



Glossary of Terms: Sovereign Operations

SOVEREIGN OPERATIONS GLOSSARY

Active portfolio	All loans, grants, technical assistance (TA), equities, and guarantees committed and not financially closed (i.e., disbursement ended) as of the end of the financial year. The active portfolio includes funding from ordinary capital resources (OCR), concessional OCR lending (COL), the Asian Development Fund (ADF), other special funds, fully administered cofinanced loans and grants, and TA projects fully administered by the Asian Development Bank (ADB).
Advance action	Initiation of the process for procuring goods, services, and works before the effective date of the financing agreement.
Age	Refers to the average time from the date of product signing (commitment) to the end of the reporting period for active (committed) products.
Cancellation (effective)	Refers to the amount of partial or full reduction from the principal amount of effective products.
Cancellation (not effective)	Refers to amount of products signed but cancelled prior to product effectiveness.
Closing date or closure	The last date for the borrower to withdraw from the account.
Contract award ratio	The ratio of total contracts awarded during the year to the total value for contract awards available at the beginning of the year, including newly committed projects (loans and grants) during the year.
Commitment (signing)	The financing approved by ADB's Board of Directors or Management, for which the financing agreement has been signed by the borrower or recipient and ADB.
Delay (actual)	Refers to the time from original product closing to the actual financial closing.
Disbursement ratio	The ratio of total disbursements during the year (including disbursement from newly committed operations during the year) to the undisbursed balance at the beginning of the year.
Effective (date)	The date on which ADB dispatches to the borrower or recipient notice of accepting supporting evidence of the satisfaction of project (loan or grant) effectiveness conditions set out in the financing agreement.
Implementation period (original / actual)	Refers to the time from product commitment (signing) to the original product closing (for original implementation period) or actual financial closing (for actual implementation period).

Multitranche financing facility (MFF)	A financing instrument through which ADB provides assistance programmatically by aligning the provision of financing with project readiness and the long-term needs of a client.
Net resource transfer	Defined as loan disbursements less principal repayments or prepayments and interest or charges received.
Product (or instrument)	The generic means of providing financing—debt (mostly loans), equities, guarantees, grants, or TA.
Project	Defined by its unique design and monitoring framework regardless of the number of its financing instruments or sources. It refers to a project or program with a common outcome (one design and monitoring framework) regardless of which financing instrument or source ADB has agreed to provide.
Project performance rating	Projects are rated using five performance indicators: technical, contract awards, disbursement, financial management, and safeguards. A three-level traffic light rating system applies: green is on track, amber is potential problem, and red is actual problem (at risk).
Processing time for procurement contracts (≥\$10 million)	Refers to the average number of days from the date of the first receipt of a draft bidding document by ADB to the contract signing. Covers all contracts signed during the year.
Procurement time (from receipt of the bid evaluation report [BER] to ADB's approval)	Refers to the average number of days from the date of the first receipt of the BER to ADB's approval of the BER. It includes the time spent for any clarification and revision needed to finalize evaluation of the BER.
S-curve	<p>The project S-curve shows the project contract award and disbursement over its life and is a useful graphical presentation of project performance.</p> <p>The portfolio S-curves represents the annual contract award and disbursement profiles of the loan and grant portfolio by age.</p>
Special funds	Asian Development Fund, Technical Assistance Special Fund, Japan Special Fund, Asian Tsunami Fund, Pakistan Earthquake Fund, Regional Cooperation and Integration Fund, Climate Change Fund, Asia Pacific Disaster Response Fund, Asian Development Bank Institute Special Fund, and Financial Sector Development Partnership Special Fund.
Terminated	Refers to amount of products approved but terminated prior to signing of agreement.
Tranche (MFF)	Loan, grant, guarantee, or ADB-administered cofinancing for a project or a component under an MFF.

Uncontracted balance	Amount available for contract awards at the end of the year for active project loans and grants.
Uncontracted percentage	Uncontracted balance as a percentage of the total value to be awarded.
Undisbursed balance	Amount available for disbursement at the end of the year for active project loans and grants.
Undisbursed percentage	Undisbursed balance as a percentage of the net loan or grant amount.

NONSOVEREIGN OPERATIONS GLOSSARY

Approval	An investment approved by the Board of Directors of the Asian Development Bank (ADB) or by the President through Faster Approach to Small Nonsovereign Transactions (FAST).
B-loan	A loan made by ADB funded by a third party or parties without the borrower or third parties having any recourse to ADB. It involves the prearranged transfer to commercial lenders of participation in an ADB complementary loan, but without credit recourse to ADB for debt service. ADB is the lender of record since the B-loan is made in the name of ADB.
Cancellation	Undisbursed committed balance of an equity investment, loan, guarantee, or other debt securities cancelled by the mutual consent of ADB and an investee company or borrower or counterparty.
Carrying value (of an equity)	Value at which an equity is carried on the balance sheet. The carrying value depends on the accounting method used (cost method, equity method, market value method, or fair value method).
Closed-out loan	Loans that are fully repaid and/or prepaid.
Collective loss allowance	An allowance for existing probable losses resulting from risks that cannot be identified with specific investments. Also called “unallocated loss allowance” or “general loss allowance.”
Commitment	An investment approved by ADB’s Board of Directors for which the investment agreement has been signed by the investee company and ADB.
Commitment fees	Fees charged for entering into an agreement that obligates the entity to make or acquire a loan or to satisfy an obligation of the other party under a specified condition.
Cost of funding	Interest charges incurred for borrowed funds (e.g., ADB bonds) used in the lending activities (also called interest charges).
Default status	A loan in default is a loan on which payments (principal, interest, or fees) are overdue by more than 1 day.
Direct value-added (DVA) commercial cofinancing	Cofinancing with contractual or collaborative arrangements between ADB and financing partners. DVA commercial cofinancing includes B-loans, parallel loans, parallel equities, Trade Finance Program cofinancing, guarantee cofinancing, and risk transfer.
Direct equity	An equity investment (e.g., common, preferred, or other capital stock) that gives the buyer direct ownership interest in an entity.

Droppage	An investment approved by ADB's Board of Directors or the President but which failed to become a signed agreement. Also called "termination."
Equity	A security representing an ownership interest in an entity.
Equity income	Income from equity investments, including dividends and realized and unrealized capital gains and/or losses.
Fair value (of an equity)	Current market value (i.e., realizable sales value) of an equity. For a direct public and liquid equity, this is the current market price on a public exchange (also called "market value"). For a direct private equity and direct public but illiquid equity, this is an estimate of the realizable sales value based on valuation methods.
Guarantee	A formal pledge to pay a borrower's debt (in part or in full) in the case of default by the borrower.
Impairment status	A loan in impairment status is a loan for which the borrower is unlikely to pay its credit obligations in full and a probable loss is identified, against which a specific loan-loss allowance has been established.
Internal rate of return (IRR)	A measure of an investment's financial performance over the entire holding period. The IRR takes into account both the amount and timing of disbursements and cash receipts. In the case of an outstanding equity investment, an estimated valuation of the investment is included as an element in calculating the IRR.
Direct public equities	Equity investment in a company whose shares are traded on a public exchange.
Loan-loss provision	The charge against income that is the net result of increases and decreases in loan-loss allowances on specific investments, plus the increase or decrease in collective loan-loss allowance.
Loss allowance	The accumulation of charges to income made to accommodate significant and relatively permanent declines in the value of specific investments (specific loss allowances) and to cover portfolio risks that cannot be identified with specific investments (collective loss allowance).
Nonaccrual status	Transactions in arrears for more than 180 days where ADB recognizes interest income on a cash basis and no longer on an accrual basis.
Nonperforming loan (NPL)	A loan classified as impaired.
Outstanding guarantee	A committed guarantee for which the underlying instrument has been issued and which is earning fees for the risks being guaranteed. Also called an "executed guarantee."

Other debt securities	An instrument that can be bought or sold between two parties, direct public equity or direct private equity, convertible or non-convertible that is acquired for operations and not for liquidity purposes. A debt security represents borrowed funds that must be repaid by the borrower to the holder of the debt security. It includes government bonds, corporate bonds, municipal bonds, preferred stock, and collateralized securities.
PD-WARR	Probability of Default-Weighted Average Risk Rating is calculated by (i) determining the probability of default for each borrower or transaction based on its rating, (ii) calculating the weighted average probability of default weighted by projected exposure at default, and (iii) mapping the weighted average probability of default to a rating on ADB's 14-point scale.
Pooled IRR	The IRR of a group of equities calculated by pooling the cash flows.
Prepayment	A loan paid in full or partial amount ahead of the original amortization or repayment schedule.
Private equity funds	Refers to partnerships, unincorporated joint ventures, and limited liability companies.
Repayment	Periodic or one-time receipt of principal amount due from a loan according to the amortization or repayment schedule.
Rate of return	Portfolio income, representing total income before imputed cost of funds or capital divided by the average outstanding portfolio for the year (calculated either before or after specific loan-loss provisions and charges, impairment losses, and charges and expenses).
Risk participation	Where one party offloads and/or assigns its exposure in a loan or other receivable and/or obligation to another party in order to reduce the former's risks.
Risk rating	A rating that indicates the risk that a borrower may default. An ADB rating of 1 (>A-) indicates the lowest risk and 14 (default) the highest risk.
Risk transfer	The debt service risk of a borrower is offloaded through a risk participation agreement with a third party. The third party effectively guarantees the debt service. Hence, the risk becomes the credit risk of the third party.
Total committed portfolio	Committed (disbursed and undisbursed) loan and other debt securities, guarantees, and equity investments net of repayments, prepayments, sales, and cancellations.
Undisbursed	Signed but not yet disbursed amount of a loan, other debt security, and equity investment.

Weighted average risk rating (WARR)

Average risk rating weighted by exposure (outstanding or outstanding net of risk transfer).

Write-off

An accounting procedure used when an asset is determined to be uncollectible, considered to be a loss, and taken off the balance sheet.