S&P Global
Ratings

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Asian Infrastructure Investment Bank

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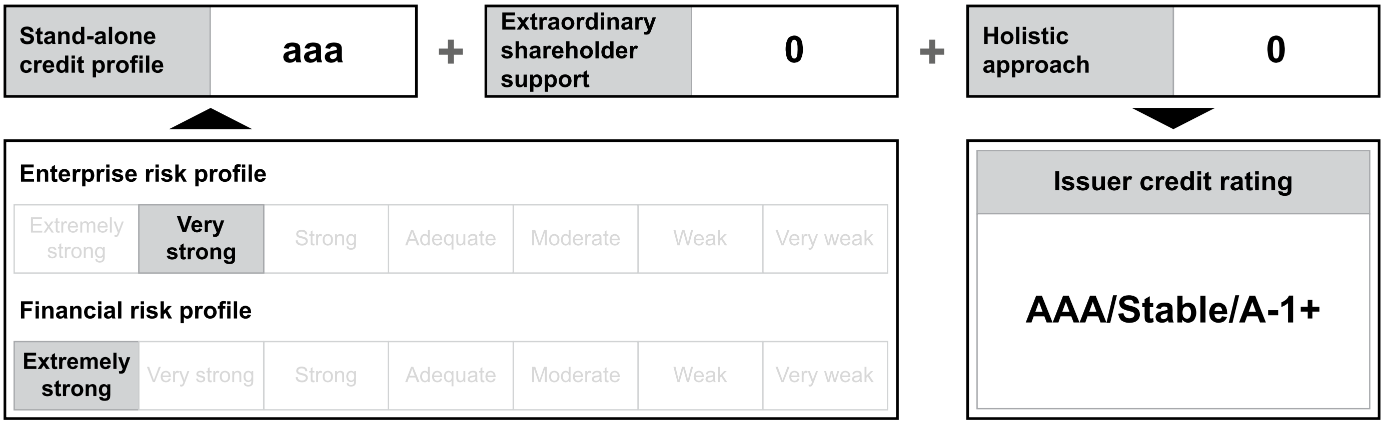
Asian Infrastructure Investment Bank



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

Outlook

The stable outlook reflects S&P Global Ratings expectation that, over the next two years, Asian Infrastructure Investment Bank (AIIB) will continue to deliver on its mandate. We expect the institution to grow loan commitments and disbursements and diversify its portfolio. In addition, we expect a strong adherence to what we consider sound governance and risk policies, and shareholders to remain supportive and grant the institution preferred creditor treatment (PCT).

We expect AIIB's capital and liquidity to deteriorate from currently extremely strong levels but remain a significant strength compared with peers and underpin its financial profile.

We could lower the ratings if AIIB fails to deliver on its mandate. We consider any significant deterioration of its financial risk profile to be unlikely, but if it does deteriorate, AIIB's highly rated callable capital, which is the strongest among all multilateral lending institutions (MLIs), would act as a buffer.

Rationale

In our view, AIIB has an important role in filling the financing gap in Asia, further evidenced by its COVID-19 response package of up to $13 billion. AIIB was founded with a significant capital endowment of $100 billion by 57 sovereigns, reinforcing the view that owners see an important role for the entity. The shareholder base continues to expand, to the current level of 103 member countries. The bank has all the 'AAA' rated sovereigns and 17 of the G-20 countries as its members.

The bank has been operational for five years now and is still in its ramp-up phase, which supports its capital and liquidity. We expect that AIIB's sovereign borrowers will uphold PCT, and to date there have been no losses on its private-sector loan book. The institution has built robust risk-management policies and has steadily built a pipeline of projects. That said, its limited presence in capital markets constrains its funding assessment, though the institution has been quite active in the market in 2020.

Environmental, Social, And Governance

AIIB was set up in 2016 to fill an important infrastructure-financing gap in Asia and to help countries meet their development goals. Although the institution has a short track record, 50% of all projects approved up to 2019 supported green infrastructure. Many of its projects also contribute to the objectives of the U.N.'s 2030 sustainable development goals (SDGs), which include clean water and sanitation, affordable and clean energy, and sustainable cities. On the other hand, AIIB also finances gas and fossil fuel projects. While these are exposed to higher environmental and social risks, they are energy transition projects. AIIB does not have a stand-alone climate change strategy unlike other multilaterals, but it has included a climate change financing target within its corporate strategy and includes climate change as a thematic priority in its sector strategies.

AIIB is seeking to reduce its exposure to environmental and social risks, and all of its projects adhere to the social and environmental standards of its environmental and social framework. The bank is developing a sustainable development bond framework that applies to all its bond issues.

The core part of its long-term private-sector strategy focuses on its infrastructure mandate; to expand the bank's role, this would also involve lending to financial intermediaries and investing in equity platforms. The bank's risk appetite statement applies strict limits on equities, although these investments may add material indirect exposure to environmental and social risks. Nonetheless, nearly 54% of its projects are cofinanced with other MLIs, such as the World Bank Group and the European Investment Bank. Lending by these institutions incorporates stringent environmental and social standards, as well as oversight mechanisms. As a result, AIIB has occasionally followed its more-established peers in canceling financing commitments to controversial projects. For example, in 2019, it canceled its funding for the $500 million Amaravati project.

AIIB's governance and management score has a neutral effect on the rating. Our assessment considers that AIIB is predominantly owned by regional member countries--this could lead to conflicts of interest. Members also have relatively low rankings in terms of World Bank governance effectiveness indicators. This is balanced by the institution's diverse and experienced senior management team, as well as its conservative and robust financial and risk management framework.

Enterprise Risk Profile: Unique And Important Mandate Is Supported By The Expanding Portfolio Despite A Shorter Track Record

- Steady growth in AIIB's portfolio underpins our view of the important role it plays in filling the large infrastructure financing gap Asia.
- The enterprise risk profile is supported by its expanding membership base and significant capital endowment provided.
- AIIB has provided an important financing package, offering up to US$13 billion in financing to its members.

Policy importance

AIIB is a relatively young institution--it started operations in 2016. The expected size and scope of AIIB are designed to help fill the very large infrastructure financing gap in Asia, currently estimated at US$26 trillion through 2030.

We continue to see AIIB reach important milestones in new loan commitments, which we believe underpins its growing relevance for the region. Since its inception, it has approved a total of US$21.5 billion in new projects as of November 2020, up from $12 billion as of December 2019. Of these, 68% are in the sovereign sector across 26 member countries. AIIB has also established a limit that allows up to 15% of total approved bank financing to nonregional investments, which we view as positive so long as it continues to support global trade and connectivity and economic integration with Asia.

As of November 2020, 54% (67% as of June 2018) of the projects were cofinanced with other MLIs, such as the World Bank Group and the European Investment Bank, and we positively view the increase in the overall share of stand-alone projects. While leveraging the expertise and capital of other MLIs to source deals enables AIIB to spread risk as well as reduce pressure on internal country limits, we think that taking on a bigger share of stand-alone projects is vital given its role as a key provider of infrastructure financing in Asia.

AIIB has used its excess capacity to support the member countries in alleviating pressures arising from COVID-19. It has set up a crisis recovery facility to offer up to $13 billion of financing over a period of 18 months from April 2020 to October 2021. While AIIB only provides sovereign-backed or nonsovereign-backed financing for regular investment projects, in the context of COVID-19, it has supported policy-based financing alongside the World Bank's Program for Results and the Asian Development Bank's results-based lending.

Private-sector lending will become a larger share of lending, anchored by AIIB's strategy for mobilizing private capital for infrastructure. It was 27% of AIIB's total approvals of $12 billion as of year-end 2019, and expected to reach 50% over time. Equity investments are also expected to increase, although limited to 10% of capital.

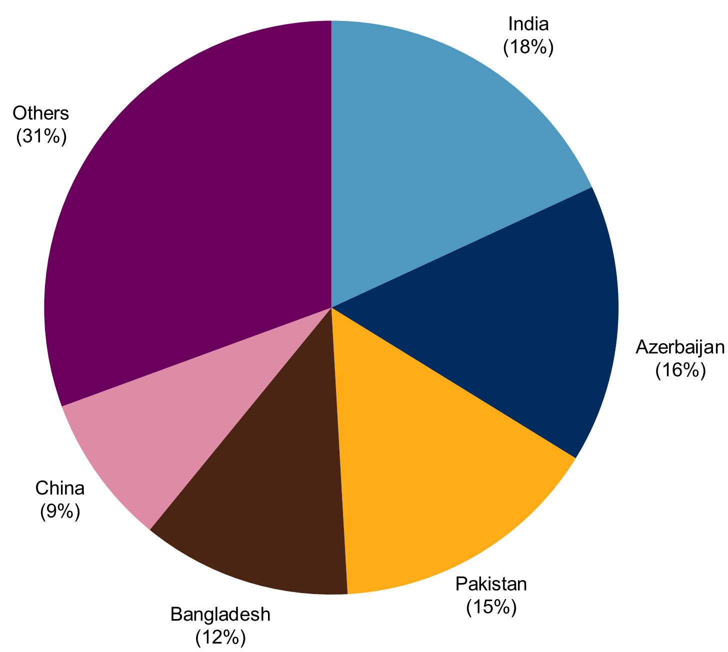
AIIB's original 57 founding members have now grown to 103, with notable new members including Belgium and Greece, and include all 'AAA' rated sovereigns as well as 17 of the 20 G-20 members--which underpins our view of its enterprise risk profile.

Furthermore, AIIB has a sizable capital endowment (US$100 billion), of which 20% is paid-in capital, one of the highest of all MLIs. Currently, 98% of the allocated capital has been subscribed. Capital installments have been paid on time, with US$18.9 billion received as of September 2020. In our view, this reinforces AIIB's important role, enabling it to become one of the largest MLIs globally.

PCT for AIIB, as a relatively new institution, is largely untested. However, our calculated arrears ratio is 0% because we assume that all borrowing members will grant AIIB PCT, supported by the strong and international backing of the institution.

Chart 1

AIIB Five Largest Countries Purpose-Related Exposures
As a % of gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Governance and management expertise

The institution is predominantly owned by regional member countries, which could lead to conflicts of interest. Furthermore, AIIB's shareholders, on average, have somewhat lower ranking in governance compared with 'AAA' rated peers. To mitigate such conflicts, AIIB has established that a supermajority vote of the board of governors (at least two-thirds of the governors holding 75% of the total voting powers) is needed to amend the institution's founding articles, including essential operating principles on governance and risk appetite.

China is the largest shareholder, with 27% of current voting share and has veto power, followed by India (8%), Russia (6%), and Germany (4%). Under AIIB's charter, the board of governors holds all power of the bank and is the bank's highest decision-making body. The general operations of AIIB rest with the board of 12 directors, and they are elected by the governors every two years. A director who casts votes of five or more members may appoint two alternates.

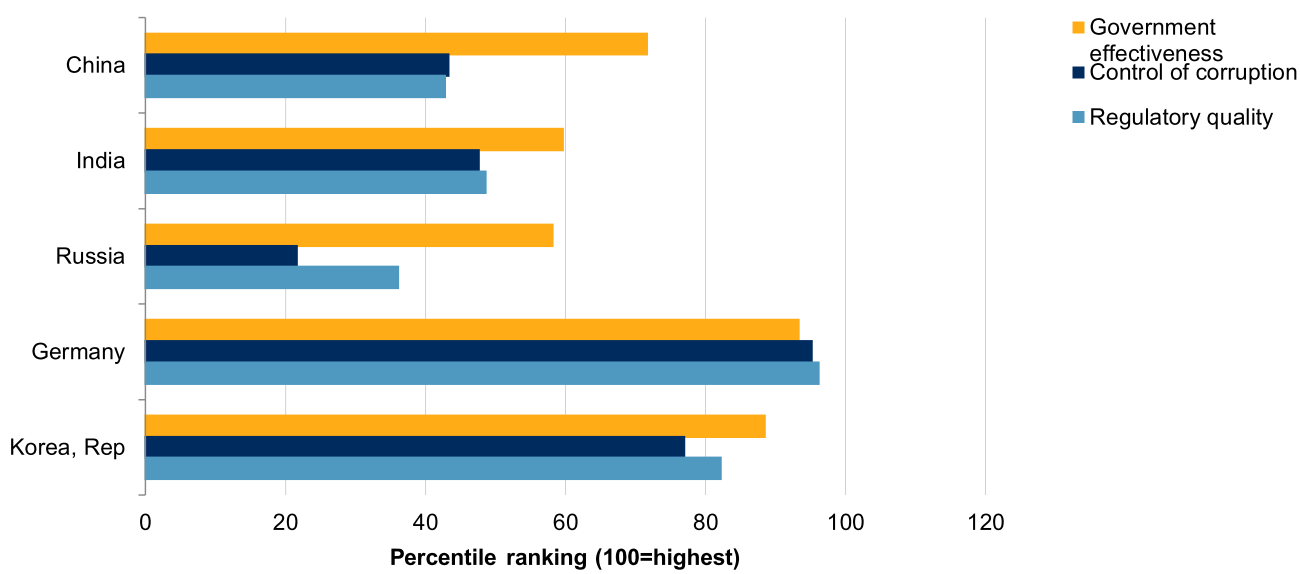
There are two constituencies with less than five members, and none of the constituencies has only one member. The charter allows the board of governors to delegate to the board of directors all its powers, except those whose delegation is expressly prohibited by the charter.

AIIB has made significant progress with the establishment of a comprehensive risk-management framework. It established core operating policies, including financial policies and risk limits, by 2016. Since then, the asset liability management policy and directives on market, liquidity, and counterparty risk were rolled out. AIIB approved its risk appetite statement in January 2018 and uses an economic capital model to manage and measure the allocation of risk over its business activities.

The institution's senior management team is diverse and has extensive experience in the MLI sector. AIIB does not have nationality restrictions and has committed to maintaining a diverse workforce, which, in our view, contributes to AIIB's high standards. We expect AIIB to continue to face some challenges hiring and retaining personnel but believe it will manage these bottlenecks appropriately. So far, we believe that key operational structures and functions have supported growth in operations, and we expect that AIIB will continue to be managed prudently.

Chart 2

AIIB Five Largest Shareholders
Selected World Bank Governance indicators



Source: S&P Global Ratings.

Financial Risk Profile: Still In Ramp-Up Phase, Which Supports Capital And Liquidity

- In our view, AIIB's RAC ratio is stronger than peers given its large capital buffers.

- While AIIB benefits from solid liquidity buffers, it has a limited track record in capital markets, which constrains the funding assessment.

Capital adequacy

AIIB's financial strength remains unparalleled among MLIs. It had a risk-adjusted capital (RAC) ratio after MLI adjustments of 123.6% as of June 30, 2020, down from 162.6% a year earlier, largely because of an increase in loans and equity investments. The bank's RAC ratio is highest among its peers. We expect the RAC ratio to continue declining during this growth phase, but remain extremely strong for the foreseeable future.

While AIIB has been operational for only five years, it has not experienced any loan losses to date. The bank has a robust financial and risk management framework in place. It applied IFRS 9 from the start, and as of June 30, 2020, total expected credit losses amounted to $176.5 million, up by $58.6 million compared with March 31, 2020. They rose mainly due to an increase in new loan originations, as well as higher credit risk stemming from the COVID-19 crisis, which led to an increase in its stage 2 assets. That said, there were no impaired loans and its nonperforming loan ratio remains at 0%, though we expect they'll increase as AIIB continues to expand its pipeline of projects, in line with peers. Our understanding is that AIIB has not provided any relief to its private-sector borrowers in the form of payment holidays or deferrals as a result of COVID-19.

Table 1

AIIB RACF (Risk-Adjusted Capital Framework) Data: June 2020

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	8,747	4,272	49
Institutions	17,123	6,142	36
Corporate	1,605	1,271	79
Retail			
Securitization	103	21	20
Other assets			
Total credit risk	27,578	11,705	42
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	2,067	628	30
Trading book market risk			
Total market risk		628	
Operational risk			
Total operational risk		1,644	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI adjustments		13,977	100

Table 1

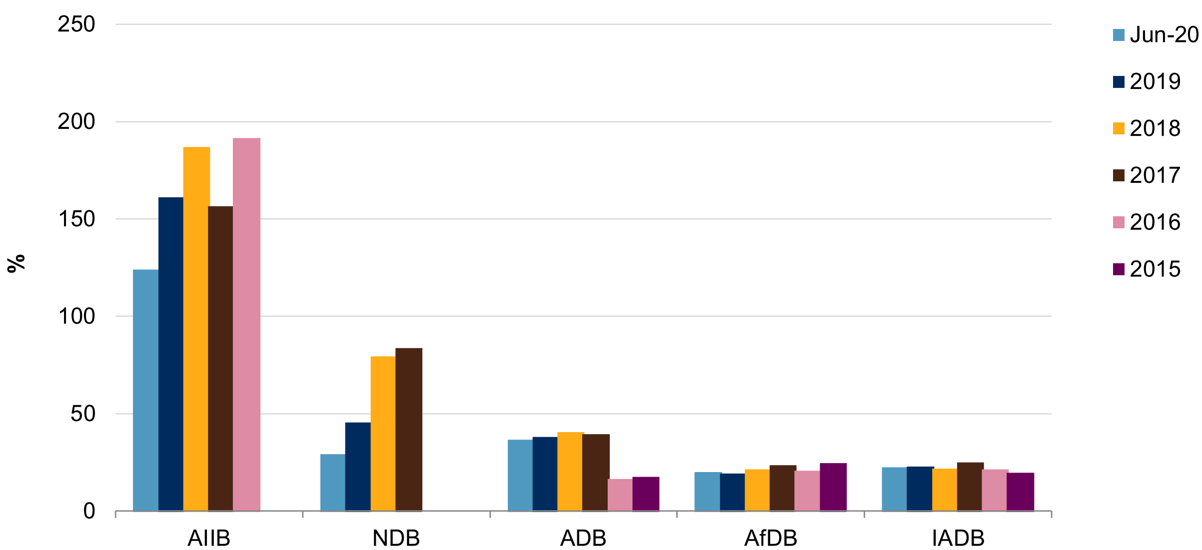
AIIB RACF (Risk-Adjusted Capital Framework) Data: June 2020 (cont.)

MLI adjustments		
Single name (on corporate exposures)	804	63
Sector (on corporate portfolio)	(182)	(9)
Geographic	(1,920)	(15)
Preferred creditor treatment (on sovereign exposures)	(2,154)	(50)
Preferential treatment (on FI and corporate exposures)	(1,194)	(16)
Single name (on sovereign exposures)	6,521	153
Total MLI adjustments	1,875	13
RWA after MLI adjustments	15,853	113
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	19,599	140.2
Capital ratio after adjustments	19,599	123.6

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

Chart 3

Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

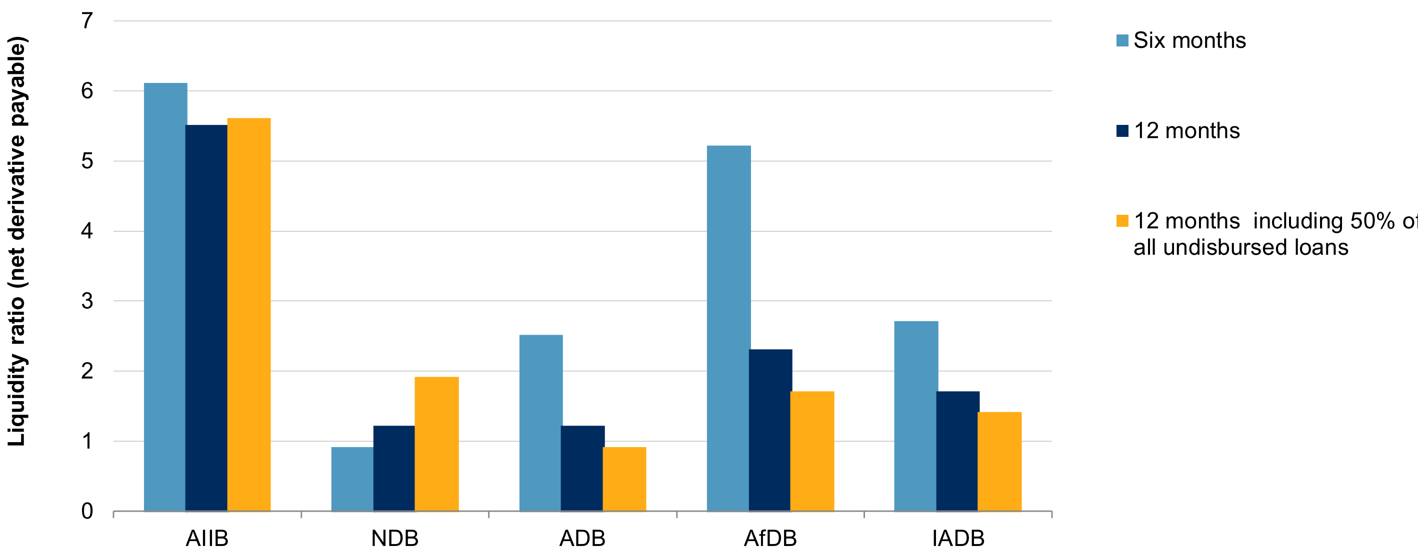
Funding and liquidity

Funding. We expect AIIB to become a regular benchmark issuer and have a global investor base. In December 2018, AIIB launched its euro commercial paper program, where it can issue a maximum outstanding aggregate principal amount of $5 billion, and in May 2019, AIIB issued its US$2.5 billion inaugural bond. AIIB has been active in the capital markets in 2020 and has issued $8.8 billion through 24 transactions across nine currencies to date. Notably, it issued a $3 billion five-year global sustainable bond during 2020 to support its COVID-19 efforts. We assess funding as neutral because while the strong and stable equity source is a positive factor, AIIB has yet to build a track record in the market.

Liquidity. Given the large liquidity reserves and emergent pipeline of lending activity, our calculations of AIIB's liquidity incorporating stressed market conditions show that it could survive an extremely stressed scenario without market access for 12 months and without withdrawing principal resources from borrowing members should they be brought forward in time. As the bank increases commitments and taps the market, we expect its liquidity ratios to deteriorate. Nonetheless, we assume that AIIB will maintain ample liquidity, mainly because of a conservative policy that establishes a minimum liquidity level of 40% of the next three years' net cash flow requirements.

Chart 4

AIIB Liquidity Stress Test Ratios Peer Comparison



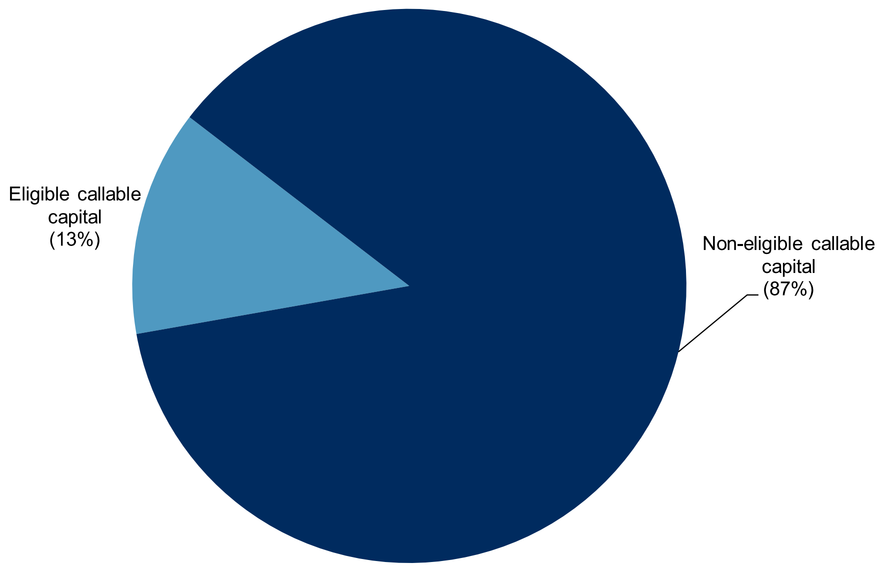
Data as of June 2020. Source: S&P Global Ratings.

Extraordinary Shareholder Support

AIIB has a robust callable capital base, benefiting from $10 billion in callable capital from 'AAA' rated shareholders. This would support AIIB if needed--though that's unlikely--and would underpin an extremely strong financial profile if it deteriorates on a stand-alone basis.

Chart 5

AIIB Callable Capital
As a % of total callable capital



Source: S&P Global Ratings.

Holistic Approach

Table 2

AIIB Selected Indicators	2019	2018	2017	2016	2015
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. US$)	2,320	1,381	779	10	N.A.
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	89.0	88.0	94.0	100.0	N.A.
Private-sector loans/purpose-related exposures (%)	11.0	12.0	6.0	0.0	N.A.
Gross loan growth (%)	68.0	77.4	7819.8	N.A.	N.A.
Preferred creditor treatment ratio (%)	0.0	0.0	0.0	0.0	0.0
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	76.4	76.78	75.2	74	N.A
Concentration of top two shareholders (%)	39.6	39.6	40.2	42.2	N.A
Eligible callable capital (mil. US$)	10,222.7	10,038.4	9,426.4	10,038.4	N.A

Table 2

AIIB Selected Indicators (cont.)

	2019	2018	2017	2016	2015
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	160.5	186.4	156	191.0	N.A.
Net interest income/average net loans (%)	22.0	23.5	31.7	N.A.	N.A.
Net income/average shareholders' equity (%)	2.0	1.6	1.4	N.A.	N.A.
Impaired loans and advances/total loans (%)	0	0	0	0	N.A.
Liquidity ratios					
Liquid assets/adjusted total assets (%)	89.4	91.0	93.0	99.5	N.A.
Liquid assets/gross debt (%)	764.6	N.A.	N.A.	N.A.	N.A.
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	15.1	14.0	19.6	N.A.	N.A.
12 months (net derivate payables) (x)	10.3	7.3	10.9	N.A.	N.A.
12 months (net derivate payables) including 50% of all undisbursed loans (x)	6.9	4.4	6.0	N.A.	N.A.
Funding ratios					
Gross debt/adjusted total assets (%)	11.7	N.A	N.A	N.A	N.A
Short-term debt (by remaining maturity)/gross debt (%)	N.A	N.A	N.A	N.A	N.A
Static funding gap (with planned disbursements)					
12 months (net derivate payables) (x)	>100	N.A.	N.A.	5.3	N.A.
SUMMARY BALANCE SHEET					
Total assets (mil. US$)	22,632	19,562	18,973	17,795	N.A
Total liabilities (mil. US$)	2,645	50	14	6	N.A
Shareholders' equity (mil. US$)	19,986	19,512	18,959	17,790	N.A

Source: S&P Global Ratings.

Table 3

AIIB Peer Comparison

	Asian Infrastructure Investment bank	New Development Bank	Asian Development Bank	African Development Bank	Inter-American Development Bank
Issuer credit ratings	AAA/Stable/A-1+	AA+/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+	AAA/Stable/A-1+
	31-Dec	31-Dec	31-Dec	31-Dec	31-Dec
Total purpose-related exposure (mil. US$)	2,320	1,538	121,417	31,384	97,221
Preferred creditor treatment ratio (%)	0.0	0.0	0.1	1.7	2.2
Risk adjusted capital ratio (%)	123.6	28.8	36.2	19.3	21.9
Liquidity ratio 12 months (net derivative payables; %)	5.5	1.19	1.2	2.3	1.7

Table 3

AIIB Peer Comparison (cont.)

	Asian Infrastructure Investment bank	New Development Bank	Asian Development Bank	African Development Bank	Inter-American Development Bank
Funding gap 12 months (net derivative payables; %)	>100	4.57	1.1	2.7	1.6

Note: PCT ratio, RAC ratio, and funding and liquidity ratios are as of June 2020. Purpose-related assets as of the end of December 2019. Source: S&P Global Ratings.

Ratings Score Snapshot

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, Dec. 14, 2018
- 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

- Supranationals Special Edition 2020 Says Multilateral Lenders Are Addressing Challenges From COVID-19, Oct. 20, 2020
- Supranationals Edition 2020: Comparative Data For Multilateral Lending Institutions, Oct. 21, 2020

- Introduction To Supranationals Special Edition 2020, Oct. 20, 2020
- 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

Ratings Detail (As Of December 17, 2020)*		
Asian Infrastructure Investment Bank		
Issuer Credit Rating		
Foreign Currency		AAA/Stable/A-1+
Commercial Paper		
Foreign Currency		A-1+
Senior Unsecured		AAA
Issuer Credit Ratings History		
18-Jul-2017	*Foreign Currency*	AAA/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.