FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms AsDB at 'AAA'; Outlook Stable

Thu 29 Jun, 2023 - 12:46 AM ET

Fitch Ratings - London - 29 Jun 2023: Fitch Ratings has affirmed Asian Development Bank's (AsDB) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

KEY RATING DRIVERS

Strong SCP: The affirmation reflects AsDB's strong Standalone Credit Profile (SCP), with solvency and liquidity both assessed at 'aaa'. Fitch's assessment of AsDB's business environment is unchanged at 'low' risk, which would translate into a one-notch positive adjustment to the lower of our liquidity and solvency assessments if either of these fell below 'aaa'. Given the structure of the current rating, this means that the Long-Term IDR would be resilient to a one-notch deterioration in any of our solvency, liquidity or business environment assessments, all other things being equal.

Significant Covid-19 Response: As of end-2022, AsDB had committed USD40.2 billion and mobilised USD27.7 billion for Covid-19 lending programmes and vaccine support. The facilities were principally funded through debt issuance, which has put pressure on the bank's capitalisation metrics, in particular the equity-to-adjusted assets ratio.

'Excellent' Capitalisation Assessment Unchanged: AsDB's 'excellent' capitalisation assessment continues to be a rating strength. The bank's equity-to-adjusted-assets and guarantees ratio at 28.5% as of end-2022 (end-2021: 27.4%) has improved slightly, following AsDB's very profitable 2022. The bank's net income of USD2,169 million at end-2022 increased from USD730 million at end-2021. Given the recent increase in lending as a result of the bank's Covid-19 response, the bank's equity-to-adjusted assets ratio has decreased slightly relative to pre-pandemic levels (end-2019: 32.1% vs. end-2022: 28.5%)

but has remained commensurate with an 'excellent' assessment, which we expect to remain the case over the medium term.

Average Rating of Loans Declines: Following the multi-notch downgrade of Pakistan's rating to 'CCC-' (from 'B-' at last year's review), the overall average rating of the bank's loan and guarantees portfolio has declined from 'BB+' to 'BB', prior to any adjustment made for preferred creditor status (PCS). Pakistan is AsDB's third-largest exposure accounting for 9.6% of total loans and guarantees.

Fitch assesses AsDB's PCS as 'excellent', which translates into a '+3' notch uplift over the average rating of loans and guarantees. This reflects the bank's low exposure to the non-sovereign sector (7% at end-2022) and an excellent record of sovereign loan repayment over the past 20 years.

NPLs Increase; Still Low: The bank's non-performing loans (NPL) ratio increased to 0.5% at end-2022, versus 0.2% at end-2021. This was principally driven by the re-classification of AsDB's outstanding sovereign loan to a sovereign borrower (accounting for 0.4% of total loans) as an impaired loan, as repayments delays to the bank now exceed 180 days. There have also been two further non-sovereign loans that have been re-classified as NPLs compared with our review last year. Fitch continues to forecast a slight increase in NPLs over the next years but expect they will remain below the 1% 'very low' threshold outlined in the criteria.

'Excellent' Liquidity Assessment Unchanged: AsDB's liquidity metrics are in line with 'AAA' rated peers, with a liquid-assets-to-short-term-debt ratio of around 1.82x at end-2022 (1.56x at end-2021). We forecast this to remain above the 1.5x level consistent with an 'excellent' assessment. The quality of the bank's treasury assets is 'strong' with around 63% of the portfolio rated 'AA-' and above. The bank also benefits from 'excellent' access to capital markets and a diversified investor base. In 2022, the bank raised USD36.1 billion in 22 different currencies, which ranks among the highest for multilateral development bank (MDB) issuers. Fitch expects liquidity to remain a key rating strength.

Business Environment 'Low Risk': Fitch continues to deem AsDB's business profile as 'low' risk, given the size of its banking portfolio, its sovereign-lending focus (93% of total banking exposure at end-2022), and high governance standards. The importance of AsDB's public mandate further contributes to this assessment. The bank's total banking portfolio grew to USD149 billion at end-2022 from USD144 billion at end-2021, which remains at the higher end of Fitch-rated MDBs. AsDB's operating environment is assessed as 'medium' risk, reflecting the relatively weak credit quality and moderate income levels in its countries of operations.

Support Assessment Resilience: Given the bank's SCP, our assessment of support is not a rating driver for AsDB. Of the bank's key shareholders, only the US (AAA) is on Rating Watch Negative and there have been no downgrades of the other key shareholders since last year's review. Our assessment of capacity to support (a+) would be resilient to a single-notch downgrade of the US. Fitch continues to assess the propensity of shareholders to support AsDB as 'strong' and therefore receives no rating uplift.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Solvency (capitalisation): Higher-than-expected growth in the bank's lending operations, or a large increase in loan impairments, which erode the bank's equity-to-adjusted assets ratio to below the 25% 'excellent' threshold.

- Solvency (credit risk): Significant deterioration in AsDB's risk profile, which could arise from a marked weakening in the credit quality of the loan portfolio. This would be the case if a large sovereign exposure defaulted to the bank, which could lead to a rise in non-performing loans beyond the current 'very low' level and a revision of the current PCS assessment.

- Liquidity: Evidence of a large decline in the bank's liquid-assets-to-short-term-debt ratio to below the 150% 'excellent' threshold or a marked deterioration in the asset quality of treasury assets, which could lead to a revision of our assessment of the bank's 'aaa' liquidity assessment.

Given the structure of AsDB's ratings, a downgrade would require a two-notch deterioration of either the bank's solvency, liquidity and/or business environment or a one-notch deterioration of either the solvency or liquidity and the business environment.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

The ratings are at the highest level on Fitch's scale and cannot be upgraded.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

AsDB has an ESG Relevance Score of '4' for Rule of Law, Institutional & Regulatory Quality. All supranationals attract a score of '4'. Supranationals are neither subject to bank regulation nor supervised by an external authority. Instead, supranationals comply with their own set of rules. Fitch pays particular attention to internal prudential policies, including compliance with these policies. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

AsDB has an ESG Relevance Score of '4' for 'Governance Structure'. Similar to other MDBs where a limited number of shareholders own a significant share of the capital, Japan and the US (16% of paid-in capital each), are the largest two shareholders, exerting a strong influence on the bank's board, management, and strategy. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

AsDB has an ESG Relevance Score of '4+' for 'Human Rights, Community Relations, Access & Affordability'. AsDB extends concessional loans and grants to low-income countries which supports AsDB's policy importance and has a positive impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

AsDB has an ESG Relevance Score of '4' for 'Exposure to Social Impacts'. AsDB has a counter-cyclical mandate and development role, as demonstrated by AsDB 's policy response to the coronavirus crisis which was the largest in terms of additional disbursement (relative to initial lending plans) across the supranationals portfolio. This has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍			PRIOR ⬍
Asian Development Bank	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
	ST IDR	F1+	Affirmed	F1+
senior unsecured	LT	AAA	Affirmed	AAA
senior unsecured	ST	F1+	Affirmed	F1+

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Nick Perry
Director
Primary Rating Analyst
+44 20 3530 2727
nick.perry@fitchratings.com
Fitch Ratings Ltd
30 North Colonnade, Canary Wharf London E14 5GN

Khamro Ruziev, CFA
Director
Secondary Rating Analyst
+44 20 3530 1813
khamro.ruziev@fitchratings.com

Jan Friederich
Managing Director
Committee Chairperson
+852 2263 9910
jan.friederich@fitchratings.com

MEDIA CONTACTS

Peter Fitzpatrick
London
+44 20 3530 1103
peter.fitzpatrick@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

Supranationals Rating Criteria (pub. 11 Apr 2023) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Asian Development Bank	UK Issued, EU Endorsed

DISCLAIMER & DISCLOSURES

All Fitch Ratings (Fitch) credit ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: https://www.fitchratings.com/understandingcreditratings. In addition, the following https://www.fitchratings.com/rating-definitions-document details Fitch's rating definitions for each rating scale and rating categories, including definitions relating to default. ESMA and the FCA are required to publish historical default rates in a central repository in accordance with Articles 11(2) of Regulation (EC) No 1060/2009 of the European Parliament and of the Council of 16 September 2009 and The Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019 respectively.

Published ratings, criteria, and methodologies are available from this site at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the Code of Conduct section of this site. Directors and shareholders' relevant interests are available at https://www.fitchratings.com/site/regulatory. Fitch may have provided another permissible or ancillary service to the rated entity or its related third parties. Details of permissible or ancillary service(s) for which the lead analyst is based in an ESMA- or FCA-registered Fitch Ratings company (or branch of such a company) can be found on the entity summary page for this issuer on the Fitch Ratings website.

In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third- party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided “as is” without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US$1,000 to US$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US$10,000 to US$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United

Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001.Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see https://www.fitchratings.com/site/regulatory), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

dv01, a Fitch Solutions company, and an affiliate of Fitch Ratings, may from time to time serve as loan data agent on certain structured finance transactions rated by Fitch Ratings.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch's international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch's approach to endorsement in the EU and the UK can be found on Fitch's Regulatory Affairs page on Fitch's website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.