

Japan Credit Rating Agency, Ltd. (JCR) announces the following credit rating.

## Asian Development Bank (security code: -)

<Affirmation>

Long-term Issuer Rating: AAA  
Outlook: Stable

### Rationale

- (1) The Asian Development Bank (ADB) is a multilateral development bank (MDB) devoted to the purpose of supporting economic and social development, including poverty reduction, in the Asia-Pacific region. The rating is primarily based on JCR's appraisal of: (i) the strong support ADB enlists from its member countries, (ii) its solid capital structure, (iii) its sound financial position backed by prudent risk management and (iv) the preferred creditor status it enjoys with its borrowing countries. In addition to the enhanced risk-bearing capacity resulting from the completion of its fifth general capital increase (GCI V), the capital base of its Ordinary Capital Resources (OCR) has been further strengthened by the transfer of certain assets of the Asian Development Fund (ADF) following its absorption of ADF's lending operations. ADB had some nonperforming loans in its non-sovereign lending operations at the end of September 2019 of below 10 basis points of the total loan portfolio. Moreover, as ADB had no nonperforming loans in its sovereign lending operations, which account for about 94% of the total, the quality of its total loan assets stayed sound. For these reasons, JCR holds that the Bank will continue to retain its solid financial base in the future. All these considered, JCR has affirmed its rating with a Stable outlook.
- (2) ADB was established in Manila, the Philippines, in 1966. It has 68 member countries, including 23 OECD members. Of the 68, 49 are regional members and 19 are non-regional members. ADB provides various forms of financial assistance to its developing member countries through OCR, Special Funds and trust funds. The rating applies only to OCR, which is separate from the funds on an accounting basis. In January 2020, Mr. Masatsugu Asakawa, the former Special Advisor to Japan's Prime Minister and Minister of Finance, took office as the new President of ADB. Strategy 2030, a new long-term strategy running through 2030, was approved by the Board of Directors in 2018. Under this strategy, ADB continues to provide its wide-ranging support with a focus on operational priorities including poverty and inequality issues, climate change, improvement of urban life environment, rural development, enhancement of governance and regional integration.
- (3) As of the end of September 2019, ADB's paid-in capital accounted for 5% of its total subscribed capital (which consists of the paid-in capital and the callable capital). However, more than 60% of the callable capital has been subscribed by the 23 OECD members, which are mostly highly creditworthy countries that have ample capacity to provide additional support to ADB as needed. GCI V aimed at tripling the authorized capital was completed in 2015. The subscribed capital increased to USD145.1 billion at the end of September 2019 from USD54.9 billion at the end of 2008. ADF's loan portfolio stood at USD27.4 billion at the end of 2016. This portfolio plus a part of ADF's liquid assets and its accepted contributions equal to USD30.8 billion were integrated into OCR on January 1, 2017. The OCR's capital base significantly expanded, with the equity-to-loan ratio rising to 51.0% on 1 January 2017 compared to 25.9% at the end of 2016.
- (4) At the end of September 2019, OCR's loan portfolio showed a year-on-year growth of 2.5% to USD109.1 billion. The OCR's exposure to its top five borrowers declined from 70.9% of the total at the end of 2016 to 62.8% at the end of September 2019 which reduced concentration risks. The top five borrowers are India (16.7%), China (16.6%), Indonesia (10.5%), Pakistan (10.2%) and Bangladesh (8.8%). ADB's regular OCR loan operations have experienced no loss of principal. Including the concessional OCR loans transferred from ADF, ADB had no nonperforming loans in its sovereign lending operations at the end of September 2019. Although ADB had nonperforming loans in its non-sovereign lending operations, the quality of its assets remained sound, with nonperforming loans of 1.57% of the total non-sovereign loans and 0.09% for total loans. Non-sovereign loans accounted for only 5.5% of the total lending operations. ADB plans to expand the

non-sovereign operations in the medium term and will need to keep its asset quality sound through prudent risk management.

- (5) ADB has fully complied with its conservative norms for the management of lending, borrowing, liquidity and foreign exchange positions in accordance with its charter, policies and guidelines. MDB operations are not primarily aimed to make profits. However, it is one of their financial targets to secure sufficient profit to sustain a sound financial structure and promote development projects in the borrowing countries. ADB's operating performance remained solid in the January-September period of 2019, with its operating income in the period totaling USD814 million.

Yoshihiko Tamura, Shinichi Endo

### Rating

Issuer: Asian Development Bank

<Affirmation>

Long-term Issuer Rating: AAA

Outlook: Stable

Rating Assignment Date: March 23, 2020

The criteria used for identifying matters which serve as assumptions for the assessment of the credit status, and the criteria used for setting of grades indicating the results of the assessments of the credit status are published as "Types of Credit Ratings and Definitions of Rating Symbols" (January 6, 2014) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

Outline of methodology for determination of the credit rating is shown as "Multilateral Development Banks" (March 29, 2013) in Information about JCR Ratings on JCR's website (<https://www.jcr.co.jp/en/>).

### Japan Credit Rating Agency, Ltd.

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JCR publishes its press releases regarding the rating actions both in Japanese and in English on the same day. In case that it takes time to translate rating rationale, JCR may publicize the summary version, which will be replaced by the full translated version within three business days. (Regarding Structured Finance products, JCR only publicize the summary version in English.)

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## INFORMATION DISCLOSURE FORM

Japan Credit Rating Agency, Ltd.

### Disclosure Required by Paragraph (a)(1)(ii) of Rule 17g-7

|                          |                        |
|--------------------------|------------------------|
| Issuer:                  | Asian Development Bank |
| Rating Publication Date: | March 26, 2020         |

**1** The Symbol, Number, or Score in the Rating Scale used to Denote Credit Rating Categories and Notches and, the Identity of the Obligor or the Identity and a Description of the Security or Money Market Instrument as Required by Paragraph (a)(1)(ii)(A) of Rule 17g-7

- Please see the news release.

**2** The version of the procedure or methodology used to determine the credit rating; as Required by Paragraph (a)(1)(ii)(B) of Rule 17g-7

- Please see the news release.

**3** The Main Assumptions and Principles used in Constructing the Procedures and Methodologies used to Determine the Credit Rating as Required by Paragraph (a)(1)(ii)(C) of Rule 17g-7

- The credit rating methodology assumes, in principle, to be applied to assess the likelihood of a given debt payment in light of its issuer's condition and business environment, etc. in the relevant future. There is certain limitation, however, in the time horizon that the rating foresees.
- The credit rating methodology assumes, in principle, that the factors posted in the below are particularly important for such likelihood to be determined, and that the rating determination is made by evaluating each of them not only quantitatively but also employing qualitative analyses.

**A) Business Bases**

The likelihood of a given debt payment is highly conditional to its issuer's business bases - how they can be maintained/ expanded into the future and thereby secure earnings and cash flows in adequacy and in a sustainable way.

**B) Financial Grounds and Asset Quality**

The likelihood of debt payment is highly dependent on the degree of the issuer's indebtedness and loss absorption capacity in terms of equity capital. Also notable is that a financial institution might see a significant loss of financial grounds as a result of changes in value of the assets under its possession.

**C) Liquidity Positions**

The likelihood of debt payment is highly dependent on the adequacy of the issuer's cash and other sources of repayment (liquidity positions).

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The likelihood of debt payment is affected one way or the other by the issuer's related parties such as member countries, the issuer's related organizations, guarantor, and the government of the issuer's business domicile, etc. - by their own conditions and/ or position of support/ assistance for the issuer.

E) Order of Seniority in Debt Payment

The likelihood of debt payment can be different between given debts of the same issuer. The likelihood of debt payment for an individual debt is dependent on the issuer's discretion, and/ or its rank relative to other debts of the same issuer in the order of seniority in principal/ interest payment which is determined by design as financial product or by laws, etc.

4 The Potential Limitations of the Credit Rating as Required by Paragraph (a)(1)(ii)(D) of Rule 17g-7

- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- The objective of the credit rating herewith presented does not include any concerns other than the likelihood of debt payment, such as risks of price changes, market liquidity, etc.
- The credit rating herewith presented is necessary to be reviewed along with possible changes of the issuer of rated objects in its business performance and/ or circumstances which include regulatory environment, and hence subject to possible alteration.

5 Information on the Uncertainty of the Credit Rating as Required by Paragraph (a)(1)(ii)(E) of Rule 17g-7

- The information used for the determination of credit rating as herewith presented is obtained by JCR from the issuer of rated objects and other sources that JCR trusts in terms of accuracy and reliability but possibly contains errors due to human, non-human or other causes. Consequently, the credit rating determined on the grounds of such information does not constitute, explicitly or implicitly, any representation or warrant of JCR on the information itself or any consequences of its use in terms of accuracy, relevance, timeliness, wholeness, market value, or usefulness for any specific purposes.

6 Use of Due Diligence Services of a Third Party in Taking the Rating Action as Required by Paragraph (a)(1)(ii)(F) of Rule 17g-7

- There is no use of any third-party due diligence service in the determination of the credit rating herewith presented.

7 Use of Servicer or Remittance Reports to Conduct Surveillance of the Credit Rating Required by Paragraph (a)(1)(ii)(G) of Rule 17g-7

- There is no use of any servicer or remittance report to conduct surveillance of the credit rating herewith presented.

8 The Types of Data Relied Upon for the Purpose of Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(H) of Rule 17g-7

- The information posted in the below, which includes data, is used for the determination of the credit rating herewith presented.

A) Audited financial statements presented by the rating stakeholders

B) Explanations of business performance, management plans, etc. presented by the rating stakeholders

## 9 Overall assessment of the Quality of Information Available and Considered in Determining the Credit Rating as Required by Paragraph (a)(1)(ii)(I) of Rule 17g-7

- JCR holds its basic policies for securing the quality of information as a base of due diligence for the determination of credit ratings. The information used as a base for the determination of credit rating herewith presented satisfies such policies, which include the audit by an independent auditor, the publication by the issuer or some independent media or, otherwise, JCR analyst's scrutiny, etc.
- JCR sees no particular weakness in the quality of information used for the determination of the credit rating herewith presented as compared to the information used in other cases of the credit rating for comparable issuers or ratable objects.

## 10 Information Relating to Conflicts of Interest as Required by Paragraph (a)(1)(ii)(J) of Rule 17g-7

- JCR receives payment of compensation for the determination of the credit rating herewith presented from either one of those parties who are issuer, underwriter, depositor or sponsor.
- JCR did not receive in the last fiscal year in the past payment of compensation from the same party for any kind of JCR's service other than the determination of credit rating, such as one in the ancillary business.

## 11 Explanation or Measure of the Potential Volatility of the Credit Rating as Required by Paragraph (a)(1)(ii)(K) of Rule 17g-7

### A) Business Bases

The credit rating is subject to alteration if there is improvement or deterioration of the issuer's business bases, since its revenue, etc. may improve or deteriorate by the change in its business management policies, clients' preferences, competitive situation, or a technological innovation. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the business bases is large.

### B) Financial Grounds and Asset Quality

The credit rating is subject to alteration if the issuer increases/ decreases its debt/ capital or vice versa and thereby makes its individual debt payment liability less or more bearable and its loss absorption capacity into the future decreased or increased. Also, the changes in the quality of asset under the issuer's holding may affect the credit rating, since such changes could raise or lower the likelihood of future loss of the issuer's financial grounds. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change in the financial grounds and/ or asset quality is large.

### C) Liquidity Positions

The credit rating is subject to alteration if there is a change in the issuer's financial management policy or in the relations with fund procurement sources and the change thereby makes its liquidity positions improve or deteriorate. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is large.

### D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating is subject to alteration if there is a change in the issuer's member countries, the issuer's related organizations, guarantor or other provider of credit enhancement, or the government of

the issuer's business domicile, or other related parties' own conditions and/ or position of support/ assistance for the issuer, and the change thereby makes its business bases, financial grounds and/ or liquidity positions improve or deteriorate, and/ or making the effectiveness of guarantee and other credit enhancement improve or deteriorate. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large.

**E) Order of Seniority in Debt Payment and Non-Payment Forgiven by Contract**

The credit rating is subject to alteration if there is a change in the rated debt's status in the order of seniority relative to other debts caused by the improvement/ deterioration of the issuer's financial condition. The resultant alteration of the credit rating is usually a notch, with possibility of a few notches if and when the change is large. Also, in case of the financial products for which non-payment of interest/ principal is contractually permissible, the credit rating is subject to alteration if and when the likelihood of such non-payment is projected to increase or decrease. The resultant alteration of the credit rating could be by a notch but often as much as a few notches.

**F) Rise and Fall in General Economy and Markets**

The credit rating is subject to alteration if there is a rise/ fall in the general economy and/ or the markets inducing the issuer's revenues/ expenses to increase/ decrease and vice versa, etc. The resultant alteration of the credit rating is usually by a notch, with possibility of a few notches if and when the change is exceptionally large.

**G) Various Events**

The credit rating is subject to alteration on occurrence of various events, such as change in the issuer's major shareholders, M&A and other organizational change, accident, violation of the law, litigation, legal/ regulatory change, natural disaster, etc., which are unforeseeable at the time when the credit rating is determined, causing a significant change on the issuer's business bases, financial grounds, etc. The resultant alteration of the credit rating could be by a notch but more often than not as much as a few notches.

**12**

Information on the Content of the Credit Rating, Including the Historical Performance of the Credit Rating and the Expected Probability of Default and the Expected Loss in the Event of Default as Required by Paragraph (a)(1)(ii)(L) of Rule 17g-7

- Historical records of the credit rating herewith presented are posted in the end of this paper.
- The credit rating herewith presented by JCR is its summary opinion with regard to the likelihood of given debt payment and hence not necessarily a perfect representation of such likelihood. The credit rating is not intended to estimate the probability of default or the loss on given default, either.
- Facts of the probability of default are posted as Form NRSRO Exhibit 1 on the JCR website under the URL:

<https://www.jcr.co.jp/en/service/company/regu/nrsro/>

**13**

Information on the Sensitivity of the Credit Rating to Assumptions Made as Required by Paragraph (a)(1)(ii)(M) of Rule 17g-7

**A) Business Bases**

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's business bases and powers of earning or cash flow generation, etc. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's business bases on some drastic change in the operational environments, etc.

**B) Financial Grounds and Asset Quality**

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's financial grounds and asset quality. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's financial grounds and/ or asset quality on some drastic change in its business bases.

C) Liquidity Risks

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the issuer's liquidity positions. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if the development is rapid in improvement or deterioration of the issuer's liquidity positions on some drastic change in its financial management policy or relations with fund procurement sources, etc.

D) Related Parties' Status and Stance of Support/ Assistance for the Issuer

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to member countries, the issuer's related organizations, guarantor or other providers of credit enhancement, the government of the issuer's business domicile or other related parties' status and stance of support/ assistance for the issuer. The resultant change of the credit rating is most likely by a notch, as JCR speculates, but possibly as much as a few notches if there is a major change on the part of related parties, such as replacement, disappearance, some drastic improvement/ deterioration of financial grounds/ balances, etc.

E) Rise and Fall in General Economy and Markets

The credit rating herewith presented could be changed if and when the assumptions made at the time of its determination turn out to be inaccurate with regard to the prospects of general economy and markets. JCR expects the change should be most likely by a notch but could be as much as a few notches, should the economy or the markets change so greatly.

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Information on the Representations, Warranties, and Enforcement Mechanisms of an Asset-backed Security as Required by Paragraph (a)(1)(ii)(N) of rule 17g-7

- The credit rating herewith presented is not for an ABS product, and hence no relevant issue.

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## The Historical Performance of the Credit Rating

| Issuer Name            | Issue Name        | Publication Date | Rating | Outlook/Direction |
|------------------------|-------------------|------------------|--------|-------------------|
| Asian Development Bank | Issuer(Long-term) | May 1, 2006      | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | April 20, 2007   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | April 9, 2008    | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | April 9, 2009    | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | April 21, 2010   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | April 4, 2011    | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | April 5, 2012    | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | March 29, 2013   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | March 31, 2014   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | March 31, 2015   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | March 18, 2016   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | March 29, 2017   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | March 28, 2018   | AAA    | Stable            |
| Asian Development Bank | Issuer(Long-term) | April 2, 2019    | AAA    | Stable            |

## Attestation Required by Paragraph (a)(1)(iii) of Rule 17g-7

I, Atsushi Masuda, have responsibility to this Rating Action and to the best of my knowledge:

- A) No part of the credit rating was influenced by any other business activities.
- B) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated.
- C) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.



Atsushi Masuda  
General Manager of International Rating Department

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