

ADB

# Financial Profile 2002

Asian Development Bank

---

# CONTENTS

Introduction	3
Capital Structure	7
Borrowing Operations	10
Liquidity Portfolio Management	20
Financial Risk Management	22
Results of Operations	30
OCR Operations	31
Special Funds	42
ADB Members	47
Directory	48
ADB Online	51

---

*The dollar amounts refer, unless otherwise stated, to United States dollars.*

## FINANCIAL PROFILE

### Box 1. Selected Financial Data

as of or for the year ended 31 December

(in \$ million except percentages and ratios)

	Statutory Reported Basis <sup>a</sup>				
	2001	2000	1999	1998	1997
Income from Loans	1,813.7	1,861.3	1,674.6	1,440.9	1,127.9
Income from Investments	403.4	399.9	344.0	382.9	311.7
Income from Other Sources	21.6	39.7	9.2	8.7	10.1
<b>Total Income</b>	<b><u>2,238.7</u></b>	<b><u>2,300.9</u></b>	<b><u>2,027.8</u></b>	<b><u>1,832.5</u></b>	<b><u>1,449.7</u></b>
Interest and Other Financial Expenses	1,434.1	1,576.7	1,447.2	1,206.5	853.2
Administrative Expenses <sup>b</sup>	59.0	92.6	105.9	121.7	95.7
Technical Assistance to Member Countries	20.0	–	–	–	–
Provision for Losses	9.8	5.9	24.8	37.4	32.9
<b>Total Expenses</b>	<b><u>1,522.9</u></b>	<b><u>1,675.2</u></b>	<b><u>1,577.9</u></b>	<b><u>1,365.6</u></b>	<b><u>981.8</u></b>
Operating Income before FAS 133	715.8	625.7	449.9	466.9	467.9
FAS 133 Adjustments	147.5	–	–	–	–
<b>Net Income</b>	<b><u>863.3</u></b>	<b><u>625.7</u></b>	<b><u>449.9</u></b>	<b><u>466.9</u></b>	<b><u>467.9</u></b>
Average Earning Assets	36,272	36,693	34,788	28,558	23,226
Annual Return on Average Earning Assets	2.28%	1.71%	1.29%	1.63%	2.01%
Return on Loans	6.42%	6.59%	6.41%	6.78%	6.89%
Return on Investments	5.91%	5.09%	3.96%	5.27%	5.24%
Cost of Borrowings	5.54%	5.90%	5.66%	5.70%	6.10%
Reserve-to-Loan Ratio	28.47%	27.26%	25.97%	27.70%	33.62%
Liquidity Ratio	46.95%	52.10%	59.05%	55.43%	41.90%
Interest Coverage Ratio	1.58 <sup>c</sup>	1.40	1.31	1.39	1.55

<sup>a</sup> FAS 133 was implemented in 2001. Accordingly, statutory reported basis is the same as pre-FAS 133 basis prior to 2001.

<sup>b</sup> Net of administration charge allocated to the Asian Development Fund. For 2000 and 2001, administrative expenses were net of front-end fees earned as well.

<sup>c</sup> Excludes the one-time cumulative effect of recording the adoption of FAS 133 on 1 January 2001.

---

## INTRODUCTION

The Asian Development Bank (the "ADB"), a multilateral development bank, was established in 1966 and operates under the Agreement Establishing the Asian Development Bank (the "Charter") which is binding upon the member countries which are its shareholders. The purpose of ADB is to foster economic growth and cooperation in Asia and the Pacific (the "region") and to contribute to the economic development of the developing member countries in the region collectively and individually. With the adoption of its poverty reduction strategy at the end of 1999, ADB made reducing poverty in the region its main goal. ADB's strategy for reducing poverty rests on three pillars: sustainable economic growth, social development, and good governance. ADB's main instruments in providing help to its developing member countries are loans, technical assistance, guarantees, and equity investments.

ADB was founded primarily to act as a financial intermediary in the transfer of resources from global capital markets to developing member countries for socioeconomic development. Its ability to intermediate funds from global capital markets for lending to its developing member countries is an important element in achieving its developing missions.

### **Ownership**

As of 31 December 2001, ADB was owned by 59 members, 20 of which were members of the Organisation for Economic Cooperation and Development ("OECD") and 39 were developing members in the Asia-Pacific region. Portugal became the 60th member effective 2 April 2002.

The two largest shareholders, as of 31 December 2001, were Japan and the United States, each with 13.1% voting power. The OECD members together owned 64.8% of the total shares and 58.6% of the total voting power, and provided 63.8% of its professional staff. The total callable capital of these OECD members is equivalent to 104.3% of ADB's outstanding borrowings after swaps as of 31 December 2001.

Members with investment-grade and higher debt ratings accounted for about 77.6% of ADB's callable capital.

**Table 1. Shareholdings**

as of 31 December 2001

(%)

OECD Members		Developing Members	
Japan	15.9	China, People's Rep. Of	6.6
United States	15.9	India	6.4
Australia	5.9	Indonesia	5.5
Canada	5.3	Malaysia	2.8
Korea, Rep. Of	5.1	Philippines	2.4
Germany	4.4	Pakistan	2.2
France	2.4	Thailand	1.4
United Kingdom	2.1	Other regional	7.9
Italy	1.8		
New Zealand	1.6		
Other nonregional	4.4		
<b>Total</b>	<b><u>64.8</u></b>	<b>Total</b>	<b><u>35.2</u></b>

### Ordinary Capital Resources and Special Funds

In making loans, ADB provides funds from either its ordinary capital resources ("OCR"), which are the main subject of this brochure, or from its Special Funds.

ADB finances its OCR operations through borrowings, paid-in capital, retained earnings, and OCR loan repayments. Special Funds are primarily contributed by member countries and are provided in turn by ADB on concessional terms to ADB's lesser developed member countries. Special Funds operations are completely segregated from ADB's ordinary operations. Unless otherwise stated, all information in this brochure relates to ADB's OCR operations.

### Financial Operations

ADB adheres to prudent borrowing and lending practices. It maintains adequate levels of net income, liquidity, and reserves; continuously monitors the creditworthiness of its borrowers; and requires thorough technical, financial, and economic

---

justifications for all projects for which loans are provided. In accordance with its Charter, ADB restricts its loans, equity investments, and guarantees to an amount not more than its paid-in and callable capital plus its ordinary reserve and surplus. ADB's outstanding debt and guarantees cannot exceed its callable capital.

### **Triple-A Rating**

ADB bonds are rated Triple-A by Moody's, Standard & Poor's, the Japan Credit Rating Agency and Fitch. The Triple-A rating reflects solid shareholder support - much of the subscribed capital is held by non-borrowing members rated AAA/AA; and borrowing members afford ADB "preferred creditor status"; and in addition, ADB's high asset quality, strong financial fundamentals and prudent risk management policies.

### **Location**

ADB is headquartered in Manila and has 22 overseas offices, including 14 resident missions located in Bangladesh, Cambodia, People's Republic of China, India, Indonesia, Kazakhstan, Kyrgyz Republic, Lao People's Democratic Republic, Mongolia, Nepal, Pakistan, Sri Lanka, Uzbekistan, and Viet Nam; a country office in the Philippines; a regional office in Vanuatu; a special liaison office in East Timor; extended missions in Papua New Guinea and Gujarat, India; and three representative offices located in Washington, D.C., USA for North America, Frankfurt, Germany for Europe and Tokyo, Japan for Japan. Under the Charter, and in accordance with a Headquarters Agreement with the Republic of the Philippines, ADB's financial transactions are not subject to Philippine laws, taxes, foreign exchange regulations, or other controls.

### **Organization**

All powers of ADB are vested in the Board of Governors, which consists of one Governor and one Alternate appointed by each member. Governors meet at least once a year.

ADB has a resident Board of Directors at its headquarters made up of 12 members elected by the Governors. The Board

provides policy guidance for ADB's general operations. It also considers and approves all loans, guarantees, equity investments, and technical assistance grants exceeding \$1,000,000 as well as ADB's annual borrowing program.

The day-to-day operations of ADB are conducted by the President, who is also Chairman of the Board of Directors, and three Vice-Presidents. ADB's management is supported by staff drawn from 47 countries. There are 759 professional and 1,401 supporting staff.

### **Immunity from Judicial Proceedings**

ADB is immune from every form of legal process, unless it chooses to waive such immunity, except in relation to borrowings; guarantees; and the purchase, sale, or underwriting of securities, in which cases action may be brought against ADB in a court of competent jurisdiction.

### **Tax Status of ADB**

ADB's Charter states that ADB, its assets, property, income, and operations and transactions are exempt from all taxation and from all customs duties. ADB is also exempt from any obligation for the payment, withholding, or collection of any tax or duty.

### **Tax Status of Obligations and Securities of ADB**

Under the Charter, no member may impose any tax on ADB's obligations (i) if such tax discriminates against such obligations solely because they are issued by ADB; or (ii) if the sole jurisdictional basis for such tax is the place or currency in which the obligations are issued, made payable, or paid, or the location of any office or place of business maintained by ADB. ADB is not under any obligation to withhold or pay any tax on its borrowings.

---

## CAPITAL STRUCTURE

The capital structure of ADB is fundamental to its strength. As of 31 December 2001, the authorized capital of ADB was \$43,833.6 million, of which \$43,628.1 million had been subscribed by members. The subscribed capital is composed of paid-in and callable capital. ADB's equity is made up of paid-up capital and accumulated earnings ("reserves") amounting to \$10,874.2 million at 31 December 2001.

The relationship between loans and subscribed capital and the relationship between borrowings and callable capital underline the conservative policies followed by ADB in its financial operations.

### **Relationship Between Loans and Subscribed Capital**

OCR loans, equity investments, and guarantees are limited to the level of ADB's unimpaired subscribed capital, ordinary reserve, and surplus, or a one-to-one ratio of loans to capital.

As of 31 December 2001, loans disbursed and outstanding plus undisbursed commitments, equity investments, and guarantees totalled \$43,293.8 million compared with unimpaired subscribed capital, ordinary reserve, and ordinary surplus of \$51,732.3 million-a loans to capital ratio of 0.84 to 1.

### **Relationship Between Borrowings and Callable Capital**

The paid-in portion of ADB's subscribed capital is available for disbursement of OCR loans as part of ADB's ordinary operations. Callable capital is available for the protection of ADB's creditors such as bondholders and other lenders and can be called only if required to meet its obligations in relation to its borrowings or to cover any guarantees outstanding. ADB's outstanding debt and guarantees cannot exceed its callable capital. As of 31 December 2001, total callable capital amounted to \$40,559.6 million, compared with ADB's outstanding debt after swaps of \$25,217.6 million and outstanding guarantees of \$562.7 million - a cover of 1.57 times.



### Total Borrowing Limitation

Currently, ADB's policy is not to enter into any new borrowing or guarantee chargeable to its ordinary capital resources if such borrowing or guarantee, when added to outstanding borrowings and guarantees, would exceed 95% of the amount of the callable capital stock subscribed by members whose currencies are deemed convertible by ADB. As of 31 December 2001, total outstanding borrowings and guarantees of ADB represented 70.1% of the 95.0% of such callable capital.

### Mechanism for Calling the Callable Capital

While ADB does not foresee an event that might require a call on its callable capital, all member countries (including those whose currencies are nonconvertible) would be required to meet any call on a uniform percentage basis. Failure by one or more members to honor this obligation would not relieve any other member from its obligation to meet a call. If the amounts received on such a call were insufficient to meet ADB's obligations, ADB is authorized to issue further calls until it has the necessary funds to satisfy its obligations fully, up to the full amount of each subscription to callable capital.

The following table summarizes the resources backing ADB's obligations:

Resources	Amount	% of Outstanding Borrowings (After Swaps) (\$25,218)
Cash (unrestricted) and investments	6,660	26
Callable capital of members with convertible currencies	38,694	154
Callable capital of other members	1,866	7
Total callable capital	40,560	161
Outstanding loans	28,739	114
<b>Total</b>	<b>75,959</b>	<b>301</b>

### Development of ADB's Capitalization

Table 3 summarizes ADB's capitalization for recent years.

**Table 3. Capitalization of ADB**  
(amounts in \$ million)

Item	1997		1998		1999		2000		2001	
	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total	Amount	% of total
Total outstanding borrowings (after swaps)	<u>17,721</u>	66	<u>24,102</u>	71	<u>27,087</u>	72	<u>26,031</u>	71	<u>25,218</u>	70
Capital stock:										
Subscribed	46,411		48,456		47,597		45,271		43,628	
Less - callable capital	<u>43,147</u>		<u>45,042</u>		<u>44,249</u>		<u>42,087</u>		<u>40,560</u>	
Paid-in capital	3,264		3,414		3,348		3,184		3,068	
Less - other adjustments	<u>371</u>		<u>312</u>		<u>226</u>		<u>134</u>		<u>78</u>	
Net - paid in capital	2,893		3,102		3,122		3,050		2,990	
Reserves and accumulated net income and other comprehensive income	<u>6,409</u>		<u>6,961</u>		<u>7,441</u>		<u>7,784</u>		<u>7,884</u>	
Total paid-in capital, reserves net income and other comprehensive income	<u>9,302</u>	<u>34</u>	<u>10,063</u>	<u>29</u>	<u>10,563</u>	<u>28</u>	<u>10,834</u>	<u>29</u>	<u>10,874</u>	<u>30</u>
<b>Total capitalization</b>	<b><u>27,023</u></b>	<b><u>100</u></b>	<b><u>34,165</u></b>	<b><u>100</u></b>	<b><u>37,650</u></b>	<b><u>100</u></b>	<b><u>36,865</u></b>	<b><u>100</u></b>	<b><u>36,092</u></b>	<b><u>100</u></b>

## BORROWING OPERATIONS

ADB has been an active borrower in world capital markets since 1969. Its borrowing program is broadly determined by a number of factors including ADB's lending operations, cash flow requirements, its liquidity policy, and its perception of current and future market conditions.

In the early years of operations, ADB's capital was the major source of funds for ordinary lending. Since the early 1980s, borrowings have accounted for a greater share than capital and reserves. Borrowings continue to make an increasingly larger contribution to financing ADB's ordinary operations as ADB increases its lending operations.

### Box 2: Borrowing Objectives

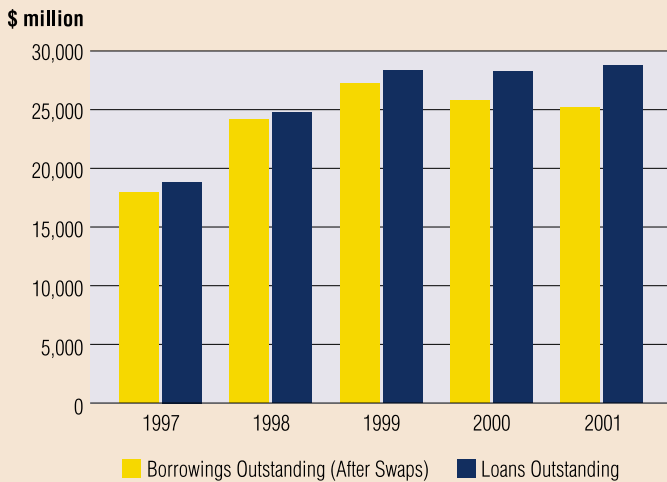
Low-cost funding	To produce low-cost funds for disbursement requirements either directly or indirectly, on a fully hedged basis, through currency liability and interest rate swap transactions as well as financial derivative instruments.
Capital markets presence	To preserve ADB's strong reputation and maintain continuous access to the world's capital markets.
Development of regional capital markets	To tap new markets, especially where contributions to the development of capital markets in the Asia-Pacific region can be achieved.

The major objectives of ADB's borrowing program are presented in *Box 2*. Within the context of such objectives, ADB will continue to diversify its sources of funding across markets, instruments, and maturities. One of ADB's core funding strategies is to maintain a strong presence in key currency bond markets through regular issuance of benchmark global bonds. Consequently, ADB continues to enhance the execution of its global bond issues,

focusing on offering investors fairly priced bonds through price discovery process, achieving a broad-based distribution both geographically as well as by investor type, and ensuring secondary market liquidity. Importantly, ADB also issues bonds on an opportunistic basis as a means of generating funds at the lowest cost possible. Under its Global Debt Issuance Facility (“GDIF”), ADB can execute opportunistic and private placement transactions on a short notice and in size, structure, and maturity that meet investors' requirements. As part of its developmental mandate, ADB continues its efforts to contribute to the development of the regional bond markets through local currency bond issuance. Finally, ADB will make use of its eurocommercial paper program (“ECP”) to bridge-finance cash flow deficiency when market conditions are not favorable for long-term debt.

**Figure 1. ADB Borrowings Outstanding (After Swaps) and Ordinary Loans Outstanding**

as of 31 December 1997 to 31 December 2001



### Funding Operations for 2001/02 and 2000

Starting 2001, ADB implemented its new borrowing framework in which its annual borrowing program will start from May of the current year to 30 April of the following year.

Prior to this, ADB's annual borrowing program was implemented during the calendar year. The new framework was designed primarily to better align its borrowing program implementation with its net cash requirements to achieve the targeted liquidity ratio at the end of the year while minimizing borrowing costs.

During 2001/02, the total medium- and long-term debt raised by ADB amounted to \$3,330.8 million (\$1,692.6 million in 2000). Three of such borrowings were public bond issues totaling \$2,502.8 million and 22 of which were in the form of private placements totaling \$828.0 million issued under GDIF. The average life of such borrowings, assuming that the put option for certain bonds is exercised, was 5.6 years (5.6 years in 2000).

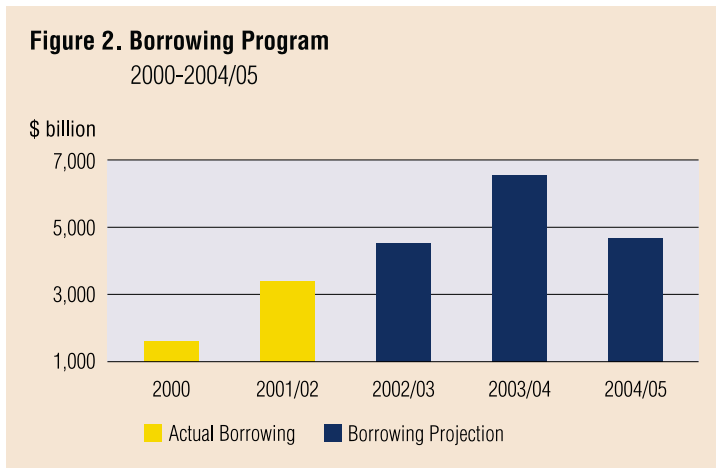
ADB also raised \$873.0 million in short-term funds through the issuance of ECPs. It is intended that such ECPs will be refinanced by long-term borrowings during the rest of 2002. The following table summarizes ADB's funding operations in 2001/02 and 2000:

<b>Table 4: Funding Operations</b>		
2001/02 and 2000		
	2001/02	2000
<b>Medium- and Long-Term Borrowings:</b>		
Total Principal Amount (\$million)	3,331	1,693
Average Maturity <sup>1</sup> (years)	5.6	5.6
<b>Number of Transactions:</b>		
Public Offerings	3	3
Private Placements	22	1
<b>Number of Currencies:</b>		
Public Offerings	2	1
Private Placements	3	1
<b>Short-Term Borrowings<sup>2</sup>:</b>		
Total Principal Amount (\$million)	873	250
Number of Transactions	5	2
Number of Currencies	2	1
<sup>1</sup> On the basis that any call options are exercised at the earliest call date.		
<sup>2</sup> All eurocommercial paper.		

---

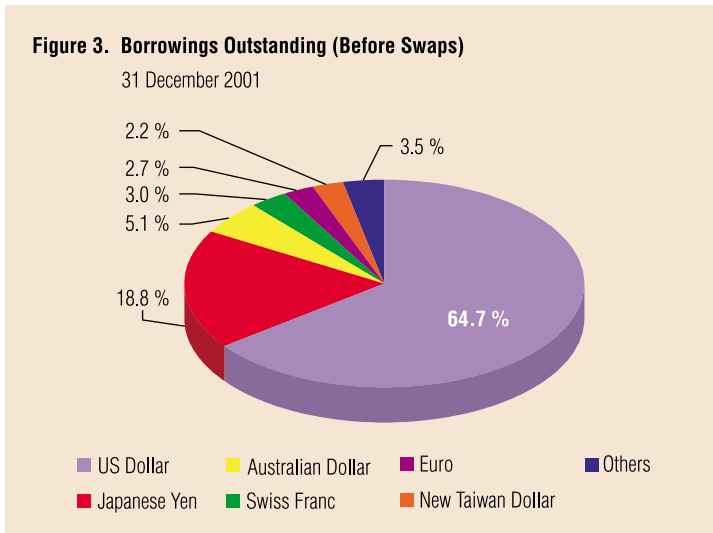
## Expected Borrowings

ADB's expected total borrowings from May 2002 to April 2005 will amount to approximately \$15.8 billion equivalent. The size of this program will enable ADB to tap the major capital markets regularly in the future, as well as to utilize the region's capital markets. In addition, the size of ADB's issues can be increased to enhance the secondary market liquidity of ADB's bonds. Lastly, ADB remains committed to supporting the development of the region's domestic bond markets with a view to improving their efficiency, transparency, liquidity, and accessibility.



## Currency Diversification

A basic ADB policy is to diversify its borrowings among available currencies and markets to avoid becoming too dependent on any one currency or market for funds. ADB has, so far, borrowed in seventeen different currencies. ADB's outstanding public bond issues are shown on pages 16-19. The following chart shows the currency composition of ADB's outstanding borrowings (before swaps) as of 31 December 2001.



### Forms of Borrowing

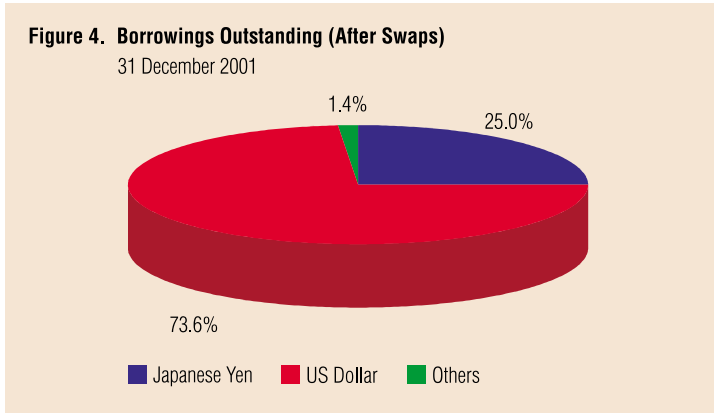
While most of ADB’s borrowings have been in the form of public bond issues in the major capital markets, ADB has also made direct placements of its securities with governments, central banks, and other financial institutions and has borrowed directly from commercial sources. In addition, ADB undertakes bridge financing transactions through its \$5 billion ECP to afford greater flexibility in the timing of its long-term borrowings.

### Use of Derivatives

In connection with its borrowing operations, ADB also undertakes currency and interest rate swap transactions. These swap transactions enable ADB, on a fully hedged basis, to raise operationally needed currencies in a cost-efficient way and to maintain its borrowing presence in the major capital markets. At 31 December 2001, the principal amount receivable and payable under outstanding currency swap transactions totaled \$5,773.2 million and \$6,355.4 million, respectively. The notional principal amount of outstanding interest rate swap transactions totaled \$4,864.4 million.

---

The currency composition of ADB's outstanding borrowings after swaps at 31 December 2001 (see *Figure 4 below*) was concentrated in United States dollars, about 73.6% (67.5% - 2000). This reflects the borrowers' preference for United States dollar loans.





**ADB'S OUTSTANDING PUBLIC BOND ISSUES**  
as of 31 December 2001

Issue	Principal Amount (millions)
<b>Australian Dollar</b>	
5 <sup>3</sup> / <sub>8</sub> % - 5-year Bonds of 1998 due 15 September 2003	1,000
5 <sup>1</sup> / <sub>4</sub> % - 5.37-year Bonds of 1999 due 15 September 2004	500
6 <sup>1</sup> / <sub>4</sub> % - 10-year Bonds of 2001 due 15 June 2011	500
<b>Euro-Canadian Dollar</b>	
7 <sup>7</sup> / <sub>8</sub> % - 10-year Bonds of 1993 due 11 March 2003	250
<b>Euro</b>	
5 <sup>1</sup> / <sub>2</sub> % - 10-year Fungible Bonds of 1997 due 24 October 2007	767
<b>Korean Won</b>	
12.15% - 7-year Bonds of 1995 due 1 September 2002	80,000
<b>Netherlands Guilder</b>	
8 <sup>3</sup> / <sub>8</sub> % - 10-year Bonds of 1992 due 3 July 2002	300
6 <sup>1</sup> / <sub>4</sub> % - 10-year Bonds of 1996 due 1 March 2006	400
<b>New Taiwan Dollar</b>	
6.28% - 7-year Bonds of 1995 due 2 August 2002	2,600
6% - 7-year Bonds of 1996 due 19 December 2003	7,000
3 Tranche Bonds of 1999:	
5.20% - 3-year Bonds due 8 March 2002	2,000

**ADB'S OUTSTANDING PUBLIC BOND ISSUES**  
as of 31 December 2001

Issue	Principal Amount (millions)
5.35% - 5-year Bonds due 8 March 2004	6,000
5.40% - 7-year Bonds due 8 March 2006	2,000
<b>Pound Sterling</b>	
10 <sup>1/4</sup> % - 25-year Loan Stock of 1984 due 24 March 2009 (S)	100
<b>Swiss Franc</b>	
6% - 25-year Bonds of 1985 due 20 November 2010	100
Zero Coupon - 30-year Bonds of 1986 due 7 February 2016	500
7% - 12-year Bonds of 1992 due 1 June 2004	300
3% - 8-year Bonds of 1998 due 24 April 2006	300
2.25% - 6-year Bonds of 1999 due 28 April 2005	300
<b>United States Dollar</b>	
6 <sup>1/2</sup> % - 10-year Notes of 1992 due 21 September 2002	300
6.22% - 30-year Bonds of 1997 due 15 August 2027 (P)	300
5.82% - 30-year Bonds of 1998 due 16 June 2028 (P)	750
5.593%-20-year Bonds of 1998 due 16 July 2018 (P)	700
6 <sup>3/8</sup> % - 30-year Bonds of 1998 due 1 October 2028 (P)	410

**ADB'S OUTSTANDING PUBLIC BOND ISSUES**  
as of 31 December 2001

<b>Issue</b>	<b>Principal Amount (millions)</b>
6.64% - 15-year Bonds of 1999 due 27 May 2014 (P)	500
<b>Euro-United States Dollar</b>	
Zero Coupon - 20-year Bonds of 1984 due 31 August 2004 (C)	1,000
7 1/2% - 10-year Bonds of 1992 due 2 July 2002	500
6 3/8% - 10-year Bonds of 1993 due 8 June 2003	500
5 1/4% - 3-year Bonds of 1999 due 26 February 2002	500
7 % - 5-year Notes of 2000 due 15 June 2005	300
<b>Global United States Dollar</b>	
6 1/8% - 10-year Bonds of 1994 due 9 March 2004	750
6 1/4% - 10-year Bonds of 1995 due 24 October 2005	750
6 3/4% - 10-year Bonds of 1997 due 11 June 2007	1,250
5 3/4% - 5-year Bonds of 1998 due 19 May 2003	2,000
5 1/2% - 5-year Bonds of 1999 due 23 April 2004	1,250
6 1/2% - 3-year Bonds of 1999 due 21 October 2002	1,000
7 1/2% - 5-year Bonds of 2000 due 31 May 2005	1,000
7 1/2% - 15-year Bonds of 2000 due 15 June 2015 (P)	300

---

**ADB'S OUTSTANDING PUBLIC BOND ISSUES**  
as of 31 December 2001

Issue	Principal Amount (millions)
4 <sup>7</sup> / <sub>8</sub> % - 5-year Bonds of 2002 due 5 February 2007	2,000
<b>Japanese Yen</b>	
5.30% - 15-year Bonds of 1987 due 25 February 2002	30,000
5 <sup>5</sup> / <sub>8</sub> % - 10-year Special Bonds of 1992 due 12 February 2002 - Fourth Offering	50,000
6% - 10-year Bonds of 1992 due 28 May 2002	64,000
5.675% - 20-year Bonds of 1993 due 12 February 2013	30,000
4.60% - 10-year Reverse Dual Currency Japanese Yen/ Australian Dollar Bonds of 1995 due 27 April 2005	10,000
<b>Euro-Yen</b>	
5 <sup>5</sup> / <sub>8</sub> % - 10-year Bonds of 1992 due 18 February 2002	50,000
5% - 10-year Bonds of 1993 due 5 February 2003	50,000
3 <sup>1</sup> / <sub>8</sub> % - 10-year Bonds of 1995 due 29 June 2005	40,000

---

(C) call options exist.  
(P) put options exist.  
(S) sinking fund provisions apply.

## LIQUIDITY PORTFOLIO MANAGEMENT

ADB's liquidity portfolio is designed to ensure the uninterrupted availability of funds to meet loan disbursements, debt servicing, and other cash requirements. It also contributes to ADB's earning base.

ADB's Board of Directors has prescribed certain policy restrictions relating to its investment of funds not needed in operations (the "Investment Authority"). The primary objective of the Investment Authority is to promote the security and liquidity of funds invested as ADB seeks to maximize returns on its liquidity portfolio investment. ADB's investments are made in the same currencies as received. ADB does not convert currencies for investment. At present, liquid investments are held in 18 currencies.

ADB's liquid assets are held in obligations of governments and other official entities, time deposits, and other unconditional obligations of banks and financial institutions, and to a limited extent in corporate bonds, mortgage-backed securities, and asset-backed securities of high credit quality. The liquid assets are held in three sub-portfolios: core portfolio, operational cash portfolio, and cash cushion portfolio - all of which have different risk profiles and performance benchmarks.

The core portfolio is funded by equity and invested to ensure that the primary objective of a liquidity buffer is met. Cash inflows and outflows are minimized to achieve the core portfolio's objective of maximizing the total return relative to a defined risk tolerance level. The portfolio performance is measured against external benchmarks with an average duration of about two years.

The operational cash portfolio is designed to meet net cash requirements over a one-month period. It is funded by equity and invested in short-term, highly liquid money market instruments. The portfolio performance is measured against short-term external benchmarks.

The cash cushion portfolio holds the proceeds of ADB's borrowing transactions pending disbursements. The portfolio

is invested in short-term instruments and its performance is measured against short-term external benchmarks.

The average size of the liquidity portfolios during 2001 and 2000 is presented in the following table.

**Table 5. Average Size of Liquidity Portfolio**

	<b>Liquidity Portfolio (\$ million)</b>	
	<b>2001</b>	<b>2000</b>
Core portfolio	5,202	5,027
Operational cash portfolio	381	967
Cash cushion portfolio	<u>1,101</u>	<u>1,461</u>
<b>Total</b>	<b><u>6,684</u></b>	<b><u>7,455</u></b>

The return on the liquidity portfolios during 2001 and 2000 is presented in the following table.

**Table 6. Return on Liquidity Portfolio**

	<b>Annualized Financial Return (%)</b>	
	<b>2001</b>	<b>2000</b>
Core portfolio	7.25	7.00
Operational cash portfolio	3.59	0.97
Cash cushion portfolio	<u>2.29</u>	<u>1.22</u>
<b>Total</b>	<b><u>6.11</u></b>	<b><u>6.09</u></b>

## FINANCIAL RISK MANAGEMENT

In undertaking its development banking operations, ADB assumes a variety of financial risks. These include credit, commercial, and market risks (interest rate and foreign exchange). ADB has established a risk management infrastructure designed to ensure that the risks associated with its activities are fully identified, measured, monitored, and managed. Guidelines and constraints relating to the assumption of credit, commercial and market risks are established within the parameters of various policy and operational documents. The Charter sets the broad policy objectives relating to the operations of ADB. General policy guidelines relating to risk assumption and management are articulated in several policy documents approved by ADB's Board of Directors. These include the Income and Reserves Policy, the Liquidity Policy and the Investment Authority. At the operational level, specific guidelines relating to the assumption of risk in ADB's financial operations are established by the Office of the President, the Office of the Vice President, Finance and Administration, and the Office of the Treasurer.

ADB has established a Risk Management Committee ("RMC") that is tasked with the responsibility of overseeing the operation of the risk management infrastructure within the Treasurer's Department. The RMC is responsible for discussing and resolving any issues arising from new policies and guidelines relating to risk management within Treasurer's Department. It reviews all new products, counterparties and operations from a risk management perspective and resolves any issues relating to systems and procedures. The RMC reviews aggregate risk exposure and establishes appropriate measures for managing this exposure. Finally, it provides a forum for discussing and assessing the external risk climate.

ADB is currently reviewing its risk management policies and practices throughout its several departments.

### **Credit Risk**

Credit risk can be defined as the potential loss arising from default of a borrower.

---

### ***Income and Reserves Policy***

As a development finance institution, ADB regularly assumes credit risk on its lending portfolio. The ADB manages this risk through a rigorous capital adequacy framework. This framework, articulated through the Charter and policy documents, is at the foundation for managing lending risk within ADB.

In accordance with the Charter, ADB's net loan commitments, i.e., the sum of disbursed and outstanding loans and undisbursed loan balances, should not exceed the total amount of its lending authority. The lending authority is equivalent to the subscribed capital plus retained earnings.

The Income and Reserves Policy of ADB protects its risk bearing capacity, i.e., its capacity to withstand unexpected large risk events without seeking additional financial support from its shareholders. The primary benchmark used by ADB in measuring its risk-bearing capacity is the interest coverage ratio ("ICR"), a ratio that broadly indicates to what extent ADB's income, particularly the income from its loan portfolio, can decrease without jeopardizing ADB's ability to service its own debt from current earnings. In light of its portfolio concentration, ADB's current policy is to ensure that the ICR does not fall below the level of 1.31. With an ICR of 1.31, ADB has the capacity to withstand the nonperformance of its largest borrower and still generate residual net income. ADB's actual target for the ICR in the medium-term could be higher depending on its assessment of its risk-bearing capacity.

To maintain the minimum ICR or achieve a higher targeted level for ICR, ADB manages that its equity capital or earning base to be sufficient to generate the minimum net income requirements. The adequacy of equity capital is managed by maintaining adequate reserves, which constitute the bulk of its equity capital in relation to outstanding loans, i.e., reserve:loan ratio ("RLR"). The current policy is to maintain RLR at about 25% over the medium-term. Any potential deficiency in such reserves or earning base could be remedied by increasing the level of loan charges. As of 31 December 2001, the ICR and RLR of ADB were 1.58 and 28.47%, respectively.



***Liquidity Policy***

ADB's liquidity policy provides protection against a possible market access limitation arising from the default of a major borrower. In accordance with its current liquidity policy, ADB is required to maintain liquid assets available for loan disbursements, debt redemptions and other expenditures at the end of each year of not less than 40% of the undisbursed loan balances at the end of that year. Such liquid assets, which consist of cash (unrestricted) and investments exclusive of Special Reserve assets, amounted to approximately \$6,477.4 million as of 31 December 2001, which represented 46.95% of ADB's undisbursed loan balances, including loans not yet effective, at such date.

***Overdue and Non-performing Loans***

It is ADB's policy that if a payment of principal or interest on a public sector loan is not received within 30 days after the due date, a formal notice will be sent to the borrower advising that, unless all its outstanding arrears are received within 30 days of such notice, no further loans to, or guaranteed by, the borrower will be presented to the Board of Directors for approval nor will any previously approved loan be signed. In addition, if such payment is not received within 60 days after the due date, a formal notice will be sent to the borrower advising that, unless all its outstanding arrears are received within 30 days of such notice, disbursements on all ADB loans to that borrower will be suspended. Such overdue policy may be temporarily deferred (i) when payments are owed in currencies whose availability in the international financial markets is unduly constrained at the time the payments fall due; (ii) when the overdue amount is less than \$50,000; and (iii) when significant partial payments of the overdue amount have been received by ADB, and/or the borrower has made acceptable arrangements to bring the outstanding amounts up to date. It is also the policy of ADB to place in nonaccrual status loans for which principal, interest, or other charges are overdue by six months. Provisioning for possible loan losses may be made when principal or interest is in arrears for one year for public sector loans made to or guaranteed by a member and six months for private sector loans.

---

## **Commercial and Market Risks**

Commercial Risks pertain to counterparty risk and issuer risk while Market Risks pertain to interest rate risk and exchange rate risk.

### ***Commercial Risks***

#### **a. Counterparty Risk**

To assist in ensuring that investment and funding activities are undertaken in an effective and cost-efficient manner, ADB utilizes various cash and derivative instruments in its financial operations. These transactions involve counterparty credit risk. To manage and mitigate this risk, ADB restricts these activities to authorized dealers and counterparties meeting conservative credit risk guidelines.

Counterparties to investment transactions are proposed by the Investments Division, reviewed by the Risk Management Division and approved by the Treasurer. Generally, the ADB's investment transactions in cash instruments are conducted on a "delivery versus payment basis", where counterparty credit exposure is viewed to be minimal. Investment transactions with counterparts in derivative products or on a free delivery basis require special review by the Risk Management Division and approval by the Treasurer. Depository and custodial exposure is monitored on a daily basis through ADB's Depository Bank Liability Management System ("DBLMS"). Counterparty eligibility for depository and custodial transactions is rigorously monitored by the Risk Management Division in relation to strict minimum credit rating guidelines approved by the President.

The Funding Division actively utilizes currency and interest rate swap transactions on a fully hedged basis to raise operationally needed currencies in a cost-efficient manner and to maintain its borrowing presence in the major capital markets. Swap counterparty credit exposure is measured and monitored under ADB's Swap Exposure Management System ("SEMS"). Guidelines relating to swap risk management are approved by the President. In accordance with the guidelines, ADB currently requires that its swap counterparties be rated AA-/Aa3 or higher. Internal limits for swap exposure are calculated by utilizing

credit ratings from the major credit rating agencies. SEMS monitors ADB's current and potential exposure to swap counterparties relative to these internal limits. Current counterparty swap exposure calculations evaluate the current cost of replacing an outstanding swap with a new swap. Current counterparty swap exposure calculations are based on a current "marking-to-market" of swap transactions. On the other hand, potential counterparty swap exposure calculations measure the credit risk that would occur if a swap counterparty were to default in the future. It evaluates the "potential" cost to replace an existing swap with a new swap in the future. It is a function of the notional amount of the swap transaction and estimated volatilities of underlying risk factors.

**b. Issuer Risk**

Issuer risk arises from ADB's investment transactions. Under the Investment Authority, ADB may purchase and sell bonds, notes or other obligations that are (i) issued or guaranteed by the member country whose currency is involved in the investment, (ii) issued or guaranteed by an eligible non-borrowing member country and denominated in the currency of another member whose currency is convertible, provided that such bonds, notes or other obligations are rated "AA" or higher, (iii) issued or guaranteed by an eligible autonomous government entity or government-controlled corporation of a non-borrowing member country and denominated in the currency of such member country or the currency of another member country whose currency is convertible, provided that such bonds, notes or other obligations are rated "AA" or higher, or consist of eligible asset-backed and mortgage-backed securities, (iv) issued or guaranteed by an eligible multilateral organization and denominated in a convertible currency, provided that such bonds, notes or other obligations are rated "AA" or higher, (v) issued or guaranteed by eligible corporate entities or trusts provided that such bonds, notes or other obligations are rated "A" or higher, or consist of eligible asset-backed and mortgage-backed securities, or (vi) consist of time deposits and other unconditional obligations of eligible banks and other financial institutions in member countries.

---

In addition to these restrictions, ADB further limits the volume and eligibility of its transactions in “spread products”, i.e., investments issued and trading at a “credit spread” to the government yield curve. In the case of corporate, asset-backed and mortgage-backed securities, these investments are presently limited to a percentage of the US dollar portfolio alone. The ADB restricts the level of investments in AAA-rated, AA-rated and A-rated corporate debt instruments, respectively, and also restricts the level of investments in asset-backed and mortgage-backed instruments. All asset-backed and mortgage-backed securities in ADB’s investment portfolio must be AAA-rated.

### ***Market Risks***

#### **a. Interest Rate Risk**

Market risk exposure is generally restricted to ADB’s liquid asset investments rather than its loan portfolio. In loan pricing, all costs (i.e., financial and administrative) are automatically passed on to the borrower. Under the pool-based variable lending rate system, the lending rate is adjusted every six months and is applied uniformly to the outstanding balance of all loans within the pool, regardless of when they were disbursed or approved. The lending rate is based on the average cost of outstanding borrowings used to fund the pool-based loans plus a spread (currently 60 basis points). Under the LBL window, the lending rate is based on ADB’s funding cost in terms of 6-month LIBOR of the relevant currency plus a spread that is fixed over the life of the loan. In the case of borrowers’ request for interest rate conversion, currency conversion, and purchase of caps and floors on floating rate loans, ADB will cover such conversions by a corresponding hedge in the swap market, the rate or cost of which will be passed through to the borrowers. Careful term structure planning is also a feature underlying the funding associated with ADB’s loan portfolio. Consequently, ADB assumes no significant market risk relating to the funding of its loan disbursements, apart from the possibility of minor cost of carry associated with borrowed funds held temporarily in liquid assets pending disbursement.

The principal source of interest rate risk to ADB's balance sheet arises from the income volatility associated with its liquid asset investments, largely funded by equity. As the principal income-earning asset on ADB's balance sheet, the liquid asset portfolio is carefully managed to optimize the relationship between expected return and volatility (risk).

The Investment Authority is based on a new investment strategy that identifies an aggregate portfolio risk threshold and optimizes portfolio asset allocation relative to this threshold. Combining concepts of risk sensitivities and probability-based measures of potential risk exposure, the risk threshold incorporates estimates of interest rate and credit risk exposure at an aggregate (i.e., portfolio) level. The optimization tool used to maximize expected return for this given risk threshold is efficient frontier analysis.

In order to assist in managing the actual risk profile of ADB's liquid asset investments, the Risk Management Division employs various quantitative techniques. All portfolio positions are marked-to-market on a daily basis. Risk sensitivity measures are calculated on a daily basis and compared to sensitivity limits established internally to ensure compliance with specific and aggregate risk tolerances. In addition, probability-based measures of potential risk exposure are calculated on a frequent basis to enable evaluation against the aggregate risk threshold established under the new investment strategy. The Investments Division actively utilizes this information to adjust the risk profile of the liquid asset portfolio as required.

**b. Exchange Rate Risk**

Pursuant to the Charter, ADB is generally precluded from incurring foreign exchange risk. As a result, it is ADB's policy to make loans and investments in the same currencies in which funds are received. However, borrowed funds or funds to be invested may be converted into other currencies provided that, at the same time, forward exchange agreements are entered into to ensure recovery of the currencies converted. ADB does not otherwise convert one currency into another except for limited amounts required to meet certain obligations in the ordinary

---

course of its business or as specifically authorized by the Board of Directors.

### **Risk Management in Private Sector Operations**

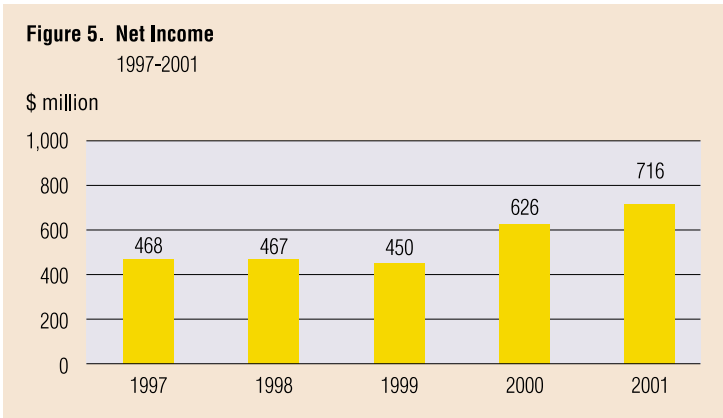
Managing commercial and sovereign risks is a key priority in ADB's private sector operations. The Risk Management Unit in the Private Sector Operations Department has two main functions. One is credit review - to review and give an independent credit judgment, separate from the dealing officer's analyses and recommendations on each project. The other is special assets management which aggressively pursues recovery, restructuring, rescheduling, and where necessary, litigation in managing non-performing projects in the private sector portfolio. Quarterly portfolio supervision meeting focuses on risk rating all projects and reviewing the levels of provisioning for impaired assets.

## RESULTS OF OPERATIONS

ADB has achieved consistent profitability, earning profits every year since its inception. Its gross income decreased by 2.7% in 2001, from \$2.3 billion in 2000 to \$2.2 billion in 2001 because of a decrease in loan and other income. ADB's primary interest earning assets are its loans and investments. Total operating expenses were \$1.5 billion as of 31 December 2001, a decrease of 9.1% from \$1.7 billion in 2000. The reduction in expenses was due to the \$142.6 million decrease in interest and other financial expenses, a \$33.5 million decrease in administrative expenses (after allocation of administrative charges to ADF of \$129.5 million and the offsetting of front-end fee income of \$34.8 million), a \$3.9 million increase in the provision for losses, and technical assistance financing for 2001 of \$19.9 million.

The reported net income for 2001 which includes FAS 133 adjustments of \$147.5 million was \$863.3 million compared with \$625.7 million in 2000 representing an annualized return of 2.28% (1.71% - 2000) on its average earning assets. Excluding FAS 133 adjustments, the net income for 2001 was \$715.8 million, an increase of 14.4% from \$625.7 million in 2000. Such increase was mainly due to a reduction in interest and other financial expenses as well as administrative expenses.

The following graph shows ADB's net income from 1997 to 2001. The 2001 net income shown in the graph excludes FAS 133 adjustments.



---

## OCR OPERATIONS

### **Operating Policies**

ADB is authorized to make, participate in, or guarantee loans to its developing member countries or their governments, to any of their agencies or political subdivisions, and to public or private enterprises operating within such countries, as well as to international or regional entities concerned with economic development in the region.

Loans are made only for projects or programs of high developmental priority. ADB provides financing to its borrowers to cover foreign exchange expenditures and also finances local currency expenditures in certain cases. ADB requires its borrowers to absorb exchange risks caused by fluctuations in the value of the currencies that it has disbursed.

Except in special circumstances, ADB requires that the proceeds of its loans and the loans it guarantees be used by borrowers only for procurement of goods and services produced in and supplied from member countries. ADB supervises the disbursement of its loans to ensure that the proceeds are applied only against eligible expenditures as they are incurred. It generally requires that borrowers seek competitive bids from potential suppliers, that engineering plans and specifications be drawn up independently of the suppliers or manufacturer and, if appropriate, that independent consultants be retained by borrowers.

ADB's policy-based program lending is designed, as a complement to its project-specific lending, to develop a sector (or subsector) as a whole and improve a sector's performance through appropriate policy and institutional reforms over the medium to long term. The loan proceeds may be used to finance economy-wide import requirements on the basis of a negative import list, or where necessary and appropriate, sector-specific import requirements on the basis of a positive import list. The ceiling on program lending, as a percentage of total lending on a three-year moving average basis, is 20%.

Last 1 January 2000, ADB introduced a program cluster approach as an extension of its program lending modality to enhance flexibility and extended the time frame for program



implementation to 7 years. Also effective on the same date, ADB introduced a special program loan facility ("SPL") to provide, on an exceptional basis, as part of an international rescue package, substantial support beyond ADB's anticipated assistance levels to crisis-affected countries which are eligible to borrow from ADB's ordinary capital resources. ADB will charge higher rates for SPLs to help mitigate potential adverse effects on ADB's financial strength and risk bearing capacity. SPLs are exempted from counting towards the ceiling on regular program lending.

### **Ordinary Operations Loans**

From its establishment through 31 December 2001, ADB had approved loans aggregating \$67,440.9 million in its ordinary operations. As of 31 December 2001, ADB's total amount of outstanding loan commitments (approved ordinary operations loans less amounts cancelled or repaid) in its ordinary operations was \$42,535.0 million.

The majority of ADB ordinary operations loans (98.3%) have been made to the public sector, namely, to member countries or, with the guarantee of the member government concerned, to government enterprises or other public entities. The rest is to private enterprises and financial institutions without government guarantee (see *Private Sector Loans and Equity Investments*).

#### ***Major Recipients of Loans***

As a general rule, the lesser developed of ADB's members borrow on concessional terms from the Asian Development Fund ("ADF"), while members with stronger economies borrow from OCR. ADB has made loans from OCR to 22 of its developing member countries, with Indonesia receiving the largest aggregate amount, followed by People's Republic of China, India, the Philippines, Republic of Korea, Pakistan, and Thailand.

Effective January 1999, ADB has adopted a graduation policy and country classification system that applies the joint criteria of per capita gross national product and debt repayment capacity to determine the eligibility of its developing member countries for ADF and OCR resources.

Hong Kong, China; Republic of Korea; Singapore; and Taipei, China are considered graduated from regular ADB assistance. Only OCR loans are provided to the more advanced borrowing countries in the region. Most of these countries are predominantly market-economy oriented and include three members of the Association of South East Asian Nations or ASEAN, (Malaysia, the Philippines, and Thailand), the Republic of Fiji Islands, Papua New Guinea, and two Central Asian countries, Kazakhstan and Uzbekistan. India, People's Republic of China, Nauru, and Indonesia are eligible to receive OCR with limited amounts of ADF. Countries with access to limited amounts of OCR in addition to ADF include: Bangladesh, Cook Islands, Marshall Islands, Micronesia, Pakistan, Sri Lanka, Tonga, and Viet Nam.

**Table 7. Country Breakdown of Total Outstanding OCR Loan Commitments**  
as of 31 December 2001

<b>Country</b>	<b>Amount (\$ million)</b>	<b>%</b>
Indonesia	\$ 9,868.0	23.2
China, People's Republic of	9,414.4	22.1
India	7,435.7	17.5
Philippines	4,009.8	9.4
Korea, Republic of	3,918.0	9.2
Pakistan	3,002.9	7.1
Thailand	2,457.6	5.8
Malaysia	509.7	1.2
Others	1,918.9	4.5
<b>Total</b>	<b><u>\$42,535.0</u></b>	<b><u>100.0</u></b>

### *Types of Development Projects Financed*

ADB lending is aimed at developing energy, agriculture, transport and communications, and other basic infrastructure. Projects financed by these loans are designed to give recipient countries a sounder economic base to enable them to achieve and maintain higher and sustained levels of economic growth. ADB also finances development of financial systems in developing member countries and small and medium-scale

projects, mostly in the private sector, through loans to financial intermediaries within the borrowing countries, which on-lend ADB funds for such projects.

In response to the changing needs and imperatives of the developing member countries and the international environment, ADB has undergone a strategic reorientation in recent years. With the adoption of the Poverty Reduction Strategy as its overarching goal, ADB supports this goal by providing loans to promote sustainable pro-poor economic growth, inclusive of social development and good governance. To broaden and deepen the impact of its interventions, ADB promotes the role of the private sector in development, supports regional cooperation and intergration for development, and addresses environmental sustainability in all its loans.

**Table 8. Sectoral Breakdown of Total Outstanding Effective Loans**  
as of 31 December 2001

<b>Sector</b>	<b>%</b>
Transport and communications	22.9
Energy	20.9
Finance	19.1
Social infrastructure	17.2
Agriculture and natural resources	8.8
Multisector	5.4
Industry and nonfuel minerals	3.9
Others	1.8
<b>Total</b>	<b><u>100.0</u></b>

### ***The Project Process***

In responding to requests from member governments for OCR loans, ADB economists, financial analysts, technical specialists, and lawyers assess the economic viability and financial soundness of projects and the way in which the projects fit into the economic framework and development priorities of the borrowing countries.

---

Strict standards of accounting and project implementation are maintained. Most contracts are awarded on the basis of international competitive bidding or international shopping or by domestic competitive bidding in certain limited cases. Projects are carefully analyzed and executed and, where appropriate, outside consultants are hired to ensure that the highest standards of performance are achieved throughout the life of the project.

### ***Repayment Record***

In its public sector ordinary operations, ADB has not suffered any losses of principal to date and follows a policy of not taking part in debt rescheduling agreements. Occasional delays have occurred in loan service payments, but these have not been material to ADB's operations. In its private sector operations, ADB provides for possible losses on its private sector loans and equity investments. Allowance for possible losses on impaired private sector loans and equity investments through 2001 totaled \$80.1 million and \$64.0 million, respectively. As of 31 December 2001, the total public and private sector loans in non-accrual status was equivalent to 0.27% of the total ordinary operations loan portfolio.

### ***Lending Windows***

Until 30 June 2001, ADB's three lending windows for loans from ordinary capital resources were the pool-based multicurrency loan ("PMCL") window, the pool-based single-currency loan ("PSCL") window in US dollars, and the market-based loan ("MBL") window. With the introduction of the LIBOR-based loan ("LBL") window on 1 July 2001, the PMCL and MBL were no longer offered; while on 1 July 2002, the PSCL in US dollars will no longer be offered. The LBL window is a timely response to borrower demand for new ADB financial loan products to suit their project needs and external debt risk management strategies. The LBL products give borrowers a high degree of flexibility and at the same time provide low intermediation risk to ADB. The salient features of LBL are shown in *Box 3*. A breakdown of ADB's ordinary operations loan portfolio by loan product is presented in *Table 9*.

**Table 9. Loan Portfolio by Loan Products**  
(\$million)

	<u>Public Sector</u>		<u>Private Sector</u>	
	<u>2001</u>	<u>2000</u>	<u>2001</u>	<u>2000</u>
LIBOR-based Loans	\$ 3,321	\$ –	\$ 8	\$ –
Market-based Loans	1,027	1,308	473	517
Pool-based Multicurrency Loans	7,048	8,744	12	19
Pool-based Single Currency Loans	26,169	26,806	–	–
Others	4,259	4,448	218	246
<b>Total</b>	<b>\$41,824</b>	<b>\$41,306</b>	<b>\$ 711</b>	<b>\$ 782</b>

### *Financial Terms of Loans*

The lending rates for the PMCL and PSCL US dollar loan windows are determined on the basis of the previous semester's average cost of borrowings plus a lending spread (60 basis points since 1 January 2000). The MBL window provides single-currency loans in US dollars, Japanese yen, or Swiss francs to private sector borrowers and government-guaranteed financial intermediaries at current terms. The interest rates on loans from the MBL window are on either fixed or floating rate terms.

ADB's pool-based variable lending rates for the first half of 2001 were 5.50% per annum for multicurrency loans and 6.70% per annum for US dollar loans. For the second half of 2001, the lending rate for multicurrency loans decreased to 5.21% per annum, while the rate for US dollar loans remained at 6.70% per annum.

The lending rates for MBLs are determined on the basis of the 6-month LIBOR plus a lending spread. The lending spread for MBL loans to financial intermediaries in the public sector is the same as that applicable for OCR pool-based public sector loans. For private enterprises, the lending spread is determined on a case-to-case basis to cover ADB's risk exposure to particular borrowers and projects.

---

### Box 3: LIBOR-Based Loan Products

On 1 July 2001, ADB introduced the LBL window carrying a floating lending rate that consists of 6-month LIBOR and a spread fixed over the life of the loan. The LBL is a timely response to borrowers' demand for new ADB financial loan products that can meet borrowers' needs to tailor the currency of the loan and the interest rate basis to suit the project needs and/or external debt risk management strategies.

The LBL has market-based features, including a fixed spread and pricing relative to standard market references that provide a transparent basis for borrowers to compare the terms of ADB loan products with those of other lenders. In addition, the LBL allows for efficient intermediation by ADB on the most cost-effective terms. With the new LBL window, a high degree of flexibility is given to borrowers in terms of choice of currency and interest rate basis; options to link repayment schedules to actual disbursements for financial intermediary borrowers; the ability to change the original loan terms (currency and interest rate basis) at any time during the life of the loans; and options to purchase a cap or collar on a floating lending rate at any time during the life of the loans.

The LBL terms are available for all new loans for which the invitation to negotiate is issued on or after 1 July 2001. LBL terms may also be extended to borrowers that wish to convert undisbursed amounts of presently effective pool-based single-currency loans in US dollars, provided certain terms and conditions are satisfied. Since 1 July 2001, the pool-based multicurrency and market-based lending facilities have no longer been offered; while on 1 July 2002, pool-based single-currency loans in US dollars will no longer be offered. Thus, effective 1 July 2002, ADB's loan product menu will consist only of LBLs.

**Loan currency:** Borrowers may choose to denominate their LBLs in Euros, Japanese yen, or US dollars. The currency selected by the borrower will be the loan currency, i.e., the currency to be disbursed by ADB and to be paid by the borrower for its debt service payments.

**Interest rate basis:** LBLs can be made on a floating-rate basis or on a fixed-rate basis, but initially all LBLs will have a floating lending rate. With a floating-rate LBL, the lending rate is reset every 6 months on each interest payment date, referred to also as the lending rate reset date. The lending rate is the cost base rate plus a spread (the fixed spread) that is fixed in the loan agreement. The cost base is reset every 6 months, either on the first or fifteenth day of the month of a loan's reset dates. The fixed spread for public sector borrowers is equal to ADB's basic lending spread prevailing at the time of loan signing (currently 60 basis points), regardless of the loan currency. The spread for private sector borrowers reflects the credit risk of the specific project and borrower.

Borrowers may direct ADB to automatically implement a series of interest rate fixings either by period or by amount.

**Other loan charges:** The current commitment charge of 0.75% and front-end fee of 1% applied to pool-based loans also apply to public sector LBLs. Other loan charges for private sector loans also remain unchanged.

**Rebates and Surcharges:** Since the principle of automatic cost pass-through pricing is maintained for the LBLs, any actual sub-LIBOR funding cost margin will be returned to public sector borrowers through a rebate. For this purpose ADB will calculate twice a year (on 1 January and 1 July) its actual average funding cost margin. A surcharge could arise if ADB's funding cost is above the 6-month LIBOR rate, which is unlikely unless ADB experiences serious credit deterioration. Rebates or surcharges could also arise due to changes in ADB's basic lending spread because of changes in the credit quality of its entire loan portfolio.

**Pricing of Conversions:** For all conversions and interest rate caps and collars, ADB will pass on to borrowers the rates or cost of the corresponding hedge prevailing at the time of executing the conversion. In addition, a transaction fee applies ranging from 0.0625% to 0.125% of the principal amount involved. These fees may change during the life of the loan.

LBLs allow borrowers to tailor cash flows of their loans to suit their project or overall debt management needs. Therefore, borrowers should become familiar with the features of the LBL products as early as possible in the project cycle. Borrowers must consider the available options for the loan terms during project preparation and analyze the advantages and risks well before project appraisal.

## Private Sector Loans and Equity Investments

ADB directly supports private enterprises in developing member countries through equity investments and direct lending to private enterprises without government guarantees. Aggregate amounts available for allocations by the Board of Directors for this program are currently limited to \$1,500 million (\$1,450 million for equity and loans from OCR and \$50 million from ADF for loans only). However, in September 2001, ADB's Board of Directors agreed to allow approvals in excess of the existing \$1,500 million capital allocation for private sector operations as an interim arrangement pending implementation of objective criteria for determining the appropriate capital allocation between public and private sector operations.

---

Private sector loans generally have shorter maturities, normally up to 12 years, than otherwise offered by ADB and bear higher market-based interest rates from those typically offered by ADB.

ADB is authorized under the Charter to make equity investments and underwrite or participate in the underwriting of securities. Under the Charter, the total amount of OCR that ADB may invest in equity capital may not exceed 10% of its unimpaired paid-in capital stock, reserves (other than the Special Reserve) and surplus i.e., \$1,115.4 million as of 31 December 2001. At the end of 2001, the net equity investment commitments (approvals less disposals and sales) amounted to \$448.7 million.

As of 31 December 2001, private sector operations comprise equity investments, underwritings, and loans amounting to \$1,983.9 million from OCR, \$14.5 million from ADF, and \$3.0 million from the Japan Special Fund.

## **Guarantees**

ADB has two guarantee instruments - partial credit guarantee and political risk guarantee - both designed to mitigate risk exposure of commercial lenders and capital market investors. These guarantees are not issued on a standalone basis but are provided for projects where ADB has a direct participation. ADB can cooperate with other multilateral, official, and private sector entities in providing its guarantee products.

Partial credit guarantees ("PCG") provide comprehensive cover (both commercial and political risks) for a specific portion of the debt provided by cofinanciers on either public or private sector projects. PCGs can cover local currency debt including domestic bond issues or long-term loans from local financial institutions. For private sector transactions not supported by a counterguarantee from the host government, the exposure limit is \$75 million or 25% of the project cost, whichever is less. Guarantee fees for private sector transactions are market-based. Guarantee fees for transactions backed by a counterguarantee of the host government comprise of a standard guarantee fee of 40 basis points (0.4%) per annum on the present value of the outstanding guarantee obligation plus a front-end fee to cover ADB's processing costs. Fees can be charged either to the borrower or the lender



Political risk guarantees (“PRG”) provide coverage against risks such as expropriation, currency inconvertibility and non-transferability, political violence, and breach of contract, and are available for loans and other debt instruments but not equity instruments. Tenors are based on merits of the underlying project. All or part of the outstanding debt service obligations to a lender could be covered. The cover may be for principal and/or interest payment obligations. For private sector projects, a PRG without a counter guarantee from the host government can be issued. However, PRG exposure to a private sector project without a counter guarantee from the host government is subject to a maximum of \$150 million or 50% of the project cost, whichever is lower. Fees are market-based and comprise of a guarantee fee, a front-end fee, and a standby fee. ADB’s PRG is callable when a guaranteed event has occurred and such an event has resulted in debt service default to the guaranteed lender.

As of 31 December 2001, ADB had extended 11 PCGs and 3 PRGs in support of about \$1.5 billion in commercial cofinancing under syndicated loans and capital market instruments. As at the end of 2001 and 2000, ADB’s exposure on guarantee operations is shown below.

**Table 10. Guarantee Exposure**  
(\$ million)

	2001		2000	
	Outstanding Amount	Present Value	Outstanding Amount	Present Value
Partial Credit Guarantee	\$ 312	\$ 203	\$ 342	\$ 195
Political Risk Guarantee	43	28	–	–
<b>Total</b>	<b>\$ 355</b>	<b>\$ 231</b>	<b>\$ 342</b>	<b>\$ 195</b>

### **Cofinancing and Relations with Other Development Organizations**

ADB actively pursues cofinancing with official as well as commercial and export credit sources to complement its assistance to public and private sector projects in its developing member countries. Cofinancing provides funds that are additional to ADB’s planned lending levels and normally

---

improves the terms of lending when blended with ADB's own direct loans. In connection with such activities, ADB maintains close relations with other international development organizations and acts as administrator for, or has made joint financing arrangements with, a number of multilateral and bilateral development agencies. ADB has also been joined by commercial institutions in cofinancing projects in the region, and is continuing to promote increased commercial cofinancing. The total amount of cofinancing arranged in support of ADB-assisted operations as of the end of 2001 amounted to \$36.2 billion for 580 loan projects and programs. This amount consisted of \$21.7 billion from official sources, \$9.2 billion from commercial sources, and \$5.3 billion from export credit sources.

## SPECIAL FUNDS

In addition to its ordinary capital resources, ADB is authorized by its Charter to establish and administer Special Funds, which currently consist of the Asian Development Fund ("ADF"), the Technical Assistance Special Fund ("TASF"), the Japan Special Fund ("JSF"), including the Asian Currency Crisis Support Facility, and the ADB Institute Special Fund ("ADBISF"). Other funds managed by ADB are the Japan Scholarship Program, Japan Fund for Poverty Reduction, Japan Fund for Information and Communication Technology, and various channel financing arrangements.

In accordance with the Charter, ADB's Special Funds resources must at all times be held, used, and committed separately from OCR and must be shown separately in ADB's financial statements.

### **Asian Development Fund**

ADF is designed to provide loans on concessional terms to those developing member countries with low per capita GNP and limited debt repayment capacity. The same strict standards for loan approval and administration that apply to OCR loans are applied to ADF loans. Most ADF loans negotiated before 1 January 1999 have a nominal service charge of 1% per annum, and most are repayable over periods of 35-40 years including a grace period of 10 years. ADF loans negotiated after 1 January 1999 are subject to an interest charge of 1% per annum during the grace period and 1.5% per annum during the amortization period. Project loans have a maturity of 32 years including a grace period of 8 years while quick disbursing program loans have a maturity of 24 years including a grace period of 8 years.

The resources for ADF loans consist mainly of contributions mobilized under periodic replenishments from developed member countries. In 1997, the Board of Directors has interpreted the Charter to permit OCR net income and surplus transfers to ADF, following allocations to reserves, of amounts which would otherwise have been available for distribution to members as dividends. Any such transfer shall be approved by the Board of

---

Governors on an annual basis in respect of such year's net income and surplus. As of 31 December 2001, ADF aggregate resources committed to loans and available for loan commitments amounted to \$19,887.5 million.

The main beneficiaries of ADF loans have been Bangladesh, Pakistan, Sri Lanka, Viet Nam, Nepal, Indonesia and the Philippines. From its establishment through 31 December 2001, ADB had approved ADF loans totalling \$25,714.4 million.

### **Technical Assistance Special Fund**

The TASF is an important source of grant financing for ADB's technical assistance operations. TASF resources consist of direct voluntary contributions by ADB members, allocations from the net income of OCR and ADF contributions, and revenue from investments and other sources. As of 31 December 2001, aggregate TASF resources amounted to \$911.0 million, including \$501.0 million allocation from OCR's net income. Technical assistance is an important activity through which ADB helps its developing member countries improve their capabilities to formulate, design, implement, and operate development projects. ADB also provides technical assistance for regional studies and activities. As of 31 December 2001, total grant-financed technical assistance approved by ADB amounted to \$2,043.6 million. Such assistance has been approved for 38 ADB developing members and for certain regional activities.

### **Japan Special Fund**

The JSF was established to help ADB's developing member countries restructure their economies in the light of the changing global environment and to broaden the scope for new investments, thereby assisting the recycling of funds to developing member countries. It is used to finance or cofinance technical assistance projects on a grant basis; private sector development projects through equity investment; and in special cases and on a grant basis, technical assistance components of ADB-financed public sector development projects. As of 31 December 2001, the cumulative total contribution received from the Government of Japan for the JSF amounted to \$813.5 million equivalent. Of the total contributions received, \$717.0 million had been committed as of 31 December

2001. Through 31 December 2001, total technical assistance grants approved under the fund amounted to \$780.6 million.

On 23 March 1999, ADB's Board of Directors approved the establishment of the Asian Currency Crisis Support Facility ("ACCSF") within the JSF to support the mobilization of private resources for the developing member countries most affected by the financial crisis. The ACCSF is funded entirely by the Government of Japan as part of its financial assistance under the New Miyazawa Initiative. The ACCSF provides (i) interest payment assistance ("IPA") and technical assistance grants, and (ii) guarantees, all of which must be approved during the three-year period after the establishment of ACCSF or during such extended period as the Government of Japan and ADB may agree if the beneficiary countries are not fully out of the crisis. As of 31 December 2001, the cumulative contribution for IPA and technical assistance grants totaled about \$241.0 million equivalent. The uncommitted balance of such funds was \$89.1 million as of 31 December 2001. The Government of Japan also deposited a promissory note for ¥360 billion (about \$2.7 billion) encashable by ADB at any time to meet a call on any guarantees issued under ACCSF. As of 31 December 2001, no guarantee has been made under ACCSF. Effective 22 March 2002, the ACCSF has been terminated and therefore no further grants, guarantees or assistance will be approved or made from it.

### **ADB Institute Special Fund**

The primary objective for the establishment of the ADB Institute ("ADBI") is the improvement of sound management capacities of the agencies and organizations engaged in development work in developing member countries. The ADBI serves as a focal point for research on innovative development strategies and for training in development management for policymakers and senior managers from developing members. The ADBI is funded by contributions from members, non-government organizations and foundations. As of 31 December 2001, the cumulative commitments to the ADBISF amounted to about \$61.5 million excluding translation adjustments. Of the total contributions received, \$52.8 million had been utilized as of 31 December 2001.

---

## **Other Funds Managed by ADB**

ADB managed other funds such as Japan Scholarship Program (“JSP”), Japan Fund for Poverty Reduction (“JFPR”), Japan Fund for Information and Communication Technology (“JFICT”), and various channel financing arrangements.

### ***Japan Scholarship Program***

The JSP, funded by the Government of Japan, was established to provide opportunity for well-qualified citizens of the developing member countries to undertake postgraduate studies in economics, management, science and technology, and other development-related fields at selected educational institutions in Asia and the Pacific. As of 31 December 2001, the cumulative total of grants received from the Government of Japan for such program was \$46.1 million. At the end of 2001, a total of 1,334 scholarships have been awarded to students from 34 member countries.

### ***Japan Fund for Poverty Reduction***

The JFPR was established to support ADB-financed projects with innovative poverty reduction and related social development activities on a grant basis in line with ADB’s poverty reduction strategy. As of 31 December 2001, the Government of Japan’s contribution to the JFPR amounted to about \$92.6 million equivalent. At the end of 2001, ADB had approved 13 JFPR projects amounting to \$31.5 million and the Government of Japan had preapproved nine more projects totaling \$16.7 million.

### ***Japan Fund for Information and Communication Technology***

The JFICT was established for a 3-year period to harness the potential of information and communication technology (“ICT”) and bridge the growing digital divide in Asia and the Pacific. This fund will support ICT-related activities that can add substantive value to promote and impact the Poverty Reduction Strategy of ADB and its other development objectives. As of 31 December 2001, total contribution from the Government of Japan amounted to about \$10.7 million.

***Channel Financing Arrangements***

The mobilization of official grant cofinancing plays a vital role in ADB operations. ADB mobilizes grant funds from external sources to support its technical assistance program and to finance soft components of loan projects. A majority of such funds are provided by bilateral donors under channel financing arrangements ("CFAs"). ADB acts as administrator of the funds and applies its own guidelines and procedures on recruitment of consultants, procurement, disbursement, and project supervision. To date, 152 technical assistance grants have been financed under CFAs for a total of about \$71 million.

---

## ADB MEMBERS

(as of 2 April 2002)

### Regional

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

### Nonregional

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

\* OECD



## DIRECTORY

### ASIAN DEVELOPMENT BANK

6 ADB Avenue, Mandaluyong City  
0401 Metro Manila  
Philippines

Postal Address:	P.O. Box 789 0980 Manila, Philippines
Telephone No.:	(632) 632-4444
Facsimile:	(632) 636-2444
Telex No.:	(ETPI) 63587 ADB PN
Swift Address:	ASDBPH MM
E-mail Address:	adbhq@adb.org

### OFFICE OF THE PRESIDENT

Tadao Chino	President
Myoung-Ho Shin	Vice-President (Operations 1)
John Lintjer	Vice-President (Finance and Administration)
Joseph B. Eichenberger	Vice-President (Operations 2)

### TREASURER'S DEPARTMENT

#### Office of the Treasurer

Thierry de Longuemar <i>Treasurer</i>	(63-2) 632-4700
Ifzal Ali <i>Deputy Treasurer</i>	632-4711 iali@adb.org
Luz R. Garcia <i>Senior Treasury Administrator</i>	632-4702 lrgarcia@adb.org

#### Financial Policy Unit

Hinahon L. Domingo	632-4752 hdomingo@adb.org
Alexander Ugut	632-4709 augut@adb.org

---

Chongshan Liu 632-6233  
cliu@adb.org

Direct Facsimile: (63-2) 636-2611

### **Funding Division**

Juanito Limandibrata (63-2) 632-4713  
*Assistant Treasurer* jlimandibrata@adb.org

*Funding and Swaps*

Keith Tayman 632-4718  
ktayman@adb.org

Eddie Chen 632-4710  
mchen@adb.org

*Market Research, Bond Administration  
and Liability Management*

Maria Lomotan 632-4704  
mlomotan@adb.org

*Documentation*

Gloria P. Ferry 632-4703  
gferry@adb.org

Direct Facsimile: (63-2) 632-4120  
636-2625

### **Investments Division**

Jelle C. Mann (63-2) 632-4712  
*Assistant Treasurer* jmann@adb.org

*Portfolio Management*

Yukihiro Nishimiya 632-4776  
ynishimiya@adb.org

Ma. Isabel G. Haley 632-4749  
ihaley@adb.org

Melendres A. Howe 632-4788  
mhowe@adb.org

Direct Facsimile: (63-2) 632-4707

**Risk Management Division**

Philip C. Erquiaga (63-2) 632-4701  
*Assistant Treasurer* perquiaga@adb.org

*Inventory, Reporting and Pricing*  
Aurapin P. Sipper 632-4734  
asipper@adb.org

*Risk Identification, Measurement,  
Monitoring and Analysis*  
Christopher A. Bobin 632-4740  
cbobin@adb.org

*Performance, Policy, Asset-Liability  
Management*  
Rajesh Poddar 632-4714  
rpoddar@adb.org

Direct Facsimile: (63-2) 636-2631

**Treasury Services Division**

David R. Parker (63-2) 632-4730  
*Assistant Treasurer* dparker@adb.org

Yong Cheng 632-4737  
yongcheng@adb.org

Se Wha Moon 632-4721  
swmoon@adb.org

Sukhumarn Phanachet 632-4778  
sphanachet@adb.org

Mitsuo Takahashi 632-4175  
mtakahashi@adb.org

Direct Facsimile: (63-2) 636-2635

---

## **ADB ONLINE**

General Information  
<http://www.adb.org>

Financial Information  
<http://www.adb.org/finance>

Asian Recovery Report 2001  
<http://aric.adb.org>

Bloomberg Presentation  
ASDB