



ASIAN INFRASTRUCTURE
INVESTMENT BANK



Connecting Asia for the future

Annual Report and Accounts 2016

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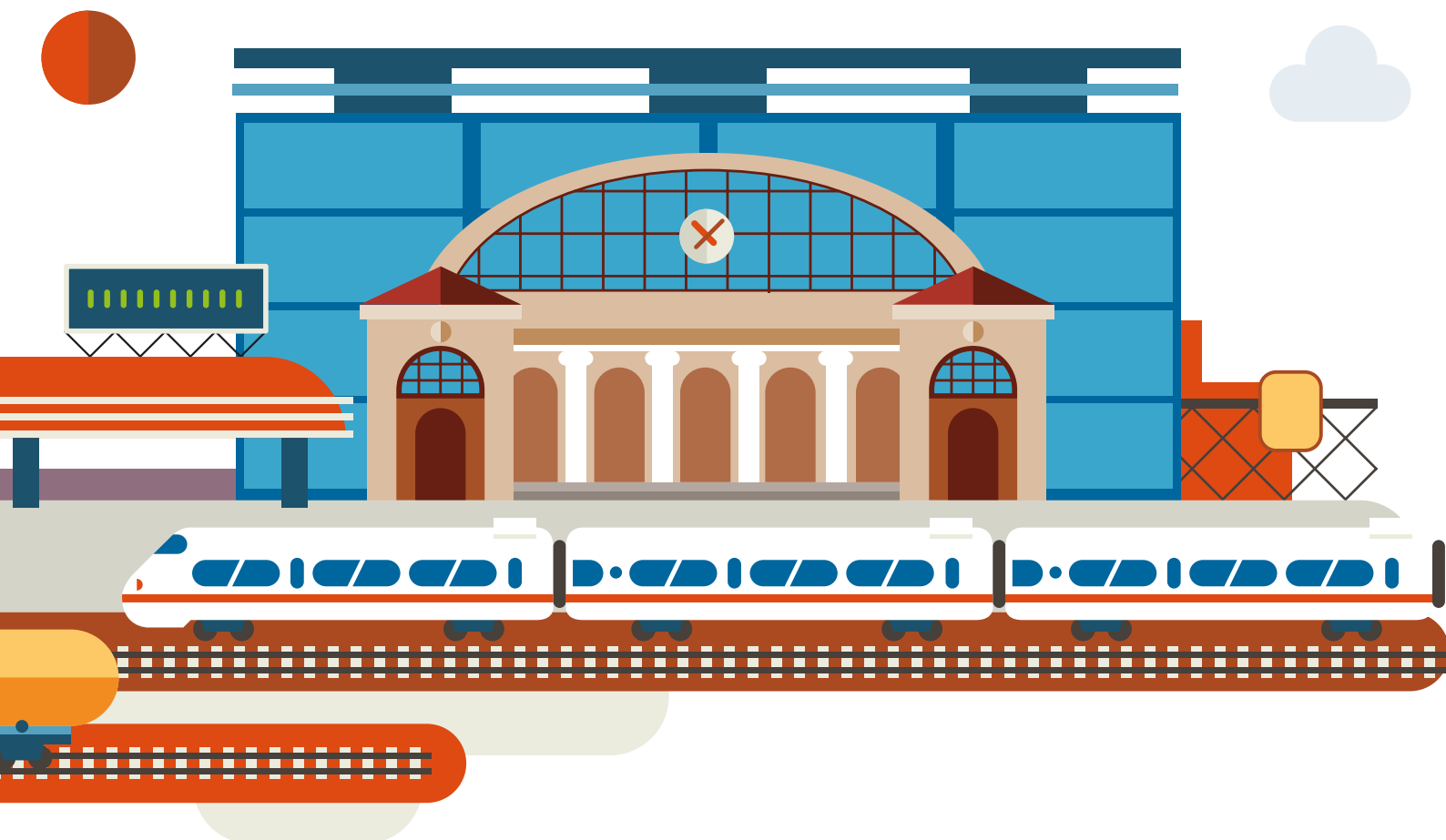
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Introduction

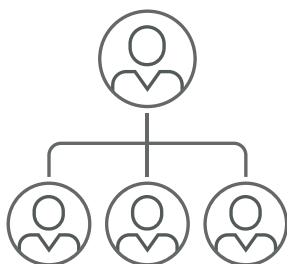
The Asian Infrastructure Investment Bank (AIIB or the Bank) is a specialised 21st century Multilateral Development Bank (MDB) with a mission to improve social and economic development in Asia, and beyond, by investing in infrastructure and other productive sectors. The projects it funds will better connect people, services and markets to promote sustainable development, growth and prosperity.

At the end of its first year of operations, 50 out of the 57 signatories from Asia, Europe, Africa, the Middle East and the Americas were already members and seven more were in the process of ratifying the Articles of Agreement (AOA). A number of potential applicants from Asia, Europe, Africa and the Americas, had expressed interest in joining AIIB.



Highlights

The Boards and management



All the powers of the Bank are vested in its Board of Governors, where each member is represented by a Governor. As part of its lean ethos, AIIB has a non-resident Board of Directors, to which the Board of Governors has delegated a broad range of operational oversight functions. Its 12-member Board of Directors meets as often as the business of AIIB requires, both through physical meetings and by video conference, and maintains regular communication with AIIB's management between meetings. Senior Management consists of the President, five Vice Presidents, the General Counsel and the Chief Risk Officer, who are also the members of the Executive Committee, the most senior management committee of the Bank which advises the President.

Project Preparation Special Fund

Given the pressing need for high-quality infrastructure projects in the region, the Bank will help members prepare sound, bankable projects. In this regard, a **Project Preparation Special Fund (PPSF)**, to which some members have generously donated, is run by management to help its eligible borrowing members prepare promising projects.

Universal recruitment and procurement

The Bank aims to secure high-quality expertise and talent from around the world. Its policy of universal procurement is designed to ensure it obtains the **best, most cost-effective resources for its budget**. Projects are open to bidding by contractors worldwide.

In the interest of partnership and cooperation, the Bank signed Memoranda of Understanding (MOU) with three MDBs and a co-financing agreement with another MDB over the course of 2016.



Infrastructure projects

In its first year of operations, the Bank approved financing for nine infrastructure projects for seven of our members, with a value of US\$1.73 billion. Of these, **six were co-financed and three were standalone projects prepared by the Bank's staff**. All transactions except for one were sovereign backed loans. Details are provided in the ['Lending'](#) section of this report.



For further details, go to the **'Lending'** section of this report on page 14.



Thematic priorities

In 2016, the Bank defined three thematic priorities to guide its approach to lending:

- Sustainable infrastructure
- Cross-border connectivity
- Private capital mobilisation

Building on this foundation, the Bank is sharpening its core competencies and sectoral strategies, which will provide the foundation for developing future business lines.

Our commitment

The Bank adheres to the highest standards of integrity and is committed to **financing infrastructure that is environmentally and socially sustainable**. It consults with a wide range of external stakeholders and technical experts to ensure the projects it finances fulfil these requirements.



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Message from the President

Our make-up is international, and we have come together because we believe in the mission of this Bank.



The power of collaboration

Jin Liqun
President

In 2016, as the world faced a backlash against globalisation and multilateralism, a new multilateral bank, the Asian Infrastructure Investment Bank, was launched to show how the power of effective collaboration can manifest itself most remarkably against such a landscape. The groundswell of support from its founding members shows that international cooperation to promote broad-based economic and social development is still embraced by many nations.

The establishment of AIIB could not be more timely and vital. Asia's fast growth over the past decades has put huge pressure on its infrastructure, which is in critical need of expansion, upgrading or both. The region's rapid population growth, intensifying rural-to-urban migration and the urgent challenges of climate change have combined to make the infrastructure bottlenecks even more acute. AIIB, with a clear mission to finance sustainable infrastructure in its members, has an important role to play.

The daunting challenge of meeting this critical demand for infrastructure financing calls for concerted efforts among all stakeholders. No institution can do it on its own. With its unique mandate and niche specialisation, AIIB is poised to rise to the occasion to support its members in meeting their pressing infrastructure needs. We are committed to working with the governments of our members, the public sector and the private sector, as well as with other MDBs.

AIIB is off to a very good start. We are beginning to build up a strong pool of talent that is small, but highly specialised. With this core staff, we delivered a lending program of nine projects worth US\$1.73 billion in our inaugural year. We have developed a robust project pipeline across our membership, which includes an array of infrastructure sub-sectors. As we move forward, we expect these high-quality projects will have positive development impacts in Asia and beyond.

Ours is a 21st century bank, with up-to-date policies, international management and talented staff from across the globe. We are learning from the experiences of the well-established MDBs and the private sector. With the core values of *lean, clean and green* underpinning our management style and decision-making, we are developing our own modus operandi, tailored to the needs of the vast number of our borrowers who face changing and challenging global circumstances.

We are actively exploring new approaches to the way in which projects are identified, screened and prepared to create a process that can be implemented in a fast and cost-effective manner. We are committed to ensuring that all our projects fully meet our high technical, economic, environmental and social standards, which will lead to positive development impacts and outcomes for our clients.

As we strengthen the institution and further build our operations, we are also nurturing a unique AIIB ethos; a culture of integrity, honesty and transparency. For AIIB to be recognised as a success, a new mode for development financing, and a source of inspiration and innovation over the long run, we must proceed on a principles-based approach that values input from a diverse set of perspectives. Our make-up is international, and we have come together because we believe in the mission of this Bank.

We look to the year ahead, and to our longer-term future, with tremendous energy and optimism.

Jin Liqun
President

AIIB

Purpose

AIIB is the newest MDB established in the 21st century. It opened its doors on 16 January 2016, with an authorised capital stock of US\$100 billion.

Its purpose is to support sustainable economic development in Asia and other regions through investments in infrastructure and other productive sectors. Its establishment is grounded in the belief that infrastructure investment lays a strong foundation for long-term economic growth.

Core values

Lean

Operating as an agile and responsive institution, AIIB is steadfastly committed to attaining beneficial development impacts and results through its cost-effectiveness and efficiency. It will achieve this with a small and experienced management team, a core of highly motivated, skilled and dedicated staff, and a non-resident Board of Directors.

Clean

Adhering to the highest standards of integrity, accountability and ethics, AIIB has zero tolerance for corruption. The Bank has institutionalised a set of measures to ensure that its operations will steer clear of corruption, and whistle-blowers will be protected.

Green

Demonstrating a keen sense of awareness and respect for the environment, and actively promoting sustainability are key guiding principles which underpin AIIB operations. The Bank is committed to financing infrastructure that is environmentally friendly and socially sustainable, and it will support members in their transition towards a low-carbon energy mix.

Capital stock on opening

US\$100bn

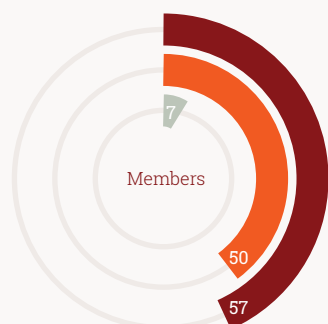
Signatories in AIIB

57



Overview of shareholding structure

as of 31 December 2016



- Founding signatories
57
- Founding members
50
- Prospective founding members
7

Structure and origin

The proposal to establish AIIB first came from the Chinese government. An institution for all of Asia, membership in AIIB is open to members of the International Bank for Reconstruction and Development (IBRD) or the Asian Development Bank (ADB).

Its capital structure requires 75% of total subscribed capital stock to be held by regional members. This capital structure reflects the commitment and priority ownership of Asian members while being open to the participation of non-regional members.

In October 2014, 22 countries signed an MOU to establish the Bank. Subsequent meetings and discussions led to agreement on a cooperative and inclusive process to establish the Bank that included a shared vision that was embraced by all participating members, large and small.

By the end of March 2015, 57 countries had committed to being part of the process to design and establish the Bank. Negotiations on the AOA concluded on 22 May 2015 and in June 2015, all 57 prospective members signed AIIB's AOA. As of May 2017, AIIB has 77 approved members.

AIIB is a new MDB with a broad-based membership from all over the world, committed to the highest ethical standards in its efforts to support economic development in Asia and other regions. The Bank is benefiting from the lessons and experiences of the existing MDBs, successful private sector companies, and the rich experiences of its members.

Thematic priorities and strategy development

The Bank has defined three thematic priorities to guide its investments. They are:



Sustainable infrastructure

Promoting infrastructure and supporting countries to meet their commitments under the UN's Sustainable Development Goals (SDGs)¹.

Cross-border connectivity

Prioritising cross-border infrastructure, ranging from roads and rail, to ports, energy pipelines and telecoms. Projects will reach across Central Asia, and the maritime routes in South East, West and South Asia, and the Middle East, including the Pacific and beyond.

Private capital mobilisation

Devising innovative solutions that catalyse private capital, in partnership with other MDBs, governments, private financiers and other partners.



Download further information here
www.aiib.org

¹ www.un.org/sustainabledevelopment/sustainable-development-goals/

AIIB

The Bank seeks to address all three dimensions of sustainable development – economic, social and environmental – in a balanced and integrated manner.

Number of cities to be developed in national slum upgrading programme in Indonesia

154



Sustainable infrastructure

In keeping with the SDGs, the Bank seeks to address all three dimensions of sustainable development – economic, social and environmental – in a balanced and integrated manner. The Bank subscribes to the principles of sustainable development in the identification, preparation and implementation of its projects to address development challenges in Asia and beyond.

Green infrastructure lies at the heart of sustainable development, and the Bank recognises the importance of green economic growth and the long-term benefits that it will provide in Asia. The Bank aims to build upon existing green economic growth initiatives in Asia, and to provide support for new ones at the regional, national and subnational level. Planning, investment and capacity building measures that the Bank supports will help to 'green' infrastructure. The Bank:

- Promotes the conservation of energy, water and other resources
- Supports sustainable land use management
- Encourages making best use of green growth and low-carbon technologies, renewable energy, cleaner production, sustainable transport systems and sustainable urban development

Infrastructure-driven economic developments



◀ National Slum Upgrading Project

▶ National Slum Upgrading Project



◀ Dushanbe-Uzbekistan Border Road Improvement



▶ Bangladesh: Electricity Distribution System Upgrade and Expansion



For further details, go to the 'Lending' section of this report on page 14.





The Bank will prioritise investments in renewable energy and efficiency, investments that reduce greenhouse gas emissions, and investments that help countries become more resilient to climate change.



The Bank recognises the challenges presented by climate change and supports its clients in their transition towards a low-carbon future. To this end, the Bank will prioritise investments in renewable energy and efficiency, investments that reduce greenhouse gas emissions, and investments that help countries become more resilient to climate change.

The Bank's **Environmental and Social Framework** (Framework), is broadly consistent with those of other MDBs such as ADB, European Bank for Reconstruction and Development (EBRD), European Investment Bank (EIB), and World Bank. The Framework provides a robust structure for promoting sustainability and managing operational and reputational risks of the Bank in relation to the environmental and social risks and impacts of the projects it finances. Development of the Framework benefited from consultations with the Bank's founding member governments and a wide range of external stakeholders. These included civil society organisations, NGOs, trade unions, academic and applied research institutions, think tanks and the private sector.

The Bank believes that social development and inclusion are critical for sound development. For the Bank, inclusion means empowering people to participate in, and benefit from, the development process in a manner consistent with local conditions. It recognises the importance of being gender sensitive and supporting participation of women in the development process. The Bank stands ready to take actions to remove barriers against vulnerable groups, who are most likely to be excluded from the development process.

Cross-border connectivity

The principle of cross-border connectivity is about increasing prosperity through building the infrastructure to move goods and people throughout the Asian region and beyond. This results in bringing nations together using road, rail, marine and air connections, which improves the cross-border flow of goods and services.

Three of the Bank's current projects demonstrate how cross-border connectivity can be implemented in practice. Firstly, the development of the Duqm Port Commercial Terminal and the associated Special Economic Zone will bring economic benefits to the Sultanate of Oman. It will do this by:

- Fostering trade through improving the port infrastructure
- Strengthened logistics services
- Developing marine connectivity to the country's export markets

Secondly, the Trans Anatolian Natural Gas Pipeline Project (TANAP) will support the development of the Republic of Azerbaijan's energy sector. It will achieve this by means of a natural gas pipeline connecting the country's gas production facilities in the Caspian Sea to Turkey and to European markets.

Thirdly, the Dushanbe-Uzbekistan Border Road Improvement Project in Tajikistan, completes the final section of the Tajikistan Asian Highway Network and the Central Asia Regional Economic Cooperation Corridor 3. This vital link will help to improve safety and increase road transport for national and regional trade.

Private capital mobilisation

According to research from ADB, US\$26 trillion of infrastructure investment will be needed by developing Asia from 2016 to 2030, or US\$1.7 trillion per year if the region is to maintain its growth momentum, eradicate poverty and respond to climate change². Given constraints in government budgets, the way forward is to mobilise private capital.

Consequently, AIIB gives high priority to working with the private sector and to mobilising private capital in order to leverage and supplement its own resources, and those of other MDBs, to help meet client demand. There is a real potential for private capital to finance critically needed infrastructure, and in return receive stable, long-term cash flows from such investments. However, despite the significant potential, private financing investment for emerging market infrastructure falls short.

The Bank will mobilise private capital by investing in a way that both meets the requirements of borrowers and creates attractive investment opportunities for private investors.

These could include co-financing with private sector investors, ranging from senior syndicated loans to equity investment for non-sovereign-backed loans. In addition, the Bank may work with infrastructure funds as a way to mobilise private capital. There will also be efforts to improve the bankability of projects to increase private capital participation.

With these thematic priorities, the Bank will focus on developing strategies in energy, transport and sustainable cities in its initial years. Consistent with these priorities, the Energy Sector Strategy is under development via an iterative, consultative process, with two rounds of public consultations, the first having been completed in December 2016 and the second to be completed in 2017. When finalised, it will provide the principles, framework and operational modalities to guide the Bank's future energy sector engagement, including the development of its project pipeline and future lines of business.

² Meeting Asia's infrastructure needs, Asian Development Bank, 2017

Infrastructure investment needed from 2016 to 2030

US\$26tn

Governance

Transparency and accountability

A testament to the Bank's commitment to transparency is that AIIB is the only major MDB to embed a requirement for a policy on disclosure of information in its constituent agreement. It made a strong start by building a rules-based, transparent and accountable organisation, staffed by high calibre talent drawn from all over the world. And it has come a long way toward developing its core systems and operational policies by cultivating a collegial corporate culture that encourages innovation, learning and a willingness to speak truth to power.

How we are organised



Senior Management Team

- President
- Five Vice Presidents
- General Counsel
- Chief Risk Officer



International Advisory Panel

- Help advise the President and Senior management



Board of Governors

- One Governor
- One Alternate Governor



Board of Directors

- Responsible for the general direction of the Bank's operations

The Bank adheres to effective governance, with responsibilities and controls carefully delineated. It enforces tight budgetary discipline and carefully manages costs by avoiding any duplication or overlap of functions, so as to maintain an appropriate allocation of resources consistent with the Bank's operational goals and strategic priorities.

AIIB is a strong, ethical and principled organisation. Management holds itself and the staff accountable for their actions, providing disclosure and explanation of the reasoning behind business decisions at all levels. Management is committed to acknowledging and learning from its mistakes, should they occur, and to acting quickly to address them, with zero tolerance for any form of malpractice, irregularities or outright corruption. As a newly established international financial institution, high standards of integrity and ethics are fundamentally important norms that are an integral part of the Bank's organisational culture.

Risk management

In 2016, the Bank put in place the foundation of its Risk Management Framework, including the adoption of economic capital³ as its currency of risk throughout its operations. The risk governance practices, comprehensive risk limit policies and operational risk rules of the Bank are in line with best practice of modern financial institutions.

Besides managing its financial risks, the Bank places particular emphasis on non-financial risks including operational, integrity, environmental, social and other reputational risks. The Risk Management Framework (see page 09), which is also available on the Bank's website, provides an overview of AIIB's approach to risk management.



Download further information here
www.aiib.org/en/policies-strategies/operational-policies/risk-management-framework

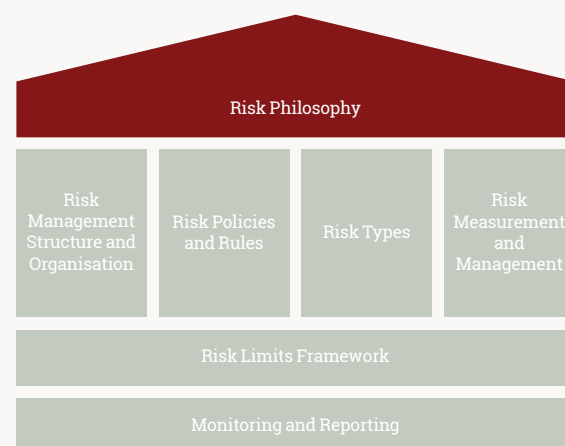
³ Economic capital is the amount of risk capital that a bank estimates in order to remain solvent at a given confidence level and time horizon

Effective risk management is central to realising the Bank's broader objectives while assuring adherence to sound banking principles.

Our Risk Management mission statement is as follows:

- Enable the Bank to fulfil its mandate to promote infrastructure and other productive sectors
- Ensure the stability and financial continuity of the Bank through efficient capital allocation and utilisation, to comprehensively manage risks and reputational consequences
- Foster strong risk culture by embedding risk accountability in the Bank

1. Risk Management Framework



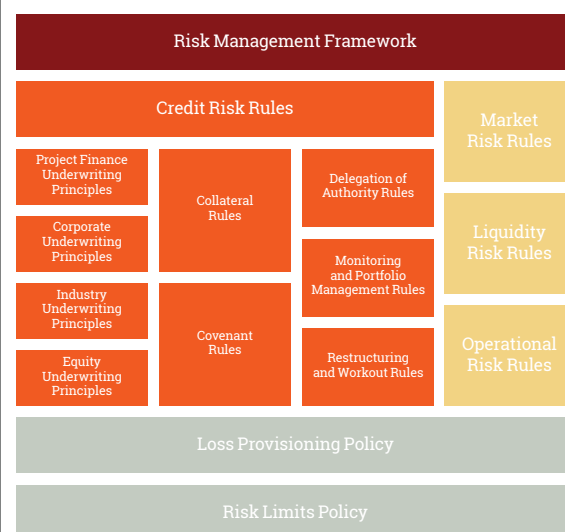
The Bank applies three lines of defence in addressing the risks facing it. The first line of defence is day-to-day management of client-facing functions including risk identification and risk evaluation. The second line of defence is formed by the risk management function of the Bank itself. The third line of defence is the internal audit function, which, once established, will review risk models, processes and adherence to risk guidelines. The risk policies and rules are illustrated by figure 2.

Compliance, Effectiveness and Integrity

The Bank's Compliance, Effectiveness and Integrity Unit (CEIU) has an oversight role to strengthen accountability and effectiveness. It works with management and the Board of Directors on the adoption of policies and practices that increase learning and effectiveness of AIIB operations. It serves as the focal point for external grievances, and develops policies and practices to strengthen the overall integrity of AIIB-financed activities. The head of this Unit advises management, but is independent and reports directly to the Board of Directors.

In 2016, the Bank acted to enhance its Policy on Prohibited Practices to ensure that its financing is used only for the intended purposes and is not lost to fraud or corruption. The enhanced policy also extends the scope of sanctions and debarments to recipients of Bank financing, streamlines the process for enforcing debarments, and adds provisions for whistle-blower protection.

2. Risk policies and rules



CEIU's focus:



The Boards and staffing

The Board of Governors consists of one Governor and one Alternate Governor appointed by each member.

Board of Directors

The Bank's 12 member, non-resident Board of Directors is responsible for the direction of the Bank's general operations, exercising all powers delegated to it by the Board of Governors. This includes approving the Bank's strategies, annual work plan and budget; establishing policies; taking decisions concerning Bank operations; supervising management and operations of the Bank; and establishing appropriate oversight mechanisms.

Senior Management Team

The Bank is headed by the President, who is elected by its shareholders for a five-year term and may be re-elected once. He is supported by a Senior Management Team. The team includes five Vice Presidents who are responsible for Policy and Strategy, Investment Operations, Finance, Administration, and the Corporate Secretariat. Additional expertise is provided by the Chief Risk Officer and the General Counsel.

International Advisory Panel

The International Advisory Panel (IAP), comprised of global experts, provides management with impartial advice and perspectives. They bring years of experience and a wide range of professional expertise in both the international and private sectors.

The IAP supports the President and senior management, advising on the Bank's strategies and policies, as well as on general operational issues. The panel meets in tandem with the annual meeting of the Board of Governors, or as requested by the President.

Staffing

The Bank supports a policy of universal staffing, which helps it obtain the best talent available. Lean staffing ensures short chains of command, cross-unit collaboration and more centralised management. This in turn reduces duplication of functions, improves information flow and accelerates decision-making.

The Bank is building its highly skilled professional staff based on defined competencies and the needs of its business. It also supplements its in-house talent with external specialised consultant skills to ensure it has the technical and operational expertise to meet its mandate effectively.

By the close of 2016, the Bank's small and efficient Senior Management Team had been recruited. Total professional staff was 79, with staff representing 24 nationalities (14 regional and 10 non-regional) and 23% female. The Bank's staffing projections will continue to evolve alongside the Bank's future business plans and the changing landscape of client demand.

The Bank is committed to developing a diverse workforce and creating an inclusive, empowering environment for all staff. It will not adopt a quota approach that might impede its ability to hire the best people. Nor will the Bank have permanent staff. All staff are offered fixed-term contracts of up to three years, with one-year probation.

Greening of facilities and services

In alignment with its core values of '*lean, clean and green*', the Bank is currently headquartered in a building that has received the Leadership in Energy and Environmental Design (LEED) Gold certification in terms of design, procurement, construction and daily operation of the building. In its first year, the Department of Facilities and Administrative Services (FAS) took a series of additional measures to promote energy conservation and environmental protection in the day-to-day activities of the Bank. These include a smoke-free working environment, fixed hour lighting in common areas, use of water-saving taps, solar panels and environmentally friendly materials.

Construction has already begun on AIIB's permanent headquarters, to be based near Beijing's beautiful Olympic Park. Surrounded by ample green space and easily accessed by public transportation, the facility is being designed and constructed with the aim of receiving LEED Platinum status once it is completed, consistent with the Bank's 'green' values.

Staff at AIIB by the end of 2016

79



Download further information here
www.aiib.org/en/about-aiib/governance/board-governors
www.aiib.org/en/about-aiib/governance/board-directors
www.aiib.org/en/about-aiib/governance/international-advisory-panel/

Senior Management Team



1

1. Mr. Jin Liguang President

Mr. Jin Liguang is the chief of staff and has accountability for all of the Bank's operations. He ensures the mission of the Bank is carried out under the direction of the Board of Directors. Before being elected as the Bank's first president, Mr. Jin served as Secretary-General of the Multilateral Interim Secretariat tasked with establishing the Bank.

Mr. Jin has rich experience across the private and public sectors, as well as with MDBs. He served as Chairman of China International Capital Corporation Limited, China's first joint-venture investment bank, Chairman of the Supervisory Board of China Investment Corporation, and as Chairman of the International Forum of Sovereign Wealth Funds.

Mr. Jin previously served as Vice President, and then Ranking Vice President, of the Asian Development Bank, and as Alternate Executive Director for China at the World Bank and at the Global Environment Facility. He spent nearly two decades at the Chinese Ministry of Finance, reaching the rank of Vice Minister.

Mr. Jin holds an M. A. degree in English Literature from Beijing Institute of Foreign Languages (now Beijing Foreign Studies University). He was also a Hubert Humphrey Fellow in the Economics Graduate Program at Boston University from 1987 to 1988. He is a national of the People's Republic of China.



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2. Sir Danny Alexander Vice President and Corporate Secretary

Sir Danny Alexander is responsible for the Bank's relations with its members, the Board of Governors, the Board of Directors and other aspects of governance, including the admission of new members.

As Chief Secretary to the Treasury, Sir Danny was one of the leaders of the UK coalition government between 2010 and 2015. He was knighted in 2015. He holds a BA in philosophy, politics, and economics from the University of Oxford and is an honorary fellow of St Anne's College, Oxford. He is a national of the UK.

3. Mr. Thierry de Longuemar Vice President and Chief Financial Officer

Mr. Thierry de Longuemar is responsible for the design and implementation of AIIB's financial strategies and policies, including oversight of the Controller and Treasury departments. He previously served as both the Treasurer and Vice President of Finance at the Asian Development Bank and the African Development Bank. His career extends to the private sector where he worked in progressively senior roles in banking and energy, including postings at ABN AMRO, Credit Agricole, Compagnie Bancaire and TOTAL. Mr. de Longuemar graduated from l'Ecole des Sciences Economiques et Commerciales (ESSEC) in 1978. He is a national of France.

4. Dr. D. J. Pandian Vice President and Chief Investment Officer

Dr. D. J. Pandian leads the investment portfolio for the Bank, having oversight for all sovereign and non-sovereign lending. In this role, he and his team of specialists are responsible for the end-to-end management of the Bank's project pipeline from identification to implementation. Before joining AIIB, he had an extensive career spanning 30 years with the Indian Administrative Services, holding key positions at the state, national, and international levels in the energy (oil and gas, power, renewable), infrastructure and finance sectors. During his career, he served in the Government of Gujarat in various capacities including: Chief Secretary, Additional Chief Secretary, Industries and Mines; and Principle Secretary, Energy and Petrochemicals Department. Dr. Pandian received his PhD in energy security and MBA from University of Madras. He is a national of India.

5. Mr. Luky Eko Wuryanto Vice President and Chief Administration Officer

Mr. Luky Eko Wuryanto is responsible for overseeing human resources (HR), information technology (IT), as well as facilities and administration services (FAS). In this position, he is also chairman for Information Technology Committee (ITC) and chairman for the Human Resources Review Committee.

Prior to this role, he served in senior positions in the Indonesian government for more than 20 years, most recently as the Deputy Coordinating Minister for Infrastructure Acceleration and Regional Development, Coordinating Ministry for Economic Affairs.

He has an undergraduate degree in engineering from Bandung Institute of Technology and a PhD in regional science from Cornell University. He is a national of Indonesia.

6. Dr. Joachim von Amsberg Vice President – Policy and Strategy

Dr. Joachim von Amsberg drives the strategic direction for the Bank, including its sectoral and country priorities, its investment strategy and programming, its economic analysis and research, and its operating budget. He oversees the Bank's environmental and social policies, other operational policies, and their implementation. He previously served in a number of progressively senior roles at the World Bank where he most recently held the position of Vice President, Development Finance where he was responsible for the replenishment and stewardship of the International Development Association (IDA), the World Bank's fund for the poorest, and for trust fund and partnership operations.

Dr. von Amsberg holds a Ph.D. in economic policy analysis and an M.B.A. from the University of British Columbia. He also holds a M.Sc. in industrial engineering from the Technical University of Berlin. He is a national of Germany.

7. Mr. Gerard Sanders General Counsel

Mr. Gerard Sanders advises the President and governance bodies of AIIB and is responsible for the legal aspects of the Bank's work. Prior to joining AIIB, he was General Counsel of the International Fund for Agricultural Development, previously having worked at the European Bank for Reconstruction and Development, most recently as Deputy General Counsel. Beforehand, he worked with law firms in Wellington, Washington, D.C., and Amsterdam and in a corporate role in London. Mr. Sanders has graduate law degrees from Victoria University of Wellington and Harvard Law School. He is a Chartered Accountant, a Fellow of the Chartered Institute of Arbitrators and Visiting Professorial Fellow at Queen Mary College, University of London. Mr. Sanders is qualified to practice law in New Zealand, the state of Victoria in Australia and England and Wales. He is a national of New Zealand.

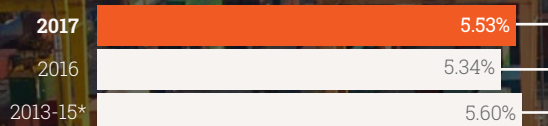
8. Mr. Martin Kimmig Chief Risk Officer

Mr. Martin Kimmig heads AIIB's Risk Management. His main responsibilities are to ensure the stability and financial continuity of the Bank. He oversees capital allocation and utilization, manages financial and non-financial risks, including reputational consequences, as well as fosters a strong risk culture throughout the Bank. He joined AIIB from The Rock Creek Group where he held the position of a Managing Director covering emerging market equities. Previously, he spent a 24-year career at the World Bank Group, primarily in the International Finance Corporation (IFC) where he held leadership positions in both investment operations and risk management. Mr. Kimmig holds a PhD in economics from the University of Freiburg and a CFA designation. He is a national of Germany.



Asian regional growth

Estimated by International Monetary Fund



*Average regional growth rate

Why Asia? Why infrastructure?

Our sector focus:



Within Asia, there are several examples of highly successful economic transformations. In recent decades, the region has also become an increasingly important engine of growth for the world economy.

While each Asian country has adopted different growth models, common among these fast-growing economies is that they all sustained 30% or more of their GDP in capital investment, often with around 10% of GDP in infrastructure, during the critical years of their economic transformation⁴.

Despite these successes, development is still uneven. The economic transformation achieved so far has meant that unprecedented numbers of people have seen their living standards improve dramatically. Still, the scale and urgency of national and regional infrastructure investment requirements are enormous, and must be addressed to sustain growth and bring about shared benefit.

As previously noted, ADB estimates that the infrastructure investment needs of its 45 developing member countries for the 15 years from 2016 to 2030 will amount to US\$26 trillion or US\$1.7 trillion per year. This covers the four sectors of transport, power, telecommunications, and water supply and sanitation and an adjustment to cover the cost of climate mitigation and adaptation. ADB also estimates that 1.5 billion people lack basic sanitation services, 300 million lack access to potable water and 58% of the population lacks access to the Internet. Moreover, the region's population growth, migration and urbanisation are expected to multiply these needs.

There is also a need to mobilise private capital to meet the financing gap that exists between the costs of developing large, wide-scale infrastructure projects and the traditional sources of project funding. In the foregoing section of this report entitled 'Private capital mobilisation', AIIB's aims and ambitions to harness private capital are set out.

Many emerging economies in Asia are expected to see some improved growth in 2017. Asian regional growth was estimated by the International Monetary Fund to be 5.34% for 2016 and is projected to be 5.53% for 2017. However, overall, regional growth is still slightly below pre-financial crisis levels, and prospects for growth vary greatly across economies. Many commodity exporters, for example, are still hard hit. Weak investment has continued to dampen already low growth prospects, despite the high levels of savings among many Asian economies.

Sustained and higher levels of investment in infrastructure can help to address problems of market fragmentation and limited regional connectivity while providing related services to the region. Across Asia as a whole, a relatively young population offers a long-term demographic dividend compared to slower growing parts of the world. Well-planned and well-executed infrastructure investment can also drive long-term economic growth, with the IMF estimating that an increase of 1% point of GDP invested in infrastructure can boost growth by 1.5%.

Expanding and accelerating infrastructure investment poses a huge challenge for all governments in the region and will require commitment and resources from public, multilateral and private investors. AIIB is committed to bringing its own resources and the private capital it mobilises to bear, tilting the scales in favour of both greater regional and global integration.

Through its infrastructure investment, AIIB will:

- Help remove bottlenecks to development in the region
- Support the expansion of productive capacity among Asian economies
- Enhance regional integration

The Bank will place priority on projects with substantial cross-border benefits. The earlier successes of many Asian economies demonstrate how critically important infrastructure development is and also provides us with the confidence that similar transformation can be brought about in other countries. With its establishment, the Bank is poised to support the region in meeting the intense demand for timely and high-quality infrastructure finance.



Well-planned and well-executed infrastructure investment can also lift long-term economic growth with the IMF estimating an increase of 1% point of GDP invested in infrastructure can boost growth by 1.5%.



⁴ World Bank, OECD, and staff estimates

Project Approval Process

BOD-approved financial policies require credit decisions to be based on sound assessments of the borrower's capacity to service a loan. Environmental and social assessments are carried out to ensure that all projects comply with the Bank's policies.

Initial project sourcing and identification

Strategic programming

Projects meeting the preliminary screening criteria will be discussed and approved by the Executive Committee

Project identification

Project team assesses feasibility of the bankable project

Project preparation

Project due diligence to affirm project viability. Draft agreement is drawn up and reviewed by the Investment Committee

Board approval

Project documents are submitted to the AIIB Board for approval

Lending

Approved infrastructure

9 projects

Approved finance by AIIB in its first year of operation

US\$1.73bn

Working in partnership



Early in its operations, the Bank signed a co-financing framework with the World Bank and MOUs with ADB, EBRD and EIB, respectively, to set the stage for jointly financing projects. In so doing, the Bank demonstrated its commitment to international cooperation, and to working within the existing multilateral development financing system.

In its first year, AIIB approved US\$1.73 billion in financing for nine infrastructure projects in seven countries. Six of the projects are co-financed with MDBs: ADB, World Bank and EBRD. The remaining three projects are standalone. With one exception, all were sovereign-backed loans. All nine projects adhere to high environmental and social standards, high-quality designs and accepted international practices.

To help build a pipeline of projects of potential benefit to all countries in the region, the Bank manages a PPSF to help its eligible members prepare high-quality bankable projects.

The Bank's Investment Committee is made up of internal experts from risk, investment operations, strategy and legal, plus members of the Senior Management Team who review each project in detail before recommending which ones should go to the Board of Directors for approval. This approach provides proper oversight by the President and senior team to ensure all projects support the Bank's mandate and are financially viable, environmentally friendly and embraced by local communities.

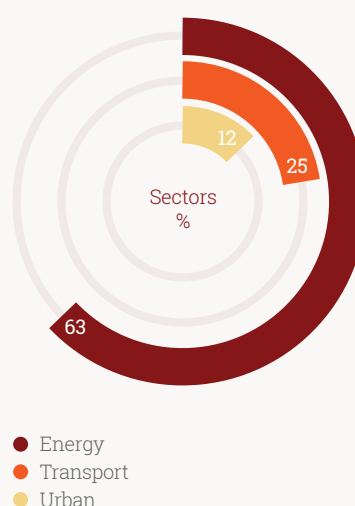


Download further information here
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MDBs working in partnership with AIIB

Approved investments by sectors 2016



Energy
US\$1,085m

Transport
US\$428.5m

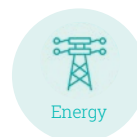
Urban
US\$216.5m

Project financing

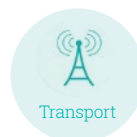
As it works to define its sectoral strategies, the Bank has been responsive to the opportunities that have presented themselves in the early projects it has approved.

These have been in energy, transport and water/urban sectors, which the Bank has chosen as priority sectors at its early stage. All the projects were evaluated, among other criteria, for their environmental and social impacts. For those with any potential adverse effects, mitigation measures were prepared and will be implemented, as needed.

Our sector focus:



Energy



Transport



Urban



Bangladesh Distribution System Upgrade and Expansion

Approved

June 2016

Infrastructure benefits

This project will bring significant infrastructure benefits to many people in Bangladesh who are in dire need of reliable energy supplies. It will improve electricity services for 12.5 million people and provide new connections to 2.5 million rural consumers.

This is critical, as the country's electrical supply is a major constraint on GDP growth and overall development. The work will involve upgrading two grid substations and conversion of 85 kilometres of overhead distribution lines into underground cables in north Dhaka.

The Bangladesh Rural Electrification Board and the Dhaka Electric Supply Company Limited will serve as the Project Executing Agencies. The Bank commissioned environmental and social due diligence by an independent specialist as part of its project preparation for the project. This is in conformity with its Environmental and Social Policy.



Total project cost

US\$262.3 million

AIIB Funding

US\$165 million



Tajikistan

Dushanbe-Uzbekistan Border Road Improvement

Approved

June 2016

Infrastructure benefits

The Dushanbe-Uzbekistan Border Road Improvement project was one of the first to be approved by AIIB. Having fallen into disrepair over the past 30 years, this road is a much-needed transport corridor for local people. This project will enable cross-border trade and mobility between Uzbekistan and Tajikistan and further afield across the region.

Co-financed with EBRD, this route is part of the Tajikistan section of the Central Asian Region Economic Cooperation Corridor 3. The project involves rehabilitating the five-kilometre section of the road connecting Dushanbe to the border with Uzbekistan. The work will be carried out in cooperation with the local executing agency, the Ministry of Transport of Tajikistan.

Total project cost

US\$105.9 million

AIIB Funding

US\$27.5 million

co-financing partner: EBRD



Lending



Indonesia

National Slum Upgrading

Approved

June 2016

Infrastructure benefits

This project is targeted at improving the desperate living conditions of 9.7 million people who live in slums in 154 cities in central and eastern parts of Indonesia.

To be implemented by the Republic of Indonesia's Ministry of Public Works and Housing, it is aimed at three infrastructure sectors: urban transport, water supply and solid waste management. This substantial project is part of a wider Government of Indonesia National Slum Upgrading Programme, which will include other project elements that

will be financed by ADB and Islamic Development Bank.

Monitoring and measuring achievement of the project's infrastructure objectives is a key component. This includes quantifying the number of people who will be provided with:

- Improved water sources
- Improved sanitation
- Access to all-season roads within a 500-metre range
- Regular solid waste collection
- Improved drainage

An assessment will be made of:

- The area of slum alleviated, measured in hectares
- The percentage of slum dwellers who are satisfied with the quality of urban infrastructure and services
- The percentage of complaints resolved
- The establishment of functional task forces for slum alleviation at local level
- The number of direct project beneficiaries

Total project cost

US\$1.7 billion

AIIB Funding

US\$216.5 million

co-financing partner: World Bank

Project financing



Pakistan

National motorway M-4
(Shorkot-Khanewal Section)

Final stage of a four-lane highway
between Multan and Islamabad.

Total project cost

US\$273 million

AIIB Funding

US\$100 million

co-financing partner: ADB

Approved

June 2016

Infrastructure benefits

This project will help facilitate regional trade from Central Asia to the seaports of Gwadar and Karachi. Once the M-4 is fully operational, it will benefit the entire area, which accounts for 56% of the population of Pakistan and 59% of GDP. It is aimed at creating seamless connectivity, which is essential for economic development and poverty reduction.



Pakistan

Tarbela 5 Hydropower
Extension

Installation of a powerhouse at the
fifth tunnel of the Tarbela Dam, and
construction of a transmission line to
connect the power to the national grid.

Total project cost

US\$823.5 million

AIIB Funding

US\$300 million

co-financing partner: World Bank

Approved

September 2016

Infrastructure benefits

The project will provide a low-cost, clean, renewable energy option relatively quickly and help alleviate severe blackouts and expensive, unhealthy, and polluting self-generation with small petrol and diesel generators. The project will add capacity of 2,820 MWh, with annual electricity generation of more than 4,800 GWh, primarily during the summer season when demand is highest.



Myanmar

Myingyan
Power Plant

The development, construction
and operation of a greenfield 225 MW
combined cycle gas turbine power plant
in the Mandalay region of Myanmar.

Total project cost

US\$312 million

AIIB Funding

US\$20 million

co-financing partners: IFC, ADB and
certain commercial lenders

Approved

September 2016

Infrastructure benefits

The plant will be the largest gas-fired independent power producer in Myanmar and will provide much-needed, reliable and clean energy. When completed, the new power plant will help ease the country's severe power shortage.





Oman

Duqm Port Commercial Terminal and Operational Zone Development

Construction of infrastructure to operationalise Duqm Port.

Total project cost

US\$353.33 million

AIIB Funding

US\$265 million

Approved

December 2016

Infrastructure benefits

The project will help Duqm Port capture its full economic potential through improved transport efficiency, strengthened logistics services, increased mineral exports, and reduced supply-chain delivery time and costs for a wide spectrum of industries in the new Duqm Special Economic Zone and its broader international hinterland.



Oman

Railway System Preparation

The preparation of a railway system design and procurement, institutional development for sector readiness, baseline surveys for land arrangements, socioeconomic and environmental conditions, and legal services.

Total project value

US\$60 million

AIIB Funding

US\$36 million

Approved

December 2016

Infrastructure benefits

The project will pave the way for full readiness for the construction of a new railway system that will support the Sultanate of Oman with the diversification of its economy and develop its position as a transport hub and an exporter of minerals.



Azerbaijan

Trans-Anatolian Natural Gas Pipeline

Construction of a pipeline from gas fields in Azerbaijan via Turkey to markets in Southern Europe.

Total project cost

US\$8.6 billion

AIIB Funding

US\$600 million

co-financing partner: World Bank

Approved

December 2016

Infrastructure benefits

The project will connect Azerbaijan with new markets, enhancing energy security for Turkey and also benefiting Europe. The construction of the pipeline will also create many jobs in Azerbaijan and Turkey.





The road ahead

2017 and beyond



In the long term AIIB aims to be the go-to bank for providing infrastructure financing solutions to developing economies in Asia and beyond.



A IIB made a good start in its first year, working diligently to meet the expectations of its shareholders, stakeholders, clients and partners.

In 2017, AIIB will continue to sharpen its strategic focus, strengthen its core competencies and develop its areas of specialisation. The Bank aims to grow as a dynamic institution, promoting broad-based economic and social development through sustainable infrastructure financing, with a goal to become the 'go-to' repository of know-how and best practices in infrastructure finance.

Managing risks remains an important focus of the Bank. In 2017, additional capabilities will be added to complete all relevant risk policies, procedures and processes to fully prepare the Bank for its future demands.

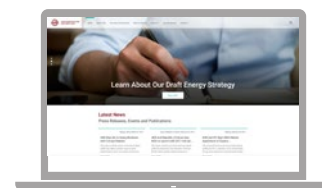
In particular, a stress-testing framework will complement economic capital as the basis for capital management. Also, there will be a focus on building portfolio management processes and systems to assure adequate monitoring and risk management. Another area is operational risk management, where specific key risk indicators will be identified and control processes established. Further, underwriting standards will be prepared to assure consistent underwriting of investments across the credit, product and sector spectrums.

With respect to loan loss provisioning, AIIB has implemented the new accounting standard, IFRS 9. Broadly, this requires the use of forward-looking information to develop expected losses, with the understanding that the methodologies developed to estimate such losses will continue to be refined, as the loan portfolio grows.

2017 and beyond



Going forward, AIIB will raise both public and private funds, mainly by issuing bonds in world financial markets and through interbank market transactions.



The Bank will leverage its website, and explore new channels to post complete information about its institutional, operational, and financial activities.
www.aiib.org

Building the Bank

In its second year of operation, the Bank will continue to refine, deepen and enhance its institutional and policy frameworks and ensure that these are effectively implemented. This will allow the Bank to build technical expertise in operations, meet immediate business needs and pave the way for longer-term business development.

In the coming year, AIIB will also develop effective approaches to catalyse private capital, including recruiting senior staff with strong private-sector investment experience. This will enable the Bank to then:

- Build up partnerships and networks with the private sector
- Drive its own investments
- ‘Crowd in’ private capital, partnerships and networks

The Bank will give high priority to providing the tools and training to its staff in these areas.

As a new MDB, AIIB can embed a mix of financing instruments from the outset. The Bank will employ a mix of traditional long-term loans with other financial instruments, such as equity investments and guarantees to mobilise private sector lending.

Going forward, AIIB will raise both public and private funds mainly by issuing bonds in world financial markets and through interbank market transactions.

In the medium term of three to five years, the Bank intends to actively originate and lead transactions that mobilise private capital and make it a trusted partner for all parties involved in the transactions that the Bank leads. In the long term, AIIB aims to be the go-to bank for providing infrastructure financing solutions to developing economies in Asia and beyond.



Accountability and learning

AIIB plans to take several steps to ensure high-quality infrastructure projects. This includes sharpening its focus on project readiness, from project identification to preparation, and refining its implementation, effectiveness, evaluation and compliance. It will also establish a mechanism under CEIU to deal with complaints from people who believe they are or will be adversely affected by Bank-financed projects. The process for establishing the complaint mechanism will include broad internal and external stakeholder consultations, along with civil society.

The Bank will also make tremendous efforts to ensure the highest standards of governance. Its broad goal for 2017 is to institutionalise further the collaborative and constructive relationship between Management, the Board of Directors and the Board of Governors. It will build on its commitment to ensure policy compliance, effectiveness and integrity. It will do so, for example, through building an open learning and knowledge-based culture, strengthening internal capacity for integrity due diligence and undertaking independent investigation of complaints relating to prohibited practices.

External communications and stakeholder relations

Recognising the importance of effective external communications, especially during these early years of development, the Bank will promote transparency, enhance accountability and protect confidentiality. The Bank will leverage its website and explore new channels to post complete information about its institutional, operational and financial activities.

In 2017, a comprehensive website redesign will be launched to improve accessibility to information about the Bank. This is an important step towards creating a modern platform where the Bank can share information about its activities and news.

The cornerstone of the Bank's approach to disclosure and transparency is the Public Interim Information Policy. In its first year of operations, efforts were made to implement the interim policy and looking forward, the Bank will conduct a full review of the policy. It is the Bank's intention during this review to engage a diverse set of perspectives through public consultations, and to examine how technology can be used to facilitate easy access to information while maintaining a lean ethos. The revised policy will then be subject to the approval of the Board of Directors.

The Bank will use stakeholder research insights to develop communications strategies. These will be aimed at building awareness of the Bank's mission among targeted stakeholders, including shareholders, clients, media, Bank staff, MDBs and people impacted by projects.

It will build on its commitment to ensure policy compliance, effectiveness and integrity. It will do so for example, through building an open learning and knowledge-based culture, strengthening internal capacity for integrity due diligence and undertaking independent investigation of complaints relating to prohibited practices.



Financial Statements





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Independent Auditor's Report



羅兵咸永道

To the Board of Governors of the Asian Infrastructure Investment Bank:

Opinion

What we have audited

The financial statements of the Asian Infrastructure Investment Bank (the 'Bank') set out on pages 28 to 51, which comprise:

- The statement of comprehensive income for the period from 16 January 2016 (date of commencement of operations) to 31 December 2016
- The statement of financial position as at 31 December 2016
- The statement of changes in equity for the period from 16 January 2016 to 31 December 2016
- The statement of cash flows for the period from 16 January 2016 to 31 December 2016 and
- The notes to the financial statements, which include a summary of significant accounting policies

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Bank as at 31 December 2016, and of its financial performance and its cash flows for the period from 16 January 2016 to 31 December 2016 in accordance with International Financial Reporting Standards ('IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISA'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of Management and Board of Directors for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.



羅兵咸永道

As part of an audit in accordance with ISA, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

Statement of Comprehensive Income

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

In thousands of US Dollars	Note	For the period from 16 January 2016 to 31 December 2016
Interest income	5.1	23,455
Interest expense	5.1	—
Net interest income		23,455
Net fee and commission expense	5.2	(70)
Unrealised gain on investment at fair value through profit or loss	5.5	14,873
Impairment provision	5.6	(277)
General and administrative expenses	5.3	(30,658)
Net foreign exchange loss		(26)
Operating profit for the period		7,297
Accretion of paid-in capital receivables	5.7	160,063
Net profit for the period		167,360
Other comprehensive income		—
Total comprehensive income		167,360
Attributable to:		
Equity holders of the Bank		167,360


The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

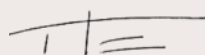
As at 31 December 2016

In thousands of US Dollars	Note	31 December 2016
Assets		
Cash and cash equivalents	5.4	1,281,992
Term deposits	5.4	2,292,141
Investment at fair value through profit or loss	5.5	3,179,873
Funds deposited for co-financing arrangements		23,623
Loan investments at amortised cost	5.6	9,553
Paid-in capital receivables	5.7	11,007,227
Other assets	5.8	958
Total assets		17,795,367
Liabilities		
Other liabilities	5.9	5,538
Total liabilities		5,538
Members' equity		
Paid-in capital	5.10	18,065,400
Reserve for accretion of paid-in capital receivables	5.7	(282,868)
Retained earnings		7,297
Total members' equity		17,789,829
Total liabilities and members' equity		17,795,367

The accompanying notes are an integral part of these financial statements.



Mr. Jin Liqun
President



Mr. Thierry de Longuemar
Vice President and
Chief Financial Officer

Statement of Changes in Equity

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

In thousands of US Dollars	Note	Subscribed capital	Less: callable capital	Paid-in capital	Reserve for accretion of paid-in capital receivables	Retained earnings	Total equity
16 January 2016		–	–	–	–	–	–
Capital subscription and contribution	5.10	90,327,000	(72,261,600)	18,065,400	–	–	18,065,400
Net profit for the period		–	–	–	–	167,360	167,360
Paid-in capital receivables – accretion effect	5.7	–	–	–	(442,931)	–	(442,931)
Transfer of accretion	5.12	–	–	–	160,063	(160,063)	–
31 December 2016		90,327,000	(72,261,600)	18,065,400	(282,868)	7,297	17,789,829

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

In thousands of US Dollars	Note	For the period from 16 January 2016 to 31 December 2016
Cash flows from operating activities		
Net profit for the period		167,360
Adjustments for:		
Interest income from term deposits		(17,141)
Accretion of paid-in capital receivables	5.7	(160,063)
Unrealised gain on investment at fair value through profit or loss	5.5	(14,873)
Impairment provision	5.6	277
Increase in loan disbursements	5.6	(9,830)
Funds deposited for co-financing arrangements		(23,623)
Increase in other assets	5.8	(958)
Increase in other liabilities	5.9	5,538
Net cash used in operating activities		(53,313)
Cash flows from investing activities		
Investment purchases	5.5	(3,165,000)
Increase in term deposits		(2,275,000)
Net cash used in investing activities		(5,440,000)
Cash flows from financing activities		
Capital contributions received	5.10	6,775,305
Net cash from financing activities		6,775,305
Net increase in cash and cash equivalents		1,281,992
Cash and cash equivalents at 16 January 2016		–
Cash and cash equivalents at 31 December 2016	5.4	1,281,992

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

(All amounts in thousands of US Dollars unless otherwise stated)

1. GENERAL INFORMATION

Asian Infrastructure Investment Bank (the 'Bank' or the 'AIIB') is a multilateral development bank. In June 2015, representatives from 57 countries signed the Articles of Agreement (the 'AOA'). The AOA entered into force on 25 December 2015. The Bank commenced operations on 16 January 2016. The principal office of the Bank is located in Beijing, the People's Republic of China (the 'PRC').

The Bank seeks to invest in high quality projects that offer infrastructure solutions to improve the social and economic development of its member countries. It works in cooperation with sovereign governments, private financiers and other multilateral development banks to address the growing need for transportation networks, urban development, clean water supplies and low-carbon power within the region.

The legal status, privileges and immunities for the operation and functioning of the Bank in the PRC are agreed in the AOA and further defined in the Headquarters Agreement between the government of the People's Republic of China (the 'Government') and the Bank of 16 January 2016.

These financial statements were signed by the President and the Vice President and Chief Financial Officer on 21 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements for the Bank have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). According to By-Laws of the AIIB, the financial year of the Bank begins on January 1 and ends on December 31 of each year. For the year in which the Bank commences operations, the financial year begins on the date the Bank commences operations and ends on December 31 of that year. The financial statements for the period from date of commencing operations on 16 January 2016 to 31 December 2016 are the first annual financial statements of the Bank.

The Bank has adopted all of the IFRS standards and interpretations effective for annual periods beginning on 1 January 2016. In addition, the Bank has adopted IFRS 9 *Financial Instruments* (full version issued in July 2014 and mandatorily effective on 1 January 2018), IFRS 15 *Revenue from Contracts with Customers* (mandatorily effective on 1 January 2018), and IFRS 16 *Leases* (mandatorily effective on 1 January 2019) prior to their respective mandatory effective dates.

The financial statements have been prepared under the historical cost convention, except for those financial assets measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in its process of applying the Bank's policies. The areas involving a higher degree of judgement or complexity, or areas where judgements or estimates are significant to the financial statements are disclosed in [Note 3](#). The financial statements have been prepared on a going concern basis.

2.2 New accounting pronouncements

Certain amendments to IFRS have been issued but are not mandatory for periods ending on 31 December 2016. The Bank does not expect the adoption of these amendments to have a material impact on the Bank and therefore has not early adopted those amendments. These amendments mainly include:

- (i) IFRIC 22 Foreign currency transactions and advance consideration; and
- (ii) IAS 7 Amendments disclosure initiative

2.3 Functional currency and foreign currency transactions

The functional currency of the Bank and the presentation currency of the Bank are both United States Dollar ('USD' or 'US Dollar').

Foreign currency transactions are initially translated into USD using exchange rates prevailing at the dates of the related transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss during the period in which they arise.

2.4 Financial instruments

2.4.1 Financial assets

The Bank's financial assets are classified into three categories:

- (a) Amortised cost,
- (b) Fair value through other comprehensive income (FVOCI), or
- (c) Fair value through profit or loss (FVPL).

The basis of classification depends on the relevant business model and the contractual cash flow characteristics of the underlying financial asset.

(a) Classification of financial assets at amortised cost

The Bank classifies its financial assets at amortised cost only if both of the following criteria are met:

- (i) The financial asset is held within a business model having the objective of collecting the contractual cash flows; and
- (ii) The contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding.

The Bank applies the effective interest method to the amortised cost of a financial asset.

(b) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

- (i) Financial assets having contractual cash flows that reflect solely payments of principal and interest on outstanding principal, and for which the objective of the related business model is achieved both by collecting contractual cash flows and selling financial assets, and
- (ii) Investments in equity instruments that are neither held for trading nor contingent consideration, and for which the Bank has made an irrevocable election at initial recognition to recognise changes in fair value through OCI rather than profit or loss.

For (i) above, interest is calculated using the effective interest method and recognised in profit or loss. Except for gains or losses from impairment and foreign exchange, the financial asset is measured at FVOCI. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss.

For (ii) above, investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in OCI, in which case the accumulated fair value changes in OCI will not be reclassified to profit or loss in the future. Dividends on such investments are recognised in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

(c) Classification of financial assets at FVPL

The Bank classifies the following financial assets at FVPL:

- (i) Financial assets that do not qualify for measurement at either amortised cost or FVOCI,
- (ii) Financial assets that are designated at initial recognition at FVPL irrevocably, when such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- (iii) Investments in equity instruments that are held for trading, and
- (iv) Investments in equity instruments for which the entity has not elected to recognise fair value gains and losses through OCI.

2.4.2 Financial liabilities

The Bank's financial liabilities are classified as either financial liabilities through FVPL or other financial liabilities, carried at amortised cost.

(a) Classification of financial liabilities at FVPL

Financial liabilities at FVPL have two subcategories, financial liabilities held for trading and those designated as FVPL on initial recognition. There were no financial liabilities classified as FVPL during the reporting period or as at 31 December 2016.

(b) Other financial liabilities

Other financial liabilities are measured at amortised cost, using the effective interest method. The related interest expenses are recognised in profit or loss.

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2.4.3 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Bank after deducting all of its liabilities.

A puttable financial instrument includes a contractual obligation for the issuer to repurchase or redeem that instrument for cash or another financial asset on exercise of the put. The puttable instrument that includes such an obligation is classified as an equity instrument when meeting all the generally required features being most subordinate class of shares with identical features and all have the same rights on liquidation.

2.4.4 Impairment of financial instruments

Financial assets of the Bank that are measured at amortised cost (Note 2.4.1(a)), FVOCI (Note 2.4.1(b)(i)) and certain unrecognised financial instruments such as loan commitments are subject to credit loss estimated through an expected credit loss ('ECL') model, assessed on a forward-looking basis.

At each reporting date, the Bank assesses whether the credit risk of a financial instrument has increased significantly since initial recognition. When making this assessment, the Bank considers the change in the risk of a default occurring over the expected life of the financial instrument. To make this assessment, the Bank compares the risk of a default occurring as at the reporting date, with the risk of a default occurring as at the date of initial recognition, based on reasonable and supportable information that is available without undue cost or effort and is indicative of significant increases in credit risk since initial recognition.

At each reporting date, the Bank measures the loss allowance for a financial instrument at either:

- (i) An amount equal to the lifetime ECL if the credit risk related to that financial instrument has increased significantly since initial recognition; or
- (ii) An amount equal to a 12-month ECL if the credit risk related to that financial instrument has not increased significantly since initial recognition.

The Bank measures ECL related to a financial instrument in a way that reflects:

- (i) An unbiased and probability-weighted amount determined by evaluating a range of possible outcomes;
- (ii) The time value of money; and
- (iii) Reasonable and supportable information that is available without undue cost or effort at the reporting date regarding relevant past events, current circumstances, and forecasts of future economic conditions.

The Bank identified financial assets as having credit impairment when one or more events that could have a detrimental impact on the estimated future cash flows of that financial asset have occurred.

The Bank recognises the loss allowance of loan commitments as a provision. However, if a financial instrument includes both a loan (i.e. financial asset) and an undrawn commitment (i.e. loan commitment) component and the Bank cannot separately identify the ECL on the loan commitment component from those on the financial asset component, the ECL on the loan commitment is recognised together with the loss allowance for the financial asset. To the extent that the combined ECL exceed the gross carrying amount of the financial asset, the ECL is recognised as a provision.

2.4.5 Determination of fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions (i.e. an exit price) regardless of whether that price is directly observable or estimated using another valuation technique.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, pricing service, or regulatory agency; and those prices represent actual and regularly occurring market transactions on an arm's-length basis. If the above criteria are not met, the market is regarded as being inactive.

For financial instruments not traded in active markets, fair value is determined using appropriate valuation techniques. Valuation techniques include the use of recent transaction prices, discounted cash flow analysis, option pricing models and others commonly used by market participants. These valuation techniques include the use of observable and/or unobservable inputs.

2.4.6 Recognition and derecognition

The Bank recognises a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Before evaluating whether, and to what extent, derecognition is appropriate, the Bank determines whether the derecognition analysis should be applied to a part of a financial asset or a financial asset in its entirety. The Bank derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and has not retained control of the transferred asset, the Bank derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

Upon derecognition of a financial asset in its entirety, the difference between the carrying amount of the asset and the sum of the consideration received and receivable and, where applicable, the cumulative gain or loss that had been recognised in other comprehensive income is reclassified to profit or loss, except for those investments in equity instruments designated as FVOCI.

Financial liabilities are derecognised when the related obligation is discharged, is cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in the profit or loss.

2.5 Property improvements

Property improvements are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis to write down the cost of each asset to its residual value over its estimated useful economic life. Property improvements are depreciated over a useful economic life of three years.

2.6 Cash and cash equivalents

Cash and cash equivalents are items that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Deposits with a maturity of three months or less are classified as cash and cash equivalents.

2.7 Revenue

2.7.1 Interest income

Interest income is calculated using the effective interest method. In this regard, the effective interest rate is applied to the gross carrying amount of a financial asset except for:

- (i) financial assets purchased or originated with credit impairment, for which the credit adjusted effective interest rate is applied to the amortised cost of the financial asset from initial recognition; and
- (ii) financial assets with credit impairment that has been recognised subsequent to initial recognition, for which the original effective interest rate is applied to the net carrying value in subsequent reporting periods.

With respect to (ii) above, in subsequent reporting periods, interest income is calculated by applying the effective interest rate to the gross carrying amount if the credit risk of the financial asset improves so that it is no longer credit impaired and the improvement can be related objectively to an event.

2.7.2 Front-end and commitment fees

Front-end fees received by the Bank relating to the origination or acquisition of a financial asset are an integral part of generating an involvement with the resulting financial instrument and, accordingly, are an integral part of the effective interest rate of that financial instrument.

Commitment fees received by the Bank to originate a loan when the loan commitment is not measured at FVPL are treated as follows:

- (i) if it is probable that the Bank will enter into a specific lending arrangement and is an integral part of the effective interest rate of a financial instrument, and the commitment expires without the Bank making the loan, the fee is recognised as revenue at expiration of the commitment.
- (ii) if it is likely that a specific lending arrangement will not be entered into, and is not an integral part of the effective interest rate of the financial instrument, the fee is accounted for as revenue over the commitment period.

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2.7.3 Administration fees

Administration fees are recognised as revenue throughout the period that the services are rendered.

2.8 Employee benefits

Employee benefits represent consideration given, and are expenditures incurred by the Bank, in exchange for services rendered by employees or for termination of employment contracts. These benefits include short-term employee benefits and contributions to defined contribution plans.

Short-term employee benefits

During the reporting period in which an employee has rendered services, the Bank recognises the short-term employee benefits payable for those services as a liability with a corresponding increase in the related expense. Short-term employee benefits include salaries, pre-retirement medical insurance, life insurance, accidental death and disability provision, death grant, sick leave, travel accident coverage, long-term disability, multipurpose loans to staff, as well as a special allowance for staff recruited globally.

Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay any employees the benefits relating to employee service earned in any current and prior period. When an employee has rendered service to the Bank during a period, it recognises a contribution payable to a defined contribution plan in exchange for that service, along with the related expense. Defined contribution plans include defined contribution pension plans and post-retirement medical benefit plans.

2.9 Leases

A lease contract is one that conveys the right to control the use of an asset for a specified period of time. The lease liability is measured as the present value of the payments that are not paid at the date of recognition discounted at the leases' implicit interest rate. The right of use asset is measured at cost, consisting of the lease liability plus any payments made before the commencement of lease and less any lease incentives.

2.10 Dividend

Dividend distributions to the Bank's shareholders are recognised as a liability in the period in which the dividends are approved by the Board of Governors.

2.11 Current and non-current presentation

The Bank presents its assets and liabilities in the order of liquidity as this provides more relevant information.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The Bank makes estimates and assumptions that affect the amounts recognised in the financial statements, and the carrying amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

3.1 Impairment losses on financial instruments

The measurement of the ECL allowance for financial assets measured at amortised cost requires extensive financial modelling and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgements are also required in measuring ECL, which include:

- Determining criteria for significant increase in credit risk and definition of default
- Choosing appropriate models and assumptions for the measurement of ECL
- Establishing the number and probability of forward-looking scenarios for each type of product and
- Assigning exposures through an internal credit grading process

Details of the inputs, assumptions and estimation techniques used in measuring ECL are further disclosed in [Note 5.13\(c\)](#), which also presents sensitivities of the ECL.

3.2 Measurement of fair value

Paid-in capital receivables are initially measured at fair value. The Bank is required to use valuation techniques to determine the fair value as at the reporting date. The Bank made judgements about the expected timing of future cash flows and the appropriate discount rate to apply. If the interest rate were changed +/-1 basic point ('bps'), the fair value of the capital receivables would have decreased/increased by approximately USD 3 million.

3.3 Structured entity consolidation

The Bank manages the AIIB's Project Preparation Special Fund (the 'Special Fund'), and has made a judgement on whether or not, for accounting purposes, it is the principal or an agent, to assess whether the Bank controls the Special Fund and should consolidate it. The Bank identified the Special Fund's assets as a 'silo' when conducting its consolidation assessment. When performing this assessment, the Bank considered several factors including, among other things, the scope of its decision-making authority over the structured entity, the rights held by other parties, the remuneration to which it is entitled in accordance with the related agreements for the asset management services, the Bank's exposure to variability of returns from other interests that it holds in the structured entity. The Bank is not exposed to any significant variability in its returns and as such was deemed to not control the Special Fund. The Bank performs re-assessment periodically.

Detailed information about the unconsolidated structured entity is set out in [Note 5.15](#).

4. TAXATION

In accordance with [Article 51](#) of the AOA, within the scope of its official activities, the Bank, its assets, property, income, and its operations and transactions, shall be exempt from all taxation and from all custom duties in its member countries. [Article 51](#) also exempts the Bank from any obligation for the payment, withholding, or collection of any tax or duty.

5. NOTES TO THE FINANCIAL STATEMENTS

5.1 Interest income and expense

For the period from 16 January 2016 to 31 December 2016, interest income and expense are as follows:

Interest income	
Loan investments ⁽¹⁾	6
Cash and deposits	23,449
Total interest income	23,455
Interest expense	
Total interest expense	–
Net interest income	23,455

(1) Interest income for loan investments includes amortisation of front-end fees, commitment fees and other incremental and directly related costs in relation to loan origination that are an integral part of the effective interest rate of those loans.

5.2 Net fee and commission expense

For the period from 16 January 2016 to 31 December 2016, net fee and commission expense is comprised of:

Administration fee (Note 5.15)	100
Total fee and commission income	100
Co-financing service fee accrued for the period	(170)
Total fee and commission expense	(170)
Net fee and commission expense	(70)

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5.3 General and administrative expenses

For the period from 16 January 2016 to 31 December 2016, general and administrative expenses are as follows:

Staff costs ⁽¹⁾	12,226
Professional service expenses	6,729
Facilities and administration expenses	4,553
IT equipment and services	3,170
Travelling expenses	2,102
Auditor's remuneration	455
Others	1,423
Total general and administrative expenses	30,658

(1) Staff costs

Staff costs for the period from 16 January 2016 to 31 December 2016 include the following:

Short-term employee benefits	10,826
Defined contribution pension plans	1,391
Others	9
Total	12,226

Refer to [Note 5.16](#) for details of key management remuneration.

5.4 Cash and deposits with banks

	31 December 2016
Cash	—
Deposits with banks	
Demand deposits	4,488
Term deposits	3,569,645
Total cash and deposits with banks	3,574,133
Less: term deposits with maturity more than three months ⁽¹⁾	(2,292,141)
Total cash and cash equivalents	1,281,992

(1) Term deposits with maturity more than three months have maturities ranging from three months to 24 months.

5.5 Investment at fair value through profit or loss

The Bank places funds with an external counterparty in a trust fund account (the "Trust Fund"), which, in accordance with the related Administrative Agreement between the Bank and the counterparty, reinvests the funds in a larger collective pool of investments (the "Pool") in accordance with the investment mandate for the entire Pool. Notional allocations within the Pool are made, subject to the Investment Framework agreement between the Bank and the counterparty, to create a model portfolio exposure, as the basis for determining the fair value of the Trust Fund. The Bank classifies this investment as a single unit of account measured at fair value through profit and loss. Fees charged for the administration of the Trust Fund are comprised of a flat fee based upon average assets under management and full-cost recovery of the counterparty's staff costs, related benefits and allocated overhead related to administering the Pool.

The counterparty does not guarantee any investment return or the principal amount deposited. The Trust Fund reports its notional allocation in the Pool as one class of financial assets.

The initial investment as at 31 December 2016 was USD 3,165 million. The fair value gain on this investment during the period from 16 January 2016 to 31 December 2016 was USD 14.87 million.

5.6 Loan investments, loan commitments and related ECL allowance

31 December 2016	Gross carrying amount	Less: ECL allowance	Net carrying amount
Sovereign loans	9,830	(277)	9,553

The ECL allowance is calculated on the basis of committed and disbursed loan amounts as at 31 December 2016. Total loan commitments as at 31 December 2016 were USD 334 million. Additional information about the loan investments, loan commitments and the related ECL is included in [Note 5.13](#) on financial risk management.

5.7 Paid-in capital receivables

According to the AOA, payments for paid-in capital (refer to [Note 5.10](#)) are due in five instalments, with the exception of members designated as less developed countries, who may pay in ten instalments. Paid-in capital receivables represent amounts due from members in respect of paid-in capital. These amounts are initially recognised at fair value and subsequently measured at amortised costs. The fair value discount is accreted through income using the effective interest rate method. In the period from 16 January 2016 to 31 December 2016, a total discount of USD 443 million was debited into reserve, among which USD 160 million has been accreted through income in the current period. As at 31 December 2016, paid-in capital receivables, at amortised cost, are listed as follows:

Members	Paid-in capital receivables at amortised cost as at 31 December 2016
Australia	430,896
Austria	58,488
Azerbaijan	39,999
Bangladesh	98,609
Brunei Darussalam	6,129
Cambodia	9,359
China	3,479,854
Denmark	44,043
Egypt	102,081
Finland	48,753
France	395,954
Georgia	6,310
Germany	523,473
Iceland	2,052
India	979,699
Indonesia	394,036
Israel	58,368
Italy	301,572
Jordan	13,892
Kazakhstan	114,798
Korea	436,442
Kyrgyz Republic	4,153
Lao PDR	6,424
Luxembourg	8,106
Maldives	1,031
Malta	1,580
Mongolia	4,791
Myanmar	38,995
Nepal	12,063
Netherlands	120,420

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	Paid-in capital receivables at amortised cost as at 31 December 2016
Members	
New Zealand	53,876
Norway	86,287
Oman	30,320
Pakistan	162,072
Philippines	192,537
Poland	97,622
Qatar	71,024
Russia	763,574
Saudi Arabia	299,384
Singapore	29,186
Sri Lanka	42,232
Sweden	98,908
Switzerland	110,959
Tajikistan	5,251
Thailand	167,149
Turkey	306,373
United Arab Emirates	139,159
United Kingdom	478,770
Uzbekistan	25,714
Vietnam	104,460
Total paid-in capital receivables	11,007,227

As at 31 December 2016, the contractual undiscounted paid-in capital receivables overdue amounted to USD 433.80 million (Note 5.10), because of an administrative delay but not considered as impaired. Of this amount, USD 433.18 million was collected by the date of the approval of the financial statements (Note 5.17).

As at 31 December 2016, USD 3,856 million of the above balance is due within 12 months from the reporting date.

5.8 Other assets

	31 December 2016
Prepaid co-financing service fee	175
Property improvements	168
Others	615
Total other assets	958

5.9 Other liabilities

	31 December 2016
Staff costs payable	436
Accrued expenses	5,102
Total other liabilities	5,538

5.10 Share capital

	31 December 2016
Authorised capital	100,000,000
– Allocated	
Subscribed	90,327,000
Unsubscribed	7,824,400
– Unallocated	1,848,600
Total authorised capital	100,000,000
Subscribed capital	90,327,000
Less: callable capital	(72,261,600)
Paid-in capital	18,065,400
Paid-in capital comprises:	
– amounts received	6,775,305
– amounts due but not yet received	433,795
– amounts not yet due	10,856,300
Total paid-in capital	18,065,400

In accordance with [Articles 4 and 5](#) of the AOA, the initial authorised capital stock of the Bank is USD 100 billion, divided into 1,000,000 shares, which shall be available for subscription only by members.

The original authorised capital stock is divided into paid-in shares and callable shares, with paid-in shares having an aggregate par value of USD 20 billion and callable shares having an aggregate par value of USD 80 billion.

Payment of the amount subscribed to the callable capital stock of the Bank shall be subject to call only as and when required by the Bank to meet its liabilities. Calls on unpaid subscriptions shall be uniform in percentage on all callable shares.

In accordance with [Article 37](#) of the AOA, any member may withdraw from the Bank at any time by delivering a notice in writing to the Bank at its principal office. A withdrawing member remains liable for all direct and contingent obligations to the Bank to which it was subject at the date of delivery of the withdrawal notice. At the time a country ceases to be a member, the Bank shall arrange for the repurchase of such country's shares by the Bank as a part of the settlement of accounts with such country. For this purpose, the repurchase price of the shares shall be the value shown on the books of the Bank on the date the country ceases to be a member.

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Members	Total shares	Subscribed capital	Callable capital	Paid-in capital	Paid-in capital received	Paid-in capital not yet received
Australia	36,912	3,691,200	2,953,000	738,200	295,280	442,920
Austria	5,008	500,800	400,600	100,200	40,080	60,120
Azerbaijan	2,541	254,100	203,300	50,800	10,164	40,636
Bangladesh	6,605	660,500	528,400	132,100	26,420	105,680
Brunei Darussalam	524	52,400	41,900	10,500	4,200	6,300
Cambodia	623	62,300	49,800	12,500	2,500	10,000
China	297,804	29,780,400	23,824,300	5,956,100	2,382,440	3,573,660
Denmark	3,695	369,500	295,600	73,900	28,890	45,010
Egypt	6,505	650,500	520,400	130,100	26,020	104,080
Finland	3,103	310,300	248,200	62,100	12,420	49,680
France	33,756	3,375,600	2,700,500	675,100	270,040	405,060
Georgia	539	53,900	43,100	10,800	4,320	6,480
Germany	44,842	4,484,200	3,587,400	896,800	358,720	538,080
Iceland	176	17,600	14,100	3,500	1,400	2,100
India	83,673	8,367,300	6,693,800	1,673,500	669,400	1,004,100
Indonesia	33,607	3,360,700	2,688,600	672,100	268,840	403,260
Israel	7,499	749,900	599,900	150,000	90,000	60,000
Italy	25,718	2,571,800	2,057,400	514,400	205,760	308,640
Jordan	1,192	119,200	95,400	23,800	9,520	14,280
Kazakhstan	7,293	729,300	583,400	145,900	29,180	116,720
Korea	37,387	3,738,700	2,991,000	747,700	299,080	448,620
Kyrgyz Republic	268	26,800	21,400	5,400	991	4,409
Lao PDR	430	43,000	34,400	8,600	1,720	6,880
Luxembourg	697	69,700	55,800	13,900	5,560	8,340
Maldives	72	7,200	5,800	1,400	280	1,120
Malta	136	13,600	10,900	2,700	1,080	1,620
Mongolia	411	41,100	32,900	8,200	3,280	4,920
Myanmar	2,645	264,500	211,600	52,900	10,580	42,320
Nepal	809	80,900	64,700	16,200	3,240	12,960
Netherlands	10,313	1,031,300	825,000	206,300	82,520	123,780
New Zealand	4,615	461,500	369,200	92,300	36,920	55,380
Norway	5,506	550,600	440,500	110,100	22,020	88,080
Oman	2,592	259,200	207,400	51,800	20,720	31,080
Pakistan	10,341	1,034,100	827,300	206,800	41,360	165,440
Philippines	9,791	979,100	783,300	195,800	–	195,800
Poland	8,318	831,800	665,400	166,400	66,560	99,840
Qatar	6,044	604,400	483,500	120,900	48,360	72,540
Russia	65,362	6,536,200	5,229,000	1,307,200	522,880	784,320
Saudi Arabia	25,446	2,544,600	2,035,700	508,900	203,560	305,340
Singapore	2,500	250,000	200,000	50,000	20,000	30,000
Sri Lanka	2,690	269,000	215,200	53,800	10,760	43,040
Sweden	6,300	630,000	504,000	126,000	25,200	100,800
Switzerland	7,064	706,400	565,100	141,300	28,260	113,040
Tajikistan	309	30,900	24,700	6,200	620	5,580
Thailand	14,275	1,427,500	1,142,000	285,500	114,200	171,300
Turkey	26,099	2,609,900	2,087,900	522,000	208,800	313,200
United Arab Emirates	11,857	1,185,700	948,600	237,100	94,840	142,260
United Kingdom	30,547	3,054,700	2,443,800	610,900	122,180	488,720
Uzbekistan	2,198	219,800	175,800	44,000	17,600	26,400
Vietnam	6,633	663,300	530,600	132,700	26,540	106,160
Total	903,270	90,327,000	72,261,600	18,065,400	6,775,305	11,290,095

5.11 Reserves

Based on [Article 18.1](#) of the AOA, the Board of Governors shall determine at least annually what part of the net income of the Bank shall be allocated, after making provision for reserves, to retained earnings or other purposes and what part, if any, shall be distributed to the members.

5.12 Distribution

Distributable retained earnings as at 31 December 2016 were USD 7.3 million. As at 31 December 2016, USD 160 million of retained earnings has been transferred to reserve for accretion of the paid-in capital receivables.

No dividends were declared during the reporting period.

5.13 Financial risk management

(a) Overview

The Bank adopts a proactive and comprehensive approach to risk management that is instrumental to the Bank's financial viability and success in achieving its mandate. The ability to identify, mitigate and manage risk begins with the Bank's policies established with a strong risk culture. In addition to establishing appropriate risk parameters, a thorough robust project review and monitoring process, the risk management function provides independent oversight of credit, market, liquidity, operational and associated reputational risk in the Bank's activities. It is also designed to integrate asset and liability management.

(b) Financial Risk Management Framework

The Bank has established its risk appetite, risk management objectives and strategies in its Risk Limits Policy, and its Risk Management Framework (the 'RMF'). Within this RMF, the Risk Management Department is responsible for monitoring financial risks with the oversight of the Risk Committee.

The Risk Committee is responsible for establishing the overall risk appetite of the Bank and reviewing and approving the risk management objectives and strategies. The Risk Committee monitors the integrated risk processes, on a cross-sector and cross-category basis for the Bank. The Board approves key risk policies as recommended by the President and the Executive Committee.

The Risk Management Department has overall responsibility for managing all aspects of risks, including implementing risk management strategies, initiatives and credit policies, and approving internal policies, measures and procedures related to risk management.

(i) Investment operations portfolio

At the project level, the Bank employs experienced employees with project finance skills and credit risk training in order to identify, invest in, and monitor commercially sound projects with positive economic impacts.

An investment committee of senior managers review the credit quality and merits of proposed individual projects in line with the Bank's policies and procedures. In order to make its recommendations, such committee is provided by the relevant departments with assessments specific to their area, including risk, legal, finance, strategy, environmental and social aspects, and procurement.

Accountabilities at different stages of the credit risk/project approval process are delineated and regularly updated by the Bank's management.

(ii) Treasury portfolio

The treasury portfolio includes deposits with banks and the investments in the Trust Fund.

According to the Bank's General Investment Authority, the Bank can make investments in the assets specified in a list of eligible assets, including deposits and certain money market funds that invest in high credit quality securities.

With respect to the Trust Fund described in [Note 5.5](#), the Trust Fund's assets consist of its notionally allocated share of cash and investments in the Pool. The Pool is actively managed and invested in accordance with the investment strategy established for all such kind of Trust Funds administered by the counterparty. The objectives of the investment strategy is foremost to maintaining adequate liquidity to meet foreseeable cash flow needs and preserve capital and then, to maximise investment returns. The Pool is exposed to credit, market and liquidity risks.

Notes to the Financial Statements

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

(All amounts in thousands of US Dollars unless otherwise stated)

(c) Credit risk

Credit risk management

The Bank takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Bank's lending and other transactions with counterparties giving rise to financial assets and loan commitments.

The Bank is primarily exposed to credit risk in both its loan granting of bank activities and deposit placing of the treasury activities. The counterparties could default on their contractual obligations or the value of the Bank's investments could become impaired. The Bank's maximum exposure to credit risk from financial instruments before taking into account any collateral held or other credit enhancements is their carrying amount presented on the statement of financial position. The maximum exposure to credit risk from the undrawn loan commitments is USD 334 million. As at 31 December 2016, no collateral or other credit enhancements are held for the financial assets and loan commitments.

(i) Credit risk in the investment operations portfolio

Sovereign-backed infrastructure loans

Sovereign-backed infrastructure loans are the obligation of a member country as borrower or guarantor. The Bank's credit decisions are based on assessments of the borrower's or guarantor's capacity to service the loan. These assessments are undertaken in accordance with the relevant operational policies. Specifically, the Bank performs its own sovereign credit analysis and assigns its own internal sovereign credit rating. When making these assessments, the Bank gives particular consideration to the International Monetary Fund/World Bank debt sustainability analyses and will utilise, where appropriate, country and macroeconomic reporting by multilateral development banks ('MDBs'), commercial banks, and 'think tanks'. The appraisal of sovereign-backed loans takes into account, as appropriate, a full assessment of the project's benefits and risks. The Bank's internal rating has 12 notches, with rating 1-4 for investment grade.

As an international financial institution, the Bank does not participate in country debt rescheduling or debt reduction exercises of sovereign-backed loans or guarantees.

When a borrower fails to make payment on any principal, interest or other charge due to the Bank, the Bank may suspend disbursements immediately on all loans to that borrower. The conditions for suspension of sovereign loans are presented in more detail in the Bank's operational policies. Under its operational policies, the Bank would cease making new sovereign-backed loans to the borrower once any loans are overdue by more than 30 days and suspend all disbursements to or guaranteed by the member concerned once any loans are overdue by more than 60 days.

Non-sovereign-backed infrastructure loans

The Bank provides private enterprises and state-owned or state-controlled enterprises with loans that do not have a full member guarantee. However, the Bank retains the right, when it deems it advisable, to require a full or partial sovereign guarantee.

The Bank assigns an internal credit rating taking into account specific project, sector, macro and country credit risks.

As at 31 December 2016, all the loans and loan commitments originated by the Bank are sovereign-backed infrastructure loans.

(ii) Credit risk in the treasury portfolio

Treasury activities and risk appetite are monitored by the Risk Committee and Board of Directors. The Bank has a limits policy which determines the maximum exposure to eligible counterparties and instruments. Eligible counterparties must have a single A credit rating or higher. All individual counterparty and investment credit lines are monitored and reviewed by Risk Management periodically.

As at 31 December 2016, the treasury portfolio includes term deposits with banks and investment in Trust Fund described in [Note 5.5](#). As the Trust Fund is not subject to significant credit risk, the credit risk of the treasury portfolio is mainly from the term deposits. Given the high credit quality and its immaterial ECL, no loss provisions are assigned for the investments in the treasury portfolio for the period ended 31 December 2016.

Credit quality analysis

Except for loan investments, other financial assets at amortised cost are paid-in capital receivables and deposits with banks, for which credit risk is not significant.

The following table sets out information about the credit quality of loan investments and loan commitments issued as at 31 December 2016.

Loan investments at amortised cost and undrawn portion of the same loan contracts

	31 December 2016
Gross carrying amount of loan investments	9,830
Credit exposure for loan commitments of the undrawn portion	334,305
12 month ECL	(277)
Carrying amount	343,858

Included above, the credit exposure from both loan investments and loan commitments of USD 216 million are rated as investment grade according to the Bank's internal rating methodology.

As at 31 December 2016, all the loan investments and loan commitments are issued to borrowers in Asia.

Loss allowance reconciliation

	Gross carrying amount	12 month ECL
As at the 16 January 2016	—	—
Loan investments originated	9,830	(32)
Loan commitments originated	334,305	(245)
As at 31 December 2016	344,135	(277)

ECL measurement

The Bank adopts an ECL 'three-stage' model for applicable financial instruments. A 'three-stage' model for impairment is based on changes in credit quality since initial recognition:

- A financial instrument that is not credit-impaired on origination is classified in 'Stage 1', and has its credit risk continuously monitored by the Bank
- If a significant increase in credit risk ('SICR') since initial recognition is defined, the financial instrument is moved to 'Stage 2', but is not yet deemed to be credit-impaired
- If the financial instrument is deemed to be credit-impaired, the financial instrument is then moved to 'Stage 3'

The Bank's main credit risk exposure is from loan investments and loan commitments, and the credit risk of other financial assets is not significant.

The following reflects the Bank's ECL measurement focus on loan investments and loan commitments. Given the nature of AIIB's business (large infrastructure loans), all the instruments are assessed on an individual basis.

The key judgements and assumptions adopted by the Bank are discussed below:

(i) Significant increase in credit risk

The Bank considers a financial instrument to have experienced SICR when one or more of the following quantitative, qualitative or backstop criteria have been met:

Quantitative criteria:

Deterioration in credit rating is used as the quantitative criteria of SICR:

- For investment grade loans, rating downgrade by 2 notches compared with rating at origination
- For non-investment grade loans, rating downgrade by 1 notch compared with rating at origination

All loan investments and loan commitments included in the Bank's banking book initially are rated at origination using internal rating methodology. The methodology used to rate the level of credit risk of these individual loans depends on the type of loan. For sovereign loans, a sovereign loan creditworthiness assessment methodology is used, with the Rating provided by Economist Investigation Unit (the 'EIU') and Standard & Poor's (the 'S&P') with adjustments based on historical data from peer banks. For non-sovereign loans, the loan may be rated using the Project Finance Rating tool provided by S&P for project finance type loans. These initial ratings are used to estimate the Stage 1 – 12-month ECL at each reporting date to determine the SICR since origination.

Notes to the Financial Statements

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

(All amounts in thousands of US Dollars unless otherwise stated)

Qualitative criteria:

In addition to the quantitative criteria, the following qualitative elements will also contribute to a determination that the loan should migrate to Stage 2:

- Adverse changes in business, financial or economic conditions
- Expected breach of contract that may lead to covenant waivers or amendments
- Transfer to watchlist/monitoring
- Change in payment behaviour

Backstop:

- 30 days past due.

(ii) Definition of credit-impaired assets

Credit-impaired assets, which migrate to Stage 3, are those with respect to which one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower
- A breach of contract, such as a default or past due event
- The lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses

It may not be possible to identify a single discrete event – instead, the combined effect of several events may have caused financial assets to become credit-impaired.

(iii) Measurement of the 12-month and lifetime ECL

Estimation of 12-month ECL:

- Point-in-time Probability of Default (PIT PD) is converted from Through-The-Cycle (TTC) PD using the Vasicek Merton formula, based on calculation of cycle factor/state of economy for three scenarios (Base, Good, Bad) and mapped to AIIB ratings
- Loss Given Default (LGD) at present is 30% for sovereign and 70% for non-sovereign, based on management's estimates established on the analysis of market data statistics and related judgement
- Exposure at Default (EAD) is calculated as Current exposure + projected disbursement in the next one year
- 12-month ECL = PIT PD * LGD * EAD
- The above calculation is performed for each of the three scenarios and then probability weighted. The weight of the three scenarios are 50%:25%:25% (Base, Good and Bad). The estimation is based on the best representative management judgement without undue cost or effort that, going forward the current path of macroeconomic projections with equal chance of being significantly worse (Bad scenario) or better (Good scenario), considering the projections of macroeconomics of those countries that the Bank has credit exposure

Estimation of lifetime ECL

PIT PD

- Unconditioned PD term structure is based on the S&P or EIU default rate data by year-end rating grade and then mapped to AIIB ratings
- Conditioned PD term structure is based on PIT PD calculation based on the Vasicek Merton formula for the first three years (as in 12-month ECL calculation) and the Through-The-Cycle PD (TTC PD) for the remaining years. Management considers this estimate is in line with the concept of reversing to mean on average (through the cycle)
- LGD is the same as 12-month ECL calculation
- EAD for any given year is based on Current exposure + net projected disbursement in the next one year, as by the disbursement schedule for each year. If the above is not available, use linear amortisation
- Lifetime is equal to contractual lifetime
- Lifetime ECL = NPV (PIT PD * LGD * EAD for each year) across the life time of the loan
- Discount rate is equal to effective interest rate
- In the same way as the 12-month ECL calculation, the above calculation is done for each of the three scenarios and then probability weighted, and the weighting of the three scenarios are the same as 12-month ECL calculation

(iv) Forward-looking information incorporated in ECL

Forward-looking information has been incorporated taking into account the following steps:

Macro scenario development

- Three Macro Scenarios – Base, Good, Bad. Each scenario is forecasted for three years
- Choice of macro scenarios and probability weighting of each scenario is approved by the Risk Committee

Establishment of TTC PD

- TTC PD is calculated based on each customer's internal AIIB rating

Determining 'state of economy'/'Cycle Factor' (CF)

- State of economy/CF are determined based on a regression-based macro model
- Regression is calculated based on historic observations of CF and macroeconomic factors. Relationships obtained from regression is used to calculate CF given a set of macroeconomic scenarios

Calculation of PIT PD

- The Bank uses the Vasicek-Merton formula to convert current customer rating (TTC) to PIT PD for a given state of economy/CF

Sensitivity analysis

The output of the Bank's impairment provisioning model is most sensitive to management's assessment of the credit risk of the sovereign-backed infrastructure loans and loan commitments as expressed by assigning an internal credit rating. Had each exposure been downgraded one notch on the Bank's internal credit rating scale, the impairment provision as at 31 December 2016 would have been approximately USD 1.45 million. Had each exposure been upgraded one notch the impairment provision as at 31 December 2016 would have been approximately USD 0.19 million.

(v) Definition of default

For the ECL measurement, 'default' occurs when an obligor meets one or more of the following conditions:

- Failure to make a payment ('payment default') – 180 days past due for sovereign-backed infrastructure loans and 90 days past due for non-sovereign-backed infrastructure loans. 180 days past due for sovereign-backed infrastructure loans is based on the consideration for slower administrative, processing and collection periods that are not driven by credit deterioration
- Breach of specific covenants that trigger a default clause
- Default under a guarantee or collateral or other support agreements
- Failure to pay a final judgement or court order
- Bankruptcy, liquidation or the appointment of a receiver or any similar official

(vi) Write-off policy

The Bank reduces the gross carrying amount of a financial asset when the Bank has no reasonable expectations of recovering the contractual cash flows on a financial asset in its entirety or a portion thereof.

Notes to the Financial Statements

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

(All amounts in thousands of US Dollars unless otherwise stated)

(d) Market risk

The Bank is exposed to two major market risks in its investment, lending and other activities: currency risk and interest rate risk. The risks are that movements in exchange rates and interest rates may affect the financial positions taken by the Bank and, as a result, impact the Bank's net profit and equity.

In its asset and liability management process, the Bank pursues three goals: (a) reducing risks that might arise from the mismatch of assets and liabilities in terms of currency, interest rate sensitivity or maturity; (b) monitoring the evolving risks to the Bank's income over time and establishing a framework that reduces the potential volatility of the Bank's income over the medium term; and (c) assigning clear responsibility for all market risks to which the Bank is exposed.

Currency risk

The Bank currently only offers loans in US Dollars. This will continue to be the case until the Bank is prepared to hedge non-dollar lending through swaps or other hedging mechanisms. As at 31 December 2016, the currency risk is not material for the Bank. Currency table for the main monetary items is listed as below:

	USD	Other currencies USD equivalent	Total
Financial assets			
Cash and cash equivalents	1,281,832	160	1,281,992
Term deposits	2,292,141	–	2,292,141
Investment at fair value through profit or loss	3,179,873	–	3,179,873
Funds deposited for co-financing arrangements	23,623	–	23,623
Loan investments, at amortised cost	9,553	–	9,553
Paid-in capital receivables	11,007,227	–	11,007,227
	17,794,249	160	17,794,409

Interest rate risk

The Bank takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest margins may increase as a result of such changes, but may reduce or create losses in the event that unexpected movements arise.

Sensitivity analysis

As the Bank has no material financial liabilities at 31 December 2016, the following table illustrates the potential impact for the current period, of a parallel upward or downward shift of 50 basis points in relevant interest rate curves on the Bank's interest income from the floating rate loan investments measured at amortised cost, based on the Bank's loan investments at the end of the reporting period. This analysis assumes that interest rates of all maturities move by the same amount, and does not reflect the potential impact of unparallelled yield curve movements.

The sensitivity analysis on net interest income is based on reasonably possible changes in interest rates over the next 12 months from the reporting date, with the assumption that the structure of financial assets held at the period end remains unchanged.

	Interest income
+50 basis points	3
-50 basis points	(3)

(e) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. As at 31 December 2016, the Bank does not have any significant financial liabilities.

(f) Operational risk

Consistent with guidance issued by the Basel Committee on Banking Supervision, operational risk is defined as risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Effective management and mitigation of operational risk relies on a system of internal controls aimed at identifying various risks, and establishing acceptable risk parameters and monitoring procedures.

The Bank adopts the Basic Indicator Approach (as recommended by Basel II) for capital allocation for operational risks, which is set at 15% of the average gross income over the past three years, ignoring those years where income was not positive. For initial years, the Bank allocates capital for operational risk at 1% of its paid-in capital, reserves and retained earnings.

(g) Capital management

The Bank collectively manages the paid-in capital plus reserves and retained earnings as capital. To ensure that the Bank has the highest possible credit on a standalone basis at all times, two relevant limits are relevant to be always observed. The first, as required by [Article 12.1](#) of the AIIB's AOA, the Bank's total unimpaired subscribed capital, reserves, and retained earnings have to be always greater than the total exposure from its investment operations (i.e. loans, equity investments, guarantees and other types of financing). This limit may be increased up to 250% of the Bank's unimpaired subscribed capital, reserves, and retained earnings with the approval of the Board of Governors. The second, using an economic capital framework, the Bank's available capital must be greater than the required economic capital given the composition of its investment assets by credit risk rating plus a certain amount of buffer. The amount of buffer will be based on the outcome of the stress testing exercise on AIIB's portfolio based on scenarios chosen by the Risk Committee and benchmark comparison of additional buffer to MDBs and private sector banks, which typically ranges between 25% and 75% of the economic capital requirement calculated based on the level of risk and composition of investment asset portfolios. This requirement is evaluated against the requirement for capital as of the then current date as well as for the next three years.

5.14 Fair value disclosures

The majority of the Bank's assets and liabilities in the statement of financial position are financial assets and financial liabilities. Fair value measurement of non-financial assets and non-financial liabilities do not have a material impact on the Bank's financial position and operations, taken as a whole.

The Bank does not have any financial assets or financial liabilities subject to non-recurring fair value measurements for the period ended 31 December 2016.

The fair value of the Bank's financial assets and financial liabilities are determined as follows:

- If traded in active markets, fair values of financial assets and financial liabilities with standard terms and conditions are determined with reference to quoted market bid prices and ask prices, respectively
- If not traded in active markets, fair values of financial assets and financial liabilities are determined in accordance with generally accepted pricing models or discounted cash flow analysis using prices from observable current market transactions for similar instruments

Fair value hierarchy

The Bank classifies financial assets and financial liabilities into the following three levels based on the extent to which inputs to valuation techniques used to measure fair value of the financial assets and financial liabilities are observable:

Level 1: fair value measurements are those derived from quoted prices (unadjusted) in an active market for identical assets or liabilities;

Level 2: fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices); and

Level 3: fair value measurements are based on models, and the unobservable inputs are significant to the entire measurement.

Notes to the Financial Statements

For the period from 16 January 2016
(Date of Commencement of Operations) to 31 December 2016

(All amounts in thousands of US Dollars unless otherwise stated)

Financial assets and financial liabilities not measured at fair value on the statement of financial position

The tables below summarise the carrying amounts and fair values of those financial assets and financial liabilities not measured in the statement of financial position at their fair value as at 31 December 2016:

	Carrying amount	Fair value
Financial assets		
Cash and cash equivalents	1,281,992	1,281,992
Term deposits	2,292,141	2,291,991
Funds deposited for co-financing arrangements	23,623	23,623
Loan investments at amortised cost	9,553	9,553
Paid-in capital receivables	11,007,227	10,522,553
Financial liabilities		
Other liabilities	5,538	5,538

As at 31 December 2016, the Bank's balances of those financial assets and liabilities not measured at fair value but with short-term maturity approximate their fair values.

Loan investments and paid-in capital receivables measured at amortised cost were calculated using Level 3 inputs by discounting the cash flows at a current interest rate applicable to each loan and paid-in capital receivables.

Financial assets and financial liabilities measured at fair value on the statement of financial position

The table below summarises the fair values of the financial assets and financial liabilities measured in the statement of financial position at their fair value:

	Level 1	Level 2	Level 3	Total
Investment at fair value through profit or loss	–	3,179,873	–	3,179,873

Investment at fair value through profit or loss are amounts invested in the Trust Fund. Refer to [Note 5.5](#).

The Trust Fund's notionally allocated share in the Pool is not traded in any market. The fair value of the Trust Fund is derived from that of the notionally allocated assets.

There have been no significant transfers among Level 1, Level 2 and Level 3 during the period.

5.15 Unconsolidated structured entity

The Special Fund established and administered by the Bank based on [Article 17.1](#) of the AOA is an unconsolidated structured entity for accounting purposes. The objective of the Special Fund is to support and facilitate the preparation of projects for the benefit of one or more members of the Bank that, at the time when the decision to extend the grant is made by the Bank, are classified as recipients of financing from the International Development Association, including Blend countries; however, the projects that benefit other members may also be eligible for such assistance in exceptional circumstances, such as innovative and complex projects and regional or cross-border projects with significant regional impacts. Consistent with [Article 10](#) of the Bank's AOA, the resources of the Special Fund shall at all times and in all respects be held, used, committed, invested or otherwise disposed of entirely separately from the Bank's ordinary resources.

The resources of the Special Fund consist of: (a) amounts accepted from any member of the Bank, any of its political or administrative sub-divisions, or any entity under the control of the member or such sub-divisions or any other country, entity or person approved by the President may become a contributor to the Special Fund; (b) income derived from investment of the resources of the Special Fund; and (c) funds reimbursed to the Special Fund, if any.

The full cost of administering the Special Fund is charged to that Special Fund. The Bank charges an administration fee equal to 1% of any contribution, and the Special Fund bears all expenses appertaining directly to operations financed from the resources of the Special Fund.

As at 31 December 2016, the Special Fund had aggregate contributions amounting to USD 10 million. The Bank, acting as manager of the Special Fund, receives administration fees and cost recovery fees. For the period from 16 January 2016 to 31 December 2016, total fees amounted to USD 0.1 million.

Administration of the Special Fund does not expose the Bank to any loss. The Bank is not obliged to provide financial support to the Special Fund.

5.16 Related party transactions

Parties are generally considered to be related if the parties are under common control, or one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions. In considering each possible related party relationship, attention is directed to the substance of the relationship, not merely to the legal form.

As at 31 December 2016, the outstanding balances with related parties were as follows:

	Key management personnel	Other related parties
Assets – loan granted	23	–
Liabilities	–	–

The income and expense items affected by transactions with related parties for the period from 16 January 2016 to 31 December 2016, were as follows:

	Key management personnel	Other related parties
Income	–	100
Expense	–	–

Income from other related parties relates to the Special Fund administration fee (Note 5.15).

Key management personnel

Key management personnel are those persons who have the authority and responsibility to plan, direct and control the activities of the Bank. Key management personnel of the Bank is defined as the members of the Bank's Executive Committee, that is, in accordance with the Terms of Reference of the Executive Committee, the President, the Vice Presidents and the General Counsel.

During the period from 16 January 2016 to 31 December 2016, other than the loan granted to key management personnel as disclosed above, the Bank had no other material transactions with key management personnel.

The compensation of key management personnel during the period comprises short-term employee benefits of USD 2.12 million and defined contribution pension plans of USD 0.3 million.

Use of office building

In accordance with Article 5 of the Headquarters Agreement, the Government provides a permanent office building and the temporary office accommodation to the Bank, free of charge.

Short-term advance from the Ministry of Finance of the PRC

A non-interest-bearing start-up budget loan facility of RMB 53.95 million (USD 8.3 million) to fund the Bank's initial organisational activities was provided by the Ministry of Finance of the PRC. All amounts owed were repaid on 1 April 2016.

5.17 Events after the end of the reporting period

Subsequent to 31 December 2016, USD 433.18 million of paid-in capital receivables that were overdue have been received by the Bank from members.

Independent Auditor's Report



羅兵咸永道

To the Board of Governors of the Asian Infrastructure Investment Bank (the 'Bank'):

Opinion

What we have audited

The financial statements of AIIB Project Preparation Special Fund (the 'Special Fund') set out on pages 54 to 61, which comprise:

- The statement of comprehensive income for the period from 24 June 2016 (date of the establishment of the Special Fund) to 31 December 2016
- The statement of financial position as at 31 December 2016
- The statement of changes in contributors' resources for the period from 24 June 2016 to 31 December 2016
- The statement of cash flows for the period from 24 June 2016 to 31 December 2016 and
- The notes to the financial statements, which include a summary of significant accounting policies

Our opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Special Fund as at 31 December 2016, and of its financial performance and its cash flows for the period from 24 June 2016 to 31 December 2016 in accordance with International Financial Reporting Standards ('IFRS').

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing ('ISA'). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Special Fund in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants ('IESBA Code'), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Responsibilities of Management and Board of Directors of the Bank for the Financial Statements

Management is responsible for the preparation of the financial statements that give a true and fair view in accordance with IFRS, and for such internal control as management determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Special Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Special Fund or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Special Fund's financial reporting process.



羅兵咸永道

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISA, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Special Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Special Fund to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Board of Directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 21 March 2017

Statement of Comprehensive Income

For the period from 24 June 2016
(Date of the Establishment of the Special Fund) to 31 December 2016

In thousands of US Dollars	Note	For the period from 24 June 2016 to 31 December 2016
Income		—
General and administrative expenses	3.1	(126)
Net loss and total comprehensive loss for the period		(126)
Attributable to:		
Contributors		(126)

The accompanying notes are an integral part of these financial statements.

Statement of Financial Position

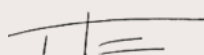
As at 31 December 2016

In thousands of US Dollars	Note	31 December 2016
Assets		
Cash and cash equivalents		9,900
Total assets		9,900
Liabilities		
Other liabilities	3.2	26
Contributors' resources		
Contribution	3.3	10,000
Accumulated losses		(126)
Total contributors' resources		9,874
Total liabilities and contributors' resources		9,900

The accompanying notes are an integral part of these financial statements.



Mr. Jin Liqun
President of the Bank



Mr. Thierry de Longuemar
Vice President and
Chief Financial Officer
of the Bank

Statement of Changes in Contributors' Resources

For the period from 24 June 2016
(Date of the Establishment of the Special Fund) to 31 December 2016

In thousands of US Dollars	Note	Contribution	Accumulated loss	Total
As at 24 June 2016		–	–	–
Contribution	3.3	10,000	–	10,000
Total comprehensive loss for the period		–	(126)	(126)
As at 31 December 2016		10,000	(126)	9,874

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the period from 24 June 2016
(Date of the Establishment of the Special Fund) to 31 December 2016

In thousands of US Dollars	Note	For the period from 24 June 2016 to 31 December 2016
Cash flows from operating activity		
Net loss for the period		(126)
Adjustments for: Increase in other liabilities	3.2	26
Net cash used in operating activity		(100)
Cash flows from financing activity		
Contribution received	3.3	10,000
Net cash from financing activity		10,000
Net increase in cash and cash equivalents		9,900
Cash and cash equivalents as at 24 June 2016		—
Cash and cash equivalents as at 31 December 2016		9,900

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the period from 24 June 2016
(Date of the Establishment of the Special Fund) to 31 December 2016

(All amounts in thousands of US Dollars unless otherwise stated)

1. GENERAL INFORMATION

On 24 June 2016, the AIIB Project Preparation Special Fund (the 'Special Fund') was established as a special fund of the Asian Infrastructure Investment Bank (the 'Bank' or 'AIIB') in accordance with [Article 17.1](#) of the Bank's Articles of Agreement (the 'AOA').

The Special Fund is established as a multi-donor fund, which is open to contributions by all the Bank's members and others (the 'Contributors'). The purpose of the Special Fund is to support and facilitate, on a concessional basis, the preparation of projects of low and middle income countries. The resources from the Contributors are accepted, held, managed, administered, used, committed, expended or otherwise disposed of by the Bank in accordance with the AOA, the Rules and Regulations of the Special Fund and the Contribution Agreements. On 25 June 2016, the Ministry of Finance of the People's Republic of China (the 'China MOF') and the Bank signed a Contribution Agreement in respect of a contribution of USD 50 million. As of 31 December 2016, the first instalment of the contribution from the China MOF in an amount of USD 10 million has been received by the Special Fund.

These financial statements were signed by the President and the Vice President and Chief Financial Officer of the Bank on 21 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

These financial statements for the Special Fund have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB'). Based on the By-Laws of the AIIB, the financial year of the Bank begins on 1 January and ends on 31 December of each year. The Special Fund follows the same financial year end as the Bank. For the year in which the Special Fund established, the financial year begins on the date of the establishment of the Special Fund and ends on 31 December of that year. The financial statements for the period from the date of the establishment of the Special Fund on 24 June 2016 to 31 December 2016 are the first annual financial statements of the Special Fund.

The Special Fund has adopted all the standards and interpretations effective for annual periods on 1 January 2016. In addition, the Special Fund has early adopted IFRS 9 *Financial Instruments* (full version issued in July 2014 and mandatorily effective on 1 January 2018), IFRS 15 *Revenue from Contracts with Customers* (mandatorily effective on 1 January 2018), and IFRS 16 *Leases* (mandatorily effective on 1 January 2019). The financial statements have been prepared under the historical cost convention, except for the financial assets measured at fair value.

2.2 New accounting pronouncements

Certain amendments to IFRS have been issued but are not mandatory for annual periods ended on 31 December 2016. The Special Fund has not early adopted those amendments and does not expect those amendments to have a material impact on the Special Fund. These amendments mainly include:

- (i) IFRIC 22 Foreign currency transactions and advance consideration; and
- (ii) IAS 7 Amendments disclosure initiative

2.3 Functional currency and foreign currency transactions

The functional currency and the presentation currency of the Special Fund is United States Dollar ('USD' or 'US Dollar').

There were no foreign currency transactions for the period from 24 June 2016 to 31 December 2016.

2.4 Financial instruments

2.4.1 Financial assets

The Special Fund's financial assets are classified into three categories:

- (a) Amortised cost,
- (b) Fair value through other comprehensive income (FVOCI), or
- (c) Fair value through profit or loss (FVPL).

The basis of classification depends on the Special Fund's business model and the contractual cash flow characteristics of the financial asset.

(a) Classification of financial assets at amortised cost

The Special Fund classifies its financial assets at amortised cost only if both of the following criteria are met:

- (i) The financial asset is held within a business model with the objective of collecting the contractual cash flows, and
- (ii) The contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.

The Special Fund applies the effective interest method to the amortised cost of a financial asset.

(b) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

- (i) Financial assets having contractual cash flows that reflect solely payments of principal and interest on outstanding principal, and for which the objective of the related business model is achieved both by collecting contractual cash flows and selling financial assets, and
- (ii) Investments in equity instruments that are neither held for trading nor contingent consideration, and for which the Special Fund has made an irrevocable election at initial recognition to recognise changes in fair value through OCI rather than profit or loss.

For (i) above, interest is calculated using the effective interest method and recognised in profit or loss. Except for gains or losses from impairment and foreign exchange, the financial asset is measured at FVOCI. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified to profit or loss.

For (ii) above, investments in equity instruments are required to be measured at FVPL with the irrevocable option at inception to present changes in fair value in OCI, in which case the accumulated fair value changes in OCI will not be reclassified to profit or loss in the future. Dividends on such investments are recognised in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

(c) Classification of financial assets at FVPL

The Special Fund classifies the following financial assets at FVPL:

- (i) Financial assets that do not qualify for measurement at either amortised cost or at FVOCI,
- (ii) Financial assets that are designated at initial recognition as FVPL irrevocably, when such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise,
- (iii) Investment in equity instruments that are held for trading, and
- (iv) Investment in equity instruments for which the entity has not elected to recognise fair value gains and losses through OCI.

2.4.2 Financial liabilities

The Special Fund's financial liabilities are measured at amortised cost, using the effective interest method. The interest expenses, if any, are recognised in profit or loss.

2.4.3 Contributors' resources

The Special Fund recognises contributions received from Contributors as an equity on the basis that a Contributor cannot choose to withdraw contributions from the Special Fund. Contributors are only entitled to a distribution of net assets on termination of the Special Fund in proportion to the contributions made available by them to the Special Fund.

Notes to the Financial Statements

For the period from 24 June 2016
(Date of the Establishment of the Special Fund) to 31 December 2016

(All amounts in thousands of US Dollars unless otherwise stated)

2.4.4 Recognition and derecognition

The Special Fund recognises a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes party to the contractual provisions of the instrument.

At initial recognition, the Special Fund measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

Before evaluating whether, and to what extent, derecognition is appropriate, the Special Fund determines whether the derecognition analysis applied to a part of a financial asset or a financial asset in its entirety. The Special Fund derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Special Fund neither transfers nor retains substantially all the risks and rewards of ownership and has not retained control of the transferred asset, the Special Fund derecognises the financial asset and recognises separately as assets or liabilities any rights and obligations created or retained in the transfer.

2.5 Statement of cash flows

The statement of cash flows is prepared using the indirect method. Cash and cash equivalents comprise balances with less than three months' maturity from the date of the transaction, which are available for use at short notice and that are subject to insignificant risk of changes in value.

2.6 Cash and cash equivalents

Cash and cash equivalents are items that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Deposits with a maturity of three months or less are classified as cash and cash equivalents.

2.7 Interest income

Interest is recorded on an accrual basis. All interest income is recognised within 'interest income' in the statement of comprehensive income.

2.8 Administration fees and expenses

In accordance with the provisions of Section 4.05 of the Rules and Regulations of the Special Fund, the Bank shall receive an administration fee equal to one percent of the amount of the contribution. A proportionate amount of such administration fee shall be debited from each instalment of the contribution paid in by the Contributors and credited to the Bank's ordinary resources. Administration fees and expenses are recognised throughout the period to the satisfaction of the relevant services received.

2.9 Current and non-current presentation

All assets and liabilities in the statement of financial position are classified as current as at 31 December 2016.

2.10 Taxation

In accordance with [Article 51](#) of the AOA, within the scope of its official activities, the Bank, its assets, property, income, and its operations and transactions, shall be exempt from all taxation and from all custom duties in its member countries. [Article 51](#) of the AOA also exempts the Bank from any obligation for the payment, withholding or collection of any tax or duty.

3. NOTES TO THE FINANCIAL STATEMENTS

3.1 General and administrative expenses

For the period from 24 June 2016 to 31 December 2016, general and administrative expenses are as follows:

AIIB administration fee	100
External auditor's remuneration	26
Total general and administrative expenses	126

3.2 Other liabilities

	31 December 2016
External auditor's remuneration payable	26
Total other liabilities	26

3.3 Contribution

As at 24 June 2016

Cumulative contribution received: China MOF	10,000
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As at 31 December 2016

10,000

3.4 Fair value of financial assets and financial liabilities

The carrying amounts of financial assets and liabilities presented on the statement of financial position approximate their fair values.

3.5 Related parties

The Special Fund's related parties are the Bank and the Contributors.

The Bank is entitled to charge the Special Fund an administration fee of an amount equal to 1% of contributions received. An administration fee of USD 0.1 million was charged for the period from 24 June 2016 to 31 December 2016. There was no accrued administration fee payable by the Special Fund to the Bank as at 31 December 2016.

The contributions received from Contributors are outlined in [Note 3.3](#).

3.6 Financial risk management

(a) Overview

The Special Fund follows the risk management framework and policies of the Bank. The Bank adopts a proactive and comprehensive approach to risk management that is instrumental to the Bank's financial viability and success in achieving its mandate. The ability to identify, mitigate and manage risk begins with the Bank's policies being established with a strong risk culture. In addition to establishing appropriate risk parameters and a thorough project review and portfolio monitoring process, the risk management function provides an independent oversight of credit, market, liquidity, operational and associated reputational risk in the Bank's activities, and ensure the integration of asset and liability management.

As the primary purpose of the Special Fund is to support and facilitate, on a concessional basis, the preparation of projects of low and middle income countries, rather than to generate a return on its assets, for the period ended 31 December 2016, the Special Fund was not exposed to most financial risks, with exception to credit risk associated with the financial institutions with which it deposits its cash resources.

(b) Credit risk

Credit risk management

The Special Fund takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

In managing the Special Fund's credit exposure to financial institutions, AIIB applies the same rules and principles as in managing its own special funds. The credit rating of the financial institution counterparties is single A or higher.

The carrying amount of cash and cash equivalents presented on the statement of financial position represents the Special Fund's maximum exposure to credit risk as at 31 December 2016.

3.7 Events after the reporting period

On 28 February 2017, the China MOF made a second instalment amounting to USD 20 million in respect of its USD 50 million contribution to the Special Fund. There have been no other material events since the reporting date that would require disclosure or adjustment to these financial statements.



Appendix 1

Articles of Agreement

AIIB's Articles of Agreement (AOA) state the purpose of establishing the Bank, which are:

- To foster sustainable economic development, create wealth, and improve infrastructure connectivity in Asia by investing in infrastructure and other productive sectors
- To promote regional cooperation and partnership in addressing development challenges by working in close collaboration with other multilateral and bilateral development institutions



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Appendix 2

Glossary**AOA**

Articles of Agreement

ADB

Asian Development Bank

COP 21

2015 United Nations Climate Change Conference, COP 21 or CMP 11. The Conference of the Parties (COP) to the UNFCCC.

EBRD

European Bank for Reconstruction and Development

EIB

European Investment Bank

GDP

Gross Domestic Product

IBRD

International Bank for Reconstruction and Development ('World Bank')

IFC

International Finance Corporation (part of World Bank Group)

ILO

International Labour Organisation

MDB

Multilateral Development Bank

MOU

Memorandum of Understanding

NGO

Non-Governmental Organisation

OECD

Organisation for Economic Cooperation and Development

SDG

Sustainable Development Goals

PPSF

Project Preparation Special Fund

UNFCCC

1992 United Nations Framework Convention on Climate Change



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