

02 Jul 2020 | Affirmation

## Fitch Affirms AIIB at 'AAA'; Stable Outlook

---

Fitch Ratings-London-02 July 2020:

Fitch Ratings has affirmed Asian Infrastructure Investment Bank's (AIIB) Long-Term Issuer Default Rating (IDR) at 'AAA' with a Stable Outlook.

A full list of rating actions is at the end of this rating action commentary.

### Key Rating Drivers

AIIB's 'AAA' IDR continues to reflect its intrinsic credit strengths. Given the relatively early years of development at AIIB, Fitch bases its projections on an eight-year forecast period (2020-2028). Based on this, the bank's 'excellent' capitalisation and 'low' risk profile translate into a 'aa+' assessment of solvency. Liquidity is assessed at 'aaa'. AIIB's 'medium' risk business environment leads to a one-notch uplift over the lower of solvency and liquidity, to 'aaa' for the bank's intrinsic assessment. Our assessment of the bank's solvency, liquidity and business environment are unchanged from last year. Shareholders' support, assessed at 'a+' (unchanged from last year), does not provide a rating uplift.

AIIB's 'excellent' capitalisation assessment is based on Fitch's expectation that both the equity-to-assets ratio and Fitch's risk-weighted capitalisation (FRA) ratio will remain above the respective 'excellent' thresholds of 25% and 35%. However, Fitch has revised down its forecasts for these two capitalisation ratios, in line with the bank's own projections, reflecting a significant shift in the bank's strategy compared with last year. This was driven by AIIB's revised strategy of significantly increasing its treasury portfolio to support a more rapid increase in lending. Fitch now expects the equity-to-assets ratio to be around 27% in 2028 (compared with our previous forecast of 35%) and the FRA ratio to be around 55% (compared with our previous forecast of 75%).

As part of the ongoing formation of AIIB's Corporate Strategy, the bank is looking to ensure that it has the capability to respond to future major crises without impacting the bank's capital position, by increasing the size of its liquid assets portfolio. It has demonstrated this in response to the COVID-19 pandemic given it is currently majority equity-funded.

In April 2020, AIIB established its 'COVID-19 Crisis Recovery Facility' (CRF) to support its members and clients to mitigate both economic and public health pressures. The facility, available until

October 2021, will provide between USD5 billion-USD10 billion of support to its members including policy loans directly extended to sovereigns and co-financed with other multilateral development banks. The creation of the CRF has seen a sharper-than-expected acceleration in the growth of the bank's loan book in the short term (far greater than our expectation last year) but over the medium to long term, we do not expect the CRF to result in an increase in the projected stock of loans by 2028.

AIB's risk profile is primarily driven by its 'low' credit risk assessment. Fitch continues to expect that the average rating of the loan portfolio will be 'BB' in 2028 (from 'BB+' as of May 2020). Since the last rating review, the bank has revised its long-term expectation of the share of its lending operations focussing on sovereign and non-sovereign sectors, from 60%/40% last year, to 50%/50%. However, this is a long-term strategy that will not be achieved before 2030. Given the bank's policy response to the COVID-19 pandemic, in the form of the CRF which is expected to be pre-dominantly to its sovereign members, the share of non-sovereign borrowers will actually be diluted over the medium term, to approximately 30% by 2028, compared with our previous expectations.

AIB continues to benefit from 'strong' preferred creditor status (PCS), in Fitch's view, translating into a two-notch uplift over the average rating of loans to 'BBB-'. This assessment reflects the long-term expected share of the sovereign portfolio (50% of financing approvals by 2030) and the assumption that non-performing sovereign loans will be very limited at a maximum of 0.5%. The agency continues to expect overall non-performing loans to account for approximately 2% of total loans and be concentrated on the non-sovereign portfolio. As of March 2020, there were nine sovereign loans and five non-sovereign loans classified as 'Stage 2' under the IFRS 9 accounting standard, reflecting the weakening in the credit quality of these borrowers since initial recognition in the bank's books. As of end-June, management expects no loans to be classified as 'Stage 3' in the portfolio, with all loans currently performing.

Risk management rules and objectives are in line with 'AAA' rated peers, although given its recent creation in 2015, the bank currently lacks a longer track record of operating under prudent risk management. In terms of concentration limits, Fitch expects the top five exposures will account for 50% of total loans. The bank's policy foresees that equity participations will be kept below 10% of banking exposure. AIB will use financial derivatives to hedge its balance sheet and manage interest rate and currency risks. Loan loss reserves are based on expected loss as per IFRS 9 standards.

The bank's liquidity is assessed at 'aaa'. Given its large paid-in capital (USD19.3 billion subscribed) and increasing market presence, the bank will have excess liquidity for the next few years. Fitch expects the ratio of liquid assets to short-term debt to be well in excess of 150% over the forecast

period. As of end-2019, 61% of treasury assets were rated 'AAA'/'AA' (FYE18: 54%). Fitch has revised up its expectation of the share of 'AAA'-'AA' treasury assets to around 50%-60% (from 50% previously), in line with forecasts provided by the management team.

In line with the revised strategy adopted by AIB, the growth in the bank's total assets will be supported by an increase in leverage and more frequent debt issuances over the short to medium term, compared with our expectation last year. By the mid-to-end 2020s, our previous expectation was that borrowing would increase to around USD10 billion per year, but it is now closer to USD15 billion per year. The bank continues to issue in US dollars, following its inaugural USD2.5 billion bond in May 2019, and this year AIB successfully launched its inaugural RMB3 billion Panda bond, as well as its inaugural private placements.

AIB's business environment is considered 'medium' risk, in line with last year. While the expansion of the balance sheet will be very fast in the coming years, the bank is expected to remain highly capitalised and liquid throughout the forecast period. Lending will primarily be extended to emerging Asian countries, mostly rated sub-investment grade and classified as lower-middle-income countries by the World Bank. Fitch has revised its assessment of the 'income per capita' in the countries of operations to 'high' risk based on peer analysis using World Bank figures. Political risk in the countries of operations remains 'medium'.

The bank's support assessment remains unchanged at 'a+', reflecting full coverage of net debt by callable capital rated 'A+' and above in the year 2028. Under Fitch's definition, AIB's key shareholders are China (31% of capital, A+), India (9%, BBB-), Russia (7%, BBB) and Germany (5%, AAA). Their average rating is 'A'. The high ratio of paid-in to subscribed capital (20%) is evidence of the importance of the bank for the shareholders. This translates into a 'strong' propensity to support.

#### RATING SENSITIVITIES

The factors that could, individually or collectively, lead to positive rating action/upgrade are:

The ratings are at the highest level on Fitch's scale and cannot be upgraded.

The factors that could, individually or collectively, lead to negative rating action/downgrade are:

- Greater-than-expected growth in the bank's lending operations and/or treasury portfolio, which could lead to a weaker assessment of capitalisation.
- Weaker asset quality than expected in Fitch's projections and/or marked increase in the non-performing loan ratio, leading to a weakening in our assessment of the risk profile.

- Any material change to AIIB's conservative approach to risk management / liquidity policies or unexpected changes in strategic direction that could undermine our assessment of the bank's governance quality.

#### Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit [<https://www.fitchratings.com/site/re/10111579>].

#### Key Assumptions

Fitch assumes that AIIB's capital will be fully subscribed and that paid-in capital will be fully received by 2024. Fitch further assumes that total banking exposure will be close to USD50 billion by 2028.

We assume that the global economy develops in line with our Global Economic Outlook published on 29 June, including a deep but short-lived recession in 2020 due to the pandemic.

#### Sources of Information

The source(s) of information used to assess these ratings were AIIB's financial statements, and other information provided by AIIB.

#### REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

Asian Infrastructure Investment Bank; Long Term Issuer Default Rating; Affirmed; AAA; RO:Sta

----; Short Term Issuer Default Rating; Affirmed; F1+  
----senior unsecured; Long Term Rating; Affirmed; AAA

Contacts:

Primary Rating Analyst

Nick Perry,

Associate Director

+40 20 3530 2727

Fitch Ratings Ltd

30 North Colonnade, Canary Wharf

London E14 5GN

Secondary Rating Analyst

Arnaud Louis,

Senior Director

+33 1 44 29 91 42

Committee Chairperson

Tony Stringer,

Managing Director

+44 20 3530 1219

Media Relations: Peter Fitzpatrick, London, Tel: +44 20 3530 1103, Email:  
peter.fitzpatrick@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

**Applicable Criteria**

[Supranationals Rating Criteria \(pub. 30 Apr 2020\) \(including rating assumption sensitivity\)](#)

**Additional Disclosures**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Status](#)

[Endorsement Policy](#)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, THE FOLLOWING [HTTPS://WWW.FITCHRATINGS.COM/RATING-DEFINITIONS-DOCUMENT](https://www.fitchratings.com/rating-definitions-document) DETAILS FITCH'S RATING DEFINITIONS FOR EACH RATING SCALE AND RATING CATEGORIES, INCLUDING DEFINITIONS RELATING TO DEFAULT. PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://www.fitchratings.com/site/regulatory). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH RATINGS WEBSITE.

Copyright © 2020 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently

forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit

rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

---

**ENDORSEMENT POLICY** - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.