC:	
Pricing:	Provisioning Amt:	Tenor:	Grace Period:	Maturity Date:
<b>Executive Summary</b>				
<b>Transaction History</b>				
[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]				
<b>Major Risk Factors</b>				
Risks Already Identified	New (This Quarter)	Changes (Improvements/Deterioration)	Risk Mitigation Measures Taken During this Quarter	
<b>Risk Issues for Monitoring Over the Next 3 Months</b>				
Risk Issues	Monitoring Action	Recommended Action in case of Deterioration		
<b>Key Rating Drivers (For Proposed Risk Rating)</b>				
<b>Development Impact Assessment</b>				
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>				
	Last Quarter	This Quarter	Variance	Remarks
ROA				
ROE				
Min. DSCR				
Ave. DSCR				
Interest Coverage Ratio				
Loan Life Coverage				
Debt / EBITDA				
LT Debt/Equity Ratio				
<b>Key Covenants*</b>				
	Covenant	This Quarter	Complied?	Remarks
<b>Operating Department</b>				
Deal / Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:
				Endorsed By:

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**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

<b>ADB</b>					<b>MONITORING REPORT (Quarterly)</b>				
<b>For Loan and Guarantee Transactions - Financial Institution</b>									
<b>Risk Rated NSO 10 - 12</b>									
<b>Attachments:</b>									
1. Risk Rating Sheet									
2. Financial Spreadsheet									
Transaction Name:					Board Approval: [date]		First Review: [date]		This Review: [date]
Borrower:					Signing Date:		Last Review: [date]		Next Review: [date]
Country:					First Disbursement:				
Industry/Sector:					Current		Proposed		Final
Type of Business:					ORR		ORR		ORR
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee: Type _____					FRR		FRR		FRR
Amount/s:					EL:		UL:		RAROC:
Pricing:			Provisioning Amt:		Tenor:		Grace Period:		Maturity Date:
<b>Executive Summary</b>									
<b>Transaction History</b>									
[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]									
<b>Major Risk Factors</b>									
Risks Already Identified		New (This Quarter)		Changes (Improvements/Deterioration)			Risk Mitigation Measures Taken During this Quarter		
<b>Risk Issues for Monitoring Over the Next 3 Months</b>									
Risk Issues				Monitoring Action			Recommended Action in case of Deterioration		
<b>Key Rating Drivers (For Proposed Risk Rating)</b>									
<b>Development Impact Assessment</b>									
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>									
	Last Quarter		This Quarter		Variance		Remarks		
ROA									
ROE									
Net Interest Margin									
Total CAR									
Total Capital to Gross Loans									
Loans-to-Deposits Ratio									
NPL Ratio									
NPL Coverage Ratio									
Cost/Income Ratio									
<b>Key Covenants*</b>									
		Covenant		This Quarter		Complied?		Remarks	
<b>Operating Department</b>									
Deal / Investment Officer:		Analyst:		Head, PAU:		Director, OD:		Date:	
<b>Risk Management Unit</b>									
Comments/Recommendation:						Recommended Frequency of Review:		Date Endorsed:	
								Endorsed By:	

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## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

MONITORING REPORT (Quarterly) For Equity Transactions - Direct Investment Watch List				
<b>Attachments:</b> 1. Valuation Methodology Spreadsheet 2. Financial Spreadsheet				
Transaction Name:		Original Equity Amount:		ADB Shareholding %
Investee Company:		Currency:		Expected IRR:
Country:		Potential Gain/(Loss):		
Industry/Sector:		Board Approval: [date]	Signing Date:	
Type of Business:		Initial Disbursement:	First Review: [date]	This Review: [date]
Expected Holding Period:	Actual Holding Period:	Final Disbursement:	Last Review: [date]	Next Review: [date]
<b>Executive Summary</b>				
<b>Transaction History</b> <i>[Compliance/waivers/amendments/variations from agreed terms etc.]</i>				
<b>Major Risk Factors</b>				
Risks Already Identified	New (This Quarter)	Changes (Improvements/Deterioration)	Risk Mitigation Measures Taken During this Quarter	
<b>Risk Issues for Monitoring Over the Next 3 Months</b>				
Risk Issues	Monitoring Action	Recommended Action in case of Deterioration		
<b>Development Impact Assessment</b>				
<b>Valuation Methodology</b>		<b>Equity Valuation</b> <i>(see attached spreadsheet for details)</i>		
		Total Disbursements	Total Disposals	Balance
				Market Value
<b>Exit Strategy/Options</b>		<b>Exit Recommendation</b>		
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>				
	This Quarter	Last Quarter	Variance	Remarks
Gross Profit Margin				
Net Profit Margin				
ROA				
ROE				
Min. DSCR				
Ave. DSCR				
Interest Coverage Ratio				
Loan Life Coverage				
Current Ratio				
Debt / EBITDA				
LT Debt/Equity Ratio				
Total Debt/Equity Ratio				
<b>Key Covenants*</b>				
	Covenant	This Quarter	Complied?	Remarks
<b>Operating Department</b>				
Deal / Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:
				Endorsed By:

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## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

MONITORING REPORT (Quarterly) For Equity Transactions - Fund / Indirect Investment Watch List					
<b>ADB</b>					
Attachments: 1. Valuation Methodology Spreadsheet 2. Fund Financial Statements					
Fund Name:	Board Approval: [date]	First Review: [date]	This Review: [date]		
Fund Manager/GP:	Signing Date:	Last Review: [date]	Next Review: [date]		
Limited Partners:	Investment Date/Vintage Year:	ADB Shareholding %	Target Fund Size:		
Fund Type:	ADB Committed Capital:	ADB % of the Fund:	Total Committed Capital:		
Geographic Focus:	ADB Paid-In Capital:	Currency:	Fund Life (yrs):		
Industry/Sector Focus:	Fund Life Cycle Phase: <input type="checkbox"/> Investment <input type="checkbox"/> Divestment		Actual Holding Period:		
<b>Executive Summary</b>					
<b>Transaction History</b>					
[Compliance/amendments/variations from agreed terms/progress of fund raising etc.]					
<b>Major Risk Factors</b>					
Risks Already Identified	New (This Quarter)	Changes (Improvements/Deterioration)	Risk Mitigation Measures Taken During this Quarter		
<b>Risk Issues for Monitoring Over the Next 3 Months</b>					
Risk Issues	Monitoring Action		Recommended Action in case of Deterioration		
<b>Development Impact Assessment</b>					
<b>Portfolio Updates</b>					
<b>Fund Portfolio / Investee Companies</b>					
		<b>Exits</b>			
Company	Investment Amt	Company	Realized Amt	Realized IRR	Remarks
<b>Impaired / Written-Off Investments</b>					
		Company	Realized Amt	Realized IRR	Remarks
<b>Valuation Methodology</b>		<b>Equity Valuation</b> <i>(see attached spreadsheet for details)</i>			
		Current Fund NAV:			
		ADB NAV (ADB Residual Value):			
		Total ADB Distributions:			
		Total Value (Residual Value +			
		RVPI (Residual Value / Paid-In Capital):			
		TVPI (Total Value / Paid-in Capital):			
		DPI (Total Distributions / Paid-in Capital):			
		Benchmark IRR:			
		Expected IRR:			
		Realized IRR:			
<b>Operating Department</b>					
Deal / Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:	
<b>Risk Management Unit</b>					
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:	
				Endorsed By:	



**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

<b>MONITORING REPORT (Monthly)</b>				
<b>For Loan and Guarantee Transactions - Corporate</b>				
<b>Risk Rated NSO 13 and D</b>				
<i>To be used for balance sheet-based transactions with a corporate entity considered to be a going concern.</i>				
<i>Attachments:</i> 1. Risk Rating Sheet 2. Financial Spreadsheet				
Transaction Name:	Board Approval: [date]	First Review: [date]	This Review: [date]	
Borrower:	Signing Date:	Last Review: [date]	Next Review: [date]	
Country:	First Disbursement:			
Industry/Sector:	Current	Proposed	Final	
Type of Business:	ORR	ORR	ORR	
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee; Type _____	FRR	FRR	FRR	
Amount/s:	EL:	UL:	RAROC:	
Pricing:	Provisioning Amt:	Tenor:	Grace Period:	Maturity Date:
<b>Executive Summary</b>				
<b>Transaction History</b>				
<i>[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]</i>				
<b>Major Risk Factors</b>				
Risks Already Identified	New (This Month)	Changes (Improvements/Deterioration)	Risk Mitigation Measures Taken During the Month	
<b>Risk Issues for Monitoring Over the Next Month</b>				
Risk Issues	Monitoring Action	Recommended Action in case of Deterioration		
<b>Key Rating Drivers (For Proposed Risk Ratings)</b>				
For Obligor Risk Rating		For Facility Risk Rating		
<b>Development Impact Assessment</b>				
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>				
<b>INTERIM</b>	Last Month	This Month	Variance	Remarks
Gross Profit Margin				
Net Profit Margin				
ROA				
ROE				
EBITDA Interest Coverage				
Current Ratio				
Total Debt/Equity Ratio				
<b>Key Covenants*</b>				
	Covenant	This Month	Complied?	Remarks
<b>Operating Department</b>				
Deal / Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:
				Endorsed By:

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## OPERATIONS MANUAL OPERATIONAL PROCEDURES (OP)

<b>ADB</b> <b>MONITORING REPORT (Monthly)</b> <b>For Loan and Guarantee Transactions - Project Finance</b> <b>Risk Rated NSO 13 and D</b>				
To be used for transactions with single purpose project company, cash flow-based, ring-fenced, with limited or no recourse to sponsor.				
Attachments: 1. Risk Rating Sheet 2. Financial Spreadsheet				
Transaction Name:		Board Approval: [date]	First Review: [date]	This Review: [date]
Borrower:		Signing Date:	Last Review: [date]	Next Review: [date]
Country:		First Disbursement:		
Industry/Sector:		Current	Proposed	Final
Type of Business:		ORR	ORR	ORR
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee: Type _____		FRR	FRR	FRR
Amount/s:		EL:	UL:	RAROC:
Pricing:	Provisioning Amt:	Tenor:	Grace Period:	Maturity Date:
<b>Executive Summary</b>				
<b>Transaction History</b>				
[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]				
<b>Major Risk Factors</b>				
Risks Already Identified	New (This Month)	Changes (Improvements/Deterioration)	Risk Mitigation Measures Taken During the Month	
<b>Risk Issues for Monitoring Over the Next Month</b>				
Risk Issues	Monitoring Action		Recommended Action in case of Deterioration	
<b>Key Rating Drivers (For Proposed Risk Ratings)</b>				
For Obligor Risk Rating			For Facility Risk Rating	
<b>Development Impact Assessment</b>				
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>				
<b>INTERIM</b>	Last Month	This Month	Variance	Remarks
ROA				
ROE				
Min. DSCR				
Ave. DSCR				
Interest Coverage Ratio				
Loan Life Coverage				
Debt / EBITDA				
LT Debt/Equity Ratio				
<b>Key Covenants*</b>				
	Covenant	This Month	Complied?	Remarks
<b>Operating Department</b>				
Deal / Investment Officer:	Analyst:	Head, PAU:	Director, OD:	Date:
<b>Risk Management Unit</b>				
Comments/Recommendation:			Recommended Frequency of Review:	Date Endorsed:
				Endorsed By:

\* This is a sample listing of key financial ratios and covenants. While this template is standard, ratios and covenants specific to the transaction being monitored should be indicated accordingly.

**OPERATIONS MANUAL  
 OPERATIONAL PROCEDURES (OP)**

<b>ADB</b>					<b>MONITORING REPORT (Monthly)</b>				
<b>For Loan and Guarantee Transactions - Financial Institution</b>									
<b>Risk Rated NSO 13 and D</b>									
<b>Attachments:</b>									
1. Risk Rating Sheet									
2. Financial Spreadsheet									
Transaction Name:					Board Approval: [date]		First Review: [date]		This Review: [date]
Borrower:					Signing Date:		Last Review: [date]		Next Review: [date]
Country:					First Disbursement:				
Industry/Sector:					Current		Proposed		Final
Type of Business:					ORR		ORR		ORR
Transaction: <input type="checkbox"/> Loan <input type="checkbox"/> Guarantee: Type _____					FRR		FRR		FRR
Amount/s:					EL:		UL:		RAROC:
Pricing:			Provisioning Amt:		Tenor:		Grace Period:		Maturity Date:
<b>Executive Summary</b>									
<b>Transaction History</b>									
[Compliance/waivers/repayment history/amendments/variations from agreed terms etc.]									
<b>Major Risk Factors</b>									
Risks Already Identified		New (This Month)		Changes (Improvements/Deterioration)			Risk Mitigation Measures Taken During the Month		
<b>Risk Issues for Monitoring Over the Next Month</b>									
Risk Issues				Monitoring Action				Recommended Action in case of Deterioration	
<b>Key Rating Drivers (For Proposed Risk Ratings)</b>									
For Obligor Risk Rating					For Facility Risk Rating				
<b>Development Impact Assessment</b>									
<b>Key Financial Ratios and Covenants* (For details see attached Financial Template)</b>									
<b>INTERIM</b>	Last Month		This Month		Variance		Remarks		
ROA									
ROE									
Net Interest Margin									
Total CAR									
Total Capital to Gross Loans									
Loans-to-Deposits Ratio									
NPL Ratio									
NPL Coverage Ratio									
Cost/Income Ratio									
<b>Key Covenants*</b>									
Covenant		This Month		Complied?		Remarks			
<b>Operating Department</b>									
Deal / Investment Officer:		Analyst:		Head, PAU:		Director, OD:		Date:	
<b>Risk Management Unit</b>									
Comments/Recommendation:						Recommended Frequency of Review:		Date Endorsed:	
								Endorsed By:	

\* This is a sample listing of key financial ratios and covenants. While this template is standard, ratios and covenants specific to the transaction being monitored should be indicated accordingly.