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Ratings

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Research Update:

# Asian Infrastructure Investment Bank 'AAA' Rating Affirmed; Outlook Stable

**March 13, 2025**

## Overview

- Asian Infrastructure Investment Bank (AIIB) has over the past five years become a regular benchmark issuer with a global investor base. At the same time, it has maintained a robust liquidity cushion. We have therefore revised our funding and liquidity assessment to very strong from strong.
- AIIB's extensive capital buffers underpin its financial risk profile, and it continues to grow and diversify its lending activities.
- We affirmed our 'AAA/A-1+' ratings on the bank.
- The stable outlook reflects our expectation that over the next two years AIIB will continue to deliver on its mandate. While capital and liquidity will normalize from extremely strong levels, it will remain an outlier strength compared with peers.

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## Rating Action

On March 13, 2025, S&P Global Ratings affirmed its 'AAA' long-term and 'A-1+' short-term issuer credit ratings on AIIB. The outlook is stable.

## 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 increase loan commitments and disbursements and diversify its portfolio. We also expect strong adherence to what we consider sound governance and risk policies, and that shareholders will remain supportive and grant the institution preferred creditor treatment (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.

### Downside scenario

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, among the strongest of all multilateral lending institutions (MLIs), would act as a buffer.

## Rationale

Our ratings on AIIB reflect our view of its very strong enterprise risk profile and extremely strong financial risk profile. A significant capital endowment underpins the bank's credit strength. Steady growth in AIIB's portfolio and a strong membership base support our view of the bank's important role in filling the large infrastructure financing gap in Asia. The financial strength of AIIB, anchored by large capital buffers, remains among the strongest in MLIs.

We have revised upward our assessment of AIIB's funding and liquidity to very strong. Over the past five years, the bank has gained diversified access to markets and strengthened its position as a U.S. dollar benchmark issuer, while maintaining a conservative funding and liquidity profile. Spreads on AIIB bonds are now like other 'AAA' rated MLI peers and have gained status as high-quality liquid assets (level 1) with a 0% risk weights in all major capital market jurisdictions globally excluding the U.S. AIIB bonds are also eligible for repo transactions with central banks in Australia, China, the European Union, New Zealand, Switzerland, the U.K., and the U.S., among others.

AIIB is a relatively young institution that began operating in 2016. It was founded with a substantial capital endowment of US$100 billion by 57 sovereigns in 2016. The shareholder base has since expanded to 110 approved members. The bank has all the 'AAA' rated sovereigns, except Liechtenstein, and 17 of the G20 countries as its members.

Despite its short track record, AIIB's policy importance is very strong, in our view. This reflects its growing relevance in Asia in filling the infrastructure financing gap in the region. Since inception, AIIB has approved 306 projects, totaling US$59.2 billion as of Jan. 31, 2025. This in part was supported by its US$20 billion COVID-19 Crisis Recovery Facility. AIIB had used its excess capacity to provide the pandemic package, demonstrating its ability to be a counter-cyclical lender.

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. As of end 2024, 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 75% in 2016. The higher share of stand-alone projects signal AIIB's increasing expertise in sourcing deals, risk assessment, and project management.

The Russia-Ukraine conflict, which began in late February 2022, has not materially affected AIIB's operation. Russia has a 6% stake in the bank. 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. The bank 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$19.8 billion received as of September 2024. 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 tested when we downgraded Sri Lanka to 'SD' in April 2022, after the country missed payments on its commercial debt. However, the sovereign has remained current with the bank.

We consider AIIB's governance and management expertise as adequate. Its shareholder structure poses potential agency risk, but this is counterbalanced by a comprehensive risk-management framework. AIIB is predominantly owned by regional member countries, which could lead to conflicts of interest. To mitigate such conflicts, AIIB has stipulated that to amend the institution's founding article at least two-thirds of the board of governors holding 75% of the total voting powers is needed. China is the largest shareholder, with 26.6% of the current voting power and veto power, followed by India (7.6%), Russia (6%), Germany (4.1%), and Korea (3.5%), with non-regional members holding 27.5% of voting power. To modify AIIB's risk management and capital adequacy policies would require a majority of no less than 75% of voting power of the board of directors.

AIIB has a comprehensive risk-management framework, which aligns with highly rated peers, in our view. However, the institution has only been operating for nine 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 demonstrates prudent management through economic cycles, it could achieve a higher governance and management expertise score.

The bank's capital adequacy is extremely strong. AIIB has one of the highest risk-adjusted capital (RAC) ratios among peers. It had a RAC ratio after MLI adjustments of 48.9% as of June 30, 2024, down from 51.3% as of June 2023, largely because of an increase in loan exposures. We expect the RAC ratio to continue to decline during the bank's growth phase, but to remain extremely strong.

The AIIB has managed its loan portfolio well, with just one loan loss. Since inception, the bank has no sovereign arrears. The bank had one non-sovereign loan of US$76 million classified as impaired and this was recovered and closed in 2024.

AIIB has made significant progress in becoming a regular benchmark issuer with a global investor base. The bank began issuing bonds in 2019 and completed its sixth funding year in 2024, with a total of US$47 billion issued over the period. In 2024, AIIB issued its first 10-year U.S. dollar benchmark to extend its funding curve. We expect AIIB to remain active in capital markets. The bank plans to raise about US$10 billion in 2025 through frequent bond issuances.

The early months of the Russia-Ukraine conflict, combined with overall complicated market dynamics, saw AIIB's spreads widen relative to peers. This led the bank then to rely more on private placements to reduce its overall funding cost. In line with our expectations, the impact was transitory and did not limit AIIB's ability to tap hard currency markets. From the start of 2024, bond spreads of the bank narrowed meaningfully and are now on par with much older 'AAA' rated institutions such as the International Bank for Reconstruction and Development and the Asian Development Bank.

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 2024, our 12-month liquidity ratio was 1.82x with scheduled disbursements, while the six-month ratio was 3.1x.

We estimate that AIIB would not need to slow down disbursements under a stress scenario, which considers 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.

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.

## Ratings Score Snapshot

Issuer credit rating: AAA/Stable/A-1+

Stand-alone credit profile: aaa

Enterprise risk profile: Very strong

- Policy importance: Very strong
- Governance and management: Adequate

Financial risk profile: Extremely strong

- Capital adequacy: Extremely strong
- Funding and liquidity: Very Strong

Extraordinary support: 0

- Callable capital: 0
- Group support: 0

Holistic approach: 0

## Related Criteria

- Criteria | Governments | General: Multilateral Lending Institutions And Other Supranational Institutions Ratings Methodology, July 26, 2024
- Criteria | Financial Institutions | General: Risk-Adjusted Capital Framework Methodology, April 30, 2024
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Supranational Special Edition 2024, Oct. 31, 2024
- Introduction To Supranationals Special Edition 2024, Oct. 22, 2024
- Supranationals Edition 2024: Comparative Data for Multilateral Lending Institutions, Oct. 22, 2024

## Ratings List

| Ratings Affirmed | |
|---|---|
| **Asian Infrastructure Investment Bank** | |
| Issuer Credit Rating | |
| Foreign Currency | AAA/Stable/A-1+ |
| **Asian Infrastructure Investment Bank** | |
| Senior Unsecured | AAA |
| Commercial Paper | A-1+ |