S&P Global
Ratings

RatingsDirect®

Asian Development Bank

Primary Credit Analyst:
YeeFarn Phua, Singapore + 65 6239 6341; yeefarn.phua@spglobal.com

Secondary Contact:
Rain Yin, Singapore + (65) 6239 6342; rain.yin@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Environmental, Social, And Governance

Enterprise Risk Profile: Very Strong Policy Importance And Robust Governance

Financial Risk Profile: Extremely Strong Capital Adequacy Metrics And Diversified Funding Base

Funding And Liquidity

Extraordinary Shareholder Support

Ratings Score Snapshot

Related Criteria

Related Research

Asian Development Bank

Stand-alone credit profile	aaa	+	Extraordinary shareholder support	0	+	Holistic approach	0

Enterprise risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Financial risk profile

Extremely strong	Very strong	Strong	Adequate	Moderate	Weak	Very weak

Issuer credit rating

AAA/Stable/A-1+

Credit Highlights

Issuer Credit Rating
Foreign Currency
AAA/Stable/A-1+

Overview

Enterprise risk profile	Financial risk profile
Long record of fulfilling policy mandate combined with strong governance and risk management framework.	Extremely strong financial position enabling robust crisis response.
In our view, AsDB plays a key developmental role in Asia-Pacific.	AsDB maintains very high capital levels, which can support additional lending.
The bank also demonstrates strong governance standards and risk management framework.	AsDB also has a solid liquidity position, combined with a diverse and active funding program.

In our view, the Asian Development Bank (AsDB) has demonstrated its role as a countercyclical lender by responding strongly to its borrowing members' financing needs stemming from the COVID-19 pandemic. We believe the bank will continue to deliver on its enhanced lending capacity after the merger of the Asian Development Fund (ADF) and Ordinary Capital Resource (OCR), thus solidifying its policy importance.

The AsDB has robust capital buffers and healthy liquidity ratios which underpins its extremely strong financial risk profile. Its risk-adjusted capital (RAC) ratio was 31.7% at end-December 2022. The bank has a very strong preferred creditor treatment record and benefits from a well-diversified funding base.

Outlook

The stable outlook on AsDB reflects our expectation that the bank will maintain its extremely strong enterprise risk profile with borrowers treating AsDB as a preferred creditor. In addition, we view the extensive capital buffers as anchoring the extremely strong financial risk profile. Our base case indicates a low probability that we would lower our issuer credit ratings on the bank over the next 24 months.

Downside scenario

We may lower the ratings on AsDB if either the bank's enterprise or financial risk profiles substantially deteriorates. For example, if contrary to our expectations, AsDB's management adopts more aggressive financial policies that could affect the bank's liquidity coverage or if poor-quality loan growth increases substantially. We may also downgrade AsDB should its other strengths deteriorate, such as its preferential creditor treatment weakening.

Environmental, Social, And Governance

AsDB has integrated its ESG targets as part of its mandate, ensuring shareholder support for these goals. Since the bank began tracking links between its projects and Sustainable Development Goals (SDGs) in 2016, AsDB projects have contributed to all 17 SDGs. Those projects have shown particularly strong links to clean energy, economic growth, infrastructure, and climate action.

Over 2019-2021, the bank estimated it had committed US$14.3 billion in combating climate change. It plans to invest US$35 billion by 2024 and aspires to achieve US$100 billion by 2030 on this initiative. Similarly, most of its loans and grants go to fund projects with high positive social value. In light of the pandemic, AsDB integrated climate change mitigation and adoption into its emergency response measures. It provided US$274 million of climate finance through projects supporting the response to COVID-19. Its Strategy 2030 program emphasizes social development, and thus we expect this to continue. For example, AsDB intends that 75% of its operations (including technical assistance, grants, and the like) will promote gender equality by 2030.

AsDB's strong governance and management expertise supports our rating on the bank. AsDB has a diversified shareholder base in which nonborrowers have majority control. We view the bank to have high governance standards, experienced staff, and prudent risk management policies.

Enterprise Risk Profile: Very Strong Policy Importance And Robust Governance

Policy importance: Long record of fulfilling its mandate. Established in 1966, AsDB's mission is to help its developing member countries in Asia-Pacific reduce poverty and improve living conditions and quality of life. AsDB's primary role is to provide loans for specific projects and programs for sovereign and nonsovereign borrowers, which assist member countries in the region. It also has concessional funds that it makes available to borrowers with lower per capita income and limited debt repayment capacity.

AsDB has strong support from its members. The bank was initially established by 31 countries. Between 1966 and 2021, the members have grown to 68 countries, with Niue being the latest to join with membership effective on March 11, 2019. In October 2018, the Board of Governors approved the special increase in capital subscription of Portugal, which became effective in December 2018. None of the members have withdrawn over the bank's history and we do not expect that to happen in the medium term.

AsDB has been progressing toward its Strategy 2030 goals. With the bank's Strategy 2030 now fully in place, we believe AsDB will continue to promote the economic and social development of its members in Asia-Pacific through loans, technical assistance, equity investments, grants, and guarantees. Despite challenges posed by the pandemic, AsDB committed US$6.7 billion in climate finance in 2022. The bank also has an ambition to hit climate finance target of US$100 billion by 2030. Since the launch of the new strategy, the bank has increased its commitment toward operations that promote gender equality. In terms of the size of purpose-related exposures, the bank is the fourth-largest multilateral institution (MLI) that we rate globally, after the European Investment Bank, the International Bank for Reconstruction and Development, and the International Development Association.

The pandemic has strengthened AsDB's role as a countercyclical lender. In response to the COVID-19 outbreak, the bank announced a US$20 billion financing package in April 2020. In addition, AsDB unveiled a US$9 billion vaccine facility in December 2020 to support the purchase and delivery of vaccines in Asia-Pacific. Although most MLIs unveiled COVID-19 response packages, many did not represent a meaningful increase in financing commitments compared with pre-pandemic deployment levels. However, AsDB's commitments increased substantially compared with pre-crisis lending expectations. Of the bank's US$20 billion package, US$13.8 billion are new resources with rearranged existing programs constituting the rest. In our view, this enhanced ability to respond quickly with larger lending is a result of the successful merger of AsDB's OCR window with the ADF in 2017. The transfer of ADF assets to the bank's OCR window has drastically boosted AsDB's total lending capacity due to the addition of nonleveraged ADF equity to the OCR.

In our view, the multifold increase in capital allows AsDB to further catalyze sovereign and private sector lending without imperiling its credit metrics. The merger assisted with private-sector economic development by gradually increasing leverage on the fully equity-financed concessional lending. Potential risks we anticipate include the lesser preferred treatment from the increased private-sector loan book, and competition from burgeoning regional MLIs.

Lending activity has increased following the merger. The OCR's loan commitments for sovereign and nonsovereign lending in 2022 amounted to US$16.3 billion, increasing from US$12.5 billion commitments made pre-merger, in 2016. We believe the increasing disbursements following the augmented capacity is positive and underpins AsDB's role in fulfilling its mandate in the region.

AsDB has increased focus on private sector mobilization. The bank's loan commitments for nonsovereign sector operations increased to US$1.2 billion in 2022 from US$990 million in 2021. Private-sector operations also attracted US$7 billion in aggregate co-financing in 2022, driven by the robust growth in AsDB's Trade Finance Program, a key strategic initiative of the bank. The increased focus on the private sector is more on the mobilization aspect than increasing AsDB's own lending extensively. For the overall MLI asset class, private-sector mobilization will become an integral part of the strategy of many MLIs, including the AsDB, and we expect shareholders to closely monitor the progress in this area.

AsDB will continue to receive robust preferred creditor treatment, even with the higher credit risk exposure from loans transferred from the ADF. This is demonstrated by the payment record of its borrowing members. In our view, the payment record of ADF clients has been strong. Despite instances of arrears by Myanmar, Nauru, and the Marshall Islands, the amounts were small and were eventually repaid with interest. AsDB has one sovereign concessional borrower in non-accrual status as of end-December 2022. Our calculated arrears ratio for the bank is 0.3%.

In addition, Sri Lanka (SD/SD) remains current with the ADB despite extreme challenges in maintaining external commercial repayments. We expect Sri Lanka and Pakistan (CCC+/Stable/C) to remain in accrual status to the ADB, highlighting the robust preferred credit treatment that the bank enjoys.

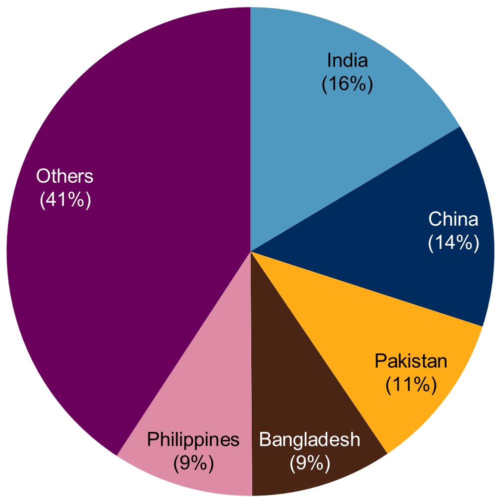
Governance and management expertise: Diversified shareholder base, transparent governance, and experienced senior staff, who have considerable aggregate experience and expertise. The bank benefits from the support of its members and a diverse shareholder base; 49 members from Asia-Pacific own 63.4% of AsDB and 19 nonregional members own the remainder. While Japan and the U.S. have always been AsDB's largest shareholders (both own 15.6%), the bank's shareholder base is diversified with eight governments owning more than 5% of capital each. These include China (6.4%), India (6.3%), Australia (5.8%), Indonesia (5.4%), Canada (5.2 %), and South Korea (5.0%). Nonborrowing members have about 61% of AsDB voting rights, outnumbering borrowing members by two to one. We believe this helps the bank adopt prudent lending and investment policies.

The management team is highly experienced across all the business operations. AsDB's highest policymaking body is the board of governors, which comprises one representative from each member nation--49 from Asia-Pacific and 19 from outside the region. The governors elect 12 members to form the board of directors, which performs its duties full time at the AsDB headquarters. Masatsugu Asakawa, the president of AsDB, assumed office on Jan. 17, 2020. He has returned to AsDB after 30 years, when he served as chief advisor to the former president, Kimimasa Tarumizu.

AsDB has a solid governance framework with robust financial and risk management policies, careful management of extensive risks from significant financial derivatives operations, and conservative investment of liquid assets. AsDB annually determines the maximum size of its borrowing program, taking into consideration the size of lending operations. Given the planned increase in nonsovereign operations, the board revised its exposure limits for these operations and endorsed the introduction of an economic capital planning framework. AsDB assesses its capital adequacy each quarter, with a stress test designed to ensure that the bank has sufficient capital to absorb income losses from nonaccrual shocks. The stress test also ensures it has adequate income to sustain loan growth in the ensuing years. AsDB has adopted a more dynamic capital utilization ratio as the capital indicator for financial planning, replacing an earlier measure (equity-to-loan ratio).

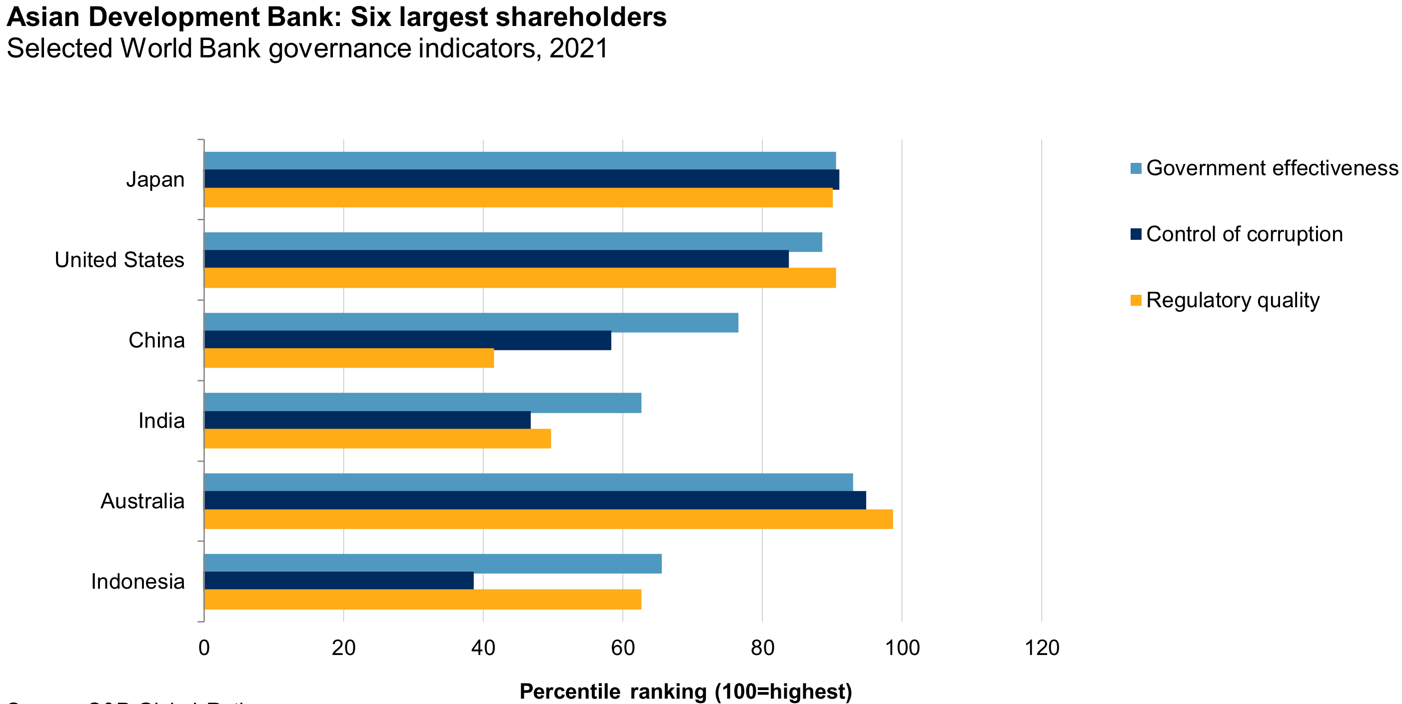
Chart 1

Asian Development Bank: Five largest countries' purpose-related exposures
As a percentage of gross purpose-related assets plus guarantees including undisbursed commitments as of December 2022



Source: S&P Global Ratings.

Chart 2



Source: S&P Global Ratings.

Financial Risk Profile: Extremely Strong Capital Adequacy Metrics And Diversified Funding Base

Capital adequacy: The addition of significant capital resources from the OCR-ADF merger outweighs the increase in risk. This is evident in AsDB's extremely strong RAC ratio of 31.7% after adjustments for concentration risk and Preferred Creditor Treatment. The RAC incorporates all new parameters as of April 20, 2023, based on financial data as of end-December 2022. The RAC ratio marginally increased from 31.4% in 2021. However, the ratio decreased from 40% in 2019 due to an increase in overall exposure partly driven by accelerated lending and downgrades in some of its member countries due to the pandemic. We expect the RAC ratio to stay comfortably above 23% over our forecast horizon.

AsDB has a very strong record of repayment by borrowers. There has never been a write-off of a sovereign loan funded by OCR. As of end-December 2022, there was one sovereign concessional loan borrower, which had 11 loans in nonaccrual status totaling US$525 million. Furthermore, there were seven nonsovereign borrowers in nonaccrual status with outstanding amount of US$180 million, of which US$57 million was overdue by more than 180 days.

Table 1

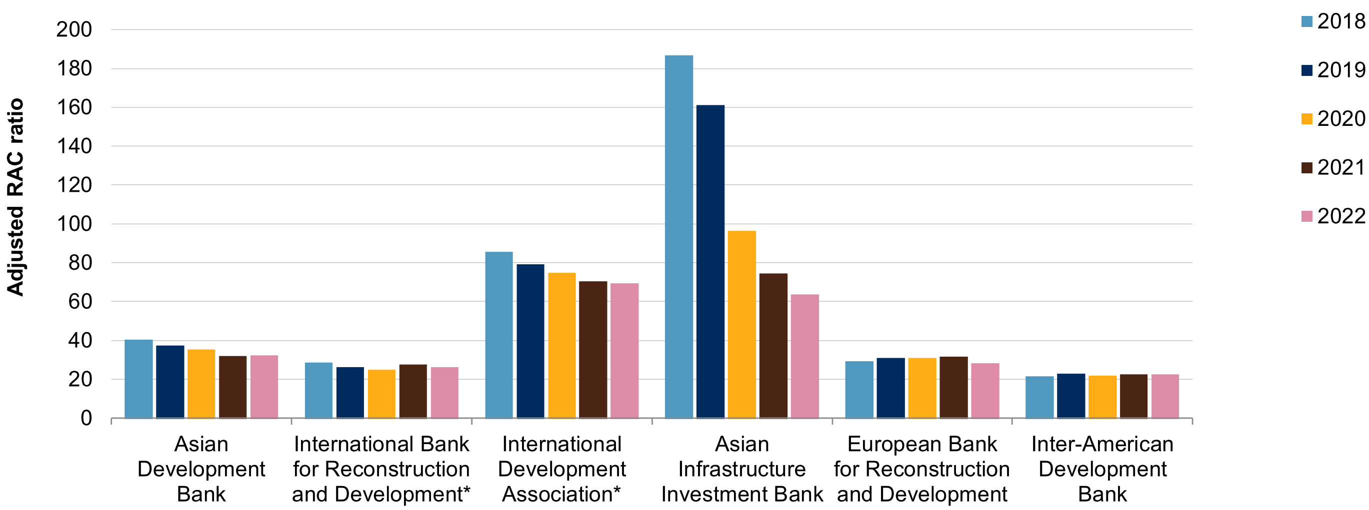
Asian Development Bank Risk-Adjusted Capital Framework Data: December 2022

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	197,955	169,412	86
Institutions	15,651	4,977	32
Corporate	5,530	7,375	133
Retail			
Securitization	1,574	373	24
Other assets	779	1,352	174
Total credit risk	221,488	183,488	83
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	1,438	4,535	315
Trading book market risk			
Total market risk		4,535	
Operational risk			
Total operational risk		6,032	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI adjustments		194,056	100
MLI adjustments			
Single name (on corporate exposures)		1,634	22
Sector (on corporate portfolio)		(960)	(11)
Geographic		(18,591)	(10)
Preferred creditor treatment (on sovereign exposures)		(96,916)	(57)
Preferential treatment (on FI and corporate exposures)		(1,458)	(12)
Single name (on sovereign exposures)		93,417	55
Total MLI adjustments		(22,875)	(12)
RWA after MLI adjustments		171,181	88
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments		54,278	28.0
Capital ratio after adjustments		54,278	31.7

MLI--Multilateral lending institutions. RW--Risk weight. RWA--Risk-weighted assets. RAC--Risk-adjusted capital.

Chart 3

Risk-adjusted capital ratio peer comparison



*Fiscal year end is June for IBRD and IDA. ADB data as at end-December 2022, IADB data as at end-December 2021, and all other bank data as at end-June 2022. RAC--Risk-adjusted capital. Source: S&P Global Ratings.

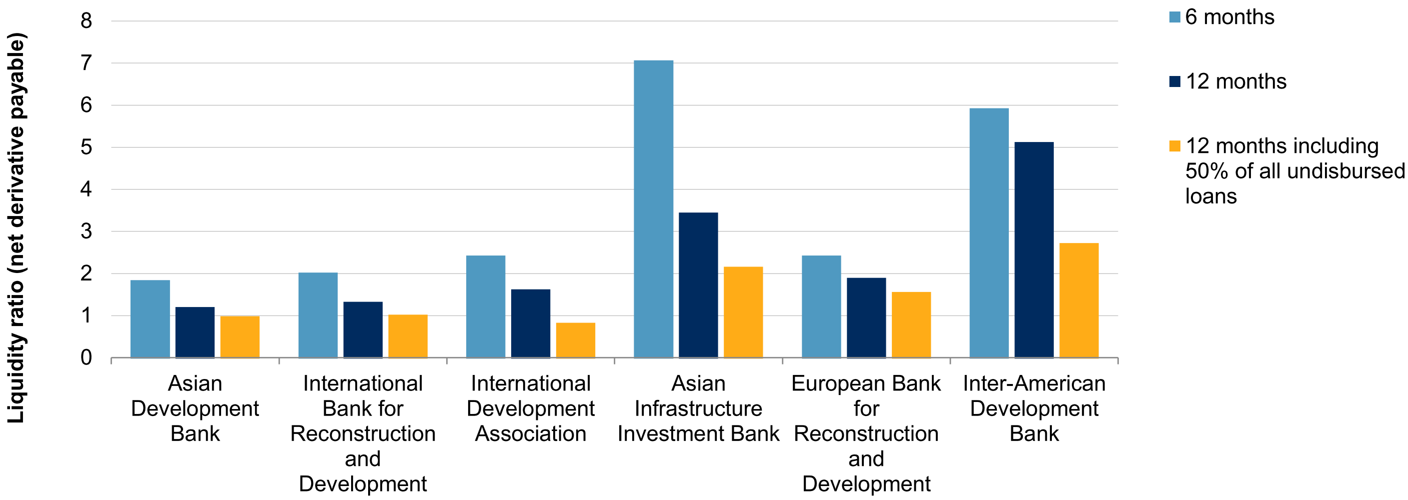
Funding And Liquidity

Funding: Well diversified funding base by both geography and investor, reflecting frequent issuances in multiple markets and currencies. As of end-December 2022, the bank had issued bonds in 46 different currencies. In 2022, AsDB raised about US$36.1 billion (US$35.8 billion in 2021) in medium- and long-term funds through 134 borrowing transactions. Of the 2022 borrowings, US$31 billion was raised through 37 public offerings and the remaining US$5 billion was raised through 97 private placements. As of March 31, 2023, the bank had raised bonds of about US$10.8 billion. The significantly larger funding in 2021 and 2022 reflected the bank's accelerated lending in relation to COVID-19. We consider AsDB's market access to be strong and its investor base to be well-diversified. Our static funding gap analysis for its next 12 months at end December 2022 indicates a balanced asset-liability match.

Liquidity: The bank maintains a strong liquidity buffer. Under our liquidity stress scenario, AsDB would fully cover its balance-sheet liabilities without market access for one year. The bank increased its investment portfolio to US$47.5 billion as of end-December 2022, from US$44.9 billion as of end-2021. As of end-December 2022, incorporating our updated liquidity haircuts, our 12-month liquidity ratio for AsDB was 1.18x with scheduled loans while the six-month ratio was 1.82x. However, when considering undisbursed loans in a stress scenario (beyond those planned for the next 12 months), we believe the bank may need to spread out potential disbursements.

Chart 4

Liquidity stress test ratios peer comparison



*Fiscal year end is June for IBRD and IDA. ADB data as at end-December 2022, IADB data as at end-December 2021, and all other bank data as at end-June 2022. Source: S&P Global Ratings.

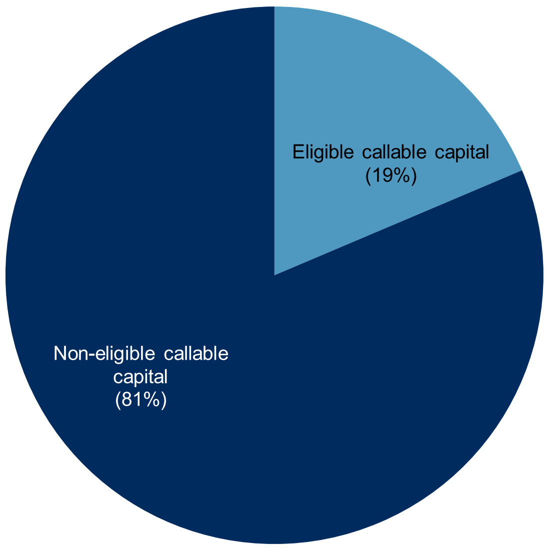
Extraordinary Shareholder Support

We do not factor extraordinary support in the form of callable capital into the rating because AsDB, on its own, can achieve our highest assessment. Nevertheless, callable capital from AsDB's highly rated shareholders would enhance our RAC ratio and mitigate the impact on the bank's financial profile in the event that its capital adequacy were to deteriorate.

AsDB's largest 'AAA' and 'AA+' rated shareholders include the U.S., Canada, and Germany. Our measure of eligible callable capital includes sovereigns rated at least equal to an MLI's stand-alone credit profile. For AsDB, this would only include shareholders rated 'AAA'.

Chart 5

Asian Development Bank: Callable capital
As a percentage of total callable capital (as of December 2022)



Source: S&P Global Ratings.

Ratings Score Snapshot

Enterprise risk profile: Extremely Strong

- Policy importance: Very Strong
- Governance and management expertise: Strong

Financial risk profile: Extremely Strong

- Capital adequacy: Extremely strong
- Funding and liquidity: Strong

Table 2

Asian Development Bank--Selected Indicators						
	2022	**2021**	**2020**	**2019**	**2018**	**2017**
ENTERPRISE PROFILE						
Policy importance						
Total purpose-related exposure (loans, equity, etc.) (mil. $)	145,687	140,017	132,818	117,023	108,539	102,547
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)*	95.1	93.0	93.0	93.0	93.0	94.0
Private-sector loans/purpose-related exposures (%)	4.4	5.7	6.0	6.0	6.0	5.0
Gross loan growth (%)	5.0	5.5	14.0	8.0	6.0	50.0
PCT ratio	0.3	0.2	0.2	0.1	0.1	0.1
Governance and management expertise						
Share of votes controlled by eligible borrower member countries (%)	65.0	65.0	65.0	65.0	65.0	65.0
Concentration of top two shareholders (%)	26.0	26.0	26.0	26.0	26.0	26.0
Eligible callable capital (mil. $)	25,034	26,328	27,092	26,789	26,789	26,789
FINANCIAL RISK PROFILE						
Capital and earnings						
RAC ratio	31.7	31.4	34.8	37.0	40.0	39.0
Net interest income/average net loans (%)	1.3	1.2	1.3	1.4	1.4	1.5
Net income/average shareholders' equity (%)	4.1	1.4	2.6	3.0	1.5	93.4
Impaired loans and advances/total loans (%)	0.1	0.1	0.1	0.1	0.1	0.0
Funding and liquidity						
Liquidity ratios						
Liquid assets/adjusted total assets (%)	16.7	17.1	18.0	18.0	19.0	21.0
Liquid assets/gross debt (%)	37.0	35.9	38.0	39.0	41.0	44.0
Liquidity coverage ratio (with planned disbursements):						
Six months (net derivate payables)	1.8	1.5	1.7	1.7	2.1	1.6
12 months (net derivate payables)	1.2	1.0	1.2	1.3	1.8	1.1
12 months (net derivate payables) including 50% of all undisbursed loans	1.0	0.9	1.0	0.9	1.0	0.8
Funding ratios						
Gross debt/adjusted total assets (%)	45.3	47.5	47.4	47.4	47.2	47.9
Short-term debt (by remaining maturity)/gross debt (%)	19.4	21.2	20.9	19.4	14.2	22.1
Static funding gap (without planned disbursements)						
12 months (net derivate payables)	1.1	1.0	1.1	1.2	1.4	1.0
SUMMARY BALANCE SHEET						
Total assets	290,658	282,084	271,741	221,866	191,860	182,381
Total liabilities	236,444	229,229	219,104	169,948	140,876	132,112
Shareholders' equity	54,214	52,855	52,637	51,918	50,984	50,269

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. *Not including committed disbursements.

Table 3

Asian Development Bank--Peer Comparison

	Asian Development Bank	International Bank for Reconstruction and Development*	International Development Association*	Asian Infrastructure Investment Bank	European Bank for Reconstruction and Development	Inter-American Development Bank
Total purpose-related exposure (mil. US$)	145,687	235,723	180,580	12,456	42,636	109,567
PCT	0.3	0.7	0.8	0.0	2.0	1.9
RAC	31.7	25.9	68.8	63.1	28.0	22.0
Liquidity ratio 12 months (net derivate payables)	1.2	1.3	1.6	3.4	2.2	1.5
Funding gap 12 months (net derivate payables)	1.1	1.5	2.7	4.6	3.0	1.3

PCT--Preferred creditor treatment. RAC--Risk-adjusted capital. For AsDB PRE as of end-December 2021 and all other data as of end-December 2022; For AIIB and EBRD PRE as of end-December 2021 and all other data as of end-June 2022; For IBRD and IDA all data as of end-June 2022; For IADB all data as of end-December 2021. *Fiscal year end is June for IBRD and IDA.

Enterprise Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Policy Importance	**Very strong**	Strong	Adequate	Moderate	Weak		
Governance and Management	**Strong**	Adequate	Weak				
Financial Risk Profile	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Capital Adequacy	**Extremely strong**	Very strong	Strong	Adequate	Moderate	Weak	Very weak
Funding and Liquidity	Very strong	**Strong**	Adequate	Moderate	Weak	Very weak	

Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, July 20, 2017
- General Criteria: Methodology For Linking Long-Term And Short-Term Ratings, April 7, 2017
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Introduction To Supranationals Special Edition 2022, Oct. 10, 2022.
- Supranationals Edition 2022: Comparative Data For Multilateral Lending Institutions, Oct. 10, 2022.
- Supranationals Special Edition 2022, Oct. 11, 2022.
- How Multilateral Lending Institutions Are Responding To The COVID-19 Pandemic, June 9, 2020
- Can Multilateral Lenders' Capital Bases Hold Up Against COVID-19?, June 9, 2020
- ESG Industry Report Card: Supranationals, Feb. 11, 2020

This report does not constitute a rating action.

Ratings Detail (As Of April 28, 2023)*		
Asian Development Bank		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured		AAA
Issuer Credit Ratings History		
03-Jan-1990	*Foreign Currency*	AAA/Stable/A-1+
18-Sep-1989		AAA/Stable/--
02-Apr-1971		AAA/--/--
Related Entities		
Credit Guarantee and Investment Facility		
Issuer Credit Rating		
Foreign Currency		AA/Stable/A-1+

*Unless otherwise noted, all ratings in this report are global scale ratings. S&P Global Ratings' credit ratings on the global scale are comparable across countries. S&P Global Ratings' credit ratings on a national scale are relative to obligors or obligations within that specific country. Issue and debt ratings could include debt guaranteed by another entity, and rated debt that an entity guarantees.