Singapore, April 22, 2021 -- Moody's Investors Service, ("Moody's") has today affirmed the Asian Infrastructure Investment Bank's (AIIB) Aaa long-term issuer rating as well as the Aaa senior unsecured rating and (P)Aaa MTN program rating. The Prime-1 short-term issuer and commercial paper ratings are also affirmed. The outlook remains stable.

The key factors underpinning the rating affirmation and stable outlook include Moody's expectation that AIIB's intrinsic financial strength will remain robust, with solid capital adequacy, strong asset performance and ample liquidity. AIIB's growth phase to 2030 will test its credit fundamentals and potentially also the effectiveness of its governance framework. At this juncture Moody's expects that AIIB's leverage ratios will remain low relative to peers, even as loan growth accelerates in accordance with the Bank's development plan. Moody's also expects liquidity to remain ample, supported by continuing progress in broadening AIIB's access to international funding markets. AIIB's risk and operational frameworks will further support sound asset quality and liquidity metrics as operations grow. In addition, AIIB's large and broad-based membership continues to demonstrate very high willingness and ability to provide support in case of need.

RATINGS RATIONALE
RATIONALE FOR AFFIRMATION OF Aaa RATING
STILL-AMPLE CAPITAL AND RISK MANAGEMENT FRAMEWORK WILL SUPPORT LOAN GROWTH

Developments in AIIB's intrinsic financial strength over the its establishment phase have been in line with Moody's expectations for strong capitalization, solid asset performance and good credit quality.

Moody's expects AIIB's capital adequacy to remain strong over the growth phase of its evolution, supported by low leverage, strong asset performance, and solid development asset credit quality (DACQ).

Despite rapid growth in its lending operations, partly driven by the Bank's response to the COVID-19 pandemic, Moody's expects AIIB's leverage ratio will remain among the lowest in its peer group, reflecting the capacity that remains in AIIB's capital plan to support continued growth in development assets. The rapid refocusing by the AIIB, including a decision to establish the COVID-19 Crisis Recovery Facility by mid-April 2020, to provide funding for pandemic related health projects, co-finance policy based lending and to support economic and social resilience was further supported by the Bank's established risk management framework. In addition, the temporary switch to a focus away from the AIIB's "bread and butter" infrastructure lending illustrates significant operational agility, particularly at a time when significant numbers of staff were based remotely away from central office in Beijing due to the impact of Covid-19 on travel.

The AIIB's asset performance is expected to remain strong, though rapid loan growth -- particularly in response to the COVID-19 pandemic -- will test the Bank's risk management framework. Through its first four years of operations, and as of December 2020 AIIB has had no nonperforming loans. Moody's expects that AIIB's asset performance will remain strong, even as its portfolio of loans expands significantly over the coming years, supported by AIIB's strong risk management framework.

AIIB's development asset credit quality score is above the median for Aaa-Aa2 rated MDBs, and likely to remain strong, as the Bank expands its loan book across a broader range of member countries. The deterioration in sovereign credit quality during 2020, reflected in downgrades of India (Baa3 negative), Turkey (B2 negative) and Oman (Ba3 negative) has put pressure on the AIIB's Weighted Average Borrower Rating (WABR) which has been only partly offset by the rapid growth in projects in higher-rated jurisdictions such as Indonesia (Baa2 stable), China (A1 stable) and the Philippines (Baa2 stable). Over the longer-term, Moody's expects that the Bank's lending activities will incorporate larger exposures to higher-rated sovereigns, helping to maintain the current WABR of its sovereign-backed portfolio at or above the target in AIIB's risk limits policy.

ABUNDANT LIQUIDITY COVERAGE WILL BE SUPPORTED BY GROWING ACCESS TO FUNDING
Moody’s expects AIIB’s substantial liquid resources to provide strong coverage for loan disbursements, debt servicing and other potential cash outflows, though outflows are likely to rise as AIIB’s continues to grow. AIIB’s liquidity policy is in line with, and in some cases more stringent than, those of rating peers. It requires the maintenance of liquidity portfolio in excess of 40% of the projected net cash flow requirements for the coming 36 months. In addition, AIIB maintains an adequate stock of high-quality liquid assets to meet potential liquidity requirements for a 30-day stress scenario and its Risk Appetite Statement requires that, in the case of extreme stress, it can meet its payment obligations even in the absence of market access for a period of 12 months.

In practice, actual liquidity levels are significantly higher than the required policy level and AIIB’s plan is to maintain them at elevated levels. Initially, this is to establish capital market access so as to provide flexibility for meeting operational cash flow and in accessing funding markets. From a longer-term perspective an active and diversified funding program will support optimal pricing and attraction of targeted investors.

AIIB’s access to international funding markets has developed apace over the past year or so. In line with Moody's earlier view of the evolution of a strong funding franchise, AIIB's issuance activities accelerated in 2020 with issuance in a broad range of currencies including the Russian ruble, Chinese renminbi, Hong Kong dollar, Turkish lira and Thai baht. Although the Bank has received large amounts of paid-in capital and it has no ostensible borrowing need, Moody's expects regular issuance as AIIB further expands its investor base reflecting the need to establish market access to support its expansion strategy over the longer-term. Supportive of this is the Basel Committee on Banking Supervision assignment of zero risk weight for AIIB in line with long established and highly-rated MDBs including the Asian Development Bank (ADB) (Aaa stable), African Development Bank (AFDB) (Aaa stable), European Bank for Reconstruction and Development (EBRD) (Aaa stable) and Inter-American Development Bank (IADB) (Aaa stable).

MEMBER SUPPORT TO REMAIN STABLE AT VERY HIGH LEVELS

AIIB's large cushion of callable capital and very high willingness of shareholders to support the Bank, underpin Moody's very high assessment of the Bank's strength of member support. Moody's assessment for ability to support is based on a weighted average shareholder rating (WASR) of "baa1" in 2019, unchanged from the previous year, as the sovereign rating downgrades of Turkey offset the upgrades for Russia (Ba3 stable), Malta (A2 stable), and Greece (Ba3 stable) over 2019 and 2020. The addition of new members, Liberia, Croatia (Ba1 stable) and Senegal (Ba3 negative) does not materially affect our assessment given their comparatively small shareholdings. The stable outlooks on the ratings of most large regional and non-regional members impart support for the WASR at its current level.

The AIIB continues to expand and its membership is near-global, pointing to broad based support for its role as an important institution in supporting the infrastructure necessary for economic development. The Bank has 103 approved members (86 had ratified their membership and 17 prospective members) representing approximately 79 percent of the global population and 65 percent of global GDP. 70 percent of the members are non-borrowing and many are highly rated advanced economies with strong capacity to support the Bank.

Moody's believes that there is a strong likelihood that shareholders with a strategic interest in sustaining the Bank’s operations will provide extraordinary support beyond committed amounts represented by callable capital. This is particularly true for China given its role in founding AIIB and its large shareholding. At the same time, evolving tensions in the relationship between China and the United States, India and countries with interests in the South China Sea will potentially test its membership’s commitment notwithstanding the broad base of its membership.

RATIONALE FOR STABLE OUTLOOK

The stable outlook reflects Moody’s expectation of no material changes to AIIB’s fundamental financial strength as it moves from the start-up phase to its next phase of more rapid expansion of its lending portfolio. Nor does Moody’s expect any change to the solid shareholder support in the coming years, given AIIB’s important role in providing regional infrastructure investment support. That said, AIIB’s growth phase to 2030 will test its credit fundamentals and potentially also the effectiveness of its governance framework.

While the Bank’s risk framework and stress testing processes for example, have been developed to support resilience in the Bank’s asset portfolio, factors such as the aggressive loan growth in response to the pandemic is likely to have long-term implications for asset quality that will challenge the effectiveness of these frameworks and the Bank's capacity to respond.

ENVIRONMENTAL, SOCIAL, GOVERNANCE CONSIDERATIONS
Environmental risks are not significant for AIIB's rating, as the Bank's credit profile is unlikely to be affected despite generally high environmental risks in the region. Moreover, AIIB has set high standards and targets for operations on green and environmental issues with sustainability underpinning all financings, adopting green infrastructure as a thematic priority and setting an ambitious climate finance target.

Social risks are not significant for AIIB's rating, amid the relative social and political stability in the region and the diversification of its portfolio. We regard the coronavirus pandemic as a social risk under our ESG framework because of the substantial implications for public health and safety. Moody's expects that the outbreak of the coronavirus will lead to a temporary weakening of economic and fiscal strength across the Asia-Pacific, which could lead to a temporary deterioration in asset quality and performance. However, we do not see the impact as significant to AIIB's credit profile for now.

Governance risks are material. AIIB's governance framework has continued to evolve since its early years with a focus on achieving best practice standards and policy approaches. This has resulted in a sound and prudent framework for its finances and operations as illustrated by its prudent risk-management policies, and high standard governance principles.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

FACTORS THAT COULD LEAD TO A DOWNGRADE

Downward pressure on the rating could occur if the Bank's underwriting and risk management processes are not applied effectively and consistently leading to a deterioration in its asset performance and credit metrics. This could include corporate governance factors, such as interference by shareholders or a shift in strategy that results in a greater geographic concentration of lending and investment than we expect. Especially as the Bank moves from start-up to growth phase, the effectiveness of its governance may prove lower than Moody's currently expects. A deterioration in asset performance and evidence of diminished capacity or willingness to support from key shareholders would also weigh on the credit profile.


REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Moody’s general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moodys.com/researchdocumentcontentpage.aspx?docid=PBC_1243406.

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Martin Petch
VP - Senior Credit Officer
Sovereign Risk Group
Moody’s Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

Marie Diron
MD - Sovereign Risk
Sovereign Risk Group
JOURNALISTS: 44 20 7772 5456
Client Service: 44 20 7772 5454

Releasing Office:
Moody’s Investors Service Singapore Pte. Ltd.
50 Raffles Place #23-06
Singapore Land Tower
Singapore 48623
Singapore
JOURNALISTS: 852 3758 1350
Client Service: 852 3551 3077

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