

Rating Action: Moody's affirms AIIB's Aaa rating; outlook stable

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Singapore, March 28, 2019 -- Moody's Investors Service ("Moody's") has today affirmed the Asian Infrastructure Investment Bank's (AIIB) long-term foreign currency issuer rating at Aaa. The outlook remains stable.

Concurrently, AIIB's short-term foreign currency issuer and commercial paper ratings have been affirmed at Prime-1.

The affirmation of AIIB's Aaa rating reflects the development of AIIB's operational capabilities and governance frameworks, which Moody's assesses as evolving in a manner consistent with the highest-rated MDBs. Accordingly, Moody's continues to expect AIIB to maintain strong capitalization despite near-term challenges to the credit quality of some of its current investments. At the same time, shareholder support will remain steadfast as its membership and, consequently, its capital base expands beyond the levels at its founding in 2015. Overall, the rating incorporates the rating agency's assessment of AIIB's current and future creditworthiness as it continues to ramp up its operations over the next 5-10 years.

RATINGS RATIONALE

RATIONALE FOR AFFIRMING THE RATING

Since its establishment, AIIB has made significant progress on the design and implementation of a comprehensive governance framework and risk management architecture. More recently, the introduction of a Risk Appetite Statement and stress testing procedures operationalizes its policy mandate to maintain solvency and grow its balance sheet with adequate buffers against severe shocks, supporting Moody's assessment of robust capital adequacy.

Moody's assessment of the quality of AIIB's corporate governance, and the quality and diversity of its development assets, rests on the assumption that AIIB will retain full operational autonomy from its largest shareholders including China (A1 stable), and that it will remain broadly focused on infrastructure development across a wide range of emerging markets.

Investment operations have picked up as the bank has built up staff, enhanced its internal processes and systems, and sharpened its sector-specific strategies. Cumulative project approvals have more than tripled to \$7.5 billion in December 2018 from \$2.0 billion in March 2017, with a decreasing share of new investments being co-financed with other multilateral development banks. Conversely, a failure to sustain progress on staffing could pose a challenge to the expansion and subsequent oversight of the bank's investment operations.

Larger volumes of lending to stable investment-grade countries in Indonesia (Baa2 stable) and, more rapidly, in the case of India (Baa2 stable), will support overall borrower quality by offsetting the impact of deteriorating conditions in AIIB's comparatively smaller exposures. Against the backdrop of recent negative rating actions in Oman (Ba1 negative), Pakistan (B3 negative) and Turkey (Ba3 negative), Moody's expects that AIIB will, like other multilateral development banks, enjoy preferred creditor status, which will contribute to very high asset quality.

Although AIIB currently has no outstanding borrowings, Moody's expects the bank to attain strong access to markets as funding needs arise. In addition, its adherence to its conservative liquidity policy, requiring a deep and large pool of liquid assets relative to projected net cash flow requirements over the upcoming three-year period, is consistent with Moody's assessment of very high liquidity.

Shareholders' commitment to AIIB is illustrated by the high levels of callable capital, as well as the progress made in terms of members' obligations with regards to paid-in capital. Moody's expects AIIB to abide by statutory requirements that limit the size of its development portfolio to the sum of its unimpaired subscribed capital, reserves, and retained earnings, which would obviate the need for shareholder support beyond that furnished by callable capital.

Nevertheless, Moody's believes that the likelihood of further, extraordinary, support being made available by those shareholders with a strategic interest in sustaining the bank's operations -- including but not limited to China -- further enhances AIIB's credit profile. In addition, AIIB's broad shareholder base mitigates concentration risks arising from economic and financial linkages that could impede the provision of extraordinary support in the event of need.

RATIONALE FOR THE STABLE OUTLOOK

The stable outlook reflects Moody's expectation that AIIB's large capital base and strong shareholder support will allow for an expansion of the bank's development activities, while maintaining its capacity to service any forthcoming financial obligations. This view assumes that AIIB will maintain the health of its standalone credit metrics beyond its initial growth phase into the next decade.

FACTORS THAT COULD LEAD TO A DOWNGRADE

AIIB's credit profile could face downward pressure if the bank's underwriting and risk management processes are not implemented in a manner consistent with those of the highest-rated MDBs. These failings could include shortcomings in corporate governance, such as interference by shareholders, or a shift in strategy that results in a greater geographic concentration of lending and investment than we currently expect.

A deterioration in asset performance incompatible with its presumed preferred creditor status and evidence of diminished capacity or willingness to support from key shareholders -- in particular China-- would also lead to a lower rating.

The principal methodology used in these ratings was Multilateral Development Banks and Other Supranational Entities published in September 2018. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

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