



## INFORMATION STATEMENT

The Asian Development Bank (ADB) intends to issue its notes and bonds (Securities) from time to time with maturities and on terms determined by market conditions at the time of sale. ADB may sell the Securities to dealers or underwriters who may resell them or ADB may sell the Securities directly or through agents.

The specific currency, aggregate principal amount, maturity, interest rate or method for determining such rate, interest payment dates, purchase price to be paid by ADB, any terms for redemption or other special terms, form and denomination of any Securities, information as to stock exchange listing and the names of the dealers, underwriters or agents in connection with the sale of such Securities being offered by ADB at a particular time, as well as any other information that may be required, will be set forth in a prospectus or supplemental information statement or similar document.

## AVAILABILITY OF INFORMATION

ADB will provide, without charge, additional copies of this Information Statement upon request. Written or telephone requests should be directed to ADB's principal office at 6 ADB Avenue, Mandaluyong City, 1550 Metro Manila, Philippines, Attention: Funding Division, Treasury Department, tel: +63 2 8632 4444, fax: +63 2 8636 2444 or to the following ADB representative offices: (i) Barckhausstrasse 1, 60325 Frankfurt, Germany, tel: +49 69 2193 6400, fax: +49 69 2193 6444; (ii) Kasumigaseki Bldg. 8th Floor, 3-2-5 Kasumigaseki, Chiyoda-ku, Tokyo 100-6008, Japan, tel: +81 3 3504 3160, fax: +81 3 3504 3165; and (iii) 900 17th Street NW, Suite 900, Washington, D.C. 20006, U.S.A., tel: +1 202 728 1500, fax: +1 202 728 1505.

The Information Statement is also available on ADB's Investor Relations website at [www.adb.org/site/investors/main](http://www.adb.org/site/investors/main). Other documents and information on ADB's website are not intended to be incorporated by reference in this Information Statement.

**Recipients of this Information Statement should retain it for future reference, since it is intended that each prospectus or supplemental information statement or similar document issued after the date hereof will refer to this Information Statement for a description of ADB and its financial condition, until a new information statement is issued.**

**24 April 2020**



**The issuance of this Information Statement or any prospectus or supplemental information statement or similar document and any offering and sale of Securities does not constitute a waiver by ADB or by any of its members, Governors, Alternate Governors, Executive Directors, Alternate Executive Directors, officers or employees of any of the rights, immunities, privileges or exemptions conferred upon any of them by the Agreement Establishing the Asian Development Bank or by any statute, law or regulation of any member of ADB or any political subdivision of any member, all of which are hereby expressly reserved.**

No person is authorized to give any information or to make any representation not contained in this Information Statement, prospectus, any supplemental information statement or similar document. Any information or representation not contained herein must not be relied upon as having been authorized by ADB or by any of its dealers, underwriters or agents. Neither this Information Statement nor any prospectus or supplemental information statement or similar document constitutes an offer to sell or solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such an offer or solicitation.

Except as otherwise indicated, all amounts in this Information Statement and any prospectus or supplemental information statement or similar document are expressed in United States dollars.

**This Information Statement contains forward-looking statements which may be identified by such terms as “believes”, “expects”, “intends” or similar expressions. Such statements involve a number of assumptions and estimates that are based on current expectations, which are subject to risks and uncertainties beyond ADB’s control. Consequently, actual future results could differ materially from those currently anticipated.**

## SUMMARY INFORMATION

(As of 31 December 2019, unless otherwise indicated)

The Asian Development Bank (ADB) is an international organization established in 1966 and owned by its 68 members. In July 2018, ADB launched its long-term corporate strategy, Strategy 2030, which sets the course for ADB's efforts to respond effectively to the region's changing needs. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. To achieve Strategy 2030's vision, ADB will focus on seven operational priorities and in addition, focus on expanding private sector operations, catalyzing and mobilizing financial resources, and strengthening knowledge services. ADB assists its members and partners by providing loans, technical assistance, grants, and equity investments to promote social and economic development.

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

ADB's five largest shareholders are Japan and the United States (each with 15.6% of total shares), the People's Republic of China (6.4%), India (6.3%), and Australia (5.8%).

**Equity:** ADB's members have subscribed to \$147,120 million of capital as of 31 December 2019, \$7,372 million of which was for paid-in shares subscribed and the remainder of which is callable. The callable capital is available as needed for debt service payments and thus provides the ultimate backing for ADB's borrowings and guarantees. It cannot be called to make loans.

**Net Income:** Net income for 2019 was \$1,554 million, as compared to net income of \$750 million in 2018. Operating income, which is determined on a management reporting basis, was \$1,093 million for 2019, as compared to \$889 million for 2018.

**Lending Headroom:** ADB's lending limitation policy limits the total amount of disbursed loans, disbursed equity investments and related prudential buffer, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. As of 31 December 2019, the total of such loans (including other debt securities), equity investments and related prudential buffer, and guarantees was \$116,489 million (\$108,375 million – 2018), compared with the maximum lending ceiling of \$192,547 million (\$192,960 million – 2018), which resulted in a headroom of \$76,058 million (\$84,585 million – 2018).

**Risk Management:** ADB seeks to mitigate exchange rate risks by matching its liabilities in various currencies with assets in those same currencies. ADB uses derivatives, including currency and interest rate swaps, in connection with its operations in order to reduce its borrowing costs, generate investment income, and manage its balance sheet risks. The derivative assets and liabilities totaled \$62,619 million and \$62,569 million, respectively. The notional principal amount of outstanding interest rate swaps totaled \$89,225 million. To control its credit exposures on swaps, ADB has set credit rating requirements for counterparties. In addition, ADB requires all swap transactions to be subject to collateral support requirements.

***The above information should be read in conjunction with the detailed information and financial statements appearing elsewhere in this Information Statement.***

## USE OF PROCEEDS

The net proceeds to ADB from the sale of Securities will be included in the ordinary capital resources of ADB and used in its ordinary operations. (See *Part II D. Operating Activities*).

*This document provides Management's Discussion and Analysis (MD&A) of the financial condition and results of operations for the Asian Development Bank for the year ended 31 December 2019. ADB undertakes no obligation to update any forward looking statements. Certain reclassifications of prior years' information have been made to conform to the current year's presentation. For further details, see Note B: Summary of Significant Accounting Policies in the Notes to Financial Statements 31 December 2019 and 2018 of ADB's Ordinary Capital Resources.*

## EXECUTIVE SUMMARY

The Asian Development Bank (ADB) made important progress during the first full year of implementing Strategy 2030. It approved (i) a new corporate results framework aligned with Strategy 2030, (ii) the operational plans for each of the seven operational priorities, (iii) the diversification of financing terms for regular ordinary capital resources (OCR) sovereign lending, (iv) the mainstreaming of the results-based lending modality, and (v) the contingent disaster financing under policy-based lending. For the year ended 31 December 2019, ADB delivered operational results while fully aligning its operations with the Strategy 2030.

The overall growth in commitments and disbursements reflects the impact of the enhanced risk bearing capacity<sup>1</sup> and continuous efforts to respond effectively to Asia and the Pacific region's changing needs through Strategy 2030. The following table<sup>2</sup> shows the trend of OCR operations for the last 5 years.

| (\$ billion)           |             |             |             |             |             |
|------------------------|-------------|-------------|-------------|-------------|-------------|
|                        | 2019        | 2018        | 2017        | 2016        | 2015        |
| <b>Commitments</b>     | <b>20.8</b> | <b>20.2</b> | <b>19.5</b> | <b>12.8</b> | <b>15.6</b> |
| Sovereign regular      | 14.2        | 13.2        | 14.9        | 9.2         | 11.4        |
| Sovereign concessional | 3.6         | 3.9         | 2.3         | 1.8         | 2.6         |
| Nonsovereign           | 3.0         | 3.1         | 2.3         | 1.8         | 1.6         |
| <b>Disbursements</b>   | <b>16.0</b> | <b>13.7</b> | <b>11.0</b> | <b>12.0</b> | <b>11.8</b> |
| Sovereign regular      | 11.2        | 10.1        | 7.7         | 8.3         | 8.2         |
| Sovereign concessional | 2.5         | 1.6         | 1.9         | 2.0         | 2.0         |
| Nonsovereign           | 2.3         | 2.0         | 1.4         | 1.7         | 1.6         |

The total outstanding balance of loans, equity investments, and other debt securities increased to \$117.1 billion as of 31 December 2019, which is an \$8.4 billion increase from the end of 2018.

**Overall financial results:** OCR's operating income for 2019 was \$1,093 million, a 23% increase from the \$889 million in 2018. Net income increased by \$804 million from \$750 million in 2018 to \$1,554 million in 2019, mainly due to higher operating income and net unrealized gains from fair value changes of financial instruments.

**Loan operations:** OCR's loan commitments for sovereign and nonsovereign operations during 2019 totaled \$20.1 billion, (\$19.4 billion – 2018). The increase in OCR loan commitments was primarily from the increase of sovereign OCR policy-based loan commitments. Total disbursements for 2019 was \$15.7 billion, a \$2.5 billion increase from 2018. The disbursement increase is attributable to sovereign loans by \$2.0 billion, mainly from policy-based loans, and nonsovereign loans by \$0.6 billion. As of 31 December 2019, the total outstanding loan balance was \$114.4 billion, an increase of \$8.0 billion from \$106.4 billion as of 31 December 2018.

<sup>1</sup> Transfer of Asian Development Fund (ADF) assets to ordinary capital resources in January 2017 significantly enhanced ADB's lending capacity through leveraging the equity transferred from ADF to OCR.

<sup>2</sup> OCR operations includes loans, guarantees, equity investments, and other debt securities. Commitments and disbursements prior to 2017 include those from ADF concessional loan operations before its transfer to OCR in 2017.

**Investments for liquidity purpose:** Liquidity investments after swaps increased by 12% from \$35.5 billion at the end of 2018 to \$39.8 billion as of 31 December 2019, which remained above the 2019 prudential minimum liquidity requirement of \$21.2 billion. For 2019, return on investments was 2.53% (2.26% – 2018) on management reporting basis.

**Borrowings:** Borrowings continued to grow to support increases in lending operations. During 2019, ADB issued about \$24.6 billion medium- and long-term borrowings raised in 18 currencies with an average maturity of 5 years. For 2019, cost of borrowings was 2.58% (2.28% – 2018) on management reporting basis.

**New member country:** In March 2019, Niue became ADB's 68th overall member and 49th for Asia and Pacific Region. Shareholding percentage and voting power of all members were updated accordingly.

**Net income allocation:** In May 2019, the Board of Governors approved the allocation of OCR's allocable net income for 2018 amounting to \$841 million. This has been allocated to ordinary reserve (\$499 million), Asian Development Fund (\$259 million), Technical Assistance Special Fund (\$80 million), and Financial Sector Development Partnership Special Fund (\$3 million).

**Headrooms:** As of 31 December 2019, ADB's lending headroom was \$76.1 billion (\$84.6 billion – 2018), representing 60% utilization of the lending authority. Equity investment headroom amounted to \$3.4 billion (\$3.4 billion – 2018), representing 29% utilization of the ceiling as of 31 December 2019.



## I. OVERVIEW

The Asian Development Bank (ADB), a multilateral development bank, was established in 1966 under the Agreement Establishing the Asian Development Bank (the Charter).<sup>3</sup> ADB is owned by 68 members, 49 of which are regional members providing 63.4% of its capital and 19 non-regional members providing 36.6% of its capital.

In July 2018, ADB launched its long-term corporate strategy, Strategy 2030, which sets the course for ADB's efforts to respond effectively to the region's changing needs. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty.

ADB provides various forms of financial assistance to its developing member countries (DMCs). The main instruments are loans, technical assistance (TA), grants, guarantees, and equity investments. These instruments are funded through ordinary capital resources (OCR), Special Funds, and trust funds. The Charter requires that funds from each resource be kept and used separately. Trust funds are generally funded by contributions and administered by ADB as the trustee.

ADB also offers debt management products to its sovereign and sovereign-guaranteed borrowers and entities fully guaranteed by members such as interest rate swaps and cross currency swaps (including local currency swaps) for their third-party liabilities. In addition, ADB provides policy dialogue and transaction advisory services to its DMCs and private sector clients to promote public private partnerships in the region, and mobilizes financial resources through its cofinancing operations, which access official and other concessional, commercial, and export credit sources to maximize the development impact of its assistance. Cofinancing for ADB projects can be in the form of external loans, grants for TA and components of loans, equity investments, and credit enhancement products such as guarantees and syndications.

## II. ORDINARY CAPITAL RESOURCES

Funding of OCR lending, investment and other ordinary operations comes from three distinct sources: borrowings from the capital markets and private placements; paid-in capital provided by shareholders; and accumulated retained income (reserves). To fund its OCR operations, ADB issues debt securities in the international and domestic capital markets. ADB's debt securities carry the highest possible investment ratings from three major international credit rating agencies.

On 1 January 2017, ADB transferred the concessional lending operation of the Asian Development Fund (ADF) to OCR. Concessional lending is being continued on the same terms and conditions as before through the OCR window. The ADF continues to provide grant assistance. The transfer expanded ADB's financing capacity, enhanced its risk-bearing capacity, and strengthened its readiness to respond to future economic crises and natural disasters.

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<sup>3</sup> ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

## **A. Basis of Financial Reporting**

**Statutory reporting.** ADB prepares OCR financial statements in accordance with accounting principles generally accepted in the United States of America (US GAAP), referred to in this document as the “statutory reporting basis.”

ADB manages its balance sheet by selectively using derivatives to minimize interest rate and currency risks associated with its financial instruments. Derivatives are used to enhance asset and liability management of individual positions and overall portfolios. ADB has elected not to define any qualifying hedging relationships, not because economic hedges do not exist, but rather because the application of hedging criteria under US GAAP does not make fully evident ADB’s risk management strategies.

ADB reports all derivative instruments on the balance sheet at fair value and recognizes the changes in fair value for the period as part of net income. To apply a consistent accounting treatment between the borrowings and their related swaps, ADB elects to measure all borrowings that are swapped or are intended to be swapped in the future at fair value. All investments for liquidity purpose, other debt securities classified as available for sale, and equity investments (except for those accounted for under the equity method) are reported at fair value. ADB continues to report its loans, other debt securities classified as held-to-maturity, and the remaining borrowings at amortized cost.

**Management reporting.** ADB reports operating income, which excludes the impact of the unrealized gains or losses from fair value changes associated with financial instruments and unrealized proportionate share of income or loss from equity investments accounted for under the equity method. ADB uses operating income as the key measure to manage its financial position, make financial management decisions, and monitor financial ratios and parameters.

ADB intends to hold most borrowings and related swaps until maturity or call, hence net interim unrealized gains and losses reported under the statutory reporting basis will generally converge with the net realized income and expenses that ADB recognizes over the life of these financial instruments.

For equity investments, ADB generally holds its investments until ADB’s development role has been fulfilled. Any gains or losses from equity investments recorded at fair value will be realized and included in the operating income when ADB exits the investments. Therefore, the periodic net unrealized gains or losses are excluded from the operating income until the exit date.

The management reporting basis balance sheet reconciled from the statutory reporting basis balance sheet as of 31 December 2019 is provided in the Appendix.

## B. Selected Financial Data

Selected financial data are presented on statutory reporting and management reporting bases (Table 1). Return on average earning assets and return on equity, under statutory and management reporting bases, increased due to higher net income and operating income during 2019 compared to 2018. Return on loans, return on investments for liquidity purposes, and cost of borrowings have increased, under both reporting bases, due to the higher average United States (US) interest rates applicable during 2019. Income and expenses are discussed in the Overall Financial Results section. Figure 1 shows the market interest rate trends.

**Table 1: Selected Financial Data for the Years Ended 31 December**  
(%, unless otherwise stated)

| Item                                                                                    | 2019    | 2018    | 2017     | 2016   | 2015   |
|-----------------------------------------------------------------------------------------|---------|---------|----------|--------|--------|
| <b>Statutory Reporting Basis</b>                                                        |         |         |          |        |        |
| Net Income (\$ million)                                                                 | 1,554   | 750     | 31,522   | 7      | 556    |
| Allocation of one-time income from ADF assets transfer to ordinary reserve (\$ million) | —       | —       | (30,748) | —      | —      |
| Net Income after allocation (\$ million)                                                | 1,554   | 750     | 774      | 7      | 556    |
| Average Earning Assets <sup>a</sup> (\$ million)                                        | 148,604 | 144,156 | 127,381  | 92,456 | 85,227 |
| Return on Average Earning Assets <sup>b</sup>                                           | 1.05    | 0.52    | 0.61     | 0.01   | 0.65   |
| Return on Equity <sup>c</sup>                                                           | 3.00    | 1.49    | 1.80     | 0.04   | 3.23   |
| Return on Loans — Operations <sup>d</sup>                                               | 2.99    | 2.62    | 1.92     | 1.65   | 1.16   |
| Return on Investments for Liquidity Purpose <sup>e</sup>                                | 2.53    | 2.24    | 1.73     | 1.58   | 1.33   |
| Cost of Borrowings <sup>f</sup>                                                         | 2.49    | 2.35    | 1.45     | 1.68   | 0.19   |
| <b>Management Reporting Basis<sup>g</sup></b>                                           |         |         |          |        |        |
| Operating Income <sup>h</sup> (\$ million)                                              | 1,093   | 889     | 725      | 521    | 343    |
| Average Earning Assets <sup>a</sup> (\$ million)                                        | 148,311 | 144,025 | 127,358  | 92,499 | 85,227 |
| Return on Average Earning Assets <sup>b</sup>                                           | 0.74    | 0.62    | 0.57     | 0.56   | 0.40   |
| Return on Equity <sup>c</sup>                                                           | 2.11    | 1.74    | 1.64     | 2.80   | 1.89   |
| Return on Loans — Operations <sup>d</sup>                                               | 2.88    | 2.61    | 1.96     | 1.63   | 1.18   |
| Return on Investments for Liquidity Purpose <sup>e</sup>                                | 2.53    | 2.26    | 1.65     | 1.57   | 1.30   |
| Cost of Borrowings <sup>f</sup>                                                         | 2.58    | 2.28    | 1.48     | 0.99   | 0.54   |

Note: All ratios are annualized and based on average monthly balances.

<sup>a</sup> Average of investments for liquidity purpose; loans outstanding; equity investments; and other debt securities (all after swaps, if applicable). Average assets used for management reporting excludes fair value changes associated with certain financial instruments and unrealized gains and losses on equity investments accounted for under the equity method.

<sup>b</sup> Net income (for statutory reporting basis) or operating income (for management reporting basis) divided by average earning assets.

<sup>c</sup> Net income (for statutory reporting basis) or operating income (for management reporting basis) divided by average equity balances.

<sup>d</sup> Interest revenue on loans, commitment fees, other revenue or expenses on loans and related swaps, and gains or losses on related swaps divided by average outstanding loans after swaps.

<sup>e</sup> Interest revenue and gains or losses on investments and related swaps divided by average balances of investments after swaps.

<sup>f</sup> Financial expenses and gains or losses on borrowings and related swaps divided by average outstanding borrowings after swaps.

<sup>g</sup> Management reporting basis ratios exclude impact of unrealized gains or losses from fair value changes associated with certain financial instruments, proportionate share in unrealized gains or losses from equity investments accounted for under the equity method, and nonnegotiable and noninterest-bearing demand obligations on account of subscribed capital.

<sup>h</sup> Operating income is defined as net income before unrealized gains or losses and ADB's proportionate share in unrealized gains or losses from equity investments accounted for under the equity method.

### C. Overall Financial Results

**Net income.** Table 2 presents the overall financial results for 2019 and 2018. OCR reported higher net income of \$1,554 million compared with \$750 million reported in 2018. A large part of the increase comes from higher operating income and net unrealized gains from fair value changes of financial instruments.

**Table 2: Overall Financial Results for the Years Ended 31 December**  
(\$ million)

| Item                                                                                                                    | 2019           | 2018           | Change       |
|-------------------------------------------------------------------------------------------------------------------------|----------------|----------------|--------------|
| <b>Revenue from loans — operations, net<sup>a</sup></b>                                                                 | <b>3,163</b>   | <b>2,712</b>   | <b>451</b>   |
| Sovereign regular                                                                                                       | 2,283          | 1,900          | 383          |
| Sovereign concessional                                                                                                  | 568            | 537            | 31           |
| Nonsovereign                                                                                                            | 312            | 275            | 37           |
| <b>Revenue from investments for liquidity purpose, net</b>                                                              | <b>965</b>     | <b>899</b>     | <b>66</b>    |
| Interest                                                                                                                | 962            | 919            | 43           |
| Realized gains (losses) on sale of investments                                                                          | 3              | (20)           | 23           |
| <b>Revenue from equity investments — operations, net</b>                                                                | <b>8</b>       | <b>111</b>     | <b>(103)</b> |
| Realized gains <sup>b</sup>                                                                                             | 9              | 90             | (81)         |
| Dividends                                                                                                               | 5              | 4              | 1            |
| Proportionate share of (losses) gains from equity investments accounted for under the equity method — realized          | (6)            | 17             | (23)         |
| <b>Revenue from guarantees — operations</b>                                                                             | <b>24</b>      | <b>24</b>      | <b>(0)</b>   |
| <b>Revenue from other debt securities — operations, net</b>                                                             | <b>47</b>      | <b>27</b>      | <b>20</b>    |
| <b>Revenue from other sources</b>                                                                                       | <b>43</b>      | <b>47</b>      | <b>(4)</b>   |
| <b>Borrowings and related expenses</b>                                                                                  | <b>(2,530)</b> | <b>(2,159)</b> | <b>(371)</b> |
| <b>Provision for loan losses and impairment on other debt securities</b>                                                | <b>(19)</b>    | <b>(170)</b>   | <b>151</b>   |
| Provision for loan losses                                                                                               | (35)           | (122)          | 87           |
| Recovery (impairment) on other debt securities                                                                          | 16             | (48)           | 64           |
| <b>Administrative expenses — OCR</b>                                                                                    | <b>(598)</b>   | <b>(591)</b>   | <b>(7)</b>   |
| <b>Other expenses</b>                                                                                                   | <b>(10)</b>    | <b>(11)</b>    | <b>1</b>     |
| <b>Operating income</b>                                                                                                 | <b>1,093</b>   | <b>889</b>     | <b>204</b>   |
| <b>Net unrealized gains (losses)</b>                                                                                    | <b>434</b>     | <b>(130)</b>   | <b>564</b>   |
| Fair value changes                                                                                                      | 438            | (53)           | 491          |
| Reclassification of unrealized gains on divested equity investments <sup>c</sup>                                        | (4)            | (76)           | 72           |
| Translation adjustments of nonfunctional currencies                                                                     | (0)            | (1)            | 1            |
| <b>Proportionate share of gains (losses) from equity investments accounted for under the equity method — unrealized</b> | <b>27</b>      | <b>(9)</b>     | <b>36</b>    |
| <b>Net income</b>                                                                                                       | <b>1,554</b>   | <b>750</b>     | <b>804</b>   |

( ) = negative, – = nil, OCR = ordinary capital resources.

Note: 0 = amount less than \$0.5 million.

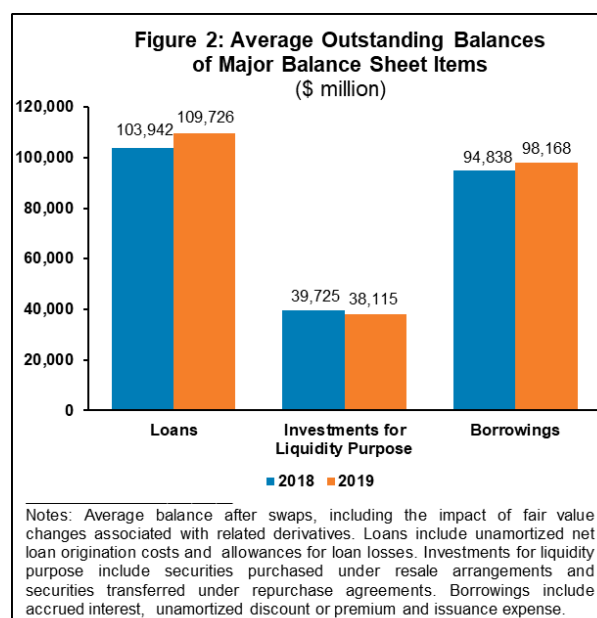
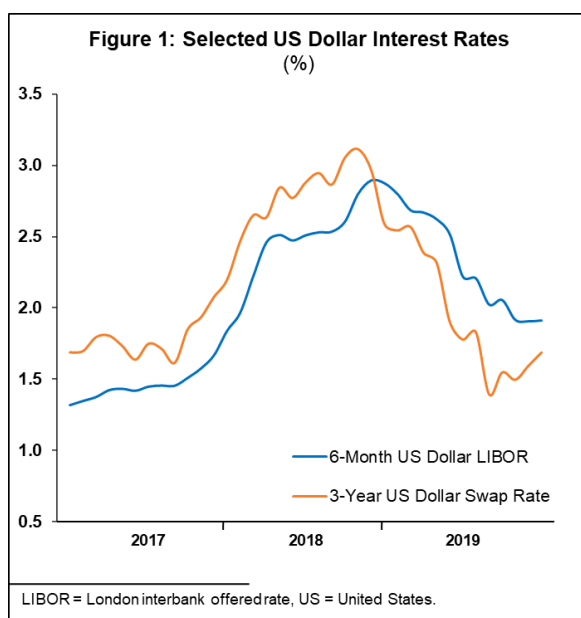
<sup>a</sup> Includes interest revenue, commitment charges, amortization of front-end fees and loan origination cost and interest on asset sw aps. Excludes funding costs.

<sup>b</sup> Includes realized gains on disposal of equity investments (\$11 million – 2019; \$95 million – 2018), net of impairment loss on equity investments accounted for under the equity method (\$2 million – 2019; \$5 million – 2018).

<sup>c</sup> Disposal of equity investments in 2019 resulted in reclassification of the unrealized gains up to 31 December 2018 of \$4 million (\$76 million – up to 31 December 2017) to realized gains.

**Operating income.**<sup>4</sup> Operating income for 2019 increased to \$1,093 million, from \$889 million reported in 2018. The change in operating income was primarily driven by:

- Revenue from loans — operations increased by \$451 million. \$383 million of the increase was from sovereign regular OCR loans, mainly driven by the 9% increase in the average outstanding LIBOR-based loans (LBLs) and higher US dollar LIBOR applied to US dollar LBL portfolio. Despite the US dollar LIBOR declining in 2019 (Figure 1), the LBLs on average were still carrying higher interest rates as loan interest rates reset semi-annually. Return on sovereign regular OCR LBL was 2.96% in 2019 and 2.61% in 2018;
- Revenue from investments for liquidity purpose increased by \$66 million. This is primarily due to re-investments at higher yields complemented by the realized gains on sales of investments in 2019 compared to the realized loss in 2018;
- Revenue from equity investments — operations decreased by \$103 million, mainly due to the lower gains from disposal in 2019 and the proportionate share of losses from equity investments accounted for under the equity method in 2019;
- Borrowings and related expenses increased by \$371 million. This is mainly due to the higher average interest rates applicable during 2019 and 4% increase in average outstanding borrowings (Figure 2); and
- Provision for loan losses for nonsovereign loans and impairment on other debt securities decreased by \$151 million, mainly due to lower specific provision for loan losses on nonsovereign loans during 2019 compared to 2018.



<sup>4</sup> Operating income is defined as net income before unrealized gains or losses and ADB's proportionate share in unrealized gains or losses from equity investments accounted for under the equity method.

**Net unrealized gains (losses).** For the year ended 31 December 2019, ADB reported net unrealized gains of \$434 million (\$130 million losses – 2018). The increase of \$564 million from 2018 was mainly attributed to fair value gains from equity investments and from borrowings and related swaps as a result of favorable interest rates and basis spread movements (Table 3).

**Table 3: Details of Net Unrealized Gains (Losses)  
for the Years Ended 31 December**  
(\$ million)

| Item                                                                  | 2019       | 2018         | Change     |
|-----------------------------------------------------------------------|------------|--------------|------------|
| Fair value changes from:                                              | 438        | (53)         | 491        |
| Borrowings and related swaps                                          | 88         | (69)         | 157        |
| Loans related swaps                                                   | 116        | 9            | 107        |
| Investments related swaps                                             | 1          | (11)         | 12         |
| Equity investments                                                    | 233        | 18           | 215        |
| Reclassification of unrealized gains<br>on divested equity investment | (4)        | (76)         | 72         |
| Translation adjustments of nonfunctional currencies                   | 0          | (1)          | 1          |
| <b>Total</b>                                                          | <b>434</b> | <b>(130)</b> | <b>564</b> |

( ) = negative.

Note: 0 = Amount less than \$0.5 million.

## D. Operating Activities

ADB provides financial assistance under its ordinary operations to its DMCs through loans, guarantees, equity investments and other debt securities to help DMCs meet their development needs. ADB also provides policy dialogue and transaction advisory services to its DMCs and private sector clients to promote public private partnerships in the region. ADB promotes cofinancing of its projects and programs to complement its assistance with funds from official and commercial sources, including export credit agencies. ADB uses commitments as the basis for corporate targets to measure operational performance for both sovereign and nonsovereign operations. Table 4 shows the 5-year trend in operational highlights.

**Table 4: Operational Highlights  
for the Years Ended 31 December**  
(\$ million)

| Item                                      | 2019   | 2018   | 2017   | 2016   | 2015   |
|-------------------------------------------|--------|--------|--------|--------|--------|
| Commitments <sup>a</sup>                  | 20,798 | 20,158 | 19,502 | 12,779 | 15,630 |
| Disbursements                             | 15,957 | 13,708 | 10,960 | 12,016 | 11,838 |
| Loan Principal Repayments and Prepayments | 7,554  | 6,940  | 5,981  | 5,492  | 4,721  |

Notes: This table includes commitments and disbursements for loans, guarantees, equity investments, and other debt securities under OCR. 2015 and 2016 amounts include concessional loans under Asian Development Fund for comparability.

<sup>a</sup> Based on US\$ equivalent at the time of signing. Excludes commitments associated with trade finance program, supply chain finance program, and microfinance participation and guarantee program.

## 1. Loans

ADB is authorized under the Charter to make, participate in or guarantee loans to its DMCs, to any of their agencies, instrumentalities or political subdivisions, and to any entities or enterprises operating within such countries, as well as to international or regional agencies or entities concerned with the economic development of the region. Such loans are made only for projects or programs of high developmental priority.

ADB's projects undergo an evaluation and approval process that considers factors such as economic, social, environmental, technical, institutional and financial feasibility, integrity, governance, effect on the general development activity of the country, contribution to economic development, capacity of the borrowing country to service additional external debt, effect on domestic savings and balance of payments, impact of new technologies on productivity, and expansion of employment opportunities.

ADB generally requires that the proceeds of its loans (including other debt securities), and equity investments and the proceeds of the loans it guarantees be used only for procurement of goods and services produced in and supplied from member countries. Loan disbursements must comply with the requirements specified in the loan agreements. ADB's staffs review progress and monitor compliance with ADB policies. ADB's Independent Evaluation Department, reporting directly to ADB's Board of Directors, evaluates the development effectiveness of ADB's operations.

**Lending Headroom.** ADB's lending limitation policy limits the total amount of disbursed loans, disbursed equity investments and related prudential buffer, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. As of 31 December 2019, the total of such loans (including other debt securities), equity investments and related prudential buffer, and guarantees was \$116,489 million (\$108,375 million – 2018), compared with the maximum lending ceiling of \$192,547 million (\$192,960 million – 2018), which resulted in a headroom of \$76,058 million (\$84,585 million – 2018).

**Loans — operations.** ADB's OCR lending falls into two categories: sovereign and nonsovereign. Sovereign lending consists of sovereign regular OCR loans and sovereign concessional OCR loans. Sovereign regular OCR loans are available to sovereign and sovereign-guaranteed borrowers in ADB DMCs that have attained higher economic development and sovereign concessional OCR loans are available to DMCs with per capita gross national income below ADB operational cutoff and limited or low creditworthiness. ADB also provides lending without sovereign guarantee to privately-held or state-owned or subsovereign entities. In its nonsovereign operations, ADB provides financial assistance based on market-based terms and conditions. ADB, as needed, will help mobilize additional debt from diverse institutions, such as private and public financial institutions and development partners.

OCR offers lending products broadly in three modalities:

- Project – Also known as investment lending, it finances expenditures incurred for discrete investment projects and focuses on project implementation. Disbursements in this modality are linked to expenditures for inputs.
- Policy-based – It supports reforms and improves policies. It provides budget support to governments to address development financing needs. ADB disburses funds based on evidence of the fulfillment of policy actions such as enacting new regulations or adopting new policy frameworks that aim to create an enabling environment for public and private sector operations, leading to improved growth prospects and economic efficiency. ADB offers four policy-based lending (PBL) products, each catering to a different situation in a DMC: conventional PBL and crisis response PBL. Conventional PBL, with financing options such as contingent disaster financing and policy-based guarantees, includes the stand-alone and programmatic approaches. Crisis response PBL includes special PBL and countercyclical support facility (CSF).
- Results-based – It supports government-owned sector programs and disburses ADB funds based on the achievement of program results.

As of 31 December 2019, OCR's loans outstanding was \$114,389 million (\$106,405 million – 31 December 2018), of which \$78,972 million were sovereign regular OCR loans (\$72,569 million – 31 December 2018), \$29,327 million were sovereign concessional OCR loans (\$28,579 million – 31 December 2018) and \$6,090 million were nonsovereign loans (\$5,257 million – 31 December 2018). Table 5 shows OCR's loans outstanding by modality.

**Table 5: OCR Loans Outstanding by Modality  
as of 31 December 2019 and 2018**  
(\$ million)

|                                                   | <b>Sovereign</b> |                     | <b>NSO</b>   | <b>Total</b>   |
|---------------------------------------------------|------------------|---------------------|--------------|----------------|
|                                                   | <b>Regular</b>   | <b>Concessional</b> |              |                |
| <b>2019</b>                                       |                  |                     |              |                |
| Project Loan                                      | 56,922           | 21,429              | 6,355        | 84,706         |
| Policy-based Loan                                 | 19,301           | 7,742               | –            | 27,043         |
| Results-based Loan                                | 2,568            | 425                 | –            | 2,993          |
| Accounting adjustments <sup>a</sup>               | 181              | (219)               | (55)         | (93)           |
|                                                   | 78,972           | 29,377              | 6,300        | 114,649        |
| Allowance for loan losses<br>and HIPC debt relief | –                | (50)                | (210)        | (260)          |
| <b>Loans Outstanding</b>                          | <b>78,972</b>    | <b>29,327</b>       | <b>6,090</b> | <b>114,389</b> |
| <b>2018</b>                                       |                  |                     |              |                |
| Project Loan                                      | 52,807           | 21,487              | 5,493        | 79,787         |
| Policy-based Loan                                 | 17,597           | 7,103               | –            | 24,700         |
| Results-based Loan                                | 1,999            | 283                 | –            | 2,282          |
| Accounting adjustments <sup>a</sup>               | 167              | (241)               | (54)         | (128)          |
|                                                   | 72,569           | 28,633              | 5,439        | 106,641        |
| Allowance for loan losses<br>and HIPC debt relief | –                | (54)                | (183)        | (236)          |
| <b>Loans Outstanding</b>                          | <b>72,569</b>    | <b>28,579</b>       | <b>5,257</b> | <b>106,405</b> |

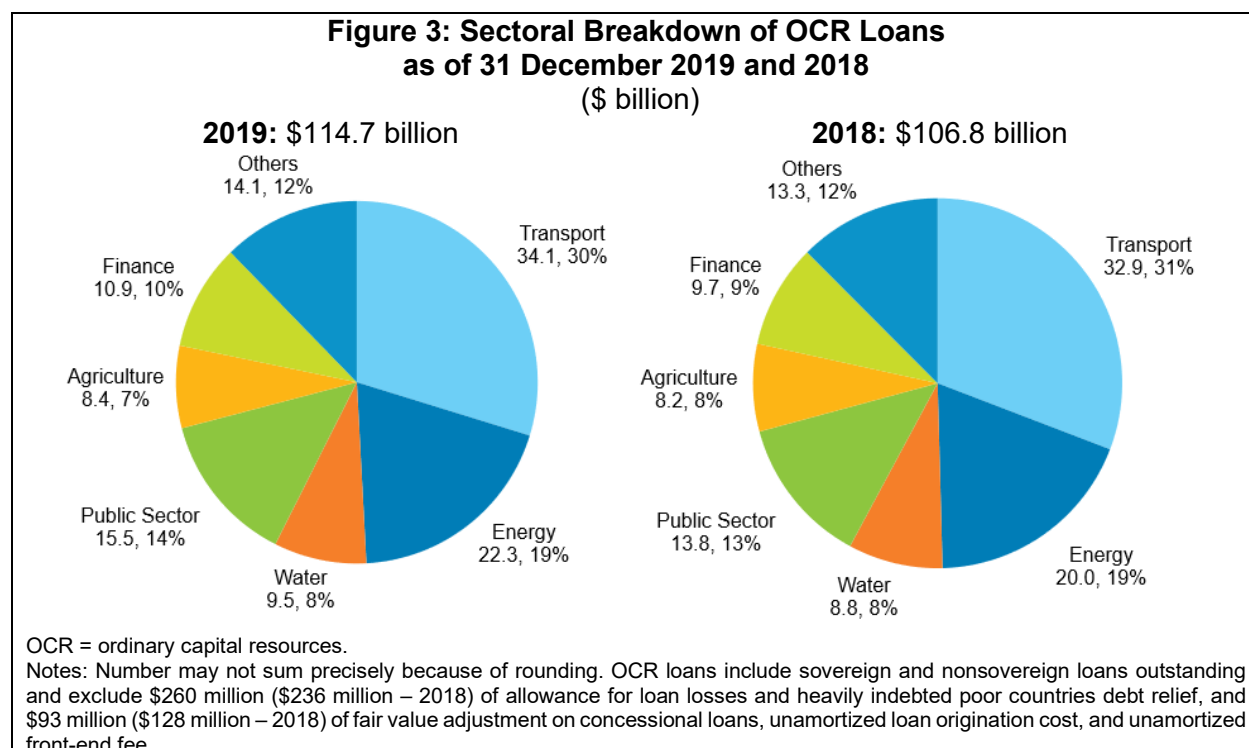
HIPC = heavily indebted poor countries, NSO = Nonsovereign, OCR = ordinary capital resources.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Includes fair value adjustment on concessional loans, unamortized loan origination cost, and unamortized front-end fee.



A summary of the total OCR loan portfolio by member country as of 31 December 2019 is shown in OCR-6 of the Financial Statements. A breakdown by sector of total OCR loans as of 31 December 2019 and 2018 is shown in Figure 3.



**Summary of loan activities.** Table 6 shows the summary of loan activities, comprising commitments, disbursements, and repayments for sovereign regular OCR, sovereign concessional OCR and nonsovereign loans.

**Table 6: Summary of Loan Activities  
for the Years Ended 31 December 2019 and 2018**  
(\$ million)

(\$ million)

| Item                     | Sovereign |              |               |              |              |              |               |              | NSO<br>(C) | TOTAL<br>(A+B+C) |
|--------------------------|-----------|--------------|---------------|--------------|--------------|--------------|---------------|--------------|------------|------------------|
|                          | Regular   |              |               |              | Concessional |              |               |              |            |                  |
|                          | Project   | Policy-based | Results-based | Total<br>(A) | Project      | Policy-based | Results-based | Total<br>(B) |            |                  |
|                          |           |              |               |              |              |              |               |              |            |                  |
| 2019                     |           |              |               |              |              |              |               |              |            |                  |
| Commitments <sup>a</sup> |           |              |               |              |              |              |               |              |            |                  |
| Amount                   | 10,229    | 3,625        | 300           | 14,154       | 2,399        | 1,231        | 14            | 3,644        | 2,336      | 20,134           |
| Number                   | 49        | 12           | 1             | 62           | 35           | 12           | 1             | 48           | 27         | 137              |
| Disbursements            | 6,665     | 3,943        | 576           | 11,184       | 1,332        | 1,031        | 150           | 2,513        | 1,964      | 15,661           |
| Repayments <sup>b</sup>  | 2,551     | 2,255        | 7             | 4,813        | 1,279        | 352          | 6             | 1,637        | 1,104      | 7,554            |
| 2018                     |           |              |               |              |              |              |               |              |            |                  |
| Commitments <sup>a</sup> |           |              |               |              |              |              |               |              |            |                  |
| Amount                   | 10,600    | 2,460        | 90            | 13,150       | 3,297        | 15           | 560           | 3,872        | 2,412      | 19,434           |
| Number                   | 58        | 11           | 2             | 71           | 40           | 1            | 2             | 43           | 28         | 142              |
| Disbursements            | 5,996     | 3,323        | 792           | 10,111       | 1,381        | 169          | 95            | 1,645        | 1,364      | 13,120           |
| Repayments <sup>b</sup>  | 2,295     | 1,883        | 2             | 4,180        | 1,221        | 353          | 2             | 1,576        | 1,184      | 6,940            |

NSO = nonsovereign, OCR = ordinary capital resources.

<sup>a</sup> Based on exchange rates at loan signing date.

<sup>b</sup> Includes prepayment of \$61 million for one sovereign regular OCR loan, \$1 million for two sovereign concessional OCR loans, and \$177 million for 11 nonsovereign loans (\$632 million for four sovereign regular OCR loans, \$5 million for four sovereign concessional loans, and \$288 million for seven nonsovereign loans – 2018).

**Status of loans.** For the year ended 31 December 2019, provision for loan losses of \$35 million was recognized for nonsovereign loans (\$122 million – 2018). ADB places loans in non-accrual status when the principal, interest or other charges are overdue by 180 days or in case of loans that are not yet past due, when there is expectation that loan service payment will not be collected when they become due at the point when such information is known. As of 31 December 2019, there were two nonsovereign loans in non-accrual status with outstanding amount of \$95 million, of which \$6 million was overdue (two nonsovereign loans with outstanding amount of \$95 million, of which \$7 million was overdue – 2018). There were no outstanding sovereign loans in non-accrual status as of 31 December 2019 and 2018.

**Lending windows.** ADB's available lending windows are the LIBOR-based loan (LBL) and the local currency loan (LCL). The LBL is the primary lending facility for OCR sovereign and nonsovereign operations. The LBL is designed to meet demand by borrowers for loan products that suit project needs and effectively manage their external debt. The LBL gives borrowers a high degree of flexibility in managing interest rate and exchange rate risks, while providing low intermediation risk to ADB. ADB offers LCLs to sovereign and nonsovereign borrowers in different local currencies which ADB can intermediate. As of 31 December 2019, total outstanding LCLs was \$1,403 million, a 22% increase from 31 December 2018. In addition to the LBL and LCL, effective 1 January 2017, the concessional lending window was transferred from ADF to OCR and continued on the same terms and conditions as previously provided to ADF countries.

**Discontinued lending windows.** With the introduction of the LBL in 2001, ADB's pool-based single currency loans, market-based loans and fixed-rate multicurrency loans are no longer offered.

A breakdown of ADB's loan portfolio by lending windows as of 31 December 2019 and 2018 is presented in Table 7.

**Table 7: Loan Portfolio by Lending Windows  
as of 31 December 2019 and 2018**  
(\$ million)

| Item                                              | Sovereign     |               |               |               | Nonsovereign |              |
|---------------------------------------------------|---------------|---------------|---------------|---------------|--------------|--------------|
|                                                   | Regular       |               | Concessional  |               |              |              |
|                                                   | 2019          | 2018          | 2019          | 2018          | 2019         | 2018         |
| LIBOR-based loans <sup>a</sup>                    |               |               |               |               |              |              |
| Outstanding                                       | 77,652        | 71,001        | n/a           | n/a           | 5,124        | 4,428        |
| Undisbursed Committed                             | 36,161        | 35,318        | n/a           | n/a           | 1,571        | 2,755        |
| Local currency loans                              |               |               |               |               |              |              |
| Outstanding                                       | 173           | 84            | n/a           | n/a           | 1,231        | 1,065        |
| Undisbursed Committed                             | 100           | 105           | n/a           | n/a           | 1,399        | 446          |
| Concessional loans                                |               |               |               |               |              |              |
| Outstanding                                       | n/a           | n/a           | 29,596        | 28,873        | n/a          | n/a          |
| Undisbursed Committed                             | n/a           | n/a           | 10,414        | 9,425         | n/a          | n/a          |
| Pool-based single currency loans                  |               |               |               |               |              |              |
| Outstanding                                       | 966           | 1,318         | n/a           | n/a           | n/a          | n/a          |
| Undisbursed Committed                             | –             | –             | n/a           | n/a           | n/a          | n/a          |
| <b>Total Outstanding</b>                          | <b>78,791</b> | <b>72,403</b> | <b>29,596</b> | <b>28,873</b> | <b>6,355</b> | <b>5,493</b> |
| Accounting adjustments <sup>b</sup>               | 181           | 167           | (219)         | (241)         | (55)         | (54)         |
| Allowance for loan losses<br>and HIPC debt relief | –             | –             | (50)          | (54)          | (210)        | (183)        |
| <b>Loans Outstanding</b>                          | <b>78,972</b> | <b>72,569</b> | <b>29,327</b> | <b>28,579</b> | <b>6,090</b> | <b>5,257</b> |
| <b>Undisbursed Committed</b>                      | <b>36,261</b> | <b>35,423</b> | <b>10,414</b> | <b>9,425</b>  | <b>2,970</b> | <b>3,202</b> |

– = nil, n/a = not applicable, LIBOR = London interbank offered rate.

Notes: Numbers may not sum precisely because of rounding.

<sup>a</sup> Includes market-based loans.

<sup>b</sup> Includes fair value adjustment on concessional loans, unamortized loan origination cost, and unamortized front-end fee.

**Sovereign regular OCR loan terms.** LBLs carry a floating lending rate that comprises a funding cost margin over or under the 6-month LIBOR and an effective contractual spread. The lending rate is reset every 6 months on each interest reset date and can be converted into a fixed rate at the request of the borrower. LCLs may be made on a floating rate basis with an effective contractual spread, and typically reset every 6 months. The cost-base rate of an LCL is determined by its financing mode. The lending rates for pool-based single currency loans are based on the previous semester's average cost of borrowing. Table 8 shows the summary of charges on sovereign regular OCR loans. Table 9 shows the funding cost margin on LBLs for 2019 and 2018.

**Table 8: Summary of Charges on Sovereign Regular OCR Loans**  
(basis point)

| Item                                                 | LBL <sup>a</sup> | LBL (Old) <sup>b</sup> | LBL (CSF and SPBL) | PSCL (\$)                                                     | PSCL (¥) |
|------------------------------------------------------|------------------|------------------------|--------------------|---------------------------------------------------------------|----------|
| <b>A. Cost Base Rate</b>                             | 6-month LIBOR    |                        |                    | Weighted average cost of allocated debt for previous 6 months |          |
| <b>B. Lending Spread<sup>a</sup></b>                 |                  |                        |                    |                                                               |          |
| 1. Contractual spread                                |                  | 60                     | 200                | 60                                                            | 60       |
| a. Negotiated 1 October 2007–30 June 2010            | 20               |                        |                    |                                                               |          |
| b. Negotiated 1 July 2010–30 June 2011               | 30               |                        |                    |                                                               |          |
| c. Negotiated 1 July 2011–31 December 2013           | 40               |                        |                    |                                                               |          |
| d. Negotiated on or after 1 January 2014             | 50               |                        |                    |                                                               |          |
| 2. Waiver <sup>c</sup>                               |                  |                        |                    | (20)                                                          |          |
| <b>C. Maturity Premium<sup>d</sup></b>               |                  |                        |                    |                                                               |          |
| 1. Average loan maturity of >13 years up to 16 years | 10               |                        |                    |                                                               |          |
| 2. Average loan maturity of >16 years up to 19 years | 20               |                        |                    |                                                               |          |
| <b>D. Commitment Charges<sup>e</sup></b>             | 15               |                        | 75                 |                                                               |          |

CSF = Countercyclical Support Facility, LBL = LIBOR-based loan, LCL = local currency loan, LIBOR = London interbank offered rate, OCR = ordinary capital resources, PSCL = pool-based single currency loan, SPBL = special policy-based loan, US = United States.

<sup>a</sup> Applicable to loans negotiated on or after 1 October 2007. The current LBL and LCL effective contractual spread is 50 basis points for loans negotiated on or after 1 January 2014. The terms of emergency assistance loans are similar to LBL terms.

<sup>b</sup> Applicable to loans negotiated before 1 October 2007.

<sup>c</sup> In December 2018, the Board of Directors approved, for borrowers of US dollar PSCLs that do not have arrears with Asian Development Bank, the continuation of the waiver of 20 basis points of the lending spread for all interest periods commencing from 1 January 2019 to 31 December 2019.

<sup>d</sup> For LBLs and LCLs for which formal loan negotiations were completed on or after 1 April 2012, a maturity premium is added to the contractual spread and applied for the entire life of the loan. A limit of 19 years applies to the average loan maturity of LBLs and LCLs. As of 31 December 2019, 275 committed loans totaling \$46,750 million (239 committed loans totaling \$37,899 million – 2018) were subject to maturity premium.

<sup>e</sup> The commitment charge is levied on undisbursed balances beginning 60 days after signing of the applicable loan agreement, charges begin to accrue when the loan becomes effective. For loans under contingent disaster financing, in lieu of the standard commitment charge of 0.15% on the undisbursed loan amounts, the developing member country will pay a front-end fee of 0.25% or 0.10% of the committed loan amount.

**Table 9: Funding Cost Margin on LIBOR-based Loans**  
(basis point)

| Type                     | (Rebate) or Surcharge |                |             |                |
|--------------------------|-----------------------|----------------|-------------|----------------|
|                          | 1 July 2019           | 1 January 2019 | 1 July 2018 | 1 January 2018 |
| <b>LIBOR-based Loans</b> |                       |                |             |                |
| US dollar                | (1)                   | (1)            | (1)         | (2)            |
| Yen                      | (37)                  | (44)           | (58)        | (57)           |
| Euro                     | 4                     | 4              | (4)         | (17)           |
| New Zealand dollar       | 38                    | 31             | 29          | 29             |
| <b>CSF/SPBL Loans</b>    |                       |                |             |                |
| US dollar                | 4                     | 2              | 1           | 1              |

CSF = Countercyclical Support Facility, LIBOR = London interbank offered rate, SPBL = Special Policy Based Loan, US = United States

Note: Funding cost margins are announced on 1 January and 1 July and are valid for 6 months. To maintain the principle of the cost pass-through pricing policy, ADB passes on the actual funding cost margin above or below LIBOR to its borrowers through a surcharge or rebate by incorporating them into the interest rate for the succeeding interest period.

**Sovereign concessional OCR loan terms.** ADB offers sovereign concessional OCR loans to eligible DMCs. Table 10 shows the summary of lending terms on currently available sovereign concessional OCR loans.

**Table 10: Sovereign Concessional OCR Loan Terms**

| <b>Terms</b>                                                 | <b>Concessional Assistance-only Countries<sup>a</sup></b> | <b>OCR Blend Countries<sup>b</sup></b> | <b>Emergency Assistance</b> |
|--------------------------------------------------------------|-----------------------------------------------------------|----------------------------------------|-----------------------------|
| A. Maturity (years) <sup>c</sup>                             | 24 - 32                                                   | 25                                     | 40                          |
| B. Grace period (years) <sup>c</sup>                         | 8                                                         | 5                                      | 10                          |
| C. Interest rate during the grace period                     | 1.0%                                                      | 2.0% <sup>c</sup>                      | 1.0%                        |
| D. Interest rate during the amortization period <sup>c</sup> | 1.5%                                                      | 2.0%                                   | 1.0%                        |
| E. Principal repayment                                       |                                                           |                                        |                             |
| 1. First 10 years after the grace period                     | Equal                                                     | Equal                                  | 2.0% <sup>d</sup>           |
| 2. Year thereafter                                           | Equal                                                     | Equal                                  | 4.0% <sup>d</sup>           |

OCR = ordinary capital resources.

<sup>a</sup> Countries that are eligible for sovereign concessional OCR loans and/or Asian Development Fund grants.

<sup>b</sup> Countries that are eligible for both sovereign regular and concessional OCR loans.

<sup>c</sup> Applicable for projects with loan negotiations completed on or after 1 January 2013.

<sup>d</sup> Principal repayment will be calculated based on the approved loan amount multiplied by the annual rate of 2.0% for the first 10 years after the grace period and 4.0% thereafter.

**Currency choices.** In addition to special drawing rights (SDR) as a liability currency, sovereign concessional OCR loan borrowers may also choose a loan liability currency in a currency that is available under ADB's LIBOR-based product and is a currency that is available in the SDR basket, subject to ADB's confirmation of the availability of such currency.

**Nonsovereign loan terms.** For nonsovereign loans, ADB applies market-based pricing to determine the lending spread, front-end fees, and commitment charges for each loan. The lending spread is intended to cover ADB's risk exposure to specific borrowers and projects and the front-end fee to cover the administrative costs incurred in loan origination. Front-end fees are typically 1% to 1.25% depending on the transaction. ADB applies a commitment fee (typically 0.50% to 1.0% per year) on the undisbursed loan balance.

LCLs are priced based on relevant local funding benchmarks or ADB's funding costs and a credit spread.

**Sovereign and nonsovereign loan cofinancing.** In 2019, a total of \$4,516 million sovereign loan cofinancing was committed for 17 projects, of which \$382 million is under ADB administration while \$4,134 million are not administered; and a total of \$6,968 million nonsovereign loan cofinancing was committed for 28 projects (Refer to Note F of OCR Financial Statements for loans administered by ADB as of 31 December 2019).

## 2. Equity Investments

ADB provides financial assistance through equity investments to help capital-constrained, but economically important, investee companies. ADB's equity investments may be in the form of direct investments or through private equity funds.

The Charter allows the use of OCR for equity investments up to 10% of ADB's unimpaired paid-in capital actually paid up at any given time together with reserves and surplus, excluding special reserves. At the end of 2019, the total equity investment portfolio for OCR, including prudential buffers<sup>5</sup>, was \$1,489 million (\$1,474 million – 2018), or about 29% (29% – 2018) of the ceiling defined by the Charter.

In 2019, 8 equity investments were committed by ADB totaling to \$155 million (10 equity investments totaling \$274 million – 2018). In 2019, ADB disbursed a total of \$135 million (\$143 million – 2018) and received a total of \$78 million from capital distributions and divestments, whether in full or in part, in 22 projects. The divestments were carried out in a manner consistent with good business practices, after ADB's development role in its investments had been fulfilled, and without destabilizing the companies. Table 11 shows ADB's equity investments as of 31 December 2019 and 2018.

**Table 11: Outstanding Equity Investments  
as of 31 December 2019 and 2018**  
(\$ million)

| <b>Item</b>                     | <b>2019</b>  | <b>2018</b>  |
|---------------------------------|--------------|--------------|
| Direct investments              | 1,047        | 714          |
| Private equity funds            | 572          | 566          |
| <b>Total equity investments</b> | <b>1,619</b> | <b>1,280</b> |

## 3. Guarantees

Guarantees are typically designed to facilitate cofinancing by mitigating the risk exposure of commercial lenders and capital market investors. Guarantees can be provided when ADB has a direct or indirect participation in a project or a related sector, through a loan, equity investment or technical assistance. ADB provides two primary guarantee products – a partial credit guarantee and a partial risk guarantee. ADB's credit guarantee is designed as credit enhancements for eligible projects to cover risks that the project and its commercial cofinancing partners cannot easily absorb or manage on their own. ADB also provides partial risk guarantees to cover specifically defined political risks such as expropriation, currency inconvertibility or non-transfer. Reducing these risks can make a significant difference in mobilizing private sector financing for projects. In 2019, ADB approved one new guarantee facility amounting to \$50 million (one new guarantee facility and additional approval to two existing facilities totaling \$528 million – 2018).

Refer to Note G of OCR Financial Statements for ADB's outstanding and maximum potential exposure on guarantees as of 31 December 2019 and 2018.

**Trade Finance Program.** The Trade Finance Program (TFP) comprises three products: (i) a credit guarantee facility, under which ADB issues guarantees to participating international and regional banks to guarantee payment obligations issued by an approved DMC and/or local banks in selected DMCs; (ii) a revolving credit facility, under which ADB provides trade-related loans to DMC banks in support of DMC companies' export and import activities; and (iii) a risk participation

<sup>5</sup> Represents 80% and 100% of the signed and undisbursed amounts for private equity funds and direct equity investments, respectively.

agreement, under which ADB shares risk with international banks to support and expand trade in challenging and frontier markets. The credit guarantee and revolving credit facility are unfunded and funded products, respectively, while the risk participation agreement covers both funded and unfunded products.

In 2019, TFP supported \$5,436 million (\$6,199 million – 2018) in trade through 63 DMC banks in 13 different countries. Of the trade supported, \$1,940 million was financed by ADB (\$2,453 million – 2018) and \$3,496 million was cofinanced (\$3,746 million – 2018).

TFP transactions have average maturities of less than 180 days which enabled the TFP to revolve its \$1,350 million limit in 2019 to finance a total of \$1,940 million of guarantees and loans. As of 31 December 2019, TFP guarantees outstanding totaled \$1,259 million (\$1,277 million – 2018) and loans outstanding totaled \$80 million (\$107 million – 2018). Of the outstanding TFP guarantees and loans, \$447 million were with risk transfer (\$637 million – 2018), resulting in a net exposure of \$892 million (\$747 million – 2018).

**Other programs.** The Supply Chain Finance Program provides guarantees and loans (both without government guarantee) through partner financial institutions to support payments to suppliers and distributors of goods in DMCs. The program provided guarantees of \$25 million in 2019 (\$97 million – 2018) and the outstanding guarantee amount as of 31 December 2019 was \$8 million (\$29 million – 2018).

The Microfinance Risk Participation and Guarantee Program supports partial risk participation on an unfunded basis, to cover the non-payment risk of loans made by commercial financial institutions to microfinance institutions in selected DMCs. The program issued guarantees of \$137 million on a revolving basis in 2019 (\$134 million – 2018), and the outstanding guarantee as of 31 December 2019 amounted to \$73 million (\$43 million – 2018).

#### 4. Syndications

Syndications refer to the pooling of financing and sharing of risk among financiers. It enables ADB to mobilize cofinancing by transferring some or all the risks associated with its loans and guarantees to other financing partners.<sup>6</sup> Thus, syndications decrease and diversify the risk profile of ADB's financing portfolio. Syndications may be on a funded or unfunded basis, and they may be arranged on an individual, portfolio, or any other basis consistent with industry practices. Under the complementary financing, in 2019, 3 projects totaling to \$177 million were signed (2 projects totaling to \$135 million – 2018).<sup>7</sup>

#### 5. Transaction Advisory Services

ADB provides transaction advisory services (TAS) to assist public and private sector clients in structuring and procuring viable projects. TAS aims to promote public-private partnership (PPP) projects to bring in operational efficiency of the private sector and catalyze commercial capital investment for development purposes.

In 2019, ADB was appointed as transaction advisor for the preparation of 13 infrastructure projects under the PPP modality, with a total estimated capital investment requirement of over \$3 billion. ADB's TAS achieved commercial close of one PPP transaction in 2019 with \$125 million capital investments mobilized from the private sector.

<sup>6</sup> Depending on whether ADB retains risk or not, ADB may or may not have a contingent liability.

<sup>7</sup> A B-loan is a tranche of a direct loan nominally advanced by ADB, subject to eligible financial institutions taking funded risk participation within such a tranche and without recourse to ADB. It complements an A-loan financed by ADB. B-loan figures for 2019 and 2018 include US dollar and local currency complementary loans.

## 6. Debt Management Products

ADB offers debt management products to members and entities fully guaranteed by members in relation to their third-party liabilities. Debt management products offered by ADB include interest rate swaps, cross currency swaps and local currency swaps (transforming a foreign currency liability into a local currency liability only).

## E. Funding Resources

ADB's ordinary operations are funded from ADB's OCR, which consist primarily of its subscribed capital stock, proceeds from its borrowings, and funds derived from its ordinary operations.

### 1. Equity

ADB had 68 members as of 31 December 2019, with Japan and the United States as the two largest shareholders. Out of the 68 members, 27 members are non-borrowing members holding 66.8% of total shareholdings with a total voting power of 61.5%. The capital subscription of all ADB members is shown in OCR-8 of the Financial Statements.

As of 31 December 2019, ADB's total authorized capital of 10,639,083 shares valued at \$147,120 million was fully subscribed, which consisted of \$7,372 million paid-in and \$139,748 million callable capital. The details of ADB's equity as of 31 December 2019 and 2018 are shown in Table 12.

**Table 12: Details of Equity**  
(\$ million)

|                                                                | 2019          | 2018          |
|----------------------------------------------------------------|---------------|---------------|
| Authorized (SDR106,391)                                        |               |               |
| Subscribed (SDR106,391 – 2019, SDR106,389 – 2018)              | 147,120       | 147,965       |
| Less: Callable capital subscribed                              | 139,748       | 140,550       |
| Paid-in capital subscribed                                     | 7,372         | 7,415         |
| Less: Other adjustments <sup>a</sup>                           | 197           | 386           |
|                                                                | 7,175         | 7,029         |
| Add: (1) One-time income from ADF assets transfer <sup>b</sup> | 30,748        | 30,748        |
| (2) Other reserves <sup>c</sup>                                | 13,995        | 13,207        |
| <b>Total Equity</b>                                            | <b>51,918</b> | <b>50,984</b> |

ADF = Asian Development Fund, SDR = special drawing rights.

<sup>a</sup> Comprises discount and nonnegotiable, noninterest-bearing demand obligations on account of subscribed capital. (See OCR-1 of the Financial Statements).

<sup>b</sup> The transfer of ADF assets to OCR on 1 January 2017 was treated as a contribution from ADF which was recognized as a one-time income.

<sup>c</sup> Includes ordinary reserve, special reserve, loan loss reserve, surplus, and net income after appropriation less net notional amounts required to maintain value of currency holdings, cumulative revaluation adjustments and accumulated other comprehensive income (loss). (See OCR-1 of the Financial Statements).

**Callable capital.** Callable capital can be called only if required to meet ADB's obligations incurred on borrowings or guarantees under OCR. No call has ever been made on ADB's callable capital.



**Paid-in capital.** ADB's paid-in capital may be freely used in its ordinary operations, except that DMCs have the right under the Charter to restrict the use of a portion of their paid-in capital to make payments for goods and services produced and intended for use in their respective territories. (See Note C of the OCR Financial Statements).

In October 2018, the Board of Governors approved the application for membership of Niue and its subscription to 150 shares (8 paid-in and 142 callable shares) of capital stock amounting to \$2 million (SDR1.5 million).<sup>8</sup> Niue's membership and its subscription, representing 0.295% voting power, became effective in March 2019 and shareholding percentage and voting power of all members were updated accordingly.

**Total equity.** Total equity increased from \$50,984 million as of 31 December 2018 to \$51,918 million as of 31 December 2019. This resulted from: (i) \$1,554 million net income in 2019; (ii) \$172 million encashment of demand obligation; offset by (iii) \$442 million decrease in accumulated other comprehensive income mainly from postretirement benefit liability adjustments; and (iv) \$342 million allocation of 2018 net income to Special Funds.

**Allocation of OCR net income.** In accordance with Article 40 of the Charter, the Board of Governors annually approves the allocation of the previous year's net income to reserves and/or surplus. In addition, to the extent feasible, it approves the transfer of part of net income to Special Funds to support development activities in the DMCs. In May 2019 and 2018, the Board of Governors approved the allocation of OCR's net income for 2018 and 2017, respectively, as shown in Table 13.

**Table 13: Allocation of OCR Net Income**  
(\$ million)

|                                                         | 2018 | 2017 |
|---------------------------------------------------------|------|------|
| Net Income                                              | 750  | 774  |
| Appropriation of guarantee fee to special reserve       | (24) | (21) |
| Adjustment to loan loss reserve                         | (24) | (14) |
| Adjustment from (to) cumulative revaluation adjustments | 139  | (49) |
| Allocable net income                                    | 841  | 690  |
| Allocation to ordinary reserve                          | 499  | 351  |
| Allocation to special funds                             |      |      |
| Asian Development Fund                                  | 259  | 259  |
| Technical Assistance Special Fund                       | 80   | 80   |
| Financial Sector Development Partnership Special Fund   | 3    | —    |
| Total Allocated Net Income                              | 841  | 690  |

— = nil, OCR = ordinary capital resources.

## 2. Borrowings

**General Borrowing Policies.** Under the Charter, ADB may borrow only with the approval of the country in whose market ADB's obligations are to be sold and the member in whose currency such obligations are to be denominated. ADB must also obtain the approvals of the relevant countries so that the proceeds of its borrowings may be exchanged for the currency of any member without restriction. The Charter also requires ADB, before determining to sell its obligations in a particular country, to consider the amount of previous borrowings in that country, the amount of previous borrowings in other countries, and the availability of funds in such other countries, giving due regard to the general principle that its borrowings should to the greatest extent possible be diversified as to country of borrowing.

<sup>8</sup> Board of Governors' Resolution No. 394. ADB. 2018. *Membership of Niue and Increase in Authorized Capital Stock*. Manila.

**Funding Operations.** ADB raises funds for its ordinary operations through the issue and sale of debt obligations in the international capital markets. ADB's primary borrowing objective is to ensure the availability of funds for its operations at the most stable and lowest possible cost. Subject to this objective, ADB seeks to diversify its funding sources across markets, instruments, and maturities. In 2019, ADB continued to diversify its funding platform by issuing across a broad range of currencies, in both public issue and private placement format, introducing new currencies and engaging new investors. ADB continues to offer thematic bonds (Table 14).

**Table 14: Overview of Outstanding Thematic Bonds**

| <b>Themes</b>                           | <b>Amount<br/>(\$ million)</b> | <b>Maturity range of<br/>bonds issued<sup>a</sup></b> |
|-----------------------------------------|--------------------------------|-------------------------------------------------------|
| Green                                   | 6,825                          | 1 to 11 years                                         |
| Water                                   | 102                            | 3 to 5 years                                          |
| Health                                  | 110                            | 1 to 10 years                                         |
| Gender                                  | 189                            | 5 to 10 years                                         |
| <b>Total Outstanding Thematic Bonds</b> | <b>7,226</b>                   |                                                       |

<sup>a</sup> Refers to maturity from bond's issue date. Bonds with call options are assumed to be called on the first call or trigger date.

**2019 funding operations.** In 2019, ADB raised the equivalent of \$24,613 million (\$23,538 million – 2018) in medium- and long-term funds with 120 borrowing transactions. The new borrowings were raised in 18 currencies: Australian dollar, yuan, euro, lari, Hong Kong dollar, rupiah, Indian rupee, yen, tenge, New Zealand dollar, Norwegian krone, Philippine peso, Pound sterling, Russian ruble, Swedish krona, South African rand, Turkish lira, and US dollar. The average maturity to first call date of these borrowings was 5.0 years (5.3 years – 2018) at the time of issue. Of the 2019 borrowings, \$20,568 million was raised through 52 public offerings and the remaining \$4,045 million was raised through 68 private placements.

ADB also raised \$8,018 million (\$6,923 million – 2018) of short-term funds under its Euro-Commercial Paper Program (ECP). Of the ECPs issued in 2019, \$390 million were outstanding as of 31 December 2019. Table 15 shows details of 2019 borrowings as compared with 2018.

**Table 15: Borrowings**  
(\$ million)

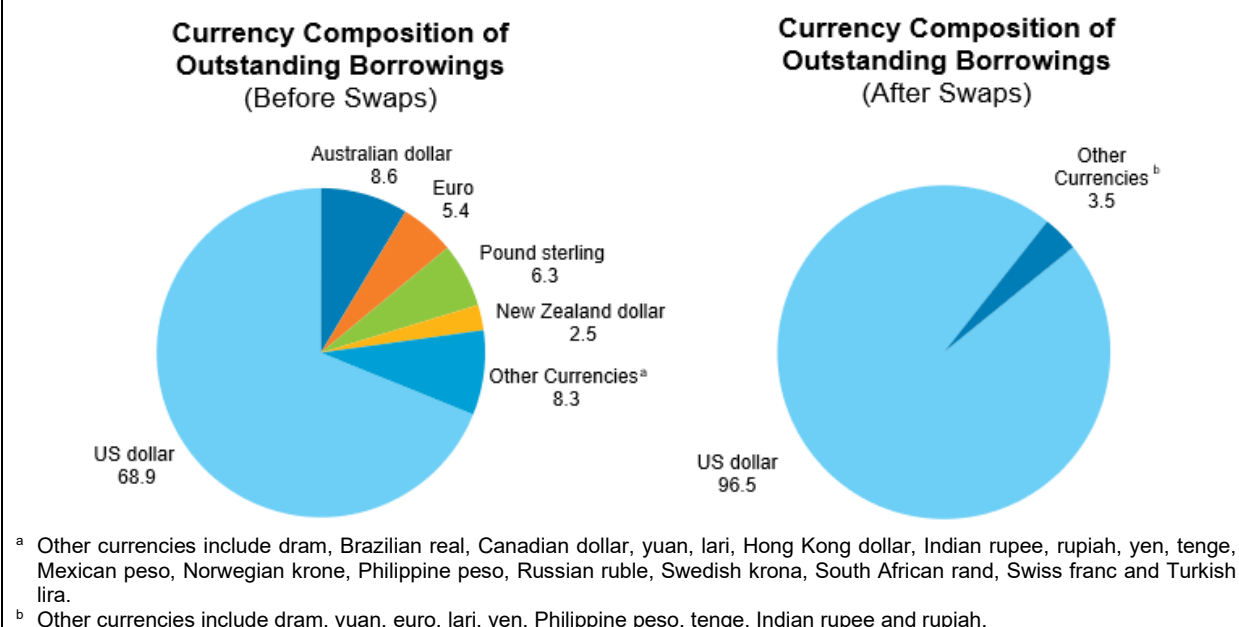
| <b>Item</b>                            | <b>2019</b> | <b>2018</b> |
|----------------------------------------|-------------|-------------|
| <b>Medium and Long Term</b>            |             |             |
| Total Principal Amount                 | 24,613      | 23,538      |
| Average Maturity to First Call (years) | 5.0         | 5.3         |
| Average Final Maturity (years)         | 5.2         | 5.6         |
| Number of Transactions                 |             |             |
| Public Offerings                       | 52          | 49          |
| Private Placements                     | 68          | 81          |
| Number of Currencies (before swaps)    |             |             |
| Public Offerings                       | 12          | 7           |
| Private Placements                     | 12          | 14          |
| <b>Short Term<sup>a</sup></b>          |             |             |
| Total Principal Amount <sup>b</sup>    | 8,018       | 6,923       |
| Number of Transactions                 | 59          | 61          |
| Number of Currencies                   | 1           | 1           |

<sup>a</sup> All euro commercial papers.

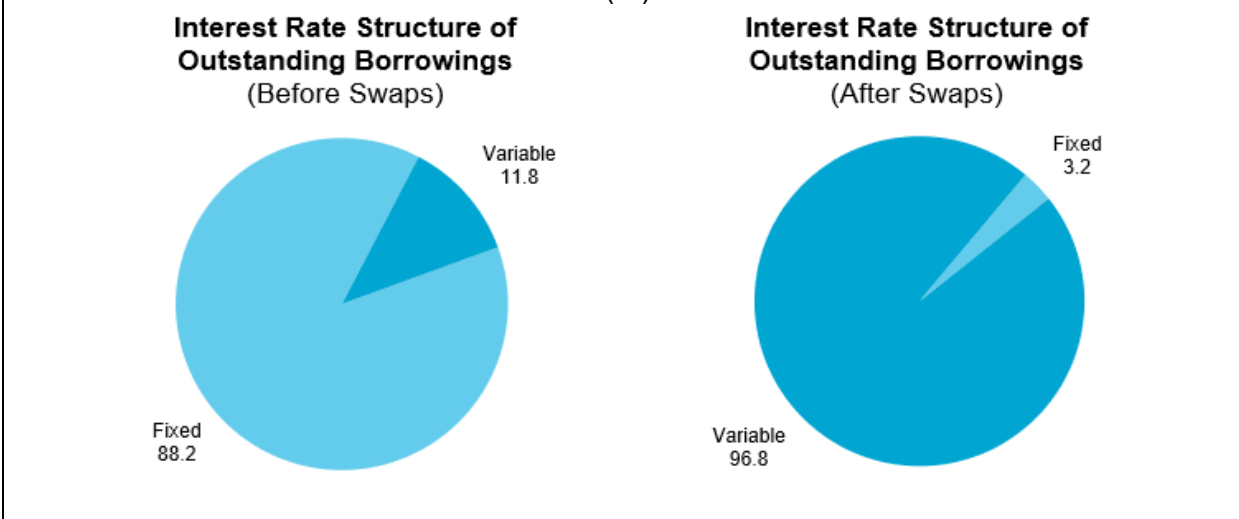
<sup>b</sup> At year-end, the outstanding principal amount was \$390 million in 2019 (\$925 million in 2018).

**Use of derivatives.** ADB undertakes currency and interest rate swaps to cost-efficiently and on a fully hedged basis raise the currencies needed for its operations, while maintaining its borrowing presence in major capital markets. Figures 4 and 5 show the effects of swaps on the currency composition and interest rate structure of ADB's outstanding borrowings as of 31 December 2019. Interest rate swaps are also used for asset and liability management purposes to match the liabilities with the interest rate characteristics of assets such as loans and liquidity investments.

**Figure 4: Effect of Swaps on Currency Composition of Borrowings  
as of 31 December 2019**  
(%)



**Figure 5: Effect of Swaps on Interest Rate Structure of Borrowings  
as of 31 December 2019**  
(%)



## F. Liquidity Portfolio

The liquidity portfolio helps ensure the uninterrupted availability of funds to meet loan disbursements, debt servicing, and other cash requirements; provides a liquidity buffer in the event of financial stress; and contributes to ADB's earning base. ADB's Investment Authority governs ADB's investments in liquid assets. The primary objective is to maintain the security and liquidity of the funds invested. Subject to these two parameters, ADB seeks to maximize the total return on its investments. ADB does not switch currencies to maximize returns on investments, and investments are generally made in the same currencies in which they are received. At the end of 2019, ADB held liquid investments in 17 currencies.

Liquid investments are held in government or government-related debt instruments, time deposits, and other unconditional obligations of banks and financial institutions. To a limited extent, they are also held in corporate bonds that are rated at least A–. These investments are held in five portfolios—core liquidity, operational cash, cash cushion, discretionary liquidity, and ad hoc—all of which have different risk profiles and performance benchmarks. The year-end balance of the portfolios in 2019 and 2018 is presented in Table 16. The amortized cost and fair value returns of the portfolios are presented in Table 17.

**Table 16: Year-End Balance of Investment Portfolio**  
(\$ million)

| Item                              | 2019          | 2018          |
|-----------------------------------|---------------|---------------|
| Core Liquidity Portfolio          | 19,011        | 19,674        |
| Discretionary Liquidity Portfolio | 11,674        | 9,778         |
| Cash Cushion Portfolio            | 8,163         | 5,590         |
| Operational Cash Portfolio        | 205           | 197           |
| Ad hoc Portfolio                  | 745           | 287           |
| <b>Total</b>                      | <b>39,798</b> | <b>35,526</b> |

Note: Including securities transferred under repurchase agreements, securities purchased under resale arrangements, and investment related swaps. The composition of the liquidity portfolio may shift from year to year as part of ongoing liquidity management.

**Table 17: Return on Investment Portfolio**  
(%)

| Item                                           | Annualized Return |      |            |      |
|------------------------------------------------|-------------------|------|------------|------|
|                                                | Amortized Cost    |      | Fair Value |      |
|                                                | 2019              | 2018 | 2019       | 2018 |
| Core Liquidity Portfolio                       | 2.1               | 1.8  | 4.0        | 1.6  |
| Discretionary Liquidity Portfolio <sup>a</sup> | 0.5               | 0.4  | 0.5        | 0.4  |
| Cash Cushion Portfolio                         | 2.6               | 2.5  | 2.7        | 2.5  |
| Operational Cash Portfolio – USD               | 2.2               | 2.0  | 2.2        | 2.0  |
| Ad hoc Portfolio                               | 3.2               | 2.6  | 7.4        | 3.3  |

Note: The amortized returns are based on income from investments and realized gains and losses reported in the Statement of Income and Expenses. The fair value return incorporate unrealized gains and losses reported in other comprehensive income and loss and movements are dependent on prevailing market environment.

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

The core liquidity portfolio (CLP) is invested to ensure that the primary objective of a liquidity buffer is met. Cash inflows and outflows are minimized to maximize the total return relative to a defined level of risk. The portfolio has been funded mostly by equity, and the average duration of the major currencies in the portfolio was about 2.9 years (2.3 years – 2018) as of 31 December 2019.

The discretionary liquidity portfolio is used to support medium-term funding needs and is funded by debt to provide flexibility in executing the funding program over the medium-term to permit opportunistic borrowing ahead of cash flow needs, and to bolster ADB access to short-term funding through continuous presence in the market.

The cash cushion portfolio holds the proceeds of ADB's borrowing transactions pending disbursement. It is invested in short-term instruments and aims to maximize the spread earned between the borrowing cost and the investment income.

The operational cash portfolio, designed to meet net cash requirements over a 1-month horizon, is funded by equity and invested in short-term highly liquid money market instruments.

## **G. Contractual Obligations**

In the normal course of business, ADB enters into contractual obligations that may require future cash payments. Table 18 summarizes ADB's significant contractual cash obligations as of 31 December 2019 and 2018. Long-term debt includes direct medium- and long-term borrowings, excluding swaps, and excludes unamortized premiums, discounts, and the effects of applying ASC 815. Other long-term liabilities correspond to future lease payments and accrued liabilities, including pension and postretirement medical benefits.

**Table 18: Contractual Cash Obligations**  
(\$ million)

| <b>Item</b>                                       | <b>2019</b>    | <b>2018</b>    |
|---------------------------------------------------|----------------|----------------|
| Long-Term Debt                                    | 84,666         | 77,578         |
| Undisbursed Loan Commitments                      | 49,645         | 48,050         |
| Guarantee Commitments                             | 2,979          | 3,168          |
| Undisbursed Equity Investment Commitments         | 359            | 422            |
| Undisbursed Commitments for Other Debt Securities | 173            | 0              |
| Other Long-Term Liabilities                       | 1,920          | 1,178          |
| <b>Total</b>                                      | <b>139,742</b> | <b>130,396</b> |

Note: 0 = amount less than \$0.5 million.

## **H. Risk Management**

ADB faces various kinds of risks in carrying out its mandate, including financial, operational, and other organizational risks. ADB has a risk management framework that is built on the three core components of governance, policies, and processes.

Governance starts with the Board of Directors, which plays a key role in reviewing and approving risk policies that define ADB's risk appetite. ADB maintains an independent risk management office and has various management committees with responsibility to oversee bank-wide risk issues. ADB's Risk Committee monitors and discusses risks, recommends proposed risk policies and actions to the President, and provides senior management oversight on risk policy matters to ensure that ADB maintains its superior credit standing. The office of risk management reports quarterly to the Audit Committee of the Board on the development of the risks in ADB's operations.

ADB monitors the credit profile of existing transactions in the operations portfolio, conducts risk assessments of new nonsovereign transactions, and assumes responsibility for resolving distressed transactions when necessary. It also monitors market and credit risks in treasury operations, such as the credit quality of counterparties, interest rate risk, and foreign exchange risk. In addition, ADB has developed an operational risk management framework for the institution. For the aggregate portfolio, ADB monitors limits and concentrations; sets aside loan loss reserves; provides loan loss provisions, including collective provision requirements; and assesses its capital adequacy.

Risks to which ADB is exposed in carrying out its mission include: (i) credit risk, (ii) market risk, (iii) liquidity risk, and (iv) operational risk. This section discusses each of these risks as well as ADB's capital adequacy—ADB's ultimate protection against unexpected losses—and its asset and liability management.

The transfer of ADF assets to OCR on 1 January 2017 roughly tripled ADB's risk-bearing capacity and has and will continue to enable a substantial increase in lending.

### **1. Credit Risk**

Credit risk is the risk of loss that could result if a borrower or counterparty defaults or if its creditworthiness deteriorates. Related to credit risk, ADB also faces concentration risk, which arises when a high proportion of the portfolio is allocated to a specific country, industry sector, obligor, type of instrument, or individual borrower.

ADB assigns a risk rating to each loan, guarantee, debt security, and treasury counterparty (Table 19). For nonsovereign transactions, the rating typically is not better than that of the sovereign.

**Table 19: Asian Development Bank Internal Risk Rating Scale**

| ADB Internal<br>Rating Scale | Credit Rating<br>Agency Equivalent | ADB Definitions                   |
|------------------------------|------------------------------------|-----------------------------------|
| 1                            | AAA / Aaa to A / A2                | Lowest expectation of credit risk |
| 2                            | A– / A3                            | Very low credit risk              |
| 3                            | BBB+ / Baa1                        | Low credit risk                   |
| 4                            | BBB / Baa2                         | Low credit risk                   |
| 5                            | BBB– / Baa3                        | Low to medium credit risk         |
| 6                            | BB+ / Ba1                          | Medium credit risk                |
| 7                            | BB / Ba2                           | Medium credit risk                |
| 8                            | BB– / Ba3                          | Medium credit risk                |
| 9                            | B+ / B1                            | Significant credit risk           |
| 10                           | B / B2                             | Significant credit risk           |
| 11                           | B– / B3                            | Significant credit risk           |
| 12                           | CCC+ / Caa1                        | High credit risk                  |
| 13                           | CCC / Caa2 to C                    | Very high credit risk             |
| 14                           | D                                  | Default                           |

ADB is exposed to credit risk in its sovereign, nonsovereign, and treasury operations. The sovereign portfolio includes sovereign loans and guarantees as well as one equity investment, while the nonsovereign portfolio includes nonsovereign loans and guarantees, equity investments (direct and private equity funds), and other debt securities. The treasury portfolio includes fixed-income securities, cash and cash equivalents, and derivatives. Table 20 details the total risk exposure and average risk rating<sup>9</sup> for each asset class.

**Table 20: Total Risk Exposure**  
as of 31 December 2019 and 2018

| Item                                           | 2019                     |                  | 2018                     |                  |
|------------------------------------------------|--------------------------|------------------|--------------------------|------------------|
|                                                | Exposure<br>(\$ million) | Rating<br>(1–14) | Exposure<br>(\$ million) | Rating<br>(1–14) |
| Sovereign operations                           | 109,594                  |                  | 102,470                  |                  |
| a. Regular OCR Loan and guarantee <sup>a</sup> | 79,895                   | 6.5 / BB         | 73,498                   | 6.5 / BB         |
| b. Concessional OCR Loan                       | 29,546                   | 10.2 / B         | 28,819                   | 10.2 / B         |
| c. Equity Investments                          | 153                      | n/a              | 153                      | n/a              |
| Nonsovereign operations                        | 9,499                    |                  | 8,185                    |                  |
| a. Loan and guarantee <sup>a</sup>             | 8,009                    | 9.3 / B+         | 7,058                    | 9.2 / B+         |
| b. Equity Investments <sup>b</sup>             | 1,490                    | n/a              | 1,127                    | n/a              |
| Treasury                                       | 41,373                   | AA               | 36,929                   | AA               |
| a. Fixed income                                | 29,453                   | AA               | 27,247                   | AA               |
| b. Cash instruments                            | 11,826                   | A+               | 9,669                    | A+               |
| c. Derivatives                                 | 94                       | A+               | 13                       | AA–              |
| <b>Aggregate Exposure</b>                      | <b>160,466</b>           |                  | <b>147,584</b>           |                  |

n/a = not applicable.

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Sum of outstanding loan balances, present value of guaranteed obligations, and securities classified as debt.

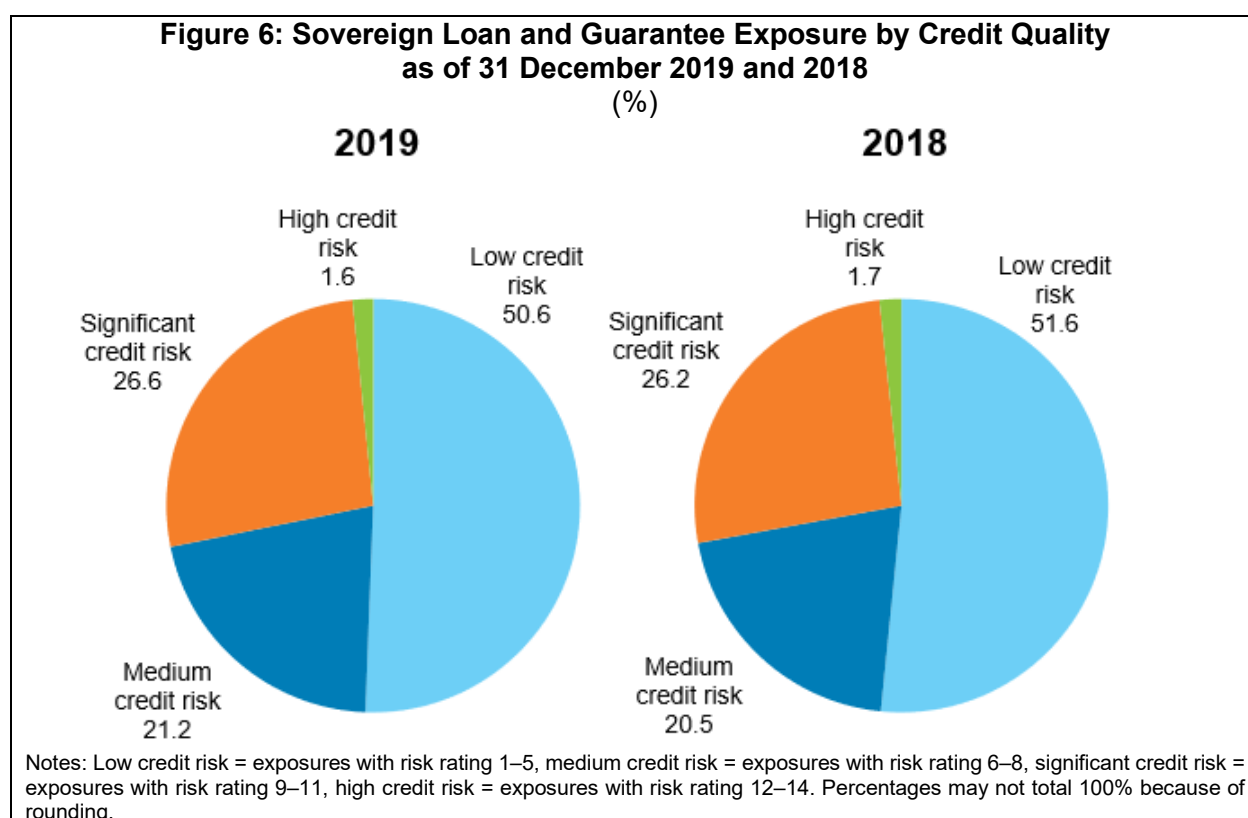
<sup>b</sup> At fair value. 2019 includes one hybrid investment classified as other debt security.

<sup>9</sup> The average risk ratings are weighted by the probability of default and the projected exposure at default. The computation uses a set of probabilities of default at the end of the corresponding quarter.

**Credit risk in the sovereign portfolio.** Sovereign credit risk is the risk that a sovereign borrower or guarantor will default on its loan or guarantee obligations. ADB manages its sovereign credit risk through loan loss provisions and reserves as well as by maintaining conservative equity levels. ADB's sovereign regular OCR loan operations have experienced no loss of principal.<sup>10</sup> Countries that previously had delayed payments eventually repaid and returned their loans to accrual status.

ADB charges provisions for loan losses for a specific transaction (footnote 10). In addition, ADB also appropriates loan loss reserves within equity for the average loss that ADB could incur on performing loans and guarantees. The provisions are based on projections of future repayment capacity. The loan loss reserve calculation is based on the historical default experience of sovereign borrowers to multilateral development banks. The sum of the provisions and loan loss reserves represents ADB's expected loss for sovereign operations.

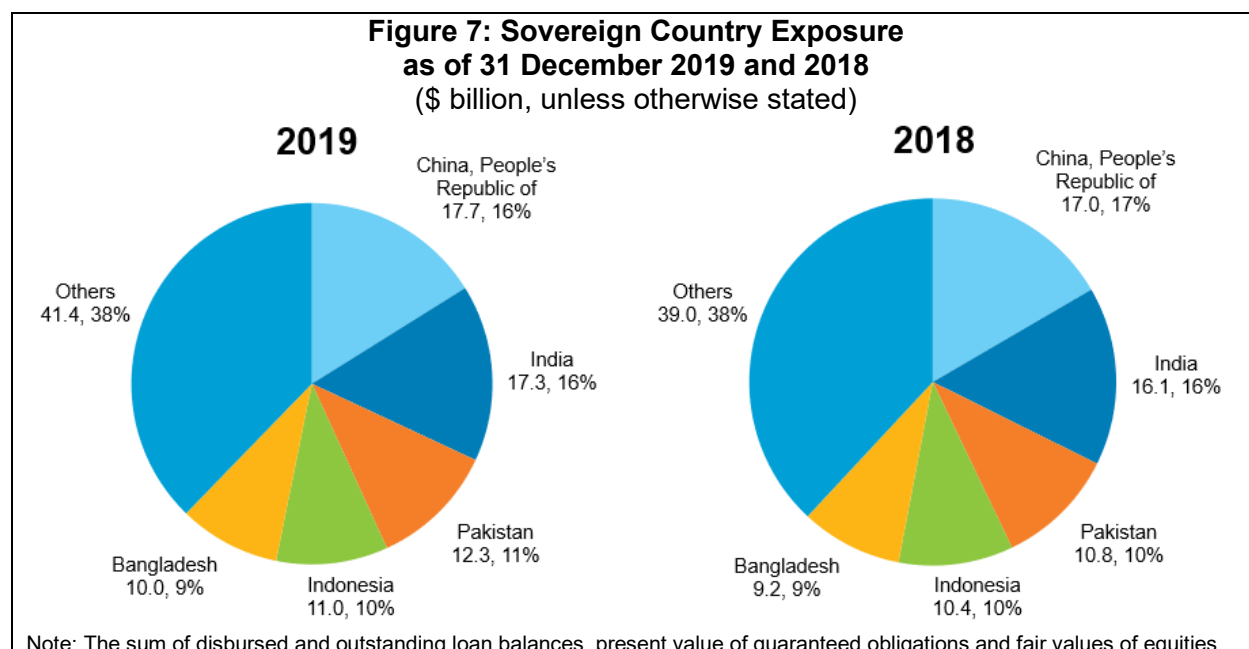
**Sovereign loan and guarantee exposure.** The average credit rating of the sovereign loan and guarantee portfolio remained at 7.2 (BB) in 2019 from 2018 given the minimal change in the portfolio mix (Figure 6). Refer to Note F of OCR Financial Statements for additional information.



<sup>10</sup> Specific provision under the sovereign portfolio is associated with the debt relief provided to sovereign concessional OCR loans to Afghanistan under the Heavily Indebted Poor Countries Relief Policy. The amount of debt relief including principal and interest was \$106 million and has been provided through a reduction of Afghanistan's debt service from July 2008 to February 2028.



**Sovereign concentrations.** ADB has assumed some concentration risk to fulfill its development mandate. The three largest borrowers—the People’s Republic of China, India, and Pakistan—represented 43% of the portfolio in 2019 (Figure 7).



**Expected loss.** The expected loss of sovereign lending and guarantee operations improved, decreasing to \$497 million in 2019 from \$509 million in 2018. Expected loss is managed through allowance for HIPC debt relief, fair value adjustment of sovereign concessional OCR loans, and loan loss reserves. Expected loss as a percentage of the total sovereign portfolio remained at 0.5% in 2019 from 2018.

**Credit and equity risks in the nonsovereign portfolio.** Nonsovereign credit risk is the risk that a borrower will default on a loan or guarantee obligation for which ADB does not have recourse to a sovereign entity. While the aggregate nonsovereign exposure is smaller in size than the sovereign exposure, the credit risk in individual transactions is more significant. In addition, ADB’s exposure is concentrated in the utilities and finance sectors. ADB employs various policy-based measures to manage these risks.

The Investment Committee and the Risk Committee oversee risks in the nonsovereign portfolio. The Investment Committee reviews all new nonsovereign transactions for creditworthiness and pricing. The Risk Committee monitors aggregate portfolio risks and individual transactions with deteriorating creditworthiness. The Risk Committee also endorses changes in portfolio risks and management policy and expected loss of the aggregate portfolio together with loan loss provisions and reserves.

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

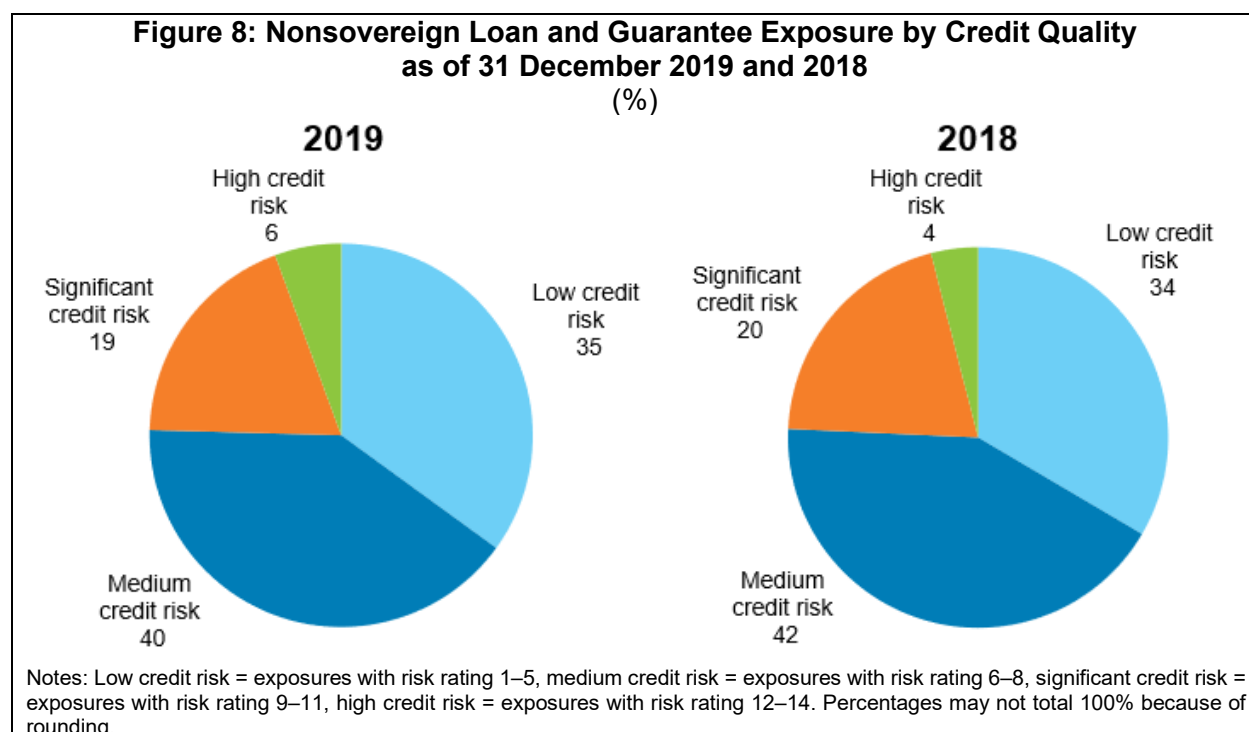
ADB recognizes specific provisions in net income for known or probable losses in individual loans or guarantees. In addition, ADB recognizes collective provision and appropriates loan loss reserve based on historical default data from Moody's Investors Service that is mapped to ADB's portfolio. The sum of the specific provision, collective provision, and loan loss reserve represents ADB's expected loss for nonsovereign operations.

ADB uses limits for countries, industry sectors, corporate groups, obligors, products and individual transactions to manage concentration risk in the nonsovereign portfolio. The 2019 results are discussed below.

**Nonsovereign loan, guarantee, and debt security exposure.** ADB assigns a risk rating to each nonsovereign loan, guarantee, and debt security. The average credit rating of the nonsovereign portfolio weakened to 9.3 (B+) in 2019 from 9.2 (B+) in 2018 because of risk rating downgrades including impairments of some transactions (Figure 8).

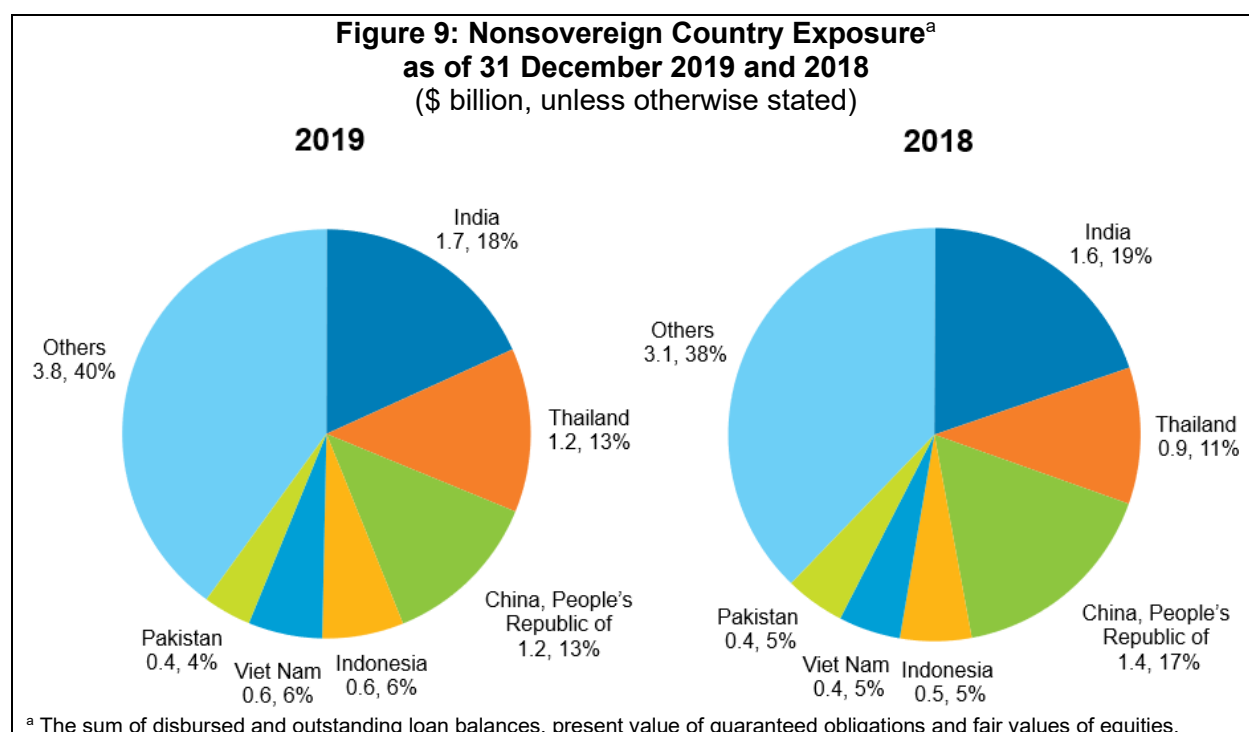
Credit exposure is considered impaired when it is unlikely that ADB will be able to collect all amounts due in accordance with contractual terms. Impaired credit exposure includes all rated transactions, namely (i) loans, (ii) guarantees, and (iii) debt securities that are held to maturity and reported at amortized cost, which are extended to borrowers rated 13 and 14 on ADB's 14-point rating scale. Impaired exposure was 4.8% of total lending in 2019 and 4.9% in 2018.

Refer to Note F of OCR Financial Statements for additional information.

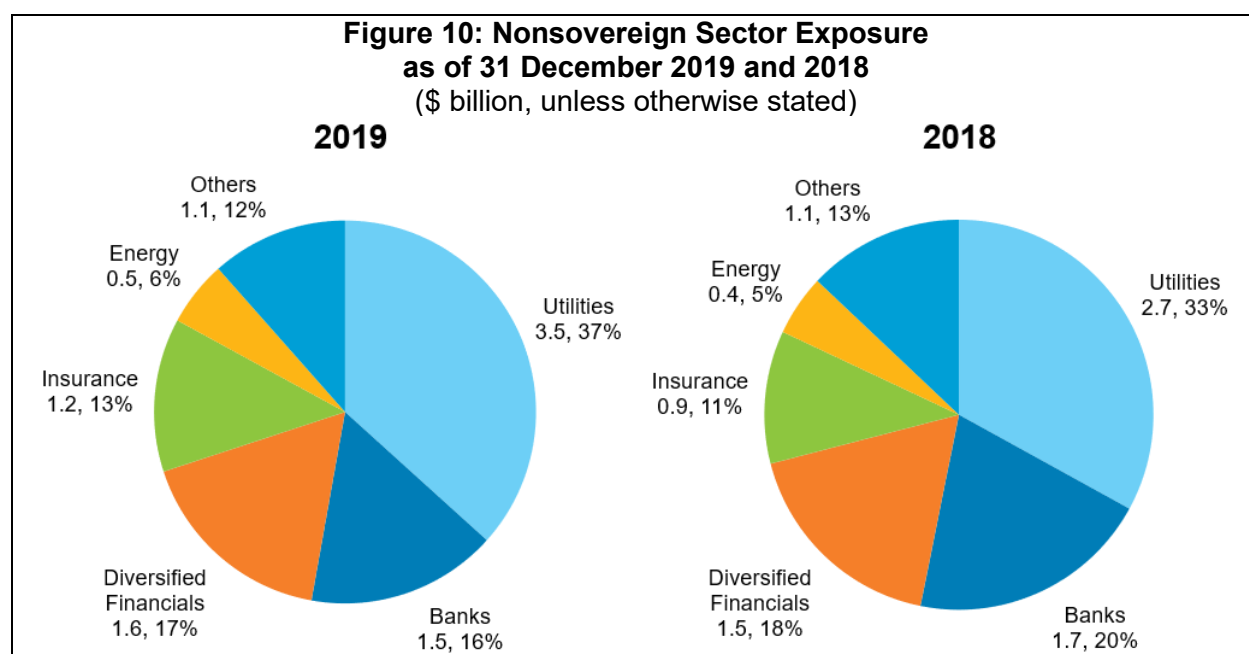


**Nonsovereign equity exposure.** The nonsovereign equity investment portfolio has two components: (i) direct equity investments, where ADB owns shares in investee companies; and (ii) private equity funds, where ADB has partial ownership of a private equity fund, managed by a fund manager, which acquires equity stakes in investee companies. ADB's nonsovereign equity investment portfolio increased by \$363 million in 2019 from 2018 because of new deals and an increase in fair value of existing portfolio. Refer to Note H of OCR Financial Statements for additional information.

**Nonsovereign concentrations.** The three largest nonsovereign country risk exposures as of 31 December 2019 were India (18%), Thailand (13%), and the People's Republic of China (13%). The exposure of the top three countries decreased to 44% in 2019 from 47% in 2018 (Figure 9). All country exposures complied with ADB exposure limits.



ADB employs the Global Industry Classification Standard for its nonsovereign exposures. Under this standard, utilities represent the largest sectoral share of ADB's nonsovereign risk exposures (Figure 10). ADB maintains higher exposures to this sector because of the importance of utilities to economic development. In addition, the high level of exposure to the utilities sector is deemed acceptable from a risk perspective because of the lack of correlation between the utilities sector in one country and another. The utilities sector is also fragmented with seven major sub-industries. To mitigate sector concentration risk, ADB conducts additional monitoring of and reporting on this sector and employs specialists in these areas.



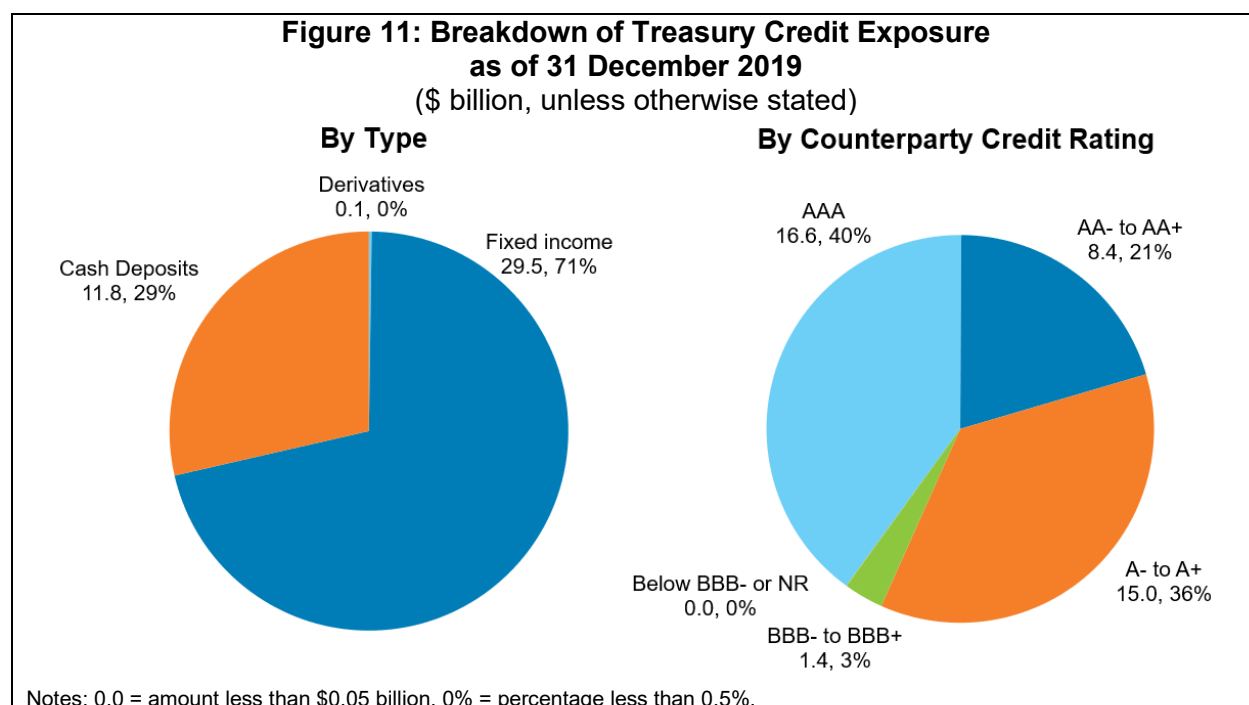
**Expected loss.** The expected loss of nonsovereign operations (loans, guarantees and debt securities held-to-maturity) increased to \$265 million in 2019 from \$252 million in 2018 because of portfolio growth and risk rating downgrades. Expected loss is managed through specific allowance and collective allowance for loan losses and loan loss reserves, which represent 2.5%, 0.5% and 0.3% of the nonsovereign loan and guarantee portfolio, respectively.

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

To mitigate issuer and counterparty credit risks, ADB transacts only with institutions rated by reputable international rating agencies and satisfy a minimum rating criteria. The liquidity portfolio is also invested in conservative assets, with substantial allocation to money market instruments and government and government-related securities. In addition, ADB has established exposure limits for its corporate investments, depository relationships, and other investments.

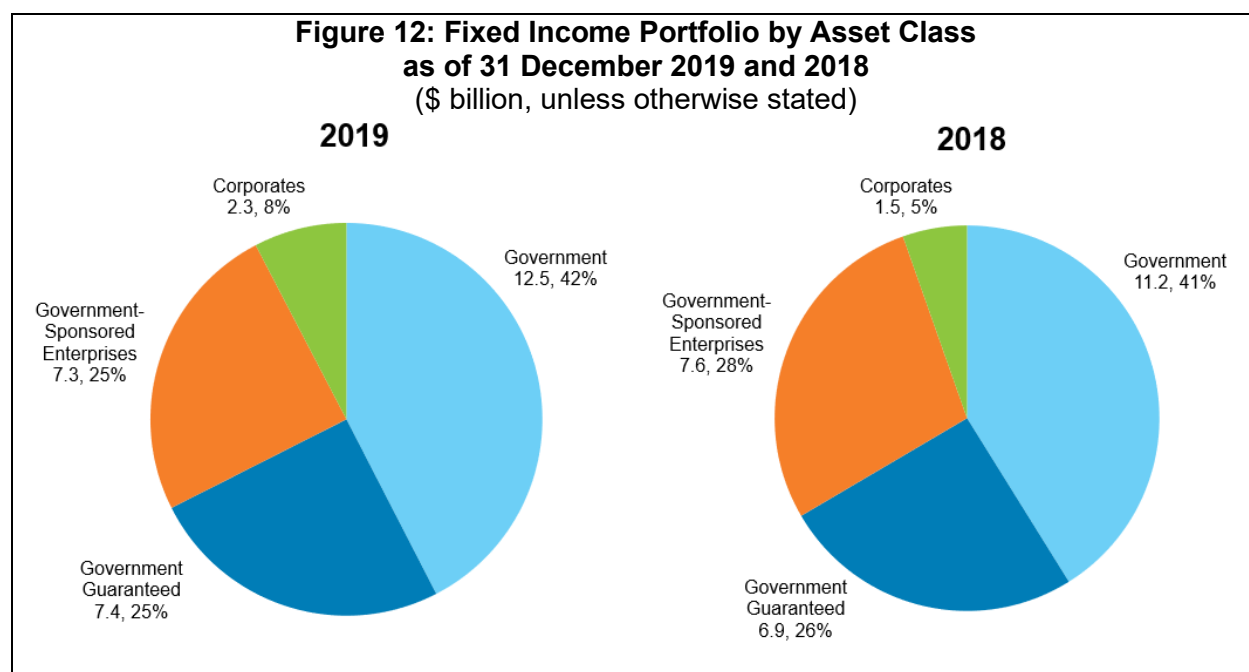
ADB has counterparty eligibility criteria to mitigate counterparty credit risk arising through derivative transactions. In general, ADB will only undertake swap transactions with counterparties that meet the required minimum counterparty credit rating, have executed an International Swaps and Derivatives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

As of 31 December 2019, ADB's treasury portfolio comprises fixed income securities, high credit quality cash deposits and derivative instruments with a weighted average credit rating of AA, and with 97% of the portfolio rated A– or better. Figure 11 provides the breakdown of treasury portfolio by type and counterparty credit risk rating.



As of 31 December 2019 and 2018, no fixed-income instruments, derivatives, or other treasury exposures were past due or impaired.

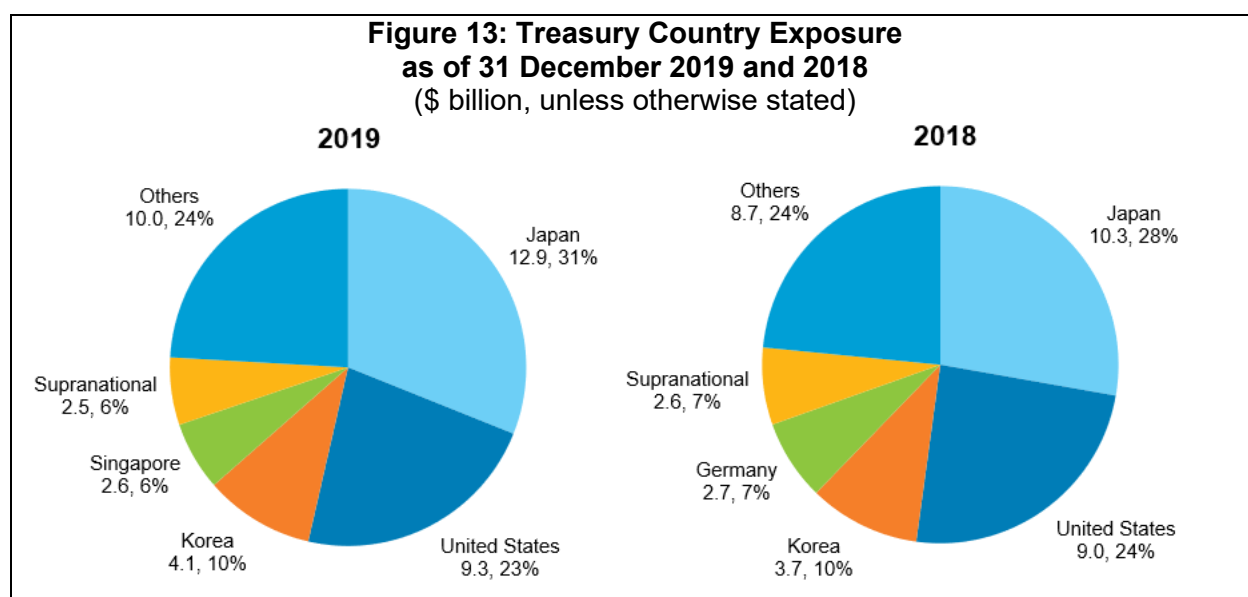
**Fixed income.** Sovereign and sovereign-guaranteed securities, and those issued by government-related enterprises, including supranationals, represent 92% of ADB's fixed income assets. The remainder is in corporate bonds that are rated at least A– (Figure 12). ADB will continue to monitor market developments closely and adjust its risk exposure accordingly.



**Cash deposits.** Credit risk from investment deposits is considered low. ADB invests with depository institutions that satisfy a minimum long-term average credit rating requirement. ADB maintains a watch list of institutions that it perceives as potentially riskier than its credit rating represents based on an internal credit risk assessment. The size of the investment deposit is limited by the counterparty's tier one common equity and external credit rating.

**Derivatives.** All eligible swap counterparties satisfy a minimum credit rating requirement. Current exposure to counterparties rated below AA– is generally fully collateralized, while the uncollateralized exposure to those rated AA– and above are subject to specified thresholds. At the end of 2019, all counterparty marked-to-market exposures were fully collateralized, except for seven counterparties with whom exposures were in line with established thresholds and minimum transfer amounts.

**Country exposure.** At the end of 2019, treasury credit risk exposure was allocated across 34 countries with the largest five exposures presented in Figure 13.



## 2. Market Risk

Market risk is the risk of loss on financial instruments because of changes in market prices. ADB principally faces two forms of market risk: (i) interest rate risk; and (ii) foreign exchange risk.

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

ADB is primarily exposed to interest rate risk through the liquidity portfolio. ADB monitors and manages interest rate risks in the liquidity portfolio by employing various quantitative methods.

ADB uses duration and interest rate value-at-risk (VaR) to measure interest rate risk in the liquidity portfolio. Duration measures the sensitivity of the portfolio's value to a parallel change in interest rates. Interest rate VaR provides an estimate of the portfolio's potential loss at a certain confidence level within a defined timeframe. ADB reports VaR with a 95% confidence level at a 1-year time horizon. Duration and VaR are ADB's primary monitoring tools for interest rate risk across the liquidity portfolio.

**Foreign exchange.** ADB minimizes exposure to exchange rate risk in its operations by matching where possible the currencies of its assets with the currencies of its liabilities. Borrowed funds or funds to be invested may only be converted into other currencies provided that they are fully hedged through cross currency swaps or forward exchange agreements. However, because of its multicurrency operations, ADB is exposed to fluctuations in reported US dollar due to currency translation adjustments.

**Value-at-risk.** The interest rate 1-year VaR of the total OCR, increased from 0.50% of ADB's equity on 31 December 2018 to 0.90% on 31 December 2019. This means there is a 5.0% probability that the portfolio will lose more than \$454 million due to interest rate moves over the next year. As a supplement to VaR, ADB also computes expected shortfall to monitor the magnitude and changes to the treasury portfolio's tail risk over time.

**Duration.** Interest rate sensitivity of total OCR, as reflected in its weighted portfolio duration, increased from 1.32 years as of the end of 2018 to 1.51 years as of the end of 2019.

**Stress testing.** ADB measures how sensitive the total OCR is to parallel shifts in interest rates. If interest rates were to rise 2%, the total OCR would be expected to lose 3.0% of net asset value (NAV) (\$1,222 million). ADB also uses historical and hypothetical scenario analysis to assess how the total OCR would respond to significant changes in asset values. Due to the high quality of ADB's investments, scenario analysis suggests the liquidity portfolio would appreciate during many historical stress scenarios, as demand for highly rated liquid securities increases (flight to quality). ADB monitors VaR and duration, and performs stress testing to manage market risk in the liquidity portfolio. The major currencies of the CLP bear the majority of ADB's market risk and account for 41% of ADB's OCR liquid asset portfolio by NAV. Major currencies include the US dollar, yen, euro, and pound sterling, and represented 86% of the CLP NAV.

### 3. Liquidity Risk

Liquidity risk can arise if ADB is unable to raise funds to meet its financial and operational commitments. ADB maintains core liquidity to safeguard against a liquidity shortfall in case its access to the capital markets is temporarily denied. The overriding objective of the liquidity policy is to enable ADB to obtain the most cost-efficient funding under both normal and stressed situations and manage liquidity optimally to achieve its development mission. The Board of Directors approved a revised liquidity policy framework in November 2016. The revised policy redefined the prudential minimum liquidity as 100% of the 1-year net cash requirements. This represents the minimum amount of eligible liquidity necessary for ADB to continue operations even if access to capital markets is temporarily denied. Maintaining the prudential minimum liquidity level is designed to enable ADB to cover net cash requirements for 12 months without borrowing. The liquidity levels and cash requirements are monitored on an ongoing basis, with quarterly review by the Board of Directors.

### 4. Operational Risk

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

Key components of ADB's operational risk management approach include: (i) employing the Operational Risk Self Assessment in its key business areas; (ii) using Key Risk Indicators for operational risk profile monitoring and the collection of risk event information; (iii) conducting selected Scenario Analysis programs to quantify potential exposures; and (iv) promoting risk awareness, including through the issuance of a periodic e-Newsletter and presentations to internal and external stakeholders on the application of the methodologies. Within ADB, risk management and other independent control functions work together to embed a strong operational risk management culture and framework.

Like any other organization, ADB is exposed to various types of operational risks, which it mitigates by applying internal controls and monitoring areas of particular concern. ADB regularly reports and performs analysis on its top operational risks. They are rated, both, in terms of likelihood of their occurrence and the impact to the organization. Business disruption and cyber security risks are among the top most risks for institutions that ADB currently considers most relevant. Business continuity and information technology (IT) security processes and internal controls are continuously strengthened to reduce the likelihood and impact of these operational risks and to bring the exposure back within the risk appetite. ADB's organizational resilience framework establishes the governance structure and optimizes the use of key resources—people, premises, information technology, business data and processes and supply chain—to enable ADB to prepare for and respond to disruption-related risks and strengthen its capacity to maintain operations. Its business continuity plans are reviewed and tested regularly to ensure the continuity of critical operations, systems and processes during disruptions. ADB also uses risk transfer, including insurance, for mitigating low-frequency and high-severity operational risks.

## **5. Capital Adequacy**

ADB's capital adequacy framework (CAF) 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. The framework is designed to protect the risk-bearing capacity of ADB without relying on callable capital, and to maintain ADB's ability to lend even during crises and after a large nonaccrual shock.

ADB reviewed its capital adequacy framework in 2019 to benchmark to best practices and the evolution of ADB's operations under its new Strategy 2030. The Board of Directors approved the review in February 2020. Under the enhanced framework, ADB will continue to hold capital to protect against eight risk types: credit risk, equity investment risk, interest rate risk, treasury counterparty risk, operational risk, pension risk, currency risk, and risk buffer for noncredit risk. The main enhancement pertained to a move from value-at-risk to expected shortfall as a measurement of credit and market risks.

During 2019, ADB's capitalization remained robust and its AAA credit rating was also reaffirmed by the three major international credit rating agencies.



## 6. Asset and Liability Management

ADB has an asset and liability management policy framework that guides all financial policies related to asset and liability management including liquidity, investments, and equity management. The objectives of the asset and liability management are to safeguard ADB's net worth and capital adequacy, promote steady growth in ADB's risk-bearing capacity, and define financial policies to undertake acceptable financial risks. The aim is to provide resources for developmental lending at the lowest and most stable funding cost to borrowers, along with the most reasonable lending terms, while safeguarding ADB's financial strength. ADB's asset and liability management aims to safeguard net worth from foreign exchange rate risks, protect net interest margin from fluctuations in interest rates, and provide sufficient liquidity to meet the needs of ADB operations.

### I. Internal Control over Financial Reporting

ADB assesses the effectiveness of its internal controls over financial reporting based on the *Internal Control—Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Framework includes: (i) codification of the 17 principles that support the 5 components of internal control, (ii) the concept of considering the potential of fraud risk as part of the risk assessment process, and (iii) considerations on outsourcing and increased relevance of information technology as a result of changes in the business and operating environment. For an effective system of internal control, the Framework requires that: (i) each of the 5 components and the 17 principles is present and functioning, and (ii) the 5 components are operating together in an integrated manner.

ADB assessed the effectiveness of its internal control over financial reporting for its 2019 financial statements. ADB applied a risk-based evaluation framework for the assertion of the effectiveness of internal control over financial reporting for OCR and Special Funds, except for the ADB Institute (ADBI). The scope included a review of business processes for financial reporting and the IT general computer controls. ADB staff across several departments and offices were responsible for: (i) identifying and testing key controls, and (ii) assessing and evaluating the design and operating effectiveness of the business processes. The effectiveness of ADB's internal control over financial reporting has been audited by its external auditor, as stated in their respective reports, which expressed an unmodified opinion on the effectiveness of ADB's internal control over financial reporting for OCR and Special Funds (except for ADBI) as of 31 December 2019.

### J. Critical Accounting Policies and Estimates

Significant accounting policies are contained in Note B of the OCR financial statements. As disclosed in the financial statements, Management estimates the fair value of financial instruments. Because the estimates are based on judgment and available information, actual results may differ and could have a material impact on the financial statements.

**Fair value of financial instruments.** Under statutory reporting, ADB carries selected financial instruments and derivatives, as defined by ASC Topics 815 and 825, on a fair value basis. These financial instruments include embedded derivatives that are valued and accounted for in the balance sheet as a whole. Fair values are usually based on quoted market prices. If market prices are not readily available, fair values are usually determined using market-based pricing models incorporating market data requiring judgment and estimates. These are discussed in more detail in Note B of OCR's financial statements.

The pricing models used to determine the fair value of ADB's financial instruments are based on discounted cash flow models. For equity investments at fair value, pricing models include discounted cash flows, last transacted price, net asset value, and comparable valuations using price-to-book, price-to-equity, enterprise value to revenue and enterprise value to earnings before interest, taxes, depreciation and amortization multiples. ADB reviews the pricing models to assess whether the assumptions are appropriate and produce results that reflect the reasonable valuation of the financial instruments. In addition, the fair values derived from the models are subject to ongoing internal and external verification and review. The models use market-sourced inputs, such as interest rates, exchange rates, and option volatilities. The selection of these inputs may involve some judgment and may impact net income. ADB believes that the estimates of fair values are reasonable.

**Provision for loan losses and loan loss reserves.** ADB's credit risk management is based on the concept of expected loss which is calculated using three components: exposure at default, probability of default, and loss given default. The probability of default is based on the historical default experience of sovereign borrowers to multilateral development institutions; for nonsovereign loans, it is based on Moody's Investors Service default data.

Specific provisions for loan losses are charged to the income statements for the impaired loans based on management's judgment and estimate according to the accounting standard. Collective provisions for loan losses are also recognized for probable losses that exist collectively in disbursed and performing loans rated below investment grade. In addition, the remainder of expected loss is appropriated under loan loss reserves, set aside in the equity section of the balance sheet to ensure that ADB has adequate loss absorption capacity for credit losses in sovereign and nonsovereign operations.

In 2019, the Board of Directors approved revising the provisioning policy to comply with the new accounting standard, the current expected credit loss (CECL) model starting 1 January 2020. CECL mainly focuses on the credit loss model for financial assets measured at amortized cost, which are represented by loans and held-to-maturity debt securities for ADB. CECL also requires measuring credit losses for off-balance sheet commitments such as undisbursed loan commitments and guarantees, in which ADB is exposed to credit risk. The provision for credit losses will be based on expected losses over the remaining lifetime of loans, guarantees, and certain debt securities. For further details, refer to Note B of OCR Financial Statements.

**Pension and other postretirement benefits.** ADB provides staff pension and postretirement medical benefits for all eligible staff members that have not reached the normal retirement age of 60 for staff on board before 1 October 2017 and 62 for staff who joined on or after 1 October 2017. Net periodic benefit costs are allocated between OCR and the ADF based on the agreed cost-sharing methodology. The underlying actuarial assumptions used to determine the projected benefit obligations, accumulated benefit obligations, and funded status associated with these plans are based on market interest rates, past experience, and Management's best estimate of future benefit changes and economic conditions. For further details, refer to Note Q of OCR Financial Statements.

### III. SPECIAL FUNDS

ADB is authorized by its Charter to establish and administer Special Funds. These are the ADF, Technical Assistance Special Fund (TASF), Japan Special Fund (JSF), Asian Development Bank Institute (ADBI), Regional Cooperation and Integration Fund (RCIF), Climate Change Fund (CCF), Asia Pacific Disaster Response Fund (APDRF), and Financial Sector Development Partnership Special Fund (FSDPSF). Financial statements for each Special Fund are prepared in accordance with US GAAP.

#### A. Asian Development Fund

The ADF was established as ADB's concessional financing window for DMCs with per capita gross national income below the ADB operational cutoff and limited or low creditworthiness. It provides a multilateral source of concessional assistance dedicated exclusively to reducing poverty and improving the quality of life in Asia and the Pacific. The ADF has received contributions from 34 donors (regional and nonregional). Cofinancing with bilateral and multilateral development partners complements ADF resources. With the termination of the ADF lending operations and its transfer to OCR on 1 January 2017, the ADF became a grant-only operation.

**ADF 12 Replenishment.** In July 2016, the Board of Governors adopted a resolution to provide for the 11th replenishment of the ADF (ADF 12) and the sixth regularized replenishment of the TASF. The ADF 12 became effective on 30 May 2017. The replenishment provides grant financing to eligible recipients from 2017 to 2020. As of 31 December 2019, the total replenishment size was \$3,812 million, of which \$2,594 million comes from the donor contributions. ADB has received all instruments of contributions from 32 donors totaling \$2,594 million, including \$461 million which are allocated to TASF.<sup>11</sup> As of 31 December 2019, a cumulative total of \$1,591 million (excluding TASF portion) was made available for operational commitment for ADF 12.

**Contributed resources.** During 2019, \$587 million of donor contributions (excluding TASF portion) was made available for operational commitments. Contributions not yet available for operational commitments comprise: (i) unpaid contributions; (ii) contributions received but are withheld due to pro-rata exercise; (iii) contributions received in advance; and (iv) unamortized discounts on accelerated notes encashment.

**Liquidity management.** ADF manages its liquidity assets under two tranches to enable the optimal use of financial resources. The main objective of the first tranche is to ensure adequate liquidity is available to meet expected cash requirements. The second tranche comprises the prudential minimum liquidity the ADF should hold to meet unexpected demands and liquidity for future commitments. This approach ensures that liquidity is managed transparently and efficiently.

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<sup>11</sup> US dollar equivalent based on the Board of Governors' Resolution No. 382 exchange rates.

**Commitment authority.** The commitment authority available for future commitments comprises the resources available to the ADF for its future activities in the form of grants. These resources are derived principally from donor contributions, and internal resources. The balance of the commitment authority available for commitment as of 31 December 2019 was \$663 million (\$466 million – 2018) equivalent (Table 21).<sup>12</sup>

**Table 21: Asian Development Fund Commitment Authority**  
**31 December 2019**  
(\$ million)

| Item                                                             | Amount       |
|------------------------------------------------------------------|--------------|
| Carryover of ADF XI Commitment Authority                         | 63           |
| ADF 12 contribution                                              | 1,529        |
| ADF XI contribution <sup>a</sup>                                 | 160          |
| ADF IX contribution <sup>b</sup>                                 | 2            |
| Grant savings and cancellations                                  | 603          |
| Income from liquidity investment                                 | 135          |
| OCR net income transfer                                          | 778          |
| Regular ADF grants committed                                     | (2,399)      |
| <b>Resources available for regular ADF</b>                       | <b>871</b>   |
| RHS contributions released for operational commitments           | 59           |
| RHS grants committed                                             | (53)         |
| <b>Resources available for RHS</b>                               | <b>6</b>     |
| <b>Administrative expense<sup>c</sup></b>                        | <b>(213)</b> |
| <b>ADF Commitment Authority Available for Future Commitments</b> | <b>663</b>   |

ADF = Asian Development Fund, OCR = ordinary capital resources, RHS = Regional Health Security.

Notes: Amounts may not sum precisely because of rounding. Amounts are valued at exchange rates as of 31 December 2019.

<sup>a</sup> Represents payments from Spain and the United States, including the corresponding pro rated amounts released by Germany and Turkey.

<sup>b</sup> Represents the accelerated note encashment credit of the United States including the corresponding pro rated amounts released by Germany and Turkey.

<sup>c</sup> Represent ADF's allocated administrative expenses for 2017, 2018, and 2019.

In May 2019, the Board of Governors approved the transfer of \$259 million to the ADF as part of the net income allocation of OCR (\$259 million – 2018). In addition, \$603 million from grant savings and cancellations were included in the commitment authority. This resulted from Management's continued assessment of opportunities to free committed resources through cancellations of unused grant balances.

During 2019, deposited installments under ADF 12 amounted to \$592 million, ADF 12 encashment totaled \$404 million,<sup>13</sup> and about \$112 million was transferred to the TASf.<sup>14</sup>

**Investments for liquidity purpose.** The ADF investment portfolio totaled \$3,933 million at the end of 2019 compared with \$3,432 million at the end of 2018.<sup>15</sup> As of 31 December 2019, about 6% of the portfolio was invested in time deposits (26% – 2018) and 94% in fixed-income securities (74% – 2018). The rate of return on ADF investments, excluding unrealized gains and losses, was 2.20% (1.96% - 2018).

<sup>12</sup> Includes funds for regional health security and based on grant signing.

<sup>13</sup> Includes encashment of promissory notes and cash payments.

<sup>14</sup> US dollar equivalent based on exchange rates as of 31 December 2019.

<sup>15</sup> Includes securities purchased under resale arrangements.

**Grants.** Grants are recognized in the financial statements upon effectivity, when the agreements are signed and all conditions to effectiveness of the grant are satisfied. During the year ended 31 December 2019, 35 grants totaling \$844 million were committed (44 grants totaling \$1,418 million – 2018) while 37 grants totaling \$389 million (31 grants totaling \$899 million – 2018) became effective, net of \$235 million (\$175 million – 2018) undisbursed grants that were written-back as reduction.

**Sovereign cofinancing for ADF grants.** In 2019, \$464 million in sovereign loan and grant cofinancing was approved for 14 ADF-financed projects totaling \$576 million. Also, in 2019, a total of \$100 million in sovereign loan and grant cofinancing was committed for 10 ADF-financed projects totaling \$162 million.

## **B. Technical Assistance Special Fund**

The TASF was established to provide TA on a grant basis to ADB's DMCs and the region.

**TASF Sixth Regularized Replenishment.** In July 2016, as part of the ADF 12 replenishment, the donors agreed to allocate \$461 million of the total replenishment size as the sixth regularized replenishment of the TASF 6. The replenishment, which became effective on 30 May 2017, covers TA financing for 2017–2020.

**Contributed resources.** As of 31 December 2019, a total of \$324 million of donor contributions have been received out of the \$461 million allocation set-aside for TASF 6.

At the end of 2019, cumulative TASF resources (Table 22) totaled \$3,166 million, of which \$2,970 million was committed, leaving an uncommitted balance of \$196 million (\$304 million – 2018).

**Table 22: Technical Assistance Special Fund  
Cumulative Resources as of 31 December 2019 and 2018**  
(\$ million)

| <b>Item</b>                                 | <b>2019</b>  | <b>2018</b>  |
|---------------------------------------------|--------------|--------------|
| Regularized Replenishment                   |              |              |
| Contributions                               | 1,611        | 1,611        |
| Allocations from OCR Net Income             | 1,209        | 1,129        |
| Direct Voluntary Contributions              | 91           | 91           |
| Income from Investment and<br>Other Sources | 258          | 240          |
| Transfers from the TASF to the ADF          | (3)          | (3)          |
| <b>Total</b>                                | <b>3,166</b> | <b>3,068</b> |

( ) = negative, ADF = Asian Development Fund, OCR = ordinary capital resources,  
TASF = Technical Assistance Special Fund.

In May 2019, following the Board of Governors' approval, \$80 million was transferred from OCR to the TASF as part of the allocation of OCR net income (\$80 million – 2018).

**Operations.** For the year ended 31 December 2019, net TA expenses amounted to \$200 million (\$207 million – 2018), comprising \$220 million for 178 TA projects and 62 supplementary TAs (\$229 million of 193 TA projects and 79 supplementary TAs – 2018) made effective during the period, net of \$20 million (\$22 million – 2018) undisbursed amounts that were written back as reduction. The undisbursed TAs net of TA advances amounted to \$487 million as of 31 December 2019 (\$446 million – 2018).

**Investments for liquidity purpose.** As of 31 December 2019, the total investment portfolio amounted to \$405 million (\$398 million – 2018). About 90% of the portfolio was invested in time deposits and 10% in fixed-income securities (100% in time deposits – 2018). Total revenue from investments for the year ended 31 December 2019 amounted to \$8 million (\$7 million – 2018). The rate of return on TASF investments was 2.05% (1.94% - 2018).

### C. Japan Special Fund

The JSF was established in 1988 when ADB, acting as the administrator, entered into a financial arrangement with the Government of Japan, which agreed to make the initial contribution to help ADB's DMCs restructure their economies and broaden the scope of opportunities for new investments, mainly through TA operations.

**Contributed resources.** As of 31 December 2019, Japan's cumulative contribution to the JSF since inception amounted to ¥113 billion (\$974 million equivalent), comprising regular contributions of ¥95 billion (\$823 million equivalent) and supplementary contributions of ¥18 billion (\$151 million equivalent). The uncommitted balance without donor restriction was \$73 million as of 31 December 2019 (\$71 million – 2018).

**Operations.** During the year ended 31 December 2019, no new TA projects or grants were made effective (nil – 2018) and no undisbursed amounts were written back (\$0.2 million – 2018). There were no undisbursed TAs as of 31 December 2019 (nil – 2018).

**Investments for liquidity purpose.** As of 31 December 2019, the total investment portfolio, which was in time deposits, amounted to \$71 million for JSF (\$69 million – 2018) and \$39 million for Asian Currency Crisis Support Facility (\$38 million – 2018).

### D. Asian Development Bank Institute

ADBI was established in 1996 as a subsidiary body of ADB, whose objectives are to identify effective development strategies and capacity improvements for sound development management in the DMCs. Its operating costs are met by ADBI, and it is administered in accordance with the Statute of the ADBI.

During 2019, committed contributions to ADBI totaled to \$16 million (\$15 million – 2018). As of 31 December 2019, cumulative contributions committed to ADBI amounted to ¥31 billion, A\$2 million, and \$11 million (about \$298 million equivalent). Of the total contributions received, \$248 million had been used by the end of 2019 (\$243 million – 2018) mainly for research and capacity-building activities, including: (i) organizing symposia, forums, and training sessions; (ii) preparing research reports, publications, and websites; and (iii) financing associated administrative expenses. For the year ended 31 December 2019, total expenses of ADBI totaled \$13 million (\$13 million – 2018). The balance of net assets (excluding property, furniture, and equipment and lease liability) available for future projects and programs was about \$19 million (\$16 million – 2018).

**Investments for liquidity purpose.** As of 31 December 2019, the total investment portfolio, which was in time deposits, amounted to \$4 million (\$4 million – 31 December 2018).

## **E. Regional Cooperation and Integration Fund**

The RCIF was established on 26 February 2007 in response to the increasing demand for regional cooperation and integration activities among ADB's member countries in Asia and the Pacific. Its main objective is to improve regional cooperation and integration by facilitating the pooling and provision of additional financial and knowledge resources.

**Contributed resources.** As of 31 December 2019, cumulative RCIF resources totaled \$74 million, of which \$69 million had been used, leaving an uncommitted balance of \$5 million (\$10 million – 2018).

**Operations.** During the year ended 31 December 2019, net TA expenses totaled \$5 million (\$5 million – 2018), comprising six TA projects and three supplementary TAs totaling \$6 million that became effective, and a \$0.7 million write-back on financially completed and/or cancelled projects (five TA projects and two supplementary TAs totaling \$5 million, and a \$0.6 million write-back – 2018). The balance of undisbursed TAs, net of TA advances as of 31 December 2019 amounted to \$9 million (\$8 million – 2018).

**Investments for liquidity purpose.** As of 31 December 2019, the total investment portfolio, which was in time deposits, amounted to \$10 million (\$15 million – 2018).

## **F. Climate Change Fund**

The CCF was established on 7 April 2008 to facilitate greater investments in DMCs to address the causes and consequences of climate change in combination with ADB assistance in related sectors.

**Contributed resources.** As of 31 December 2019, cumulative CCF resources totaled \$77 million, of which \$67 million had been used, leaving an uncommitted balance of \$10 million (\$18 million – 2018).

**Operations.** During the year ended 31 December 2019, one grant and four TA projects totaling \$8 million (eight TA projects totaling \$4 million – 2018) became effective, and \$0.6 million of financially completed and/or cancelled projects was written-back (\$2 million write-back – 2018). The balance of undisbursed grants and TA, net of advances as of 31 December 2019 amounted to \$13 million (\$8 million – 2018).

**Investments for liquidity purpose.** As of 31 December 2019, the total investment portfolio, which was in time deposits, amounted to \$22 million (\$24 million – 2018).

## **G. Asia Pacific Disaster Response Fund**

The APDRF was established on 1 April 2009 to provide timely incremental grant resources to DMCs affected by natural disasters.

**Contributed resources.** As of 31 December 2019, cumulative fund resources totaled \$81 million, of which \$60 million had been used, leaving an uncommitted balance of \$21 million (\$21 million – 2018).

**Operations.** During the year ended 31 December 2019, there were no grants that became effective (four grants totaling \$6 million – 2018) and \$0.1 million of financially completed and/or cancelled projects was written-back (\$0.1 million – 2018). There were no undisbursed grants, net of grant advances as of 31 December 2019 (\$3 million – 2018).

**Investments for liquidity purpose.** As of 31 December 2019, the total investment portfolio, which was in time deposits, amounted to \$15 million (\$23 million – 2018).

#### **H. Financial Sector Development Partnership Special Fund**

The FSDPSF was established on 31 January 2013 to strengthen regional, subregional, and national financial systems in Asia and the Pacific.

**Contributed resources.** As of 31 December 2019, cumulative fund resources totaled \$22 million, of which \$17 million had been used, leaving an uncommitted balance of \$5 million (\$4 million – 2018).

In May 2019, following the Board of Governors' approval, \$3 million was transferred from OCR to the FSDPSF as part of the allocation of OCR net income (nil – 2018). In December 2019, contributions equivalent to \$2 million (\$2 million – 2018) was committed from the Government of Luxembourg, which was transferred to FSDPSF in January 2020.

**Operations.** During the year ended 31 December 2019, there were six TA projects and five supplementary TAs totaling \$5 million that became effective (six TA projects and one supplementary TA totaling \$3 million – 2018), and \$0.2 million undisbursed amounts were written-back (\$0.1 million – 2018). The balance of undisbursed TAs, net of TA advances as of 31 December 2019 amounted to \$9 million (\$7 million – 2018).

**Investments for liquidity purpose.** As of 31 December 2019, the total investment portfolio, which was in time deposits, amounted to \$8 million (\$6 million – 2018).

### **IV. TRUST FUNDS AND COFINANCING UNDER ADMINISTRATION**

Trust funds and project-specific loans and grants are key instruments to mobilize and channel financial resources from external sources to finance TA and components of investment projects. They play an important role in complementing ADB's own resources. Multilateral, bilateral, public and private sector partners have contributed about \$9,111 million in grants and loans to ADB operations. In 2019, ADB-approved projects for sovereign cofinancing under administration totaled \$1,013 million, comprising \$786 million for 23 investment projects and \$227 million for 108 TA projects. Administered sovereign cofinancing commitments amounted to \$726 million, composed of \$507 million for 22 investment projects and \$219 million for 112 TA projects. Nonsovereign loan cofinancing commitments amounted to \$6,968 million for 28 projects. By the end of 2019, ADB was administering 45 trust funds, comprising 31 stand-alone trust funds, and 14 trust funds established under financing partnership facilities. Of these, 33 have balances totaling \$451 million. Additional contributions from external partners totaled \$399 million in 2019, comprising \$31 million in new commitments, \$295 million in replenishments to existing trust funds, and \$73 million in additional allocation from global funding initiatives.

**Japan Fund for Poverty Reduction.** The Government of Japan established the JFPR in May 2000 to provide grants for projects supporting poverty reduction and related social development activities that add value to projects financed by ADB. In 2010, the JFPR expanded its scope of grant assistance to provide TA grants in addition to project grants. At the end of 2019, the JFPR received a total of \$832 million in contributions from the Government of Japan and funded 188 grant projects and 271 technical assistance projects since 2000.

**Japan Scholarship Program.** The Government of Japan established the JSP in 1988 to provide an opportunity for well-qualified citizens of DMCs to undertake postgraduate studies in economics, management, science and technology, and other development-related fields at selected educational institutions in Asia and the Pacific. Between 1988 and 2019, the Government



of Japan has contributed \$187 million to the JSP, and 3,917 scholarships were awarded to recipients from 37 member countries. Of the total, 3,565 have completed their courses. Women have received 1,515 scholarships. An average of 137 new scholarships per year has been awarded since 2009. At the end of 2019, JSP has 25 participating institutions in 9 countries.

Table 23 shows the commitments and replenishments provided by financing partners to existing trust funds in 2019.

**Table 23: Schedule of Commitments and Replenishments  
from Financing Partners to Trust Funds during 2019**  
(\$ million)

| <b>Financing partner</b>                              | <b>Trust fund</b>                                                                                                                                                                                                                | <b>Amount</b> |
|-------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|
| Government of Japan                                   | Japan Fund for Poverty Reduction, Japan Fund for the Joint Crediting Mechanism, High Level Technology Fund, Domestic Resource Mobilization Trust Fund, Leading Asia's Private Infrastructure Fund, and Japan Scholarship Program | 157.3         |
| NATO Afghan National Army Trust Fund                  | Afghanistan Infrastructure Trust Fund                                                                                                                                                                                            | 93.0          |
| Government of the Republic of Korea                   | e-Asia and Knowledge Partnership Fund                                                                                                                                                                                            | 16.6          |
| Government of Australia                               | ASEAN Australia Smart Cities Trust Fund and Multi-Donor Trust Fund under the Water Financing Partnership Facility                                                                                                                | 16.0          |
| Government of Ireland                                 | Ireland Trust Fund for Building Climate Change and Disaster Resilience in Small Island Developing States                                                                                                                         | 13.5          |
| Government of the United Kingdom and Northern Ireland | Clean Energy Fund under the Clean Energy Financing Partnership Facility                                                                                                                                                          | 11.8          |
| Government of Sweden                                  | Clean Energy Fund under the Clean Energy Financing Partnership Facility                                                                                                                                                          | 5.7           |
| Government of Norway                                  | Clean Energy Fund under the Clean Energy Financing Partnership Facility                                                                                                                                                          | 3.2           |
| Bill & Melinda Gates Foundation                       | Sanitation Trust Fund under the Water Financing Partnership Facility                                                                                                                                                             | 3.0           |
| Government of Germany                                 | Cities Development Initiative for Asia Trust Fund                                                                                                                                                                                | 2.2           |
| Government of Spain                                   | Spanish Cooperation Fund for Technical Assistance                                                                                                                                                                                | 1.7           |
| Government of France                                  | Cooperation Fund for Project Preparation in the Greater Mekong Subregion and in Other Specific Asian Countries                                                                                                                   | 1.1           |
| Government of Switzerland                             | Cities Development Initiative for Asia Trust Fund                                                                                                                                                                                | 0.6           |

Additional allocations from global funding initiatives comprised \$75 million from the Green Climate Fund, \$83 million from the Climate Investment Funds, \$20 million from Women Entrepreneurs Finance Initiative, and \$0.3 million from Global Environment Facility as well as cancellations and savings from closed projects amounting to \$105 million from Global Environment Facility and Climate Investment Funds.

**Table 24: Schedule of Cumulative Contributions from External Sources  
Administered by Asian Development Bank  
as of 31 December 2019**  
(\$ million)

| Item                                | Amount         | Item                                                                | Amount                |
|-------------------------------------|----------------|---------------------------------------------------------------------|-----------------------|
| <b>Bilateral Partners</b>           |                | <b>Multilateral Partners</b>                                        |                       |
| Australia                           | 934.7          | Asian Infrastructure Investment Bank                                | 73.9                  |
| Austria                             | 22.9           | Association of Southeast Asian Nations                              | 0.6                   |
| Belgium                             | 16.3           | Cities Alliance                                                     | 0.5                   |
| Brunei Darussalam                   | 0.3            | Clean Technology Fund                                               | 944.5                 |
| Canada                              | 398.7          | Commonwealth Secretariat                                            | 0.0                   |
| China, People's Republic of         | 90.0           | GEF/Least Developed Countries Fund                                  | 14.5                  |
| Denmark                             | 32.3           | GEF/Special Climate Change Fund                                     | 11.0                  |
| European Community                  | 435.1          | Global Agriculture and Food Security Program                        | 63.5                  |
| Finland                             | 53.3           | Global Environment Facility                                         | 253.9                 |
| France                              | 40.3           | Global Partnership for Education Fund                               | 1.2                   |
| Germany                             | 120.9          | Global Road Safety Partnership                                      | 0.2                   |
| India                               | 0.9            | Green Climate Fund                                                  | 296.3                 |
| Ireland                             | 15.7           | International Federation of Red Cross<br>and Red Crescent Societies | 1.5                   |
| Italy                               | 2.2            | International Fund for Agricultural Development                     | 0.9                   |
| Japan                               | 1,858.5        | Islamic Financial Services Board                                    | 0.5                   |
| Korea, Republic of                  | 141.8          | Nordic Development Fund                                             | 47.4                  |
| Luxembourg                          | 8.3            | Partnership for Market Readiness                                    | 0.3                   |
| The Netherlands                     | 373.0          | Public Private Infrastructure Advisory Facility                     | 1.3                   |
| New Zealand                         | 59.4           | Strategic Climate Fund                                              | 431.7                 |
| Norway                              | 249.9          | Trust Fund for Forest                                               | 13.2                  |
| Portugal                            | 0.6            | United Nations Development Programme                                | 0.4                   |
| Singapore                           | 4.5            | Other                                                               | 0.5                   |
| Spain                               | 36.2           | Sub-Total                                                           | <u>2,157.8</u>        |
| Sweden                              | 250.4          |                                                                     |                       |
| Switzerland                         | 66.9           | Bill and Melinda Gates Foundation                                   | 20.0                  |
| Taipei, China                       | 0.5            | Credit Suisse                                                       | 0.1                   |
| United Kingdom and Northern Ireland | 1,213.8        | ENECO Energy Trade B.V.                                             | 11.6                  |
| United States                       | <u>466.0</u>   | Hewlett Foundation                                                  | 0.3                   |
| Sub-Total                           | <u>6,893.4</u> | JPMorgan Chase Foundation                                           | 1.3                   |
|                                     |                | Korea Energy Agency                                                 | 0.2                   |
|                                     |                | Korean Energy Management Corporation                                | 0.2                   |
|                                     |                | POSCO                                                               | 20.0                  |
|                                     |                | The Rockefeller Foundation                                          | 5.0                   |
|                                     |                | Other                                                               | 1.1                   |
|                                     |                | Sub-Total                                                           | <u>59.8</u>           |
| <b>Grand Total</b>                  |                |                                                                     | <u><u>9,111.0</u></u> |

Note: Numbers may not sum precisely because of rounding.

Excludes capital contributions to Credit Guarantee and Investment Facility (CGIF).

**ORDINARY CAPITAL RESOURCES**  
**CONDENSED MANAGEMENT REPORTING BALANCE SHEETS**  
**as of 31 December 2019 and 2018**

(\$ million)

| Item                                               | 2019                         |                          | 2018                          |                               |
|----------------------------------------------------|------------------------------|--------------------------|-------------------------------|-------------------------------|
|                                                    | Statutory<br>Reporting Basis | Adjustments <sup>a</sup> | Management<br>Reporting Basis | Management<br>Reporting Basis |
| Due from banks                                     | 1,235                        | —                        | 1,235                         | 1,148                         |
| Investments for liquidity purpose                  | 39,312                       | —                        | 39,312                        | 35,215                        |
| Securities transferred under repurchase agreements | 186                          | —                        | 186                           | 87                            |
| Securities purchased under resale arrangements     | 235                          | —                        | 235                           | 343                           |
| Loans outstanding — operations                     | 114,389                      | —                        | 114,389                       | 106,405                       |
| Equity investments — operations                    | 1,619                        | (503)                    | 1,116                         | 1,029                         |
| Other debt securities — operations                 | 755                          | —                        | 755                           | 618                           |
| Derivative Assets                                  |                              |                          |                               |                               |
| Borrowings                                         | 33,482                       | (1,893)                  | 31,589                        | 24,629                        |
| Investments for liquidity purpose                  | 16,053                       | (117)                    | 15,936                        | 11,641                        |
| Loans — operations                                 | 13,084                       | (1,129)                  | 11,955                        | 8,176                         |
| Accrued interest receivable                        | 746                          | —                        | 746                           | 757                           |
| Other assets                                       | 770                          | 182                      | 952                           | 865                           |
| <b>TOTAL</b>                                       | <b>221,866</b>               | <b>(3,460)</b>           | <b>218,406</b>                | <b>190,913</b>                |
| Borrowings and accrued interest                    | 104,996                      | (1,756)                  | 103,240                       | 90,907                        |
| Derivative Liabilities                             |                              |                          |                               |                               |
| Borrowings                                         | 33,430                       | (261)                    | 33,169                        | 27,315                        |
| Investments for liquidity purpose                  | 15,988                       | (125)                    | 15,863                        | 11,752                        |
| Loans — operations                                 | 13,151                       | (1,072)                  | 12,079                        | 8,256                         |
| Payable under securities repurchase agreements     | 191                          | —                        | 191                           | 84                            |
| Payable for swap related collateral                | 298                          | —                        | 298                           | 118                           |
| Accounts payable and other liabilities             | 1,894                        | —                        | 1,894                         | 1,255                         |
| <b>Total Liabilities</b>                           | <b>169,948</b>               | <b>(3,214)</b>           | <b>166,734</b>                | <b>139,686</b>                |
| Paid-in capital                                    | 7,175                        | 182                      | 7,357                         | 7,387                         |
| Net notional maintenance of value receivable       | (1,520)                      | —                        | (1,520)                       | (1,538)                       |
| Ordinary reserve                                   | 43,939                       | 2                        | 43,941                        | 43,442                        |
| Special reserve                                    | 408                          | —                        | 408                           | 384                           |
| Loan loss reserve                                  | 225                          | —                        | 225                           | 201                           |
| Surplus                                            | 1,065                        | —                        | 1,065                         | 1,065                         |
| Cumulative revaluation adjustments account         | (271)                        | 271                      | —                             | —                             |
| Unallocated net income <sup>b</sup>                | 1,530                        | (461)                    | 1,069                         | 865                           |
| Accumulated other comprehensive income (loss)      | (633)                        | (240)                    | (873)                         | (579)                         |
| <b>Total Equity</b>                                | <b>51,918</b>                | <b>(246)</b>             | <b>51,672</b>                 | <b>51,227</b>                 |
| <b>TOTAL</b>                                       | <b>221,866</b>               | <b>(3,460)</b>           | <b>218,406</b>                | <b>190,913</b>                |

— = nil, ( ) = negative.

<sup>a</sup> Unrealized gains or losses from fair value changes associated with certain financial instruments, unrealized proportionate share of income or loss from equity investments accounted for under equity method, and nonnegotiable and noninterest-bearing demand obligations on account of subscribed capital.

<sup>b</sup> After appropriation of guarantee fees to the Special Reserve.

## **GOVERNANCE AND ADMINISTRATION**

The Charter provides that ADB shall have a Board of Governors, a Board of Directors, a President, one or more Vice-Presidents and such other officers and staff as may be considered necessary. All the powers of ADB are vested in the Board of Governors, which consists of one Governor and one Alternate appointed by each member. The Board of Governors holds an annual meeting and such other meetings as may be provided for by the Board of Governors or called by the Board of Directors.

The responsibility for the direction of the general operations of ADB rests with the Board of Directors, the members of which serve full-time at ADB's principal office. The Board of Directors has 12 members, of whom eight are elected by the Governors representing regional members and four are elected by the Governors representing non-regional members. The Board of Governors has delegated to the Board of Directors all its powers except those whose delegation are expressly prohibited by the Charter. Each Director is entitled to cast the number of votes that counted toward his or her election, which votes need not be cast as a unit. Directors hold office for a term of two years and may be reelected. Each Director appoints an Alternate Director to act in such Director's absence.

Matters before the Board of Governors or the Board of Directors are decided by a majority of the voting power of the members represented at the meeting, except in certain cases provided in the Charter in which a higher percentage is required.

The President, who must be a national of a regional member, is elected by the Board of Governors. The President is elected for a 5-year term and may be reelected. The President is the Chairman of the Board of Directors but has no vote except a deciding vote in the case of an equal division of votes. The President is the legal representative of ADB. The President is the chief of the staff of the ADB and conducts, under the direction of the Board of Directors, the current business of ADB. The President is responsible for the organization, appointment and dismissal of the officers and staff in accordance with regulations adopted by the Board of Directors.

The Vice-Presidents are appointed by the Board of Directors on the recommendation of the President. ADB currently has six Vice-Presidents. Each Vice-President holds office for such term, exercises such authority and performs such functions in the administration of ADB as may be determined by the Board of Directors. In the absence or incapacity of the President, the ranking Vice-President (otherwise and usually known as the most senior vice-president) exercises the authority and performs the functions of the President.

The Board of Directors has established an Audit Committee, a Budget Review Committee, a Board Compliance Review Committee, a Development Effectiveness Committee, an Ethics Committee, and a Human Resources Committee. The President, in consultation with the Board of Directors, appoints the members and designates the chair of the committees. Efforts are made to have balanced representation in committees taking into consideration the economic and geographic diversity of the members of ADB. Except for the Ethics Committee which has 5 members, all Board committees have 6 members.

### **Audit Committee**

The Audit Committee was established to assist the Board of Directors in carrying out its responsibilities as they relate to ADB's financial reporting and audits, including internal controls and risk management.

The Audit Committee assists the Board of Directors in overseeing ADB's finances, accounting, internal control and risk management, anticorruption and integrity, and how these are being managed and how accountabilities are enforced. It is tasked to ensure that ADB's financial reporting and audits, including internal control and risk management, are adequate and efficient.

### **Budget Review Committee**

The Budget Review Committee was established to enhance the effectiveness of the Board of Directors in discharging its responsibilities in connection with the approval of the annual administrative budget.

The Budget Review Committee reviews the proposed annual administrative budget, taking into account the mid-year review of the current administrative budget, and considers any other aspect of the administrative budget as the President may request and reports its findings to the Board of Directors.

### **Board Compliance Review Committee**

The Board Compliance Review Committee was established under ADB's Accountability Mechanism Policy. The committee's responsibilities include: (i) approving the Compliance Review Panel's (CRP) terms of reference for compliance review, (ii) reviewing the CRP's draft reports, (iii) deciding on monitoring time frames, (iv) reviewing and endorsing the work plan and budget of the CRP and the Office of the CRP, (v) overseeing the selection and appointment of CRP members, in consultation with the ADB President, (vi) engaging in dialogue with ADB Management, following a member country's refusal of site visits for the CRP, on the reasons behind such refusal, should this adverse situation arise, and (vii) serving as the Board of Directors' focal point for the CRP's communication and dialogue with the Board on the Accountability Mechanism.

### **Development Effectiveness Committee**

The Development Effectiveness Committee was established to assist the Board of Directors in carrying out its responsibility of ensuring that ADB's programs and activities achieve development effectiveness. Development effectiveness is assessed through ADB's operations evaluation. The Development Effectiveness Committee focuses increasingly on broader evaluations at the country, sector, thematic, and policy levels.

The Development Effectiveness Committee is expected to satisfy itself that ADB's operations evaluation activities are adequate and efficient. In this regard, the responsibilities that the Development Effectiveness Committee carries out on behalf of the Board of Directors are as follows: (i) recommend to the Board of Directors, jointly with the President, the person to be considered by the Board of Directors for appointment as Director General of ADB's Independent Evaluation Department (IED), subject to the terms and conditions approved by the Board of Directors; (ii) advise IED in the preparation of an annual IED work program that the Development Effectiveness Committee can endorse to the Board of Directors for approval; (iii) advise IED in the preparation of an annual budget proposal that the Development Effectiveness Committee can endorse for review by the Budget Review Committee; (iv) review all IED reports and discuss selected major reports, as well as Management responses to any report; (v) monitor and evaluate

the actions taken by ADB on the recommendations in the IED reports accepted by Management and endorsed by the Development Effectiveness Committee to the Board of Directors; (vi) report to the Board of Directors on selected development effectiveness issues that have a significant bearing towards the achievement of ADB's overarching goal of poverty reduction, and make recommendations on such issues to the Board of Directors; (vii) monitor and report to the Board of Directors on the implementation of its decisions; (viii) review the annual report on evaluation activities; and (ix) review the annual report on loan and technical assistance portfolio performance.

### **Ethics Committee**

The Ethics Committee was created to address matters of ethics that may arise under the Code of Conduct adopted by the Board of Directors on 21 November 2006, and which was most recently amended on 14 January 2020. The provisions of the Code of Conduct apply to all members of the Board of Directors (Directors, Alternate Directors, and temporary Alternate Directors) and to the President.

The Ethics Committee shall consider: (a) requests from Directors, Alternate Directors or the President for guidance concerning possible actual or potential conflicts of interest, or other ethical aspects of conduct in respect of Directors, Alternate Directors or the President, and provide advice in response thereto; and (b) allegations of misconduct against Directors, Alternate Directors or the President that relate to the performance of official duties or actions that affect their performance of official duties, whether such actions are taken prior to, during, or, with respect to any applicable restrictions on future employment or disclosure of information, subsequent to their terms of service as Directors, Alternate Directors or President, and make recommendations to the Board of Directors with respect thereto.

### **Human Resources Committee**

The Human Resources Committee is a means by which the Board of Directors can provide guidance on human resources management. Its primary responsibility includes reviewing, monitoring and making recommendations to the Board of Directors on ADB's human resources strategies and policies.

*Board of Directors*

Set forth below are the members of the Board of Directors of ADB, their Alternates, and the members they represent as of 24 April 2020:

| <b>Directors</b>        | <b>Alternate Directors</b> | <b>Members Represented</b>                                                                                                                  |
|-------------------------|----------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|
| In-chang Song           | Yu-Peng (James) Tseng      | Republic of Korea; Papua New Guinea; Sri Lanka; Taipei, China; Uzbekistan; Vanuatu; Viet Nam                                                |
| Paul Dominguez          | Shahid Mahmood             | Kazakhstan; Maldives; Marshall Islands; Mongolia; Pakistan; Philippines; Timor-Leste                                                        |
| Kris Panday             | Leena Viljanen             | Canada; Denmark; Finland; Ireland; The Netherlands; Norway; Sweden                                                                          |
| Tony McDonald           | Scott Dawson               | Australia, Azerbaijan; Cambodia; Georgia; Hong Kong, China; Kiribati; Federated States of Micronesia; Nauru; Palau; Solomon Islands; Tuvalu |
| Syurkani Ishak Kasim    | Karen Murray               | Armenia; Cook Islands; Fiji; Indonesia; Kyrgyz Republic; New Zealand; Niue; Samoa; Tonga                                                    |
| Zhijun Cheng            | Jin Lu                     | People's Republic of China                                                                                                                  |
| Vacant                  | Jason Chung                | United States                                                                                                                               |
| Warotai Kosolpisitkul   | Yuemin Li-Misra            | Brunei Darussalam; Malaysia; Myanmar; Nepal; Singapore; Thailand                                                                            |
| Pierre-Emmanuel Beluche | Enrique Galan              | Belgium; France; Italy; Portugal; Spain; Switzerland                                                                                        |
| Vacant                  | Bayrammuhammet Garayev     | Afghanistan; Bangladesh; Bhutan; India; Lao People's Democratic Republic; Tajikistan; Turkmenistan                                          |
| Helmut Fischer          | Burak Muezzinoglu          | Austria; Germany; Luxembourg; Turkey; United Kingdom                                                                                        |
| Takeshi Kurihara        | Kenzo Ohe                  | Japan                                                                                                                                       |

*Principal Officers*

The principal officers of ADB are as follows:

|                                                                                  |                       |
|----------------------------------------------------------------------------------|-----------------------|
| President                                                                        | Masatsugu Asakawa     |
| Vice-President (Operations 1)                                                    | Shixin Chen           |
| Vice-President (Operations 2)                                                    | Ahmed Saeed           |
| Vice-President (Private Sector Operations and<br>Public-Private Partnerships)    | Diwakar Gupta         |
| Vice-President (Knowledge Management and<br>Sustainable Development)             | Bambang Susantono     |
| Vice-President (Finance and Risk Management)                                     | Ingrid van Wees       |
| Vice-President (Administration and Corporate Management)                         | Deborah Stokes        |
| The Secretary                                                                    | Eugene Zhukov         |
| General Counsel                                                                  | Vacant                |
| Director General, Budget, Personnel and Management<br>Systems Department         | Yasuo Takamura        |
| Director General, Central and West Asia Department                               | Werner Liepach        |
| Director General, East Asia Department                                           | James Lynch           |
| Director General, Independent Evaluation Department                              | Marvin Taylor-Dormond |
| Director General, Pacific Department                                             | Leah Gutierrez        |
| Director General, Private Sector Operations Department                           | Michael Barrow        |
| Director General, Procurement, Portfolio, and Financial<br>Management Department | Risa Zhijia Teng      |
| Director General, South Asia Department                                          | Vacant                |
| Director General, Southeast Asia Department                                      | Ramesh Subramaniam    |



|                                                                                             |                     |
|---------------------------------------------------------------------------------------------|---------------------|
| Director General, Strategy, Policy and Partnerships Department                              | Tomoyuki Kimura     |
| Director General, Sustainable Development and Climate Change Department                     | WooChong Um         |
| Chief Economist and Director General, Economic Research and Regional Cooperation Department | Yasuyuki Sawada     |
| Principal Director, Office of Administrative Services                                       | Lakshmi Menon       |
| Principal Director, Information Technology Department                                       | Shirin Hamid        |
| Principal Director, Department of Communications                                            | Vicky C.L. Tan      |
| Treasurer                                                                                   | Pierre Van Peteghem |
| Controller                                                                                  | Chai Sun Kim        |
| Auditor General                                                                             | Hock-Chye Ong       |
| Head, Office of Anticorruption and Integrity                                                | John Versantvoort   |
| Head, Office of Risk Management                                                             | Vacant              |
| Head, Office of Public-Private Partnership                                                  | Yoji Morishita      |

## THE CHARTER

The Charter is ADB's governing constitution. It establishes the status, immunities, exemptions, and privileges of ADB, describes its purposes, capital structure and organization, authorizes the operations in which it may engage and prescribes limitations on the carrying out of those operations. The Charter also contains, among other things, provisions with respect to the admission of additional members, increases of the authorized capital stock, the terms and conditions under which ADB may make or guarantee loans, the use of currencies held by it, the withdrawal and suspension of members and the suspension and termination of ADB's operations.

Under the Charter, membership in ADB is open to (i) members and associate members of the United Nations Economic and Social Commission for Asia and the Pacific, and (ii) other regional countries and non-regional developed countries which are members of the United Nations or of any of its specialized agencies. Within the foregoing limitations, new members may be admitted upon the affirmative vote of two-thirds of the total number of Governors representing not less than three-fourths of the total voting power of the members.

The Charter provides that no new membership subscription shall be authorized which would have the effect of reducing the aggregate of capital stock held by regional members below 60% of the total subscribed capital stock. Although any member may withdraw from ADB by delivering written notice, any such member remains liable for all direct and contingent obligations to ADB to which it was subject at the date of delivery of such notice, including its obligations in respect of callable capital. No member has withdrawn from ADB since its establishment.

The Charter may be amended only by resolution of the Board of Governors approved 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. The unanimous agreement of the Board of Governors is required for the approval of any amendment modifying the right to withdraw from ADB, the pre-emptive rights to purchase capital stock or the limitation on liability of members. The Charter provides that any question of interpretation or application of its provisions arising between any member and ADB or between two or more members of ADB, shall be submitted to the Board of Directors for decision. Where the Board of Directors has given a decision relating to interpretation or application of the Charter, any member may require that the question may be referred to the Board of Governors, whose decision shall be final.

## **LEGAL STATUS, PRIVILEGES, AND IMMUNITIES**

The Charter contains provisions which accord to ADB legal status and certain immunities and privileges in the territories of each of its members. Certain provisions are summarized below.

ADB has full juridical personality with capacity to contract, to acquire and dispose of immovable and movable property and to institute legal proceedings. Unless it chooses to waive such immunity, ADB is immune from every form of legal process, except in cases arising out of or in connection with the exercise of its powers to borrow money, to guarantee obligations or to buy and sell or underwrite the sale of securities. In such cases where immunity does not apply, actions may be brought against ADB in a court of competent jurisdiction in the territory of a country in which it has its principal or a branch office, has appointed an agent for accepting service or notice of process, or has issued or guaranteed securities. No action against ADB may be brought by its members or persons acting for, or deriving claims from, its members.

The Governors, Alternate Governors, Executive Directors, Alternate Executive Directors, officers and employees of ADB, including experts performing missions for it, are immune from legal process for acts performed by them in their official capacity, except when ADB waives such immunity.

The property and assets of ADB are immune from all forms of seizure, attachment or execution before the delivery of final judgment against it. Such property and assets are also immune from search, requisition, confiscation, expropriation or any other form of taking or foreclosure by executive or legislative action. Moreover, property and assets of ADB are free from restrictions, regulations, controls and moratoria of any nature to the extent necessary to carry out the purpose and functions of ADB effectively, and subject to the provisions of the Charter. The archives of ADB are inviolable.

ADB and its assets, property, income and its 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.

## **AUDIT FEES**

Deloitte & Touche LLP, Singapore (D&T) served as ADB's independent auditors for the financial years 2019 and 2018. ADB incurred \$2.4 million for financial year 2019 (\$2.4 million for 2018) in professional fees for audit services of D&T and \$ 0.3 million for financial year 2019 (\$0.7 million for 2018) for non-audit services of other D&T offices worldwide pertaining to ADB's technical assistance projects and staff consulting services. No services for financial information systems design and implementation were rendered by D&T to ADB during 2019 and 2018.

D&T also provided audit services to the Asian Development Bank Institute, an organization affiliated with ADB, for which an amount of \$26.2 thousand for financial year 2019 (\$27.5 thousand for 2018) was incurred.

ADB's Audit Committee is satisfied that D&T's provision of non-audit services does not compromise D&T's independence.

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## INDEX TO FINANCIAL STATEMENTS ORDINARY CAPITAL RESOURCES

|                                                                                                                     | Page |
|---------------------------------------------------------------------------------------------------------------------|------|
| Management's Report on Internal Control over Financial Reporting. . . . .                                           | 63   |
| Independent Auditor's Report on Internal Control over Financial Reporting . . . . .                                 | 64   |
| Independent Auditor's Report on Financial Statements . . . . .                                                      | 66   |
| Balance Sheet – 31 December 2019 and 2018                                                                           |      |
| OCR-1 . . . . .                                                                                                     | 68   |
| Statement of Income and Expenses for the Years Ended 31 December 2019 and 2018                                      |      |
| OCR-2 . . . . .                                                                                                     | 70   |
| Statement of Comprehensive Income for the Years Ended 31 December 2019<br>and 2018 OCR-3 . . . . .                  | 71   |
| Statement of Changes in Equity for the Years Ended 31 December 2019<br>and 2018 OCR-4 . . . . .                     | 72   |
| Statement of Cash Flows for the Years Ended 31 December 2019 and 2018                                               |      |
| OCR-5 . . . . .                                                                                                     | 73   |
| Summary Statement of Loans - Operations – 31 December 2019 and 2018                                                 |      |
| OCR-6 . . . . .                                                                                                     | 74   |
| Summary Statement of Borrowings – 31 December 2019 and 2018                                                         |      |
| OCR-7 . . . . .                                                                                                     | 76   |
| Statement of Subscriptions to Capital Stock and Voting Power – 31 December 2019                                     |      |
| OCR-8 . . . . .                                                                                                     | 78   |
| Supplementary Information on the Transfer of ADF Loans and Other Assets to OCR<br>on 1 January 2017 OCR-9 . . . . . | 80   |
| Notes to Financial Statements – 31 December 2019 and 2018                                                           |      |
| OCR-10. . . . .                                                                                                     | 82   |

**These financial statements were noted by ADB's Board of Directors on 22 April 2020. They are subject to the approval of ADB's Board of Governors at the ADB's Annual Meeting. The ADB Annual Meeting will be conducted in two stages comprising a reduced-scale meeting of ADB's Board of Governors to approve these financial statements, scheduled to be held in Manila, Philippines on or about 22 May 2020. The meeting of ADB's Board of Governors will be reconvened to address the remaining agenda, which is scheduled to be held in Incheon, Republic of Korea on or about 18 to 21 September 2020.**

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## ORDINARY CAPITAL RESOURCES

### MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Asian Development Bank ("ADB") is responsible for designing, implementing, and maintaining effective internal control over financial reporting. ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with generally accepted accounting principles in the United States of America.

ADB's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (iii) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

ADB's management assessed the effectiveness of ADB's internal control over financial reporting as of 31 December 2019, based on the criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, management concluded that, as of 31 December 2019, ADB's internal control over financial reporting is effective based on the criteria established in *Internal Control – Integrated Framework (2013)*.



Masatsugu Asakawa  
President



Ingrid van Wees  
Vice President (Finance and Risk Management)



Chai S. Kim  
Controller

6 March 2020



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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Board of Directors and the Board of Governors of Asian Development Bank**

We have audited the internal control over financial reporting of Asian Development Bank ("ADB") as of December 31, 2019, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

#### **Management's Responsibility for Internal Control over Financial Reporting**

ADB's management is responsible for designing, implementing, and maintaining effective internal control over financial reporting, and for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on ADB's internal control over financial reporting based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

An audit of internal control over financial reporting involves performing procedures to obtain audit evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risks that a material weakness exists. An audit includes obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.





## Definition and Inherent Limitations of Internal Control over Financial Reporting

ADB's internal control over financial reporting is a process designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. ADB's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of ADB; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of ADB are being made only in accordance with authorizations of management and directors of ADB; and (3) provide reasonable assurance regarding prevention or timely detection and correction, of unauthorized acquisition, use, or disposition of ADB's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

## Opinion

In our opinion, ADB maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

## Report on Financial Statements

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the accompanying balance sheets of Asian Development Bank ("ADB") – Ordinary Capital Resources as of December 31, 2019 and 2018, and the related statements of income and expenses, comprehensive income, changes in equity and cash flows for the years then ended and the related notes to the financial statements. Our report dated March 6, 2020 expressed an unmodified opinion on those financial statements.

Public Accountants and  
Chartered Accountants  
Singapore

March 6, 2020



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## **INDEPENDENT AUDITOR'S REPORT**

### **To the Board of Directors and the Board of Governors of Asian Development Bank**

We have audited the accompanying financial statements of Asian Development Bank ("ADB") – Ordinary Capital Resources, which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of income and expenses, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

#### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

#### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



## Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of ADB - Ordinary Capital Resources as of December 31, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Internal Control over Financial Reporting

We have also audited, in accordance with auditing standards generally accepted in the United States of America, ADB's internal control over financial reporting as of December 31, 2019, based on the criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 6, 2020 expressed an unmodified opinion on ADB's internal control over financial reporting.

## Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplemental schedules of summary statement of loans – operations and summary statement of borrowings as of December 31, 2019 and 2018, and statement of subscriptions to capital stock and voting power as of December 31, 2019, and the supplementary information on the transfer of ADF loans and other assets to OCR on January 1, 2017, are presented for the purpose of additional analysis and are not a required part of the financial statements. These schedules are the responsibility of ADB's management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements.

Such schedules have been subjected to the auditing procedures applied in our audits of the financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the financial statements as a whole.

Public Accountants and  
Chartered Accountants  
Singapore

March 6, 2020

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES  
BALANCE SHEET**

**31 December 2019 and 2018**

Expressed in Millions of US Dollars

| <b>ASSETS</b>                                                                                                                                                   |               |                  |               |                  |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|------------------|---------------|------------------|
|                                                                                                                                                                 | <b>2019</b>   |                  | <b>2018</b>   |                  |
| DUE FROM BANKS (Notes C and R)                                                                                                                                  |               | \$ 1,235         |               | \$ 1,148         |
| INVESTMENTS FOR LIQUIDITY PURPOSE<br>(Notes D, J, O, and R)                                                                                                     |               |                  |               |                  |
| Government or government-guaranteed obligations                                                                                                                 | \$32,677      |                  | \$28,554      |                  |
| Time deposits                                                                                                                                                   | 4,394         |                  | 5,195         |                  |
| Other securities                                                                                                                                                | <u>2,241</u>  | 39,312           | <u>1,466</u>  | 35,215           |
| SECURITIES TRANSFERRED UNDER<br>REPURCHASE AGREEMENTS (Notes D, E, and R)                                                                                       |               | 186              |               | 87               |
| SECURITIES PURCHASED UNDER<br>RESALE ARRANGEMENTS (Notes D and R)                                                                                               |               | 235              |               | 343              |
| LOANS OUTSTANDING — OPERATIONS<br>(OCR-6, Notes A, F, J, R, T, and U) (Including net<br>unamortized loan origination costs of \$143 – 2019<br>and \$124 – 2018) |               |                  |               |                  |
| Sovereign                                                                                                                                                       |               |                  |               |                  |
| Regular                                                                                                                                                         | 78,972        |                  | 72,569        |                  |
| Concessional                                                                                                                                                    | <u>29,377</u> |                  | <u>28,633</u> |                  |
|                                                                                                                                                                 | 108,349       |                  | 101,202       |                  |
| Nonsovereign                                                                                                                                                    | <u>6,300</u>  |                  | <u>5,439</u>  |                  |
|                                                                                                                                                                 | 114,649       |                  | 106,641       |                  |
| Less—allowance for loan losses                                                                                                                                  | <u>260</u>    | 114,389          | <u>236</u>    | 106,405          |
| EQUITY INVESTMENTS — OPERATIONS<br>(Notes A, H, R, T, and U)                                                                                                    |               | 1,619            |               | 1,280            |
| OTHER DEBT SECURITIES — OPERATIONS<br>(Notes I, R, and U)                                                                                                       |               | 755              |               | 618              |
| ACCRUED INTEREST RECEIVABLE                                                                                                                                     |               |                  |               |                  |
| Investments for liquidity purpose                                                                                                                               | 156           |                  | 126           |                  |
| Loans — Operations                                                                                                                                              | 581           |                  | 624           |                  |
| Other debt securities — Operations                                                                                                                              | <u>9</u>      | 746              | <u>7</u>      | 757              |
| DERIVATIVE ASSETS (Notes J, L, and R)                                                                                                                           |               |                  |               |                  |
| Borrowings                                                                                                                                                      | 33,482        |                  | 25,185        |                  |
| Investments for liquidity purpose                                                                                                                               | 16,053        |                  | 11,704        |                  |
| Loans — Operations                                                                                                                                              | <u>13,084</u> | 62,619           | <u>8,611</u>  | 45,500           |
| OTHER ASSETS                                                                                                                                                    |               |                  |               |                  |
| Property, furniture, and equipment (Note K)                                                                                                                     | 242           |                  | 179           |                  |
| Investment related receivables                                                                                                                                  | 10            |                  | —             |                  |
| Swap related collateral (Notes J and R)                                                                                                                         | 298           |                  | 118           |                  |
| Miscellaneous (Notes G, P, and R)                                                                                                                               | <u>220</u>    | 770              | <u>210</u>    | 507              |
| <b>TOTAL</b>                                                                                                                                                    |               | <b>\$221,866</b> |               | <b>\$191,860</b> |

The accompanying Notes are an integral part of these financial statements (OCR-10).

| LIABILITIES AND EQUITY                                                                                 |                |                  |                |                  |
|--------------------------------------------------------------------------------------------------------|----------------|------------------|----------------|------------------|
|                                                                                                        | 2019           |                  | 2018           |                  |
| BORROWINGS (OCR-7, Notes J, L, and R)                                                                  |                |                  |                |                  |
| At amortized cost                                                                                      | \$ 2,275       |                  | \$ 3,010       |                  |
| At fair value                                                                                          | <u>102,721</u> | \$104,996        | <u>87,413</u>  | \$ 90,423        |
| DERIVATIVE LIABILITIES (Notes J, L, and R)                                                             |                |                  |                |                  |
| Borrowings                                                                                             | 33,430         |                  | 28,428         |                  |
| Investments for liquidity purpose                                                                      | 15,988         |                  | 11,823         |                  |
| Loans — Operations                                                                                     | <u>13,151</u>  | 62,569           | <u>8,745</u>   | 48,996           |
| PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS (Notes E and R)                                         |                | 191              |                | 84               |
| ACCOUNTS PAYABLE AND OTHER LIABILITIES                                                                 |                |                  |                |                  |
| Investment related payables                                                                            | 10             |                  | 106            |                  |
| Swap related collateral (Notes J and R)                                                                | 298            |                  | 118            |                  |
| Accrued pension and postretirement medical benefit costs (Note Q)                                      | 1,631          |                  | 977            |                  |
| Miscellaneous (Notes G, K, P, and R)                                                                   | <u>253</u>     | 2,192            | <u>172</u>     | 1,373            |
| TOTAL LIABILITIES                                                                                      |                | <u>169,948</u>   |                | <u>140,876</u>   |
| EQUITY (OCR-4)                                                                                         |                |                  |                |                  |
| Capital stock (OCR-8, Note M)                                                                          |                |                  |                |                  |
| Authorized and subscribed (SDR106,391 – 2019 and SDR106,389 – 2018)                                    | 147,120        |                  | 147,965        |                  |
| Less—"callable" shares subscribed (SDR101,060 – 2019 and SDR101,058 – 2018)                            | <u>139,748</u> |                  | <u>140,550</u> |                  |
| "Paid-in" shares subscribed (SDR5,331 – 2019 and 2018)                                                 | 7,372          |                  | 7,415          |                  |
| Less—discount                                                                                          | <u>15</u>      |                  | <u>15</u>      |                  |
|                                                                                                        | 7,357          |                  | 7,400          |                  |
| Nonnegotiable, noninterest-bearing demand obligations and receivables on account of subscribed capital | <u>(182)</u>   | 7,175            | <u>(371)</u>   | 7,029            |
| Net notional amounts required to maintain value of currency holdings (Note M)                          | (1,520)        |                  | (1,538)        |                  |
| Ordinary reserve (Note N)                                                                              |                |                  |                |                  |
| From ADF assets transfer (OCR-9, Notes A and N)                                                        | \$30,748       |                  | \$30,748       |                  |
| From retained earnings                                                                                 | <u>13,191</u>  | 43,939           | <u>12,692</u>  | 43,440           |
| Special reserve (Note N)                                                                               | 408            |                  | 384            |                  |
| Loan loss reserve (Note N)                                                                             | 225            |                  | 201            |                  |
| Surplus (Note N)                                                                                       | 1,065          |                  | 1,065          |                  |
| Cumulative revaluation adjustments account (Note N)                                                    | (271)          |                  | (132)          |                  |
| Net income after appropriation (OCR-4, Note N)                                                         | 1,530          |                  | 726            |                  |
| Accumulated other comprehensive loss (Note N)                                                          | <u>(633)</u>   | 44,743           | <u>(191)</u>   | 43,955           |
| TOTAL EQUITY                                                                                           |                | 51,918           |                | 50,984           |
| <b>TOTAL</b>                                                                                           |                | <b>\$221,866</b> |                | <b>\$191,860</b> |

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF INCOME AND EXPENSES**  
**For the Years Ended 31 December 2019 and 2018**  
Expressed in Millions of US Dollars

|                                                               | <u>2019</u>         | <u>2018</u>         |
|---------------------------------------------------------------|---------------------|---------------------|
| REVENUE (Note O)                                              |                     |                     |
| From loans — operations (Notes F and J)                       |                     |                     |
| Sovereign — Regular                                           | \$ 2,283            | \$ 1,900            |
| Sovereign — Concessional                                      | 568                 | 537                 |
| Nonsovereign                                                  | <u>312</u> \$ 3,163 | <u>275</u> \$ 2,712 |
| From investments for liquidity purpose (Notes D and J)        |                     |                     |
| Interest                                                      | 962                 | 919                 |
| From equity investments — operations                          | 26                  | 12                  |
| From guarantees — operations                                  | 24                  | 24                  |
| From other debt securities — operations                       | 47                  | 27                  |
| From other sources—net (Note S)                               | <u>43</u>           | <u>47</u>           |
| TOTAL REVENUE                                                 | \$ 4,265            | \$ 3,741            |
| EXPENSES (Note O)                                             |                     |                     |
| Borrowings and related expenses (Notes J and L)               | (2,530)             | (2,159)             |
| Administrative expenses (Notes K, N, and Q)                   | (598)               | (591)               |
| Provision for loan losses (Note F)                            | (35)                | (122)               |
| Other expenses                                                | <u>(10)</u>         | <u>(11)</u>         |
| TOTAL EXPENSES                                                | (3,173)             | (2,883)             |
| NET REALIZED GAINS (LOSSES)                                   |                     |                     |
| From investments for liquidity purpose (Notes D, J, N, and O) | 3                   | (20)                |
| From equity investments — operations (Notes N and O)          | 9                   | 90                  |
| From other debt securities — operations                       | <u>16</u>           | <u>(48)</u>         |
| NET REALIZED GAINS                                            | 28                  | 22                  |
| NET UNREALIZED GAINS (LOSSES) (Notes H, J, L, and O)          | 434                 | (130)               |
| <b>NET INCOME</b>                                             | <b>\$ 1,554</b>     | <b>\$ 750</b>       |

The accompanying Notes are an integral part of these financial statements (OCR-10).

## OCR-3

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF COMPREHENSIVE INCOME**  
**For the Years Ended 31 December 2019 and 2018**  
Expressed in Millions of US Dollars

|                                              | <b>2019</b> |                 | <b>2018</b> |               |
|----------------------------------------------|-------------|-----------------|-------------|---------------|
| NET INCOME (OCR-2)                           |             | \$ 1,554        |             | \$ 750        |
| Other comprehensive income (Note N)          |             |                 |             |               |
| Unrealized holding gains (losses):           |             |                 |             |               |
| From investments for liquidity purpose       | \$ 459      |                 | \$ (37)     |               |
| From equity investments — operations         | 9           |                 | (8)         |               |
| From other debt securities — operations      | 3           |                 | —           |               |
| From borrowings                              | (140)       | \$ 331          | 319         | \$ 274        |
| Postretirement benefit liability adjustments |             | (633)           |             | 282           |
| Currency translation adjustments             |             | (140)           | (442)       | (402) 154     |
| <b>COMPREHENSIVE INCOME</b>                  |             | <b>\$ 1,112</b> |             | <b>\$ 904</b> |

The accompanying Notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**
**STATEMENT OF CHANGES IN EQUITY**
**For the Years Ended 31 December 2019 and 2018**

Expressed in Millions of US Dollars

|                                                                 | Capital<br>Stock | Nonnegotiable,<br>Noninterest-<br>bearing<br>Demand<br>Obligations and<br>Receivables | Net Notional<br>Maintenance<br>of Value | Ordinary<br>Reserve | Special<br>Reserve | Loan Loss<br>Reserve | Surplus  | Cumulative<br>Revaluation<br>Adjustments<br>Account | Net Income<br>After<br>Appro-<br>priations | Accumulated<br>Other<br>Compre-<br>hensive<br>Loss | Total     |
|-----------------------------------------------------------------|------------------|---------------------------------------------------------------------------------------|-----------------------------------------|---------------------|--------------------|----------------------|----------|-----------------------------------------------------|--------------------------------------------|----------------------------------------------------|-----------|
| <b>Balance, 31 December 2017</b>                                | \$ 7,563         | \$ (561)                                                                              | \$ (1,564)                              | \$ 43,090           | \$ 361             | \$ 187               | \$ 1,065 | \$ (426)                                            | \$ 753                                     | \$ (199)                                           | \$ 50,269 |
| Cumulative effect adjustment<br>of ASU 2016-01                  |                  |                                                                                       |                                         |                     |                    |                      |          | 245                                                 |                                            | (146)                                              | 99        |
| <b>Balance, 1 January 2018</b>                                  | 7,563            | (561)                                                                                 | (1,564)                                 | 43,090              | 361                | 187                  | 1,065    | (181)                                               | 753                                        | (345)                                              | 50,368    |
| Comprehensive income<br>(OCR-3, Note N)                         |                  |                                                                                       |                                         |                     |                    |                      |          |                                                     | 750                                        | 154                                                | 904       |
| Appropriation of guarantee<br>fees (Note N)                     |                  |                                                                                       |                                         |                     | 24                 |                      |          |                                                     | (24)                                       |                                                    | —         |
| Capital subscriptions                                           | 13               | (13)                                                                                  |                                         |                     |                    |                      |          |                                                     |                                            |                                                    | —         |
| Encashment of demand<br>obligations                             |                  | 185                                                                                   |                                         |                     |                    |                      |          |                                                     |                                            |                                                    | 185       |
| Change in USD value                                             | (176)            | 18                                                                                    | 26                                      |                     |                    |                      |          |                                                     |                                            |                                                    | (132)     |
| Allocation of prior year<br>income (Note N)                     |                  |                                                                                       |                                         | 351                 |                    | 14                   |          | 49                                                  | (414)                                      |                                                    | —         |
| Allocation of prior year<br>income to Special Funds<br>(Note N) |                  |                                                                                       |                                         |                     |                    |                      |          |                                                     | (339)                                      |                                                    | (339)     |
| <b>Balance, 31 December 2018</b>                                | \$ 7,400         | \$ (371)                                                                              | \$ (1,538)                              | \$ 43,440           | \$ 384             | \$ 201               | \$ 1,065 | \$ (132)                                            | \$ 726                                     | \$ (191)                                           | \$ 50,984 |
| Comprehensive income<br>(loss) (OCR-3, Note N)                  |                  |                                                                                       |                                         |                     |                    |                      |          |                                                     | 1,554                                      | (442)                                              | 1,112     |
| Appropriation of guarantee<br>fees (Note N)                     |                  |                                                                                       |                                         |                     | 24                 |                      |          |                                                     | (24)                                       |                                                    | —         |
| Capital subscriptions                                           | 0                | 12                                                                                    |                                         |                     |                    |                      |          |                                                     |                                            |                                                    | 12        |
| Encashment of demand<br>obligations                             |                  | 172                                                                                   |                                         |                     |                    |                      |          |                                                     |                                            |                                                    | 172       |
| Change in USD value                                             | (43)             | 5                                                                                     | 18                                      |                     |                    |                      |          |                                                     |                                            |                                                    | (20)      |
| Allocation of prior year<br>income (Note N)                     |                  |                                                                                       |                                         | 499                 |                    | 24                   |          | (139)                                               | (384)                                      |                                                    | —         |
| Allocation of prior year<br>income to Special Funds<br>(Note N) |                  |                                                                                       |                                         |                     |                    |                      |          |                                                     | (342)                                      |                                                    | (342)     |
| <b>Balance, 31 December 2019</b>                                | \$ 7,357         | \$ (182)                                                                              | \$ (1,520)                              | \$ 43,939           | \$ 408             | \$ 225               | \$ 1,065 | \$ (271)                                            | \$ 1,530                                   | \$ (633)                                           | \$ 51,918 |

Notes: Numbers may not sum precisely because of rounding. 0 = less than \$0.5 million.

ASU = Accounting Standard Update, USD = United States dollar.

The accompanying Notes are an integral part of these financial statements (OCR-10).



**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES****STATEMENT OF CASH FLOWS****For the Years Ended 31 December 2019 and 2018**

Expressed in Millions of US Dollars

|                                                                                                                                           | 2019            | 2018            |
|-------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-----------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                                                                               |                 |                 |
| Interest and other charges received on loans — operations                                                                                 | \$ 3,004        | \$ 2,376        |
| Interest received on investments for liquidity purpose                                                                                    | 881             | 768             |
| Interest received from securities purchased under resale/ repurchase agreement                                                            | 5               | 3               |
| Interest and other charges received on other debt securities — operations                                                                 | 45              | 23              |
| Dividends received on equity investments — operations                                                                                     | 71              | 29              |
| Interest and other financial expenses paid                                                                                                | (2,516)         | (1,854)         |
| Administrative expenses paid                                                                                                              | (572)           | (518)           |
| Others—net                                                                                                                                | 62              | 48              |
| <b>Net Cash Provided by Operating Activities</b>                                                                                          | <b>980</b>      | <b>875</b>      |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                                                                               |                 |                 |
| Sales of investments for liquidity purpose                                                                                                | 5,436           | 1,415           |
| Maturities of investments for liquidity purpose                                                                                           | 205,972         | 245,572         |
| Purchases of investments for liquidity purpose                                                                                            | (215,383)       | (245,905)       |
| Receipts from securities purchased under resale arrangements                                                                              | 53,600          | 48,391          |
| Payments for securities purchased under resale arrangements                                                                               | (53,491)        | (48,564)        |
| Principal collected on loans — operations                                                                                                 | 7,554           | 6,940           |
| Loans — operations disbursed                                                                                                              | (15,458)        | (12,956)        |
| Derivatives—net                                                                                                                           | (49)            | 105             |
| Property, furniture, and equipment acquired                                                                                               | (39)            | (34)            |
| Sales of equity investments — operations                                                                                                  | 12              | 145             |
| Purchases of equity investments — operations                                                                                              | (135)           | (143)           |
| Maturities of other debt securities — operations                                                                                          | 46              | —               |
| Purchases of other debt securities — operations                                                                                           | (161)           | (446)           |
| <b>Net Cash Used in Investing Activities</b>                                                                                              | <b>(12,096)</b> | <b>(5,480)</b>  |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                                                                               |                 |                 |
| Proceeds from new borrowings                                                                                                              | 32,899          | 30,390          |
| Borrowings redeemed                                                                                                                       | (20,423)        | (24,840)        |
| Capital subscriptions collected                                                                                                           | 12              | —               |
| Issuance expenses paid                                                                                                                    | (29)            | 0               |
| Demand obligations of members encashed                                                                                                    | 172             | 185             |
| Derivatives—net                                                                                                                           | (1,093)         | (600)           |
| Change in swap related collateral                                                                                                         | 179             | (123)           |
| Resources transferred to Special Funds                                                                                                    | (342)           | (339)           |
| <b>Net Cash Provided by Financing Activities</b>                                                                                          | <b>11,375</b>   | <b>4,673</b>    |
| Effect of Exchange Rate Changes on Due from Banks                                                                                         | 8               | (6)             |
| <b>Net Increase in Due from Banks</b>                                                                                                     | <b>267</b>      | <b>62</b>       |
| <b>Cash at Beginning of Period</b>                                                                                                        |                 |                 |
| Due from Banks                                                                                                                            | 1,148           | 964             |
| Swap Related Collateral                                                                                                                   | 118             | 240             |
| <b>Total</b>                                                                                                                              | <b>\$ 1,266</b> | <b>\$ 1,204</b> |
| <b>Cash at End of Period</b>                                                                                                              |                 |                 |
| Due from Banks                                                                                                                            | 1,235           | 1,148           |
| Swap Related Collateral                                                                                                                   | 298             | 118             |
| <b>Total</b>                                                                                                                              | <b>\$ 1,533</b> | <b>\$ 1,266</b> |
| <b>RECONCILIATION OF NET INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>                                                         |                 |                 |
| Net Income (OCR-2)                                                                                                                        | \$ 1,554        | \$ 750          |
| Adjustments to reconcile net income to net cash provided by operating activities:                                                         |                 |                 |
| Depreciation and amortization                                                                                                             | (59)            | (80)            |
| Provision for losses charged—net                                                                                                          | 35              | 122             |
| Net realized gains                                                                                                                        | (28)            | (75)            |
| Proportionate share in earnings on equity investments — operations                                                                        | (21)            | (8)             |
| Net unrealized (gains) losses                                                                                                             | (434)           | 130             |
| Change in accrued revenue from loans — operations, investments for liquidity purpose, other debt securities — operations, and other swaps | (204)           | (368)           |
| Change in accrued interest on borrowings and swaps, and other expenses                                                                    | 709             | 41              |
| Change in pension and postretirement benefit liability                                                                                    | (633)           | 282             |
| Others—net                                                                                                                                | 61              | 81              |
| <b>Net Cash Provided by Operating Activities</b>                                                                                          | <b>\$ 980</b>   | <b>\$ 875</b>   |

Note: 0 = less than \$0.5 million.

The accompanying Notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**SUMMARY STATEMENT OF LOANS — OPERATIONS**
**31 December 2019 and 2018**

Expressed in Millions of US Dollars

| Borrowers/Guarantors                        | Loans<br>Outstanding | Undisbursed Committed Loans |                                   | Loans Approved                    |                   | Total<br>Loans | Percent of<br>Total Loans |
|---------------------------------------------|----------------------|-----------------------------|-----------------------------------|-----------------------------------|-------------------|----------------|---------------------------|
|                                             |                      | Effective <sup>1</sup>      | Not Yet<br>Effective <sup>2</sup> | Not Yet<br>Committed <sup>3</sup> |                   |                |                           |
| Afghanistan                                 | \$ 578               | \$ —                        | \$ —                              | \$ —                              | \$ 578            |                | 0.34                      |
| Armenia                                     | 918                  | 335                         | —                                 | 30                                | 1,283             |                | 0.77                      |
| Azerbaijan                                  | 2,539                | 264                         | —                                 | —                                 | 2,803             |                | 1.68                      |
| Bangladesh                                  | 10,036               | 4,903                       | 499                               | 615                               | 16,053            |                | 9.60                      |
| Bhutan                                      | 326                  | 103                         | —                                 | —                                 | 429               |                | 0.26                      |
| Cambodia                                    | 1,448                | 1,011                       | —                                 | —                                 | 2,459             |                | 1.47                      |
| China, People's Republic of                 | 18,860               | 6,785                       | 527                               | 1,007                             | 27,179            |                | 16.25                     |
| Cook Islands                                | 45                   | 22                          | —                                 | —                                 | 67                |                | 0.04                      |
| Fiji                                        | 186                  | 122                         | 65                                | —                                 | 373               |                | 0.22                      |
| Georgia                                     | 1,425                | 940                         | 301                               | 100                               | 2,766             |                | 1.65                      |
| India                                       | 18,959               | 7,083                       | 1,488                             | 94                                | 27,624            |                | 16.51                     |
| Indonesia                                   | 11,829               | 1,771                       | 190                               | 30                                | 13,820            |                | 8.26                      |
| Kazakhstan                                  | 1,977                | 172                         | 100                               | 416                               | 2,665             |                | 1.59                      |
| Kiribati                                    | 25                   | —                           | —                                 | —                                 | 25                |                | 0.01                      |
| Kyrgyz Republic                             | 567                  | 265                         | 74                                | —                                 | 906               |                | 0.54                      |
| Lao People's Democratic Republic            | 1,047                | 219                         | 40                                | —                                 | 1,306             |                | 0.78                      |
| Malaysia                                    | 6                    | —                           | —                                 | —                                 | 6                 |                | 0.00                      |
| Maldives                                    | 80                   | 5                           | —                                 | —                                 | 85                |                | 0.05                      |
| Marshall Islands                            | 48                   | —                           | —                                 | —                                 | 48                |                | 0.03                      |
| Micronesia, Federated States of             | 49                   | —                           | —                                 | —                                 | 49                |                | 0.03                      |
| Mongolia                                    | 1,482                | 805                         | 76                                | 9                                 | 2,372             |                | 1.42                      |
| Myanmar                                     | 863                  | 1,377                       | 230                               | —                                 | 2,470             |                | 1.48                      |
| Nepal                                       | 1,999                | 1,391                       | 308                               | —                                 | 3,698             |                | 2.21                      |
| Pakistan                                    | 12,598               | 3,701                       | —                                 | 329                               | 16,628            |                | 9.94                      |
| Palau                                       | 50                   | 28                          | —                                 | —                                 | 78                |                | 0.05                      |
| Papua New Guinea                            | 1,359                | 669                         | —                                 | —                                 | 2,028             |                | 1.21                      |
| Philippines                                 | 6,660                | 2,617                       | 923                               | —                                 | 10,200            |                | 6.10                      |
| Samoa                                       | 86                   | 3                           | —                                 | —                                 | 89                |                | 0.05                      |
| Solomon Islands                             | 48                   | 25                          | 28                                | —                                 | 101               |                | 0.06                      |
| Sri Lanka                                   | 4,690                | 2,312                       | 150                               | 15                                | 7,167             |                | 4.28                      |
| Tajikistan                                  | 285                  | 57                          | —                                 | —                                 | 342               |                | 0.20                      |
| Thailand                                    | 743                  | 587                         | —                                 | —                                 | 1,330             |                | 0.80                      |
| Timor-Leste                                 | 123                  | 143                         | —                                 | —                                 | 266               |                | 0.16                      |
| Tonga                                       | 29                   | 1                           | —                                 | —                                 | 30                |                | 0.02                      |
| Turkmenistan                                | 97                   | 499                         | —                                 | —                                 | 596               |                | 0.36                      |
| Tuvalu                                      | 3                    | —                           | —                                 | —                                 | 3                 |                | 0.00                      |
| Uzbekistan                                  | 3,962                | 2,316                       | 365                               | 60                                | 6,703             |                | 4.01                      |
| Vanuatu                                     | 52                   | 19                          | —                                 | —                                 | 71                |                | 0.04                      |
| Viet Nam                                    | 8,462                | 3,384                       | 289                               | 111                               | 12,246            |                | 7.32                      |
| Regional                                    | 203                  | 58                          | —                                 | 89                                | 350               |                | 0.21                      |
|                                             | <u>114,742</u>       | <u>43,992</u>               | <u>5,653</u>                      | <u>2,905</u>                      | <u>167,292</u>    |                | <u>100.00</u>             |
| Fair value adjustment on concessional loans | (236)                | —                           | —                                 | —                                 | (236)             |                |                           |
| Allowance for loan losses                   | (260)                | —                           | —                                 | —                                 | (260)             |                |                           |
| Unamortized loan origination cost—net       | 143                  | —                           | —                                 | —                                 | 143               |                |                           |
|                                             | <u>(353)</u>         | <u>—</u>                    | <u>—</u>                          | <u>—</u>                          | <u>(353)</u>      |                |                           |
| <b>TOTAL – 31 December 2019</b>             | <b>\$ 114,389</b>    | <b>\$ 43,992</b>            | <b>\$ 5,653</b>                   | <b>\$ 2,905</b>                   | <b>\$ 166,939</b> |                |                           |

<sup>1</sup> Refer to the unwithdrawn portions of effective loans as of 31 December 2019 and 2018. Of the undisbursed balances, ADB has made irrevocable commitments to disburse regular and concessional sovereign amounts totaling \$668 million (\$635 million – 2018).

<sup>2</sup> Refer to approved loans which loan agreements have been signed but conditions to effectiveness specified in loan regulations and loan agreements are not yet completed as of 31 December 2019 and 2018.

<sup>3</sup> Refer to loans approved which loan agreements have not been signed as of 31 December 2019 and 2018.

## OCR-6

|                                 | Loans<br>Outstanding | Undisbursed Committed Loans |                                   | Loans Approved<br>Not Yet<br>Committed <sup>3</sup> | Total<br>Loans    |
|---------------------------------|----------------------|-----------------------------|-----------------------------------|-----------------------------------------------------|-------------------|
|                                 |                      | Effective <sup>1</sup>      | Not Yet<br>Effective <sup>2</sup> |                                                     |                   |
| Sovereign Loans                 |                      |                             |                                   |                                                     |                   |
| Regular                         | \$ 78,972            | \$ 31,996                   | \$ 4,265                          | \$ 2,112                                            | \$ 117,345        |
| Concessional                    | 29,377               | 9,026                       | 1,388                             | 83                                                  | 39,874            |
| Nonsovereign Loans              | 6,300                | 2,970                       | –                                 | 710                                                 | 9,980             |
|                                 | 114,649              | 43,992                      | 5,653                             | 2,905                                               | 167,199           |
| Allowance for loan losses       | (260)                | –                           | –                                 | –                                                   | (260)             |
| <b>TOTAL – 31 December 2019</b> | <b>\$ 114,389</b>    | <b>\$ 43,992</b>            | <b>\$ 5,653</b>                   | <b>\$ 2,905</b>                                     | <b>\$ 166,939</b> |

|                                 |                   |                  |                 |                 |                   |
|---------------------------------|-------------------|------------------|-----------------|-----------------|-------------------|
| Sovereign Loans                 |                   |                  |                 |                 |                   |
| Regular                         | \$ 72,569         | \$ 31,819        | \$ 3,604        | \$ 2,058        | \$ 110,050        |
| Concessional                    | 28,633            | 8,299            | 1,126           | 1,046           | 39,104            |
| Nonsovereign Loans              | 5,439             | 3,202            | –               | 2,352           | 10,993            |
|                                 | 106,641           | 43,320           | 4,730           | 5,456           | 160,147           |
| Allowance for loan losses       | (236)             | –                | –               | –               | (236)             |
| <b>TOTAL – 31 December 2018</b> | <b>\$ 106,405</b> | <b>\$ 43,320</b> | <b>\$ 4,730</b> | <b>\$ 5,456</b> | <b>\$ 159,911</b> |

MATURITY OF LOANS OUTSTANDING AS OF 31 DECEMBER 2019<sup>4</sup>

| Twelve Months |          | Five Years   |                   |
|---------------|----------|--------------|-------------------|
| Ending        | Amount   | Ending       | Amount            |
| 31 December   |          | 31 December  |                   |
| 2020          | \$ 7,927 | 2029         | 35,826            |
| 2021          | 7,588    | 2034         | 26,471            |
| 2022          | 7,573    | 2039         | 10,691            |
| 2023          | 7,666    | 2044         | 3,027             |
| 2024          | 7,592    | over 2044    | 381               |
|               |          | <b>Total</b> | <b>\$ 114,742</b> |

SUMMARY OF CURRENCIES RECEIVABLE ON LOANS OUTSTANDING — OPERATIONS<sup>4</sup>

| Currency          | 2019  | 2018  | Currency               | 2019              | 2018              |
|-------------------|-------|-------|------------------------|-------------------|-------------------|
| Australian dollar | \$ 16 | \$ 17 | New Zealand dollar     | 23                | 24                |
| Baht              | 315   | 303   | Norwegian krone        | 38                | 42                |
| Canadian dollar   | 40    | 41    | Philippine peso        | 12                | 20                |
| Chinese yuan      | 454   | 538   | Pound sterling         | 74                | 75                |
| Danish krone      | 9     | 10    | Ringgit                | 1                 | 1                 |
| Euro              | 2,402 | 1,008 | Special drawing rights | 25,179            | 25,827            |
| Indian rupee      | 253   | 181   | Swedish krona          | 16                | 18                |
| Kazakhstan tenge  | 318   | 84    | Swiss franc            | 35                | 36                |
| Korean won        | 11    | 12    | US dollar              | 84,161            | 77,051            |
| Lari              | 51    | 24    | Yen                    | 1,334             | 1,457             |
|                   |       |       | <b>Total</b>           | <b>\$ 114,742</b> | <b>\$ 106,769</b> |

<sup>4</sup> Excluding fair value adjustment on concessional loans, allowance for loan losses, and net unamortized loan origination cost.

The accompanying Notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**SUMMARY STATEMENT OF BORROWINGS**

**31 December 2019 and 2018**

Expressed in Millions of US Dollars

| Currency             | Borrowings               |                  | Swap Arrangements <sup>2</sup> |                 | Net Currency Obligation |                  |
|----------------------|--------------------------|------------------|--------------------------------|-----------------|-------------------------|------------------|
|                      | Outstanding <sup>1</sup> |                  | Net Payable (Receivable)       |                 |                         |                  |
|                      | 2019                     | 2018             | 2019                           | 2018            | 2019                    | 2018             |
| Armenian dram        | \$ 6                     | \$ 5             | \$ —                           | \$ —            | \$ 6                    | \$ 5             |
| Australian dollar    | 8,994                    | 8,666            | (9,018)                        | (8,665)         | (24)                    | 1                |
| Brazilian real       | 84                       | 414              | (84)                           | (413)           | (0)                     | 1                |
| Canadian dollar      | 1,240                    | 1,178            | (1,244)                        | (1,186)         | (4)                     | (8)              |
| Chinese yuan         | 440                      | 729              | (270)                          | (261)           | 170                     | 468              |
| Euro                 | 5,719                    | 3,926            | (4,353)                        | (2,941)         | 1,366                   | 985              |
| Hong Kong dollar     | 577                      | 477              | (577)                          | (478)           | (0)                     | (1)              |
| Indian rupee         | 902                      | 854              | 0                              | —               | 902                     | 854              |
| Indonesian rupiah    | 166                      | 62               | —                              | —               | 166                     | 62               |
| Japanese yen         | 1,579                    | 1,310            | (870)                          | (617)           | 709                     | 693              |
| Kazakhstan tenge     | 120                      | —                | —                              | —               | 120                     | —                |
| Mexican peso         | 251                      | 216              | (252)                          | (221)           | (1)                     | (5)              |
| New Zealand dollar   | 2,606                    | 2,764            | (2,628)                        | (2,775)         | (22)                    | (11)             |
| Norwegian krone      | 511                      | 174              | (511)                          | (174)           | 0                       | (0)              |
| Philippine peso      | 223                      | —                | —                              | —               | 223                     | —                |
| Pound sterling       | 6,622                    | 2,949            | (6,639)                        | (2,941)         | (17)                    | 8                |
| Russian ruble        | 303                      | 212              | (303)                          | (211)           | 0                       | 1                |
| South African rand   | 337                      | 139              | (338)                          | (139)           | (1)                     | (0)              |
| Swedish krona        | 884                      | 348              | (891)                          | (352)           | (7)                     | (4)              |
| Swiss franc          | 276                      | 265              | (280)                          | (271)           | (4)                     | (6)              |
| Turkish lira         | 785                      | 620              | (791)                          | (626)           | (6)                     | (6)              |
| Ghana cedi           | —                        | 20               | —                              | (20)            | —                       | 0                |
| Georgian lari        | 51                       | 24               | —                              | —               | 51                      | 24               |
| United States dollar | 72,320                   | 65,071           | 28,997                         | 25,534          | 101,317                 | 90,605           |
| <b>Total</b>         | <b>\$ 104,996</b>        | <b>\$ 90,423</b> | <b>\$ (52)</b>                 | <b>\$ 3,243</b> | <b>\$ 104,944</b>       | <b>\$ 93,666</b> |

Note: 0 = less than \$0.5 million.

<sup>1</sup> Includes accrued interest and commission. Reported at fair value except for unswapped borrowings which are reported at principal amount net of unamortized discount/premium.

<sup>2</sup> Include currency and interest rate swaps. At 31 December 2019, the remaining maturity of swap agreements range from less than one year to 31 years (less than one year to 22 years – as of 31 December 2018). Approximately 69.01% of the swap receivables and 71.42% of the payables are due within the next five years ending 31 December 2019 (70.65% of the swap receivables and 72.86% of the payables are due within the next five years ending 31 December 2018).

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**MATURITY STRUCTURE OF BORROWINGS OUTSTANDING AS OF 31 DECEMBER 2019 <sup>3</sup>**


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| <b>Twelve Months</b> |               | <b>Five Years</b>  |                   |
|----------------------|---------------|--------------------|-------------------|
| <b>Ending</b>        |               | <b>Ending</b>      |                   |
| <b>31 December</b>   | <b>Amount</b> | <b>31 December</b> | <b>Amount</b>     |
| 2020                 | \$ 20,330     | 2029               | \$ 22,451         |
| 2021                 | 19,476        | 2034               | 772               |
| 2022                 | 18,870        | 2039               | 738               |
| 2023                 | 11,210        | over 2039          | 133               |
| 2024                 | 11,016        | <b>Total</b>       | <b>\$ 104,996</b> |

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**INTEREST RATE SWAP ARRANGEMENTS AS OF 31 DECEMBER 2019**


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|                                   | <b>Notional<br/>Amount</b> | <b>Average Rate (%)</b> |                                     |
|-----------------------------------|----------------------------|-------------------------|-------------------------------------|
|                                   |                            | <b>Receive</b>          | <b>Pay<br/>Floating<sup>4</sup></b> |
| <b>Receive Fixed Swaps:</b>       |                            |                         |                                     |
| Australian dollar <sup>5</sup>    | \$ 46                      | 2.64                    | (0.38)                              |
| Chinese yuan                      | 34                         | 2.85                    | 2.26                                |
| Euro <sup>6</sup>                 | 582                        | 1.40                    | (0.63)                              |
| Indian rupee                      | 3                          | 6.26                    | 5.23                                |
| United States dollar              | 60,561                     | 1.98                    | 2.51                                |
| United States dollar <sup>7</sup> | 18                         | 2.45                    | (0.37)                              |
| <b>Receive Floating Swaps:</b>    |                            |                         |                                     |
| Japanese yen                      | 37                         | 1.75                    | (0.40)                              |
| United States dollar              | 27,944                     | 2.53                    | 2.49                                |
| <b>Total</b>                      | <b>\$ 89,225</b>           |                         |                                     |

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<sup>3</sup> Bonds with put and call options were considered maturing on the first put or call date.

<sup>4</sup> Represents average current floating rates, net of spread.

<sup>5</sup> Consists of dual currency swaps with interest receivable in Australian dollar and interest payable in Japanese yen.

<sup>6</sup> Pay leg notional amounts to \$95 million equivalent.

<sup>7</sup> Consists of dual currency swaps with interest receivable in US dollar and interest payable in Japanese yen.

The accompanying Notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES**  
**STATEMENT OF SUBSCRIPTIONS TO CAPITAL STOCK AND VOTING POWER**  
**31 December 2019**

Expressed in Millions of US Dollars

| MEMBERS                          | SUBSCRIBED CAPITAL  |                     |                                  |                    |                   | VOTING POWER       |                     |
|----------------------------------|---------------------|---------------------|----------------------------------|--------------------|-------------------|--------------------|---------------------|
|                                  | Number of<br>Shares | Percent<br>of Total | Par Value Of Shares <sup>1</sup> |                    |                   | Number of<br>Votes | Percent<br>of Total |
|                                  |                     |                     | Total                            | Callable           | Paid-in           |                    |                     |
| <b>REGIONAL</b>                  |                     |                     |                                  |                    |                   |                    |                     |
| Afghanistan                      | 3,585               | 0.034               | 49.6                             | 43.0               | 6.6               | 42,699             | 0.321               |
| Armenia                          | 31,671              | 0.298               | 438.0                            | 416.0              | 21.9              | 70,785             | 0.532               |
| Australia                        | 614,220             | 5.773               | 8,493.6                          | 8,068.8            | 424.8             | 653,334            | 4.913               |
| Azerbaijan                       | 47,208              | 0.444               | 652.8                            | 620.1              | 32.7              | 86,322             | 0.649               |
| Bangladesh                       | 108,384             | 1.019               | 1,498.8                          | 1,423.8            | 74.9              | 147,498            | 1.109               |
| Bhutan                           | 660                 | 0.006               | 9.1                              | 8.6                | 0.6               | 39,774             | 0.299               |
| Brunei Darussalam                | 37,386              | 0.351               | 517.0                            | 491.1              | 25.9              | 76,500             | 0.575               |
| Cambodia                         | 5,250               | 0.049               | 72.6                             | 66.5               | 6.1               | 44,364             | 0.334               |
| China, People's Republic of      | 684,000             | 6.429               | 9,458.6                          | 8,985.5            | 473.1             | 723,114            | 5.437               |
| Cook Islands                     | 282                 | 0.003               | 3.9                              | 3.7                | 0.2               | 39,396             | 0.296               |
| Fiji                             | 7,218               | 0.068               | 99.8                             | 94.8               | 5.0               | 46,332             | 0.348               |
| Georgia                          | 36,243              | 0.341               | 501.2                            | 476.1              | 25.1              | 75,357             | 0.567               |
| Hong Kong, China                 | 57,810              | 0.543               | 799.4                            | 759.4              | 40.0              | 96,924             | 0.729               |
| India                            | 672,030             | 6.317               | 9,293.0                          | 8,828.3            | 464.7             | 711,144            | 5.347               |
| Indonesia                        | 578,100             | 5.434               | 7,994.1                          | 7,594.4            | 399.8             | 617,214            | 4.641               |
| Japan                            | 1,656,630           | 15.571              | 22,908.4                         | 21,762.7           | 1,145.7           | 1,695,744          | 12.751              |
| Kazakhstan                       | 85,608              | 0.805               | 1,183.8                          | 1,124.6            | 59.2              | 124,722            | 0.938               |
| Kiribati                         | 426                 | 0.004               | 5.9                              | 5.6                | 0.3               | 39,540             | 0.297               |
| Korea, Republic of               | 534,738             | 5.026               | 7,394.5                          | 7,024.7            | 369.8             | 573,852            | 4.315               |
| Kyrgyz Republic                  | 31,746              | 0.298               | 439.0                            | 417.0              | 22.0              | 70,860             | 0.533               |
| Lao People's Democratic Republic | 1,476               | 0.014               | 20.4                             | 19.1               | 1.3               | 40,590             | 0.305               |
| Malaysia                         | 289,050             | 2.717               | 3,997.1                          | 3,797.2            | 199.9             | 328,164            | 2.468               |
| Maldives                         | 426                 | 0.004               | 5.9                              | 5.6                | 0.3               | 39,540             | 0.297               |
| Marshall Islands                 | 282                 | 0.003               | 3.9                              | 3.7                | 0.2               | 39,396             | 0.296               |
| Micronesia, Federated States of  | 426                 | 0.004               | 5.9                              | 5.6                | 0.3               | 39,540             | 0.297               |
| Mongolia                         | 1,596               | 0.015               | 22.1                             | 21.0               | 1.1               | 40,710             | 0.306               |
| Myanmar                          | 57,810              | 0.543               | 799.4                            | 759.4              | 40.0              | 96,924             | 0.729               |
| Nauru                            | 426                 | 0.004               | 5.9                              | 5.6                | 0.3               | 39,540             | 0.297               |
| Nepal                            | 15,606              | 0.147               | 215.8                            | 205.0              | 10.8              | 54,720             | 0.411               |
| New Zealand                      | 163,020             | 1.532               | 2,254.3                          | 2,141.6            | 112.7             | 202,134            | 1.520               |
| Niue                             | 150                 | 0.001               | 2.1                              | 2.0                | 0.1               | 39,264             | 0.295               |
| Pakistan                         | 231,240             | 2.174               | 3,197.7                          | 3,037.7            | 159.9             | 270,354            | 2.033               |
| Palau                            | 342                 | 0.003               | 4.7                              | 4.5                | 0.2               | 39,456             | 0.297               |
| Papua New Guinea                 | 9,960               | 0.094               | 137.7                            | 130.9              | 6.9               | 49,074             | 0.369               |
| Philippines                      | 252,912             | 2.377               | 3,497.3                          | 3,322.5            | 174.9             | 292,026            | 2.196               |
| Samoa                            | 348                 | 0.003               | 4.8                              | 4.5                | 0.3               | 39,462             | 0.297               |
| Singapore                        | 36,120              | 0.340               | 499.5                            | 474.5              | 25.0              | 75,234             | 0.566               |
| Solomon Islands                  | 708                 | 0.007               | 9.8                              | 9.3                | 0.5               | 39,822             | 0.299               |
| Sri Lanka                        | 61,560              | 0.579               | 851.3                            | 808.7              | 42.6              | 100,674            | 0.757               |
| Taipei, China                    | 115,620             | 1.087               | 1,598.8                          | 1,518.9            | 79.9              | 154,734            | 1.164               |
| Tajikistan                       | 30,402              | 0.286               | 420.4                            | 399.3              | 21.1              | 69,516             | 0.523               |
| Thailand                         | 144,522             | 1.358               | 1,998.5                          | 1,898.5            | 100.0             | 183,636            | 1.381               |
| Timor-Leste                      | 1,050               | 0.010               | 14.5                             | 13.8               | 0.7               | 40,164             | 0.302               |
| Tonga                            | 426                 | 0.004               | 5.9                              | 5.6                | 0.3               | 39,540             | 0.297               |
| Turkmenistan                     | 26,874              | 0.253               | 371.6                            | 353.0              | 18.6              | 65,988             | 0.496               |
| Tuvalu                           | 150                 | 0.001               | 2.1                              | 2.0                | 0.1               | 39,264             | 0.295               |
| Uzbekistan                       | 71,502              | 0.672               | 988.8                            | 939.3              | 49.4              | 110,616            | 0.832               |
| Vanuatu                          | 708                 | 0.007               | 9.8                              | 9.3                | 0.5               | 39,822             | 0.299               |
| Viet Nam                         | 36,228              | 0.341               | 501.0                            | 468.5              | 32.5              | 75,342             | 0.567               |
| <b>Total Regional (Forward)</b>  | <b>6,744,135</b>    | <b>63.390</b>       | <b>\$ 93,259.9</b>               | <b>\$ 88,581.2</b> | <b>\$ 4,678.7</b> | <b>8,660,721</b>   | <b>65.124</b>       |

| MEMBERS                         | SUBSCRIBED CAPITAL  |                     |                                  |                     |                   | VOTING POWER       |                     |
|---------------------------------|---------------------|---------------------|----------------------------------|---------------------|-------------------|--------------------|---------------------|
|                                 | Number of<br>Shares | Percent<br>of Total | Par Value Of Shares <sup>1</sup> |                     |                   | Number of<br>Votes | Percent<br>of Total |
|                                 |                     |                     | Total                            | Callable            | Paid-in           |                    |                     |
| <b>Total Regional (Forward)</b> | <b>6,744,135</b>    | <b>63.390</b>       | <b>\$ 93,259.9</b>               | <b>\$ 88,581.2</b>  | <b>\$ 4,678.7</b> | <b>8,660,721</b>   | <b>65.124</b>       |
| <b>NONREGIONAL</b>              |                     |                     |                                  |                     |                   |                    |                     |
| Austria                         | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| Belgium                         | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| Canada                          | 555,258             | 5.219               | 7,678.3                          | 7,294.3             | 384.0             | 594,372            | 4.469               |
| Denmark                         | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| Finland                         | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| France                          | 247,068             | 2.322               | 3,416.5                          | 3,245.7             | 170.9             | 286,182            | 2.152               |
| Germany                         | 459,204             | 4.316               | 6,350.0                          | 6,032.4             | 317.6             | 498,318            | 3.747               |
| Ireland                         | 36,120              | 0.340               | 499.5                            | 474.4               | 25.0              | 75,234             | 0.566               |
| Italy                           | 191,850             | 1.803               | 2,653.0                          | 2,520.3             | 132.7             | 230,964            | 1.737               |
| Luxembourg                      | 36,120              | 0.340               | 499.5                            | 474.4               | 25.0              | 75,234             | 0.566               |
| The Netherlands                 | 108,882             | 1.023               | 1,505.7                          | 1,430.4             | 75.3              | 147,996            | 1.113               |
| Norway                          | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| Portugal                        | 36,120              | 0.340               | 499.5                            | 474.4               | 25.0              | 75,234             | 0.566               |
| Spain                           | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| Sweden                          | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| Switzerland                     | 61,950              | 0.582               | 856.7                            | 813.8               | 42.9              | 101,064            | 0.760               |
| Turkey                          | 36,120              | 0.340               | 499.5                            | 474.5               | 25.0              | 75,234             | 0.566               |
| United Kingdom                  | 216,786             | 2.038               | 2,997.8                          | 2,847.9             | 149.9             | 255,900            | 1.924               |
| United States                   | 1,656,630           | 15.571              | 22,908.4                         | 21,762.7            | 1145.7            | 1,695,744          | 12.751              |
| <b>Total Nonregional</b>        | <b>3,894,948</b>    | <b>36.610</b>       | <b>53,860.5</b>                  | <b>51,166.8</b>     | <b>2,693.7</b>    | <b>4,638,114</b>   | <b>34.876</b>       |
| <b>TOTAL</b>                    | <b>10,639,083</b>   | <b>100.000</b>      | <b>\$ 147,120.3</b>              | <b>\$ 139,748.0</b> | <b>\$ 7,372.4</b> | <b>13,298,835</b>  | <b>100.000</b>      |

Note: Numbers may not sum precisely because of rounding.

<sup>1</sup> The authorized capital stock of the 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 2019 was \$1.382829. (Notes B and M)

The accompanying Notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES  
SUPPLEMENTARY INFORMATION ON THE TRANSFER OF ADF LOANS AND OTHER ASSETS TO  
OCR ON 1 JANUARY 2017**

On 1 January 2017, ADB transferred loans and other assets totaling \$30,812 million from the Asian Development Fund (ADF) to ordinary capital resources (OCR) in accordance with the Board of Governors' Resolution No. 372 authorizing the termination of ADF's lending operations. From then on, concessional lending to lower-income countries continued from the OCR.

The transferred ADF assets comprised loans including accrued interest totaling \$27,088 million and liquid assets totaling \$3,724 million. Except for the \$64 million return of set-aside resources, the rest of the transferred assets was treated as a contribution from ADF to OCR and recognized as a one-time income of \$30,748 million in OCR, which has been allocated to ordinary reserves on 1 January 2017, following the adoption of the Board of Governors' Resolution No. 387 dated 15 March 2017. The contribution part amounting to \$30,748 million and the fair value adjustment on the loans amounting to \$281 million were recognized as one-time loss of \$31,029 million in ADF.

The proportionate share of ADF donors in the transferred assets as of 1 January 2017, taking into account the value of paid-in donor contributions that have been made available for operational commitments which are deemed by ADB to be applied for the transferred assets, was determined in accordance with Article V of the Regulations of the Asian Development Fund. Under Board of Governors' Resolution No. 372, the proportionate share of an ADF donor will be taken into account in the event of the withdrawal of that donor from ADB and ADB's repurchase of its shares, and in the theoretical termination of ADB operations and liquidation of its assets. The value of each donor's paid-in contributions was fixed in US dollars based on the special drawing right value of each donor contribution as of 1 January 2017. This was then used to determine the sources of funds in the transferred assets, as summarized in the following table.



## OCR-9

**Proportionate Share of Funding Sources of the ADF Assets Transferred to OCR**

Expressed in Millions of US Dollars

|                                  | Proportionate Share |               |
|----------------------------------|---------------------|---------------|
|                                  | Amount              | %             |
| <b>DONOR CONTRIBUTIONS</b>       |                     |               |
| Australia                        | \$ 2,213            | 7.18          |
| Austria                          | 257                 | 0.83          |
| Belgium                          | 231                 | 0.75          |
| Brunei Darussalam                | 17                  | 0.06          |
| Canada                           | 1,889               | 6.13          |
| China, People's Republic of      | 84                  | 0.27          |
| Denmark                          | 242                 | 0.79          |
| Finland                          | 180                 | 0.58          |
| France                           | 1,270               | 4.12          |
| Germany                          | 1,679               | 5.45          |
| Hong Kong, China                 | 93                  | 0.30          |
| India                            | 24                  | 0.08          |
| Indonesia                        | 14                  | 0.05          |
| Ireland                          | 79                  | 0.26          |
| Italy                            | 1,099               | 3.57          |
| Japan                            | 11,197              | 36.34         |
| Kazakhstan                       | 4                   | 0.01          |
| Korea, Republic of               | 484                 | 1.57          |
| Luxembourg                       | 47                  | 0.15          |
| Malaysia                         | 24                  | 0.08          |
| Nauru                            | 0                   | 0.00          |
| The Netherlands                  | 716                 | 2.32          |
| New Zealand                      | 157                 | 0.51          |
| Norway                           | 266                 | 0.86          |
| Portugal                         | 79                  | 0.26          |
| Singapore                        | 18                  | 0.06          |
| Spain                            | 432                 | 1.40          |
| Sweden                           | 436                 | 1.42          |
| Switzerland                      | 359                 | 1.17          |
| Taipei, China                    | 90                  | 0.29          |
| Thailand                         | 15                  | 0.05          |
| Turkey                           | 114                 | 0.37          |
| United Kingdom                   | 1,440               | 4.67          |
| United States                    | 4,060               | 13.18         |
| <b>TOTAL DONOR CONTRIBUTIONS</b> | <b>29,309</b>       | <b>95.13</b>  |
| <b>OCR NET INCOME TRANSFERS</b>  | <b>1,439</b>        | <b>4.67</b>   |
| <b>SET-ASIDE RESOURCES</b>       | <b>64</b>           | <b>0.20</b>   |
| <b>TOTAL (Note A)</b>            | <b>\$ 30,812</b>    | <b>100.00</b> |

ADF = Asian Development Fund, OCR = ordinary capital resources.

Note: 0 = about \$0.3 million and 0.00 = 0.001%.

The accompanying Notes are an integral part of these financial statements (OCR-10).

**ASIAN DEVELOPMENT BANK—ORDINARY CAPITAL RESOURCES  
NOTES TO FINANCIAL STATEMENTS  
31 December 2019 and 2018**

**NOTE A—NATURE OF OPERATIONS, TRANSFER OF ADF LOANS AND OTHER ASSETS TO OCR,  
AND LIMITATIONS ON LOANS, GUARANTEES AND EQUITY INVESTMENTS**

*Nature of Operations*

The Asian Development Bank (ADB), a multilateral development financial institution, was established in 1966 with its headquarters in Manila, Philippines. ADB and its operations are governed by the Agreement Establishing the Asian Development Bank (the Charter). Its purpose is to foster economic development and co-operation in Asia and the Pacific region and to contribute to the acceleration of the process of economic development of the developing member countries (DMCs) in the region, collectively and individually. Since 1999, ADB's corporate vision and mission has been to help DMCs reduce poverty in the region. This was reaffirmed under the new long-term corporate strategy to 2030—Strategy 2030. Under Strategy 2030, ADB's vision is to achieve a prosperous, inclusive, resilient, and sustainable Asia and the Pacific, while sustaining its efforts to eradicate extreme poverty. ADB will continue to prioritize the region's poorest and most vulnerable countries.

ADB conducts its operations through the ordinary capital resources (OCR) and Special Funds (See Note S). Mobilizing financial resources, including cofinancing, is another integral part of ADB's operational activities, where ADB, alone or jointly, administers on behalf of donors funds provided for specific uses.

ADB's OCR operations comprise loans, equity investments, investment in other debt securities, and guarantees. ADB finances its ordinary operations through borrowings, paid-in capital, and reserves.

ADB is immune from taxation pursuant to Chapter VIII, Article 56, *Exemption from Taxation*, of the Charter.

*Transfer of ADF Loans and Other Assets to OCR*

Effective 1 January 2017, ADB transferred loans and other assets totaling \$30,812 million from the Asian Development Fund (ADF) to OCR in accordance with the Board of Governors' Resolution No. 372. Except for the \$64 million return of set-aside resources, the rest of the transferred assets was treated as a contribution from ADF to OCR and was recognized as a one-time income of \$30,748 million in OCR (See Note N).

The proportionate share of funding sources of the ADF assets transferred to OCR is shown in OCR-9.

*Limitations on Loans, Guarantees, and Equity Investments*

Article 12, paragraph 1 of the Charter provides that the total amount of outstanding loans, equity investments, and guarantees made by ADB shall not exceed the total of ADB's unimpaired subscribed capital, reserves, and surplus, exclusive of the special reserve. ADB's policy on lending limitations limits the total amount of disbursed loans, disbursed equity investments and related prudential buffer, and the maximum amount that could be demanded from ADB under its guarantee portfolio, to the total amount of ADB's unimpaired subscribed capital, reserves and surplus exclusive of the special reserve. As of 31 December 2019, the total of such loans (including other debt securities), equity investments and related prudential buffers, and guarantees aggregated approximately 60.5% (56.2% – 2018) of the total subscribed capital, reserves, and surplus exclusive of the special reserve.

Article 12, paragraph 3 of the Charter provides that equity investments shall not exceed 10% of the unimpaired paid-in capital actually paid up at any given time together with reserves and surplus, exclusive of the special reserve. As of 31 December 2019, such equity investments represented approximately 2.9% (2.9% – 2018) of the paid-in capital, reserves, and surplus, as defined.

continued

## **NOTE B—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### *Presentation of the Financial Statements*

The financial statements of OCR are prepared in accordance with accounting principles generally accepted in the United States of America (US GAAP).

### *Functional Currencies and Reporting Currency*

The functional currencies of OCR comprise the currencies of all members and special drawing right (SDR) as these are the currencies of the primary economic environments in which ADB operates. The reporting currency is the US dollar, and the financial statements are reported in US dollars.

### *Translation of Currencies*

ADB adopts the use of daily exchange rates for accounting and financial reporting purposes. This allows transactions in currencies other than the US dollar to be translated to the reporting currency using exchange rates applicable at the time of transactions. At the end of each accounting month, assets, liabilities, and capital are translated to US dollar using the applicable exchange rates. The translation adjustments, other than those relating to the non-functional currencies (Note O), are charged or credited to Accumulated translation adjustments and reported in EQUITY as part of Accumulated other comprehensive loss.

### *Valuation of Capital Stock*

The authorized capital stock of ADB is defined in Article 4, paragraph 1 of the Charter “in terms of US dollars of the weight and fineness in effect on 31 January 1966” (1966 dollar) and the value of each share is defined as 10,000 1966 dollars. The capital stock had historically been translated into the current US dollar (ADB’s unit of account) on the basis of its par value in terms of gold. From 1973 until 31 March 1978, the rate arrived at on this basis was \$1.20635 per 1966 dollar. Since 1 April 1978, at which time the Second Amendment to the Articles of Agreement of the International Monetary Fund (IMF) came into effect, currencies no longer have par values in terms of gold. Pending ADB’s selection of the appropriate successor to the 1966 dollar, the capital stock has been valued for purposes of these financial statements in terms of the SDR at the value in US dollars as determined by the IMF, with each share valued at SDR10,000.

As of 31 December 2019, the value of the SDR in terms of the US dollar was \$1.382830 (\$1.39079 – 2018) giving a value for each share of ADB’s capital equivalent to \$13,828.30 (\$13,907.90 – 2018).

### *Derivative Financial Instruments*

ADB reports all derivative transactions in accordance with Accounting Standards Codification (ASC) 815, “Derivatives and Hedging.” ADB has elected not to define any qualifying hedging relationships, not because economic hedges do not exist, but rather because the application of ASC 815 hedging criteria does not make fully evident ADB’s risk management strategies. All derivative instruments are reported at fair value (FV) and changes in FV have been recognized in net income. ADB records derivatives in the Balance Sheet as either assets or liabilities, consistent with the legal rights and way the instruments are settled. Individual interest rate swaps under the Master Agreement of the International Swaps and Derivatives Association (ISDA), absent of local market constraints, are recorded on a net basis, while all other swaps, including cross currency and foreign exchange swaps, are recorded on a gross basis.

ADB classifies the cash flows related to nonhedging derivatives in the Statement of Cash Flows in accordance with the nature of the derivative instrument and how it is used in the context of ADB’s operations. Payment for and receipts from derivatives could either be Cash Flows for Investing Activities or Cash Flows from Financing Activities.

continued

### *Investments for Liquidity Purpose*

All investment securities and negotiable certificates of deposit held by ADB are considered by Management to be available for sale (AFS) and are reported at FV. Unrealized gains and losses are reported in EQUITY as part of Accumulated other comprehensive loss. Realized gains and losses are reported in the Statement of Income and Expenses under NET REALIZED GAINS (LOSSES) From investments for liquidity purpose and are measured by the difference between amortized cost and the net proceeds of sales using the specific identification method for internally managed investment portfolio and the weighted average cost method for externally managed investment portfolio.

Interest income on investment securities and time deposits is recognized as earned, and reported net of amortization of premiums and discounts.

Unrealized losses on investment securities are assessed to determine whether the impairment is deemed to be other than temporary. If the impairment is deemed to be other than temporary, the investment is written down to the impaired value, which becomes the new cost basis of the investment. Impairment losses are not reversed for subsequent recoveries in the value of the investment, until it is sold.

### *Securities Transferred Under Repurchase Agreements and Securities Purchased Under Resale Arrangements*

ADB accounts for transfers of financial assets in accordance with ASC 860, "Transfers and Servicing." Transfers are accounted for as sales when control over the transferred assets has been relinquished. Otherwise the transfers are accounted for as repurchase/resale agreements and collateralized financing arrangements. Under repurchase agreements, securities transferred are recorded as assets and reported at FV and cash received is recorded as a liability. ADB monitors the FV of the securities transferred under repurchase agreements and the received collateral. Under resale arrangements, securities purchased are recorded as assets and are not re-pledged.

### *Loans — Operations*

ADB's loans are made to or guaranteed by members, with the exception of nonsovereign loans. Loan interest income and loan commitment fees are recognized on accrual basis. In line with ADB's principle of cost pass-through pricing in regular sovereign loan, the funding cost margin is passed on to London interbank offered rate (LIBOR)-based loan borrowers as a surcharge or rebate.

It is the policy of ADB to place loans in non-accrual status if the principal, interest, or other charges with respect to any such loans is past due by 180 days or in case of loans that are not yet past due, when there is expectation that interest and other charges will not be collected when they become due, at the point when such information is known. Interest on non-accruing loans is included in revenue only to the extent that payments have actually been received by ADB. Accordingly, loans are reinstated to accrual status when all the principal, interest and other charges due on the loan have been collected. ADB maintains a position of not taking part in debt rescheduling agreements with respect to sovereign loans. In the case of nonsovereign loans, ADB may agree to debt rescheduling only after alternative courses of action have been exhausted.

ADB's periodic evaluation of the adequacy of the allowance for loan losses is based on its past loan loss experience, known and inherent risks in existing loans, and adverse situations that may affect a borrower's ability to repay.

For sovereign loans, ADB determines that a loan is impaired and therefore subject to provisioning when principal or interest is in arrears for more than one year. Specific provision for sovereign loan losses is written-back when the borrower's arrears have been fully settled and the borrower has re-established regular loan service payments. The nonsovereign loans are individually reviewed and subject to provisioning when the loan is considered impaired. The impairment is determined based on the difference between the loan carrying value and the present value of expected future cash flows discounted at the loan's effective interest rate. In

continued

addition, ADB provides collective provisions for nonsovereign loans based on the credit risk ratings and probability of default and assumed loss given default.

ADB establishes loan loss reserves for both sovereign and nonsovereign credit exposures to be used as a basis for capital adequacy against expected losses in loans and guarantees. The amount of expected loss pertaining to credit exposures that is not impaired or subject to collective provision is recorded as loan loss reserve in the EQUITY section of the balance sheet. Any adjustment to loan loss reserve following this methodology is subject to the approval of the Board of Governors.

ADB levies a commitment charge on the undisbursed balance of effective regular sovereign and nonsovereign loans. Unless otherwise provided by the loan agreement, the charges take effect commencing on the 60th day after the loan signing date and are credited to loan income.

ADB charges front-end fees for nonsovereign loans, which are deferred and amortized over the life of the loans after offsetting deferred direct loan origination costs.

ADB offers loans to its concessional sovereign borrowers at fixed (1.0%, 1.5% or 2.0%) interest rates with repayment over periods ranging from 24 to 40 years. Concessional sovereign loans are not subject to commitment charges.

### *Guarantees*

ADB provides guarantees under its sovereign and nonsovereign operations. Guarantees are regarded as outstanding when the underlying financial obligation of the borrower is incurred. ADB would be required to perform under its guarantees if the payments guaranteed were not made by the debtor, and the guaranteed party called the guarantee by demanding payments from ADB in accordance with the term of the guarantee.

For guarantees issued and modified on or after 1 January 2003, ADB recognizes at the inception of a guarantee, a liability for the stand-by obligation to perform on guarantees. A front-end fee on guarantees received is deferred and amortized over the term of the guarantee contract. ADB records a contingent liability for the probable losses related to guarantees outstanding. This provision, as well as the unamortized balance of the deferred guarantee fee income, and the unamortized balance of the obligation to stand ready, are included in ACCOUNTS PAYABLE AND OTHER LIABILITIES - Miscellaneous on the Balance Sheet.

### *Collateral*

ADB requires collateral from individual swap counterparties in the form of approved liquid securities or cash to mitigate its credit exposure to these counterparties. ADB records the restricted cash in OTHER ASSETS with a corresponding obligation to return the cash in ACCOUNTS PAYABLE AND OTHER LIABILITIES. Collateral received in the form of liquid securities is disclosed in Note J and not recorded on OCR's Balance Sheet.

### *Equity Investments — Operations*

Investments in equity securities (except those accounted for under equity method) are reported at FV, with changes in FV reported in the Statement of Income and Expenses under NET UNREALIZED GAINS (LOSSES).

Realized gains and losses are reported in the Statement of Income and Expenses under NET REALIZED GAINS (LOSSES) from equity investments – operation and are measured by the difference between cost and sales proceeds. Previously recognized unrealized gains and losses are reversed upon sale of investments.

ADB applies the equity method of accounting to investments where it has the ability to exercise significant influence such as in limited liability partnerships and certain limited liability companies that maintain a specific

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ownership account for each investor in accordance with ASC 323-30, "Partnerships, Joint Ventures, and Limited Liability Entities" and direct equity investment that fall under the purview of ASC 323, "Investments—Equity Method and Joint Ventures."

#### *Variable Interest Entities*

ADB complies with ASC 810, "Consolidation." ASC 810 requires an entity to consolidate and provide disclosures for any Variable Interest Entity (VIE) for which it is the primary beneficiary. An entity is subject to the ASC 810 VIE Subsections and is considered a VIE if it (i) lacks equity that is sufficient to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) if holders of the equity investment at risk lack decision-making rights about the entity's activities that most significantly impact the entity's economic performance; or (iii) do not have the obligation to absorb the expected losses or the right to receive the residual returns of the entity proportionally to their voting rights. ASC 810 defines the primary beneficiary as the entity that both has the (i) power to direct the activities that most significantly impact the economic performance of the VIE and the (ii) obligation to absorb losses or the right to receive residual returns of the entity. As of 31 December 2019 and 2018, ADB did not identify any VIE where ADB was the primary beneficiary, requiring consolidation in OCR financial statements.

ADB's variable interests can arise from equity investments, loans, guarantees, and other contractual agreements that change with the changes in the FV of the VIE's net assets exclusive of variable interests. ADB is required to disclose information about its involvement in VIEs where ADB holds significant variable interest (See Note T).

#### *Other Debt Securities — Operations*

Investments in other debt securities may be classified as held-to-maturity (HTM) or AFS based on the intent and ability of ADB to hold these securities to maturity. HTM securities are reported at amortized cost while AFS are reported at FV.

Interest income on other debt securities is recognized as earned and reported, net of amortization of applicable premiums and discounts. In cases where front-end fees are collected, the fees are deferred and amortized over the life of the security after offsetting deferred direct origination costs.

Unrealized losses on other debt securities are assessed to determine whether the impairment is deemed to be other than temporary. If deemed to be other than temporary, the impairment is treated based on the classification. For HTM, the impairment related to credit loss is charged against income while the impairment related to other factors is recognized in other comprehensive income, which is accreted over the remaining life of the debt security. The accretion increases the carrying value of the security until it matures or is sold. For AFS, the impairment is charged against income and not reversed for subsequent recoveries in the value of the investment, until it is sold.

#### *Property, Furniture, and Equipment*

Land is stated at cost and is not amortized. Buildings and improvements, and office furniture and equipment are stated at cost and depreciated over estimated useful lives on a straight-line basis. Maintenance, repairs, and minor betterments are charged to expense.

#### *Operating Leases*

Right-of-use asset mainly pertains to lease of real properties such as offices, buildings and parking lots in field offices. ADB does not have any finance lease. Right-of-use asset is derived from the lease liability, which is the present value of future lease payments using the applicable discount rate, adjusted by prepaid rent and deferred rent. Operating lease expenses are recognized on a straight-line basis.

continued

ADB determines whether a contract contains a lease if the contract conveys the right to control the use of identified property, furniture or equipment for a period of time in exchange for a consideration. ADB has included renewal options in determining the lease term when it is reasonably certain that the renewal option will be exercised. ADB uses its incremental borrowing rate as the discount rate in determining the present value of future lease payments.

### *Borrowings*

Borrowings provide funds for ADB's operations. ADB diversifies its funding sources across markets, instruments, and maturities. In conjunction, ADB uses currency and interest rate swaps for asset and liability management.

ADB elected to record and report at FV all borrowings that are swapped or are intended to be swapped in the future and selected floating-rate borrowings. This election allows ADB to apply a consistent accounting treatment between borrowings and their related swaps.

Changes in FV are reported in the Statement of Income and Expenses under NET UNREALIZED GAINS (LOSSES). Effective 1 January 2018, ADB measures the portion of the FV change due to instrument-specific credit risk and presents the amount separately in Accumulated other comprehensive loss. Remaining borrowings continue to be reported at amortized cost. Discounts, premiums and issuance costs associated with new borrowings are deferred and amortized over the period during which the borrowing is outstanding.

### *Fair Value of Financial Instruments*

ASC 820, "Fair Value Measurement" defines FV as the price that would be received to sell an asset or paid to transfer a liability at measurement date in an orderly transaction among willing participants with an assumption that the transaction takes place in the entity's principal market, or in the absence of principal market, in the most advantageous market for the asset or liability. The most advantageous market is the market where the sale of the asset or transfer of liability would maximize the amount received for the asset or minimize the amount paid to transfer the liability. The FV measurement is not adjusted for transaction cost.

### *Fair Value Hierarchy*

ASC 820 establishes a FV hierarchy that gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1), next priority to observable market inputs or market corroborated data (Level 2), and the lowest priority to unobservable inputs without market corroborated data (Level 3).

The FVs of ADB's financial assets and liabilities are categorized as follows:

Level 1: FVs are based on unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2: FVs are based on quoted prices for similar assets or liabilities in active markets or markets that are not active; or valuation models for which significant inputs are obtained from market-based data that are observable.

Level 3: FVs are based on prices or valuation models for which significant inputs to the model are unobservable.

Inter-level transfers from one year to another may occur due to changes in market activities affecting the availability of quoted market prices or observable market data.

ADB's policy is to recognize transfers in and transfers out of levels as of the end of the reporting period in which they occur.

continued

### *Accounting Estimates*

The preparation of the financial statements requires Management to make reasonable estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the end of the year and the reported amounts of revenues and expenses during the year. The actual results could differ from those estimates. Judgments have been used in the valuation of certain financial instruments, the determination of the adequacy of the accumulated provisions for losses on loans and other exposures (irrevocable commitments and guarantees), the determination of net periodic cost from pension and other postretirement benefits plans, and the present value of benefit obligations.

### *Accounting and Reporting Developments*

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standard Update (ASU) 2016-02, "*Leases (Topic 842)*," and subsequent ASUs in 2018 and 2019, established that all leases create an asset and a liability for the lessee. ADB has operating leases of real properties such as offices, buildings and parking lots in the field offices. ADB does not have any financing leases. Upon adoption, ADB elected to apply the practical expedients where it is allowed not to (1) reassess whether any expired or existing contracts; (2) reassess the lease classification for any expired or existing leases; (3) reassess initial direct costs for any existing leases; and (4) apply the recognition requirements in this ASU to short-term leases which is less than 12 months. On 1 January 2019, OCR recognized \$57 million right-of-use asset as part of Property, Furniture, and Equipment under OTHER ASSETS and \$55 million lease liability as part of Miscellaneous under ACCOUNTS PAYABLE AND OTHER LIABILITIES as beginning balances in OCR's balance sheet (See Note K).

In June 2016, the FASB issued ASU 2016-13, "*Financial Instruments—Credit Losses (Topic 326) – Measurement of Credit Losses on Financial Instruments*," and subsequent ASUs in 2018 and 2019 collectively referred to as the Updates, revising the measurement of credit losses. The Updates introduced the concept of current expected credit losses (CECL), which requires earlier recognition of credit losses, while providing additional transparency about credit risk.

The CECL methodology requires a lifetime "expected credit loss" measurement objective for recognizing credit losses for financial assets measured at amortized cost (including loans and HTM debt securities) and off-balance sheet credit exposures for loan commitments, financial guarantees and other similar instruments. The expected credit losses are adjusted each period for changes in expected lifetime credit losses. For certain financial assets, such as Due from Banks, Securities Transferred under Resale Arrangements, and Swap related collateral, no expected loss are determined based on the credit quality. For AFS debt securities where fair value is less than cost, credit-related impairment, if any, will be recognized through an allowance for credit losses and adjusted each period for changes in credit risk.

The Updates offer flexibility in selecting an appropriate method to estimate expected credit losses and permit using estimation methods that are practical and relevant, as long as the methods are applied consistently, can provide a fair estimate of expected credit loss and comply with core requirements.

The Updates will result in changes to the accounting policies and additional disclosures relating to loans, guarantees, AFS and HTM debt securities. Based on financial results as of 31 December 2019, the reduction in equity from the increase in allowance for credit losses will be about 1% (\$474 million) of total equity. The corresponding reduction in total assets in the balance sheet will be about 0.14% (\$306 million) of total assets.

On 1 January 2020, OCR will recognize the following: (1) \$306 million additional allowance for credit losses; (2) \$168 million liability for off-balance sheet commitments; and (3) \$249 million in cumulative effect adjustment to decrease Ordinary reserve from retained earnings. Loan Loss Reserve in the amount of \$225 million will be derecognized and discontinued.



continued

In March 2017, the FASB issued ASU 2017-08 *“Receivables—Nonrefundable Fees and Other Costs (Subtopic 310-20) – Premium Amortization on Purchased Callable Debt Securities”* which require the premium on callable debt securities to be amortized at the earliest call date was issued to align more closely the amortization period of premiums and discounts to expectations incorporated in market pricing on the underlying securities. The amendments in this update is effective for ADB on 1 January 2019 but did not have a material impact on OCR’s financial statements.

In August 2018, the FASB issued the following ASUs as part of its disclosure framework project that is based on the newly issued FASB Statement of Financial Accounting Concepts No. 8 *“Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements”*: (i) ASU 2018-13 *“Fair Value Measurement (Topic 820)—Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement”* which modifies and aims to improve the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. This amendment is effective for ADB on 1 January 2020 but is not expected to have a material impact on OCR’s financial statements; and (ii) ASU 2018-14 *“Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20)—Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans”* which remove disclosures that no longer are considered cost-beneficial, clarify the specific requirements of disclosures, and add disclosure requirements identified as relevant. This amendment is effective for ADB on 1 January 2021. ADB is currently assessing the impact of this ASU on OCR’s financial statements.

In August 2018, the FASB issued ASU 2018-15, *“Intangibles—Goodwill and Other—Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract”* which align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). This amendment is effective for ADB on 1 January 2020 where requirements should be applied either retrospectively or prospectively to all implementation costs incurred after the date of adoption. This ASU will have no significant impact to ADB’s accounting for Cloud Computing Arrangements because ADB has already adopted in its practice the guidance to capitalize implementation costs of a hosting arrangement that is a service contract required by ASU 2018-15.

In October 2018, the FASB issued ASU 2018-17, *“Consolidation (Topic 810)—Targeted Improvements to Related Party Guidance for Variable Interest Entities”* which determine whether reporting entities should consolidate a legal entity under the guidance within the Variable Interest Entities (VIE). Under the amendments, indirect interests held through related parties in common control arrangements should be considered on a proportional basis for determining whether fees paid to decision makers and service providers are variable interests. The amendments in this update are effective for ADB on 1 January 2020 where requirements should be applied retrospectively with a cumulative-effect adjustment to retained earnings at the beginning of the earliest period presented. This amendment will not have an impact on OCR’s financial statements.

In November 2019, the FASB issued ASU 2019-10, *“Financial Instruments—Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)—Effective Dates”* which (1) provides a framework to stagger effective dates for future major accounting standards and (2) amends the effective dates for certain major new accounting standards to give implementation relief to certain types of entities. ADB has adopted Leases (Topic 842) on 1 January 2019 and will adopt Financial Instruments—Credit Losses (Topic 326) on 1 January 2020. Other amendments in this update did not have a material impact on OCR’s financial statements and did not have an impact on the effective dates for ADB on ASUs released prior to ASU 2019-10.

#### *Statement of Cash Flows*

For the purposes of the Statement of Cash Flows, ADB considers that its cash and cash equivalents are limited to (i) DUE FROM BANKS, which consist of current accounts in banks used for operational disbursements, receipt of funds from encashment of members’ promissory notes, and clearing accounts;

continued

and (ii) SWAP RELATED COLLATERAL, which are cash collateral received by ADB from swap counterparties to mitigate ADB's credit exposure to these counterparties.

On the face of the cash flow statement, SWAP RELATED COLLATERAL is presented as a separate line item from DUE FROM BANKS as part of beginning and ending balances of total cash. The movements in the cash collateral account during the period is classified as cash flow from financing activities.

#### **NOTE C—RESTRICTIONS ON USE OF CURRENCIES OF MEMBERS**

In accordance with Article 24, paragraphs 2(i) and (ii) of the Charter, the use by ADB or by any recipient from ADB of certain currencies may be restricted by members to payments for goods or services produced and intended for use in their territories. As of 31 December 2019, no member has restricted the use by ADB or by any recipient from ADB.

#### **NOTE D—INVESTMENTS FOR LIQUIDITY PURPOSE**

The main investment management objective is to maintain security and liquidity. Subject to these parameters, ADB seeks the highest possible return on its investments. Investments are governed by the Investment Authority approved by the Board of Directors.

ADB enters into currency and interest rate swaps, and forward rate agreements. Exposure to interest rate risk may be adjusted within defined bands to reflect changing market conditions. These adjustments are made through the purchase and sale of securities.

ADB may engage in securities lending of government or government-guaranteed obligations and corporate obligations, for which ADB receives a guarantee from the securities custodian and a fee. Transfers of securities by ADB to counterparties are not accounted for as sales as the accounting criteria for the treatment of a sale have not been met. These securities are available to meet ADB's obligation to counterparties. Included in investments as of 31 December 2019 were securities transferred under securities lending arrangements of government or government-guaranteed obligations and corporate obligations totaling \$345 million (\$528 million – 2018).

The currency composition of the investment portfolio as of 31 December 2019 and 2018 expressed in US dollars is as follows:

(\$ million)

| <b>Currency</b> | <b>2019</b>      | <b>2018</b>      |
|-----------------|------------------|------------------|
| US dollar       | \$ 20,747        | \$ 20,569        |
| Yen             | 10,702           | 7,307            |
| Won             | 4,091            | 3,704            |
| Indian rupee    | 864              | 812              |
| Yuan            | 817              | 1,033            |
| Euro            | 614              | 999              |
| Others          | 1,477            | 791              |
| <b>Total</b>    | <b>\$ 39,312</b> | <b>\$ 35,215</b> |

continued

The FV and amortized cost of the investments by contractual maturity at 31 December 2019 and 2018 are as follows:

(\$ million)

|                                           | 2019             |                  | 2018             |                  |
|-------------------------------------------|------------------|------------------|------------------|------------------|
|                                           | Fair Value       | Amortized Cost   | Fair Value       | Amortized Cost   |
| Due in one year or less                   | \$ 16,180        | \$ 16,175        | \$ 13,489        | \$ 13,496        |
| Due after one year through five years     | 17,347           | 17,248           | 20,846           | 21,118           |
| Due after five years through ten years    | 5,694            | 5,634            | 819              | 824              |
| Due after ten years through fifteen years | 91               | 86               | 61               | 67               |
| <b>Total</b>                              | <b>\$ 39,312</b> | <b>\$ 39,143</b> | <b>\$ 35,215</b> | <b>\$ 35,505</b> |

Additional information relating to investments for liquidity purpose in government or government-guaranteed obligations and other securities classified as AFS are as follows:

(\$ million)

|                                                         | 2019      | 2018      |
|---------------------------------------------------------|-----------|-----------|
| <b>As of 31 December</b>                                |           |           |
| Amortized cost                                          | \$ 34,749 | \$ 30,310 |
| Fair value                                              | 34,918    | 30,020    |
| Gross unrealized gains                                  | 213       | 33        |
| Gross unrealized losses                                 | (44)      | (323)     |
| <b>For the year ended 31 December</b>                   |           |           |
| Change in net unrealized gains (losses) from prior year | 458       | (42)      |
| Proceeds from sales                                     | 5,436     | 1,415     |
| Gross gain on sales                                     | 8         | 0         |
| Gross loss on sales                                     | (5)       | (20)      |

0 = less than \$0.5 million.

continued

The table below shows the gross unrealized losses and fair value of investments with unrealized losses that are not deemed to be other-than-temporary impairment, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of 31 December 2019 and 2018. There were 53 government or government-guaranteed obligations (208 – 2018), and 17 corporate obligations (258 – 2018) that have been in continuous losses for over one year representing 11.36% (48.98% – 2018) of the total investments.

(\$ million)

|                                                 | One year or less |                   | Over one year    |                   | Total            |                   |
|-------------------------------------------------|------------------|-------------------|------------------|-------------------|------------------|-------------------|
|                                                 | Fair Value       | Unrealized Losses | Fair Value       | Unrealized Losses | Fair Value       | Unrealized Losses |
| <b>2019</b>                                     |                  |                   |                  |                   |                  |                   |
| Government or government-guaranteed obligations | \$ 12,489        | \$ 23             | \$ 4,320         | \$ 20             | \$ 16,809        | \$ 43             |
| Other securities                                |                  |                   |                  |                   |                  |                   |
| Corporate obligations                           | 253              | 1                 | 145              | 0                 | 398              | 1                 |
| <b>Total</b>                                    | <b>\$ 12,742</b> | <b>\$ 24</b>      | <b>\$ 4,465</b>  | <b>\$ 20</b>      | <b>\$ 17,207</b> | <b>\$ 44</b>      |
| <b>2018</b>                                     |                  |                   |                  |                   |                  |                   |
| Government or government-guaranteed obligations | \$ 5,554         | \$ 10             | \$ 16,853        | \$ 301            | \$ 22,407        | \$ 311            |
| Other securities                                |                  |                   |                  |                   |                  |                   |
| Corporate obligations                           | 698              | 3                 | 396              | 9                 | 1,094            | 12                |
| <b>Total</b>                                    | <b>\$ 6,252</b>  | <b>\$ 13</b>      | <b>\$ 17,249</b> | <b>\$ 310</b>     | <b>\$ 23,501</b> | <b>\$ 323</b>     |

0 = less than \$0.5 million.

*Fair Value Disclosure*

The fair value of INVESTMENTS FOR LIQUIDITY PURPOSE and related financial assets as of 31 December 2019 and 2018 are as follows:

(\$ million)

|                                                    | Total            | Fair Value Measurements |                 |             |
|----------------------------------------------------|------------------|-------------------------|-----------------|-------------|
|                                                    |                  | Level 1                 | Level 2         | Level 3     |
| <b>2019</b>                                        |                  |                         |                 |             |
| Investments for liquidity purpose                  |                  |                         |                 |             |
| Government or government-guaranteed obligations    | \$ 32,677        | \$ 29,142               | \$ 3,535        | \$ –        |
| Time deposits                                      | 4,394            | –                       | 4,394           | –           |
| Other securities                                   | 2,241            | 1,862                   | 379             | –           |
| Securities transferred under repurchase agreements | 186              | 186                     | –               | –           |
| Securities purchased under resale arrangements     | 235              | –                       | 235             | –           |
| <b>Total at fair value</b>                         | <b>\$ 39,733</b> | <b>\$ 31,190</b>        | <b>\$ 8,543</b> | <b>\$ –</b> |

continued

(\$ million)

|                                                    | Total            | Fair Value Measurements |                 |             |
|----------------------------------------------------|------------------|-------------------------|-----------------|-------------|
|                                                    |                  | Level 1                 | Level 2         | Level 3     |
| <b>2018</b>                                        |                  |                         |                 |             |
| Investments for liquidity purpose                  |                  |                         |                 |             |
| Government or government-guaranteed obligations    | \$ 28,554        | \$ 25,834               | \$ 2,720        | \$ –        |
| Time deposits                                      | 5,195            | –                       | 5,195           | –           |
| Other securities                                   | 1,466            | 1,189                   | 277             | –           |
| Securities transferred under repurchase agreements | 87               | 87                      | –               | –           |
| Securities purchased under resale arrangements     | 343              | –                       | 343             | –           |
| <b>Total at fair value</b>                         | <b>\$ 35,645</b> | <b>\$ 27,110</b>        | <b>\$ 8,535</b> | <b>\$ –</b> |

If available, active market quotes are used to assign fair values to investment securities and related financial assets. These include most government or government-guaranteed obligations and corporate obligations. Investments and related financial assets where active market quotes are not available are categorized as Level 2 or Level 3, and valuation is provided by independent valuation services, custodians, and asset managers, or based on discounted cash flow model using market observable inputs, such as interest rates, foreign exchange rates, basis spreads, cross currency rates, and volatilities, and unobservable inputs, such as option adjusted spreads, and other techniques. Time deposits are reported at cost, which approximates FV.

OCR's INVESTMENTS FOR LIQUIDITY PURPOSE are governed by the Investment Authority approved by the Board of Directors. The asset and liability management committee and risk committee are involved in overseeing the activities and performance of the investment portfolio. ADB maintains documented processes and internal controls to value the investment securities and financial assets. The data management unit in the treasury department is responsible for providing the valuation. In instances where ADB relies primarily on prices from third party pricing information, there are procedures in place to validate the appropriateness of those values in determining the hierarchy levels. This involves evaluating the nature of prices provided by third party pricing sources to determine if they are indicative or binding prices.

The table below provides the details of transfers between Levels 1 and 2, resulting from the availability or absence of market quotes for the years ended 31 December 2019 and 2018:

(\$ million)

|                                                 | 2019         |                | 2018          |                 |
|-------------------------------------------------|--------------|----------------|---------------|-----------------|
|                                                 | Level 1      | Level 2        | Level 1       | Level 2         |
| Investments for liquidity purpose               |              |                |               |                 |
| Government or government-guaranteed obligations |              |                |               |                 |
| Transfers into (out of)                         | \$ 50        | \$ (50)        | \$ 165        | \$ (165)        |
| Transfers (out of) into                         | –            | –              | (34)          | 34              |
| Corporate obligations                           |              |                |               |                 |
| Transfers into (out of)                         | –            | –              | 25            | (25)            |
| Transfers (out of) into                         | –            | –              | –             | –               |
|                                                 | <b>\$ 50</b> | <b>\$ (50)</b> | <b>\$ 156</b> | <b>\$ (156)</b> |

#### NOTE E—SECURITIES TRANSFERRED UNDER REPURCHASE AGREEMENTS

ADB has entered into Global Master Repurchase Agreements (GMRA) in which ADB agrees to transfer securities under repurchase agreements. The agreements provide for the right of a party to terminate if any of the specified default and termination events occur and include provisions to offset the sum due from one party against the sum due from the other. All securities transferred under repurchase agreements are

continued

investment grade government or government-guaranteed securities. ADB monitors periodically the FV of transferred against the amount of cash received under the agreement and the counterparty credit exposure against approved limits. ADB only deals with counterparties that meet the required credit rating and have signed a GMRA or its equivalent.

The gross amounts of PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS subject to enforceable master netting agreements as of 31 December 2019 and 2018 are summarized below.

(\$ million)

|                                               | (a)                                                        | (b)                                           |                    | (c) = (a) - (b) |
|-----------------------------------------------|------------------------------------------------------------|-----------------------------------------------|--------------------|-----------------|
|                                               | Gross amount of liabilities presented in the balance sheet | Gross amounts not offset in the balance sheet |                    |                 |
|                                               |                                                            | Financial instruments                         | Collateral pledged | Net amount      |
| <b>2019</b>                                   |                                                            |                                               |                    |                 |
| Payable under securities repurchase agreement | \$ 191                                                     | \$ 186                                        | \$ –               | \$ 5            |
| <b>Total</b>                                  | <b>\$ 191</b>                                              | <b>\$ 186</b>                                 | <b>\$ –</b>        | <b>\$ 5</b>     |
| <b>2018</b>                                   |                                                            |                                               |                    |                 |
| Payable under securities repurchase agreement | \$ 84                                                      | \$ 87                                         | \$ –               | \$ (3)          |
| <b>Total</b>                                  | <b>\$ 84</b>                                               | <b>\$ 87</b>                                  | <b>\$ –</b>        | <b>\$ (3)</b>   |

The contractual maturity of payable under securities repurchase agreements as of 31 December 2019 and 2018 are summarized below:

(\$ million)

|                                                                                         | Remaining contractual maturity of the agreements |               |             |               |
|-----------------------------------------------------------------------------------------|--------------------------------------------------|---------------|-------------|---------------|
|                                                                                         | 1-30 Days                                        | 31-90 Days    | > 90 Days   | Total         |
| <b>2019</b>                                                                             |                                                  |               |             |               |
| <b>Payable under securities repurchase agreement</b>                                    |                                                  |               |             |               |
| Government or government-guaranteed obligations                                         | \$ 34                                            | \$ 157        | \$ –        | \$ 191        |
| <b>Total</b>                                                                            | <b>\$ 34</b>                                     | <b>\$ 157</b> | <b>\$ –</b> | <b>\$ 191</b> |
| <b>Gross amount of recognized liabilities for repurchase agreements disclosed above</b> |                                                  |               |             | <b>191</b>    |
| <b>Amounts related to agreements not included in offsetting disclosure</b>              |                                                  |               |             | <b>–</b>      |
| <b>2018</b>                                                                             |                                                  |               |             |               |
| <b>Payable under securities repurchase agreement</b>                                    |                                                  |               |             |               |
| Government or government-guaranteed obligations                                         | \$ –                                             | \$ 84         | \$ –        | \$ 84         |
| <b>Total</b>                                                                            | <b>\$ –</b>                                      | <b>\$ 84</b>  | <b>\$ –</b> | <b>\$ 84</b>  |
| <b>Gross amount of recognized liabilities for repurchase agreements disclosed above</b> |                                                  |               |             | <b>84</b>     |
| <b>Amounts related to agreements not included in offsetting disclosure</b>              |                                                  |               |             | <b>–</b>      |

continued

## **NOTE F—LOANS — OPERATIONS**

ADB offers sovereign and nonsovereign loans. Sovereign loans consist of regular loans and concessional loans.

### **Sovereign Loans**

#### *Regular Loans*

LIBOR-based loan (LBL), the primary lending facility of sovereign regular loans, offers borrowers (i) choice of currency and interest rate basis; (ii) flexibility to change the original loan terms (currency and interest rate basis) at any time during the life of the loan; and (iii) options to cap or collar the floating lending rate at any time during the life of the loan. LBL is offered in different currencies including US dollar, Japanese yen, euro and New Zealand dollar, which currently have effective contractual spread of 50 basis points.

ADB also offers local currency loans (LCL) to sovereign borrowers to continue meeting borrowers' evolving financial needs. LCLs may be made on a floating rate basis with current effective contractual spread of 50 basis points. The cost-base rate of an LCL is determined by its financing mode.

Regular loans include the discontinued loans under US dollar and Japanese yen pool-based variable lending rate system available to sovereign borrowers.

#### *Concessional Loans*

Concessional loans represent the concessional financing to DMCs with (i) per capita gross national income below the ADB operational cutoff and (ii) limited or low creditworthiness. ADB offers loans to its concessional sovereign borrowers at fixed (1.0%, 1.5% or 2.0%) interest rates with repayment over periods ranging from 24 to 40 years.

### **Nonsovereign Loans**

LBL is also offered to nonsovereign borrowers where ADB applies market-based pricing to determine the lending spread and other fees for each loan. The lending spread is intended to cover ADB's risk exposure to specific borrowers and projects, while the front-end fee covers the administrative costs incurred during loan origination. LCLs to nonsovereign borrowers are priced based on relevant local funding benchmarks or ADB's funding costs plus a credit spread.

continued

Summary statement of loans as of 31 December 2019 which include loans outstanding, undisbursed committed loans, and loans approved not yet committed are shown in OCR-6. The carrying amounts of loan outstanding by loan products as of 31 December 2019 and 2018 are as follows:

(\$ million)

|                                                                 | <b>Sovereign<br/>Loans</b> | <b>Nonsovereign<br/>Loans</b> | <b>Total</b>   |
|-----------------------------------------------------------------|----------------------------|-------------------------------|----------------|
| <b>2019</b>                                                     |                            |                               |                |
| LIBOR-based loans                                               | \$ 77,652                  | \$ 5,124                      | \$ 82,776      |
| Local currency loans                                            | 173                        | 1,231                         | 1,404          |
| Pool-based single currency loans (US\$)                         | 962                        | –                             | 962            |
| Pool-based single currency loans (yen)                          | 4                          | –                             | 4              |
| Concessional loans <sup>a</sup>                                 | 29,360                     | –                             | 29,360         |
|                                                                 | <b>108,151</b>             | <b>6,355</b>                  | <b>114,506</b> |
| Allowance for loan losses                                       | (50)                       | (210)                         | (260)          |
| Unamortized direct loan origination cost<br>(front-end fee)—net | 198                        | (55)                          | 143            |
|                                                                 | <b>148</b>                 | <b>(265)</b>                  | <b>(117)</b>   |
| <b>Loans Outstanding</b>                                        | <b>108,299</b>             | <b>6,090</b>                  | <b>114,389</b> |
| <b>2018</b>                                                     |                            |                               |                |
| LIBOR-based loans                                               | \$ 71,001                  | \$ 4,428                      | \$ 75,429      |
| Local currency loans                                            | 84                         | 1,065                         | 1,149          |
| Pool-based single currency loans (US\$)                         | 1,312                      | –                             | 1,312          |
| Pool-based single currency loans (yen)                          | 6                          | –                             | 6              |
| Concessional loans <sup>a</sup>                                 | 28,621                     | –                             | 28,621         |
|                                                                 | <b>101,024</b>             | <b>5,493</b>                  | <b>106,517</b> |
| Allowance for loan losses                                       | (54)                       | (183)                         | (236)          |
| Unamortized direct loan origination cost<br>(front-end fee)—net | 178                        | (54)                          | 124            |
|                                                                 | <b>124</b>                 | <b>(237)</b>                  | <b>(112)</b>   |
| <b>Loans Outstanding</b>                                        | <b>101,148</b>             | <b>5,257</b>                  | <b>106,405</b> |

Note: Numbers may not sum precisely because of rounding.

<sup>a</sup> Net of \$236 million fair value adjustment as of 31 December 2019 (\$252 million – 2018).

### Prepayments

During 2019, ADB received prepayments for 14 loans (15 loans – 2018) amounting to \$239 million (\$925 million – 2018), of which \$61 million (\$632 million – 2018) was for regular sovereign loans, \$1 million was for concessional sovereign loans (\$5 million – 2018) and \$177 million was for nonsovereign loans (\$288 million – 2018).

### Loans in Non-Accrual Status

ADB places loans in non-accrual status if the principal or interest with respect to any such loans is past due by 180 days or in case of loans that are not yet past due, when there is expectation that interest and other charges will not be collected when they become due, at the point when such information is known. Interest on non-accruing loans is included in revenue only to the extent that payments have actually been received by ADB.



## OCR-10

continued

As of 31 December 2019, two nonsovereign loans (two nonsovereign loans – 2018) were placed in non-accrual status with principal outstanding of \$95 million (\$95 million – 2018), of which \$6 million is overdue (\$7 million – 2018). There were no outstanding sovereign loans, both regular and concessional, in non-accrual status as of 31 December 2019 and 2018.

An analysis of the age of the recorded loans outstanding that are past due as of 31 December 2019 and 2018 is as follows:

(\$ million)

|                                             | Overdue Loan Service Payments |             |             |              | Current           | Total                    |
|---------------------------------------------|-------------------------------|-------------|-------------|--------------|-------------------|--------------------------|
|                                             | 1-90 Days                     | 91-180 Days | > 180 Days  | Total        |                   |                          |
| <b>2019</b>                                 |                               |             |             |              |                   |                          |
| Sovereign loans                             |                               |             |             |              |                   |                          |
| Regular                                     | \$ –                          | \$ –        | \$ –        | \$ –         | \$ 78,791         | \$ 78,791                |
| Concessional                                | 0                             | –           | –           | 0            | 29,596            | 29,596                   |
| Subtotal                                    | 0                             | –           | –           | 0            | 108,387           | 108,387                  |
| Nonsovereign loans                          | –                             | 4           | 2           | 6            | 6,349             | 6,355                    |
| Total                                       | <u>\$ 0</u>                   | <u>\$ 4</u> | <u>\$ 2</u> | <u>\$ 6</u>  | <u>\$ 114,736</u> | <u>114,742</u>           |
| Fair value adjustment on concessional loans |                               |             |             |              |                   | (236)                    |
| Allowance for loan losses                   |                               |             |             |              |                   | (260)                    |
| Unamortized loan origination cost—net       |                               |             |             |              |                   | 143                      |
| <b>Loans Outstanding</b>                    |                               |             |             |              |                   | <u><b>\$ 114,389</b></u> |
| <b>2018</b>                                 |                               |             |             |              |                   |                          |
| Sovereign loans                             |                               |             |             |              |                   |                          |
| Regular                                     | \$ –                          | \$ –        | \$ –        | \$ –         | \$ 72,403         | \$ 72,403                |
| Concessional                                | 0                             | –           | –           | 0            | 28,873            | 28,873                   |
| Subtotal                                    | 0                             | –           | –           | 0            | 101,276           | 101,276                  |
| Nonsovereign loans                          | 3                             | 7           | 4           | 14           | 5,479             | 5,493                    |
| Total                                       | <u>\$ 3</u>                   | <u>\$ 7</u> | <u>\$ 4</u> | <u>\$ 14</u> | <u>\$ 106,755</u> | <u>106,769</u>           |
| Fair value adjustment on concessional loans |                               |             |             |              |                   | (252)                    |
| Allowance for loan losses                   |                               |             |             |              |                   | (236)                    |
| Unamortized loan origination cost—net       |                               |             |             |              |                   | 124                      |
| <b>Loans Outstanding</b>                    |                               |             |             |              |                   | <u><b>\$ 106,405</b></u> |

0 = less than \$0.5 million

continued

*Allowance for Loan Losses*

The changes in the allowance for loan losses during 2019 and 2018 as well as information pertaining to loans which were subject to specific allowance for loan losses are as follows:

(\$ million)

|                                                                       | 2019                     |                       |                   | 2018                     |                       |                   |
|-----------------------------------------------------------------------|--------------------------|-----------------------|-------------------|--------------------------|-----------------------|-------------------|
|                                                                       | Sovereign<br>Loans       | Nonsovereign<br>Loans | Total             | Sovereign<br>Loans       | Nonsovereign<br>Loans | Total             |
| <b>Allowance for Loan Losses:</b>                                     |                          |                       |                   |                          |                       |                   |
| Beginning balance                                                     | \$ 54                    | \$ 183                | \$ 236            | \$ 57                    | \$ 60                 | \$ 118            |
| Provision                                                             | —                        | 43                    | 43                | —                        | 144                   | 144               |
| Write back                                                            | —                        | (8)                   | (8)               | —                        | (22)                  | (22)              |
| Write off                                                             | (4)                      | (7)                   | (11)              | (4)                      | —                     | (4)               |
| Translation adjustments                                               | —                        | (1)                   | (1)               | —                        | 0                     | 0                 |
| Ending Balance                                                        | <u>\$ 50<sup>a</sup></u> | <u>\$ 210</u>         | <u>\$ 260</u>     | <u>\$ 54<sup>a</sup></u> | <u>\$ 183</u>         | <u>\$ 236</u>     |
| Outstanding Allowance on:                                             |                          |                       |                   |                          |                       |                   |
| Individually evaluated for<br>loan losses                             | \$ 50                    | \$ 167                | \$ 217            | \$ 54                    | \$ 148                | \$ 202            |
| Collectively evaluated for<br>loan losses                             | \$ —                     | \$ 43                 | \$ 43             | \$ —                     | \$ 35                 | \$ 35             |
| <b>Loans Outstanding<sup>b</sup></b>                                  | <u>\$ 108,151</u>        | <u>\$ 6,355</u>       | <u>\$ 114,506</u> | <u>\$ 101,024</u>        | <u>\$ 5,493</u>       | <u>\$ 106,517</u> |
| Individually evaluated for<br>loan losses                             | \$ 302                   | \$ 307                | \$ 609            | \$ 310                   | \$ 230                | \$ 540            |
| Collectively evaluated for<br>loan losses                             | \$ —                     | \$ 6,048              | \$ 6,048          | \$ —                     | \$ 5,263              | \$ 5,263          |
| Average recorded<br>investment in impaired<br>loans at amortized cost | \$ 304                   | \$ 319                | \$ 623            | \$ 317                   | \$ 237                | \$ 554            |
| Interest income recognized<br>on impaired loans                       | \$ —                     | \$ 19                 | \$ 19             | \$ —                     | \$ 8                  | \$ 8              |

Notes: Numbers may not sum precisely because of rounding. 0 = less than \$0.5 million.

<sup>a</sup> Represents provision for HIPC debt relief to Afghanistan.

<sup>b</sup> Excluding allowance for loan losses and net unamortized loan origination cost.

Loans subject to provisioning with related allowance for loan losses during 2019 and 2018 are as follows:

(\$ million)

|                    | 2019                           |                                |                      | 2018                           |                                |                      |
|--------------------|--------------------------------|--------------------------------|----------------------|--------------------------------|--------------------------------|----------------------|
|                    | Recorded<br>Loan<br>Receivable | Unpaid<br>Principal<br>balance | Related<br>allowance | Recorded<br>Loan<br>Receivable | Unpaid<br>Principal<br>balance | Related<br>allowance |
| Sovereign Loans    | \$ 302                         | \$ —                           | \$ 50                | \$ 310                         | \$ —                           | \$ 54                |
| Nonsovereign Loans | 307                            | 6                              | 167                  | 230                            | 14                             | 148                  |

The allowance for loan losses for sovereign loans relate to the Heavily Indebted Poor Countries (HIPC) Initiative for the concessional OCR loans. Launched in 1996 by the International Development Association and the IMF, the HIPC Initiative provides partial debt relief to poor countries with external debt that severely burdens export earnings or public finance. The ADB Board of Governors adopted a resolution on 7 April 2008 for ADB to participate in the HIPC Initiative and to provide Afghanistan with debt relief. The principal amount of Afghanistan's debt to be forgiven was \$82 million. Of this amount, a total of \$32 million has been written-

continued

off as the loan service payments of affected loans fell due. This brought the balance of the Allowance for HIPC debt relief as of 31 December 2019 to \$50 million.

For the year ended 31 December 2019, there was one nonsovereign loan (nil – 2018) that has been modified and restructured through reduction of interest rate and deferral of repayments. As of 31 December 2019, outstanding amount for the restructured loan is \$25 million, net of \$49 million allowance for loan losses, with no undisbursed commitments. There was no change in level of allowance for loan losses after the loan was restructured.

The Office of Risk Management is primarily responsible for determining the specific and collective provisions for nonsovereign loans and the accounting division, in coordination with regional departments, is responsible for determining the specific provisions for sovereign loans. The provisioning levels are discussed at the risk committee and reported to the Board of Directors quarterly.

#### *Fair Value Adjustment on Concessional Loans*

On 1 January 2017, concessional loans from ADF were transferred to OCR at FV. The FV of the ADF loan was approximated by the nominal value of the loan outstanding amount adjusted for credit risk, which was measured by the expected loss of the ADF loan portfolio based on ADB credit risk management framework.

The FV adjustment of concessional loans transferred was \$281 million. The FV adjustment is recognized as income over the life of the loans based on the maturity structure of the transferred loans and as the loan service payments are received.

#### *Credit Risks and Quality of Loans*

ADB is exposed to credit risks in the loan portfolio if a borrower defaults or its creditworthiness deteriorates. Credit risks represent the potential loss due to possible nonperformance by borrowers under the terms of the contract. ADB manages credit risk for lending operations by monitoring creditworthiness of the borrowers and the capital adequacy framework.

ADB monitors credit quality of the loans by assigning a risk rating to each loan on an internal scale from 1 to 14 with 1 denoting the lowest expectation of credit risk and 14 denoting that the borrower has defaulted. The rating scale corresponds to the rating scales used by international rating agencies. For sovereign loans, ADB has a process of assigning internal ratings to provide more accurate inputs for risk measurements. For nonsovereign loans, each transaction is reviewed and assigned a rating based on a methodology that is broadly aligned with the rating approach of international rating agencies. The risk ratings are used to monitor the credit risks in the portfolio.

The following table summarizes the credit quality of sovereign and nonsovereign loans after the effect of risk transfers. Risk transfer and risk participation charges are paid by ADB to a third party which shares in the risk, returns and any associated recovery rights with respect to a loan provided by ADB. High credit risk includes \$307 million in nonsovereign loans that were considered impaired (\$217 million – 2018).

(\$ million)

| Risk Class              | Risk Rating       | Sovereign Loans   |                   | Nonsovereign Loans |                 |
|-------------------------|-------------------|-------------------|-------------------|--------------------|-----------------|
|                         |                   | 2019              | 2018              | 2019               | 2018            |
| Low credit risk         | 1–5 (AAA to BBB–) | \$ 54,742         | \$ 52,255         | \$ 2,301           | \$ 1,814        |
| Medium credit risk      | 6–8 (BB+ to BB–)  | 22,705            | 20,461            | 2,359              | 2,243           |
| Significant credit risk | 9–11 (B+ to B–)   | 29,150            | 26,818            | 1,126              | 1,073           |
| High credit risk        | 12–14 (CCC+ to D) | 1,790             | 1,742             | 569                | 363             |
| <b>Total</b>            |                   | <b>\$ 108,387</b> | <b>\$ 101,276</b> | <b>\$ 6,355</b>    | <b>\$ 5,493</b> |

Note: Excluding fair value adjustment on concessional loans, allowance for loan losses, and net unamortized loan origination cost.

continued

As of 31 December 2019, ADB's loan and guarantee portfolios had a significant concentration of credit risk to Asia and the Pacific region. The credit exposure determined based on FV amounted to \$117,464 million (\$109,498 million – 2018).

#### *Fair Value Disclosure*

ADB does not sell its sovereign loans. As of 31 December 2019 and 2018, all loans are carried at amortized cost.

The carrying amount and FV of loans outstanding at 31 December 2019 and 2018 are as follows:  
(\$ million)

|                          | 2019              |                   | 2018              |                   |
|--------------------------|-------------------|-------------------|-------------------|-------------------|
|                          | Carrying Value    | Fair Value        | Carrying Value    | Fair Value        |
| Sovereign – Regular      | \$ 78,972         | \$ 79,312         | \$ 72,569         | \$ 72,973         |
| Sovereign – Concessional | 29,327            | 29,292            | 28,579            | 28,557            |
| Nonsovereign             | 6,090             | 6,224             | 5,257             | 5,337             |
| <b>Total</b>             | <b>\$ 114,389</b> | <b>\$ 114,828</b> | <b>\$ 106,405</b> | <b>\$ 106,867</b> |

The FV hierarchy of ADB loans as of 31 December 2019 and 2018 is as follows:

(\$ million)

|                         | 2019              | 2018              |
|-------------------------|-------------------|-------------------|
| Level 1                 | \$ –              | \$ –              |
| Level 2                 | 80,156            | 73,110            |
| Level 3                 | 34,672            | 33,757            |
| <b>Total fair value</b> | <b>\$ 114,828</b> | <b>\$ 106,867</b> |

#### *Cofinancing*

ADB functions as lead lender in cofinancing arrangements with other participating financial institutions who also provide funds to ADB's sovereign and nonsovereign borrowers. In such capacity, ADB provides loan administration services, which include loan disbursements and/or loan collections. The participating financial institutions have no recourse to ADB for their outstanding loan balances. These loans are not recorded in OCR's Balance Sheet.

Loans administered by ADB on behalf of participating institutions during the years ended 31 December 2019 and 2018 are as follows:

(\$ million)

|                    | 2019            |              | 2018            |              |
|--------------------|-----------------|--------------|-----------------|--------------|
|                    | Amount          | No. of Loans | Amount          | No. of Loans |
| Sovereign loans    | \$ 2,157        | 60           | \$ 2,127        | 61           |
| Nonsovereign loans | 1,847           | 51           | 1,725           | 42           |
| <b>Total</b>       | <b>\$ 4,004</b> | <b>111</b>   | <b>\$ 3,852</b> | <b>103</b>   |

continued

**NOTE G—GUARANTEES — OPERATIONS**

ADB provides guarantees under its sovereign and nonsovereign operations. Such guarantees include (i) credit guarantees where certain principal and/or interest payments are covered; (ii) political risk guarantees, which provide coverage against well-defined country risk events; and (iii) guarantees for certain trade-related obligations. While counter-guarantees from the host government are required for all sovereign guarantees, guarantees for nonsovereign projects may be provided with or without a host government counter-guarantee. ADB also seeks risk-sharing arrangements that set ADB's net exposure under a guarantee at the lowest level required to mobilize the necessary financing while maintaining a participation that is meaningful to its financing partners. A counter-guarantee takes the form of a counter-guarantor's agreement to indemnify ADB for any payment it makes under the guarantee. In the event that a guarantee is called, ADB has the contractual right to require payment from the counter-guarantor, on demand, or as ADB may otherwise direct.

Tenors of guarantees are subject to risk considerations and market conditions. They should normally not exceed the maximum tenor of ADB's ordinary capital resources lending operations, as may be adjusted from time to time, and there is no minimum tenor. In some cases however, guarantees may be for short tenors if the underlying obligations are short term, such as trade-related products.

The maximum potential exposure and outstanding amounts of these guarantee obligations as of 31 December 2019 and 2018 covered:

(\$ million)

|                           | 2019                             |                        | 2018                             |                        |
|---------------------------|----------------------------------|------------------------|----------------------------------|------------------------|
|                           | Maximum<br>Potential<br>Exposure | Outstanding<br>Amount  | Maximum<br>Potential<br>Exposure | Outstanding<br>Amount  |
| Credit Guarantees         |                                  |                        |                                  |                        |
| Trade Related             |                                  |                        |                                  |                        |
| with counterguarantee     | \$ 447                           | \$ 447                 | \$ 599                           | \$ 599                 |
| without counterguarantee  | 812                              | 812                    | 820                              | 678                    |
|                           | <u>1,259</u>                     | <u>1,259</u>           | <u>1,419</u>                     | <u>1,277</u>           |
| Non-Trade Related         |                                  |                        |                                  |                        |
| with counterguarantee     | 776                              | 718                    | 805                              | 723                    |
| without counterguarantee  | 746                              | 614                    | 930                              | 617                    |
|                           | <u>1,522</u>                     | <u>1,332</u>           | <u>1,735</u>                     | <u>1,340</u>           |
| Subtotal                  | <u>2,781</u>                     | <u>2,591</u>           | <u>3,154</u>                     | <u>2,617</u>           |
| Political Risk Guarantees |                                  |                        |                                  |                        |
| Non-Trade Related         |                                  |                        |                                  |                        |
| with counterguarantee     | 64                               | 33                     | 14                               | 14                     |
| without counterguarantee  | 134                              | 12                     | —                                | —                      |
| Subtotal                  | <u>198</u>                       | <u>45</u>              | <u>14</u>                        | <u>14</u>              |
| <b>Total</b>              | <b><u>\$ 2,979</u></b>           | <b><u>\$ 2,636</u></b> | <b><u>\$ 3,168</u></b>           | <b><u>\$ 2,631</u></b> |

The maximum potential exposure represents the undiscounted future payments that ADB could be required to make, inclusive of standby portion for which ADB is committed but not currently at risk. The outstanding amount represents the guaranteed amount utilized under the related loans, which have been disbursed and outstanding as of the end of the year, exclusive of the standby portion.

As of 31 December 2019 and 2018, one credit guarantee with nonsovereign counter-guarantee had collateral from a counter-guarantor.

continued

As of 31 December 2019, a total liability of \$41 million (\$35 million – 2018) relating to standby ready obligations for eight credit risk guarantees (eight – 2018) and two political risk guarantees (one – 2018) has been included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous on the Balance Sheet for all guarantees issued after 31 December 2002.

#### *Fair Value Disclosure*

As of 31 December 2019 and 2018, all of ADB's future guarantee receivables and guarantee liabilities are classified as Level 3 within the FV hierarchy.

The accounting division is responsible for determining and reporting the FV of guarantees reported in the balance sheet. Future guarantee receivables and guarantee liabilities are stated at discounted present value using significant unobservable inputs such as discount rates applicable to individual guarantee contracts that are internally determined and are classified under Level 3. An increase (decrease) in discount rates generally results in a decrease (increase) in the FV of the guarantees.

The valuation technique and significant unobservable quantitative input for guarantee receivables/guarantee liabilities classified as Level 3 as of 31 December 2019 and 2018 are summarized below:

| Valuation Technique   | Unobservable Inputs | Range (Average)        |                        |
|-----------------------|---------------------|------------------------|------------------------|
|                       |                     | 2019                   | 2018                   |
| Discounted cash flows | Discount rates      | 2.22% to 4.43% (2.83%) | 2.22% to 4.43% (2.89%) |

The following table presents the changes in the carrying amounts of ADB's Level 3 future guarantee receivable/liability for the years ended 31 December 2019 and 2018:

| (\$ million)         |      |      |       |
|----------------------|------|------|-------|
|                      | 2019 |      | 2018  |
| Balance, 1 January   | \$   | 35   | \$ 17 |
| Issuances            |      | 22   | 31    |
| Amortization         |      | (16) | (13)  |
| Balance, 31 December | \$   | 41   | \$ 35 |

Note: There were no realized/unrealized gains and losses included in earnings and other comprehensive income.

#### **NOTE H—EQUITY INVESTMENTS — OPERATIONS**

ADB's equity investments may be in the form of direct equity investments (e.g. common, preferred, or other capital stock) or through private equity funds.

Breakdown of equity investments as of 31 December 2019 and 2018 are as follows:

| (\$ million)      |           |              |                 |
|-------------------|-----------|--------------|-----------------|
|                   | 2019      |              | 2018            |
| Equity method     | \$        | 768          | \$ 703          |
| Fair value method |           | 851          | 577             |
| <b>Total</b>      | <b>\$</b> | <b>1,619</b> | <b>\$ 1,280</b> |

continued

Additional information relating to equity investments reported at FV as of 31 December 2019 and 2018 is as follows:

(\$ million)

|                                         | 2019   | 2018   |
|-----------------------------------------|--------|--------|
| <b>As of 31 December</b>                |        |        |
| Cost                                    | \$ 426 | \$ 382 |
| Fair value                              | 851    | 577    |
| Gross unrealized gains                  | 464    | 206    |
| Gross unrealized losses                 | (39)   | (11)   |
| <b>For the years ended 31 December:</b> |        |        |
| Net unrealized gains (losses)           | 229    | (58)   |
| Net realized gains                      | 9      | 90     |
| Net gains                               | 238    | 32     |

Approved equity investments that have not been disbursed totaled \$516 million at 31 December 2019 (\$470 million – 2018).

#### *Fair Value Disclosure*

ADB's equity investments reported at FV as of 31 December 2019 were \$851 million (\$577 million – 2018). Equity investments with readily determinable market prices are valued using quoted prices in active markets and are classified as Level 1. Inputs other than quoted prices within Level 1 that are observable, such as prices of recent investments, are classified as Level 2. Equity investments valued with financial models using unobservable inputs are classified as Level 3.

The FV hierarchy of ADB's equity investments at FV as of 31 December 2019 and 2018 is as follows:

(\$ million)

|                                               | 2019          | 2018          |
|-----------------------------------------------|---------------|---------------|
| Level 1                                       | \$ 583        | \$ 361        |
| Level 2                                       | 193           | 159           |
| Level 3                                       | 75            | 57            |
| <b>Total equity investments at fair value</b> | <b>\$ 851</b> | <b>\$ 577</b> |

The Private Sector Operations Department and Office of Risk Management determines the FV of equity investments without readily determinable FV. The valuation methodology used for the Level 3 securities considers multiple valuation techniques ranging from (i) discounted cash flow, (ii) comparable valuations, and (iii) other techniques. An increase (decrease) in the discount rate, independently, will decrease (increase) the FV of equity investments. Conversely, significant increase (decrease) in price-to-book and price-to-equity multiples will generally increase (decrease) the FV of the equity investments. The valuation technique used for one Level 3 equity investment was changed in 2019 to reflect a more relevant FV measurement.

continued

The valuation techniques and significant unobservable inputs for equity investments classified as Level 3 as of 31 December 2019 and 2018 are presented below.

| Valuation Technique   | Fair Value<br>(\$ million) | Unobservable Inputs      | Value/Range<br>(Average) |
|-----------------------|----------------------------|--------------------------|--------------------------|
| <b>2019</b>           |                            |                          |                          |
| Discounted cash flow  | \$ 24                      | Discount rate            | 10.13% – 19.10% (13.86%) |
| Comparable valuations | 29                         | Price-to-book multiple   | 1.10x                    |
|                       |                            | Price-to-equity multiple | 10.50x                   |
| Other techniques      | 22                         | Last transacted price    | n/a                      |
|                       |                            | Net asset value          | n/a                      |
|                       |                            | EV/EBITDA                | 5x – 6x                  |
|                       |                            | EV/Revenue               | 0.90x                    |
|                       |                            | Price-to-equity multiple | 3.60x                    |
|                       |                            | Price-to-book multiple   | 0.50x – 0.60x (0.54x)    |
|                       |                            | Discount rate            | 15.95% – 21.70% (20.57%) |
|                       | <b>\$ 75</b>               |                          |                          |
| <b>2018</b>           |                            |                          |                          |
| Discounted cash flow  | \$ 12                      | Discount rate            | 16.27%                   |
| Other techniques      | 45                         | Last transacted price    | n/a                      |
|                       |                            | Net asset value          | n/a                      |
|                       |                            | Internal rate of return  | 21%                      |
|                       |                            | Price-to-book multiple   | 0.60x – 1.14x (1.06x)    |
|                       |                            | Price-to-equity multiple | 2.60x – 8.25x (7.71x)    |
|                       |                            | Discount rate            | 10.00% – 13.56% (11.24%) |
|                       |                            | EV/EBITDA                | 5x – 6.5x                |
|                       | <b>\$ 57</b>               |                          |                          |

EV/EBITDA = enterprise value/earnings before interest, taxes, depreciation, and amortization, n/a = not applicable.



continued

The following table presents the changes in the carrying amounts of ADB's Level 3 equity investments for the years ended 31 December 2019 and 2018:

| (\$ million)                                                                                                                                                                               |    | Equity investments under FV Method |       |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----|------------------------------------|-------|
|                                                                                                                                                                                            |    | 2019                               | 2018  |
| Balance, beginning of year                                                                                                                                                                 | \$ | 57                                 | \$ 3  |
| Equity Investments previously reported at cost <sup>a</sup>                                                                                                                                |    | –                                  | 23    |
| New Level 3 equity investment                                                                                                                                                              |    | 45                                 | 33    |
| Total unrealized (losses) gains                                                                                                                                                            |    |                                    |       |
| Included in earnings <sup>b</sup>                                                                                                                                                          |    | (26)                               | 0     |
| Included in other comprehensive income (loss) <sup>c</sup>                                                                                                                                 |    | (1)                                | (2)   |
| Balance, end of year                                                                                                                                                                       | \$ | 75                                 | \$ 57 |
| The amount of total (losses) gains for the year included in earnings attributable to the change in unrealized gains or losses relating to assets still held at reporting date <sup>b</sup> |    | \$ (26)                            | \$ –  |

0 = less than \$0.5 million

<sup>a</sup> FV of equity investments previously reported at cost upon adoption of ASU 2016-01 effective 1 January 2018.

<sup>b</sup> Included in net unrealized gains (losses) (OCR-2).

<sup>c</sup> Included in accumulated translation adjustments (Note N).

## NOTE I—OTHER DEBT SECURITIES — OPERATIONS

ADB's financial assistance to DMCs may be made by way of subscription to an entity's debt instruments such as bonds and debentures issued for the purpose of financing development projects. As of 31 December 2019 and 2018, AFS and HTM other debt securities are as follows:

| (\$ million)       |           | 2019       | 2018          |
|--------------------|-----------|------------|---------------|
| Available for sale | \$        | 47         | \$ –          |
| Held-to-maturity   |           | 708        | 618           |
| <b>Total</b>       | <b>\$</b> | <b>755</b> | <b>\$ 618</b> |

In November 2018, the AFS other debt security was converted into equity shares.

The carrying value and FV of the outstanding other debt securities by contractual maturity as of 31 December 2019 and 2018 are presented below:

| (\$ million)                           |           | 2019           |               | 2018           |               |
|----------------------------------------|-----------|----------------|---------------|----------------|---------------|
|                                        |           | Amortized Cost | Fair Value    | Amortized Cost | Fair Value    |
| Due in one year or less                | \$        | 65             | \$ 67         | \$ 22          | \$ 24         |
| Due after one year through five years  |           | 450            | 474           | 489            | 507           |
| Due after five years through ten years |           | 237            | 252           | 107            | 116           |
| <b>Total</b>                           | <b>\$</b> | <b>752</b>     | <b>\$ 793</b> | <b>\$ 618</b>  | <b>\$ 647</b> |

continued

The hierarchy of FV of ADB's other debt securities as of 31 December 2019 and 2018 is as follows:

(\$ million)

|                            | 2019          | 2018          |
|----------------------------|---------------|---------------|
| Level 1                    | \$ 23         | \$ –          |
| Level 2                    | 24            | –             |
| Level 3                    | 746           | 647           |
| <b>Total at fair value</b> | <b>\$ 793</b> | <b>\$ 647</b> |

The following table presents the changes in the carrying amounts of ADB's Level 3 other debt securities at fair value method for the years ended 31 December 2019 and 2018:

(\$ million)

|                              | 2019        | 2018        |
|------------------------------|-------------|-------------|
| Balance, beginning of year   | \$ –        | \$ 3        |
| Converted into equity shares | –           | (3)         |
| <b>Balance, end of year</b>  | <b>\$ –</b> | <b>\$ –</b> |

Note: There were no transfers in and out of Level 3.

Additional information relating to other debt securities classified as AFS are as follows:

(\$ million)

|                                                  | 2019  | 2018 |
|--------------------------------------------------|-------|------|
| <b>As of 31 December</b>                         |       |      |
| Amortized cost                                   | \$ 44 | \$ – |
| Fair value                                       | 47    | –    |
| Gross unrealized gains                           | 3     | –    |
| Gross unrealized losses                          | –     | –    |
| <b>For the year ended 31 December</b>            |       |      |
| Increase in net unrealized gains from prior year | 3     | –    |
| Proceeds from sales                              | –     | –    |
| Gross gain on sales                              | –     | –    |
| Gross loss on sales                              | –     | –    |

## NOTE J—DERIVATIVE INSTRUMENTS

ADB uses derivative instruments such as interest rate swaps, currency swaps, and foreign exchange swaps and forwards for asset and liability management of individual positions and portfolios. The FV of outstanding currency and interest rate swap agreements is determined at the estimated amount that ADB would receive or pay to terminate the agreements using market-based valuation models. The basis of valuation is the present value of expected cash flows based on market data.

Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Borrowings are interest rate, currency and foreign exchange swaps that ADB has entered into for the purpose of hedging specific borrowings. The terms of ADB's interest rate swap, currency and foreign exchange swap agreements usually match the terms of particular borrowings. Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Investments for liquidity purpose are interest rate, currency and foreign exchange swaps, and forwards that ADB has entered into for the purpose of hedging specific investments. Included in DERIVATIVE ASSETS/DERIVATIVE LIABILITIES – Loans – Operations are interest rate and currency swaps that ADB has entered into for the purpose of hedging specific loans or a portfolio of loans. The loan related swaps

## OCR-10

continued

were executed to better align the composition of certain outstanding loans with funding sources and future requirements.

Future dated derivatives as of 31 December 2019 amounted to \$481 million for derivative assets (\$2 million – 2018) and \$478 million for derivative liabilities (\$11 million – 2018).

### *Fair Value Disclosure*

The FV hierarchy of ADB's derivatives and the balance sheet location as of 31 December 2019 and 2018 are as follows:

(\$ million)

\$ (million)

|                                        | Balance Sheet Location              | Fair Value Measurements |             |                  |                 |
|----------------------------------------|-------------------------------------|-------------------------|-------------|------------------|-----------------|
|                                        |                                     | Total                   | Level 1     | Level 2          | Level 3         |
| <b>2019</b>                            |                                     |                         |             |                  |                 |
| <b>Assets</b>                          |                                     |                         |             |                  |                 |
| Borrowings related derivatives         | Derivative Assets                   |                         |             |                  |                 |
| Currency swaps                         | - Borrowings                        | \$ 32,506               | \$ –        | \$ 29,931        | \$ 2,575        |
| Interest rate swaps                    |                                     | 976                     | –           | 976              | 0               |
| Investments related derivatives        | Derivative Assets                   |                         |             |                  |                 |
| Currency swaps                         | - Investments for liquidity purpose | 9,722                   | –           | 9,722            | –               |
| Foreign exchange swaps                 |                                     | 6,313                   | –           | 6,313            | –               |
| Foreign exchange forward               |                                     | 18                      | –           | 18               | –               |
| Loans related derivatives              | Derivative Assets                   |                         |             |                  |                 |
| Currency swaps                         | - Loans — Operations                | 12,855                  | –           | 12,855           | –               |
| Interest rate swaps                    |                                     | 229                     | –           | 229              | –               |
| <b>Total assets at fair value</b>      |                                     | <b>\$ 62,619</b>        | <b>\$ –</b> | <b>\$ 60,044</b> | <b>\$ 2,575</b> |
| <b>Liabilities</b>                     |                                     |                         |             |                  |                 |
| Borrowings related derivatives         | Derivative Liabilities              |                         |             |                  |                 |
| Currency swaps                         | - Borrowings                        | \$ 33,127               | \$ –        | \$ 33,127        | \$ –            |
| Interest rate swaps                    |                                     | 303                     | –           | 303              | 0               |
| Investments related derivatives        | Derivative Liabilities              |                         |             |                  |                 |
| Currency swaps                         | - Investments for liquidity purpose | 9,738                   | –           | 9,738            | –               |
| Interest rate swaps                    |                                     | 21                      | –           | 21               | –               |
| Foreign exchange swaps                 |                                     | 6,211                   | –           | 6,211            | –               |
| Foreign exchange forward               |                                     | 18                      | –           | 18               | –               |
| Loans related derivatives              | Derivative Liabilities              |                         |             |                  |                 |
| Currency swaps                         | - Loans — Operations                | 13,081                  | –           | 12,277           | 804             |
| Interest rate swaps                    |                                     | 70                      | –           | 70               | –               |
| <b>Total liabilities at fair value</b> |                                     | <b>\$ 62,569</b>        | <b>\$ –</b> | <b>\$ 61,765</b> | <b>\$ 804</b>   |

0 = less than \$0.5 million

continued

(\$ million)

|                                        |                                     | Fair Value Measurements |             |                  |                 |
|----------------------------------------|-------------------------------------|-------------------------|-------------|------------------|-----------------|
|                                        | Balance Sheet Location              | Total                   | Level 1     | Level 2          | Level 3         |
| <b>2018</b>                            |                                     |                         |             |                  |                 |
| <b>Assets</b>                          |                                     |                         |             |                  |                 |
| Borrowings related derivatives         | Derivative Assets                   |                         |             |                  |                 |
| Currency swaps                         | - Borrowings                        | \$ 24,966               | \$ –        | \$ 23,416        | \$ 1,550        |
| Interest rate swaps                    |                                     | 219                     | –           | 219              | –               |
| Investments related derivatives        | Derivative Assets                   |                         |             |                  |                 |
| Currency swaps                         | - Investments for liquidity purpose | 8,243                   | –           | 8,243            | –               |
| Interest rate swaps                    |                                     | 4                       | –           | 4                | –               |
| Foreign exchange swaps                 |                                     | 3,442                   | –           | 3,442            | –               |
| Foreign exchange forward               |                                     | 15                      | –           | 15               | –               |
| Loans related derivatives              | Derivative Assets                   |                         |             |                  |                 |
| Currency swaps                         | - Loans — Operations                | 8,564                   | –           | 8,564            | –               |
| Interest rate swaps                    |                                     | 47                      | –           | 47               | –               |
| <b>Total assets at fair value</b>      |                                     | <b>\$ 45,500</b>        | <b>\$ –</b> | <b>\$ 43,950</b> | <b>\$ 1,550</b> |
| <b>Liabilities</b>                     |                                     |                         |             |                  |                 |
| Borrowings related derivatives         | Derivative Liabilities              |                         |             |                  |                 |
| Currency swaps                         | - Borrowings                        | \$ 27,220               | \$ –        | \$ 27,220        | \$ –            |
| Interest rate swaps                    |                                     | 1,208                   | –           | 1,208            | –               |
| Investments related derivatives        | Derivative Liabilities              |                         |             |                  |                 |
| Currency swaps                         | - Investments for liquidity purpose | 8,279                   | –           | 8,279            | –               |
| Interest rate swaps                    |                                     | 20                      | –           | 20               | –               |
| Foreign exchange swaps                 |                                     | 3,509                   | –           | 3,509            | –               |
| Foreign exchange forward               |                                     | 15                      | –           | 15               | –               |
| Loans related derivatives              | Derivative Liabilities              |                         |             |                  |                 |
| Currency swaps                         | - Loans — Operations                | 8,734                   | –           | 8,048            | 686             |
| Interest rate swaps                    |                                     | 11                      | –           | 11               | –               |
| <b>Total liabilities at fair value</b> |                                     | <b>\$ 48,996</b>        | <b>\$ –</b> | <b>\$ 48,310</b> | <b>\$ 686</b>   |

0 = less than \$0.5 million

The Office of Risk Management is primarily responsible for determining the FV of derivatives using discounted cash flow models. Market inputs, such as yield curves, foreign exchange (FX) rates, cross currency basis spreads, yield basis spread, yield and FX volatilities and correlation are obtained from pricing services and brokers and applied to the models. ADB has a process to validate the appropriateness of the models and inputs in determining the hierarchy levels. This involves evaluating the nature of rates and spreads to determine if they are indicative and binding. For derivatives classified under Level 3, basis swaps spreads for selected currencies are considered to be significant unobservable inputs to derive the discount rates based on benchmark yield curves adjusted with a basis swap spread.

A significant increase (decrease) in the basis swap spread will generally decrease (increase) the FV of derivatives.

There were no inter-level transfers in the derivatives portfolio during 2019 and 2018.

## OCR-10

continued

The valuation technique and quantitative information on significant unobservable inputs used in valuing ADB's derivative instruments classified as Level 3 as of 31 December 2019 and 2018 are presented below:

| Valuation<br>Technique | Unobservable<br>Inputs | Range (Weighted Average) |                          |
|------------------------|------------------------|--------------------------|--------------------------|
|                        |                        | 2019                     | 2018                     |
| Discounted cash flows  | Basis swap spreads     | -1.27% to 6.57% (-1.37%) | -1.34% to 7.26% (-2.73%) |

The following tables present the changes in the carrying amounts of ADB's Level 3 derivative assets and derivative liabilities for the years ended 31 December 2019 and 2018:

(\$ million)

|                                                                                                                                                                                                                | Borrowings related derivatives |               | Loans related derivatives |                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------|---------------|---------------------------|-----------------|
|                                                                                                                                                                                                                | Assets                         | Liabilities   | Assets                    | Liabilities     |
| <b>2019</b>                                                                                                                                                                                                    |                                |               |                           |                 |
| Balance, beginning of year                                                                                                                                                                                     | \$ 1,550                       | \$ –          | \$ –                      | \$ (686)        |
| Total gains (losses) - (realized/unrealized)                                                                                                                                                                   |                                |               |                           |                 |
| Included in earnings <sup>a</sup>                                                                                                                                                                              | 210                            | (0)           | –                         | (25)            |
| Included in other comprehensive loss <sup>b</sup>                                                                                                                                                              | (80)                           | –             | –                         | (39)            |
| Issuances                                                                                                                                                                                                      | 1,149                          | –             | –                         | (101)           |
| Maturities/Redemptions                                                                                                                                                                                         | (254)                          | –             | –                         | 47              |
| Balance, end of year                                                                                                                                                                                           | <u>\$ 2,575</u>                | <u>\$ (0)</u> | <u>\$ –</u>               | <u>\$ (804)</u> |
| The amount of total gains (losses) for the year included in earnings attributable to the change in net unrealized gains or losses <sup>a</sup> relating to assets/liabilities still held at the reporting date | <u>\$ 121</u>                  | <u>\$ (0)</u> | <u>\$ –</u>               | <u>\$ (25)</u>  |
| <b>2018</b>                                                                                                                                                                                                    |                                |               |                           |                 |
| Balance, beginning of year                                                                                                                                                                                     | \$ 1,462                       | \$ –          | \$ –                      | \$ (536)        |
| Total (losses) gains - (realized/unrealized)                                                                                                                                                                   |                                |               |                           |                 |
| Included in earnings <sup>a</sup>                                                                                                                                                                              | (92)                           | –             | –                         | 8               |
| Included in other comprehensive loss <sup>b</sup>                                                                                                                                                              | (241)                          | –             | –                         | 12              |
| Issuances                                                                                                                                                                                                      | 648                            | –             | –                         | (220)           |
| Maturities/Redemptions                                                                                                                                                                                         | (227)                          | –             | –                         | 50              |
| Balance, end of year                                                                                                                                                                                           | <u>\$ 1,550</u>                | <u>\$ –</u>   | <u>\$ –</u>               | <u>\$ (686)</u> |
| The amount of total (losses) gains for the year included in earnings attributable to the change in net unrealized gains or losses <sup>a</sup> relating to assets/liabilities still held at the reporting date | <u>\$ (53)</u>                 | <u>\$ –</u>   | <u>\$ –</u>               | <u>\$ 8</u>     |

0 = less than \$0.5 million

<sup>a</sup> Included in net unrealized gains (losses) (OCR-2).<sup>b</sup> Included in accumulated translation adjustments (Note N).

continued

*Effect of Derivative Instruments on the Statement of Income and Expenses*

ADB reports changes in the FV of its derivative instruments as part of net unrealized gains and losses in its Statement of Income and Expenses while all interest income, expenses, and related amortization of discounts, premiums, and fees are reported as part of revenue and expenses. These are summarized below:

(\$ million)

|                                 | Location of Gain (Loss) recognized in<br>Income (Expenses) on Derivatives | Amount of Gain (Loss) recognized in<br>Income (Expenses) on Derivatives |                 |
|---------------------------------|---------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------|
|                                 |                                                                           | 2019                                                                    | 2018            |
| Borrowings related derivatives  |                                                                           |                                                                         |                 |
| Currency swaps                  | Borrowing and related expenses                                            | \$ 4                                                                    | \$ 198          |
|                                 | Net Realized Gains                                                        | (1)                                                                     | 1               |
|                                 | Net Unrealized Gains (Losses)                                             | 591                                                                     | (141)           |
| Interest rate swaps             | Borrowing and related expenses                                            | (274)                                                                   | (186)           |
|                                 | Net Unrealized Gains (Losses)                                             | 1,586                                                                   | (238)           |
| Foreign exchange swaps          | Borrowing and related expenses                                            | —                                                                       | 2               |
|                                 | Net Unrealized Gains (Losses)                                             | —                                                                       | (0)             |
|                                 |                                                                           | <u>\$ 1,906</u>                                                         | <u>\$ (364)</u> |
| Investments related derivatives |                                                                           |                                                                         |                 |
| Currency swaps                  | Revenue from investments for liquidity purpose                            | \$ 209                                                                  | \$ 141          |
|                                 | Net Unrealized Gains (Losses)                                             | 3                                                                       | (17)            |
| Interest rate swaps             | Revenue from investments for liquidity purpose                            | (2)                                                                     | (5)             |
|                                 | Net Unrealized Gains (Losses)                                             | (4)                                                                     | 8               |
| Foreign exchange swaps          | Revenue from investments for liquidity purpose                            | 94                                                                      | 172             |
|                                 | Net Unrealized Gains (Losses)                                             | 2                                                                       | (2)             |
| Foreign exchange forwards       | Net Unrealized Gains (Losses)                                             | 0                                                                       | 0               |
|                                 |                                                                           | <u>\$ 302</u>                                                           | <u>\$ 297</u>   |
| Loans related derivatives       |                                                                           |                                                                         |                 |
| Currency swaps                  | Revenue from Loans – Operations                                           | \$ 135                                                                  | \$ 125          |
|                                 | Net Unrealized Gains (Losses)                                             | (8)                                                                     | (23)            |
| Interest rate swaps             | Revenue from Loans – Operations                                           | 10                                                                      | 10              |
|                                 | Net Unrealized Gains (Losses)                                             | 124                                                                     | 32              |
|                                 |                                                                           | <u>\$ 261</u>                                                           | <u>\$ 144</u>   |

0 = less than \$0.5 million.

*Counterparty Credit Risks*

ADB undertakes derivative transactions with its eligible counterparties and transacts in various financial instruments as part of liquidity and asset/liability management purposes that may involve credit risks. For all investment securities and their derivatives, ADB manages credit risks by following the policies set forth in the Investment Authority and other risk management guidelines. ADB has a potential risk of loss if the derivative counterparty fails to perform its obligations. In order to reduce credit risk, ADB transacts with counterparties eligible under ADB's swap guidelines which include a requirement that the counterparties have at least a credit rating of A– or higher and generally requires entering into master swap agreements which contain legally enforceable close-out netting provisions for all counterparties with outstanding swap transactions. The reduction in exposure as a result of these netting provisions can vary as additional transactions are

continued

entered into under these agreements. The extent of the reduction in exposure may therefore change substantially within a short period of time following the balance sheet date.

Counterparty credit risk is also mitigated by requiring counterparties to post collateral based on specified credit rating driven thresholds. As of 31 December 2019, ADB had received collateral of \$905 million (\$162 million – 2018) in connection with the swap agreements. Of this amount, \$298 million (\$118 million – 2018) was recorded as swap related collateral in the balance sheet.

ADB has entered into several agreements with its derivative counterparties under the ISDA Master Agreement and the Master Agreement of the National Association of Financial Market Institutional Investors. The agreements provide for the right of a party to terminate the derivative transaction if any of the various events of default and termination events specified occur. Events of default include failure to pay and cross default. Termination events include the situation where (i) the long term unsecured and unsubordinated indebtedness of ADB or the counterparty ceases to be rated at the negotiated minimum credit rating level with the relevant counterparty, or (ii) such indebtedness ceases to be rated by any international credit rating agencies. If ADB's counterparties are entitled under the agreements to terminate their derivative transactions with ADB, ADB will be required to pay an amount equal to its net liability position with each counterparty (in the case of counterparties who have entered into the ISDA Master Agreement absent of local market constraints) and an amount equal to its gross liability position with each counterparty (in the case of counterparties without enforceable netting agreement). The aggregate FV of all derivative instruments that ADB has under the enforceable ISDA Master Agreement that are in a net liability (negative marked-to-market) position as of 31 December 2019 was \$839 million (\$3,604 million – 2018). The gross liability position in the aggregate FV of all derivative instruments that ADB has no enforceable netting agreement amounted to \$2,519 million as of 31 December 2019 (\$147 million – 2018).

ADB has elected not to offset any derivative instruments by counterparty in the balance sheet. Gross amounts of DERIVATIVE ASSETS and DERIVATIVE LIABILITIES not offset in the balance sheet that are subject to enforceable master netting arrangements as of 31 December 2019 and 2018 are as follows: (See Note E for PAYABLE UNDER SECURITIES REPURCHASE AGREEMENTS.)

| (\$ million)                                     |                        |                           |                        |                           |
|--------------------------------------------------|------------------------|---------------------------|------------------------|---------------------------|
|                                                  | 2019                   |                           | 2018                   |                           |
|                                                  | Derivative<br>assets   | Derivative<br>liabilities | Derivative<br>assets   | Derivative<br>liabilities |
| Gross amount presented<br>in the balance sheet   | \$ 60,099 <sup>a</sup> | \$ (60,050) <sup>b</sup>  | \$ 45,350 <sup>a</sup> | \$ (48,849) <sup>b</sup>  |
| Gross amounts not offset<br>in the balance sheet |                        |                           |                        |                           |
| Financial instruments                            | (59,211)               | 59,211                    | (45,245)               | 45,245                    |
| Collateral received <sup>c</sup>                 | (725)                  | –                         | (83)                   | –                         |
| Net amount <sup>d</sup>                          | <u>\$ 163</u>          | <u>\$ (839)</u>           | <u>\$ 22</u>           | <u>\$ (3,604)</u>         |

<sup>a</sup> This excludes gross amount of DERIVATIVE ASSETS presented in the balance sheet not subject to enforceable master netting agreements amounting to \$2,520 million (\$150 million – 2018).

<sup>b</sup> This excludes gross amount of DERIVATIVE LIABILITIES presented in the balance sheet not subject to enforceable master netting agreements amounting to \$2,519 million (\$147 million – 2018).

<sup>c</sup> Collateral received includes both cash and securities collateral.

<sup>d</sup> ADB is not required to post collateral to counterparties when it is in a net liability position.

continued

**NOTE K—PROPERTY, FURNITURE, AND EQUIPMENT**

Property, furniture and equipment includes (i) land; (ii) buildings and improvements; (iii) office furniture and equipment; and (iv) right-of-use asset. Breakdown as of 31 December 2019 and 2018 is as follows:

| (\$ million)                   |               |               |
|--------------------------------|---------------|---------------|
|                                | 2019          | 2018          |
| Land                           | \$ 10         | \$ 10         |
| Buildings and improvements     | 116           | 118           |
| Office furniture and equipment | 63            | 51            |
| Right-of-use asset             | 53            | —             |
| <b>Total</b>                   | <b>\$ 242</b> | <b>\$ 179</b> |

Changes during 2019 and 2018, as well as information pertaining to accumulated depreciation, of buildings and improvements, office furniture and equipment are as follows:

| (\$ million)                       |                            |                                |                            |                                |
|------------------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
|                                    | 2019                       |                                | 2018                       |                                |
|                                    | Buildings and Improvements | Office Furniture and Equipment | Buildings and Improvements | Office Furniture and Equipment |
| <b>Cost:</b>                       |                            |                                |                            |                                |
| Balance, 1 January                 | \$ 272                     | \$ 222                         | \$ 266                     | \$ 199                         |
| Additions during the year          | 9                          | 31                             | 6                          | 28                             |
| Disposals during the year          | (2)                        | (5)                            | (0)                        | (5)                            |
| Balance, 31 December               | 279                        | 248                            | 272                        | 222                            |
| <b>Accumulated Depreciation:</b>   |                            |                                |                            |                                |
| Balance, 1 January                 | (154)                      | (171)                          | (146)                      | (161)                          |
| Depreciation during the year       | (9)                        | (18)                           | (8)                        | (15)                           |
| Disposals during the year          | 0                          | 4                              | 0                          | 5                              |
| Balance, 31 December               | (163)                      | (185)                          | (154)                      | (171)                          |
| <b>Net Book Value, 31 December</b> | <b>\$ 116</b>              | <b>\$ 63</b>                   | <b>\$ 118</b>              | <b>\$ 51</b>                   |

0 = less than \$0.5 million.

In 1991, under the terms of an agreement with the Philippines (Government), ADB returned the former headquarters (HQ) premises, which had been provided by the Government. In accordance with the agreement as supplemented by a memorandum of understanding, ADB was compensated \$23 million for the return of these premises. The compensation is in lieu of being provided premises under the agreement and accordingly, is deferred and amortized over the estimated life of the current HQ building as a reduction of occupancy expense. HQ depreciation for the year ended 31 December 2019 amounted to \$5 million (\$5 million – 2018), net of amortization of the compensation for the former HQ building. As of 31 December 2019, the unamortized deferred compensation balance (included in ACCOUNTS PAYABLE AND OTHER LIABILITIES – Miscellaneous) was \$4 million (\$4 million – 2018).



**OCR-10**

continued

Right-of-use asset mainly pertains to lease of real properties such as offices, buildings and parking lots in field offices. On 1 January 2019, OCR recognized \$57 million in Right-of-use asset and \$55 million in Lease Liability as beginning balance adjustment in OCR's balance sheet. As of 31 December 2019, lease liability amounted to \$50 million and is recorded as part of Miscellaneous under ACCOUNTS PAYABLE AND OTHER LIABILITIES.

In 2019, operating lease cost amounted to \$14 million, while weighted average remaining lease term and weighted average discount rate are 10.32 years and 3% respectively.

The maturity analysis on an undiscounted basis of ADB's operating lease liabilities as of 31 December 2019 are as follows:

| <b>Year ending 31 December</b> | <b>\$ million</b> |
|--------------------------------|-------------------|
| 2020                           | 14                |
| 2021                           | 8                 |
| 2022                           | 10                |
| 2023                           | 5                 |
| 2024                           | 13                |
| Later years                    | 12                |

**NOTE L—BORROWINGS**

The key objective of ADB's borrowing strategy is to raise funds at the most stable and lowest possible cost for the benefit of its borrowers. ADB uses financial derivative instruments in connection with its borrowing activities to increase cost efficiency, while achieving risk management objectives. Currency and interest rate swaps enable ADB to raise operationally needed currencies in a cost-efficient way and to maintain its borrowing presence in the major capital markets. Interest rate swaps are used to reduce interest rate mismatches arising from lending and liquidity operations.

*Fair Value Disclosure*

The Office of Risk Management is primarily responsible for determining the FV of the borrowings. Parameters and models used for determining the FV of borrowings are subject to internal review and periodic external validation. Plain vanilla borrowings are valued using discounted cash flow methods with market-based observable inputs such as yield curves, foreign exchange rates, and credit spreads. On some borrowings, significant unobservable input is also used such as derived credit spread. Structured borrowings issued by ADB are valued using financial models that discount future cash flows and simulated expected cash flows. These involve the use of pay-off profiles within the realm of accepted market valuation models such as Hull-White and Black-Scholes. The model incorporates market observable inputs, such as yield curves, foreign exchange rates, credit spreads, yield and FX volatilities and correlation.

ADB reports borrowings that are swapped or are intended to be swapped in the future and selected floating-rate borrowings at FV. Changes in FV are reported in the Statement of Income and Expenses under NET UNREALIZED GAINS (LOSSES). With the adoption of ASU 2016-01 effective 1 January 2018, ADB measures the portion of the FV change due to instrument-specific credit risk and presents the amount separately in Accumulated other comprehensive loss account.

continued

The FV hierarchy of ADB's outstanding borrowings reported at amortized cost and FV as of 31 December 2019 and 2018 are as follows:

(\$ million)

|                                       | 2019              | 2018             |
|---------------------------------------|-------------------|------------------|
| <b>At Amortized cost</b>              |                   |                  |
| Level 1                               | \$ —              | \$ —             |
| Level 2                               | 2,706             | 3,194            |
| Level 3                               | 29                | 178              |
| <b>Sub-total</b>                      | <b>2,735</b>      | <b>3,372</b>     |
| <b>At Fair value</b>                  |                   |                  |
| Level 1                               | —                 | —                |
| Level 2                               | 98,513            | 84,644           |
| Level 3                               | 4,208             | 2,769            |
| <b>Sub-total</b>                      | <b>102,721</b>    | <b>87,413</b>    |
| <b>Total borrowings at fair value</b> | <b>\$ 105,456</b> | <b>\$ 90,785</b> |

ADB uses the discounted cash flow method using derived credit spreads in determining the FVs of borrowings classified as Level 3. The derived credit spread adjusts the discount rate in valuing the borrowings. A significant increase (decrease) in credit spreads generally decreases (increases) the FV of the borrowings.

There were no inter-level transfers borrowings portfolio during 2019 and 2018.

For borrowings carried at FV, the quantitative information on significant unobservable input used for valuation as of 31 December 2019 and 2018 are presented below:

| Valuation<br>Technique | Unobservable<br>Inputs | Range (Weighted Average) |                          |
|------------------------|------------------------|--------------------------|--------------------------|
|                        |                        | 2019                     | 2018                     |
| Discounted cash flows  | Derived credit spreads | -0.88% to 0.12% (-0.29%) | -1.37% to 0.25% (-0.41%) |

## OCR-10

continued

The following table presents the changes in the carrying amounts of ADB's Level 3 borrowings reported at FV for the years ended 31 December 2019 and 2018:

| (\$ million)                                        |          |          |
|-----------------------------------------------------|----------|----------|
|                                                     | 2019     | 2018     |
| Balance, beginning of year                          | \$ 2,769 | \$ 2,567 |
| Total losses (gains) - (realized/unrealized)        |          |          |
| Included in earnings <sup>a</sup>                   | 237      | (48)     |
| Included in other comprehensive income <sup>b</sup> | (108)    | (359)    |
| Issuances                                           | 1,973    | 1,321    |
| Maturities/Redemptions                              | (663)    | (712)    |
| Balance, end of year                                | \$ 4,208 | \$ 2,769 |

The amount of total losses (gains) for the year included in earnings attributable to the change in net unrealized gains or losses<sup>a</sup> relating to liabilities still held at the reporting date. \$ 135 \$ (15)

<sup>a</sup> Included in net unrealized gains (losses) (OCR-2).

<sup>b</sup> Included in unrealized holdings gains from borrowings and accumulated translation adjustments (Note N).

Refer to OCR-7 for Summary Statement of Borrowings.

#### **NOTE M—CAPITAL STOCK, RETURN OF SET-ASIDE RESOURCES FROM ASIAN DEVELOPMENT FUND, AND MAINTENANCE OF VALUE OF CURRENCY HOLDINGS**

##### *Capital Stock*

The authorized capital stock of ADB as of 31 December 2019 and 2018 was 10,639,083 shares of which have all (10,638,933 shares – 2018) been subscribed by members. Of the subscribed shares, 10,105,947 (10,105,805 – 2018) are “callable” and 533,136 (533,128 – 2018) are “paid-in”. The “callable” share capital is subject to call by ADB only as and when required to meet ADB's obligations incurred on borrowings of funds for inclusion in its OCR or on guarantees chargeable to such resources. The “paid-in” share capital has been received, partly in convertible currencies and partly in the currency of the subscribing member which may be convertible. In accordance with Article 6, paragraph 3 of the Charter, ADB accepts nonnegotiable, noninterest-bearing demand obligations in satisfaction of the portion payable in the currency of the member, provided such currency is not required by ADB for the conduct of its operations. Nonnegotiable, noninterest-bearing demand obligations received on demand amounted to \$123 million (\$152 million – 2018), while those notes received with fixed encashment schedules totaled \$59 million (\$206 million – 2018).

As of 31 December 2019, ADB's shareholders consist of 68 members, 49 from the region and 19 from outside the region (OCR-8).

In March 2019, Niue became ADB's 68th member, subscribing to 150 shares of ADB's capital stock.

In October 2018, the Board of Governors approved the special increase in capital subscription of Portugal. Portugal's subscription to 24,080 shares, of which 963 are paid-in shares and 23,117 are callable shares, was declared effective in December 2018.

##### *Maintenance of Value of Currency Holdings*

Prior to 1 April 1978, the effective date of the Second Amendment to the IMF Articles, ADB implemented maintenance of value (MOV) in respect of holdings of member currencies in terms of 1966 dollars, in

continued

accordance with the provisions of Article 25 of the Charter and relevant resolutions of the Board of Directors. Since then, settlement of MOV has been put in abeyance.

In as much as the valuation of ADB's capital stock and the basis of determining possible MOV obligations are still under consideration, notional amounts have been calculated provisionally in terms of the SDR as receivable from or payable to members in order to maintain the value of members' currency holdings. The notional MOV amounts of receivables and payables are offset against one another and shown as net notional amounts required to maintain value of currency holdings in the EQUITY portion of the Balance Sheet. The carrying book value for such receivables and payables approximates its FV.

The net notional amounts as of 31 December 2019 consisted of (i) the net increase of \$898 million (\$917 million – 2018) in amounts required to maintain the value of currency holdings to the extent of matured and paid-in capital subscriptions due to the increase in the value of the SDR in relation to the US dollar during the period from 1 April 1978 to 31 December 2019 and (ii) the net increase of \$622 million (\$621 million – 2018) in the value of such currency holdings in relation to the US dollar during the same period. Receivable and payable to members are as follows:

| (\$ million)             |                 |                 |
|--------------------------|-----------------|-----------------|
|                          | 2019            | 2018            |
| Notional MOV Receivables | \$ 1,634        | \$ 1,650        |
| Notional MOV Payables    | (114)           | (112)           |
| <b>Total</b>             | <b>\$ 1,520</b> | <b>\$ 1,538</b> |

## NOTE N—RESERVES

### *Ordinary Reserve and Net Income*

Under the provisions of Article 40 of the Charter, the Board of Governors shall determine annually what part of the net income shall be allocated, after making provision for reserves, to surplus and what part, if any, shall be distributed to the members.

In May 2019, the Board of Governors approved the following with respect to ADB's 2018 net income of \$726 million, after the appropriation of guarantee fees of \$24 million to the Special Reserve: (i) the following adjustments be made to the net income amount to determine the allocable net income: (a) \$139 million representing adjustments for the net unrealized loss for the year ended 31 December 2018, be added from the cumulative revaluation adjustments (CRA) account; and (b) \$24 million representing the adjustment to the loan loss reserve as of 31 December 2018, be added to the loan loss reserve; (ii) \$499 million be allocated to the Ordinary Reserve; (iii) \$259 million be allocated to the ADF; (iv) \$80 million be allocated to the Technical Assistance Special Fund (TASF); and (v) \$3 million be allocated to the Financial Sector Development Partnership Special Fund.

In May 2018, the Board of Governors approved the following with respect to ADB's 2017 net income of \$753 million, after the allocation of income from the transfer of ADF loans and certain other assets to the ordinary reserve of \$30,748 million, and appropriation of guarantee fees of \$21 million to the special reserve: (i) \$14 million representing the adjustment to the Loan Loss Reserve as of 31 December 2017, be added from the net income to the loan loss reserve; (ii) \$49 million representing the ASC 815/825 adjustments and the unrealized portion of net income from equity investments accounted for under the equity method for the year ended 31 December 2017, be added from the net income to the CRA account; (iii) \$351 million be allocated to the Ordinary Reserve; (iv) \$259 million be allocated to the ADF; and (v) \$80 million be allocated to the TASF.

The revaluation of the capital stock for purposes of these financial statements on the basis of the SDR instead of the 1966 dollar (Note B) resulted in a net credit of \$22 million to Other Comprehensive Income

continued

during the year ended 31 December 2019 (net credit of \$90 million – 2018). That credit is the decrease in the value of the matured and paid-in capital subscriptions caused by the change during the year in the value of the SDR in relation to the US dollar not allocated to members as notional maintenance of value adjustments in accordance with resolutions of the Board of Directors.

#### *Allocation of One-Time Income from ADF Assets Transfer*

On 15 March 2017, the Board of Governors approved the allocation of the one-time income of \$30,748 million from ADF assets transfer to OCR ordinary reserve effective 1 January 2017, pursuant to Resolution No. 387 (See OCR-9).

#### *Cumulative Revaluation Adjustments Account*

In May 2002, the Board of Governors approved the allocation of net income representing the cumulative net unrealized gains (losses) on derivatives, as required by ASC 815 to a separate category of Reserves – CRA account. Beginning 2008, the unrealized portion of net income from equity investments accounted for under equity method is also transferred to this account.

Beginning 1 January 2018, ADB measures its equity investments (except those accounted for under the equity method) at FV and recognize all FV changes through net income. As a result, the unrealized gains of \$152 million on the equity investments with readily determinable market price and classified as AFS as of 31 December 2017 was shown as a reduction in the beginning balance of the Accumulated other comprehensive loss account and as an addition to the beginning balance of the CRA account in the 2018 financial statements. The unrealized gains as of 31 December 2017 of \$99 million on the equity investments previously accounted for using cost method was shown as an addition to the CRA account in the 2018 financial statements. Moreover, the impact to the change in instrument-specific credit risk of borrowings amounting to \$6 million as of 31 December 2017, was added to the beginning balance of the Accumulated other comprehensive loss account and reduced the beginning balance of CRA account in the 2018 financial statement.

As part of 2018 net income allocation following the Resolution of the Board of Governors in May 2019, the net unrealized loss on financial instruments of \$130 million and the net unrealized losses from equity investments accounted for under the equity method of \$9 million were transferred from the CRA account.

As part of 2017 net income allocation following the Resolution of the Board of Governors in May 2018, the net unrealized gains on financial instruments of \$9 million and the net unrealized gains from equity investments accounted for under the equity method of \$40 million were transferred to the CRA account.

#### *Special Reserve*

The Special Reserve includes commissions on loans and guarantee fees received which are required to be set aside pursuant to Article 17 of the Charter to meet liabilities on guarantees. For the year ended 31 December 2019, guarantee fees amounting to \$24 million (\$24 million – 2018) were appropriated to Special Reserve.

#### *Loan Loss Reserve*

ADB sets aside Loan Loss Reserve as part of EQUITY to be used as a basis for capital adequacy against the estimated expected loss in ADB's sovereign and nonsovereign loans and guarantees portfolio. The loan loss reserve is estimated based on expected loss using ADB's credit risk model net of allowance for loan losses and fair value adjustment on concessional loans recorded in the balance sheet.

As of 31 December 2019, the loan loss reserve was \$225 million (\$201 million – 2018).

continued

### Surplus

Surplus represents funds for future use to be determined by the Board of Governors.

### Accumulated Other Comprehensive Income (Loss)

Comprehensive income (loss) has two major components: net income (loss) and other comprehensive income (loss) comprising gains and losses affecting equity that, under US GAAP, are excluded from net income (loss). Other comprehensive income (loss) includes items such as translation adjustments for functional currencies; pension and post-retirement liability adjustment; and unrealized gains and losses on financial instruments classified as AFS, equity investments under equity method and fair value changes of borrowings related to ADB's own credit spread.

The changes in Accumulated Other Comprehensive Loss balances for the years ended 31 December 2019 and 2018 are as follows:

(\$ million)

|                                                                  | Accumulated<br>Translation<br>Adjustments | Unrealized Holding (Losses) Gains                    |                                       |                                          |               | Pension/<br>Postretirement<br>Liability<br>Adjustments | Accumulated<br>Other<br>Comprehensive<br>Loss |
|------------------------------------------------------------------|-------------------------------------------|------------------------------------------------------|---------------------------------------|------------------------------------------|---------------|--------------------------------------------------------|-----------------------------------------------|
|                                                                  |                                           | Investments<br>for liquidity<br>purpose <sup>a</sup> | Equity<br>investments —<br>Operations | Other Debt<br>Securities —<br>Operations | Borrowings    |                                                        |                                               |
| <b>Balance, 1 January 2019</b>                                   | \$ 528                                    | \$ (291)                                             | \$ (8)                                | \$ —                                     | \$ 325        | \$ (745)                                               | \$ (191)                                      |
| Other comprehensive (loss) income before reclassifications       | (140)                                     | 374                                                  | 9                                     | 3                                        | (140)         | (643)                                                  | (537)                                         |
| Amounts reclassified from accumulated other comprehensive income | —                                         | 85                                                   | —                                     | —                                        | —             | 10                                                     | 95                                            |
| Net current-period other comprehensive (loss) income             | (140)                                     | 459                                                  | 9                                     | 3                                        | (140)         | (633)                                                  | (442)                                         |
| <b>Balance, 31 December 2019</b>                                 | <b>\$ 388</b>                             | <b>\$ 168</b>                                        | <b>\$ 1</b>                           | <b>\$ 3</b>                              | <b>\$ 185</b> | <b>\$ (1,378)</b>                                      | <b>\$ (633)</b>                               |
| <b>Balance, 1 January 2018</b>                                   | \$ 930                                    | \$ (254)                                             | \$ 152                                | \$ —                                     | \$ —          | \$ (1,027)                                             | \$ (199)                                      |
| Adjustment due to ASU 2016-01                                    | —                                         | —                                                    | (152)                                 | —                                        | 6             | —                                                      | (146)                                         |
| <b>Adjusted balances</b>                                         | <b>930</b>                                | <b>(254)</b>                                         | <b>0</b>                              | <b>—</b>                                 | <b>6</b>      | <b>(1,027)</b>                                         | <b>(345)</b>                                  |
| Other comprehensive (loss) income before reclassifications       | (402)                                     | (57)                                                 | (8)                                   | —                                        | 319           | 222                                                    | 74                                            |
| Amounts reclassified from accumulated other comprehensive income | —                                         | 20                                                   | —                                     | —                                        | —             | 60                                                     | 80                                            |
| Net current-period other comprehensive (loss) income             | (402)                                     | (37)                                                 | (8)                                   | —                                        | 319           | 282                                                    | 154                                           |
| <b>Balance, 31 December 2018</b>                                 | <b>\$ 528</b>                             | <b>\$ (291)</b>                                      | <b>\$ (8)</b>                         | <b>\$ —</b>                              | <b>\$ 325</b> | <b>\$ (745)</b>                                        | <b>\$ (191)</b>                               |

0 = less than \$0.5 million.

<sup>a</sup> Includes securities transferred under repurchase agreements.

continued

The reclassifications of Accumulated Other Comprehensive Loss to Net Income for the years ended 31 December 2019 and 2018 are presented below:

(\$ million)

| Accumulated Other Comprehensive Loss Components | Amounts Reclassified from Accumulated Other Comprehensive Loss <sup>a</sup> |                | Affected Line Item in the Statement of Income and Expenses            |
|-------------------------------------------------|-----------------------------------------------------------------------------|----------------|-----------------------------------------------------------------------|
|                                                 | 2019                                                                        | 2018           |                                                                       |
| Unrealized Holding Gains (Losses)               |                                                                             |                |                                                                       |
| Investments for liquidity purpose               | \$ (85)                                                                     | \$ (20)        | NET REALIZED GAINS (LOSSES)<br>From investments for liquidity purpose |
| Pension/Postretirement Liability                |                                                                             |                |                                                                       |
| Adjustments Actuarial losses                    | (10)                                                                        | (60)           | Administrative expenses                                               |
| Total reclassifications for the year            | <u>\$ (95)</u>                                                              | <u>\$ (80)</u> |                                                                       |

<sup>a</sup> Amounts in parentheses indicate debits to net income.

## NOTE O—INCOME AND EXPENSES

### Revenue

REVENUE from loan operations for the years ended 31 December 2019 and 2018 is summarized as follows:

(\$ million)

|                          | Interest               | Commitment charge   | Other, net <sup>a</sup> | Total                  |
|--------------------------|------------------------|---------------------|-------------------------|------------------------|
| <b>2019</b>              |                        |                     |                         |                        |
| Sovereign – Regular      | \$ 2,244               | \$ 50               | \$ (11)                 | \$ 2,283               |
| Sovereign – Concessional | 569                    | –                   | (1)                     | 568                    |
| Nonsovereign             | 305                    | 6                   | 1                       | 312                    |
| <b>Total</b>             | <u><b>\$ 3,118</b></u> | <u><b>\$ 56</b></u> | <u><b>\$ (11)</b></u>   | <u><b>\$ 3,163</b></u> |
| <b>2018</b>              |                        |                     |                         |                        |
| Sovereign – Regular      | \$ 1,866               | \$ 48               | \$ (14)                 | \$ 1,900               |
| Sovereign – Concessional | 537                    | –                   | (0)                     | 537                    |
| Nonsovereign             | 270                    | 12                  | (7)                     | 275                    |
| <b>Total</b>             | <u><b>\$ 2,673</b></u> | <u><b>\$ 60</b></u> | <u><b>\$ (21)</b></u>   | <u><b>\$ 2,712</b></u> |

0 = less than \$0.5 million.

<sup>a</sup> Includes amortized front-end fees and loan origination costs, risk participation charges, and other loan-related income and/or expenses.

The average yield on the loan portfolio during the year was 2.99% (2.62% – 2018).

Income from investments for liquidity purpose for the year ended 31 December 2019 was \$965 million (\$899 million – 2018). This comprises of \$962 million (\$919 million – 2018) interest income including interest earned for securities transferred under repurchase agreements, and securities purchased under resale arrangements and \$3 million realized gains on sales (\$20 million realized loss – 2018). The annualized rate of return on the average investments held during the year was 2.53% (2.24% – 2018) excluding unrealized gains and losses on investments, and 3.74% (2.14% – 2018) including unrealized gains and losses on investments.

continued

Income from equity investment operations for the year ended 31 December 2019 amounted to \$35 million (\$102 million – 2018). This comprises net equity income and dividend totaling \$26 million (\$12 million – 2018), realized gains from divestments totaling \$11 million (\$95 million – 2018), and offset by \$2 million (\$5 million – 2018) impairment losses.

Income from other debt securities for the year ended 31 December 2019 was \$63 million (\$21 million loss – 2018). This comprises \$47 million (\$27 million – 2018) interest income and \$16 million (\$48 million impairment loss – 2018) realized gain on the recovery of a previously recognized impairment loss.

REVENUE from other sources for the year ended 31 December 2019 included income received as administration fees for projects and/or programs amounting to \$24 million (\$25 million – 2018) and other miscellaneous income amounting to \$19 million (\$22 million – 2018).

### *Expenses*

Borrowings and related expenses for the year ended 31 December 2019 amounted to \$2,530 million (\$2,159 million – 2018). These consist of interest expense and other related expenses such as amortization of issuance costs, discounts, and premiums. The average cost of borrowings outstanding after swaps was 2.49% (2.35% – 2018).

Total depreciation expense incurred for the year ended 31 December 2019 amounted to \$27 million (\$23 million – 2018).

Administrative expenses for the year ended 31 December 2019 were apportioned between OCR and the ADF in proportion to the relative volume of operational activities. Of the total administrative expenses of \$717 million (\$706 million – 2018), \$80 million (\$77 million – 2018) was accordingly charged to the ADF. The balance of the administrative expense allocated to OCR was reduced by the deferral of direct loan origination costs of \$39 million (\$38 million – 2018) related to new loans made effective during the year.

For the year ended 31 December 2019, net provision for loan losses of \$35 million (\$122 million – 2018) consisted of \$43 million additional loan loss provision (\$144 million – 2018) and \$8 million write-backs (\$22 million – 2018).

### *Net unrealized gains (losses)*

The following table provides information on the unrealized gains or losses included in income for the years ended 31 December 2019 and 2018:

| (\$ million)                                                       | 2019          | 2018            |
|--------------------------------------------------------------------|---------------|-----------------|
| Fair value changes from:                                           |               |                 |
| Borrowings and related swaps                                       | \$ 88         | \$ (69)         |
| Loans related swaps                                                | 116           | 9               |
| Investments related swaps and forwards                             | 1             | (11)            |
| Equity investments                                                 | 233           | 18              |
| Reclassification of unrealized gains on divested equity investment | (4)           | (76)            |
| Translation adjustments in non-functional currencies               | 0             | (1)             |
| <b>Total</b>                                                       | <b>\$ 434</b> | <b>\$ (130)</b> |

0 = less than \$0.5 million



continued

## NOTE P—RELATED PARTY TRANSACTIONS

At 31 December 2019 and 2018, ADB had the following net receivables from and payable to ADF, external funded trust funds under ADB administration (Trust Funds), other Special Funds, and employee benefit plans consisting of the Staff Retirement Plan (SRP), the Retiree Medical Plan Fund (RMPF), and the Defined Contribution (DC) plan. These are included in Miscellaneous under OTHER ASSETS and ACCOUNTS PAYABLE AND OTHER LIABILITIES:

(\$ million)

|                                 | 2019         | 2018         |
|---------------------------------|--------------|--------------|
| <b>Amounts receivable from:</b> |              |              |
| Asian Development Fund          | \$ 22        | \$ 13        |
| Trust Funds and Others—net      | 7            | 5            |
| Employee Benefit Plans          | 5            | 13           |
| <b>Total</b>                    | <b>\$ 34</b> | <b>\$ 31</b> |

See Note S for additional information relating to Special Funds and other funds.

## NOTE Q—STAFF PENSION AND POSTRETIREMENT MEDICAL BENEFITS

### *Staff Retirement Plan*

ADB has a defined pension benefit plan called the SRP. Every employee, as defined under the SRP, shall, as a condition of service, become a participant from the first day of service, provided the employee has not reached the normal retirement age at that time, which is 60 for staff on board before 1 October 2017 and 62 for staff who joined on or after 1 October 2017. The plan applies also to members of the Board of Directors who elect to join. Retirement benefits are based on an annual accrual rate, length of service and the highest average remuneration observed over 2 consecutive years during eligible service for staff on board before 1 October 2017. For staff hired on or after 1 October 2017, the salary basis for a pension is the highest average three years remuneration, capped at \$104,040 as of 31 December 2019 (\$102,200 – 2018) adjusted each year in line with the structural increase in US dollar salary scales of International Staff based at headquarters. The plan assets are segregated in a separate fund. The costs of administering the plan are absorbed by ADB, except for fees paid to the investment managers and related charges, including custodian fees, which are borne by the SRP.

Participants hired prior to 1 October 2006 are required to contribute 9 1/3% of their salary to the plan while those hired on or after 1 October 2006 are not required to contribute. The annual pension accrual rate is 2.95% for staff hired prior to 1 October 2006 and 1.5% for those hired on or after 1 October 2006. ADB's contribution is determined at a rate sufficient to cover that part of the costs of the SRP not covered by the participants' contributions. Participants hired before 1 October 2017 may also make Discretionary Benefit (XB) contributions.

In October 2017, ADB introduced a DC Plan. Participants hired on or after 1 October 2017 may contribute up to 40% of salary into the DC Plan. ADB will make additional contributions to a participant's DC account equal to 20% of the participant's salary above the predefined threshold. ADB will match participant's contributions at a ratio of \$1 to each \$8 (1:8), capped at 12% of salary.

From October to December 2018, all eligible staff who joined ADB prior to 1 October 2017 had the option to voluntarily switch to the 2017 Plan arrangement. Two types of switches were: 1) switch from their current Defined Benefit (DB) plan to the 2017 DB plan and DC Plan and/or cash payout; and 2) switch from the XB contracts that earn 8.0% p.a. into the DC Plan and/or cash. ADB provided incentives to staff to switch into the 2017 Plan arrangement. The switch option was completed in December 2018.

continued

### *Expected Contributions*

ADB's contribution to the SRP varies from year to year, as determined by the Pension Committee, which bases its judgment on the results of annual actuarial valuations of the assets and liabilities of the plan. ADB is expected to contribute \$72 million for 2020 based on a budgeted contribution of 24% of salary.

ADB's staff members are expected to contribute \$37 million representing participants' mandatory contribution of \$7 million and discretionary contributions of \$30 million.

### *Investment Strategy*

Contributions in excess of current benefits payments are invested in international financial markets and in a variety of investment vehicles. The SRP employs thirteen external asset managers and one global custodian who are required to operate within the guidelines established by the SRP's Investment Committee. The investment of these assets, over the long term, is expected to produce returns higher than short-term investments. The investment policy incorporates the plan's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The SRP's assets are diversified among different markets and different asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

The SRP's investment policy is periodically reviewed and revised to reflect the best interest of the SRP's participants and beneficiaries. As approved by the Pension Committee on 27 November 2017, the SRP's new long-term target asset-mix, which has been implemented in 2019 and 2018, is 30% US equity, 30% non-US equity, 15% global fixed income, 10% global high yield, and 15% diversified asset.

For the year ended 31 December 2019, the net return on the SRP assets was 18.97% (-6.14% – 2018). ADB expects the long-term rate of return on the assets to be 6.5% (6.5% – 2018).

### *Assumptions*

The assumed overall rate of return takes into account long-term return expectations of the underlying asset classes within the investment portfolio mix, and the expected duration of the SRP's liabilities. Return expectations are forward looking and, in general, not much weight is given to short-term experience. Unless there is a drastic change in investment policy or market environment, as well as in the liability/benefit policy side, the assumed average long-term investment return of 6.5% on the SRP's assets is expected to remain on average broadly the same, year to year.

Effective for the 2019 actuarial valuation, as part of the regular assumptions review, some revisions were made to the previous actuarial assumptions based on the 2015-2018 experience. The assumptions that were revised include changes to withdrawal rates, early retirement rates, retirement mortality rates, and percentage of participants married.

### *Post-Retirement Group Medical Insurance Plan*

ADB adopts a cost-sharing arrangement for the Post-Retirement Group Medical Insurance Plan (PRGMIP). Under this plan, ADB is obligated to pay 75% of the PRGMIP premiums for retirees, which includes retired members of the Board of Directors, and their eligible dependents who elected to participate.

The Retiree Medical Plan Fund (RMPF) holds the assets in trust that will fund the accumulated obligations of the PRGMIP. The income of RMPF consists of ADB's contributions and investment earnings; it does not have any component attributable to participants' share of PRGMIP costs. The insurance premium paid by ADB for the PRGMIP is considered ADB's contribution to the fund. The costs of administering the RMPF are absorbed by ADB, while investment management and custodian fees are paid from the RMPF.

continued

The SRP Pension Committee is responsible for the overall financial management of the RMPF and is assisted by the SRP Investment Committee.

#### *Expected Contribution*

ADB's expected contribution to the RMPF is based on the recommendation of the SRP Pension Committee. For 2020, ADB is expected to contribute \$6 million, which is equivalent to 2% of salary.

#### *Investment Strategy*

The RMPF employs three external asset managers and one global custodian who are required to operate within the guidelines established by the SRP's Investment Committee. The investment of these assets, over the long term, is expected to produce returns higher than short-term investments. Similar to SRP, the investment policy incorporates the RMPF's package of desired investment return and tolerance for risk, taking into account the nature and duration of its liabilities. The RMPF's assets are diversified among different markets and asset classes. The use of derivatives for speculation, leverage or taking risks is prohibited. Selected derivatives are used for hedging and transactional efficiency purposes.

In October 2015, the Pension Committee approved the RMPF's investment policy. Based on the approved policy, the RMPF's long-term target asset-mix is 40% US equity, 30% non-US equity, and 30% global fixed income. For the year ended 31 December 2019, the net return on the RMPF assets was 22.22% (-6.24% – 2018).

#### *Assumptions*

The overall long-term rate of return is 6.5% per annum, similar to the SRP.

Effective for the 2019 actuarial valuation, as part of the regular assumptions review, some revisions were made to the previous actuarial assumptions based on the 2015-2018 experience. The assumptions that were revised include changes to withdrawal rates, early retirement rates, retirement mortality rates, and percentage of participants married.

continued

The following table sets forth the funded status of pension and postretirement medical benefits at 31 December 2019 and 2018:

(\$ million)

|                                                                                                                         | Pension Benefits         |                        | Postretirement Medical Benefits |                     |
|-------------------------------------------------------------------------------------------------------------------------|--------------------------|------------------------|---------------------------------|---------------------|
|                                                                                                                         | 2019                     | 2018                   | 2019                            | 2018                |
| Change in plan assets:                                                                                                  |                          |                        |                                 |                     |
| Fair value of plan assets at beginning of year                                                                          | \$ 3,013                 | \$ 3,246               | \$ 354                          | \$ 378              |
| Actual return on plan assets                                                                                            | 573                      | (198)                  | 78                              | (24)                |
| Employer's contribution                                                                                                 | 66                       | 64                     | 5                               | 5                   |
| Plan participants' contributions                                                                                        | 39                       | 39                     | —                               | —                   |
| Benefits paid                                                                                                           | (141)                    | (138)                  | (5)                             | (5)                 |
| Fair value of plan assets at end of year                                                                                | <u>\$ 3,550</u>          | <u>\$ 3,013</u>        | <u>\$ 432</u>                   | <u>\$ 354</u>       |
| Change in projected benefit obligation:                                                                                 |                          |                        |                                 |                     |
| Projected benefit obligation at beginning of year                                                                       | \$ 4,009                 | \$ 4,402               | \$ 335                          | \$ 411              |
| Service cost                                                                                                            | 84                       | 103                    | 15                              | 21                  |
| Interest cost                                                                                                           | 199                      | 178                    | 19                              | 19                  |
| Plan participants' contributions                                                                                        | 39                       | 39                     | —                               | —                   |
| Actuarial loss (gain)                                                                                                   | 923                      | (575)                  | 136                             | (111)               |
| Benefits paid                                                                                                           | (141)                    | (138)                  | (5)                             | (5)                 |
| Projected benefit obligation at end of year                                                                             | <u>\$ 5,113</u>          | <u>\$ 4,009</u>        | <u>\$ 500</u>                   | <u>\$ 335</u>       |
| <b>Funded status</b>                                                                                                    | <u><b>\$ (1,563)</b></u> | <u><b>\$ (996)</b></u> | <u><b>\$ (68)</b></u>           | <u><b>\$ 19</b></u> |
| Amounts recognized in the Balance sheet as Accrued pension and postretirement medical benefit costs                     | <u>\$ (1,563)</u>        | <u>\$ (996)</u>        | <u>\$ (68)</u>                  | <u>\$ 19</u>        |
| Amounts recognized in the Accumulated other comprehensive loss as Pension/Postretirement liability adjustments (Note N) | <u>\$ 1,400</u>          | <u>\$ 856</u>          | <u>\$ (21)</u>                  | <u>\$ (111)</u>     |
| Weighted-average assumptions as of 31 December (%)                                                                      |                          |                        |                                 |                     |
| Discount rate                                                                                                           | 3.70                     | 4.90                   | 4.30                            | 5.70                |
| Expected return on plan assets                                                                                          | 6.50                     | 6.50                   | 6.50                            | 6.50                |
| Rate of compensation increase varies with age and averages                                                              | 4.75                     | 4.75                   | N/A                             | N/A                 |

Pension benefits paid during 2018 include the \$9 million lump sum payments for the switch options comprising of: 1) \$8 million transferred out of the DB plan to the DC plan and/or cash arising from the switch of 237 staff into the 2017 Plan arrangement; and 2) \$1 million transferred out of XB contracts of 99 staff to the DC plan and/or cash.

For measurement purposes, a 7% annual rate of increase in the per capita cost of covered postretirement medical benefits was assumed for the valuation as of 31 December 2019 and 2018. The rate was assumed to decrease gradually to 5% by 2025 and remain at that level thereafter.

continued

The following table summarizes the benefit costs associated with pension and postretirement medical benefits for the year ended 31 December 2019 and 2018:

(\$ million)

|                                           | Pension Benefits |               | Postretirement Medical Benefits |              |
|-------------------------------------------|------------------|---------------|---------------------------------|--------------|
|                                           | 2019             | 2018          | 2019                            | 2018         |
| Components of net periodic benefit cost:  |                  |               |                                 |              |
| Service cost                              | \$ 84            | \$ 103        | \$ 15                           | \$ 21        |
| Interest cost                             | 199              | 178           | 20                              | 19           |
| Expected return on plan assets            | (210)            | (217)         | (25)                            | (25)         |
| Recognized actuarial loss (gain) (Note N) | 17               | 60            | (7)                             | —            |
| <b>Net periodic benefit cost</b>          | <b>\$ 90</b>     | <b>\$ 124</b> | <b>\$ 3</b>                     | <b>\$ 15</b> |

All components of the net periodic benefit cost are included in “administrative expenses” in the statement of income and expenses, based on the allocation methodology described in Note O.

The accumulated benefit obligation of the pension plan as of 31 December 2019 was \$4,815 million (\$3,780 million – 2018).

The estimated net loss and prior service credit for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are \$89 million and \$5 million, respectively. There are no estimated net gain and prior service cost for the other post-retirement benefits plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year.

Assumed postretirement medical benefits cost trend rates have a significant effect on the amounts reported for the postretirement medical benefits plan. A one-percentage-point change in the assumed trend rates would have the following effects:

(\$ million)

|                                                      | 1-Percentage-Point Increase | 1-Percentage-Point Decrease |
|------------------------------------------------------|-----------------------------|-----------------------------|
| Effect on total service and interest cost components | 9                           | (7)                         |
| Effect on postretirement medical benefit obligation  | 116                         | (89)                        |

#### *Estimated Future Benefits Payments*

The following table shows the benefit payments expected to be paid in each of the next five years and subsequent five years. The expected benefit payments are based on the same assumptions used to measure the benefit obligation at 31 December 2019:

(\$ million)

| Year      | Pension Benefits | Postretirement Medical Benefits |
|-----------|------------------|---------------------------------|
| 2020      | \$ 178           | \$ 9                            |
| 2021      | 189              | 10                              |
| 2022      | 204              | 11                              |
| 2023      | 216              | 12                              |
| 2024      | 232              | 13                              |
| 2025–2029 | 1,351            | 83                              |

continued

*Fair Value Disclosure*

The FV of the SRP and RMPF's assets measured on a recurring basis as of 31 December 2019 and 2018 is shown below:

(\$ million)

| 2019                                           | Total           | Fair Value Measurements |               |             |
|------------------------------------------------|-----------------|-------------------------|---------------|-------------|
|                                                |                 | Level 1                 | Level 2       | Level 3     |
| <b>Staff Retirement Plan</b>                   |                 |                         |               |             |
| Cash and cash equivalents                      | \$ 37           | \$ —                    | \$ 37         | \$ —        |
| Common/preferred stocks                        | 606             | 606                     | —             | —           |
| Investment funds                               | 1,936           | 1,776                   | 160           | —           |
| Government or government-guaranteed securities | 313             | 277                     | 36            | —           |
| Corporate debt securities                      | 503             | 498                     | 5             | —           |
| Mortgage/Asset-backed securities:              |                 |                         |               |             |
| Mortgage-backed securities                     | 93              | 5                       | 88            | —           |
| Collateralized mortgage obligations            | 2               | —                       | 2             | —           |
| Asset-backed securities                        | 0               | —                       | 0             | —           |
| Short term investments                         | 89              | 74                      | 15            | —           |
| Derivatives                                    | (14)            | (8)                     | (6)           | —           |
| Other asset/liabilities <sup>a</sup> —net      | (15)            | —                       | (15)          | —           |
| <b>Total fair value of SRP assets</b>          | <b>\$ 3,550</b> | <b>\$ 3,228</b>         | <b>\$ 322</b> | <b>\$ —</b> |
| <b>Retiree Medical Plan Fund</b>               |                 |                         |               |             |
| Cash and cash equivalents                      | \$ 6            | \$ —                    | \$ 6          | \$ —        |
| Common/preferred stocks                        | 118             | 118                     | —             | —           |
| Investment funds                               | 196             | 196                     | —             | —           |
| Government or government-guaranteed securities | 53              | 52                      | 1             | —           |
| Corporate debt securities                      | 47              | 47                      | 0             | —           |
| Mortgage-backed securities                     | 14              | 2                       | 12            | —           |
| Short term investments                         | 1               | —                       | 1             | —           |
| Derivatives                                    | (3)             | (2)                     | (1)           | —           |
| Other asset/liabilities <sup>a</sup> —net      | 0               | —                       | 0             | —           |
| <b>Total fair value of RMPF assets</b>         | <b>\$ 432</b>   | <b>\$ 413</b>           | <b>\$ 19</b>  | <b>\$ —</b> |

0 = less than \$0.5 million.

<sup>a</sup> Includes receivables and liabilities carried at amounts that approximate fair value.

continued

(\$ million)

| 2018                                           | Total           | Fair Value Measurements |               |             |
|------------------------------------------------|-----------------|-------------------------|---------------|-------------|
|                                                |                 | Level 1                 | Level 2       | Level 3     |
| <b>Staff Retirement Plan</b>                   |                 |                         |               |             |
| Cash and cash equivalents                      | \$ 47           | \$ —                    | \$ 47         | \$ —        |
| Common/preferred stocks                        | 477             | 477                     | —             | —           |
| Investment funds                               | 1,679           | 1,514                   | 165           | —           |
| Government or government-guaranteed securities | 325             | 323                     | 2             | —           |
| Corporate debt securities                      | 383             | 376                     | 7             | —           |
| Mortgage/Asset-backed securities:              |                 |                         |               |             |
| Mortgage-backed securities                     | 91              | 37                      | 54            | —           |
| Collateralized mortgage obligations            | 1               | —                       | 1             | —           |
| Asset-backed securities                        | 0               | —                       | 0             | —           |
| Short term investments                         | 62              | 55                      | 7             | —           |
| Derivatives                                    | (17)            | (4)                     | (13)          | —           |
| Other asset/liabilities <sup>a</sup> —net      | (35)            | —                       | (35)          | —           |
| <b>Total fair value of SRP assets</b>          | <b>\$ 3,013</b> | <b>\$ 2,778</b>         | <b>\$ 235</b> | <b>\$ —</b> |
| <b>Retiree Medical Plan Fund</b>               |                 |                         |               |             |
| Cash and cash equivalents                      | \$ 5            | \$ —                    | \$ 5          | \$ —        |
| Common/preferred stocks                        | 95              | 95                      | —             | —           |
| Investment funds                               | 150             | 150                     | —             | —           |
| Government or government-guaranteed securities | 64              | 64                      | —             | —           |
| Corporate debt securities                      | 28              | 28                      | 0             | —           |
| Mortgage-backed securities                     | 18              | 5                       | 13            | —           |
| Short term investments                         | —               | —                       | —             | —           |
| Derivatives                                    | (6)             | (2)                     | (4)           | —           |
| Other asset/liabilities <sup>a</sup> —net      | (0)             | —                       | (0)           | —           |
| <b>Total fair value of RMPF assets</b>         | <b>\$ 354</b>   | <b>\$ 340</b>           | <b>\$ 14</b>  | <b>\$ —</b> |

0 = less than \$0.5 million.

<sup>a</sup> Includes receivables and liabilities carried at amounts that approximate fair value.

The SRP's Investment Committee and SRP investment unit meet periodically and are involved in overseeing the activities and performance of the investment portfolios. The FV of the SRP investments is provided by the SRP's global custodian from various independent pricing providers. The accounting division in coordination with data management unit of the Treasury Department evaluates the FV in determining the hierarchy level. Valuation of all investments including equity securities, fixed income securities and derivatives are provided by independent pricing providers. Equity securities include common and preferred stocks and mutual funds. Fixed income securities include government or government-guaranteed securities, corporate obligations, asset and mortgage-backed securities, and short-term investments. Derivatives include futures, swaps and currency forward contracts.

continued

The table below provides details of transfers of SRP and RMPF's assets between Levels 1 and 2, which are attributed to the availability or absence of market quotes, for the years ended 31 December 2019 and 2018.

(\$ million)

|                                                | 2019           |              | 2018            |               |
|------------------------------------------------|----------------|--------------|-----------------|---------------|
|                                                | Level 1        | Level 2      | Level 1         | Level 2       |
| Investments - Staff Retirement Plan            |                |              |                 |               |
| Investment funds                               |                |              |                 |               |
| Transfers (out of) into                        | —              | —            | (165)           | 165           |
| Government or government-guaranteed securities |                |              |                 |               |
| Transfers (out of) into                        | (14)           | 14           | 0               | (0)           |
| Corporate debt securities                      |                |              |                 |               |
| Transfers into (out of)                        | 5              | (5)          | 6               | (6)           |
| Transfers (out of) into                        | (3)            | 3            | (4)             | 4             |
|                                                | <u>\$ (12)</u> | <u>\$ 12</u> | <u>\$ (163)</u> | <u>\$ 163</u> |
| Investments - Retirement Medical Plan Fund     |                |              |                 |               |
| Government or government-guaranteed securities |                |              |                 |               |
| Transfers into (out of)                        | \$ —           | \$ —         | 0               | (0)           |
| Corporate debt securities                      |                |              |                 |               |
| Transfers (out of) into                        | —              | —            | (0)             | 0             |
|                                                | <u>\$ —</u>    | <u>\$ —</u>  | <u>\$ 0</u>     | <u>\$ 0</u>   |

0 = less than \$0.5 million.

The following table presents the changes in the carrying amounts of SRP and RMPF's Level 3 investments for the year ended 31 December 2018. There were no Level 3 investments during the year ended 31 December 2019.

(\$ million)

|                                                                                                                 | Staff Retirement Plan |             | Retiree<br>Medical Plan<br>Fund |
|-----------------------------------------------------------------------------------------------------------------|-----------------------|-------------|---------------------------------|
|                                                                                                                 | Corporate debt        |             |                                 |
|                                                                                                                 | securities            | MBS/ABS/CMO | MBS/ABS                         |
| <b>2018</b>                                                                                                     |                       |             |                                 |
| Balance, beginning of the year                                                                                  | \$ 1                  | \$ 3        | \$ 0                            |
| Total realized/unrealized (losses) gains in:                                                                    |                       |             |                                 |
| Net (decrease) increase in net assets available for benefits                                                    | (0)                   | 0           | 0                               |
| Purchases                                                                                                       | —                     | 1           | 0                               |
| Sales/Maturities                                                                                                | (0)                   | (3)         | (0)                             |
| Settlement and others                                                                                           | —                     | (0)         | (0)                             |
| Transfers out of Level 3                                                                                        | (1)                   | (1)         | —                               |
| Balance, end of the year                                                                                        | <u>\$ —</u>           | <u>\$ —</u> | <u>\$ —</u>                     |
| Total unrealized gains (losses) included in income related to financial assets still held at the reporting date | <u>\$ —</u>           | <u>\$ —</u> | <u>\$ —</u>                     |

0 = less than \$0.5 million.

MBS = Mortgage-backed securities; ABS = Asset-backed securities; CMO = Collateralized Mortgage Obligations.



continued

**NOTE R—OTHER FAIR VALUE DISCLOSURES**

The carrying amounts and FVs of ADB's financial instruments as of 31 December 2019 and 2018 are summarized below:

(\$ million)

|                                                                     | 2019            |            | 2018            |            |
|---------------------------------------------------------------------|-----------------|------------|-----------------|------------|
|                                                                     | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <b>On-balance sheet financial instruments:</b>                      |                 |            |                 |            |
| <b>ASSETS:</b>                                                      |                 |            |                 |            |
| Due from banks                                                      | \$ 1,235        | \$ 1,235   | \$ 1,148        | \$ 1,148   |
| Investments for liquidity purpose (Note D)                          | 39,312          | 39,312     | 35,215          | 35,215     |
| Securities transferred under repurchase agreements (Note E)         | 186             | 186        | 87              | 87         |
| Securities purchased under resale arrangements (Note D)             | 235             | 235        | 343             | 343        |
| Loans outstanding — operations (Note F)                             | 114,389         | 114,828    | 106,405         | 106,867    |
| Equity investments — operations carried at fair value (Note H)      | 851             | 851        | 577             | 577        |
| Other debt securities — operations (Note I)                         | 755             | 793        | 618             | 647        |
| Derivative assets - borrowings (Note J)                             | 33,482          | 33,482     | 25,185          | 25,185     |
| Derivative assets - investments for liquidity purpose (Note J)      | 16,053          | 16,053     | 11,704          | 11,704     |
| Derivative assets - loans — operations (Note J)                     | 13,084          | 13,084     | 8,611           | 8,611      |
| Swap related collateral (Note J)                                    | 298             | 298        | 118             | 118        |
| Future guarantee receivable (Note G)                                | 41              | 41         | 35              | 35         |
| <b>LIABILITIES:</b>                                                 |                 |            |                 |            |
| Borrowings (Note L)                                                 | 104,996         | 105,456    | 90,423          | 90,785     |
| Derivative liabilities - borrowings (Note J)                        | 33,430          | 33,430     | 28,428          | 28,428     |
| Derivative liabilities - investments for liquidity purpose (Note J) | 15,988          | 15,988     | 11,823          | 11,823     |
| Derivative liabilities - loans — operations (Note J)                | 13,151          | 13,151     | 8,745           | 8,745      |
| Payable under securities repurchase agreements (Note E)             | 191             | 191        | 84              | 84         |
| Swap related collateral (Note J)                                    | 298             | 298        | 118             | 118        |
| Guarantee liability (Note G)                                        | 41              | 41         | 35              | 35         |
| <b>Off-balance sheet financial instruments:<sup>a</sup></b>         |                 |            |                 |            |
| <b>ASSETS:</b>                                                      |                 |            |                 |            |
| Future guarantee receivable                                         | n/a             | 2          | n/a             | 4          |
| <b>LIABILITIES:</b>                                                 |                 |            |                 |            |
| Guarantee liability                                                 | n/a             | 2          | n/a             | 4          |

n/a = not applicable

<sup>a</sup> Guarantees issued or modified prior to 1 January 2003.

As of 31 December 2019 and 2018, ADB has no assets or liabilities measured at FV on a non-recurring basis.

**NOTE S—SPECIAL AND OTHER FUNDS**

ADB's operations include special operations, which are financed from Special Funds resources. The OCR and Special Funds resources are at all times used, committed, and invested entirely separately from each other. The Board of Governors may approve allocation of the net income of OCR to Special Funds, based on the funding and operational requirements of the funds. The administrative and operational expenses pertaining to the OCR and Special Funds are charged to the respective Special Funds. The administrative expenses of ADB are allocated amongst OCR and Special Funds and are settled regularly.

continued

In addition, ADB, alone or jointly with donors, administers on behalf of the donors, including members of ADB, their agencies and other development institutions, projects/programs supplementing ADB's operations. Such projects/programs are funded with external funds administered by ADB and with external funds not under ADB's administration (referred as trust funds). ADB charges administrative fees for external funds administered by ADB. The trust funds are restricted for specific uses including technical assistance to borrowers and for regional programs, grants for projects, and loans. The responsibilities of ADB under these arrangements range from project processing to project implementation including the facilitation of procurement of goods and services. These funds are held in trust by ADB and are held in a separate investment portfolio. The assets of trust funds are not commingled with ADB's resources, nor are they included in the assets of ADB.

Special Funds and trust funds are not included in the assets of OCR. The net assets as of 31 December 2019 and 2018 are summarized below:

(\$ million)

|                                                       | 2019             |            | 2018             |            |
|-------------------------------------------------------|------------------|------------|------------------|------------|
|                                                       | Total Net Assets | No.        | Total Net Assets | No.        |
| <b>Special Funds</b>                                  |                  |            |                  |            |
| Asian Development Fund                                | \$ 1,336         | 1          | \$ 689           | 1          |
| Technical Assistance Special Fund                     | 196              | 1          | 304              | 1          |
| Japan Special Fund                                    | 112              | 1          | 109              | 1          |
| Asian Development Bank Institute                      | 19               | 1          | 16               | 1          |
| Regional Cooperation and Integration Fund             | 5                | 1          | 10               | 1          |
| Climate Change Fund                                   | 10               | 1          | 18               | 1          |
| Asia Pacific Disaster Response Fund                   | 21               | 1          | 21               | 1          |
| Financial Sector Development Partnership Special Fund | 5                | 1          | 4                | 1          |
| Subtotal                                              | 1,704            | 8          | 1,171            | 8          |
| <b>Trust funds and project specific cofinancing</b>   | 2,185            | 174        | 2,479            | 132        |
| <b>Total</b>                                          | <b>\$ 3,889</b>  | <b>182</b> | <b>\$ 3,650</b>  | <b>140</b> |

During the year ended 31 December 2019, a total of \$19 million (\$18 million – 2018) was recorded as compensation for administering projects/programs. The amount has been included in REVENUE From other sources—net.

## NOTE T—VARIABLE INTEREST ENTITIES

ADB has identified investments in 34 (35 – 2018) VIEs which are not consolidated by ADB but in which it is deemed to hold significant variable interests at 31 December 2019. These non-consolidated VIEs are mainly (i) operating entities where the total equity invested is considered insufficient to finance its activities without additional subordinated financial support and (ii) private equity funds, where the equity at risk holders lack decision making rights. These VIEs are in the finance and energy sectors.

ADB's involvement in these non-consolidated VIEs includes loans, guarantees, and equity investments. Based on the most recent available data from these VIEs at 31 December 2019, the assets of these non-consolidated VIEs totaled \$4,062 million (\$16,332 million – 2018).

## OCR-10

continued

The table below shows the carrying value of ADB interests in the non-consolidated VIEs and the maximum exposure to loss of these interests. For guarantees, the maximum exposure is the notional amount of such guarantee, less any counter-guarantee.

(\$ million)

|                                 | Carrying Value<br>of ADB's<br>Variable Interests | Committed but<br>Undisbursed | Maximum<br>Exposure<br>to Loss |
|---------------------------------|--------------------------------------------------|------------------------------|--------------------------------|
| <b>2019</b>                     |                                                  |                              |                                |
| Loans — Operations              | \$ 12                                            | \$ —                         | \$ 12                          |
| Equity Investments — Operations | 423                                              | 149                          | 572                            |
| Guarantees — Operations         | 18                                               | —                            | 18                             |
| <b>Total</b>                    | <b>\$ 453</b>                                    | <b>\$ 149</b>                | <b>\$ 602</b>                  |
| <b>2018</b>                     |                                                  |                              |                                |
| Loans — Operations              | \$ 112                                           | \$ —                         | \$ 112                         |
| Equity Investments — Operations | 407                                              | 188                          | 595                            |
| Guarantees — Operations         | 24                                               | —                            | 24                             |
| <b>Total</b>                    | <b>\$ 543</b>                                    | <b>\$ 188</b>                | <b>\$ 731</b>                  |

**NOTE U—SEGMENT REPORTING**

Based on an evaluation of OCR's operations, Management has determined that OCR has only one reportable segment since OCR does not manage its operations by allocating resources based on a determination of the contribution to net income from individual borrowers.

The following table presents the outstanding balance and associated revenue of OCR's loan, guarantees, other debt securities, and equity investments by geographic region, as of and for the years ended 31 December 2019 and 2018:

(\$ million)

| Country                    | 2019                   |                 | 2018                   |                 |
|----------------------------|------------------------|-----------------|------------------------|-----------------|
|                            | Outstanding<br>Balance | Revenue         | Outstanding<br>Balance | Revenue         |
| India                      | \$ 19,571              | \$ 604          | \$ 18,068              | \$ 503          |
| People's Republic of China | 18,919                 | 593             | 18,336                 | 520             |
| Pakistan                   | 12,795                 | 258             | 11,274                 | 230             |
| Indonesia                  | 11,903                 | 366             | 10,971                 | 301             |
| Bangladesh                 | 10,223                 | 198             | 9,574                  | 163             |
| Viet Nam                   | 8,976                  | 182             | 8,862                  | 156             |
| Philippines                | 7,373                  | 202             | 6,886                  | 160             |
| Others                     | 29,639                 | 857             | 26,963                 | 742             |
| <b>Total</b>               | <b>\$ 119,399</b>      | <b>\$ 3,260</b> | <b>\$ 110,934</b>      | <b>\$ 2,775</b> |

Revenue comprises income from loans, guarantees, other debt securities, and equity investments, and excludes net realized/unrealized gains and losses.

For the year ended 31 December 2019, sovereign loans to three members (three – 2018) individually generated more than 10 percent of loan revenue which amounted to \$534 million, \$506 million, and \$330 million (\$467 million, \$410 million, and \$276 million – 2018).

continued

**NOTE V—SUBSEQUENT EVENTS**

ADB has evaluated subsequent events after 31 December 2019 through 6 March 2020, the date these Financial Statements are available for issuance. During this period, ADB has raised additional borrowings of approximately \$10,224 million in various currencies.