

2014

ADB FINANCIAL PROFILE





# ADB FINANCIAL PROFILE 2014

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# Contents

Abbreviations	iv
ADB Financial Profile 2014	1
ADB in the Asia and Pacific Region	2
ADB Operations	4
Operating Results and Highlights of 2013	6
Credit Fundamentals	7
Borrowing Operations	17
Financial Products	21
Special Funds	28
ADB Members	29
Directory	30
ADB Online	33

# Abbreviations

ADB	Asian Development Bank
CSF	Countercyclical Support Facility
DMC	developing member country
ECP	Euro-Commercial Paper
LBL	LIBOR-based loan
LCL	local currency loan
LIBOR	London interbank offered rate
MFF	Multitranche Financing Facility
OCR	ordinary capital resources
OECD	Organisation for Economic Co-operation and Development
PCG	partial credit guarantee
RBL	results-based lending
TFP	Trade Finance Program
US	United States
VaR	Value-at-risk



# ADB Financial Profile 2014

The Asian Development Bank is a strongly capitalized, multilateral development bank dedicated to reducing poverty in the Asia and Pacific region through inclusive economic growth, environmentally sustainable growth, and regional integration.

The Asian Development Bank (ADB) was established in 1966 under the Agreement Establishing the Asian Development Bank (Charter), which is binding upon the member countries that are its shareholders. As of 31 December 2013, ADB had 67 members, of which 48 were drawn from the Asia and Pacific region. Twenty-three ADB members were also members of the Organisation for Economic Co-operation and Development (OECD).

ADB is headquartered in Manila, Philippines, and has offices worldwide including representative offices in North America (Washington, DC), Europe (Frankfurt), and Japan (Tokyo).

ADB's staff as of 31 December 2013 totaled 2,969 from 61 of its 67 members.



# ADB in the Asia and Pacific Region

ADB's vision is "an Asia and Pacific region free of poverty."

ADB's mission is to help its developing member countries reduce poverty and improve living conditions and quality of life.

ADB will aim to make substantive contributions toward its vision by focusing its support on three strategic agendas: inclusive economic growth, environmentally sustainable growth, and regional integration.

Under ADB's long-term strategic framework adopted in 2008, ADB defines its role and strategic directions to guide operations through 2020, and enhances its relevance and effectiveness in assisting its developing member countries (DMCs).

**Table 1: ADB at a Glance**

as of 31 December (\$ million)

	2013	2012	2011	2010
OCR Loan Approvals <sup>a</sup>				
Sovereign	8,761	8,277	8,642	8,197
Nonsovereign	1,425	1,007	1,250	815
OCR Loan Disbursements				
Sovereign	5,178	6,212	5,621	5,272
Nonsovereign	807	553	715	673
Grants <sup>a</sup>	849	670	614	952
Supply Chain Finance	–	200	–	–
Guarantees <sup>a</sup>	35	403	267	390
Equity <sup>a</sup>	142	131	214	235
Technical Assistance <sup>a</sup>	156	151	146	173
Cofinancing	6,648	8,272	7,694	5,311
Authorized Capital	163,840	163,512	163,336	163,843
Subscribed Capital	162,809	163,129	162,487	143,950
Borrowings (gross) ( <i>for the period</i> )	12,725	15,067	14,446	14,940
Outstanding Debt <sup>b</sup>	61,615	64,762	58,257	51,822
Operating Income	469	465	587	548

– = nil, OCR = ordinary capital resources.

<sup>a</sup> Excludes terminated loans, grants, equities, guarantees, and technical assistance.

<sup>b</sup> From 2012 onward, amount includes accrued interest and commission.

Note: Totals may not add up because of rounding.

Source: Asian Development Bank Annual Report. 2013.





# ADB Operations

To fulfill its mission, ADB promotes the economic growth and social development of its developing member countries by means of a wide range of activities and initiatives.

ADB finances loan projects and programs in the territories of its DMCs. It also provides technical assistance, grants, guarantees, and equity investments.

ADB also facilitates policy dialogues, provides advisory services, and mobilizes financial resources through cofinancing operations that tap official, commercial, and export credit sources. This maximizes the development impact of its assistance. Operations are financed from ordinary capital resources (OCR) and Special Funds.

ADB's Charter requires OCR and Special Funds to be at all times held and used separately from each other.

## Ordinary Capital Resources

ADB's OCR operations are diverse, covering agriculture and natural resources, education, energy, finance, health and social protection, industry and trade, public sector management, transport and information and communication technology, multisector, and water supply and other municipal infrastructure and services. OCR loans are generally reserved for DMCs that have attained a higher level of economic development.

From its establishment through 31 December 2013, ADB had approved loans, net of terminations and reductions, aggregating \$155,491 million in its ordinary operations. As of 31 December 2013, the total amount of ADB's loans outstanding, undisbursed balances of effective loans, and

loans not yet effective in its ordinary operations was \$85,185 million. Of this total, 92.7% represented sovereign loans, that is, loans to the public sector (member countries and, with the guarantee of the concerned member, government agencies or other public entities). About 7.3% represented nonsovereign loans, that is, loans to private sector enterprises, financial institutions, and selected nonsovereign public sector entities.

**OCR Funding** Funding sources for OCR include paid-in capital, retained earnings (reserves), and proceeds from debt issuance. To finance its OCR lending operations, ADB issues debt securities in the international and domestic capital markets.

ADB’s debt securities carry the highest possible investment ratings from major international credit rating agencies.

Table 2: Investment Ratings

Agency	Rating
Moody’s Investors Service	Aaa
Standard and Poor’s	AAA
Fitch	AAA



# Operating Results and Highlights of 2013

(2012 figures in parentheses)

ADB has achieved solid performance every year since its establishment, with very low levels of loan default. Operating income for 2013 amounted to \$469 million (\$465 million).

**Loans—OCR** ADB approved loans from OCR totaling \$10,186 million in 2013 (\$9,284 million), including \$1,425 million (\$1,007 million) to nonsovereign borrowers.

**Equity Investments—OCR** ADB approved equity investments of \$142 million (\$131 million).

**Borrowings** ADB raised a total of \$11,975 million (\$13,217 million) in long- and medium-term funds and \$2,518 million (\$5,684 million) in short-term funds.



# Credit Fundamentals

ADB's capital structure provides the greatest levels of security for fixed-income investors.

## A Strong Balance Sheet, Backed by Sovereign Shareholders

Subscribed capital consists of paid-in capital and callable capital.

Paid-in capital constitutes the equity portion of capital available for ADB's OCR operations, including lending. This is supplemented by retained earnings and leveraged by the proceeds of ADB's borrowings.

Callable capital is available to protect ADB's creditors—mainly investors in ADB's bonds and holders of ADB's guarantees—in the unlikely event of large-scale default by ADB's borrowers. ADB has never made a call on its callable capital.

ADB's shareholders consist of 48 developing and developed members in the Asia and Pacific region, and 19 members from outside the region. Each shareholder is represented on the Board of Governors, in which all of ADB's powers are vested. As of 31 December 2013, ADB's five largest shareholders are Japan (with 15.7% of total shares), the United States (US) (15.6%), People's Republic of China (6.5%), India (6.4%), and Australia (5.8%). ADB members who are also members of OECD hold 64.6% of total subscribed capital and 58.5% of total voting power.

**Table 3: Capitalization**  
as of 31 December (\$ million)

	2013	2012	2011	2010
Subscribed Capital	162,809	163,129	162,487	143,950
Callable Capital	154,640	154,951	154,336	136,535
Paid-in Capital	8,169	8,178	8,151	7,415
Less: Other Adjustments	2,284	2,959	3,493	3,500
Net Paid-in Capital	5,885	5,219	4,658	3,915
Retained Earnings	11,253	11,201	11,876	11,964
<b>Total</b>	<b>17,138</b>	<b>16,420</b>	<b>16,534</b>	<b>15,879</b>
Outstanding Borrowings (after swaps)	61,634	60,517	54,350	48,121
<b>Total Capitalization</b>	<b>78,772</b>	<b>76,937</b>	<b>70,884</b>	<b>64,000</b>

Source: Asian Development Bank Annual Report. 2013.

**Table 4: ADB Shareholdings**  
as of 31 December 2013

OECD Members	%	Developing Members	%
Japan	15.7	People's Republic of China	6.5
United States	15.6	India	6.4
Australia	5.8	Indonesia	5.2
Canada	5.3	Malaysia	2.7
Republic of Korea	5.1	Philippines	2.4
Germany	4.3	Pakistan	2.2
France	2.3	Thailand	1.4
United Kingdom	2.1	Taipei, China	1.1
Italy	1.8	Bangladesh	1.0
New Zealand	1.5	Others (Regional)	6.6
the Netherlands	1.0		
Others (Nonregional)	4.1		
<b>Total</b>	<b>64.6</b>		<b>35.4</b>

OECD = Organisation for Economic Co-operation and Development.

Note: Totals may not add up because of rounding.

## Conservative Financial Management

ADB maintains the highest reputation as a borrower in financial markets as a result of strong governance and conservative financial management.

Two fundamental principles underpin ADB's strength:

- **Lending limitation** Under ADB's lending policy, the total amount of disbursed loans, approved equity investments, and the maximum amount that could be demanded from ADB under its guarantee portfolio may not exceed the total amount of ADB's unimpaired subscribed capital, reserves, and surplus (excluding special reserve).
- **Borrowing limitation** Under ADB's borrowing policy, ADB's gross outstanding borrowings may not exceed the sum of callable capital of nonborrowing members, paid-in capital, and reserves (including surplus).

ADB's conservative financial management policies have consistently held its loans and borrowings well within these limits. As of 31 December 2013, ADB's total amount of disbursed loans, approved equity investments, and the maximum amount that could be demanded from ADB under its guarantee portfolio was equivalent to 31.1% of the lending ceiling, while ADB's gross outstanding borrowings were equivalent to 50.0% of the borrowing ceiling.

The primary objective of ADB's investment strategy is to ensure the optimal level of liquidity and capital preservation. Subject to this objective, ADB seeks to maximize the total return on investments. As a result, ADB's liquidity portfolio is managed prudently and conservatively. Liquid investments are held in government and government-related debt instruments, time deposits, and other unconditional obligations of highly rated banks and financial institutions. To a limited extent, they are also held in corporate bonds that are rated at least A-.

ADB's liquid investments consist of 24 currencies managed in portfolios specific to a designated purpose. The purpose of the working capital portfolios (operational cash and cash cushion portfolios) is to manage ADB's short-term cash flow requirements and to hold the proceeds of the borrowing transactions pending disbursement. The discretionary liquidity portfolio is funded by debt and is intended to provide flexibility in executing ADB's funding program by borrowing ahead of cash flow needs, avoid refinancing risk from a concentration of large borrowings, and smoothen the capital market presence. The equity-funded core liquidity portfolio ensures that ADB can meet its minimum net cash requirement by sustaining an uninterrupted supply of funds for 18 months under

normal and stress conditions. The core liquidity portfolio is invested to ensure that the primary objective of a liquidity buffer is met. The portfolio has been funded by equity, and the average duration of the major currencies in the portfolio was about 2.1 years at 31 December 2013.

**Table 5: Year-End Balances and Returns on Liquidity Portfolios**

	Year-End Balance <sup>a</sup>		Annualized Return (%)			
	(\$ million)		Amortized Cost		Fair Value	
	2013	2012	2013	2012	2013	2012
Core liquidity portfolio	15,890	15,012	1.9	2.3	0.2	2.1
Operational cash portfolio	222	212	0.1	0.1	0.1	0.1
Cash cushion portfolio	2,778	1,412	0.4	0.5	0.4	0.5
Discretionary liquidity portfolio	5,981	7,091	0.3 <sup>b</sup>	0.4 <sup>b</sup>	0.3 <sup>b</sup>	0.4 <sup>b</sup>
Others	543	603	2.7	2.7	0.7	1.4
<b>Total</b>	<b>25,414</b>	<b>24,330</b>				

<sup>a</sup> Including securities purchased under resale arrangements, securities transferred under securities repurchase agreements and unsettled trades. The composition of the liquidity portfolio may shift from year to year as part of the ongoing liquidity management.

<sup>b</sup> Spread over funding cost.

Note: Totals may not add up because of rounding.

The amortized returns are based on income from investments and realized gains and losses reported in Statement of Income and Expenses. The fair value returns incorporate unrealized gains and losses that are reported as part of other comprehensive income (loss) and whose movements are dependent on prevailing market environment.

## Comprehensive Risk Management

In its operations, ADB faces various kinds of risks, including financial, operational, and other organizational risks. ADB's risk management framework is built on three core components: governance, policies, and processes. Governance starts with the Board of Directors, which reviews and approves risk policies that define ADB's risk appetite. ADB maintains an independent risk management office and has various management committees with responsibility to oversee ADB-wide risk issues and endorse related decisions for approval by the Board of Directors and the President. ADB's risk management framework includes the Risk Committee, which provides high-level oversight of ADB's risks and recommends risk policies and actions to the President.

ADB monitors the credit profile of existing transactions in the operations portfolio, conducts risk assessments of new nonsovereign transactions, and assumes responsibility for resolving distressed transactions when necessary. It also monitors market and credit risks in treasury operations, such as the credit quality of counterparties, interest rate risk, and foreign

exchange risk. In addition, ADB has developed an operational risk management framework for the institution. For the aggregate portfolio, ADB monitors limits and concentrations, sets aside loan loss reserves, provides loan loss provisions including collective provision requirements, and assesses its capital adequacy.

In carrying out its mission, ADB is exposed to credit, market, liquidity, and operational risks. This section will discuss each of these risks as well as ADB's capital adequacy—ADB's ultimate protection against unexpected losses—and its asset and liability management.

### **Credit Risk—Sovereign**

Sovereign credit risk is the risk that a sovereign borrower or guarantor will default on its loan or guarantee obligations. ADB manages its sovereign credit risk through loan loss reserves and by maintaining conservative equity levels. ADB's OCR have not experienced any loss of principal from sovereign operations. When countries have delayed payments, they have generally returned their loans to accrual status and ADB has never had to write off a sovereign loan funded from OCR.

ADB charges provisions against income for a specific transaction if it is considered impaired. In addition, ADB also appropriates loan loss reserves in the equity section of its balance sheet for the average loss that ADB could incur in the course of lending. The provisions are based on projections of future repayment capacity. The loan loss reserve is based on the historical default experience of sovereign borrowers to multilateral development banks. The sum of the provisions and loan loss reserve represents ADB's expected loss for sovereign operations.

### **Credit and Equity Risk—Nonsovereign**

Nonsovereign credit risk is the risk that a borrower will default on its loan or guarantee obligations for which ADB does not have recourse to a sovereign entity. ADB's nonsovereign credit risk is considered more significant because of the uncertain economic environment in some of ADB's markets. In addition, ADB's exposure is concentrated in the energy and finance sectors. ADB employs various policy-based measures to manage these risks.

The Investment Committee and the Risk Committee oversee risks in the nonsovereign portfolio. The Investment Committee reviews all new nonsovereign transactions for creditworthiness and pricing. The Risk Committee monitors aggregate portfolio risks and individual transactions whose creditworthiness has deteriorated. It endorses policy changes in managing the portfolio's risks and approves provisions for impaired transactions.



ADB manages its nonsovereign credit risk by assessing all new transactions at both the concept clearance stage and before final approval. Following approval, all exposures are reviewed at least annually; more frequent reviews are performed for those transactions that are more vulnerable to default or have defaulted. In each review, ADB assesses whether the risk profile has changed, takes necessary actions to mitigate risks, and either confirms or adjusts the risk rating, and updates the valuation for equity investments, including assessing whether impairments are considered other than temporary. ADB will provide specific provisions, when necessary, in accordance with its provisioning policy.

ADB recognizes specific provisions in net income for known or probable losses in loans or guarantee transactions, and collective provisions for unidentified probable losses that exist in disbursed loan transactions rated below investment grade. In addition, ADB appropriates loan loss reserves in the equity section of its balance sheet for the average loss that ADB would expect to incur in the course of lending for credit transactions rated investment grade and for the undisbursed portions of credit transactions rated worse than investment grade. Specific provisions are based on projections of future repayment capacity. The collective provision and loan loss reserve are based on historical default data from Moody's Investors Service that is mapped to ADB's portfolio. ADB annually tests whether this external data reasonably corresponds to ADB's actual loss experience and may adjust estimates based on this back testing. The sum of the specific provision, collective provision, and loan loss reserve represents ADB's expected loss for nonsovereign operations.

ADB uses limits for countries, industry sectors, corporate groups, obligors, products, and individual transactions to manage concentration risk in its nonsovereign portfolio.

### **Credit Risk—Treasury Portfolio**

Issuer default and counterparty default are credit risks that affect the treasury portfolio. Issuer default is the risk that a bond issuer will default on its interest or principal payments, while counterparty default is the risk that a counterparty will not meet its contractual obligations to ADB.

To mitigate issuer and counterparty credit risks, ADB only transacts with institutions with ratings from at least two reputable external rating agencies. Moreover, the treasury portfolio is generally invested in conservative assets, such as money market instruments and government securities. In addition, ADB has established exposure limits for its corporate investments, depository relationships, and other investments.

ADB has counterparty eligibility criteria to mitigate counterparty credit risk arising through derivative transactions. In general, ADB

will only undertake swap transactions with counterparties that meet the required minimum counterparty credit rating, have executed an International Swaps and Derivatives Association Master Agreement or its equivalent, and have signed a credit support annex. Under the credit support annex, derivative positions are marked-to-market daily and the resulting exposures are generally collateralized by cash or US government securities. ADB also sets exposure limits for individual swap counterparties and monitors these limits against current and potential exposures. ADB enforces daily collateral calls as needed to ensure that counterparties meet their collateral obligations.

### **Market Risk**

Market risk is the risk of loss on financial instruments because of changes in market prices. ADB principally faces three forms of market risk: equity price risk (as discussed in Credit and Equity Risk—Nonsovereign), interest rate risk, and foreign exchange risk.

#### **Market Risk—Interest Rate**

Interest rate risk in the operations portfolio is hedged as the borrowers' interest payments are matched to ADB's borrowing expenses. Therefore, the borrower must assume or hedge the risk of fluctuating interest rates, whereas ADB's margins remain largely constant.

ADB is primarily exposed to interest rate risk through the liquidity portfolio. ADB monitors and manages interest rate risks in the liquidity portfolio by employing various quantitative methods. It marks all positions to market, monitors interest rate risk metrics, and employs stress testing and scenario analysis.

ADB uses duration and interest rate value-at-risk (VaR) to measure interest rate risk in the treasury portfolio. Duration is the estimated percentage change in the portfolio's value in response to a 1% parallel change in interest rates. Interest rate VaR is a measure of possible loss at a given confidence level in a given time frame because of changes in interest rates. ADB uses a 95% confidence level and a 1-year horizon. In other words, ADB would expect to lose at least this amount once every 20 years because of fluctuations in interest rates. ADB uses duration and VaR to measure interest rate risk across the liquidity portfolio, with particular attention to the major currencies of the core liquidity portfolio, which is the most exposed to interest rate risk.

#### **Market Risk—Foreign Exchange**

ADB endeavors to minimize exposure to exchange rate risk in its operations. In both the operations and treasury portfolios, ADB is required to match the currency of its assets with the currencies of liabilities and equity. Borrowed funds or funds to be invested may only be converted

into other currencies provided they are fully hedged through cross-currency swaps or forward exchange agreements. However, because of its multicurrency operations, ADB is exposed to fluctuations in reported US dollar results due to currency translation adjustments.

### **Liquidity Risk**

Liquidity risk can arise if ADB is unable to raise funds to meet its financial and operational commitments. ADB maintains core liquidity to safeguard against a liquidity shortfall in case its access to the capital market is temporarily denied. The overriding objective of the liquidity policy is to enable ADB to obtain the most cost-efficient funding under normal and stressed situations and manage liquidity optimally to achieve its development mission. The Board of Directors approved a revised liquidity policy framework in 2011. The revised policy redefined the prudential minimum liquidity as 45% of the 3-year net cash requirements. This represents the minimum amount of liquidity necessary for ADB to continue operations even if access to capital markets is temporarily denied. Maintaining the prudential minimum liquidity level is designed to enable ADB to cover normal net cash requirements for 18 months under normal and stressed situations without borrowing. The liquidity levels and cash requirements are monitored on an ongoing basis and reviewed by the Board of Directors quarterly. The revised policy allows for the discretionary liquidity portfolio to maintain a debt-funded subportfolio that will be excluded from the net cash requirements and prudential minimum liquidity calculations.

### **Operational Risk**

ADB defines operational risk as the risk of loss resulting from inadequate or failed internal processes, people, or systems, or from external events. ADB manages its operational risks using a framework endorsed by the Risk Committee and approved by the President in 2012. The framework enables ADB to implement an approach that focuses on identifying, accessing, and managing risks to minimize potential adverse impacts.

Key components of ADB's operational risk management approach include (i) employing the Operational Risk Self Assessment in its key business areas, (ii) using key risk indicators for operational risk profile monitoring and the collection of risk event information, and (iii) promoting risk awareness including presentations to staff on the application of the methodologies. ADB continues to roll out operational risk management methodologies and tools across organizational lines.

Like any other organization, ADB is exposed to various types of operational risk, which it mitigates by applying internal controls and monitoring areas of particular concern. ADB utilizes risk transfer, including

insurance, for mitigating low frequency and high severity operational risks. In addition, ADB effected enhancements to its Business Continuity management including (i) streamlining of the business continuity management system, (ii) improving information technology for disaster recovery, (iii) enhancing the recovery sites, and (iv) strengthening of business continuity plan testing.

### Capital Adequacy

ADB's most significant risk is if a large portion of its loan portfolio were to default. Credit risk is measured in terms of expected and unexpected losses. For expected losses, ADB holds loan loss reserves and provisions. For unexpected losses, ADB relies on its income-generating capacity and capital, which is a financial institution's ultimate protection against unexpected losses that may arise from credit and other risks.

ADB principally uses stress testing to assess the capacity of its capital to absorb unexpected losses. The framework has two objectives. First, it measures ADB's ability to absorb income losses because of a credit shock. Through this monitoring, ADB reduces the probability that it would have to rely on shareholder support, such as additional paid-in capital or a capital call.

Second, the framework evaluates ADB's ability to generate sufficient income to support loan growth after a credit shock. As a development institution, ADB's mandate becomes more important during a financial crisis when some DMCs may find their access to capital markets to be limited. Demand for ADB assistance may rise under such adverse conditions. For the stress test, ADB generates thousands of potential portfolio scenarios and imposes credit shocks that are large enough to account for 99% of those scenarios. ADB then assesses the impact of these shocks on its capital by modeling the ratio of equity to loans over the next 10 years. Throughout 2013, the stress test indicated that ADB had adequate capital to absorb the losses of a severe credit shock and to continue its development lending.

### Asset and Liability Management

ADB has an asset and liability management policy framework that guides all financial policies related to asset and liability management including liquidity, investments, equity management, and capital adequacy. The objectives of the asset and liability management are to safeguard ADB's net worth and capital adequacy, promote steady growth in ADB's risk-bearing capacity, and define financial policies for undertaking acceptable financial risks. The aim is to provide resources for developmental lending at the lowest and most stable funding cost to ADB borrowers, along with the most reasonable lending terms, while safeguarding ADB's financial

strength. ADB's asset and liability management aims to safeguard net worth from foreign exchange rate risks, protect net interest margin from fluctuations in interest rates, and provide sufficient liquidity to meet ADB's operations. ADB also adheres to a cost pass-through pricing policy for loans to sovereign borrowers, and allocates the most cost-efficient borrowings based on cost and maturity to fund these loans.



# Borrowing Operations

A leading AAA borrower, ADB raises funds regularly through the international capital markets.

Efficient fund-raising is critical to ADB's fulfilling its mission of reducing poverty in Asia and the Pacific.

ADB's annual borrowing program is carefully planned to meet the requirements of its lending operations, debt redemptions, and liquidity policy within the context of a dynamic market environment.

ADB's estimated borrowing requirement over the next 3 years ranges from \$13 billion to \$15 billion per annum.

## Objectives

ADB's overriding borrowing objective is to ensure availability of funds at the most stable and lowest possible cost for the benefit of its OCR borrowers. Subject to this objective, ADB seeks to diversify its funding sources across markets, instruments, and maturities.

To achieve its borrowing objectives, ADB pursues a strategy of

- issuing liquid benchmark bonds to maintain a strong presence in key currency bond markets; and
- raising funds through bonds issued in both public and private placement format in various currency markets.

ADB also seeks to develop domestic capital markets in its DMCs through local currency borrowings and derivative activities.

**Table 6: Borrowings**  
as of 31 December (\$ million)

	2013	2012	2011	2010
<b>Outstanding Borrowings<sup>a</sup></b> (before swaps)	61,615	64,762	58,257	51,822
<b>Medium- and Long-Term Borrowings</b>				
Public Offerings	10,078	8,959	10,565	10,726
Private Placements	1,897	4,258	3,444	4,214
<b>Number of Transactions</b>				
Public Offerings	22	17	16	20
Private Placements	36	60	52	72
<b>Number of Currencies</b> (before swaps)				
Public Offerings	5	6	6	6
Private Placements	9	6	7	7
<b>Short-Term Borrowings<sup>b</sup></b>	<b>2,518</b>	<b>5,684</b>	<b>621</b>	<b>30</b>

<sup>a</sup> From 2012 onward, amount includes accrued interest and commission.

<sup>b</sup> At year-end, the outstanding principal amount was \$750 million in 2013 and \$1,849 million in 2012.

**Table 7: Average Maturity of New Borrowings**

	2013	2012	2011	2010
Average Final Maturity (years)	4.6	7.1	6.8	6.1
Average Maturity to First Call (years)	4.2	4.6	4.6	4.9

## Financing Instruments

ADB borrows in a broad range of currencies, instruments, markets, and maturities, reflecting its policy to diversify its borrowings and broaden its investor base.

On 31 December 2013, ADB had outstanding aggregate principal borrowings of \$61,615 million and an average maturity of 3 years.

In 2013, ADB had raised, in medium- and long-term funds, the equivalent of about \$11,975 million (\$13,217 million in 2012) with 58 borrowing transactions. The new borrowings were raised in 10 currencies: Australian dollar, Brazilian real, Japanese yen, Mexican peso, New Zealand dollar, pound sterling, Singapore dollar, South African rand, Turkish lira, and US dollar. Of the 2013 borrowings, \$10,078 million was raised through 22 public offerings, including three global benchmark bond issues denominated in US dollars totaling \$5,500 million. The remaining \$1,897 million was raised through 36 private placements. The average maturity to first call date of these borrowings was 4.2 years (4.6 years in 2012). After swaps, \$10,865 million or 91% was in US dollars and the remaining \$1,110 million or 9% was in Japanese yen.

Among its private placements in 2013, ADB raised about \$234 million from its sale of clean energy bonds and \$119 million from its sale of water bonds, bringing the cumulative thematic bonds issuance to date to about \$1,881 million equivalent. In addition, ADB completed buyback transactions with a total notional amount of about \$173 million in 2013.

ADB also raised \$2,518 million (\$5,684 million in 2012) of short-term funds under its Euro-Commercial Paper Program (ECP). Of the ECPs issued in 2013, \$750 million remained outstanding as of 31 December 2013.

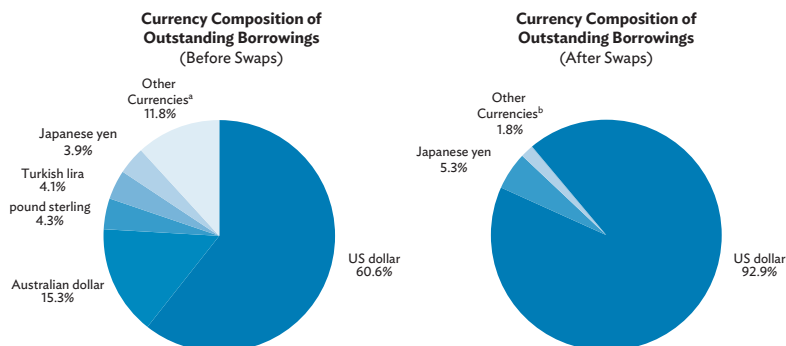
### Derivatives

ADB undertakes currency and interest rate swaps to raise, on a fully hedged basis, currencies needed for its operations in a cost-efficient way while maintaining its borrowing presence in major capital markets. Figures 1 and 2 show the effects of swaps on the currency composition and interest rate structure of ADB's outstanding borrowings as of 31 December 2013. Interest rate swaps are also used for asset and liability management purposes to match the liabilities to the interest rate characteristics of loans.



## Figure 1: Effect on Currency Composition

as of 31 December 2013

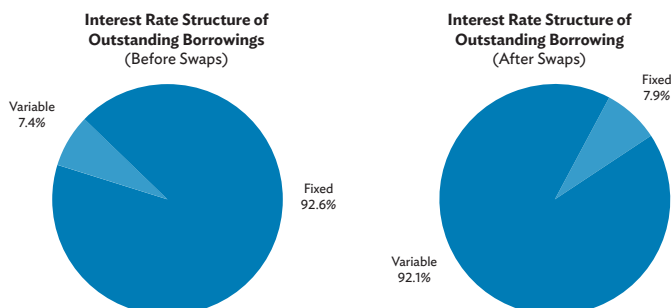


<sup>a</sup> Other currencies include Brazilian real, Canadian dollar, yuan, Indian rupee, ringgit, Mexican peso, New Zealand dollar, Norwegian krone, Singapore dollar, South African rand, Swiss franc, and baht.

<sup>b</sup> Other currencies include yuan, Indian rupee, and Swiss franc.

## Figure 2: Effect on Interest Rate Structures

as of 31 December 2013



## Local Currency Borrowings

ADB is committed to the development of domestic capital markets in its developing member countries.

ADB continues to explore and pursue its objective of contributing to the development of regional bond markets and provide the appropriate local currency financing for its borrowers. In 2013, ADB issued a Singapore dollar-denominated bond under ADB's Asian Currency Note Programme amounting to S\$500 million (\$402 million equivalent).



# Financial Products

## Financing Sustainable Economic and Social Development

### Ordinary Capital Resource Loans

The outstanding OCR loan portfolio includes a variety of loan products (Table 8). Since 1 July 2001, most of ADB's new OCR loans have been LIBOR-based loans (LBLs). Other windows, such as pool-based multicurrency loans, pool-based single currency loans, and market-based loans, were retired with the introduction of LBLs.

LBL products give borrowers a high degree of flexibility through

- choice of currency and interest rate basis,
- repayment options,
- ability to change the original loan terms at any time during the life of the loan, and
- the option to purchase a cap or collar.

LBLs are denominated in euro, yen, or US dollar and can have fixed or floating interest rates. Additional loan currencies may be offered to borrowers from time to time. Initially, LBLs bear a floating rate representing the cost base rate (LIBOR) plus a lending spread. However, the borrower has the option of changing the interest rate basis at any time during the life of the loan. In December 2013, the Board of Directors approved an effective contractual spread of 0.50% for all sovereign loans negotiated on or after 1 January 2014.

**Table 8: OCR Loan Portfolio by Loan Products**

as of 31 December (\$ million)

Loan Products	Sovereign		Nonsovereign	
	2013	2012	2013	2012
LIBOR-based loans				
Outstanding	44,330	41,283	2,462 <sup>a</sup>	2,237 <sup>a</sup>
Undisbursed	28,617	27,009	2,381 <sup>a</sup>	2,159 <sup>a</sup>
Market-based loans				
Outstanding	303	340	18	28
Undisbursed	–	–	–	–
Pool-based Single Currency (¥) loans				
Outstanding	743	1,301	–	–
Undisbursed	–	–	–	–
Pool-based Single Currency (\$) loans				
Outstanding	3,453	4,394	–	–
Undisbursed	–	–	–	–
Countercyclical Support Facility				
Outstanding	875	2,375	–	–
Undisbursed	500	500	–	–
Local currency loans				
Outstanding	144	148	723 <sup>a</sup>	698 <sup>a</sup>
Undisbursed	–	–	635 <sup>a</sup>	832 <sup>a</sup>
Others				
Outstanding	–	6	–	5
Undisbursed	–	–	–	–
<b>Total</b>				
Outstanding	49,849	49,846	3,202	2,968
Undisbursed <sup>b</sup>	29,117	27,509	3,017	2,992

– = nil, LIBOR = London interbank offered rate, OCR = ordinary capital resources.

<sup>a</sup> Includes lending without sovereign guarantee to non-private entities such as state-owned enterprises, government agencies, municipalities, and local government units.<sup>b</sup> Undisbursed balances include undisbursed effective loans and loans approved but not yet effective.

Note: Totals may not add up because of rounding.

The Board of Directors approved in 2011 the introduction of the following maturity premiums for all LBLs to sovereign borrowers or with sovereign guarantees and all local currency loans with sovereign guarantees for which, in each case, formal loan negotiations are completed on or after 1 April 2012: (i) 0.10% per annum on loans with an average loan maturity of greater

than 13 years and up to 16 years, and (ii) 0.20% per annum on loans with an average loan maturity greater than 16 years and up to 19 years. ADB also introduced a limit on the average loan maturity for new sovereign and sovereign-guaranteed loans of 19 years. The average loan maturity is derived on the basis of the weighted average time to repay the loan. As of 31 December 2013, 74 loans totaling \$11,747 million were subject to maturity premium (29 loans totaling \$4,509 million in 2012).

In December 2013, the Board of Directors approved for borrowers of sovereign loans that do not have arrears with ADB a waiver of 0.10% per annum of the commitment fee for project loans negotiated after 1 January 2007 and before 1 October 2007. The waiver of the commitment fee will be applicable with respect to all interest periods commencing from 1 January 2014 up to and including 31 December 2014.

The lending spread for nonsovereign loans reflects, among other considerations, the credit risk of the specific project and borrower and is determined on a case-by-case basis by the Investment Committee.

To continue meeting borrowers' evolving financial needs, ADB offers the local currency loan (LCL) product. Private sector enterprises and certain public sector entities, including local governments and public sector enterprises, may avail themselves of LCLs. LCLs aim to reduce currency mismatches in the DMCs. Under the LCL window, borrowers have the option of changing the interest rate basis of an LCL at any time during the life of the loan by requesting an interest rate conversion to fix or unfix their interest rate, subject to relevant swap market opportunities available to ADB in the local market.

ADB offers a multitranche financing facility (MFF), a debt financing facility that allows ADB to deliver financial resources for a specific program or investment in a series of separate financing tranches over a fixed period. Financing tranches may be provided as loans, guarantees, or any combination of these instruments based on periodic financing requests submitted by the borrower. In 2013, MFFs totaling \$1,555 million (\$2,612 million in 2012) were approved under ordinary capital resources.

## Nonsovereign Development Activities

In 2013, ADB approved \$1.4 billion of nonsovereign loans, \$142 million in equity investments, \$35 million in guarantees, and \$220 million in B-loans. As of 31 December 2013, the overall nonsovereign portfolio (inclusive of outstanding balances and undisbursed commitments on equity investments, loans, and guarantees) was about \$6.9 billion.

ADB established the Countercyclical Support Facility (CSF) in 2009 in response to the global economic crisis that spread to Asia and the Pacific. Loans approved under the CSF carry a lending spread of 2.0% above ADB's average funding cost, and have a maturity of 5 years, including a 3-year grace period. As of 31 December 2013, four sovereign loans totaling \$875 million were outstanding.

ADB's Board of Directors approved a new policy on piloting Results-Based Lending (RBL) for programs in March 2013. The objective of RBL is to improve development effectiveness. Under RBL, ADB supports governments in designing and implementing government-owned sector programs. Disbursement is linked directly with the achievement of program results. Program implementation uses developing member countries' own program systems which are assessed and improved (as necessary) based on commonly accepted good practice principles. Loan terms under RBL will be the same as those for investment projects. The pilot period for RBL is 6 years. Management will carry out a midterm review around 3 years after implementation. The RBL experience will be independently evaluated at the end of the pilot period. ADB has limited the resources for RBL programs to 5% of the total ordinary capital resources and Asian Development Fund allocation for the first 3 years from the effective date of the policy. As of 31 December 2013, one ordinary capital resources loan amounting to \$100 million was approved under RBL. During the year, disbursements under the loan amounted to \$20 million.

## Debt Management Products

ADB offers debt management products to members and entities fully guaranteed by members in relation to their third-party liabilities.

Debt management products offered by ADB include currency swaps, including local currency swaps, and interest rate swaps. While currency swaps include the possibility of members or guaranteed entities transforming a foreign currency liability into a local currency liability, the reverse transformation of a local currency liability into a foreign currency liability is not offered.

## Equity Investment

The ADB Charter allows the use of OCR for equity investments in an amount up to 10% of ADB's unimpaired paid-in capital actually paid up, together with reserves and surplus, excluding special reserves. At the end of 2013, the total equity investment portfolio for OCR for both

outstanding and undisbursed approved facilities totaled \$1,375 million, or about 81% of the ceiling defined by the Charter.

In 2013, ADB approved four equity investments totaling \$142 million (three equity investments totaling \$131 million in 2012). In the same period, ADB disbursed a total of \$166 million in equity investments, a 48.2% increase from the \$112 million disbursed in 2012, and received a total of \$321 million from capital distributions and divestments, whether in full or in part, in 31 projects. The divestments were carried out in a manner consistent with good business practices, after ADB's development role in its investments had been fulfilled, and without destabilizing the companies concerned.

## Guarantees

To catalyze capital flows into and within its developing member countries for eligible projects, ADB extends guarantees for eligible projects which enable financing partners to transfer certain risks that they cannot easily absorb or manage on their own to ADB. ADB's guarantees cover a wide variety of debt instruments and support infrastructure projects, financial institutions, capital market investors, and trade financiers. Guarantees may provide either comprehensive (financial risk) or limited coverage, including political risk.

Guarantees can be provided when ADB has a direct or indirect participation in a project or related sector, through a loan, equity investment, or technical assistance. Guarantee tenors are based on the requirements of the underlying project and are callable when a guaranteed event has occurred. Guarantee fees vary depending on whether ADB benefits from a sovereign counterindemnity or not. Guarantees with a sovereign counterindemnity are priced equivalent to ADB's sovereign lending spread; without a sovereign counterindemnity, they are market priced. If a counterindemnity is partial (that is, it covers only selected risks, amounts, or periods), the final price blends the price applicable for the respective parts. ADB may charge or pay administrative and other fees that are specific to the processing and implementation of a credit enhancement product, consistent with industry practice.

Guarantees can cover many forms of debt instruments, including but not limited to (i) senior, subordinated, mezzanine, and convertible debt; (ii) project or limited recourse financing; (iii) tier 2 capital raised by banks; (iv) shareholder loans; (v) capital market debt instruments; (vi) performance, bid, advance payment, and other payment bonds; (vii) letters of credit, promissory notes, bills of exchange, or other forms

of trade finance instruments; and (viii) other forms of scheduled or contingent liability that constitute debt. Equity instruments are ineligible for guarantee coverage.

**Political risk guarantee** ADB's political risk guarantee is designed to facilitate cofinancing by providing financing partners with coverage against specifically defined political risks. Coverage is available against any combination of the risks of expropriation, currency inconvertibility or non-transferability, political violence, breach of contract, and other events arising from political causes. All or part of the outstanding debt service obligations to a financing partner may be covered. The cover may be for principal and/or interest payment obligations.

**Partial credit guarantee** The partial credit guarantee (PCG) of ADB is designed to cover all events of nonpayment of the guaranteed obligation. It can cover up to 100% of the principal and/or interest owed under a debt instrument. PCG cover is particularly useful for projects in developing member countries with restricted access to financial markets, but which ADB considers creditworthy and financially sound. PCGs can cover local currency debt, including domestic bond issues or long-term loans from local financial institutions.

In 2013, ADB approved one new guarantee facility amounting to \$35 million (two guarantees amounting to \$403 million in 2012).

## Trade Finance Program

The Trade Finance Program (TFP) consists of three products: (i) a credit guarantee facility, under which ADB issues guarantees to participating international and regional banks to guarantee payment obligations issued by an approved DMC and/or local banks in selected DMCs; (ii) a revolving credit facility, under which ADB provides trade-related loans to DMCs' banks in support of DMCs' export and import activities; and (iii) a risk participation agreement, under which ADB shares risk with international banks to support and expand trade in challenging and frontier markets. The credit guarantee facility and risk participation agreement are unfunded products, while the revolving credit facility is funded.

As of 31 December 2013, no TFP loans were outstanding (\$5 million in 2012) and guarantees totaled \$595 million (\$554 million in 2012).

As of 31 December 2013, TFP exposure was \$836 million against its \$1 billion Board of Directors' approved limit.

## Supply Chain Finance Program

In 2012, ADB approved the Supply Chain Finance Program totaling \$200 million to provide guarantees and loans (both without government guarantee) through partner financial institutions to support payments to suppliers and distributors of goods in ADB's DMCs. No amounts were outstanding as of 31 December 2013.

## Syndications

Syndications enable ADB to mobilize cofinancing by transferring some or all of the risks associated with its loans and guarantees to other financing partners. Thus, syndications decrease and diversify the risk profile of ADB's financing portfolio. Syndications may be on a funded or unfunded basis, and they may be arranged on an individual, portfolio, or any other basis consistent with industry practices. In 2013, \$220 million of B-loans were provided for two projects (\$200 million for two projects in 2012).





## Special Funds

ADB is authorized under the Charter to establish and administer Special Funds, the resources of which may be used in its special operations for granting technical assistance and making loans with longer maturities, longer grace periods and lower interest rates than those established for ordinary operations loans. Projects financed from Special Funds are selected, appraised and administered in the same manner as projects financed from ordinary capital resources.

As of 31 December 2013, Special Funds consist of the Asian Development Fund, the Technical Assistance Special Fund, the Japan Special Fund, the Asian Development Bank Institute, the Pakistan Earthquake Fund, the Regional Cooperation and Integration Fund, the Climate Change Fund, the Asia Pacific Disaster Response Fund, and the Financial Sector Development Partnership Special Fund. Financial statements for each Special Fund are prepared in accordance with US Generally Accepted Accounting Principles except for the special purpose financial statements for the Asian Development Fund, which are prepared in accordance with the Regulations of the Asian Development Fund.

In addition to ordinary capital resources and Special Funds, ADB also manages and administers various trust funds such as the Japan Scholarship Program, the Japan Fund for Poverty Reduction, and grant cofinancing activities. These funds do not form part of ADB's own resources.

# ADB Members

(as of 31 December 2013)

## Regional

Afghanistan	Federated States of Micronesia
Armenia	Mongolia
Australia*	Myanmar
Azerbaijan	Nauru
Bangladesh	Nepal
Bhutan	New Zealand*
Brunei Darussalam	Pakistan
Cambodia	Palau
People's Republic of China	Papua New Guinea
Cook Islands	Philippines
Fiji	Samoa
Georgia	Singapore
Hong Kong, China	Solomon Islands
India	Sri Lanka
Indonesia	Taipei, China
Japan*	Tajikistan
Kazakhstan	Thailand
Kiribati	Timor-Leste
Republic of Korea*	Tonga
Kyrgyz Republic	Turkmenistan
Lao People's Democratic Republic	Tuvalu
Malaysia	Uzbekistan
Maldives	Vanuatu
Marshall Islands	Viet Nam

## Nonregional

Austria*	the Netherlands*
Belgium*	Norway*
Canada*	Portugal*
Denmark*	Spain*
Finland*	Sweden*
France*	Switzerland*
Germany*	Turkey*
Ireland*	United Kingdom*
Italy*	United States*
Luxembourg*	

\* OECD member.

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[www.adb.org](http://www.adb.org)

Investor Information

[www.adb.org/site/investors/main](http://www.adb.org/site/investors/main)

Asia Economic Monitor

[www.aric.adb.org](http://www.aric.adb.org)



## About the Asian Development Bank

ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to approximately two-thirds of the world's poor: 1.6 billion people who live on less than \$2 a day, with 733 million struggling on less than \$1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

Based in Manila, ADB is owned by 67 members, including 48 from the region. Its main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance.



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