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# Glossary of Terms: Sovereign Operations

## SOVEREIGN OPERATIONS GLOSSARY

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| active portfolio             | All loans, grants, technical assistance (TA), equities, and guarantees committed and not financially closed (i.e., disbursement ended) as of the end of the financial year. The active portfolio includes funding from ordinary capital resources (OCR), concessional OCR lending, the Asian Development Fund, other special funds, fully administered cofinanced loans and grants, and TA projects fully administered by the Asian Development Bank (ADB).   |
| advance action               | Initiation of the process for procuring goods, services, and works before the effective date of the financing agreement.  |
| age                          | Refers to the average time from the date of product signing (commitment) to the end of the reporting period for active (committed) products.  |
| cancellation (effective)     | Refers to the amount of partial or full reduction from the principal amount of effective products.  |
| cancellation (not effective) | Refers to the amount of products signed but canceled before product effectiveness.  |
| capitalization               | Refers to the financing of interest, commitment charge, and/or other charges that may be charged by ADB during construction or implementation as provided in the loan agreement.  |
| closing date or closure      | The last date for the borrower to withdraw from the account.  |
| contract award ratio         | The ratio of total contracts awarded during the year to the total value for contract awards available at the beginning of the year, including newly committed projects (loans and grants) during the year.  |
| commitment                   | Financing approved by ADB's Board of Directors or Management for which the legal agreement has been signed by the borrower, recipient, or investee company and ADB.   |
| delay (actual)               | Refers to the time from original product closing to the actual financial closing.   |
| design ready                 | Design-ready projects are those that have completed one of the following steps before project approval:<br>a) detailed engineering designs (DEDs) suitable for preparing and launching bidding documents for major construction or goods contracts; for sector projects, DEDs for those subprojects for which construction is scheduled to start in the first 2 years should be available; or<br><br>b) preliminary design and specifications suitable for preparing and launching bidding documents for (a) construction contracts that include detailed design; and/or (b) turnkey or engineering, procurement, and construction contracts. |

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| disbursement ratio  | The ratio of total disbursements during the year (including disbursement from newly committed operations during the year) to the undisbursed balance at the beginning of the year.  |
| effective (date)  | The date on which ADB dispatches to the borrower or recipient a notice of accepting supporting evidence of the satisfaction of project (loan or grant) effectiveness conditions set out in the financing agreement.   |
| implementation period (original or actual)  | Refers to the time from product commitment (signing) to the original product closing (for the original implementation period) or actual financial closing (for the actual implementation period).   |
| Multitranche financing facility (MFF)   | A sovereign financing instrument through which ADB provides assistance in tranches, based on project readiness and the long-term needs of a client.   |
| net resource transfer   | Defined as loan disbursements less principal repayments or prepayments and interest or charges received.  |
| procurement readiness   | Defined as when bid documents are launched before project approval for major construction or goods contracts.   |
| end-to-end procurement time (\$10 million and above)  | Measured from the date of advertisement of the invitation for bids on the ADB website (or if not advertised on the ADB website, from the date of advertisement by the executing agency) until the contract signing date. These are \$10 million and above prior review contracts that are processed in the procurement review system (PRS), for which contract signing data are available in the loan or grant financial information systems covering projects under the procurement guidelines and the 2017 procurement framework. "Time" refers to average time in calendar days.   |
| procurement contract transactions of \$10 million and above with processing time of 40 days or less | The number of \$10 million and above procurement contract transactions for sovereign operations that were received in the PRS during the calendar year and approved in 40 days or less, as a percentage of total \$10 million and above procurement contract transactions for sovereign operations recorded in the PRS during the same year. Processing time refers to ADB's review and approval of the evaluation report, measured from the executing agency's submission of the evaluation report to ADB until approval as recorded in the PRS and electronic procurement approval forms. The average time in calendar days includes (i) the time taken by ADB to exercise its procurement oversight, and (ii) the time taken by the executing agency to clarify and revise the evaluation reports before approval. |
| product (or instrument)   | The generic means of providing financing—debt (mostly loans), equities, guarantees, grants, or TA.  |
| project   | Defined by its unique design and monitoring framework regardless of the number of its financing instruments or sources. It refers to a project or program with a common outcome (one design and monitoring framework) regardless of which financing instrument or source ADB has agreed to provide.   |

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| project performance rating | Projects are rated using five performance indicators: outputs, contract awards, disbursements, financial management, and safeguards. A three-level traffic light rating system applies: green is <i>on track</i> , amber is <i>for attention</i> , and red is <i>at risk</i> .  |
| S-curve                    | The project S-curve shows the project contract award and disbursement over its life and is a useful graphical presentation of project performance. The portfolio S-curve represents the annual contract award and disbursement profiles of the loan and grant portfolio by age.   |
| special funds              | Asian Development Fund, Technical Assistance Special Fund, Japan Special Fund, Asian Tsunami Fund, Pakistan Earthquake Fund, Regional Cooperation and Integration Fund, Climate Change Fund, Asia Pacific Disaster Response Fund, Asian Development Bank Institute Special Fund, and Financial Sector Development Partnership Special Fund. |
| terminated                 | Refers to the amount of products approved but terminated before agreement signing.  |
| tranche                    | Loan, grant, guarantee, or ADB-administered cofinancing for a project or a component under an MFF.  |
| uncontracted balance       | Amount available for contract awards at the end of the year for active project loans and grants.  |
| uncontracted percentage    | Uncontracted balance as a percentage of the total value to be awarded.  |
| undisbursed balance        | Amount available for disbursement at the end of the year for active project loans and grants.   |
| undisbursed percentage     | Undisbursed balance as a percentage of the net loan or grant amount.  |

## NONSOVEREIGN OPERATIONS GLOSSARY

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| approval                                  | Approval of the project by ADB's Board of Directors or the relevant ADB authority.  |
| B-loan                                    | Cofinancing arrangements for a single borrower that are funded by commercial banks and other eligible financial institutions, helping to distribute related risks, with ADB acting as the lender of record.   |
| cancellation                              | Undisbursed committed balance of an equity investment, loan, guarantee or other debt securities cancelled by the mutual consent of ADB and an investee company/borrower/counterparty.   |
| carrying value (of an equity)             | Value at which an equity is carried on the balance sheet. The carrying value depends on the accounting method used (cost method, equity method, market value method, or fair value method).   |
| closed-out loan                           | Loans that are fully repaid and/or prepaid.   |
| collective loss allowance                 | An allowance for existing probable losses resulting from risks that cannot be identified with specific investments.   |
| commitment                                | An investment or financing approved by ADB's Board of Directors or Management for which the legal agreement has been signed by the investee company and ADB.  |
| commitment fees                           | Fees charged for entering into an agreement that obligates the entity to make or acquire a loan or to satisfy an obligation of the other party under a specified condition.   |
| cost of funding                           | Interest charges incurred for borrowed funds (e.g., ADB bonds) used in the lending activities (also called interest charges).   |
| default status                            | Status of a loan for which payments (principal, interest, and/or fees) are overdue by more than 1 day.  |
| direct value-added commercial cofinancing | Cofinancing with active coordination and formal agreements among financing partners that bring about defined client benefits, including contractual commitments by ADB (such as for credit enhancement, syndication, or financial administration) to facilitate mobilization, administration or participation in cofinancing. (ADB.2006. <i>ADB's Financing Partnership Strategy, Manila</i> ). |
| direct equity                             | An equity investment (e.g., common, preferred, or other capital stock) which gives the buyer direct ownership interest in an entity.  |
| droppage                                  | An investment approved by ADB's Board of Directors or Management, but which failed to become a signed agreement (can be partial or full). Also called "termination."  |
| equity                                    | The residual interest in the assets of the entity after deducting all its liabilities.  |

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| equity income                 | Income from equity investments, including dividends and realized and unrealized capital gains and/or losses.   |
| fair value (of an equity)     | Current market value (i.e., realizable sales value) of an equity. For a direct public and liquid equity, this is the current market price on a public exchange (also called “market value”). For a direct private equity and direct public but illiquid equity, this is an estimate of the realizable sales value based on valuation methods.  |
| guarantee                     | A formal pledge to pay a borrower’s debt (in part or in full) in the case of default by the borrower.  |
| impairment status             | A loan is impaired when it is unlikely that ADB will be able to collect all amounts due in accordance with the contractual terms of the prevailing loan agreement. This includes all loans extended to borrowers rated 13 and 14 on ADB’s 14-point internal risk rating scale.   |
| impairment loan ratio         | The sum of impaired loans divided by total loans outstanding. This includes all loans extended to borrowers rated 13 and 14 on ADB’s 14-point rating scale. In both numerator and denominator, “loans” include the gross amount of loans, present value of guarantees, and debt securities that are held to maturity and reported at amortized cost, regardless of credit enhancements in the form of guarantees, insurance, collateral, and security. Loans exclude equity investments, and debt that is available for sale and reported at fair value. |
| internal rate of return (IRR) | A measure of an investment’s financial performance over the entire holding period. The IRR takes into account both the amount and timing of disbursements and cash receipts. In the case of an outstanding equity investment, an estimated valuation of the investment is included as an element in calculating the IRR.   |
| direct public equities        | Equity investment in a company whose shares are traded on a public exchange.   |
| loan-loss provision           | The charge against income that is the net result of increases and decreases in loan-loss allowances on specific investments, plus the increase or decrease in collective loan-loss allowance.  |
| loss allowance                | An accounting estimate of credit losses inherent in an entity’s loan portfolio as of the balance sheet date recognized complying with the United States’ Generally Accepted Accounting Principles.   |
| nonaccrual status             | Transactions in arrears for more than 180 days where ADB recognizes interest income on a cash basis and no longer on an accrual basis.   |
| private sector operations     | Refers to financing for enterprises that are majority-owned by private parties (defined as entities with more than 50% of their capital held privately) (OM D10).  |

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| public sector nonsovereign operations               | Refers to loans, guarantees, and syndications to or for (i) enterprises that are majority owned by public entities (more than 50% of its voting capital is held by entities that are owned or controlled by the state or state-owned entities), (ii) local governments or other subsovereign entities, or a state-owned entity that can contract and obtain financing independently from the related sovereign and that can sue and be sued (ADB. 2016. Nonsovereign Operations. Operations Manual. OM D10. Manila). |
| outstanding guarantee                               | A committed guarantee for which the underlying instrument has been issued and which is earning fees for the risks being guaranteed. Also called an “executed guarantee.”   |
| other debt securities                               | A traded instrument that can be bought or sold between two parties. A debt security represents borrowed funds that must be repaid by the borrower to the holder of the debt security. It includes government bonds, corporate bonds, municipal bonds, preferred stock, and collateralized securities; may be convertible or non-convertible debt securities.   |
| probability of default weighted average risk rating | Calculated by (i) determining the probability of default for each borrower or transaction based on its rating, (ii) calculating the weighted average probability of default weighted by projected exposure at default, and (iii) mapping the weighted average probability of default to a rating on ADB’s 14-point scale.  |
| pooled IRR  | The IRR of a group of equities calculated by pooling the cash flows.   |
| prepayment  | partial or full payment of a loan ahead of the original amortization/repayment schedule.   |
| private equity                                      | Equity investment in a company with shares not traded on a public exchange   |
| private equity funds                                | Pooled funds for the purposes of equity investment, generally organized as partnerships, unincorporated joint ventures, or limited liability companies.  |
| repayment   | Periodic or one-time receipt of principal amount due from a loan.  |
| rate of return                                      | Portfolio income, representing total income before imputed cost of funds or capital divided by the average outstanding portfolio for the year (calculated before or after specific loan loss provisions and charges, impairment losses, and charges and expenses).   |
| risk participation                                  | Where one party offloads or assigns its exposure in a loan or other receivable or obligation to another party to reduce the former’s risks.  |

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| risk rating                         | A rating that indicates the risk that a borrower may default. An ADB rating of 1 (>A-) indicates the lowest risk and 14 (default) the highest risk.  |
| Risk transfer arrangement           | An agreement between ADB and an eligible counterparty under which, further to a legally binding guarantee, insurance policy, risk participation agreement or other similar contract, the eligible counterparty assumes a portion or all of ADB's risk of loss occurring as a result of primary borrower default under one or more of ADB's transactions. (OM D13). |
| Total committed portfolio           | Total committed portfolio is defined as (i) committed loan, other debt security and equity (carrying or fair value) portfolio, which consists of outstanding balances plus undisbursed balances; and (ii) the committed guarantee portfolio, which consists of outstanding balances on executed guarantees plus non-executed project commitments.                  |
| Undisbursed                         | Refers to the amount that is available for disbursement at any given point in time for effective loans, equity investments and other debt securities.  |
| Weighted average risk rating (WARR) | Average risk rating weighted by exposure (outstanding or outstanding net of risk transfer).  |
| write-off                           | An accounting procedure used when an asset is determined to be uncollectible, considered to be a loss, and taken off the balance sheet.  |

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