MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns first-time Aaa issuer rating to Asian Infrastructure Investment Bank; outlook stable

Global Credit Research - 29 Jun 2017

Singapore, June 29, 2017 -- Moody's Investors Service ("Moody's") has today assigned to the Asian Infrastructure Investment Bank ("AIIB") a long-term foreign currency issuer rating of Aaa and a short-term foreign currency issuer rating of Prime-1. The rating outlook is stable.

The rating reflects Moody's assessment of AIIB's current and future creditworthiness, as it ramps up its operations over the next 5-10 years.

The Aaa rating takes into account the strength of AIIB's governance frameworks, including its policies on risk management, capital adequacy and liquidity. Very robust capital adequacy will support AIIB's credit profile. We expect AIIB's liquidity position to be as strong as that of other highly rated multilateral development banks (MDBs). The availability of substantial callable capital illustrates the contractual and extraordinary support Moody's expects would be forthcoming in extremis.

RATINGS RATIONALE

RATIONALE FOR THE Aaa RATING

Moody's expects AIIB's capital base to remain very large in relation to its assets throughout the ramp up of its balance sheet over the next 10 years. Subscribed capital—both $20 billion of capital to be largely paid in by 2019 and fully paid in by 2024, and $80 billion in callable capital—is already larger than at more established Aaa-rated MDBs, and will provide ample financial capacity to support the expansion of AIIB's activities towards the fulfilment of its mandate to invest in infrastructure in Asia.

While AIIB's financial and risk management policies will no doubt continue to develop as the organization matures, Moody's expects adherence to existing policies to ensure that AIIB maintains very high capital adequacy and a very strong liquidity position.

AIIB's portfolio of loans, equity investments and treasury holdings is likely to expand in line with parameters that mitigate credit risk, preserve profitability, and contain leverage. We expect that AIIB will, like other MDBs, enjoy preferred creditor status, which will contribute to very high asset quality.

AIIB has implemented a conservative liquidity policy which is in line with, and in some cases more stringent than, those of Aaa-rated peers. This policy requires the maintenance of liquidity at a level at least equal to 40% of the projected net cash flow requirements for the coming 36 months, plus an additional buffer. The net cash requirement in the liquidity policies of other highly rated MDBs typically covers 100% of projected needs over a period of 12 months. Moody's expects that AIIB's adherence to its policy will ensure that it sustains strong market access, supported by a deep and large pool of liquid assets.

Shareholders' current and future commitment to AIIB is illustrated by the high level of paid-in and callable capital to which shareholders have subscribed. Moody's expects AIIB to abide by statutory requirements that limit the size of its development portfolio to the sum of its unimpaired subscribed capital, reserves, and retained earnings, which would obviate the need for shareholder support beyond that furnished by callable capital.

Nevertheless, Moody's believes that the likelihood of further, extraordinary, support being made available in extremis, at least by those shareholders with a strategic interest in sustaining the bank's operations -- including but not limited to China -- further enhances AIIB's credit profile. In addition, AIIB's broad shareholder base—at over 80 countries, its membership is larger than that of some other Aaa-rated regional MDBs—mitigates concentration risks arising from economic and financial linkages that could impede the provision of extraordinary support in the event of need.

Moody's assessment of the quality of AIIB's risk management framework, and the quality and diversity of its loan and investment portfolio, rests on the assumption that AIIB will retain full operational autonomy from its largest shareholders including China, and that its development strategy will remain broadly focused on infrastructure development across a wide range of emerging markets. Full autonomy also implies immunity from expropriation, moratoria, and capital account restrictions.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects our expectation that AIIB's large capital base and strong shareholder support will allow for an expansion of its development activities, while maintaining its capacity to service any forthcoming financial obligations. This view assumes that AIIB will maintain the health of its standalone credit metrics beyond its initial growth phase into the next decade.

WHAT COULD CHANGE THE RATING DOWN

The rating could face downward pressure if AIIB's underwriting and risk management processes were to fail to evolve in a manner consistent with the highest-rated MDBs. That could include evidence of shortcomings in corporate governance such as operational interference by shareholders, or by a shift in strategy which resulted in greater geographic concentration of lending and investment activities than currently expected. Other signs would be a deterioration in asset performance beyond current expectations. Evidence of diminished capacity or willingness to support from key shareholders, and in particular China, would also be credit negative.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in March 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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Christian de Guzman
VP - Senior Credit Officer
Sovereign Risk Group
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Atsi Sheth
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 1 212 553 0376
Client Service: 1 212 553 1653

Releasing Office:
Moody's Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

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