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Asian Infrastructure Investment Bank

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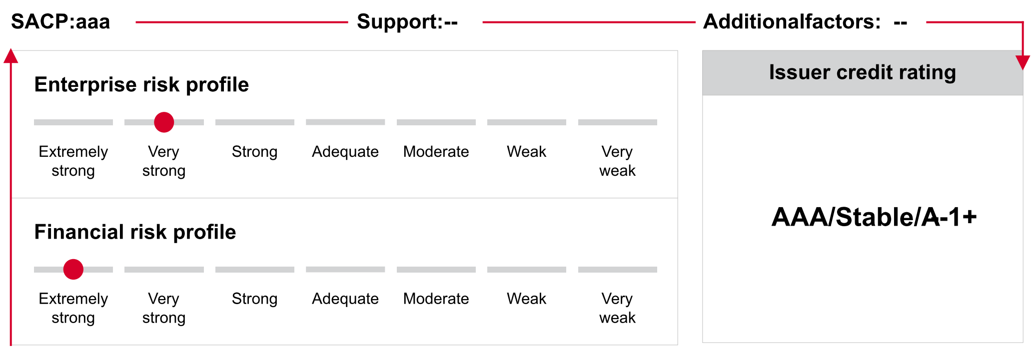
Asian Infrastructure Investment Bank

This report does not constitute a rating action.

Rating Score Snapshot

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



SACP--Stand-alone credit profile

Credit Highlights

Overview

Enterprise risk profile	Financial Risk profile
Steady growth in AIIB's portfolio underpins our view of the bank's important role in filling the large infrastructure financing gap Asia.	The financial strength of AIIB, a nascent institution with large capital buffers, remains among the strongest in multilateral lending institutions.
AIIB's expanding membership base and significant capital endowment support its enterprise risk profile.	Though we expect the bank's risk-adjusted capital ratio to decline during its growth phase, it will remain extremely strong for the foreseeable future.
AIIB provided a substantial COVID-19 package, offering up to US$20 billion in financing to its members.	While AIIB has been operating for only eight years, it has managed its loan portfolio exceptionally well and kept loan losses low.
AIIB is predominantly owned by regional member countries, although that is balanced by a robust risk management framework.	AIIB benefits from solid liquidity buffers, although it has a short record in capital markets, constraining the funding assessment.

Asian Infrastructure Investment Bank (AIIB) will continue to grow and diversify its lending activities. As of October 2023, the bank has financed 238 projects totaling US$45 billion, up from US$39 billion as of November 2022. This in part has been supported by its US$20 billion COVID-19 Crisis Recovery Facility (CRF), which was extended until end-2023. The facility allows AIIB to provide sovereign-backed budgetary support co-financed alongside the World Bank and the Asian Development Bank.

Demand for crisis-related financing continues to remain high as countries restart their economic growth trajectories following the pandemic. We believe that given the limited sovereign fiscal space and pressures on global growth, the demand for infrastructure funding will increase. This underpins our view that AIIB's owners have an important role for the bank to keep expanding and diversify its lending activities.

AIIB was founded with a significant capital endowment of US$100 billion by 57 sovereigns in 2016. The shareholder base has since expanded to 109 approved members. The bank has all the 'AAA' rated sovereigns, except Liechtenstein, and 17 of the G-20 countries as its members.

AIIB's extensive capital buffers will continue to underpin its financial risk profile and we expect it to maintain solid asset quality despite global macro challenges. The bank's risk-adjusted capital (RAC) ratio is among the highest of rated multilateral lending institutions (MLIs). Its RAC ratio after MLI adjustments was 51.3% as of June 30, 2023, slightly down from 53.5% at year-end 2022, largely because of an increase in loan exposures. This level is more than double our strongest threshold of 23% in measuring capital adequacy.

We expect sovereign borrowers will uphold preferred creditor treatment (PCT) to AIIB, which was recently tested when Sri Lanka defaulted, but remained current with the bank. To date, the Russia-Ukraine conflict has not materially affected AIIB's operations. In March 2022, the bank announced it would halt all activities in Russia and Belarus, although lending exposures were already minimal, and it has no exposure to Ukraine.

Outlook

The stable outlook reflects our expectation that over the next two years AIIB will continue to deliver on its mandate. We expect the institution to grow loan commitments and disbursements and diversify its portfolio. We also expect a strong adherence to what we consider sound governance and risk policies, and that shareholders will remain supportive and grant the institution PCT.

We expect AIIB's capital and liquidity to normalize from the current extremely strong levels. That said, the bank's capital and liquidity will remain a significant strength compared with peers and underpin its financial profile. We could lower the ratings if AIIB does not satisfy its mandate. We consider any significant deterioration of the bank's financial risk profile to be unlikely, but if it does deteriorate, the institution's highly rated callable capital, the strongest among all MLIs, would act as a buffer.

Enterprise Risk Profile

Policy importance: Increasing relevance in Asia, despite short track record

AIIB is a relatively young institution that began operating in 2016. The bank was designed to help fill the very large infrastructure financing gap in Asia, currently estimated at US$26 trillion through 2030. It continues to fulfil important milestones in new loan commitments, which we believe underpin its growing relevance for the region. Since inception, AIIB has approved a total of US$45 billion in new projects as of Oct. 31, 2023, up from US$39 billion as of November 2022. Of these, 79% are in the sovereign sector. The bank has invested in 36 of its 109 approved members. It has also established a limit that allows up to 15% of total approved bank financing to nonregional investments, which we view as positive as long as it continues to support global trade and connectivity and economic integration with Asia. In this regard, AIIB approved projects in Brazil and Cote d'Ivoire, supporting its diversification efforts.

We view AIIB's increased share of stand-alone projects as positive. Taking on a bigger share of stand-alone projects or acting as lead arranger in projects is vital, in our view, given the institution's role as a key provider of infrastructure financing in Asia.

As of September 2023, 43% of the bank's projects were cofinanced with other MLIs such as the World Bank Group and the European Investment Bank. This is down from 67% as of June 2018. Leveraging the expertise and capital of other MLIs to source deals enables AIIB to spread risk and reduce pressure on internal country limits. This was particularly valuable in the context of its crisis response to the pandemic.

AIIB has used its excess capacity to support member countries in alleviating pressures from the pandemic. This differentiated the bank among peers that instead repurposed resources to address the pandemic. It set up the COVID-19 CRF to offer up to US$13 billion of financing from April 2020 to October 2021. In June 2021, it extended the facility until April 2022 for a total of 24 months. In February 2022, the facility was further expanded to a total financing of US$20 billion with its duration extended until end-2023.

AIIB provides a variety of financing instruments, including sovereign loans, non-sovereign-backed financing, equity investments, and guarantees. In the context of COVID-19, it has extraordinarily expanded its financial support to policy-based financing with the World Bank and results-based lending with the Asian Development Bank. Demand for CRF financing remains high, representing close to one-third of total approved financing of US$44.24 billion as of Sept. 30, 2023.

AIIB is steadily increasing its private-sector lending. This accounted for 21% of total approvals of US$45.0 billion as of October 2023. The bank targets reaching annual approval of private sector financing of 50% by 2030, anchored by its strategy of mobilizing private capital for infrastructure. AIIB has been developing the private sector pipeline and executing high-quality transactions. Equity investments should also increase, although limited to 10% of capital.

The Russia-Ukraine conflict has not materially affected AIIB's operation. In March 2022, the bank announced it would halt all activities in Russia and Belarus, although lending exposures were already minimal, supported by ample capital. There is an outstanding loan to Russian Railways totaling US$273 million (Russian rubles 24 billion), with a provision amounting to US$20 million, although the borrower remains current.

AIIB had also issued four bonds denominated in rubles, one of which remains outstanding. These bonds as well as the cash flows from the loan were hedged at the time of issuance to remove AIIB's risks related to the ruble interest rate and foreign exchange. To date, the bank has been able to process these payments without any issues. It has no exposure in Ukraine.

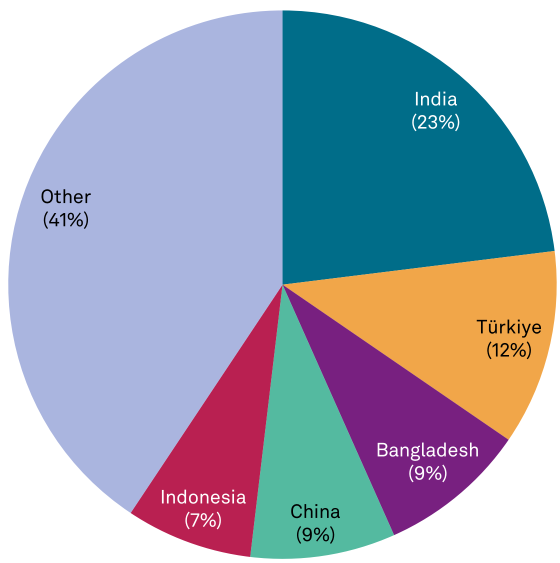
AIIB has a sizable capital endowment (US$100 billion), of which 20% is paid-in capital, one of the highest of all MLIs. Currently, 99% of the allocated capital has been subscribed. Capital installments have been paid on time, with US$19.4 billion received as of June 30, 2023. In our view, this reinforces AIIB's role, enabling it to become one of the largest MLIs globally.

AIIB's PCT remains very strong. Our calculated sovereign arrears ratio is 0%. We assume all borrowing members will grant PCT to AIIB, supported by the international backing of the institution. AIIB's PCT was recently tested when Sri Lanka was downgraded to 'SD' after missing payments on its commercial debt on April 25, 2022, but the sovereign has remained current with the bank.

Chart 1

AIIB's five largest countries purpose-related exposures

As a percentage of sovereign gross purpose-related assets plus guarantees



Source: S&P Global Ratings.

Governance and management expertise: Shareholder structure poses potential agency risk, counterbalanced by a comprehensive risk-management framework.

AIIB 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 26.6% of the current voting share and veto power, followed by India (7.6%), Russia (6%), and Germany (4.2%).

Under AIIB's articles of agreement, the board of governors holds all power and is the bank's highest decision-making body. The general operations of AIIB rest with the board's 12 directors who are elected by the governors every two years. The articles of agreement allow the board of governors to delegate to the board of directors all its powers, except those whose delegation is expressly prohibited by the articles.

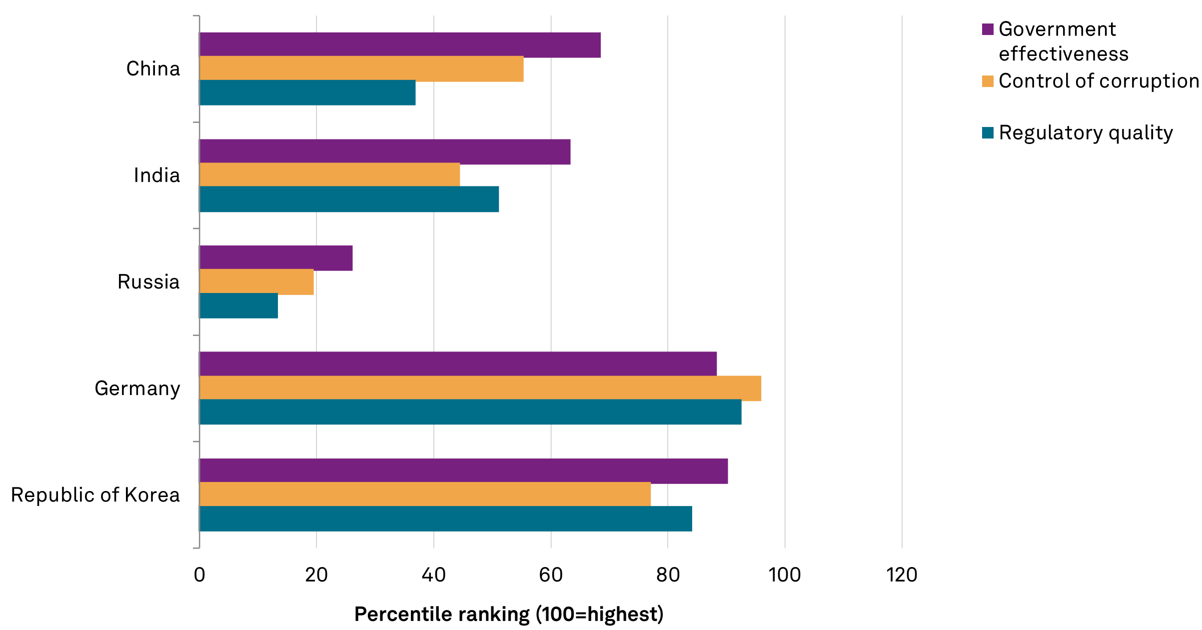
AIIB has established a comprehensive risk-management framework. As the institution grows its lending combined with a track record of successfully operating through economic cycles, our assessment of its governance and management expertise could strengthen. The bank established core operating policies, including financial policies and risk limits. 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. AIIB reviews its capital adequacy status each quarter. The bank's capital adequacy framework requires it to perform stress testing at least annually against a severe and protracted crisis. The institution's senior management team is diverse and has extensive experience in the MLI sector.

AIIB's risk management is aligned with highly rated peers, in our view. However, the institution has only been operating for eight years. It recently entered its growth phase (2021-2030) where it expects its balance sheet to grow rapidly as it disburses loans. As the institution matures, and a track record is built of managing and operating the bank prudently through cycles, this could lead to a stronger overall governance and management score.

Chart 2

AIIB's five largest shareholders

Selected World Bank governance indicators



Sources: World Bank and AIIB data, compiled by S&P Global Ratings.

Financial Risk Profile

Capital adequacy: One of the highest RAC ratios among peers.

In our view, AIIB's financial strength remains among the strongest of the MLIs. It had a RAC ratio after MLI adjustments of 51.3% as of June 30, 2023, down from 63.1% at June 2022, largely because of an increase in loan exposures. The bank's RAC ratio is one of the highest among its peers. We expect the RAC ratio to continue declining during its growth phase, but to remain extremely strong.

While AIIB has been operating for only eight years, it has managed its loan portfolio exceptionally well, with just one loan loss and four bond losses reported. Since inception, the bank has no sovereign arrears to date. As of September 2023, the bank had a non-sovereign loan of US$76 million classified as impaired. It had an expected credit loss allowance of US$67 million against this loan. At the same time, it had four impaired bond exposures to the Chinese real estate market which were held in its investment operations portfolio totaling US$42 million. These were recognized as nonperforming assets due to the collapse in market value of the instruments. AIIB applied IFRS 9 from the start, and, as of June 30, 2023, total expected credit losses on the bank's investment operations portfolio amounted to US$343.8 million, down from US$346 million as of Sept. 30, 2022. AIIB has not provided any relief to its private-sector borrowers in the form of payment holidays or deferrals because of COVID-19.

Table 1

AIIB RACF (Risk-Adjusted Capital Framework) Data: June 30, 2023

(USD mil.)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	33,419	23,396	70
Institutions	21,003	6,712	32
Corporate	2,017	3,128	155
Retail			
Securitization	259	52	20
Other assets			
Total credit risk	56,698	33,288	59
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	777	1,516	195
Trading book market risk			
Total market risk		1,516	
Operational risk			
Total operational risk		2,828	

Table 1

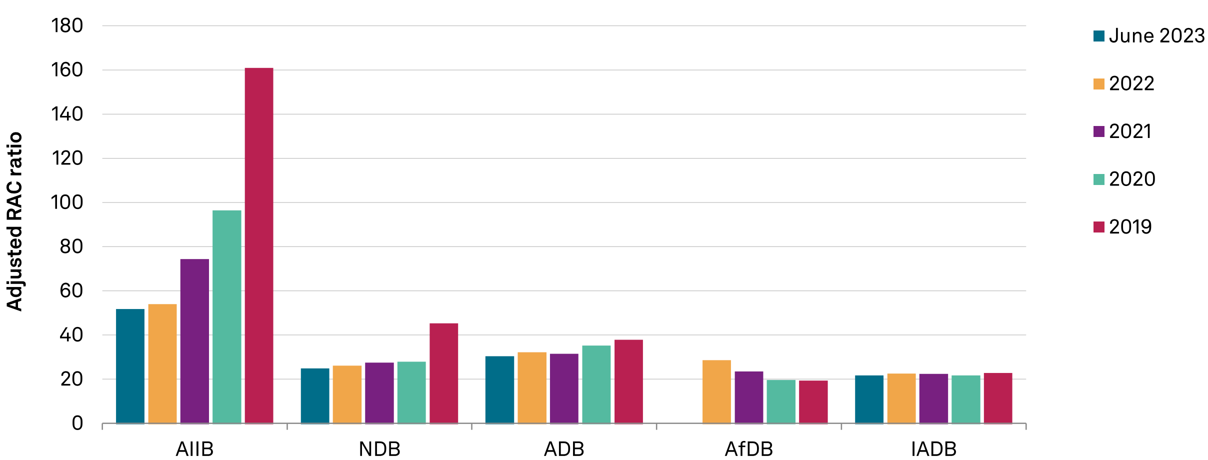
AIIB RACF (Risk-Adjusted Capital Framework) Data: June 30, 2023 (cont.)

Risk transfer mechanisms		
Risk transfer mechanisms RWA		
RWA before MLI Adjustments	37,631	100
MLI adjustments		
Single name (on corporate exposures)	2,253	72
Sector (on corporate portfolio)	(517)	(10)
Geographic	(4,999)	(14)
Preferred creditor treatment (on sovereign exposures)	(14,024)	(60)
Preferential treatment (on FI and corporate exposures)	(1,059)	(11)
Single name (on sovereign exposures)	19,241	83
Total MLI adjustments	894	2
RWA after MLI adjustments	38,526	102
	Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments	19,747	52.5
Capital ratio after adjustments	19,747	51.3

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: Limited, albeit growing, record in capital market constrains the funding assessment

AIIB is making progress in becoming a regular benchmark issuer with a global investor base. In 2019, the bank began issuing bonds and completed its fifth funding year in 2023 with a total of US$37 billion issued over the period. In 2023, AIIB accessed new markets, issuing inaugural bonds of €1.5 billion in February and Swiss franc (CHF) 200 million in June, further diversifying its investor base and currencies.

AIIB has been active in capital markets and plans to raise up to US$11 billion in 2024 through frequent bond issuances. However, the bank has faced higher funding costs than it did before the Russian-Ukraine conflict, which, combined with overall complicated market dynamics, led the bank to rely more on private placements during 2022 and 2023 to reduce the impact to its overall funding cost. We believe this higher spread for AIIB issuances in the secondary market is transitory and reflects the initial shock to the conflict. It has not limited the bank's ability to tap markets. In 2023 there was evidence of improvement of spreads with narrowing seen over the course of the year.

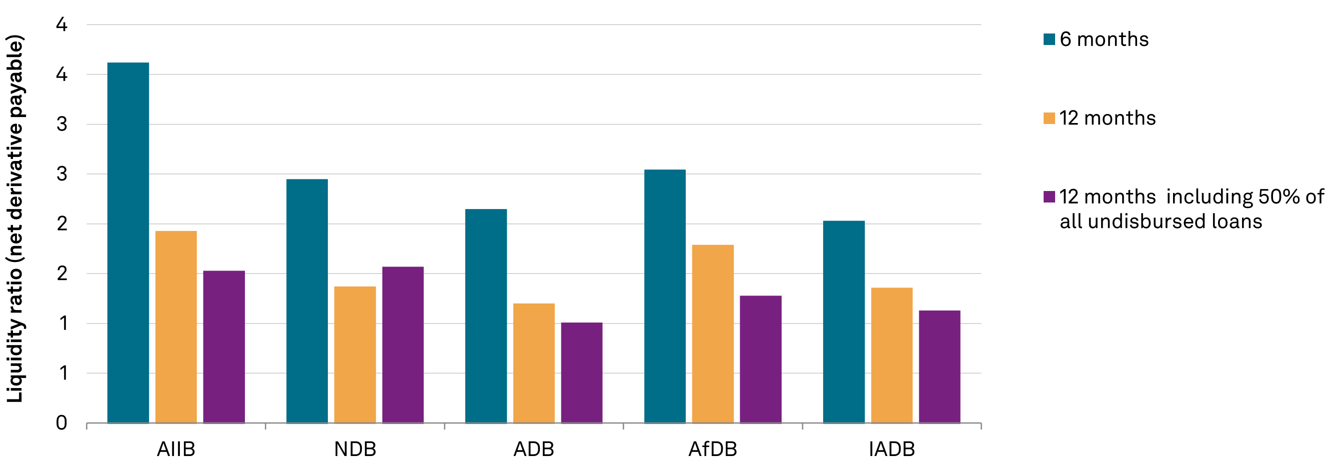
We assess funding as neutral because while the strong and stable equity source is a positive factor, AIIB has yet to build a longer track record in the market compared with its 'AAA' rated peers.

Liquidity: Ample liquidity comfortably covering six- and 12-month liabilities.

Given AIIB's large liquidity reserves, our calculations of liquidity incorporating stressed market conditions show that it could survive an extremely stressed scenario without market access for 12 months. For June 2023, our 12-month liquidity ratio was 1.9x with scheduled disbursements, while the six-month ratio was 3.6x. We estimate that AIIB would not need to slow down disbursements under a stress scenario, which takes into account 50% of all undisbursed loans coming due in the next 12 months. As the bank increases commitments and continues to tap the market, we expect its liquidity ratio to decrease. Nonetheless, we assume AIIB will maintain ample liquidity, primarily because of a conservative policy that establishes a minimum liquidity level of 40% over the next three years' net cash flow requirements.

Chart 4

Liquidity stress test ratios peer comparison



Source: S&P Global Ratings.

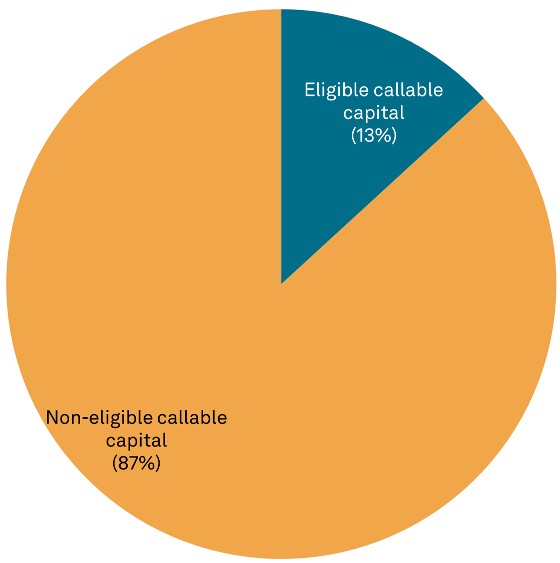
Extraordinary Shareholder Support

AIIB has a solid callable capital base, benefiting from US$10.2 billion in callable capital from 'AAA' rated shareholders. This would support AIIB if needed--though we view that as unlikely--and would underpin an extremely strong financial profile if it deteriorates on a stand-alone basis.

Chart 5

Callable capital

As a percentage of total callable capital



Source: S&P Global Ratings.

Table 2

AIIB selected indicators					
	2022	**2021**	**2020**	**2019**	**2018**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. USD)	17,984	12,456	8,424	2,320	1,381
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	91.8	89.6	90.8	89.0	88.0
Private-sector loans/purpose-related exposures (%)	8.2	10.4	9.2	11.0	12.0
Gross loan growth (%)	44.4	47.9	261.9	68.0	77.4
Preferred creditor treatment ratio (%)	0.0	0.0	0.0	0.0	0.0

Table 2

AIIB selected indicators (cont.)	2022	2021	2020	2019	2018
Governance and management expertise					
Share of votes controlled by eligible borrower member countries (%)	76.2	76.2	76.4	76.4	76.78
Concentration of top two shareholders by share of subscription (%)	39.3	39.3	39.4	39.6	39.6
Eligible callable capital (mil. USD)	10223	10223	10223	10222.7	10038.4
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	51.3	73.9	96	160.5	186.4
Net interest income/average net loans (%)	2.4	0.5	4.8	22.0	23.5
Net income/average shareholders' equity (%)	0.9	0.3	0.9	2.0	1.6
Impaired loans and advances/total loans (%)	0	0	0	0	0
Liquidity ratios					
Liquid assets/adjusted total assets (%)	53.5	67.4	72.8	89.4	91.0
Liquid assets/gross debt (%)	110.4	139.7	198.6	764.6	N.A.
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	5.0	5.9	5.6	15.1	14.0
12 months (net derivate payables) (x)	2.1	5.1	4.6	10.3	7.3
12 months (net derivate payables) including 50% of all undisbursed loans (x)	1.1	2.7	3.2	6.9	4.4
Funding ratios					
Gross debt/adjusted total assets (%)	52.0	48.2	36.6	11.7	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)	2.0	25.1	66.6	>100	N.A.
SUMMARY BALANCE SHEET					
Total assets (mil. USD)	47,409	40,238	32,082	22,632	19,562
Total liabilities (mil. USD)	26,944	20,072	11,938	2,645	50
Shareholders' equity (mil. USD)	20,466	20,166	20,144	19,986	19,512

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+
Total purpose-related exposure (mil. USD)	17,984	14,374	147,125	31,276	113,799
Preferred creditor treatment ratio (%)	0.0	0.0	0.3	1.8	1.8
Risk adjusted capital ratio (%)	51.3	24.5	29.9	27.9	21.3

Table 3

AIIB Peer comparison (cont.)

	Asian Infrastructure Investment bank	New Development Bank	Asian Development Bank	African Development Bank	Inter-American Development Bank
Liquidity ratio 12 months (net derivative payables; %)	1.9	1.4	1.2	1.8	1.4
Funding gap 12 months (net derivative payables; %)	1.8	2.9	1.1	1.5	1.2

Note: For AfDB All Data as at end-Dec 2022. For rest of the entities, All data as of end-Dec 2022, except RAC ratio and F&L ratios which are as of June 2023. Source: S&P Global Ratings.

Rating Component Scores

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 2023, Oct. 13, 2023
- Supranationals Edition 2023: Comparative Data For Multilateral Lending Institutions, Oct. 12, 2023
- Introduction To Supranationals Special Edition 2023, Oct. 11, 2023

Ratings Detail (As Of January 23, 2024)*		
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.