ADB

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Callable Capital of the Asian Development Bank

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
CAF	–	Capital Adequacy Framework
CUR	–	capital utilization ratio
G20	–	Group of Twenty
MDB	–	multilateral development bank
NCR	–	net cash requirement
OCR	–	ordinary capital resources
PCT	–	preferred creditor treatment
PML	–	prudential minimum liquidity

NOTES

(i) The fiscal year of the Asian Development Bank ends on 31 December.
(ii) In this report, "$" refers to United States dollars.

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EXECUTIVE SUMMARY

Callable capital is capital subscribed to by shareholders that has not been paid in but may be called in the event that a multilateral development bank (MDB) cannot meet its bond and guarantee obligations. At the end of 2023, the callable capital of the Asian Development Bank (ADB) totaled $135.6 billion, reflecting strong shareholder commitment to ADB. This report addresses a request by shareholders to increase clarity on the circumstances that could lead to a capital call, and the processes for such a call being made by ADB and met by shareholders. The Group of Twenty (G20) Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks recognized that clarifying these circumstances and processes has value, and this clarity is an important part of implementing the review's recommendation on callable capital.

This report demonstrates the extremely low probability of a call ever becoming necessary; that ADB has the ability to make a call well before actually being unable to meet its obligations to bondholders; and strong shareholder support with the ability to respond to a call before such payments are due.

When examining the potential circumstances that could lead to a capital call, the reverse stress tests demonstrate that the severity of the shocks that would be required far surpasses typical stress scenarios for prudent risk management. A capital call would first require (i) the depletion of a substantial portion of ADB's capital, (ii) multiple credit rating downgrades of ADB, and (iii) the erosion of ADB's preferred creditor treatment (PCT). However, this scenario is considered highly improbable given ADB's current financial position, capital adequacy, and prudent financial management, including the expected maintenance of its PCT. Moreover, the simultaneous occurrence of such events would take time to develop and would therefore afford ADB an opportunity to mitigate financial stress through the range of measures available under its Capital Adequacy Framework (CAF).

Clarification of ADB's own procedures and processes focuses on when a capital call may be made, by who, and the process for doing so. The Agreement Establishing the Asian Development Bank (ADB Charter) limits the circumstances under which callable capital could be called to a situation where ADB essentially has lost market access and needs a capital injection to avoid an anticipated default on its debt obligations. There is a reasonable and necessary degree of flexibility for ADB to make a capital call sufficiently in advance of the maturity of such obligations to ensure timely payment. The ADB Charter provides for "the Bank" to make a call, and a formal determination or delegation could be made to confirm specifically who within its governance structure is authorized to make such a call.

Clarification of shareholders' procedures and processes focuses on responding to a capital call and on the legal, accounting, and budgetary treatment of callable capital subscriptions. Based on information provided by 20 shareholders representing 70% of the callable capital stock of ADB, callable capital subscriptions are legally binding obligations backed by shareholder governments, with shareholders able to respond to a call before ADB is unable to meet its bond and guarantee obligations. Together, these clarifications demonstrate a strong shareholder intention to support ADB should it face difficulty in meeting its bond and guarantee obligations.

A. Background

1. In 2021, the G20 launched an Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks (Independent Review), to help maximize their development impact. The final report, released in July 2022, recommends strategic shifts in five areas including one on callable capital.

2. Callable capital is capital that is subscribed to by shareholders that has not been paid in. Unique to MDBs, callable capital is a commitment from each shareholder to make additional capital available to an institution, but only in the event that additional capital is required to avoid default on that institution's borrowings or guarantees. Recommendation 2A of the Independent Review is to *"[i]ncorporate a prudent share of callable capital into MDBs' own calculation of capital adequacy…*".[1]

3. In September 2023, certain shareholders proposed that ADB, the World Bank, the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IDB) undertake an exercise to provide clarity on the circumstances that could lead to a capital call, and the processes for such a call being made by the MDBs and met by shareholders. They recognized that this clarity has value, and is an important part of implementing the G20 recommendation on callable capital.

4. This exercise encompassed two primary tasks for MDBs: (i) conducting reverse stress tests to clarify scenarios under which a capital call may become necessary; and (ii) detailing callable capital governance procedures and processes within the MDB. Simultaneously, shareholders clarified domestic processes for responding to a capital call, along with their legal, accounting, and budgetary treatment of their callable capital subscriptions.

B. Reverse Stress Test Results

5. **Overview.** A reverse stress test assesses the extreme conditions under which an undesirable outcome, like a capital call, occurs, aiming to identify the circumstances leading to such an event. ADB, AfDB, and IDB developed a reverse stress test appropriate for this exercise with the assistance of an external consultant.

6. **Preliminary observations.** ADB's CAF[2] aims to ensure that large risk events will not lead to a downgrade of ADB's AAA rating or to an erosion of investor confidence without relying on callable capital. Due to this risk appetite, a capital call would necessitate exceptionally high stress levels beyond historical experiences and have an extremely low likelihood of occurrence.

7. For a capital call to occur, certain assumptions need to be made. The reverse stress tests must assume that ADB fails both its capital adequacy test, which is a capital utilization ratio (CUR) exceeding 100%, and the implementation of a recovery plan[3] to restore viability, as described in ADB's CAF. The reverse stress test also needs to assume that shareholders no longer have the

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[1] G20 Expert Panel. 2022. *Boosting MDBs' Investing Capacity*: *An Independent Review of Multilateral Development Banks' Capital Adequacy Frameworks*. p.32.

[2] ADB. 2023. *Review of the Asian Development Bank's Capital Adequacy Framework.* Manila. (R79-23)

[3] The recovery plan of ADB's CAF stipulates what actions ADB, Management, and the Board of Directors, will need to take to bring back the CUR within a desired zone and safeguard ADB's credit rating, ensuring continued business viability. If the CUR exceeds ADB's risk appetite and is in the red zone (i.e., a CUR in excess of 100%) and the Board of Directors do not approve the recovery plan prepared by Management within 45 calendar days, ADB will implement the backstop measures contained in ADB's CAF.

willingness or ability to engage in preventive capital increases. This is because historically in times of stress potentially endangering MDBs' AAA rating (e.g., the 2007–2009 global financial crisis), shareholders have tended to provide MDBs with additional capital. This has demonstrated their support for the institutions and their commitment to maintaining healthy capital ratios for MDBs to deliver further on their mandates, including during crisis.

8. ADB's loan portfolio exceeds $150 billion and consists of 96% sovereign loans as of end 2023, thereby benefiting from PCT.[4] In ADB's sovereign operations, a loan default most often does not require a write-off of principal, as it is expected that non-accrual loans will eventually be repaid. At the point where a capital call is necessary, PCT would have been eroded. Erosion of PCT would have consequences beyond this reverse stress test exercise, as ADB would likely lose its AAA rating, resulting in higher funding costs and impacting its attractiveness for borrowers.

Table: ADB's Simplified Balance Sheet, 31 December 2023

($ billion)

Asset	Amount	Liabilities	Amount
Liquid Assets	48.89	Borrowings	149.58
Loans	150.99	Derivatives	96.35
Other Debt Securities	0.52	Other Liabilities	1.37
Equity Investments	1.29	**Subtotal**	**247.3**
Derivatives	96.61	**Equity**	**54.18**
Other Assets	3.18		
Total	**301.48**	**Total**	**301.48**

9. When examining the potential circumstances that could trigger a capital call, the severity of the required shock far surpasses typical stress scenarios, as it would necessitate (i) the depletion of a substantial portion of ADB's equity, (ii) multiple credit rating downgrades of ADB, and (iii) the de facto erosion of PCT.

10. Importantly, ADB has financial policies and risk policies which protect against a capital call needing to be made. In particular, ADB's CAF is designed to ensure that large risk events will not lead to a downgrade of ADB's AAA rating or to an erosion of investor confidence. The most recent review of ADB's CAF introduced capital adequacy triggers which provide for the Board of Directors (Directors) to approve a recovery plan if ADB's CUR exceeds ADB's risk appetite. The recovery plan may include implementation of several capital management measures, including release of the countercyclical lending buffer, reduction of loan commitments, increased charges on all sovereign loans, issuance of hybrid capital, reducing the Asian Development Fund transfer, and divestment of equity investments. The situation in which a capital call may need to be made is well beyond a CUR of 100% and the red zone threshold of risk appetite of ADB, as both reflect ADB's AAA rating at risk but not the situation of a call.

11. Further, while there is no historical instance of a major MDB defaulting on its bonds, examining past sovereign experiences offers insights into the time taken for a capital call to become necessary. According to S&P,[5] no AAA-rated sovereign has defaulted over a 15-year

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[4] In simple terms, PCT is a widely accepted principle under which MDBs are expected to be given priority for repayment of debt in the event a borrower experiences financial stress. As it relates to sovereign lending by MDBs, the recognition of PCT means that an MDB would be expected to be repaid even if the borrower restructures private or bilateral debt.

[5] S&P, 2022. *2022 Annual Global Sovereign Default and Rating Transition Study*. 28 April.

period, and the highest credit rating of a sovereign that defaulted within this timeframe was A. This indicates that multiple downgrades are likely to precede any payment default, implying that ADB would first lose its AAA rating and experience several subsequent downgrades over a period of time before the need for a capital call.

12. **Modelling approach**. For this exercise, simulation of a capital call is based on a situation where there are insufficient internal resources to meet bond and guarantee obligations. This does not necessarily indicate strict "insolvency"[6] but rather encompasses scenarios of illiquidity, where ADB struggles to meet such obligations due to a lack of available funds and market access as its credit rating falls below a predetermined threshold.

13. Given the subjective nature of a specific trigger point, two scenarios are considered: (i) a solvency scenario where equity is fully depleted, and (ii) a scenario where ADB loses market access due to market closure or lack of investor confidence.[7] In the latter case, despite maintaining a positive equity position, ADB first depletes its liquid assets portfolio to fulfill its bond obligations, requiring a capital call to meet future bond and guarantee obligations.

14. **Results**.[8] In the solvency scenario where ADB's PCT is assumed to be preserved, the probability of ADB experiencing a scenario that would lead to a capital call is close to zero based on ADB's current financial position. This is because ADB's CAF is calibrated to protect its AAA rating and therefore has less than a 0.01% probability of default in any given year as a general understanding of probabilities of default associated with AAA ratings. Moreover, ADB's capitalization is above the minimum AAA threshold set by rating agencies,[9] suggesting that the probability of a call is below 0.01%, representing an event occurring less than once in 10,000 years.

15. In the scenario where ADB loses market access, the likelihood of a capital call remains remarkably low. The analysis reveals that the probability of ADB being rated non-investment grade is around 0.02% by 2030. This scenario typically involves a situation where a significant number of sovereign and nonsovereign borrowers default simultaneously on their obligations to ADB.

16. To underscore the significance of PCT in ADB's business model, a sensitivity analysis assuming PCT erosion was conducted, applying risk parameters typically associated with other creditors. While the likelihood of ADB making a capital call increases, it remains relatively low. Specifically, the probability of a capital call by 2030 is around 0.2% in the solvency scenario and 1% in the loss of market access scenario. The erosion of PCT, unprecedented in MDB history and challenging to quantify from a probability standpoint, renders the actual likelihood even more improbable.

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[6] For the purpose of the reverse stress tests, "insolvency" is defined as reaching the point where equity reaches zero. Equity refers to the accounting value of equity, of which the main components are paid-in capital, reserves, and surplus, but it excludes callable capital.

[7] Unlike commercial banks, which rely on deposits and have access to central bank liquidity, MDBs primarily depend on financial market borrowing as their main source of funding.

[8] The reverse stress test results, based on a logical framework, may contain inaccuracies due to high model risk linked to untested catastrophic scenarios and are subject to change based on evolving circumstances.

[9] For example, with an S&P risk-adjusted capital ratio of 29.9% as of June 2023, ADB's capitalization is assessed as "extremely strong," exceeding the 23% threshold for an AAA-rated MDB.

17. **Timeframe and amounts**. ADB's liquidity policy provides a buffer against these scenarios and needs to be considered when trying to establish a trigger point for a capital call, as it adds to the internal resources available to ADB and will delay the need for any capital call.[10]

18. In accordance with this policy, ADB holds appropriate levels of liquidity to ensure uninterrupted lending operations, including continued loan disbursements to developing member countries and service payments on ADB's bonds. ADB's prudential minimum liquidity (PML) is set at 12-month liquidity coverage and is 100% of ADB's 1-year net cash requirement (NCR), where NCR is equal to cash outflows less cash inflows. Cash outflows include disbursements for operations, redemptions on ADB's bonds, and OCR net income transfers, while cash inflows mainly represent income from operations, repayments and prepayments from borrowers, and capital subscription payments. Maintaining the PML is designed to enable ADB to cover NCR for 12 months without borrowing from the capital markets.

19. Therefore, in the event of losing market access, ADB would likely have at least a 1-year window to make a capital call, allowing it to continue operations and stay current on its bond payments by gradually depleting its liquidity buffer. Implementing capital management measures such as managing down the pace of disbursements on outstanding loans to performing borrowers (subject to prior consultation with such borrowers), or reducing transfers to the Asian Development Fund, could delay depletion of the liquidity buffer and extend its coverage beyond 1 year.

20. The amount of an initial capital call is anticipated to equate to 1 year of bond redemptions due after liquidity is exhausted. In the absence of timely recapitalization, ADB would need to progressively continue to make capital calls to discharge its bond and guarantee obligations, and potentially, a significant portion of the outstanding borrowings at the time of the first call would need to be repaid gradually through callable capital.[11]

C. Clarification of ADB Procedures and Processes to Effect a Call

21. **Overview.** This section discusses the legal and governance framework for ADB's callable capital. It focuses on the purpose of callable capital, the timing of a capital call, and who is authorized to make the call.

22. **Purpose of a capital call.** Callable capital can only be used to meet bond and guarantee obligations. This purpose is clearly provided for in Article 6.5 of the ADB Charter which specifies that callable capital is to be used to meet loans of ADB funded by borrowings included in ADB's ordinary capital resources (OCR) and guarantees of loans chargeable to OCR. ADB's authority to incur such obligations on borrowings is contained in Article 11(ii) of the ADB Charter with respect to loans, and in Article 11(iv) of the ADB Charter with respect to guarantees.

23. **Timing of a capital call**. The ADB Charter provides clear guidance on the timing and available resources for a capital call. Article 6.5 of the ADB Charter provides the call be made "*only as and when* required by the Bank" to meet bond and guarantee obligations. Article 18.2 of the ADB Charter then specifies and prioritizes funds and resources to discharge such obligations.

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[10] ADB. 2022. *Review of the Asian Development Bank's Investment Strategy and Authority.* Manila. (R18-22)

[11] As a reference point, the total outstanding borrowings in 2023 was $149 billion. However, the outstanding borrowings at the time of a capital call would be lower than what is currently projected due to ADB ceasing to fund sovereign operations in DMCs experiencing non-accruals as a result of application of ADB's policy on non-accruals and managing down the pace of disbursements on outstanding loans to performing borrowers, alongside using the liquidity available for bond redemptions at that time, and other capital management measures.

It provides that payments in discharge of ADB's obligations shall "*[f]irst*" be charged against the "special reserve provided for in Article 17", and "*[t]hen to the extent necessary … against other reserves, surplus and capital available to the Bank*". Article 18.3 of the ADB Charter goes on to provide that ADB may "*whenever necessary*" call an appropriate amount of callable capital "*to meet contractual payments of interest, other charges or amortization on borrowings of the Bank in its ordinary operations, or to meet its liabilities with respect to similar payments in respect of loans guaranteed by it, chargeable to its ordinary capital resources.*"

24. When read together, Articles 6 and 18 of the ADB Charter provide that the special reserve, other reserves, surplus and paid-in capital must absorb "losses" arising from loans funded by OCR and guarantees chargeable to OCR before resorting to a capital call.[12] However, the ADB Charter does not require ADB enter "liquidation" (as that term is commonly understood) before making a capital call. Rather, ADB may call capital once available funds from the special reserve, surplus, paid-in capital, and other reserves prove insufficient to meet ADB's bond and guarantee obligations.

25. Articles 6 and 18 of the ADB Charter also provide a reasonable and necessary degree of flexibility for ADB to make a capital call sufficiently in advance of the maturity of its bond and guarantee obligations to ensure timely payment. This was determined by the Directors in 1969 exercising their power to determine questions of interpretation of provisions of the ADB Charter under Article 60 of the ADB Charter. As part of the 1969 determination, the Directors considered the timing of a capital call and concluded that if for any reason ADB "*anticipates*" that it will not have available funds sufficient to meet bond and guarantee obligations as they mature, ADB has the right to make capital calls "*sufficiently in advance*" to meet them as they mature. Such an advance capital call will allow shareholders to take the necessary action in time to make payment available on the due date.

26. **Who may make a capital call**. Article 18.3 of the ADB Charter provides "*the Bank*" may make a capital call but the specific powers and general descriptions of the responsibilities of each of the Board of Governors (Governors), the Directors, and the President do not explicitly indicate which among the different organs of ADB the power to make a capital call vests.

27. In considering where the authority to call capital lies, it should be noted that the Governors have delegated all their non-reserved powers to the Directors in accordance with Section 8 of the ADB By-Laws and the power to make a capital call is not expressly reserved for the Governors under Article 28.2 of the ADB Charter.[13] This delegation is intended to be complementary to the ADB Charter and, accordingly, does not permit Directors to exercise any authority vested in the President under the ADB Charter.

28. Directors are responsible for the "direction of the general operations of the Bank" under Article 31 of the ADB Charter, while the President conducts "the current business of the Bank"

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[12] While the ADB Charter does not specifically identify the PML and the requirement for ADB to hold at least 100% of its 1-year net cash requirements, this liquidity will form part of the available resources to discharge bond and guarantee obligations. ADB. 2022. *Review of the Asian Development Bank's Investment Strategy and Authority.* Manila. (R18-22).

[13] Under Article 28.3 of the ADB Charter, the Governors retain full authority to exercise any authority delegated to the Directors. However, as the Governors have currently delegated all non-reserved powers to the Directors in accordance with Section 8 of the ADB By-laws, this analysis assumes that the current delegation will remain in place for purposes of capital calls.

under Article 34 of the ADB Charter.[14] Considering the respective allocations of authority under the ADB Charter, reasonable legal interpretations can be made in support of the authority of either the Directors or the President to make capital calls.[15] A formal legal interpretation or delegation[16] could resolve the matter by clarifying who may make a capital call.

29. Importantly, as part of the 1969 interpretation, the Directors also considered whether ADB is required to make a capital call to meet its bond and guarantee obligations and concluded that it must do so. Accordingly, regardless of whether the authority to make capital calls falls within the authority of the Directors or the President, it has been clearly established that ADB "*owes a duty to its creditors*" to make the necessary calls to the extent other resources (i.e., the special reserve, surplus, paid-in capital, and other reserves) prove insufficient.

30. **The processes for making a call.** While the ADB Charter does not establish detailed processes for making a capital call, ADB already has well-established reporting and processes which precede it. Routine financial reporting and analysis mean that Management, the Directors, and the Governors would be aware of loan defaults and deterioration in the financial position and financial projections of ADB well before the need for a capital call. Further, under ADB's CAF, Management is required to engage with the Directors and the Governors on implementing capital management measures (including a recovery plan) well before the need for any capital call.

31. **Clear approach toward a capital call.** When considering the relevant provisions of the ADB Charter together with the 1969 interpretation, there is a clear framework to ensure that, in circumstances of extreme stress, a capital call will be made in anticipation of funds being needed to ensure timely repayment of bond and guarantee obligations. Furthermore, ADB's regular reporting and CAF also ensure early warning and the opportunity for timely action to be taken to restore ADB's capital position well in advance of the need for a capital call.

D. Clarification of Shareholder Procedures and Processes for Responding to a Call

32. **Overview.** This section discusses the shareholder processes for responding to a capital call. It focuses on how callable capital is accounted for by governments, the approval process for making payment in response to a capital call, and the typical time needed to make such payment. General observations are made on each of these aspects of domestic processes based on responses to questions set out in a standardized shareholder template received from 20 shareholders, representing 70% of the total callable capital stock of ADB. The full list of respondents to the questionnaire by the time of publication of this report is set out in Appendix 3.

33. **Legal obligation of shareholders.** Callable capital is a legally binding commitment of shareholders. The legal status of callable capital is generally governed by the legislation through which members have adopted (or ratified) the ADB Charter and agreed to capital increases of

[14] It should be noted that the ADB Charter draws a sharper distinction between the roles of the Directors and the President than for peer MDBs, where the Directors are responsible for the "conduct" (not the "direction") of the general operations of the MDB, and the President shall conduct the "ordinary business" (not the "current business") of the MDB.

[15] Given a capital call will almost certainly need to be considered as part of a larger discussion of capital management measures to restore the capital position of ADB in circumstances of extreme stress, it can be argued that such a call is "strategic" in nature and falls within the authority of the Directors to direct the general operations of the Bank. On the other hand, it can also be argued that where a call is required to be taken after the need for it has already been determined, it is "operational" in nature and falls within the authority of the President to conduct the current business of the Bank.

[16] A formal legal interpretation could be made pursuant to an Article 60 interpretation (similar to the callable capital-related interpretations carried out as part of the 1969 interpretations discussed above) or through a formal General Counsel legal opinion. The Directors could also formally delegate to the President the authority to make capital calls.

ADB. For example, the callable capital subscriptions of the United States (the co-largest shareholder of ADB) are authorized by the U.S. Congress and considered binding commitments backed by the full faith and credit of the United States. Other examples include Japan (the other co-largest shareholder), whose callable capital subscriptions are fully authorized and payment is obligated under the law for the measures in consequence of admission to ADB, and Australia (the third-largest non-borrowing shareholder), whose callable capital subscriptions are authorized by legislation relating to its membership and subsequent legislation specifically authorizing further capital subscriptions.

34. **Contingent liabilities.** Callable capital is generally accounted for as a contingent liability by shareholders in recognition of the low probability of a capital call ever becoming necessary and payment having to be made. Consequently, many shareholders have not specifically budgeted for their subscription of callable capital stock.

35. **Approval process.** A number of shareholders do not require further Parliamentary approval for a part or all of their subscription of callable capital stock, though this may be needed if the capital call cannot be accommodated within existing budgetary provisions or appropriations. For example, the United States has authorized and appropriated $748 million of callable capital for ADB. No further appropriation or other Congressional action is needed to enable the U.S. Secretary of the Treasury to pay this amount in the event of a capital call. Japan could issue promissory notes without further Parliamentary approval to respond to a capital call. Australia has a practice of “special appropriations” in enabling legislation to appropriate the Consolidated Revenue Fund for payment of a call. Denmark and New Zealand are able to make payment of a capital call without further Parliamentary approval. In addition, France and Germany do not require additional Parliamentary approval for responding to a capital call unless a supplemental budget or budget amendment is required.

36. **Timing.** The timeframes for responding to a capital call vary among shareholders and often depend on the size of the call. A smaller capital call which is within existing budgetary provisions or appropriations can be processed relatively quickly. Generally, shareholder processes for responding to a capital call range up to one year, which is within the time period that would likely be available to shareholders for responding to a capital call.

37. **Timely support.** When these aspects are taken together and allowing for a capital call to be made “sufficiently in advance”, shareholders have the ability and demonstrated commitment to provide part or all of their callable capital subscriptions in a timely manner to delay or prevent ADB from failing to meet its bond and guarantee obligations.

E. Conclusion

38. ADB's proactive response to the G20 recommendations, including on callable capital, demonstrates a commitment to continuously explore ways to optimize its balance sheet. Together with its shareholders, this exercise underscores ADB’s dedication to clarifying callable capital processes without compromising financial sustainability or credit ratings and reaffirms that shareholders stand behind ADB.

39. The ADB Charter is clear that a capital call can be made when ADB lacks internal resources to meet its bond and guarantee obligations. This would essentially happen when ADB's credit rating drops to a level incompatible with its market access. For this to happen, there must be unusually large, catastrophic losses over several years. The reverse stress test results highlight the remote likelihood of ADB ever making a capital call.

40. ADB can call capital well in advance of a potential default and, while the processes and timeframes for responding to a call vary among shareholders, the clarification provided by shareholders on both demonstrates they would be able to respond to a call within the time period that would likely be available to them if a call were to be made.

41. For some shareholders, a certain proportion of callable capital has already been appropriated by their respective Parliaments, which potentially amounts to $41 billion. This would enable an accelerated response and payment by these countries if a call were to be made.

42. Taken together, the elements of this exercise demonstrate that shareholders have a strong intention and ability to respond to a capital call in time to prevent ADB from failing to meet its bond and guarantee obligations in the extremely unlikely event that a call becomes necessary.

ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES
STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER
31 December 2023
($ million)

	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of	Percent	Par Value of Shares[a]			Number of	Percent
MEMBERS	**Shares**	**of Total**	**Total**	**Callable**	**Paid-in**	**Votes**	**of Total**
REGIONAL							
Afghanistan	3,585	0.034	48.1	41.7	6.4	42,699	0.321
Armenia	31,671	0.298	424.9	403.6	21.3	70,785	0.532
Australia	614,220	5.773	8,240.8	7,828.7	412.1	653,334	4.913
Azerbaijan	47,208	0.444	633.4	601.6	31.7	86,322	0.649
Bangladesh	108,384	1.019	1,454.2	1,381.4	72.7	147,498	1.109
Bhutan	660	0.006	8.9	8.3	0.6	39,774	0.299
Brunei Darussalam	37,386	0.351	501.6	476.5	25.1	76,500	0.575
Cambodia	5,250	0.049	70.4	64.6	5.9	44,364	0.334
China, People’s Republic of	684,000	6.429	9,177.0	8,718.0	459.0	723,114	5.437
Cook Islands	282	0.003	3.8	3.6	0.2	39,396	0.296
Fiji	7,218	0.068	96.8	92.0	4.8	46,332	0.348
Georgia	36,243	0.341	486.3	461.9	24.4	75,357	0.567
Hong Kong, China	57,810	0.543	775.6	736.8	38.8	96,924	0.729
India	672,030	6.317	9,016.4	8,565.5	450.9	711,144	5.347
Indonesia	578,100	5.434	7,756.2	7,368.3	387.9	617,214	4.641
Japan	1,656,630	15.571	22,226.5	21,114.9	1,111.6	1,695,744	12.751
Kazakhstan	85,608	0.805	1,148.6	1,091.1	57.5	124,722	0.938
Kiribati	426	0.004	5.7	5.4	0.3	39,540	0.297
Korea, Republic of	534,738	5.026	7,174.4	6,815.6	358.8	573,852	4.315
Kyrgyz Republic	31,746	0.298	425.9	404.6	21.3	70,860	0.533
Lao People’s Democratic Republic	1,476	0.014	19.8	18.6	1.2	40,590	0.305
Malaysia	289,050	2.717	3,878.1	3,684.1	194.0	328,164	2.468
Maldives	426	0.004	5.7	5.4	0.3	39,540	0.297
Marshall Islands	282	0.003	3.8	3.6	0.2	39,396	0.296
Micronesia, Federated States of	426	0.004	5.7	5.4	0.3	39,540	0.297
Mongolia	1,596	0.015	21.4	20.3	1.1	40,710	0.306
Myanmar	57,810	0.543	775.6	736.8	38.8	96,924	0.729
Nauru	426	0.004	5.7	5.4	0.3	39,540	0.297
Nepal	15,606	0.147	209.4	198.9	10.5	54,720	0.411
New Zealand	163,020	1.532	2,187.2	2,077.8	109.4	202,134	1.520
Niue	150	0.001	2.0	1.9	0.1	39,264	0.295
Pakistan	231,240	2.174	3,102.5	2,947.3	155.2	270,354	2.033
Palau	342	0.003	4.6	4.4	0.2	39,456	0.297
Papua New Guinea	9,960	0.094	133.6	127.0	6.7	49,074	0.369
Philippines	252,912	2.377	3,393.2	3,223.6	169.7	292,026	2.196
Samoa	348	0.003	4.7	4.4	0.3	39,462	0.297
Singapore	36,120	0.340	484.6	460.4	24.2	75,234	0.566
Solomon Islands	708	0.007	9.5	9.0	0.5	39,822	0.299
Sri Lanka	61,560	0.579	825.9	784.6	41.3	100,674	0.757
Taipei,China	115,620	1.087	1,551.2	1,473.7	77.6	154,734	1.164
Tajikistan	30,402	0.286	407.9	387.4	20.4	69,516	0.523
Thailand	144,522	1.358	1,939.0	1,842.0	97.0	183,636	1.381
Timor-Leste	1,050	0.010	14.1	13.4	0.7	40,164	0.302
Tonga	426	0.004	5.7	5.4	0.3	39,540	0.297
Turkmenistan	26,874	0.253	360.6	342.5	18.1	65,988	0.496
Tuvalu	150	0.001	2.0	1.9	0.1	39,264	0.295
Uzbekistan	71,502	0.672	959.3	911.3	48.0	110,616	0.832
Vanuatu	708	0.007	9.5	9.0	0.5	39,822	0.299
Viet Nam	36,228	0.341	486.1	454.5	31.5	75,342	0.567
Total Regional (Forward)	**6,744,135**	**63.390**	**$90,484.0**	**$85,944.6**	**$4,539.4**	**8,660,721**	**65.124**

MEMBERS	SUBSCRIBED CAPITAL					VOTING POWER	
	Number of Shares	Percent of Total	Par Value of Shares[a] Total	Callable	Paid-in	Number of Votes	Percent of Total
Total Regional (Forward)	**6,744,135**	**63.390**	**$90,484.0**	**$85,944.6**	**$4,539.4**	**8,660,721**	**65.124**
NONREGIONAL							
Austria	36,120	0.340	484.6	460.4	24.2	75,234	0.566
Belgium	36,120	0.340	484.6	460.4	24.2	75,234	0.566
Canada	555,258	5.219	7,449.7	7,077.2	372.6	594,372	4.469
Denmark	36,120	0.340	484.6	460.4	24.2	75,234	0.566
Finland	36,120	0.340	484.6	460.4	24.2	75,234	0.566
France	247,068	2.322	3,314.8	3,149.1	165.8	286,182	2.152
Germany	459,204	4.316	6,161.0	5,852.9	308.1	498,318	3.747
Ireland	36,120	0.340	484.6	460.3	24.3	75,234	0.566
Italy	191,850	1.803	2,574.0	2,445.3	128.7	230,964	1.737
Luxembourg	36,120	0.340	484.6	460.3	24.3	75,234	0.566
Netherlands	108,882	1.023	1,460.8	1,387.8	73.1	147,996	1.113
Norway	36,120	0.340	484.6	460.4	24.2	75,234	0.566
Portugal	36,120	0.340	484.6	460.3	24.3	75,234	0.566
Spain	36,120	0.340	484.6	460.4	24.2	75,234	0.566
Sweden	36,120	0.340	484.6	460.4	24.2	75,234	0.566
Switzerland	61,950	0.582	831.2	789.6	41.6	101,064	0.760
Türkiye	36,120	0.340	484.6	460.4	24.2	75,234	0.566
United Kingdom	216,786	2.038	2,908.6	2,763.1	145.5	255,900	1.924
United States	1,656,630	15.571	22,226.5	21,114.9	1,111.6	1,695,744	12.751
Total Nonregional	**3,894,948**	**36.610**	**52,257.3**	**49,643.8**	**2,613.5**	**4,638,114**	**34.876**
TOTAL	**10,639,083**	**100.000**	**$142,741.4**	**$135,588.5**	**$7,152.9**	**13,298,835**	**100.000**

Note: Numbers may not sum precisely because of rounding.

[a] The authorized capital stock of ADB has a par value of $10,000 in terms of US dollars of the weight and fineness in effect on 31 January 1966. Pending ADB's selection of the appropriate successor to the 1966 dollar, the par value of each share is SDR 10,000 for financial reporting purposes. Exchange rate at 31 December 2023 was $1.34167.

ADB CHARTER

Article 6

PAYMENT OF SUBSCRIPTIONS

1. Payment of the amount initially subscribed by each Signatory to this Agreement which becomes a member in accordance with Article 64 to the paid-in capital stock of the Bank shall be made in five (5) installments, of twenty (20) per cent each of such amount. The first installment shall be paid by each member within thirty (30) days after entry into force of this Agreement, or on or before the date of deposit on its behalf of its instrument of ratification or acceptance in accordance with paragraph 1 of Article 64, whichever is later. The second installment shall become due one (1) year from the entry into force of this Agreement. The remaining three (3) installments shall each become due successively one (1) year from the date on which the preceding installment becomes due.

2. Of each installment for the payment of initial subscriptions to the original paid-in capital stock:

a. Fifty (50) per cent shall be paid in gold or convertible currency; and

b. Fifty (50) per cent in the currency of the member.

3. The Bank shall accept from any member promissory notes or other obligations issued by the Government of the member, or by the depository designated by such member, in lieu of the amount to be paid in the currency of the member pursuant to paragraph 2(b) of this Article, provided such is not required by the Bank for the conduct of its operations. Such notes or obligations shall be non-negotiable, non-interest-bearing, and payable to the Bank at par value upon demand. Subject to the provisions of paragraph 2(ii) of Article 24, demands upon such notes or obligations payable in convertible currencies shall, over reasonable periods of time, be uniform in percentage on all such notes or obligations.

4. Each payment of a member in its own currency under paragraph 2(b) of this Article shall be in such amount as the Bank, after such consultation with the International Monetary Fund as the Bank may consider necessary and utilizing the par value established with the International Monetary Fund, if any, determines to be equivalent to the full value in terms of dollars of the portion of the subscription being paid. The initial payment shall be in such amount as the member considers appropriate hereunder but shall be subject to such adjustment, to be effected within ninety (90) days of the date on which such payment was due, as the Bank shall determine to be necessary to constitute the full dollar equivalent of such payment.

5. Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call only as and when required by the Bank to meet its obligations incurred under sub-paragraphs (ii) and (iv) of Article 11 on borrowings of funds for inclusion in its ordinary capital resources or on guarantees chargeable to such resources.

6. In the event of the call referred to in paragraph 5 of this Article, payment may be made at the option of the member in gold, convertible currency or in the currency required to discharge the obligations of the Bank for the purpose of which the call is made. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

7. The Bank shall determine the place for any payment under this Article, provided that, until the inaugural meeting of its Board of Governors, the payment of the first installment referred to in paragraph 1 of this Article shall be made to the Secretary-General of the United Nations, as Trustee for the Bank.

Article 11

RECIPIENTS AND METHODS OF OPERATION

Subject to the conditions stipulated in this Agreement, the Bank may provide or facilitate financing to any member, or any agency, instrumentality or political subdivision thereof, or any entity or enterprise operating in the territory of a member, as well as to international or regional agencies or entities concerned with economic development of the region. The Bank may carry out its operations in any of the following ways:

(i) by making or participating in direct loans with its unimpaired paid-in capital and, except as provided in Article 17 of this Agreement, with its reserves and undistributed surplus; or with the unimpaired Special Funds resources;

(ii) by making or participating in direct loans with funds raised by the Bank in capital markets or borrowed or otherwise acquired by the Bank for inclusion in its capital resources;

(iii) by investment of funds referred to in (i) and (ii) of this Article in the equity capital of an institution or enterprise, provided no such investment shall be made until after the Board of Governors, by a vote of a majority of the total number of Governors, representing a majority of the total voting power of the members, shall have determined that the Bank is in a position to commence such type of operations; or

(iv) by guaranteeing, whether as primary or secondary obligor, in whole or in part, loans for economic development participated in by the Bank.

Article 17

SPECIAL RESERVE

The amount of commissions and guarantee fees received by the Bank pursuant to Article 16 of this Agreement shall be set aside as a special reserve which shall be kept for meeting liabilities of the Bank in accordance with Article 18 of this Agreement. The special reserve shall be held in such liquid form as the Board of Directors may decide.

Article 18

METHODS OF MEETING LIABILITIES OF THE BANK

1. In cases of default on loans made, participated in or guaranteed by the Bank in its ordinary operations, the Bank shall take such action as it deems appropriate with respect to modifying the terms of the loan, other than the currency of repayment.

2. The payments in discharge of the Bank's liabilities on borrowings or guarantees under sub-paragraphs (ii) and (iv) of Article 11 chargeable to the ordinary capital resources shall be charged:

(i) First, against the special reserve provided for in Article 17;

(ii) Then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus and capital available to the Bank.

3. Whenever necessary to meet contractual payments of interest, other charges or amortization on borrowings of the Bank in its ordinary operations, or to meet its liabilities with respect to similar payments in respect of loans guaranteed by it, chargeable to its ordinary capital resources, the Bank may call an appropriate amount of the uncalled subscribed callable capital in accordance with paragraphs 6 and 7 of Article 6 of this Agreement;

4. In cases of default in respect of a loan made from borrowed funds or guaranteed by the Bank as part of its ordinary operations, the Bank may, if it believes that the default may be of long duration, call an additional amount of such callable capital not to exceed in any one (1) year one (1) per cent of the total subscriptions of the members to such capital, for the following purposes:

(i) To redeem before maturity, or otherwise discharge, the Bank's liability on all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default; and

(ii) To repurchase, or otherwise discharge, the Bank's liability on all or part of its own outstanding borrowing.

5. If the Bank's subscribed callable capital stock shall be entirely called pursuant to paragraphs 3 and 4 of this Article, the Bank may, if necessary for the purposes specified in paragraph 3 of this Article, use or exchange the currency of any member without restriction, including any restriction imposed pursuant to paragraphs 2 (i) and (ii) of Article 24.

Article 28

BOARD OF GOVERNORS: POWERS

1. All the powers of the Bank shall be vested in the Board of Governors.

2. The Board of Governors may delegate to the Board of Directors any or all its powers, except the power to:

(i) admit new members and determine the conditions of their admission;

(ii) increase or decrease the authorized capital stock of the Bank;

(iii) suspend a member;

(iv) decide appeals from interpretations or applications of this Agreement given by the Board of Directors;

(v) authorize the conclusion of general agreements for co-operation with other international organizations,

(vi) elect the Directors and the President of the Bank;

(vii) determine the remuneration of the Directors and their alternates and the salary and other terms of the contract of service of the President;

(viii) approve, after reviewing the auditor's report, the general balance sheet and the statement of profit and loss of the Bank;

(ix) determine the reserves and the distribution of the net profits of the Bank;

(x) amend this Agreement;

(xi) decide to terminate the operations of the Bank and to distribute its assets; and

(xii) exercise such other powers as are expressly assigned to the Board of Governors in this Agreement.

3. The Board of Governors shall retain full power to exercise authority over any matter delegated to the Board of Directors under paragraph 2 of this Article.

4. For the purposes of this Agreement, the Board of Governors may, by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members, from time to time determine which countries or members of the Bank are to be regarded as developed or developing countries or members, taking into account appropriate economic considerations.

Article 31

BOARD OF DIRECTORS: POWERS

The Board of Directors shall be responsible for the direction of the general operations of the Bank and, for this purpose, shall, in addition to the powers assigned to it expressly by this Agreement, exercise all the powers delegated to it by the Board of Governors, and in particular:

(i) prepare the work of the Board of Governors,

(ii) in conformity with the general directions of the Board of Governors, take decisions concerning loans, guarantees, investments in equity capital, borrowing by the Bank, furnishing of technical assistance and other operations of the Bank;

(iii) submit the accounts for each financial year for approval of the Board of Governors at each annual meeting; and

(iv) approve the budget of the Bank.

Article 34

THE PRESIDENT

1. The Board of Governors, by a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members, shall elect a president of the Bank. He shall be a national of a regional member country. The President, while holding office, shall not be a Governor or a Director or an alternate for either.

2. The term of office of the President shall be five (5) years. He may be re-elected. He shall, however, cease to hold office when the Board of Governors so decides by a vote of two-thirds of the total number of Governors, representing not less than two-thirds of the total voting power of the members. If the office of the President for any reason becomes vacant more than one hundred and eighty (180) days before the end of his term, a successor shall be elected for the unexpired portion of such term by the Board of Governors in accordance with the provisions of paragraph 1 of this Article. If such office for any reason becomes vacant one hundred and eighty (180) days or less before the end of his term, a successor may similarly be elected for the unexpired portion of such term by the Board of Governors.

3. The President shall be Chairman of the Board of Directors but shall have no vote, except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote.

4. The President shall be the legal representative of the Bank.

5. The President shall be chief of the staff of the Bank and shall conduct, under the direction of the Board of Directors, the current business of the Bank. He shall be responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors.

6. In appointing the officers and staff, the President shall, subject to the paramount importance of securing the highest standards of efficiency and technical competence, pay due regard to the recruitment of personnel on as wide a regional geographical basis as possible.

Article 42

SUSPENSION OF MEMBERSHIP

1. If a member fails to fulfill any of its obligation to the Bank, the Board of Governors may suspend such member by a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members.

2. The member so suspended shall automatically cease to be a member of the Bank one (1) year from the date of its suspension unless the Board of Governors, during the one-year period, decides by the same majority necessary for suspension to restore the member to good standing.

3. While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all its obligations.

SHAREHOLDER TEMPLATES

As part of the callable capital exercise, the Asian Development Bank (ADB) received completed shareholder templates from 20 shareholders: Australia, Austria, Belgium, Canada, Denmark, France, Germany, India, Italy, Japan, the Netherlands, New Zealand, Norway, the Republic of Korea, Singapore, Spain, Switzerland, Thailand, the United Kingdom, and the United States.

The completed shareholder templates are provided separately on the ADB website at https://www.adb.org/documents/callable-capital-asian-development-bank.