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Asian Infrastructure Investment Bank

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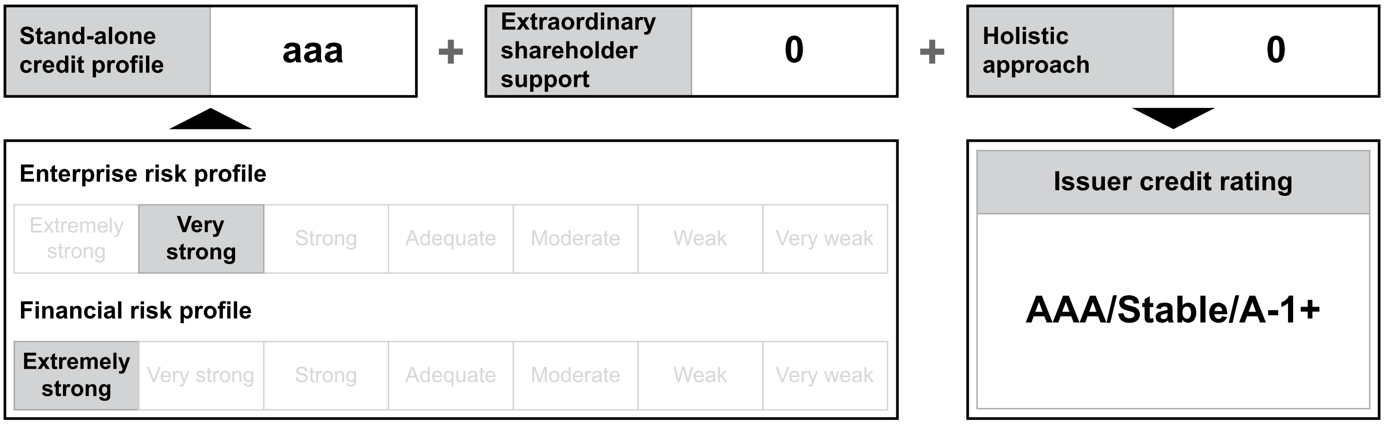


Credit Highlights

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

Overview

Enterprise risk profile	Financial risk profile
Steady growth in AIIB's portfolio underpins our view of the important role it plays in filling the large infrastructure financing gap Asia.	The financial strength of AIIB, a young institution with large capital buffers, remains unparalleled among MLIs.
--The enterprise risk profile is supported by its expanding membership base and significant capital endowment provided.	--We expect the RAC ratio to continue declining during the growth phase but remain extremely strong for the foreseeable future.
--AIIB has provided an important financing package to address the pandemic, offering up to US$13 billion in financing to its members.	--While AIIB has been operating for only six years, it has managed its loan portfolio exceptionally well and kept loan losses low.
-AIIB is predominantly owned by regional member countries, although that's balanced by a robust risk management framework.	--AIIB benefits from solid liquidity buffers, although it has a more limited record in capital markets, which constrains the funding assessment.

In our view, Asian Infrastructure Investment Bank (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. We believe the pandemic strengthened AIIB's role as a countercyclical lender, as a significant increase in lending in 2020 indicated. AIIB was founded with a capital endowment of $100 billion by 57 sovereigns, reinforcing the view that owners have an important role for the entity. The shareholder base has continued to expand, to the current 104 member countries. The bank has all the 'AAA' rated sovereigns and 17 of the G-20 countries as its members.

The bank has solid liquidity ratios and capital buffers, which underpin its financial risk profile. We expect AIIB's sovereign borrowers will uphold preferred creditor treatment (PCT), and asset quality remains on par with peers. It had a risk-adjusted capital (RAC) ratio after multilateral lending institution (MLI) adjustments of 80% as of June 30, 2021, down from 96% at year-end 2020, largely because of an increase in loan exposures. The institution has developed 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 it has been increasing its market activity the past two years.

Outlook

The stable outlook reflects S&P Global Ratings' 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 shareholders to remain supportive and grant the institution PCT.

We expect AIIB's capital and liquidity to normalize 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 does not satisfy 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, the strongest among all MLIs, would act as a buffer.

Environmental, Social, Governance

AIIB was set up in 2016 to fill an important infrastructure-financing gap in Asia and help countries meet their development goals. Despite having a short track record of operations, AIIB had 41% of its approved financings qualify as climate financing in 2020. 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 projects, although as energy transition 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. However, it has a climate financing target of 50% of total approved financings by 2025 and includes green infrastructure as a thematic priority in its corporate strategy.

AIIB is seeking to reduce its exposure to environmental and social risks, and all its projects adhere to the social and environmental standards of its environmental and social framework. The bank launched a sustainable development bond framework in April 2021, encompassing all debt issued by AIIB in all markets and currencies. Afterward, the bank also raised a A$500 million sustainable development kangaroo bond in the same month.

The core part of its long-term private-sector strategy focuses on its infrastructure mandate--to expand the bank's role, this would involve lending to financial intermediaries and investing in equity platforms. The bank's risk appetite statement puts strict limits on equities, although these investments may add material indirect exposure to environmental and social risks. However, over half of its projects are cofinanced with other MLIs. Lending by these institutions incorporates stringent environmental and social standards, as well as oversight mechanisms. As a result, AIIB has 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.

In our assessment, AIIB's governance and management have a neutral effect on the rating, given the shareholder structure and composition, which are balanced by the institution's conservative and comprehensive financial and risk management framework.

Rationale

Enterprise risk profile: Increasing relevance in Asia, despite shorter track record

Policy importance: AIIB was designed to help fill the very large infrastructure financing gap in Asia, currently estimated at US$26 trillion through 2030. AIIB is a relatively young institution that began operating in 2016. It continues to reach important milestones in new loan commitments, which we believe underpins its growing relevance for the region. Since inception, it has approved a total of US$31 billion in new projects as of Dec. 1, 2021, up from $12 billion as of December 2019. Of these, 66% are in the sovereign sector across 28 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 as long as it continues to support global trade and connectivity and economic integration with Asia.

The bank has increased its share of stand-alone projects. As of December 2021, 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 and reduce pressure on internal country limits, we think taking on a bigger share of stand-alone projects or acting as lead arranger in 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. This differentiated AIIB among peers that instead repurposed resources to address the pandemic. It set up a crisis recovery facility to offer up to $13 billion of financing from April 2020 to October 2021. In June 2021, the AIIB board of directors approved the extension of the COVID-19 crisis recovery facility until April 2022, for a total of 24 months. 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.

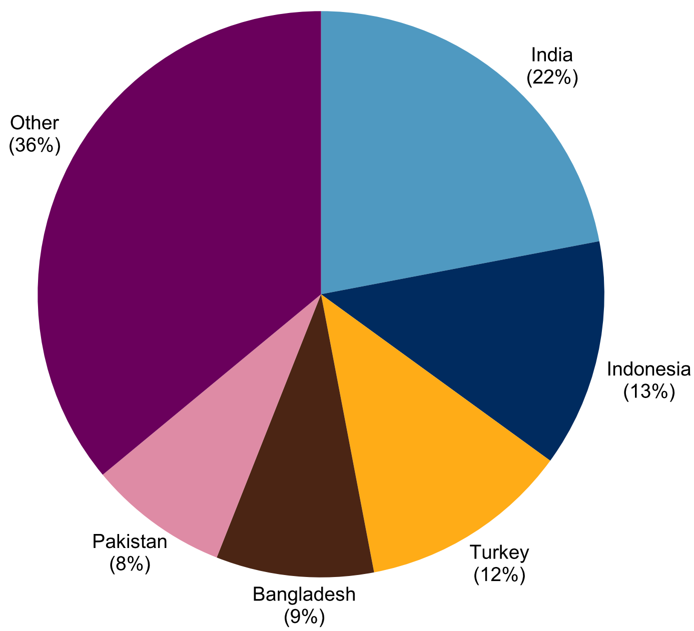
AIIB's private-sector lending was 34% of total approvals of $31 billion as of Dec. 1, 2021, and is expected to reach a 50% share of private-sector financing in annual approved financing by 2030, anchored by AIIB's strategy for mobilizing private capital for infrastructure. Equity investments are also expected to increase, although limited to 10% of capital.

AIIB also 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$19.02 billion received as of November 2021. In our view, this reinforces AIIB's role, enabling it to become one of the largest MLIs globally.

Since AIIB is a relatively new institution, its PCT largely remains untested. However, our calculated arrears ratio is 0% because we assume all borrowing members will grant AIIB PCT, supported by the strong and international backing of the institution. The bank in September 2021 had classified a nonsovereign-backed loan of US$75 million as impaired. It had an ECL allowance of US$41.5 million against this loan.

Chart 1

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



Source: S&P Global Ratings.

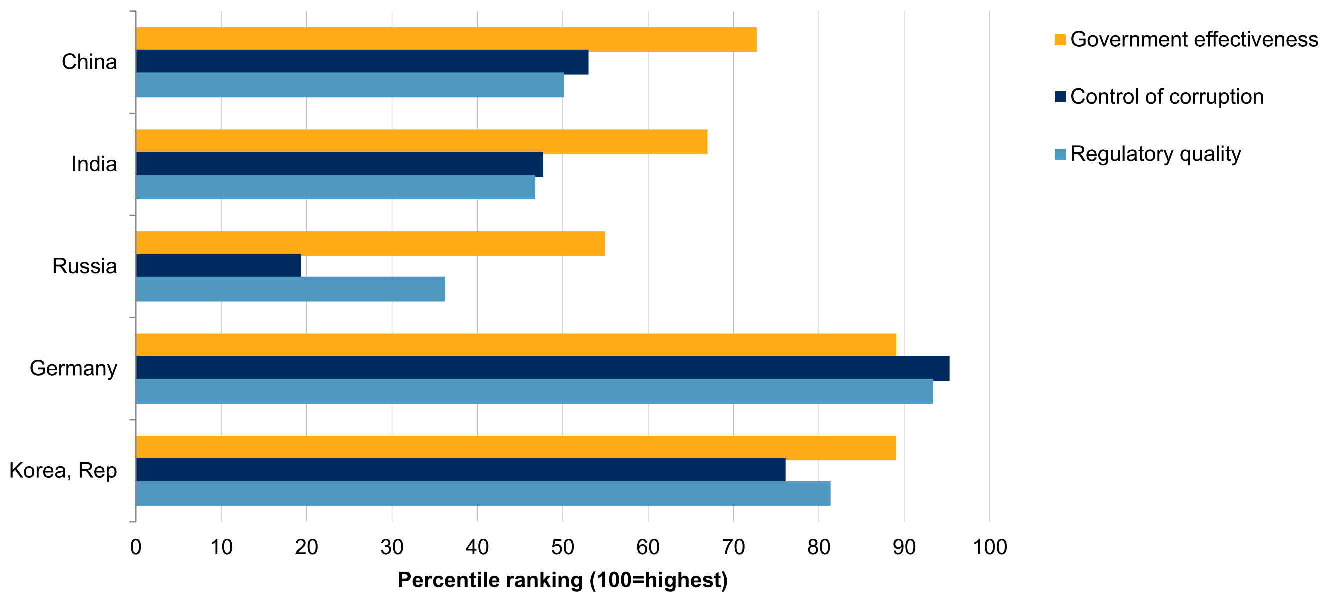
Governance and management expertise: A comprehensive risk-management framework counterbalances a shareholder structure predominantly owned by regional member countries, which could lead to conflicts of interest. Furthermore, AIIB's shareholders, on average, have somewhat lower ranking in governance compared 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 current voting share and veto power, followed by India (7.6%), Russia (6.0%), and Germany (4.2%). 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's 12 directors who are elected by the governors every two years. 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 established a comprehensive risk-management framework. It 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. The institution's senior management team is diverse and has extensive experience in the MLI sector.

Chart 2

AIIB Five Largest Shareholders
Selected World Bank Governance indicators



Source: https://databank.worldbank.org/source/worldwide-governance-indicators

Financial risk profile: Highest RAC ratio among peers

Capital adequacy: In our view, AIIB's financial strength remains unparalleled among MLIs. It had a risk-adjusted capital (RAC) ratio after MLI adjustments of 80% as of end-June 2021, down from 96% at year-end 2020, largely because of an increase in loan exposures. 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.

While AIIB has been operating for only six years, it has managed its loan portfolio exceptionally well, with just one loan loss and one bond loss reported in September 2021. The bank has a robust financial and risk management framework. It applied IFRS 9 from the start, and as of Sept. 30, 2021, total expected credit losses amounted to $177.5 million, up by $17.3 million compared with year-end 2020. They rose mainly owing to an increase in new loan originations and higher credit risk stemming from COVID-19, after which the bank had Stage 3 assets for the first time since its operations. Our understanding is that 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

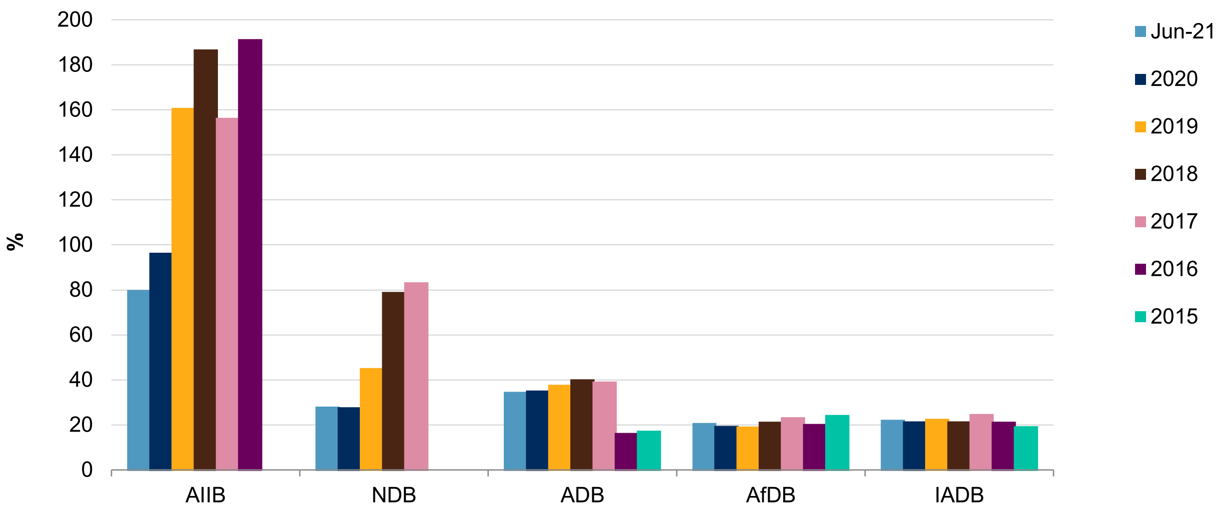
AIIB RACF (Risk-Adjusted Capital Framework) Data: June 2021

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	15,283	10,510	69
Institutions	20,685	7,559	37
Corporate	1,454	1,699	117
Retail			
Securitization	165	208	126
Other assets			
Total credit risk	37,588	19,976	53
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	2,707	1,008	37
Trading book market risk			
Total market risk		1,008	
Operational risk			
Total operational risk		1,796	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI adjustments		22,781	100
MLI adjustments			
Single name (on corporate exposures)		2,509	148
Sector (on corporate portfolio)		(297)	(7)
Geographic		(3,357)	(14)
Preferred creditor treatment (on sovereign exposures)		(6,092)	(58)
Preferential treatment (on FI and corporate exposures)		(1,495)	(16)
Single name (on sovereign exposures)		10,865	103
Total MLI adjustments		2,132	9
RWA after MLI adjustments		24,913	109
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments		19,809	87
Capital ratio after adjustments		19,809	80

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

Chart 3

AIIB Risk-Adjusted Capital Ratio Peer Comparison



Source: S&P Global Ratings.

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

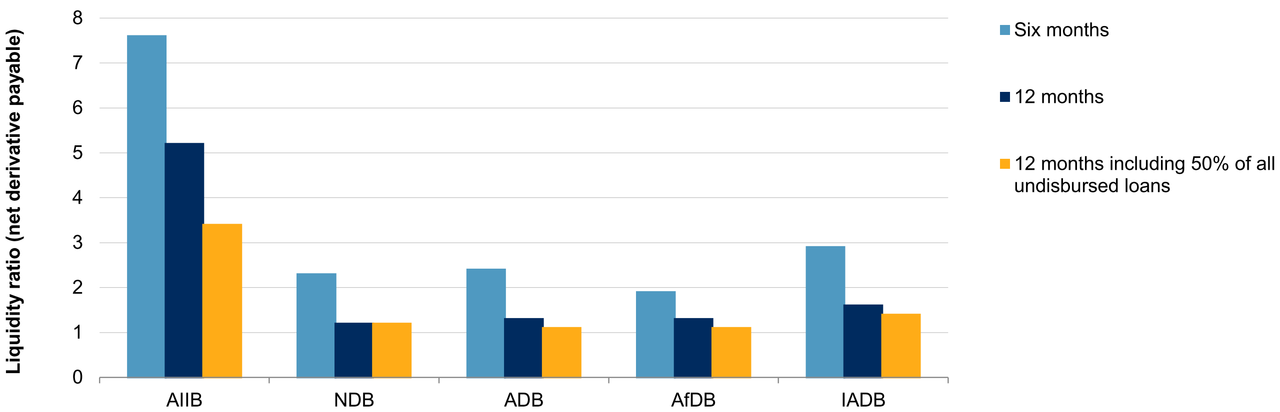
AIIB plans to become a regular benchmark issuer with a global investor base. In 2020, the bank added global benchmarks and smaller public offerings with reverse inquiry issues in multiple currencies. The bank also issued two global U.S. dollar benchmarks in 2020, after just one in 2019. In December 2018, 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 capital markets and plans to raise up to $10 billion in 2021 through frequent bond issuances. Notably, it issued a $3 billion five-year global sustainable bond during 2020 to support its COVID-19 efforts. AIIB currently provides non-sovereign-backed financing in 26 hard and local currencies. The local currency financing could help reduce losses arising out of currency mismatch and may result in lower cost of projects. 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.

Given the large liquidity reserves, 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. As the bank increases commitments and continues to tap the market, we expect its liquidity ratios 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

AIIB Liquidity Stress Test Ratios Peer Comparison



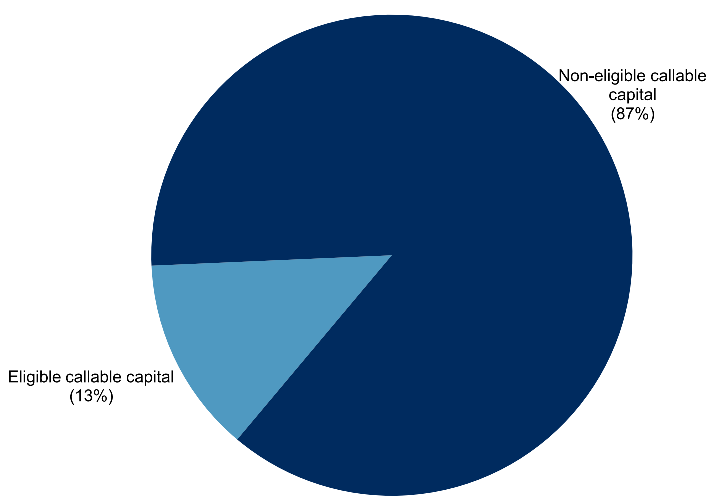
Data as of June 2021. Source: S&P Global Ratings.

Extraordinary shareholder support

AIIB has a solid 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 percentage of total callable capital



Source: S&P Global Ratings.

Holistic approach

Table 2

AIIB Selected Indicators	2020	2019	2018	2017	2016	2015
ENTERPRISE PROFILE						
Policy importance						
Total purpose-related exposure (loans, equity, etc.) (mil. US$)	8,424	2,320	1,381	779	10	N.A.
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	90.8	89.0	88.0	94.0	100.0	N.A.
Private-sector loans/purpose-related exposures (%)	9.2	11.0	12.0	6.0	0.0	N.A.
Gross loan growth (%)	261.9	68.0	77.4	7,819.8	N.A.	N.A.
Preferred creditor treatment ratio (%)	0.0	0.0	0.0	0.0	0.0	0.0
Governance and management expertise						
Share of votes controlled by eligible borrower member countries (%)	76.4	76.4	76.8	75.2	74.0	N.A
Concentration of top two shareholders by share of subscription (%)	39.4	39.6	39.6	40.2	42.2	N.A
Eligible callable capital (mil. US$)	10,223.0	10,222.7	10,038.4	9,426.4	10,038.4	N.A
FINANCIAL RISK PROFILE						
Capital and earnings						
RAC ratio (%)	96.0	160.5	186.4	156.0	191.0	N.A.
Net interest income/average net loans (%)	4.8	22.0	23.5	31.7	N.A.	N.A.
Net income/average shareholders' equity (%)	0.9	2.0	1.6	1.4	N.A.	N.A.
Impaired loans and advances/total loans (%)	0.0	0.0	0.0	0.0	0.0	N.A.
Liquidity ratios						
Liquid assets/adjusted total assets (%)	72.8	89.4	91.0	93.0	99.5	N.A.
Liquid assets/gross debt (%)	198.6	764.6	N.A.	N.A.	N.A.	N.A.
Liquidity coverage ratio (with planned disbursements):						
Six months (net derivate payables) (x)	5.6	15.1	14.0	19.6	N.A.	N.A.
12 months (net derivate payables) (x)	4.6	10.3	7.3	10.9	N.A.	N.A.
12 months (net derivate payables) including 50% of all undisbursed loans (x)	3.2	6.9	4.4	6.0	N.A.	N.A.
Funding ratios						
Gross debt/adjusted total assets (%)	36.6	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	N.A
Static funding gap (with planned disbursements)						
12 months (net derivate payables) (x)	66.6	>100	N.A.	N.A.	5.3	N.A.
SUMMARY BALANCE SHEET						
Total assets (mil. US$)	32,082	22,632	19,562	18,973	17,795	N.A
Total liabilities (mil. US$)	11,938	2,645	50	14	6	N.A
Shareholders' equity (mil. US$)	20,144	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$)	8,424	6,609	132,818	34,079	105,549
Preferred creditor treatment ratio (%)	0.0	0.0	0.2	1.5	2.0
Risk adjusted capital ratio (%)	79.5	27.4	34.8	19.2	21.2
Liquidity ratio 12 months (net derivative payables; %)	5.2	1.2	1.3	1.3	1.6
Funding gap 12 months (net derivative payables; %)	39.9	2.6	1.2	1.3	1.5

Note: PCT ratio, RAC ratio, and funding and liquidity ratios are as of June 2021. Purpose-related assets as of end-December 2020. 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

- Introduction To Supranationals Special Edition 2021, Oct. 27, 2021
- Supranationals Edition 2021: Comparative Data For Multilateral Lending Institutions, Oct. 27, 2021
- Supranationals Special Edition 2021, Oct. 27, 2021
- 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 29, 2021)*		
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.