S&P Global Ratings

RatingsDirect®

Asian Infrastructure Investment Bank

Primary Credit Analyst:
Alexis Smith-juvelis, New York + 1 (212) 438 0639; alexis.smith-juvelis@spglobal.com

Secondary Contact:
Alexander Ekbom, Stockholm + 46 84 40 5911; alexander.ekbom@spglobal.com

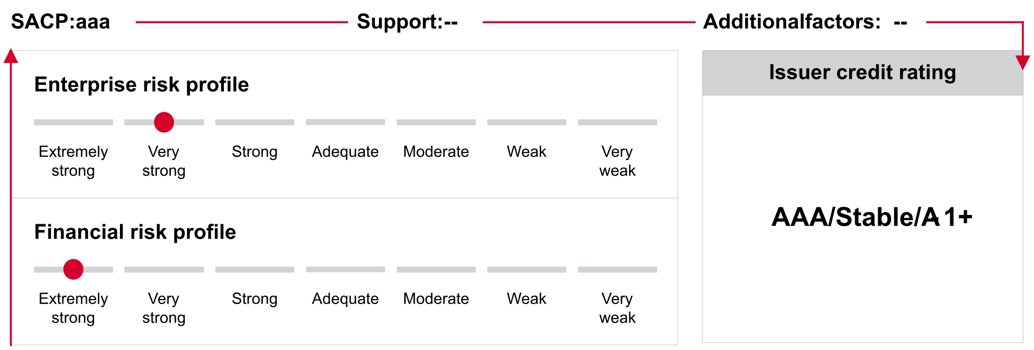
Table Of Contents

Asian Infrastructure Investment Bank

This report does not constitute a rating action.

Ratings 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 important role it plays in filling the large infrastructure financing gap in Asia.	The financial strength of AIIB, a young institution with large capital buffers, remains among the strongest of the 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 provided important financing to address the pandemic, offering up to US$20 billion 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, including minimal exposure to a single Russian corporate.
-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.

Asian Infrastructure Investment Bank (AIIB) continues to grow and diversify its lending activities, and it provided support through its COVID-19 response package of up to $20 billion. As of November 2022, AIIB has financed 194 projects totaling US$37 billion, up from $29 billion as of October 2021. This has been supported by its COVID-19 Crisis Recovery Facility, which has been extended until year-end 2023 and allows AIIB to provide sovereign-backed budgetary support cofinanced alongside the World Bank and the Asian Development Bank.

Demand for crisis-related financing remains high, although investment demand is somewhat lower given the lingering effects of pandemic-related lockdowns, limited sovereign fiscal space, and pressures on global growth. But we believe this is temporary. AIIB continues to expand and diversify lending activities, underpinned by the view that owners have an important role for the entity. This is reinforced by AIIB's significant capital endowment of $100 billion by 57 founding members, and the shareholder base has expanded to 105 members.

The bank's capital buffers underpin its financial risk profile, with strong asset quality amid global macro pressures and the Russia-Ukraine conflict. We expect sovereign borrowers will uphold preferred creditor treatment (PCT), which was recently tested when Sri Lanka defaulted but remained current with AIIB. To date, 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, and it has no exposure to Ukraine. The bank has heavily provisioned its nonsovereign exposure to a Russian corporate, which continues to perform.

Despite a complicated global macroeconomy, AIIB's asset quality remains on par with peers with an NPL ratio on its nonsovereign lending portfolio of 4.1%. It had a risk-adjusted capital (RAC) ratio after multilateral lending institution (MLI) adjustments of 63% as of June 2022, down from 74% at year-end 2021, largely because of an increase in loan exposures, although underpinned by robust risk-management policies.

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, And 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 shorter track record of operations than peers in the sector, AIIB had 48% of its approved financings qualified as climate financing in 2021.

AIIB does not have a stand-alone climate change strategy, unlike other multilaterals. However, it has green infrastructure as a priority in its corporate strategy and a climate financing target of at least 50% of total approved financings by 2025. It has also committed to fully align its direct and indirect financings with the Paris Agreement by 1st July 2023. 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. While these are exposed to higher environmental and social risks, they are energy transition projects.

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.

The core part of its long-term private-sector strategy focuses on its infrastructure mandate--to expand the bank's role--which involves lending to financial intermediaries and investing in equity platforms. The bank's risk appetite statement puts strict limits on equities, though 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 can make the bank vulnerable to agency risk. On the other hand, the institution has incorporated a conservative and comprehensive financial and risk management framework on par with its highly rated peers. Although, this has not been fully tested given its somewhat shorter track record.

Enterprise Risk Profile

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

AIIB is a relatively young institution that began operating in 2016. AIIB was designed to help fill the very large infrastructure financing gap in Asia, currently estimated at US$26 trillion through 2030. 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$37 billion in new projects as of Nov. 18, 2022, up from $12 billion as of December 2019. Of these, 65% are in the sovereign sector. 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. In this regard, the bank approved projects in Brazil and Cote d'Ivoire, which supports its diversification efforts.

The bank has increased its share of stand-alone projects, which we view positively. As of November 2022, 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. Leveraging the expertise and capital of other MLIs to source deals enables AIIB to spread risk and reduce pressure on internal country limits. Its cofinancing partnerships were particularly valuable in the context of its crisis response to the pandemic, which supported increased financing and new lending products. However, we think taking on a bigger share of stand-alone projects or acting as lead arranger in projects is vital to cement its role as a key provider of infrastructure financing in Asia.

AIIB has used its excess capacity to support member countries in alleviating pressures 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, it extended the facility until April 2022 for a total of 24 months. In February 2022, the facility was further expanded until the end of 2023, for total financing of $20 billion.

AIIB provides a variety of financing instruments, including sovereign loans, nonsovereign-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 crisis recovery financing remains high, representing close to one-third of total approved financing of $US37 billion as of November 2022.

AIIB is steadily increasing its private-sector lending. It was 36% of total approvals of $33.6 billion as of Sept. 30, 2022, and is expected to reach 50% 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.

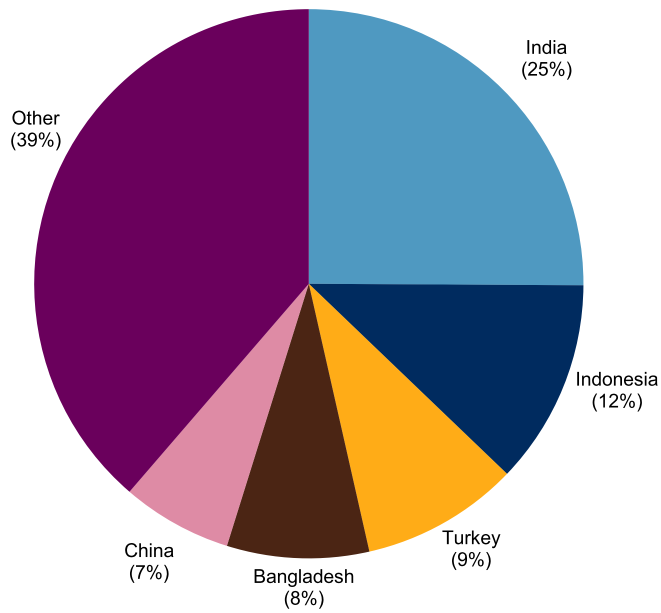
We don't expect the Russia-Ukraine conflict will materially affect AIIB's operation. In May 2022, the bank announced it would halt all activities in Russia and Belarus, although lending exposures were already minimal, supported by ample capital. There is an outstanding loan to Russian Railways totaling US$370 million, or Russian ruble (RUB) 24 billion, with a provision amounting to $148 million, although the borrower remains current. AIIB had also issued four bonds denominated in RUB, two of which remain outstanding. These bonds, as well as the cash flows from the loan, were hedged at the time of issuance to remove AIIB's RUB interest rate and foreign exchange risk. We further understand AIIB has been able to process these payments without any issues. At the same time, it has no exposure in Ukraine.

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$19.08 billion received as of Sept. 30, 2022. 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% because 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 missed payments on its commercial debt on April 25, 2022, and remained current with the bank.

Chart 1

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



Source: S&P Global Ratings.

Governance and management expertise: A comprehensive risk-management framework counterbalances the shareholder structure

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

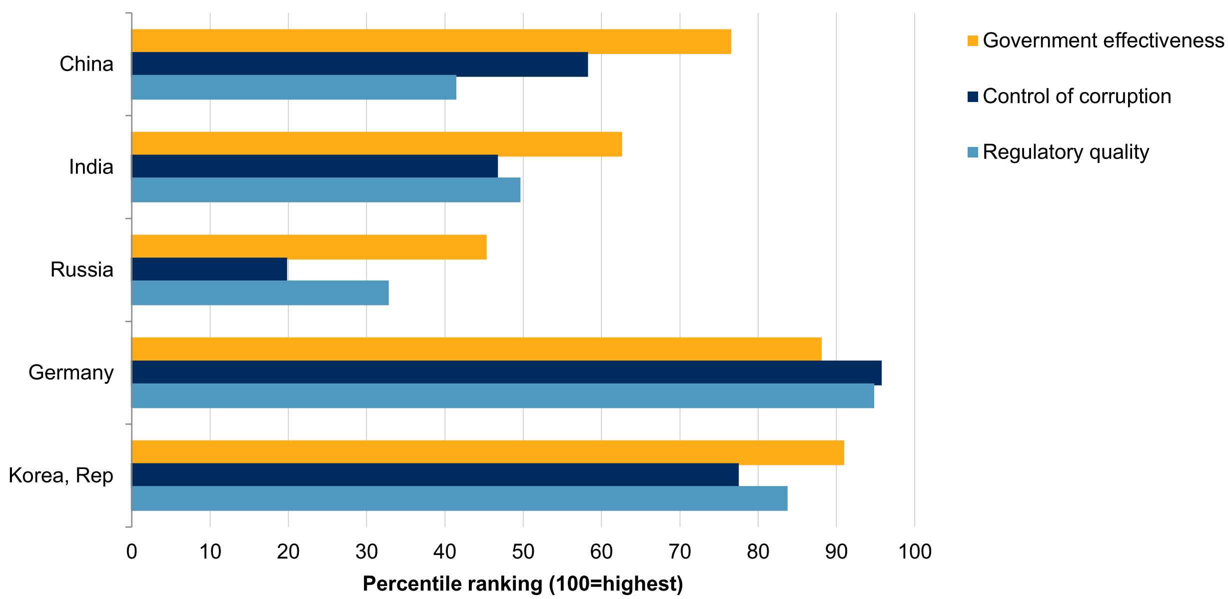
Under AIIB's Articles of Agreement, the board of governors holds all power and is the bank's highest decision-making body. The general operations of AIIB rest with the board's 12 directors who are elected by the governors every two years. The Articles of Agreement allow the board of governors to delegate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

AIIB has a comprehensive risk-management framework, and as it grows lending and successfully operates through the economic cycle, that could lead to stronger governance and management. 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.

AIIB's risk management is aligned with its highly rated peers. However, the institution has only been operating for six years. Also, it recently entered a growth phase (2021-2027), during which its balance sheet is expected to grow rapidly as loans disburse. As the institution matures and builds a track record of managing and operating conservatively through the economic cycle, this could lead to a stronger overall governance and management assessment.

Chart 2

AIIB Five Largest Shareholders
Selected World Bank Governance indicators



Source: 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 63% as of June 2022 (with rating parameters as of Dec. 7, 2022), down from 74% at the end of December 2022, 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 the 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 seven bond losses reported in September 2022. As of September 2022, the bank had a nonsovereign-backed loan of US$75 million classified as impaired. It had an expected credit loss allowance of US$44 million against this loan. At the same time, it had seven 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 stage 3 assets because of the collapse in market value of the instruments. AIIB's nonperforming loan and bond ratio stood at 4.08%, in line with other 'AAA' rated peers. AIIB applied IFRS 9 from the start, and as of Sept. 30, 2022, total expected credit losses amounted to $346.0 million, up from $292.1 million as of March 2022. 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 30, 2022

(Mil. US$)	Exposure	S&P Global Ratings RWA	Average S&P Global Ratings RW (%)
Credit risk			
Government and central banks	25,177	16,909	67
Institutions	18,824	7,132	38
Corporate	2,049	2,916	142
Retail			
Securitization	158	32	20
Other assets			
Total credit risk	46,208	26,989	58
Credit valuation adjustment			
Total credit valuation adjustment			
Market risk			
Equity in the banking book	532	843	159
Trading book market risk			
Total market risk		843	
Operational risk			
Total operational risk		2,013	
Risk transfer mechanisms			
Risk transfer mechanisms RWA			
RWA before MLI adjustments		29,845	100
MLI adjustments			
Single name (on corporate exposures)		1,641	57
Sector (on corporate portfolio)		(387)	(8)
Geographic		(3,887)	(13)
Preferred creditor treatment (on sovereign exposures)		(10,212)	(62)
Preferential treatment (on FI and corporate exposures)		(1,466)	(15)
Single name (on sovereign exposures)		15,944	94
Total MLI adjustments		1,634	5
RWA after MLI adjustments		31,478	105
		Total adjusted capital	**S&P Global Ratings RAC Ratio (%)**
Capital ratio before adjustments		19,856	66.5

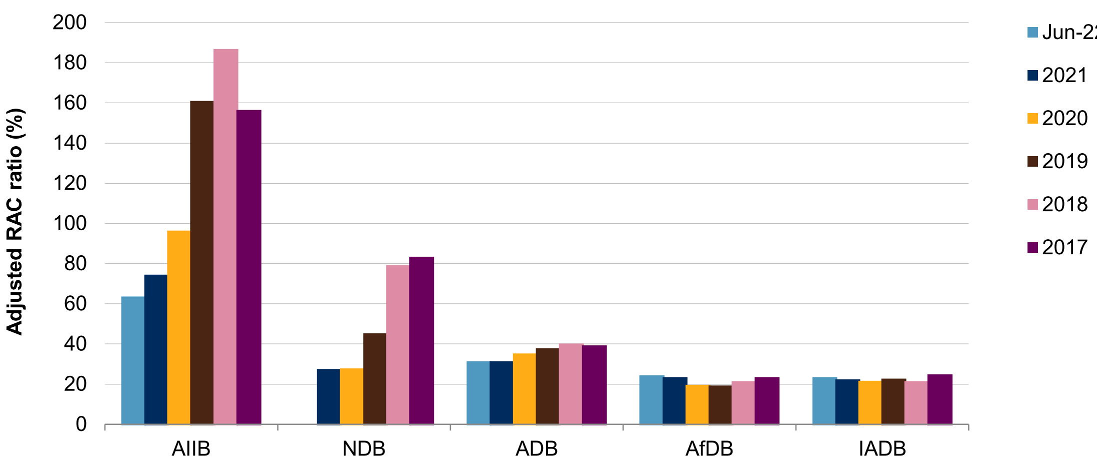
Table 1

AIIB RACF (Risk-Adjusted Capital Framework) Data: June 30, 2022 (cont.)		
Capital ratio after adjustments	19,856	63.1

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: Limited record in capital market constrains the funding assessment

AIIB is making progress in becoming a regular benchmark issuer with 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. Notably, it issued a $3 billion five-year global sustainable development bond during 2020 to support its COVID-19 efforts. Subsequently, it has issued two U.S. dollar, SEC-registered global benchmark bonds each year, along with repeat benchmark transactions in Australian dollars and British pounds. AIIB currently provides nonsovereign-backed financing in 21 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.

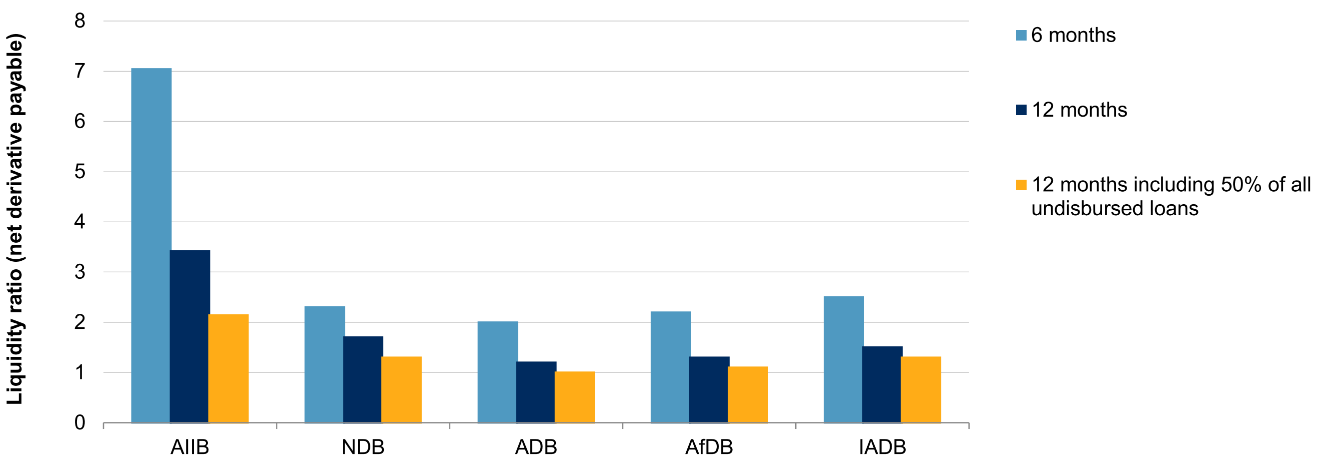
AIIB has been active in capital markets and plans to raise up to $7.1 billion in 2022 through frequent bond issuances. However, AIIB has dealt with higher spreads on its debt issuance than before the Russian-Ukraine conflict, which, combined with complicated market dynamics, has led the bank to rely more heavily on private placements during 2022 to reduce the impact to its overall funding cost. We believe this higher spread for AIIB issuances in the secondary market reflects the initial shock to the conflict and does not limit its ability to tap markets. 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 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. For June 2022, our 12-month liquidity ratio was 3.42x with scheduled disbursements, while the six-month ratio was 2.14x. 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 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



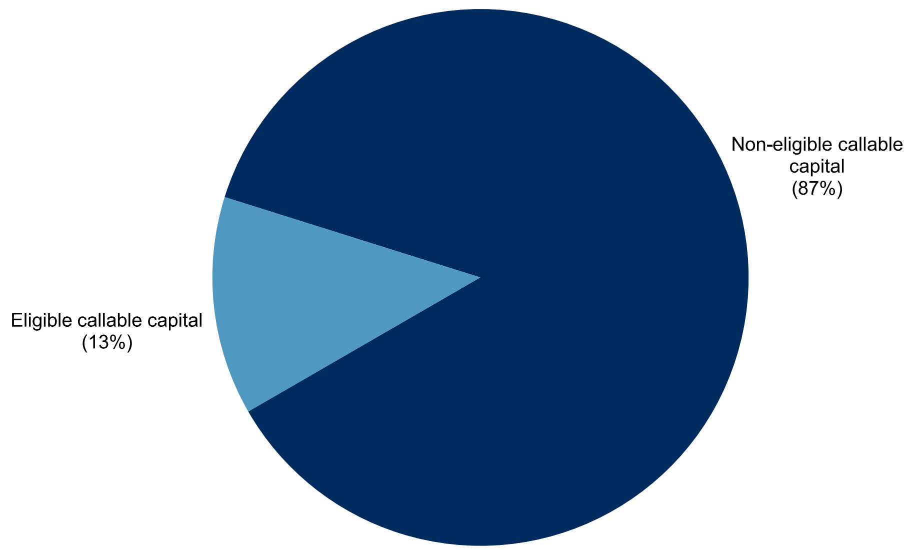
Source: S&P Global Ratings.

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 % of total callable capital



Source: S&P Global Ratings.

Table 2

AIIB Selected Indicators					
	2021	**2020**	**2019**	**2018**	**2017**
ENTERPRISE PROFILE					
Policy importance					
Total purpose-related exposure (loans, equity, etc.) (mil. USD)	12,456	8,424	2,320	1,381	779
Public-sector (including sovereign-guaranteed) loans/purpose-related exposure (%)	89.6	90.8	89.0	88.0	94.0
Private-sector loans/purpose-related exposures (%)	10.4	9.2	11.0	12.0	6.0
Gross loan growth (%)	47.9	261.9	68.0	77.4	7,819.8
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 (%)	76.2	76.4	76.4	76.8	75.2
Concentration of top two shareholders by share of subscription (%)	39.3	39.4	39.6	39.6	40.2
Eligible callable capital (mil. USD)	10,222.7	10,223.0	10,222.7	10,038.4	9,426.4
FINANCIAL RISK PROFILE					
Capital and earnings					
RAC ratio (%)	73.9	96.0	160.5	186.4	156.0

Table 2

AIIB Selected Indicators (cont.)

	2021	2020	2019	2018	2017
Net interest income/average net loans (%)	0.5	4.8	22.0	23.5	31.7
Net income/average shareholders' equity (%)	0.3	0.9	2.0	1.6	1.4
Impaired loans and advances/total loans (%)	0.0	0.0	0.0	0.0	0.0
Liquidity ratios					
Liquid assets/adjusted total assets (%)	67.4	72.8	89.4	91.0	93.0
Liquid assets/gross debt (%)	139.7	198.6	764.6	N.A.	N.A.
Liquidity coverage ratio (with planned disbursements):					
Six months (net derivate payables) (x)	5.9	5.6	15.1	14.0	19.6
12 months (net derivate payables) (x)	5.1	4.6	10.3	7.3	10.9
12 months (net derivate payables) including 50% of all undisbursed loans (x)	2.7	3.2	6.9	4.4	6.0
Funding ratios					
Gross debt/adjusted total assets (%)	48.2	36.6	11.7	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)	25.1	66.6	>100	N.A.	N.A.
SUMMARY BALANCE SHEET					
Total assets (mil. USD)	40,238	32,082	22,632	19,562	18,973
Total liabilities (mil. USD)	20,072	11,938	2,645	50	14
Shareholders' equity (mil. USD)	20,166	20,144	19,986	19,512	18,959

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. USD)	12,456	13,937	140,017	31,830	109,567
Preferred creditor treatment ratio (%)	0.0	0.0	0.2	1.2	1.9
Risk adjusted capital ratio (%)	73.9	27.0	31.0	23.0	22.0
Liquidity ratio 12 months (net derivative payables; %)	5.1	1.7	1.0	1.6	1.5
Funding gap 12 months (net derivative payables; %)	25.1	2.2	1.0	1.5	1.3

Note: All data as of year-end December 2021. 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, Jan. 31, 2022
- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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

- Abridged Supranationals Interim Edition 2022: Comparative Data For Multilateral Lending, May 27, 2022
- 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
- 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 January 20, 2023)*		
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.