
Treasury Department's Role in ADB

September 2006

To Ensure ADB's Superior Financial Strength

- AAA rated, critical for ADB to pass on low financial cost to DMCs
- Strong shareholder financial support
- Excellent equity position for growth or crisis
- Positive annual income since inception
- Proactive financial policies/planning for sustainability
- A loan product platform that fits all needs (LBL, LCL)
- Efficient capital market access for low cost of funds
- Large liquid investment pool for contingency and operations
- Smooth treasury operations for payment & transaction settlement
- Sound & independent risk management for oversight & compliance (RMU)

Four functions of Treasury Department

ALCO Supervision / Quarterly Treasury Report to Board of Directors

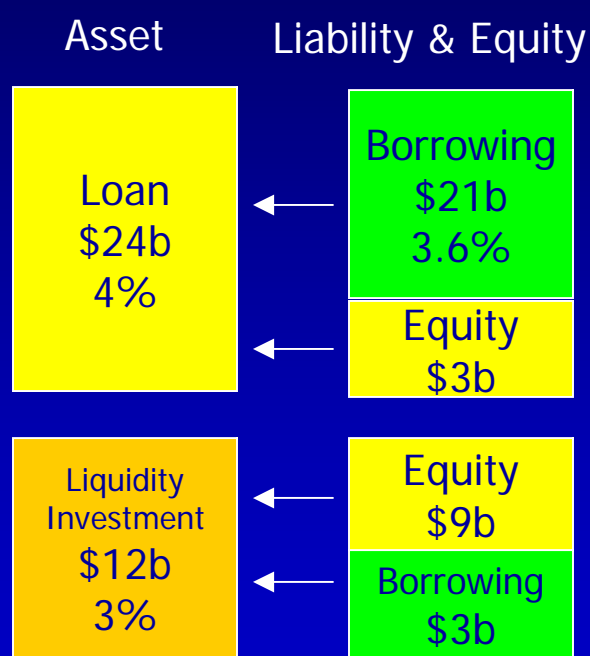


Compliance monitoring by independent Risk Mgmt Unit (RMU)

ADB's Simplified Balance Sheet Structure

as of 31 December 2005 (\$ billion)

Liquidity Investments	12	Outstanding Borrowings	24
Outstanding Loans	24	Equity (Paid-in Capital & Reserves, etc.)	12
Total Asset	36	Total Liability & Equity	36



1. Two major income assets:
Loans and Liquidity investments
2. Two funding sources for assets: Borrowings and Equity
Loans primarily funded with borrowings
Liquidity primarily funded with equity
3. Equity carries no direct financial cost to the market, earns full interest rate; thus, it is the primary source of net income, whether funding loans or investments
4. Loan charge (lending spread and commitment charge) provides secondary but important source of income, enough to cover expenses*
5. Borrowings are neutral to net income due to "cost-pass-through" mechanism

Notes: Tables and charts for illustration purpose only.
Rates are not actual.

* \$23.5 billion loans x 40 bps lending spread = \$94 million lending spread + \$51 million commitment charge = **\$145 million total income from loan charges, versus \$136 million net administrative expenses in 2005**

ADB's Financial Position, 1994–2005

		(\$ million)											
Account		1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Assets	Loan Outstanding	16,465	17,492	16,070	18,788	24,698	28,271	28,155	28,659	29,145	25,398	24,197	23,463
	Liquidity Investment	5,645	6,069	6,332	7,042	8,076	8,199	7,533	8,265	9,029	11,441	12,021	12,232
Liability & Equity	Borrowing Outstanding	13,684	14,599	13,663	17,494	23,744	26,285	25,367	24,881	25,905	26,264	23,921	24,398
	Equity	8,477	9,272	9,666	9,302	10,063	10,563	10,834	10,874	12,352	12,852	13,267	12,275
US\$ Interest Rate		7.7%	5.2%	5.8%	5.7%	4.6%	6.2%	5.1%	3.2%	1.6%	1.8%	3.1%	4.4%
Income	from Loans	351	364	324	285	243	237	324	401	575	444	213	168
	from Liquidity Investments	296	419	360	312	383	344	400	403	330	309	297	375
	Total after Expenses	513	660	572	467	464	450	626	714	753	614	386	391

Notes: Income from loans are net of financial expenses. Numbers do not add up as certain classes of asset/liability were omitted. Income after expenses includes appropriations. 1994–2004 numbers are based on statutory reporting figures from ADB's Annual Reports. 2005 numbers are based on unaudited pre-FAS 133 figures.

Source: ADB annual Financial Statements.

Allocation of 2005 Income

Allocable Net Income for 2005:	\$451 million*
Allocation to Ordinary Reserve:	\$ 71 million
Transfer to Surplus:	\$320 million
Transfer to ADF:	\$ 40 million
Transfer to TASF:	\$ 20 million

* *Net Income including write back from private sector general provision (23) + adjustment of public sector Loan Loss Reserve (37)*

- Proposes to maintain the waivers of 20 bps lending spread and of 100 bps front-end fee for 2006/2007
- Subject to projected levels of net income, plans to propose continued waivers in 2007/2008 and 2008/2009

Loan Price Comparison

LIBOR-Based USD Loans

as of August 11, 2006

(basis points)¹

	IBRD		IADB	AfDB	EBRD	ADB
	VSLs*	FSLs**				
Interest Spread:						
Contractual spread	75	75	30	40	100	60
Risk Premium	-	5	50	-	-	-
Benefit of Sub LIBOR ³ Funding Cost	-35	-30	-33	-	-	-31
Waivers	-25	-25	-20	-	-	-20
Net Spread over LIBOR (I)	14	25	27	40	100	9
Charges:						
Commitment Charge	75	75	25	-	50	75
Waiver	-50	-50	-15	-	-	-
Net Commitment Fee	25	25	10	-	50	75
Spread Eqv. of Commitment Fee ⁷ (II)	17	17	7	0	35	29
Front-end Fee:						
Contractual Front-end Fee	100	100	0	0	100	100
Waiver	100	100	-	-		-100
Net Front-end Fee	0	0	0	0	100	0
Spread Eqv. of Front-end Fee ⁷ (III)	0	0	0	0	21	0
Total Spread-Equivalent over LIBOR (I+II+III)	31	42	34	40	156	38

Source: World Bank Website, August 2006.